# China Gold International Resources Corp. Ltd.

## Management's Discussion and Analysis of Financial Condition and Results of Operations
## Nine months ended September 30, 2018
**(Stated in U.S. dollars, except as otherwise noted)**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended September 30, 2018.*
*(Stated in U.S. dollars, except as otherwise noted)*

The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") is prepared as of November 14, 2018. It should be read in conjunction with the condensed consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as "China Gold International", the "Company", "we" or "our" as the context may require) for the three and nine months ended September 30, 2018 and the three and nine months ended September 30, 2017, 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 28, 2018 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 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 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, 2018***

- Revenue increased by 61% to US$158.8 million from US$98.5 million for the same period in 2017.
- Mine operating earnings increased by 30% to US$35.1 million from US$27.0 million for the same period in 2017.
- Net profit after income taxes decreased from US$17.4 million for the 2017 period to a loss of US$4.6 million in 2018, mainly driven by foreign exchange loss of US$11.0 million.
- Gold production from the CSH Mine decreased by 28% to 33,468 ounces from 46,621 ounces for the same period in 2017.
- Copper production from the Jiama Mine increased by 156% to 16,515 tonnes (approximately 36.4 million pounds) from 6,439 tonnes (approximately 14.2 million pounds) for the same period in 2017. Gold produced was 17,392 ounces compared to 12,200 ounces for the same period in 2017.

***Nine months ended September 30, 2018***

- Revenue increased by 46% to US$407.6 million from US$278.6 million for the same period in 2017.
- Mine operating earnings increased by 9% to US$77.4 million from US$71.1 million for the same period in 2017.
- Net profit after income taxes decreased from US$44.4 million for the 2017 period to a loss of US$2.2 million in 2018.
- Gold production from the CSH Mine decreased by 19% to 103,390 ounces from 126,959 ounces for the same period in 2017.
- Copper production from the Jiama Mine increased by 78% to 37,313 tonnes (approximately 82.3 million pounds) from 20,939 tonnes (approximately 46.2 million pounds) for the same period in 2017. Gold produced was 48,112 ounces compared to 29,817 ounces for the same period in 2017.

## *OUTLOOK*

- Gold production for the full year of 2018 is expected to be more than 10% higher than the 160,000 ounces forecasted at the beginning of the year.
- Copper production for the full year of 2018 is expected to be more than 10% higher than the 100 million pounds forecasted at the beginning of the year.
- The Jiama Mine's Phase II expansion consists of two series, with each series having a mining and mineral processing capacity of 22,000 tonnes per day ("tpd"). The Phase II, Series I expansion reached commercial production on December 31, 2017, followed by commercial production of Phase II, Series II effective July 1, 2018, bringing the entire Phase II expansion project into commercial production. The Company was able to accelerate its development and commissioning to achieve commercial production for Series II ahead of schedule. The Company continues to ramp up operations at Series II to full design capacity of

22,000 tonnes per day ("tpd"). The full design capacity of ore processing at the Jiama Mine will increase to 50,000 tpd from the previous capacity of 28,000 tpd once Series II reaches full design capacity.

- The Company will continue to leverage the technical and operating experience of the Company's substantial shareholder, China National Gold Group Co. Ltd ("CNG"), to improve operations at its mines.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining acquisition opportunities, namely projects outside of China.

