# China Gold International Resources Corp. Ltd.

## Management's Discussion and Analysis of Financial Condition and Results of Operations
## Nine months ended September 30, 2016
**(Stated in U.S. dollars, except as otherwise noted)**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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


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The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") is prepared as of November 11, 2016. It should be read in conjunction with the condensed consolidated interim 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 nine months ended September 30, 2016 and the nine months ended September 30, 2015, 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 ("Annual Information Form" or "AIF") dated March 30, 2016 on SEDAR at 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 titled "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 Company's technical reports for its CSH Gold Mine and Jiama Mine; 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 is 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 operation, acquisition, development and exploration of gold and base metal properties.

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("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 Mine, while its Chinese joint venture ("CJV") partner holds the remaining 3.5% interest. The CSH Mine commenced commercial production on July 1, 2008. The Company owns a 100% interest in the Jiama Mine, which hosts a large scale copper-gold polymetallic deposit containing copper, gold, molybdenum, silver, lead and zinc metals. 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 about the Company, including the Company's Annual Information Form, is available on SEDAR at sedar.com as well as Hong Kong Exchange News at hkexnews.hk.

### *Performance Highlights*

***Three months ended September 30, 2016***

- Revenue increased by 10% to US$109.6 million from US$99.9 million for the same period in 2015.
- Mine operating earnings increased by 39% to US$23.9 million from US$17.2 million for the same period in 2015.
- Net profit after income taxes increased to net profit of US$7.7 million from net loss of US$5.2 million for the same period in 2015.
- Gold production from the CSH Mine decreased by 20% to 46,654 ounces from 57,981 ounces for the same period in 2015.
- Copper production from the Jiama Mine increased by 23% from 3,934 tonnes (approximately 8.6 million pounds) in 2015 compared to 4,836 tonnes (approximately 10.7 million pounds) for the same period in 2016.

***Nine months ended September 30, 2016***

- Revenue decreased by 6% to US$245.0 million from US$261.0 million for the same period in 2015;
- Mine operating earnings decreased by 26% to US$43.2 million from US$58.7 million for the same period in 2015.
- Net profit after income taxes decreased to net loss of US$3.2 million from net profit of US$11.6 million for the same period in 2015, primarily due to foreign exchange loss of US$7.3 million in addition to US$3.8 million value impairment of Available-for-sale securities during the current nine month period.
- Gold production from the CSH Mine decreased by 11% to 132,224 ounces from 148,798 ounces for the same period in 2015.
- Copper production from the Jiama Mine increased by 8% to 13,957 tonnes (approximately 30.8 million pounds) from 12,946 tonnes (approximately 28.5 million pounds) for the same period in 2015.

## *OUTLOOK*

- Projected gold production of 235,000 ounces in 2016.
- Projected copper production of approximately 38.6 million pounds in 2016.
- The Jiama Mine's Phase II expansion consists of two series, with each series having a mining and mineral processing capacity of 22,000 tpd. The Phase II series I construction is now complete. The commissioning will start in December 2016. It is expected that the output of Series I will be ramped up to its full capacity to 22,000 tpd around July 2017. With Phase II series I in production, the total nameplate capacity will be increased from the current 6,000 tpd to 28,000 tpd.

- The Company will continue to leverage the technical and operating experience of the Company's controlling shareholder, China National Gold Group Corporation ("CNG"), to improve operations at its mines. In addition, the Company continues to focus its efforts on increasing production while minimizing costs at both mines.
- To fulfill its growth strategy, the Company is continuously working with CNG and other interested parties to identify potential international mining acquisition opportunities, namely projects outside of China, which either are in production or can be readily and quickly brought into production with the possibility of further expansion through continued exploration.

## RESULTS OF OPERATIONS

### *Selected Quarterly Financial Data*

**QUARTER ENDED**

| | 2016 | | | 2015 | | | | 2014 |
|---|---|---|---|---|---|---|---|---|
| *(US$ in thousands except per share)* | **Sep-30** | Jun-30 | Mar-31 | Dec-31 | Sep-30 | Jun-30 | Mar-31 | Dec-31 |
| Revenues | **109,560** | 69,904 | 65,585 | 78,967 | 99,948 | 83,647 | 77,387 | 103,326 |
| Cost of sales | **85,681** | 58,162 | 58,039 | 74,798 | 82,752 | 63,336 | 56,217 | 70,763 |
| Mine operating earnings | **23,879** | 11,742 | 7,546 | 4,169 | 17,196 | 20,311 | 21,170 | 32,563 |
| General and administrative expenses | **5,902** | 5,361 | 5,049 | 6,483 | 5,330 | 5,988 | 6,028 | 7,631 |
| Exploration and evaluation expenses | **65** | 53 | 46 | 157 | 45 | 62 | 38 | 319 |
| Income from operations | **17,912** | 6,328 | 2,451 | (2,471) | 11,821 | 14,261 | 15,104 | 24,613 |
| Foreign exchange (loss) gain | **(2,493)** | (5,980) | 1,198 | (5,624) | (8,606) | 1,482 | (789) | 5,631 |
| Finance costs | **3,793** | 4,063 | 4,453 | (868) | 7,181 | 6,570 | 8,524 | 8,913 |
| (Loss) profit before income tax | **13,972** | (8,198) | (2,986) | (13,640) | 692 | 13,742 | 10,813 | 24,485 |
| Income tax expense | **6,276** | 5,531 | 500 | 4,836 | 5,850 | 3,173 | 4,575 | 8,802 |
| Net (Loss) income | **7,696** | (7,401) | (3,486) | (18,476) | (5,158) | 10,569 | 6,238 | 15,683 |
| Basic (loss) earnings per share (cents) | **1.82** | (1.95) | (0.91) | (4.69) | (1.41) | 2.54 | 1.49 | 3.78 |
| Diluted (loss) earnings per share (cents) | **N/A** | N/A | N/A | (4.69) | (1.41) | 2.54 | 1.49 | 3.78 |

### *Selected Quarterly and Annual Production Data and Analysis*

| **CSH Mine** | **Three months ended September 30,** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Gold sales (US$ million) | **78.37** | 62.40 | **162.66** | 172.88 |
| Realized average price(1) (US$) of gold per ounce | **1,315** | 1,100 | **1,236** | 1,135 |
| Gold produced (ounces) | **46,654** | 57,981 | **132,224** | 148,798 |
| Gold sold (ounces) | **59,610** | 56,741 | **131,549** | 152,361 |
| Total production cost(2) (US$ per ounce) | **1,041** | 874 | **1,039** | 855 |
| Cash production cost(2) (US$ per ounce) | **778** | 700 | **762** | 667 |

*(1)* Net of resource compensation fees that is based on revenue and paid to PRC government
*(2)* Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

Gold production at the CSH Mine decreased by 20% from 57,981 ounces for the three months ended September 30, 2015 to 46,654 ounces for the three months ended September 30, 2016. The decrease in gold production is attributed to lower grades of ore mined during the current period.

The cash production cost, and total production cost of gold for the three months ended September 30, 2016 both increased compared with the same period in 2015. The increase is due to higher waste rock removal costs due to higher stripping ratio during the current period and lower grade of ore.

| Jiama Mine | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Copper sales(1) (million US$) | **18.02** | 26.09 | **50.38** | 62.43 |
| Realized average price(2) (US$ per pound of copper) after smelting fee discount | **1.58** | 1.80 | **1.50** | 1.82 |
| Copper produced (tonne) | **4,836** | 3,934 | **13,957** | 12,946 |
| Copper produced (pound) | **10,662,409** | 8,671,886 | **30,769,249** | 28,540,131 |
| Copper sold (tonne) | **5,154** | 6,434 | **14,450** | 14,326 |
| Copper sold (pound) | **11,362,290** | 14,184,671 | **31,856,415** | 31,583,047 |
| Gold produced (ounce) | **7,145** | 6,506 | **20,116** | 18,506 |
| Gold sold (ounce) | **7,895** | 9,024 | **21,118** | 19,877 |
| Silver produced (ounce) | **303,788** | 279,339 | **951,684** | 948,506 |
| Silver sold (ounce) | **352,855** | 478,890 | **999,040** | 1,076,428 |
| Total copper production cost(3) (US$ per pound) | **2.45** | 2.69 | **2.43** | 2.75 |
| Total copper production cost(3) (US$ per pound after by-products credits(4)) | **1.30** | 1.80 | **1.41** | 1.87 |
| Cash copper production cost(4) (US$ per pound) | **2.05** | 2.41 | **2.03** | 2.33 |
| Cash copper production cost(4) (US$ per pound after by-products credits(4)) | **0.90** | 1.53 | **1.00** | 1.46 |

(1) Net of resource compensation fees that is based on revenue and paid to PRC government agency
(2) a discount factor of 27-31% is applied to the copper bench mark price to compensate the refinery costs incurred by the buyers
(3) Production costs include expenditures incurred at the mine sites for the activities related to production including mining, processing, mine site G&A and royalties etc.
(4) Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A
(5) By-products credit refers to the sales of gold and silver during the corresponding period

During the three months ended September 30, 2016, the Jiama Mine produced 4,836 tonnes (approximately 10.66 million pounds) of copper, compared with the three months ended September 30, 2015 (3,934 tonnes, or 8.67 million pounds). Copper production increased by 23% due to higher ore grades during the current period.

The Cash production cost of copper per pound decreased by 15% and total production cost of copper per pound decreased by 9% for the three months ended September 30, 2016 compared to the same period in 2015. Cash production cost of copper per pound after by-products credits decreased by 41% due to higher copper grade and higher volume of by product gold sold in copper concentrate during the current period.

## Review of Quarterly Data

***Three months ended September 30, 2016 compared to three months ended September 30, 2015***

**Revenue** of US$109.6 million for the third quarter of 2016 increased by US$9.7 million, from US$99.9 million for the same period in 2015.

Revenue from the CSH Mine was US$78.4 million, an increase of US$16 million compared to US$62.4 million for the same period in 2015 due to a 5% increase in gold sales volume. Gold produced by the CSH Mine was 46,654 ounces (gold sold: 59,610 ounces), compared to 57,981 ounces (gold sold: 56,741 ounces) for the same period in 2015. CSH's decreased production volumes are attributed to lower grades of ore mined.

Revenue from the Jiama Mine was US$31.2 million compared to US$37.5 million for the same period in 2015. Total copper sold was 5,154 tonnes (11.4 million pounds) for the three months ended September 30, 2016, a decrease of 20% from 6,434 tonnes (14.2 million pounds) for the same period in 2015.

**Cost of sales** of US$85.7 million for the quarter ended September 30, 2016, an increase of US$2.9 million or 4% from US$82.8 million for the same period in 2015. The overall increase is primarily attributed to 26% increase in revenue at CSH. Cost of sales as a percentage of revenue for the Company decreased to 78% from 83% for the three months ended September 30, 2016 and 2015, respectively.

**Mine operating earnings** of US$23.9 million for the three months ended September 30, 2016, an increase of 39% or US$6.7 million, from US$17.2 million for the same period in 2015. Mine operating earnings as a percentage of revenue increased from 17% to 22% for the three months ended September 30, 2015 and 2016, respectively. The increase in mine operating earnings as a percentage of revenue can be attributed to a 20% increase in the realized average price of gold per ounce.

**General and administrative expenses** increased from US$5.3 million to US$5.9 million for the three months ended September 30, 2015 and 2016, respectively.

**Income from operations** of US$17.9 million for the quarter ended September 30, 2016, increased by US$6.1 million from US$11.8 million for the same period in 2015.

**Finance costs** decreased to US$3.8 million for three months ended September 30, 2016 from US$7.2 million for the same period in 2015. The decrease in the 2016 period is mainly attributed to lower interest rates held on borrowings. During the three months ended September 30, 2016, interest payments of US$6.3 million (2015: US$6.4 million) were capitalized for borrowing costs related to the Jiama Mine expansion.

**Foreign exchange (loss) gain** decreased to a loss of US$2.5 million for the three months ended September 30, 2016 from a loss of US$8.6 million for the same period in 2015. The 2016 loss is related to the revaluation of monetary items held in Chinese RMB and Hong Kong Dollars, which was based on changes in the RMB/HKD/USD exchange rates.

**Interest and other income** of US$2.3 million for the three months ended September 30, 2016 decreased from US$4.7 million for the same period in 2015, due to lower interest income earned on term deposits and related party loans in 2015.

**Income tax expense** of US$6.3 million for the quarter ended September 30, 2016, increased by US$0.4 million from US$5.9 million for the comparative period in 2015. During the current quarter, the Company had US$2.0 million of deferred tax credit compared to US$3.5 million of deferred tax expense in 2015.

**Net profit** of the Company increased by US$12.9 million from a net loss of US$5.2 million for the three months ended September 30, 2015 to a net income of US$7.7 million for the three months ended September 30, 2016.

### *Nine months ended September 30, 2016 compared to nine months ended September 30, 2015*

**Revenue** of US$245.1 million for the nine months ended September 30, 2016 decreased by US$15.9 million, from US$261.0 million for the same period in 2015.

Revenue from the CSH Mine was US$162.7 million, a decrease of US$10.2 million compared to US$172.9 million for the same period in 2015 due to a 14% decrease in gold sales volume. Gold produced by the CSH Mine was 132,224 ounces (gold sold: 131,549 ounces), compared to 148,798 ounces (gold sold: 152,361 ounces) for the same period in 2015. CSH's decreased production volumes are attributed to lower grades of ore mined.

Revenue from the Jiama Mine was US$82.4 million compared to US$88.1 million for the same period in 2015. Total copper sold was 14,450 tonnes (31.9 million pounds) for the nine months ended September 30, 2016, an increase of 1% from 14,326 tonnes (31.6 million pounds) for the same period in 2015. The increase in sales volume was offset by a decrease in the realized average price of copper per pound during the third quarter of 2016.

**Cost of sales** of US$201.9 million for the nine months ended September 30, 2016, remained consistent compared to US$202.3 million for the same period in 2015. The overall decrease is primarily attributed to higher copper sales volume at Jiama compared to the same period in 2015. Cost of sales as a percentage of revenue for the Company increased to 82% from 78% for the nine months ended September 30, 2016 and 2015, respectively.

**Mine operating earnings** of US$43.2 million for the nine months ended September 30, 2016, a decrease of 26% or US$15.5 million, from US$58.7 million for the same period in 2015. Mine operating earnings as a percentage of revenue decreased from 22% to 18% for the nine months ended September 30, 2015 and 2016, respectively. The decrease in mine operating earnings as a percentage of revenue can be attributed to an 18% decrease in the realized average price of copper per pound after smelting fee discount.

**General and administrative expenses** decreased from US$17.3 million to US$16.3 million for the nine months ended September 30, 2015 and 2016, respectively. The 6% decrease is consistent with the Company's implementation of cost reductions programs.

**Income from operations** of US$26.7 million for the nine months ended September 30, 2016, decreased by US$14.5 million from US$41.2 million for the same period in 2015.

**Finance costs** decreased to US$12.3 million for the nine months ended September 30, 2016 from US$22.3 million for the same period in 2015. The decrease in the 2016 period is attributed to lower interest rates held on Jiama's project loans. During the nine months ended September 30, 2016, interest payments of US$18.6 million (2015: US$18.7 million) were capitalized for borrowing costs related to the Jiama Mine expansion.

**Loss on Available-for-sale investment** of US$3.8 million was recognized in relation to the equity securities investment listed in Hong Kong during the nine months ended September 30, 2016, the fair market value adjustments were recognized as equity reserve in the comparative period in 2015. The loss was recorded due to a 25% decline in the share price of the security as of the December 31, 2015 share price.

**Foreign exchange (loss) gain** decreased to a loss of US$7.3 million for the nine months ended September 30, 2016 from a loss of US$7.9 million for the same period in 2015. The 2016 loss is related to the revaluation of monetary items held in Chinese RMB and Hong Kong Dollars, which was based on changes in the RMB/HKD/USD exchange rates.

**Interest and other income** of US$5.8 million for the nine months ended September 30, 2016 decreased from US$14.2 million for the same period in 2015, due to lower interest income earned on term deposits and related party loans in 2015.

**Income tax expense** of US$12.3 million for the nine months ended September 30, 2016, decreased by US$1.3 million from US$13.6 million for the comparative period in 2015, primarily due to decreased profits at CSH. During the current period, the Company had US$1.4 million of deferred tax credit compared to US$5.0 million of deferred tax expense in 2015.

**Net profit** of the Company decreased by US$14.8 million from a profit of US$11.6 million for the nine months ended September 30, 2015 to a net loss of US$3.2 million for the nine months ended September 30, 2016.