## RESULTS OF OPERATIONS

### *Selected Quarterly Financial Data*

| | Quarter ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | | | 2016 |
| *(US$ in thousands except per share)* | **30-Sep** | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec |
| Revenues | **158,841** | 142,087 | 106,685 | 133,312 | 98,543 | 97,916 | 82,110 | 93,552 |
| Cost of sales | **123,743** | 106,294 | 100,131 | 87,621 | 71,565 | 72,923 | 62,986 | 80,517 |
| Mine operating earnings | **35,098** | 35,793 | 6,554 | 45,691 | 26,978 | 24,993 | 19,124 | 13,035 |
| General and administrative expenses | **15,734** | 15,474 | 11,936 | 19,309 | 7,103 | 5,660 | 5,776 | 5,127 |
| Exploration and evaluation expenses | **134** | 251 | 78 | 176 | 40 | 53 | 36 | 216 |
| Income (loss) from operations | **19,230** | 20,068 | (5,460) | 26,206 | 19,835 | 19,280 | 13,312 | 7,692 |
| Foreign exchange gain (loss) | **(11,024)** | (7,580) | 4,463 | (492) | 1,838 | 4,001 | 2,845 | (9,154) |
| Finance costs | **10,909** | 11,214 | 11,128 | 5,748 | 5,800 | 5,264 | 4,914 | 4,264 |
| Profit (loss) before income tax | **(998)** | 3,839 | (465) | 22,350 | 17,616 | 21,936 | 13,709 | (2,703) |
| Income tax expense | **3,591** | 3,449 | (2,469) | 2,394 | 208 | 1,332 | 7,332 | 6,431 |
| Net profit (loss) | **(4,589)** | 390 | 2,004 | 19,956 | 17,408 | 20,604 | 6,377 | (9,134) |
| Basic earnings (loss) per share (cents) | **(1.23)** | 0.05 | 0.45 | 4.91 | 4.33 | 5.09 | 1.60 | (2.32) |
| Diluted earnings (loss) per share (cents) | **N/A** | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

### *Selected Quarterly Production Data and Analysis*

| **CSH Mine** | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Gold sales (US$ million) | **39.96** | 56.90 | **134.65** | 160.76 |
| Realized average price (US$) of gold per ounce | **1,197** | 1,261 | **1,278** | 1,261 |
| Gold produced (ounces) | **33,468** | 46,621 | **103,390** | 126,959 |
| Gold sold (ounces) | **33,374** | 45,133 | **105,344** | 127,479 |
| Total production cost (US$ per ounce) | **1,238** | 1,041 | **1,117** | 1,078 |
| Cash production cost[(1)] (US$ per ounce) | **805** | 657 | **724** | 682 |

*(1)* Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

Gold production at the CSH Mine decreased by 28% to 33,468 ounces for the three months ended September 30, 2018 compared to 46,621 ounces for the same period in 2017. The decrease in gold production is attributed to lower volumes of ore mined during the 2018 period in accordance to the revised mining plan in relation to the slope stability issue.

The total production cost of gold for the three months ended September 30, 2018 increased to US$1,238 per ounce compared to US$1,041 for the three month 2017 period. The cash production cost of gold for the three months ended September 30, 2018 increased by approximately 23% to US$805, from US$657 per ounce for the same period in 2017, mainly due to an increase in waste stripping costs and significantly lower grade.

| Jiama Mine | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Copper sales[1] (US$ in millions) | **87.17** | 27.71 | **197.81** | 77.31 |
| Realized average price [2](US$) of copper per pound after smelting fee discount | **2.26** | 2.34 | **2.36** | 2.15 |
| Copper produced (tonnes) [3, 7] | **16,515** | 6,439 | **37,313** | 20,939 |
| Copper produced (pounds) [3, 7] | **36,409,235** | 14,196,304 | **82,262,054** | 46,162,635 |
| Copper sold (tonnes) [3] | **17,384** | 6,573 | **36,617** | 17,481 |
| Copper sold (pounds) [3] | **38,325,511** | 14,491,077 | **80,726,808** | 38,538,698 |
| Gold produced (ounces) [3, 7] | **17,392** | 12,200 | **48,112** | 29,817 |
| Gold sold (ounces) [3] | **19,366** | 9,722 | **44,604** | 27,538 |
| Silver produced (ounces) [3, 7] | **993,286** | 855,464 | **2,224,824** | 1,557,121 |
| Silver sold (ounces) [3] | **1,008,220** | 537,111 | **2,152,984** | 1,248,770 |
| Total production cost [4] (US$) of copper per pound | **2.50** | 2.48 | **3.08** | 2.31 |
| Total production cost [4] (US$) of copper per pound after by-products credits [6] | **1.71** | 1.36 | **2.21** | 1.20 |
| Cash production cost [5](US$) per pound of copper | **1.90** | 2.11 | **2.32** | 1.95 |
| Cash production cost [5] (US$) of copper per pound after by-products credits [6] | **1.11** | 0.99 | **1.44** | 0.84 |