## NON-IFRS MEASURES

The following table provides certain unit cost information on a cost of production per tonne of ore processed (non-IFRS) basis for the CSH Mine and the Jiama Mine for the three and nine months ended September 30, 2016 and 2015:

**CSH Mine**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **US$** | US$ | **US$** | US$ |
| Cost of mining per tonne of ore | **1.83** | 1.43 | **1.43** | 1.43 |
| Cost of mining waste per tonne of ore | **3.46** | 3.66 | **2.96** | 2.92 |
| Other mining costs per tonne of ore | **0.55** | 0.29 | **0.35** | 0.30 |
| Total mining costs per tonne of ore | **5.84** | 5.38 | **4.74** | 4.65 |
| | | | | |
| Cost of reagents per tonne of ore | **1.46** | 1.16 | **0.95** | 0.89 |
| Other processing costs per tonne of ore | **0.95** | 0.96 | **0.80** | 0.99 |
| Total processing cost per tonne of ore | **2.41** | 2.12 | **1.75** | 1.88 |

**Jiama Mine**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **US$** | US$ | **US$** | US$ |
| Cost of mining per tonne of ore | **8.15** | 12.34 | **10.01** | 13.30 |
| Cost of mining waste per tonne of ore[1] | **-** | - | **-** | - |
| Other mining costs per tonne of ore | **5.12** | 4.83 | **4.42** | 4.93 |
| Total mining costs per tonne of ore | **13.27** | 17.17 | **14.44** | 18.23 |
| | | | | |
| Processing costs per tonne of ore | **9.99** | 11.56 | **10.34** | 10.23 |

1 Mining activities were conducted in the underground mine during the period and no waste rock removal costs incurred

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

The Company has included cash production cost per ounce gold 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 production 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 production 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 ounce of gold for the CSH Mine or per tonne of copper for the Jiama Mine:

**CSH Mine (Gold)**

| | **Three months ended September 30,** | | | | **Nine months ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | | 2015 | | **2016** | | 2015 | |
| | **US$** | **US$ Per ounce** | US$ | US$ Per ounce | **US$** | **US$ Per ounce** | US$ | US$ Per ounce |
| Total production costs | **62,056,034** | **1,041** | 49,599,389 | 874 | **136,731,438** | **1,039** | 130,337,312 | 855 |
| Adjustments | **(15,674,662)** | **(263)** | (9,871,894) | (174) | **(36,523,836)** | **(278)** | (28,746,561) | (189) |
| Total cash production costs | **46,381,372** | **778** | 39,727,495 | 700 | **100,207,602** | **762** | 101,590,752 | 666 |

**Jiama Mine (Copper with by-products credits)**

| | **Three months ended September 30,** | | | | **Nine months ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | | 2015 | | **2016** | | 2015 | |
| | **US$** | **US$ Per Pound** | US$ | US$ Per pound | **US$** | **US$ Per Pound** | US$ | US$ Per pound |
| Total production costs | **27,840,757** | **2.45** | 38,116,793 | 2.69 | **77,545,211** | **2.43** | 86,774,293 | 2.75 |
| Adjustments | **(4,531,109)** | **(0.40)** | (3,873,060) | (0.28) | **(12,931,515)** | **(0.41)** | (13,079,697) | (0.41) |
| Total cash production costs | **23,309,648** | **2.05** | 34,243,733 | 2.41 | **64,613,696** | **2.02** | 73,694,596 | 2.34 |
| By-products credits | **(13,074,388)** | **(1.15)** | (12,551,713) | (0.88) | **(32,606,917)** | **(1.02)** | (27,651,482) | (0.88) |
| Total cash production costs after by-products credits | **10,235,260** | **0.90** | 21,692,020 | 1.53 | **32,006,779** | **1.00** | 46,043,114 | 1.46 |

The adjustments above include depreciation and depletion, amortization of intangible assets, and selling expenses included in total production costs.

## 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. Limited, 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%.

The CSH mine has two open-pit mining operations and has a mining and processing capacity of 60,000 tpd. The capital expenditure incurred in the CSH Mine for the nine months ended September 30, 2016 was US$5.6 million.

## Production Update

**CSH Mine**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Ore mined and placed on pad (tonnes) | **6,259,808** | 5,478,359 | **17,270,227** | 16,424,529 |
| Average ore grade (g/t) | **0.51** | 0.54 | **0.49** | 0.55 |
| Recoverable gold (ounces) | **56,916** | 58,657 | **162,748** | 172,245 |
| Ending ore inventory (ounces) | **191,189** | 186,096 | **191,189** | 186,096 |
| Waste rock mined (tonnes) | **22,358,956** | 36,477,973 | **66,516,478** | 80,185,849 |

For the three months ended September 30, 2016, the total amount of ore put on the leach pad was 6.3 million tonnes, with total contained gold of 56,916 ounces. The accumulative project-to-date gold recovery rate has increased from approximately 51.52 % at the end of June 2016 to 51.71% at the end of September 2016.

## Exploration

The Company continues to conduct surface reconnaissance and exploration for expansion opportunities around the CSH Mine, The drilling program with ten holes was planned for 2015 and 2016 in this area, of which four holes with a cumulative 5,497 meters have been drilled to date. Additionally, one core is near completion with another three in progress in accordance to the schedule.

## Mineral Resource Update

CSH Mine Resources by category, Northeast and Southwest pits combined at December 31, 2015 under NI 43-101:

| | | | Metal | |
|---|---|---|---|---|
| **Type** | **Quantity Mt** | **Au g/t** | **Au t** | **Au Moz** |
| Measured | 38.12 | 0.65 | 24.69 | 0.79 |
| Indicated | 145.34 | 0.60 | 87.30 | 2.81 |
| M+I | 183.46 | 0.61 | 111.99 | 3.60 |

## Mineral Reserves Update

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2015 under NI 43-101:

| | | | Metal | |
|---|---|---|---|---|
| **Type** | **Quantity Mt** | **Au g/t** | **Au t** | **Au Moz** |
| Proven | 37.28 | 0.65 | 24.33 | 0.78 |
| Probable | 102.06 | 0.61 | 63.30 | 2.04 |
| **Total** | **139.34** | **0.63** | **87.63** | **2.82** |

### *The Jiama Mine*

The Company acquired the Jiama Mine on December 1, 2010. Jiama is a large 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 has both underground mining and open-pit mining operations. Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011.

### Phase II Expansion - The Jiama Expansion Program

The Jiama Mine's Phase II expansion consists of two series, with each series having a mining and mineral processing capacity of 22,000 tpd. The Phase II series I construction is now complete. The commissioning will be started in December 2016. It is expected that the output of Series I will be ramped up to its full capacity to 22,000 tpd around July 2017. With Phase II series I in production, the total nameplate capacity will be increased from the current 6,000 tpd to 28,000 tpd. Given the recent changes in world politics and their potential impact on commodity prices and market conditions, the Company will complete construction of Phase II but slow down the commissioning of the Series II facility while it re-optimizes the mining plan and production schedules.

Capital expenditures incurred at the Jiama Mine for the nine months ended September 30, 2016 was US$103.6 million.

### Production Update

| **Jiama Mine** | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Ore mined (tonnes) | **709,816** | 666,607 | **1,742,330** | 1,792,348 |
| Waste mined (tonnes) | **-** | - | **-** | - |
| Average copper ore grade (%) | **0.94** | 0.73 | **0.86** | 0.79 |
| Copper recovery rate (%) | **92** | 92 | **91** | 92 |
| Average gold ore grade (g/t) | **0.56** | 0.47 | **0.50** | 0.45 |
| Gold recovery rate (%) | **71** | 71 | **70** | 68 |
| Average silver ore grade (g/t) | **24.92** | 19.40 | **24.64** | 22.16 |
| Silver recovery rate (%) | **68** | 69 | **68** | 68 |

### Exploration

The Company plans peripheral prospecting and mineral exploration work in 2016, and have planning of 12 drilling holes; five holes are completed and five holes are still in progress. The fieldwork exploration is expected to be finished in the fourth quarter of 2016 and first quarter of 2017.

### Mineral Resources Estimate

An NI 43-101 compliant mineral resource estimate was independently completed by Mining One Pty Ltd. in November 2013, based on information collected up to November 12, 2012.

Mining One Pty Ltd. noted that gold and silver mineralization within the ore body had a significantly higher spatial variability than the other elements, and as a result, classified the Au and Ag resource presented in Table 2 separately. This classification takes into account the proposed large scale mining techniques where Au and Ag will only be credits to the overall products from the operations. Mining One Pty Ltd has assumed that Au and Ag will not be assigned a single cut-off grade for a selected mining block and will be mined in conjunction with the other elements.

**Jiama Project - Cu, Mo, Pb, Zn ,Au, and Ag Mineral Resources under NI 43-101**
Reported at a 0.3% Cu Equivalent Cut off grade*, as of December 31, 2015

| Class | Quantity Mt | Cu % | Mo % | Pb % | Zn % | Au g/t | Ag g/t | Cu Metal (kt) | Mo Metal (kt) | Pb Metal (kt) | Zn Metal (kt) | Au Moz | Ag Moz |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Measured | 96.80 | 0.40 | 0.04 | 0.04 | 0.02 | 0.10 | 6.53 | 385.50 | 34.80 | 43.10 | 23.20 | 0.27 | 17.86 |
| Indicated | 1,385.00 | 0.41 | 0.03 | 0.05 | 0.03 | 0.11 | 6.11 | 5,715.50 | 468.00 | 751.00 | 471.00 | 4.99 | 272.35 |
| M+I | 1,481.80 | 0.41 | 0.03 | 0.05 | 0.03 | 0.11 | 6.14 | 6,101.00 | 502.80 | 794.10 | 494.20 | 5.26 | 290.21 |
| Inferred | 406.10 | 0.31 | 0.03 | 0.08 | 0.04 | 0.10 | 5.13 | 1,247.00 | 123.00 | 311.00 | 175.00 | 1.32 | 66.93 |

Note: Figures reported are rounded which may result in small tabulation errors.

The Copper Equivalent basis for the reporting of resources has been compiled on the following basis:

CuEq Resources: = (Ag Grade * Ag Price + Au Grade * Au Price + Cu Grade * Cu Price + Pb Grade * Pb Price + Zn Grade * Zn Price + Mo Grade * Mo Price) / Copper Price

## Mineral Reserves Estimate

A Mineral Reserve estimate, dated November 20, 2013, has been independently verified by Mining One Pty Ltd. in accordance with the CIM Definitions Standards under NI 43-101.

Jiama Project Statement of NI 43-101 Mineral Reserve Estimate as of December 31, 2015

| Class | Quantity Mt | Cu % | Mo % | Pb % | Zn % | Au g/t | Ag g/t | Cu Metal (kt) | Mo Metal (kt) | Pb Metal (kt) | Zn Metal (kt) | Au Moz | Ag Moz |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Proven | 21.52 | 0.62 | 0.04 | 0.05 | 0.03 | 0.24 | 9.41 | 132 | 10 | 11 | 8 | 0.150 | 6.530 |
| Probable | 415.07 | 0.61 | 0.03 | 0.13 | 0.08 | 0.19 | 11.50 | 2,541 | 133 | 551 | 319 | 2.490 | 153.495 |
| P+P | 436.59 | 0.61 | 0.03 | 0.13 | 0.07 | 0.19 | 11.46 | 2,673 | 143 | 562 | 326 | 2.640 | 160.025 |

Notes:

1. All Mineral Reserves have been estimated in accordance with the JORC code and have been reconciled to CIM standards as prescribed by the NI 43-101.
2. Mineral Reserves were estimated using the following mining and economic factors:

Open Pits:

a) 5% dilution factor and 95% recovery were applied to the mining method;

b) overall slope angles of 43 degrees;

c) a copper price of US$ 2.9/lbs;

d) an overall processing recovery of 88 - 90% for copper

Underground:

a) 10% dilution added to all Sub-Level Open Stoping;

b) Stope recovery is 87% for Sub-Level Open Stoping;

c) An overall processing recovery of 88 – 90% for copper.

3. The cut-off grade for Mineral Reserves has been estimated at copper equivalent grades of 0.3% Cu (NSR) for the open pits and 0.45% Cu (NSR) for the underground mine.

## LIQUIDITY AND CAPITAL RESOURCES

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing the expansion of its mining and processing operations, exploration activities and acquisition of exploration and mining rights. The Company's principal sources of funds have been proceeds from borrowing from commercial banks in China, issuance of bonds, equity financings, and cash generated from operations. The Company's liquidity primarily depends on its ability to generate cash flow from its 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 September 30, 2016, the Company had an accumulated surplus of US$182.2 million, working capital deficit of US$322.8 million and borrowings of US$1,100 million. The Company's cash balance at September 30, 2016 was US$58.9 million.

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments. The Company's borrowings are comprised of US$502.0 million of 3.5% unsecured bonds maturing on July 17, 2017 and US$57.7 million of short term debt facilities with interest rates ranging from 2.75% to 6.0% per annum arranged through various banks in China. In addition, on November 3, 2015, the Company entered into a Loan Facility agreement with a syndicate of banks, led by Bank of China. The lenders agreed to lend to the aggregate principle amount of RMB 3.98 billion, approximately US$613 million with the interest rate of 2.83% per annum currently. The People's Bank of China Lhasa Center Branch's interest rate serves as a benchmark for the interest on the drawdowns. The bank's interest rate is then discounted by 7 basis points (or 0.07%) to calculate the interest on the drawdowns. The proceeds from the Loan Facility are to be used for the development of the Jiama Mine. As of September 30, 2016 the Company has drawdown RMB 2.6 billion, approximately US$390.1 million. The Company believes that the availability of debt financing in China at favorable rates will continue for the foreseeable future.

Given the challenging market conditions in the global mining industry, the Company continues to rigorously test its assets for impairment as part of its financial reporting processes. To date, the testing procedures carried out by the Company support the carrying values of the Company's assets, and no impairment has been required. However, management of the Company, together with its auditors, continues to evaluate and test key assumptions on estimates and management judgments in order to determine the fair value less cost of disposal of the CSH Mine and the Jiama Mine.

## Cash flows

The following table sets out selected cash flow data from the Company's condensed consolidated interim cash flow statements for the periods ended September 30, 2016 and September 30, 2015.

| | Three Months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Net cash from operating activities | **31,113** | 19,659 | **60,412** | 5,043 |
| Net cash used in investing activities | **(185,356)** | (45,126) | **(276,361)** | (200,405) |
| Net cash from (used in) financing activities | **113,453** | (1,077) | **163,392** | (277,559) |
| Net decrease in cash and cash equivalents | **(40,790)** | (26,544) | **(52,557)** | (472,921) |
| Effect of foreign exchange rate changes on cash and cash equivalents | **(199)** | (624) | **(907)** | (672) |
| Cash and cash equivalents, beginning of period | **99,924** | 119,153 | **112,399** | 565,578 |
| **Cash and cash equivalents, end of period** | **58,935** | 91,985 | **58,935** | 91,985 |

### *Operating cash flow*

For the three months ended September 30, 2016, the net cash inflow from operating activities was US$31.1 million which is primarily attributable to (i) decrease in accounts payable of US$25.9 million, (ii) depreciation and depletion of US$20.3 million and (iii) profit before income tax of US$14.0 million, partially offset by (i) an increase in inventory of US$11.9 million, (ii) interest paid of US$9.4 million, and (iii) increase in accounts receivable of US$9.3 million.

For the nine months ended September 30, 2016, the net cash inflow from operating activities was US$60.4 million, which is primarily attributable to (i) decrease in accounts payable of US$49.2 million, (ii) depreciation and depletion of US$58.6 million, (iii) finance cost of US$12.3 million and (iv) profit before income tax of US$9.1 million, partially offset by (i) increase of inventory of US$44.8 million and (ii) Interest paid of US$28.7 million.

### *Investing cash flow*

For the three months ended September 30, 2016, the net cash outflow from investing activities was US$185.4 million, which is primarily attributable to (i) loan to a related company of US$133 million and (ii) payment for the acquisition of property, plant and equipment of US$50.4 million.

For the nine months ended September 30, 2016, the net cash outflow from investing activities was US$276.4 million, which is primarily attributable to (i) loan to a related company of US$133 million and (ii) payment for the acquisition of property, plant and equipment of US$144.2 million.

### *Financing cash flow*

For the three months ended September 30, 2016, the net cash inflow from financing activities was US$113.5 million, which is attributable to proceeds from borrowings of US$173.6 offset by repayments of borrowings of US$60.2 million,

For the nine months ended September 30, 2016, the net cash inflow from financing activities was US$163.4 million, which is attributable to proceeds from borrowings of US$317.9 million offset by repayment of borrowings of US$154.3 million.

### Expenditures Incurred

For the nine months ended September 30, 2016, the Company incurred mining costs of US$80.2 million, processing costs of US$36.1 million, transportation costs of US$3.7 million and resource compensation fee, which was paid to the PRC government, of US$2.4 million.

### Gearing ratio

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at September 30, 2016, the Company's total debt was US$1,100 million and the total equity was US$1,434 million. The Company's gearing ratio was 0.77 therefore as at September 30, 2016 and 0.66 as at September 30, 2015.

### Restrictive covenants

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

Under a Loan Facility agreement entered on November 3, 2015 between the Company and a syndicated of banks, led by Bank of China pursuant to which the banks agreed to lend to Tibet Huatailong, the Company's subsidiary, the aggregate principle amount of RMB 3.98 billion (approximately US$613 million), the debt to assets ratio of Huatailong should be less than 75% during the term of the agreement.

## COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include principal payments on the Company's bank loans, bonds and syndicated loan facility, material future aggregate minimum operating lease payments required under operating leases and capital commitments in respect of 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 one and seventeen years. The Company is required to pay a fixed rental amount under the terms of these leases.

The Company's capital commitments relate primarily to the payments for purchase of equipment and machinery for both mines and payments to third-party contractors for the 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 are not included in the Company's consolidated financial statements.

There were no significant changes in capital commitments and operating lease commitments between December 31, 2015 and September 30, 2016. The following table outlines principal payments on bank loans for the periods indicated:

| | **Total** | **Within One year** | **Within Two to five years** | **Over 5 years** |
|---|---|---|---|---|
| | **US$'000** | **US$'000** | **US$'000** | **US$'000** |
| Principal repayment of bank loans | **598,265** | 57,668 | 229,866 | 310,731 |
| Repayment of bonds | **502,009** | 502,009 | - | - |
| **Total** | **1,100,274** | **559,677** | **229,866** | 310,731 |

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 each year varies depending on the amount of work performed. The Company has similar agreements with third party contractors for the Jiama Mine.

On July 19, 2016, The Company received the final arbitration award in connection with an arbitration proceeding with one of its construction suppliers for the CSH Mine before the China International Economic and Trade Arbitration Commission. The arbitration related to the unsatisfactory performance by the contractor under the contract. From the commencement of the arbitration the Company has accrued construction cost payables in its financial statements. The final arbitration ruling was received in the Company's favour for an amount that was less than the accrued amount in the financial statements.

## RELATED PARTY TRANSACTIONS

CNG owned 39.3% of the outstanding common shares of the Company as at September 30, 2016 and September 30, 2015.

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

On October 24, 2008, the Company's subsidiary, Inner Mongolia Pacific entered into a non-exclusive contract for the purchase and sale of doré with CNG (the "2008 Contract") pursuant to which Inner Mongolia Pacific occasionally sold gold doré bars to CNG through to December 31, 2011. The pricing was based on the daily average price of gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period. On January 27, 2012, the 2008 Contract was renewed for another three years ending December 31, 2014 and subsequently on June 30, 2014 for the period of January 1, 2015 to December 31, 2017.

Revenue from sales of gold doré bars to CNG of US$162.7 million for the nine months ended September 30, 2016 decreased from US$172.9 million for the nine months ended September 30, 2015.

On May 29, 2015, the Company entered into a revised continuing connected transaction and major transaction amending the Product and Service Framework Agreement with CNG. According to the amendments, CNG purchases the copper concentrates produced at the Jiama Mine. The quantity of copper concentrates, pricing terms and payment terms be established from time to time by the parties with reference to the pricing principles for connected transactions set out under the Product and Service Framework Agreement. For the nine months ended September 30, 2016, revenue from sales of copper concentrate and other products to CNG was US$37.6 million, compared to US$ 17.7 million for the same period in 2015.

On May 24, 2016, the Company entered into a Loan Framework Agreement with CNG. Under the agreement the Company and/or any of its subsidiaries have agreed to make available to CNG and/or any of its subsidiaries, revolving loan(s) in an aggregate principle amount of up to US$200 million whereby any repaid principle amounts will refresh the facility amount available for drawdown. The Loan(s) will carry a fixed interest of 3.9% per annum, calculated on the principle amount from the drawdown date, with a maturity date of July 31, 2017. As of September 30, 2016, an aggregate of US$147 million has been drawdown by CNG and its subsidiaries.

For the nine months ended September 30, 2016, construction services of US$63.6 million were provided to the Company by subsidiaries of CNG (US$48.2 million for the nine months ended September 30, 2015).

In addition to the two aforementioned major related party transactions, the Company also obtains additional services from related parties in its normal course of business, including a Financial Services Agreement entered on May 29, 2015 among Inner Mongolia Pacific, Huatailong and China Gold Finance.

## PROPOSED TRANSACTIONS

The Board of Directors has given the Company approval to conduct reviews of a number of projects that may qualify as acquisition targets through joint venture, merger and/or outright acquisitions. The Group did not have any material acquisition and disposal of subsidiaries and associated companies in the three months ended September 30, 2016.

## 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 audited annual 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 4 of the audited annual consolidated financial statements for the year ended December 31, 2015.

## CHANGE IN ACCOUNTING POLICIES

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the audited annual consolidated financial statements as at December 31, 2015.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company holds a number of financial instruments, the most significant of which are available-for-sale investments, accounts receivable, accounts payable, cash and loans. The financial instruments are recorded at either fair values or amortized amount on the balance sheet.

The Company did not have any financial derivatives or outstanding hedging contracts as at September 30, 2016.

## OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2016, the Company had not entered into any 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 Board of 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 rules promulgated by the regulators affecting dividends in both Canada and Hong Kong and at both the TSX and HKSE, any restrictive covenants of existing borrowings, and 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 September 30, 2016 the Company had 396,413,753 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 Company's DC&P and ICFR as of September 30, 2016 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 were effective as of September 30, 2016, and 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 of 2013 to evaluate the Company's ICFR as of September 30, 2016 and have concluded that these controls and procedures were effective as of September 30, 2016 and 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 nine months ended September 30, 2016, 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 People's Republic of China 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.

## QUALIFIED PERSON

Disclosure of a scientific or technical nature in this section of the MD&A in respect of updates at the CSH Gold Project was prepared by or under the supervision of Mr. Songlin Zhang, 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 for the Mineral Resources, Mineral Reserves and Phase II Expansion was prepared by or under the supervision of Mr. Bin Guo and Anthony R Cameron, both qualified person for the purposes of NI 43-101; all remaining information in regards to the Jiama project contained in this MD&A was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

November 11, 2016

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

(incorporated in British Columbia, Canada with limited liability)

Report and Condensed Consolidated Financial Statements
For the nine months ended September 30, 2016

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

REPORT AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

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# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

| | NOTES | Three months ended September 30, 2016 US$'000 | Three months ended September 30, 2015 US$'000 | Nine months ended September 30, 2016 US$'000 | Nine months ended September 30, 2015 US$'000 |
|---|---|---|---|---|---|
| Revenues | 3 | 109,560 | 99,948 | 245,049 | 260,982 |
| Cost of sales | | (85,681) | (82,752) | (201,882) | (202,305) |
| Mine operating earnings | | 23,879 | 17,196 | 43,167 | 58,677 |
| Expenses | | | | | |
| General and administrative expenses | 4 | (5,902) | (5,330) | (16,312) | (17,346) |
| Exploration and evaluation expenditure | | (65) | (45) | (164) | (145) |
| | | (5,967) | (5,375) | (16,476) | (17,491) |
| Income from operations | | 17,912 | 11,821 | 26,691 | 41,186 |
| Other (expenses) income | | | | | |
| Foreign exchange (loss), net | | (2,493) | (8,606) | (7,275) | (7,913) |
| Interest and other income | | 2,346 | 4,658 | 5,840 | 14,249 |
| Finance costs | 5 | (3,793) | (7,181) | (12,309) | (22,275) |
| Impairment loss on available-for-sale investment | | - | - | (3,831) | - |
| | | (3,940) | (11,129) | (17,575) | (15,939) |
| Profit before income tax | | 13,972 | 692 | 9,116 | 25,247 |
| Income tax expense | 6 | (6,276) | (5,851) | (12,307) | (13,599) |
| Profit (Loss) for the period | | 7,696 | (5,159) | (3,191) | 11,648 |
| Other comprehensive (expense) income for the period | | | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | | | |
| Exchange difference arising on translation | | (1,837) | (5,944) | (7,197) | (5,700) |
| Fair value gain (loss) on available-for-sale investment | | 272 | (6,003) | (6,382) | (5,635) |
| Reclassification adjustment upon impairment of Available-for-sale investment | | - | - | 3,831 | - |
| Total comprehensive income (expense) for the period | | 6,131 | (17,106) | (12,939) | 313 |
| Profit (loss) for the period attributable to | | | | | |
| Non-controlling interests | | 490 | 416 | 915 | 1,233 |
| Owners of the Company | | 7,206 | (5,575) | (4,106) | 10,415 |
| | | 7,696 | (5,159) | (3,191) | 11,648 |
| Total comprehensive income (expense) for the period attributable to | | | | | |
| Non-controlling interests | | 492 | 395 | 913 | 1,054 |
| Owners of the Company | | 5,639 | (17,501) | (13,852) | (741) |
| | | 6,131 | (17,106) | (12,939) | 313 |
| Earnings (loss) per share | | | | | |
| - Basic ($US) | 7 | 1.82 cents | (1.41) cents | (1.04) cents | 2.63 cents |
| - Diluted ($US) | 7 | N/A | N/A | N/A | 2.63 cents |
| Weighted average number of common shares | | | | | |
| -Basic and diluted | 7 | 396,413,753 | 396,413,753 | 396,413,753 | 396,413,753 |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT SEPTEMBER 30, 2016

| | NOTES | September 30, 2016 US$'000 | December 31, 2015 US$'000 (audited) |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 58,935 | 112,399 |
| Restricted bank balance | | 16,847 | 9,242 |
| Trade and other receivables | 8 | 163,913 | 35,801 |
| Prepaid expenses and deposits | | 4,554 | 8,446 |
| Prepaid lease payments | | 221 | 225 |
| Inventories | 9 | 235,049 | 190,876 |
| | | 479,519 | 356,989 |
| **Non-current assets** | | | |
| Prepaid expense and deposits | | 11,351 | 11,974 |
| Prepaid lease payments | | 7,290 | 7,620 |
| Deferred tax assets | | 2,624 | 1,728 |
| Available-for-sale investments | 16 | 11,006 | 17,447 |
| Property, plant and equipment | 10 | 1,519,420 | 1,454,319 |
| Mining rights | | 925,359 | 930,516 |
| | | 2,477,050 | 2,423,604 |
| **Total assets** | | 2,956,569 | 2,780,593 |
| **Current liabilities** | | | |
| Accounts and other payables and accrued expenses | 11 | 204,249 | 166,004 |
| Borrowings | 12 | 559,677 | 189,009 |
| Entrusted loan payable | 13 | 29,950 | - |
| Tax liabilities | | 8,496 | 7,802 |
| | | 802,372 | 362,815 |
| **Net current (liabilities)** | | (322,853) | (5,826) |
| **Total assets less current liabilities** | | 2,154,197 | 2,417,778 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 540,597 | 763,422 |
| Deferred tax liabilities | | 125,018 | 125,414 |
| Deferred income | | 4,589 | 1,798 |
| Entrusted loan payable | 13 | - | 30,800 |
| Environmental rehabilitation | | 49,950 | 49,090 |
| | | 720,154 | 970,524 |
| **Total liabilities** | | 1,522,526 | 1,333,339 |

| | NOTE | September 30, 2016 US$'000 | December 31, 2015 US$'000 (audited) |
|---|---|---|---|
| **Owners' equity** | | | |
| Share capital | 14 | 1,229,061 | 1,229,061 |
| Reserves | | 9,103 | 18,849 |
| Retained profits | | 182,211 | 186,317 |
| | | 1,420,375 | 1,434,227 |
| Non-controlling interests | | 13,668 | 13,027 |
| **Total owners' equity** | | 1,434,043 | 1,447,254 |
| **Total liabilities and owners' equity** | | 2,956,569 | 2,780,593 |

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on November 11, 2016 and are signed on its behalf by:

| (Signed by) Xin Song | (Signed by) Bing Liu |
|---|---|
| Xin Song | Bing Liu |
| Director | Director |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

| | Number of shares | Share capital US$'000 | Equity reserve US$'000 (note a) | Investment revaluation reserve US$'000 | Exchange reserve US$'000 | Statutory reserve US$'000 (note b) | Retained profits US$'000 | Subtotal US$'000 | Non-controlling interests US$'000 | Total owners' equity US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2015 (audited) | 396,413,753 | 1,229,061 | 11,179 | (722) | 7,615 | 11,355 | 194,505 | 1,452,993 | 12,165 | 1,465,158 |
| Profit for the period | - | - | - | - | - | - | 10,415 | 10,415 | 1,234 | 11,649 |
| Fair value gain on available-for-sale investment | - | - | - | (5,635) | - | - | - | (5,635) | - | (5,635) |
| Exchange difference arising on translation | - | - | - | - | (5,521) | - | - | (5,521) | (179) | (5,700) |
| Total comprehensive (expense) income for the period | - | - | - | (5,635) | (5,521) | - | 10,415 | (741) | 1,055 | 314 |
| Dividends paid to a non-controlling shareholder | - | - | - | - | - | - | - | - | (302) | (302) |
| At September 30, 2015 (unaudited) | 396,413,753 | 1,229,061 | 11,179 | (6,357) | 2,094 | 11,355 | 204,920 | 1,452,252 | 12,918 | 1,465,170 |
| At January 1, 2016 (audited) | 396,413,753 | 1,229,061 | 11,179 | - | (3,685) | 11,355 | 186,317 | 1,434,227 | 13,027 | 1,447,254 |
| (Loss) profit for the period | - | - | - | - | - | - | (4,106) | (4,106) | 915 | (3,191) |
| Fair value loss on available-for-sale investment | - | - | - | (6,382) | - | - | - | (6,382) | - | (6,382) |
| Reclassified adjustment upon impairment of available-for-sale investment | - | - | - | 3,831 | - | - | - | 3,831 | - | 3,831 |
| Exchange difference arising on translation | - | - | - | - | (7,195) | - | - | (7,195) | (2) | (7,197) |
| Total comprehensive (expense) income for the period | - | - | - | (2,551) | (7,195) | - | (4,106) | (13,852) | 913 | (12,939) |
| Dividends paid to a non-controlling shareholder | - | - | - | - | - | - | - | - | (272) | (272) |
| At September 30, 2016 (unaudited) | 396,413,753 | 1,229,061 | 11,179 | (2,551) | (10,880) | 11,355 | 182,211 | 1,420,375 | 13,668 | 1,434,043 |

Notes:

(a) Amounts represent equity reserve arising from share based compensation provided to employees under the stock option plan of the Company and deemed contribution from shareholders in previous years. All options expired on June 1, 2015 and the 2007 stock option plan has ceased to be in effect.

(b) Statutory reserve which consists of appropriations from the profit after taxation of the subsidiaries established in the People's Republic of China ("PRC"), forms part of the equity of PRC subsidiaries. In accordance with the PRC Company Law and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate an amount equal to a minimum of 10% of their profits after taxation each year to a statutory reserve until the reserve reaches 50% of the registered capital of the respective subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Net cash from operating activities** | 31,113 | 19,659 | 60,412 | 5,043 |
| **Investing Activities** | | | | |
| Payment for acquisition of property, plant and equipment | (50,412) | (45,496) | (144,249) | (186,204) |
| Deposit paid for acquisition of property, plant and equipment | (14) | - | (336) | (551) |
| Proceeds from disposal of property, plant And equipment | - | 370 | - | 370 |
| Receipt of government grant | - | - | 3,337 | - |
| Placement of restricted bank balance | (12,621) | - | (22,046) | - |
| Release of restricted bank balance | 4,822 | - | 14,064 | - |
| Loan to a related company | (133,140) | - | (133,140) | (14,020) |
| Repayment from a loan to a related company | 6,009 | - | 6,009 | - |
| **Net cash used in investing activities** | (185,356) | (45,126) | (276,361) | (200,405) |
| **Financing Activities** | | | | |
| Proceeds from borrowings | 173,636 | 18,176 | 317,913 | 176,246 |
| Dividends paid to a non-controlling shareholder | - | - | (272) | (301) |
| Repayment of borrowings | (60,183) | (19,253) | (154,249) | (453,504) |
| **Net cash (used in) from financing activities** | 113,453 | (1,077) | 163,392 | (277,559) |
| **Net decrease in cash and cash equivalents** | (40,790) | (26,544) | (52,557) | (472,921) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (199) | (624) | (907) | (672) |
| Cash and cash equivalents, beginning of period | 99,924 | 119,153 | 112,399 | 565,578 |
| **Cash and cash equivalents, end of period** | 58,935 | 91,985 | 58,935 | 91,985 |
| Cash and cash equivalents are comprised of Cash and saving deposits in banks | 58,935 | 91,985 | 58,935 | 91,985 |

## 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 PRC. The Group 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 660, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M4.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting.*

The condensed consolidated financial statements are presented in United States Dollars ("US$"), which is the functional currency of the Company.

At September 30, 2016, the Group's current liabilities exceeded its current assets by approximately US$323 million. In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Taking into account the Group's cash flow projection, including the Group's unutilized bank facilities of approximately US$590 million, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended September 30, 2016 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2015.

2. PRINCIPAL ACCOUNTING POLICIES - continued

In the current interim period, the Group has applied the following amendments to International Financial Reporting Standards ("IFRSs") which are mandatorily effective for the current interim period:

| | |
|---|---|
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |

Except as described below, the application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

**Amendments to HKAS 1 Disclosures Initiative**

The Group has applied the amendments to IAS 1 *Disclosures Initiative* for the first time in the current interim period. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transaction, events and conditions on the entity's financial position and financial performance. As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of various notes have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Other than the above presentation and disclosure changes, the application of the amendments to IAS1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

3. 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 ("CODM") to allocate resources to the segments and to assess their performance.

The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been defined as the executive directors of the Company. The chief operating decision - maker has identified two operating segments as follows:

(i) The mine-produced gold segment - the production of gold bullion through the Group's integrated processes, i.e., mining, metallurgical processing, production and selling of gold doré bars to external clients.

(ii) The mine-produced copper segment - the production of copper concentrate and other by-products through the Group's integrated processes, i.e., mining, metallurgical processing, production and selling copper concentrate and other by-products to external clients.

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the nine months ended September 30, 2016

| | Mine - produced gold US$'000 | Mine - produced copper US$'000 | Segment total US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| Revenues - External | 162,656 | 82,393 | 245,049 | - | 245,049 |
| Cost of sales | (136,731) | (65,151) | (201,882) | - | (201,882) |
| Mining operating earnings | 25,925 | 17,242 | 43,167 | - | 43,167 |
| Income (loss) from operations | 25,761 | 6,196 | 31,957 | (5,266) | 26,691 |
| Foreign exchange gain (loss), net | 3,091 | (10,241) | (7,150) | (125) | (7,275) |
| Interest and other (expense) income | (2,206) | 448 | (1,758) | 7,598 | 5,840 |
| Finance costs | (2,659) | (3,541) | (6,200) | (6,109) | (12,309) |
| Impairment loss on Available-for-sale-investment | - | - | - | (3,831) | (3,831) |
| Profit (loss) before income tax | 23,987 | (7,138) | 16,849 | (7,733) | 9,116 |

Note: Due to the depreciation of RMB against USD, the Group incurred net exchange loss amounting to US$7,275,000 (nine months ended September 30, 2015: US$7,913,000) for the nine months ended September 30, 2016, which was mainly from the translation of US$ dominated intra-group borrowing of Tibet Huatailong Mining Development Co. Ltd. ("Huatailong") from Skyland Mining (BVI) Limited to RMB, the functional currency of Huatailong, for the Jiama Mine development in mine-produced copper segment.

3. SEGMENT INFORMATION - continued

For the nine months ended September 30, 2015

| | Mine - Produced gold US$'000 | Mine - Produced copper US$'000 | Segment total US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| Revenues - External | 172,877 | 88,105 | 260,982 | - | 260,982 |
| Cost of sales | (130,337) | (71,968) | (203,305) | - | (202,305) |
| Mining operating earnings | 42,540 | 16,137 | 58,677 | - | 58,677 |
| Income (loss) from operations | 42,395 | 4,188 | 46,583 | (5,397) | 41,186 |
| Foreign exchange (loss) gain , net | 2,220 | (9,644) | (7,424) | (489) | (7,913) |
| Interest and other (expense) income | (1,382) | 2,546 | 1,164 | 13,085 | 14,249 |
| Finance costs | (3,905) | (3,982) | (7,887) | (14,388) | (22,275) |
| Profit (loss) before income tax | 39,328 | (6,892) | 32,436 | (7,189) | 25,247 |

Note: Due to the depreciation of RMB against USD, the Group incurred net exchange loss amounting to US$7,275,000 (nine months ended September 30, 2015: US$7,913,000) for the nine months ended September 30, 2016, which was mainly from the translation of US$ dominated intra-group borrowing of Tibet Huatailong Mining Development Co. Ltd. (“Huatailong”) from Skyland Mining (BVI) Limited to RMB, the functional currency of Huatailong, for the Jiama Mine development in mine-produced copper segment.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) before income tax attributable to respective segment. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

There were no inter-segment sales for the nine months ended September 30, 2016 and 2015.

(b) Segment assets and liabilities

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

| | Mine - Produced gold US$'000 | Mine - Produced copper US$'000 | Segment total US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| **As of September 30, 2016** | | | | | |
| Total assets | 722,929 | 2,047,792 | 2,770,721 | 185,848 | 2,956,569 |
| Total liabilities | 235,881 | 790,197 | 1,026,078 | 496,448 | 1,522,526 |
| **As of December 31, 2015** | | | | | |
| Total assets | 655,103 | 2,023,092 | 2,678,195 | 102,398 | 2,780,593 |
| Total liabilities | 186,426 | 648,070 | 834,496 | 498,843 | 1,333,339 |

## 4. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Administration and office | 2,462 | 2,071 | 5,914 | 6,370 |
| Depreciation of property, plant and equipment | 631 | 619 | 2,061 | 1,926 |
| Professional fees | 640 | 605 | 1,764 | 1,534 |
| Salaries and benefits | 2,013 | 1,885 | 5,912 | 6,942 |
| Others | 156 | 150 | 661 | 574 |
| Total general and administrative expenses | 5,902 | 5,330 | 16,312 | 17,346 |

## 5. FINANCE COSTS

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Effective interests on borrowings | 9,404 | 12,921 | 28,651 | 39,029 |
| Accretion on environmental rehabilitation | 739 | 651 | 2,247 | 1,966 |
| | 10,143 | 13,572 | 30,898 | 40,995 |
| Less: Amount capitalised to property, plant and equipment | (6,350) | (6,391) | (18,589) | (18,720) |
| Total finance costs | 3,793 | 7,181 | 12,309 | 22,275 |

## 6. INCOME TAX EXPENSE

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| PRC Enterprise Income Tax | 8,315 | 2,319 | 13,705 | 8,579 |
| Deferred tax (credit) expense | (2,039) | 3,532 | (1,398) | 5,020 |
| Total income tax expense | 6,276 | 5,851 | 12,307 | 13,599 |

## 7. EARNINGS (LOSS) PER SHARE

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

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Profit (loss) for the period attributable to owners of the Company for the purposes of basic and diluted EPS (US$'000) | 7,206 | (5,575) | (4,106) | 10,415 |
| Weighted average number of shares, basic and diluted | 396,413,753 | 396,413,753 | 396,413,753 | 396,413,753 |
| Basic earnings (loss) per share ($US) | 1.82 cents | (1.41) cents | (1.04) cents | 2.63 cents |
| Diluted earnings (loss) per share ($US) | N/A | N/A | N/A | 2.63 cents |

The Group has no potential dilutive instruments issued during the three and nine months ended September 30, 2016 and three months ended September 30, 2015.

The computation of diluted EPS for the nine months ended September 30, 2015 does not assume the exercise of the Company's stock options because the exercise price of these options was higher than the average market price for shares for the current period.

## 8. TRADE AND OTHER RECEIVABLES

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Trade receivables | 19,989 | 11,189 |
| Less: allowance for doubtful debts | (187) | (398) |
| | 19,802 | 10,791 |
| Amounts due from related companies (note 15(a)) [1] | 276 | 2,407 |
| Loan to a related company (note 15(a)) | 141,152 | 14,021 |
| Loan to a non-controlling shareholder (note 15(b)) | 1,314 | 1,263 |
| Other receivables [2] | 1,369 | 7,319 |
| Total trade and other receivables | 163,913 | 35,801 |

Note:

(1) The outstanding balances represent service fee receivables arising from provision of transportation services to the subsidiaries of CNG during the period/ year ended September 30, 2016 and December 31, 2015. The amounts are unsecured, interest free and repayable on demand.

(2) Included in the balance as at September 30, 2016 is an amount of approximately US$0.9 million (December 31, 2015: US$6.3 million) value-added tax recoverable which is expected to be recovered within twelve months after the end of the reporting period.

8. TRADE AND OTHER RECEIVABLES - continued

The Group allows an average credit period of 90 days to 180 days to its trade customers for gold dore bars sales and copper sales, respectively.

Below is an aged analysis of trade receivables presented based on invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Less than 30 days | 17,987 | 5,834 |
| 31 to 90 days | 338 | 4,532 |
| 91 to 180 days | 1,477 | 75 |
| Over 180 days | - | 350 |
| | 19,802 | 10,791 |

9. INVENTORIES

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Gold in process | 198,813 | 160,843 |
| Gold doré bars | 13,921 | 9,565 |
| Consumables | 5,684 | 5,966 |
| Copper | 2,074 | 4,597 |
| Spare parts | 14,557 | 9,905 |
| Total inventories | 235,049 | 190,876 |

Inventory totalling US$84 million and US$198 million for the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015: US$82 million and US$199 million) was recognised in cost of sales.

10. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2016, the Group incurred approximately US$109.3 million on construction in progress (nine months ended September 30, 2015: approximately US$155.6 million) and approximately US$41.3 million on mineral assets (nine months ended September 30, 2015: approximately US$63.4 million).

Depreciation of property, plant and equipment was US$20.0 million and US$58.6 million (for the three and nine months ended September 30, 2015: US$18.4 million and US$53.2 million, respectively) three and nine months ended September 30, 2016, respectively. The depreciation amounts were partly recognised in cost of sales, general and administrative expenses and partly capitalised in inventory.

## 11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts and other payables and accrued expenses comprise the following:

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Accounts payable | 20,103 | 51,815 |
| Bills payable | 67,387 | 36,960 |
| Construction cost payables (Note) | 51,543 | 61,005 |
| Advances from customers | 63 | 49 |
| Mining cost accrual | 46,163 | 6,466 |
| Payroll and benefit payables | 5,607 | 4,271 |
| Other accruals | 2,327 | 1,844 |
| Other tax payable | 2,564 | 1,061 |
| Other payables | 8,492 | 2,533 |
| Total accounts and other payables and accrued expenses | 204,249 | 166,004 |

Note: Included in construction costs payables as at December 31, 2015, US$5,759,000 was related to an arbitration with a construction supplier, details are set out in the annual report for the year ended December 31, 2015. For the nine months ended September 30, 2016, the arbitration is finalised and no provision is required.

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

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Less than 30 days | 14,336 | 41,975 |
| 31 to 90 days | 1,743 | 1,783 |
| 91 to 180 days | 1,709 | 1,195 |
| Over 180 days | 2,315 | 6,862 |
| Total accounts payable | 20,103 | 51,815 |

The credit period for bills payable is 180 days from the issue date. The following is an aging analysis of bills payable, presented based on issue date at the end of the reporting period:

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Less than 30 days | 17,970 | - |
| 31 to 60 days | 19,467 | 12,320 |
| Over 180 days | 29,950 | 24,640 |
| Total bills payable | 67,387 | 36,960 |

12. BORROWINGS

The borrowings are repayable as follows:

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Carrying amount repayable within one year and repayable on demand | 559,677 | 189,009 |
| Carrying amount repayable within one to two years | 34,442 | 487,766 |
| Carrying amount repayable within two to five years | 195,424 | 126,278 |
| Carrying amount repayable over five years | 310,731 | 149,378 |
| | 1,100,274 | 952,431 |
| Less: Amounts due within one year (shown under current liabilities) | (559,677) | (189,009) |
| Amounts shown under non-current liabilities | 540,597 | 763,422 |
| Analysed as: | | |
| Secured | 390,098 | 215,597 |
| Unsecured | 710,176 | 736,834 |
| | 1,100,274 | 952,431 |

The carrying values of the pledged assets to secure borrowings by the Group are as follows:

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Mining rights | 925,359 | 930,516 |

Borrowings carry interest at effective interest rates ranging from 2.75% to 6.0% (December 31, 2015: 2.75% to 6.0%) per annum.

13. ENTRUSTED LOAN PAYABLE

On January 17, 2014, the Group entered into a three-year entrusted loan agreement with China National Gold Corporation ("CNG"), a substantial shareholder (note 15) and China Construction Bank ("CCB") in which CNG provided a loan of RMB200 million (equivalent to approximately US$32,221,000 based on the spot rate at the withdrawal date) to the Group through CCB as the entrusted bank. The entrusted loan is unsecured and carries interest at fixed rate of 3% per annum. The principal amount is to be repaid on January 17, 2017.

## 14. SHARE CAPITAL AND OPTIONS

### (a) Common shares

Authorised - Unlimited common shares without par value

Issued and outstanding - 396,413,753 (December 31, 2015: 396,413,753) common shares at September 30, 2016.

### (b) Stock options

The Group had 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 price approved by the board of directors. A portion of the stock options vested immediately on the grant date and the balance vested over a period of up to five years from the grant date.

The stock options had a life of up to six years from grant date. The exercise price is the weighted average price of the common shares for the five days on which they were traded immediately preceding the date of approval by the board of directors of the Company. All options expired on June 1, 2015.

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

| | January 1, 2016 to September 30, 2016 | | January 1, 2015 to December 31, 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price CAD | Number of options | Weighted average exercise price CAD |
| Balance, beginning of period | - | - | 400,000 | 5.56 |
| Options expired | - | - | (400,000) | 5.56 |
| Balance, end of period | - | - | - | - |

No stock options were granted during the nine months ended September 30, 2016 and the year ended December 31, 2015.

15. RELATED PARTY TRANSACTIONS

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significantly 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 period/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.

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

| | September 30, 2016 % | December 31, 2015 % |
|---|---|---|
| CNG | 39.3 | 39.3 |

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

(i) Transactions/balances with CNG and its subsidiaries

The Group had the following significant transactions with CNG and CNG's subsidiaries:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 US$'000 | 2015 US$'000 | 2016 US$'000 | 2015 US$'000 |
| Gold doré sales by the Group | 78,375 | 62,400 | 162,656 | 172,877 |
| Copper and other product sales by the Group | 11,943 | 17,768 | 37,567 | 17,768 |
| Provision of transportation by the Group | 95 | 162 | 603 | 1,369 |
| Construction service provided to the Group | 693 | 4,099 | 63,569 | 48,159 |
| Entrusted loan provided to the Group | - | - | - | 31,462 |
| Office lease to the Group | 285 | 308 | 859 | 902 |
| Loan advanced by the Group | 133,000 | - | 133,000 | 14,020 |
| Loans provided to the Group | 14,340 | 15,731 | 39,103 | 15,731 |

15. RELATED PARTY TRANSACTIONS – continued

(a) Transactions/balances with Government-related entities in the PRC – continued

(i) Transactions/balances with CNG and its subsidiaries - continued

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

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Assets | | |
| Amount due from related companies (note 7) | 276 | 2,407 |
| Trade receivables from a CNG subsidiary | 13,033 | - |
| Deposits | 64 | 912 |
| Loan receivable from CNG’s subsidiaries (note 7) | 141,152 | 14,021 |
| Cash and cash equivalents held by a CNG subsidiary | 6,646 | 14,956 |
| Total amounts due from CNG and its subsidiaries | 161,171 | 32,296 |

Loan receivable from a CNG subsidiary carries a fixed interest rate of 5% per annum and is unsecured and was originally repayable in April 2016. On April 12, 2016, the loan was extended to April 2017. The remaining amounts due from CNG and its subsidiaries which are included in trade and other receivables is non-interest bearing, unsecured and repayable on demand.

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Liabilities | | |
| Entrusted loan payable (note 13) | 29,950 | 30,800 |
| Customer advance paid by a CNG subsidiary | 49 | 35 |
| Construction cost payables to CNG's subsidiaries | 6,919 | 15,564 |
| Loans payable to a CNG subsidiary | 44,925 | 21,560 |
| Total amounts due to CNG's subsidiaries | 81,843 | 67,959 |

The loans payable to a CNG subsidiary, which is included in borrowings, carry fixed interest rates at the range from 4.13% to 4.37% per annum and are unsecured and repayable within one year. With the exception of the entrusted loan payable to CNG and loans payable to a CNG subsidiary, the amounts due to CNG and its subsidiaries which are included in other payables and construction costs payable, are non-interest bearing, unsecured and have no fixed terms of repayments.

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

Apart from the transactions with CNG and its subsidiaries disclosed above, the Group has also entered into transactions of bank deposits, borrowings and other general banking facilities with other government-related entities in its ordinary course of business.

15. RELATED PARTY TRANSACTIONS - continued

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

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

| | September 30, 2016 US$'000 | December 31, 2015 US$'000 |
|---|---|---|
| Assets | | |
| Amount due from a non-controlling shareholder of a subsidiary (included in prepaid expenses) | 367 | 384 |
| Loan receivable from a non-controlling shareholder (note 7) | 1,314 | 1,263 |
| Total amount due from non-government related parties/entities | 1,681 | 1,647 |

Loans receivables from a non-controlling shareholder carry a floating rate, currently set at 4.35% per annum based on the benchmark interest rate of the People's Bank of China, and are unsecured and repayable on demand. The amount due from a non-controlling shareholder is non-interest bearing, unsecured and repayable on demand.

The Group has the following compensation to key management personnel during the period:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 US$'000 | 2015 US$'000 | 2016 US$'000 | 2015 US$'000 |
| Salaries and other benefits | 175 | 197 | 562 | 605 |
| Post-employment benefits | - | - | 6 | 13 |
| | 175 | 197 | 568 | 618 |

## 16. FINANCIAL INSTRUMENTS

As at September 30, 2016 and December 31, 2015, the Group's available-for-sale investments include investment in equity securities listed in Hong Kong and investment in an unlisted company established in the PRC.

Subsequent to initial recognition at fair value, investment in equity securities listed on The Stock Exchange is measured based on the quoted price (unadjusted) in active market (Level 1 fair value measurement). As at September 30, 2016, US$8,909,000 (December 31, 2015: US$15,291,000) investment in equity securities is measured at fair value on a recurring basis. The Group's investment in listed equity securities represent investment in a company engaged in mining, processing and trading of nonferrous metals in the PRC. For the nine months ended September 30, 2016, the fair value change of US$2,551,000 and US$3,831,000 were recognized in other comprehensive income and as impairment loss, respectively.

As at September 30, 2016, US$2,097,000 (December 31, 2015: US$2,156,000) investment in an unlisted company incorporated in the PRC is measured at cost since the investment in unlisted equity instrument does not have a quoted market price and the fair value cannot be measured reliably.

Fair value hierarchy has been defined in the Group's consolidated financial statements for the year ended December 31, 2015. The Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the condensed financial statements approximate their fair values. There was no transfer between Level 1 and 2 in the current and prior periods.

## 17. EVENT AFTER THE REPORTING PERIOD

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