*1* The amounts for September 30, 2017, excludes sales of goods produced during the commissioning of Phase II, Series I.

*2* A discount factor of 18.8% to 24.8% is applied to the copper bench mark price to compensate the refinery charges

*3* 2018 Quantities of Copper, Gold and Silver produced and sold include the production and sales from the Phase II expansion

*4* 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.

*5* Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

*6* By-products credit refers to the sales of gold and silver during the corresponding period.

*7* 2017 production includes: Copper produced from Phase I of 16,239 tonnes (35.8 million pounds) and Phase II of 4,700 tonnes (10.4 million pounds).
Gold produced from Phase I of 26,359 ounces and Phase II of 3,458 ounces.
Silver produced from Phase I of 1,059,553 ounces and Phase II of 497,568 ounces.

During the three months ended September 30, 2018, the Jiama Mine produced 16,515 tonnes (36.4 million pounds) of copper, an increase of 156% compared with the three months ended September 30, 2017 (6,439 tonnes, or 14.2 million pounds).

In the third quarter of 2018, unit total production cost after by-products credits was higher compared to the same period in 2017 due to lower grades of ore produced from the use of the open-pit mine in Phase II and higher amortization cost. Unit cash production cost after by-products credits for the three month period in 2018 was approximately 10% higher due to lower grades of copper compared to the same 2017 period.

## *Review of Quarterly Data*

### *Three months ended September 30, 2018 compared to three months ended September 30, 2017*

**Revenue** of US$158.8 million for the third quarter of 2018 increased by US$60.3 million or 61%, from US$98.5 million for the same period in 2017.

Revenue from the CSH Mine was US$40.0 million, a decrease of US$16.9 million, from US$56.9 million for the same period in 2017. Gold sold by the CSH Mine was 33,374 ounces (gold produced: 33,468 ounces), compared to 45,133 ounces (gold produced: 46,621 ounces) for the same period in 2017.

Revenue from the Jiama Mine was US$118.9 million, an increase of US$77.3 million, from US$41.6 million for the same period in 2017. Total copper sold was 17,384 tonnes (38.3 million pounds) for the three months ended September 30, 2018, an increase of 164% from 6,573 tonnes (14.5 million pounds) for the same period in 2017.

**Cost of sales** of US$123.7 million for the quarter ended September 30, 2018, an increase of US$52.1 million or 73% from US$71.6 million for the same period in 2017. The overall increase is primarily attributed to a 236% increase in cost of sales for the Jiama Mine. Cost of sales as a percentage of revenue for the Company increased from 74% to 78% for the three months ended September 30, 2017 and 2018, respectively.

**Mine operating earnings** of US$35.1 million for the three months ended September 30, 2018, an increase of 3% or US$8.1 million, from US$27.0 million for the same period in 2017. Mine operating earnings as a percentage of revenue decreased from 27% to 22% for the three months ended September 30, 2017 and 2018, respectively.

**General and administrative expenses** increased to US$15.7 million for the quarter ended September 30, 2018, from US$7.1 million for the quarter ended September 30, 2017. The increase of US$8.6 million is mainly due to R&D expenditure at both mine sites.

**Income from operations** of US$19.2 million for the third quarter of 2018, decreased by US$0.6 million, from US$19.8 million for the same period in 2017.

**Finance costs** of US$10.9 million for the three months ended September 30, 2018, increased by US$5.1 million, from US$5.8 million for the same period in 2017, primarily due to the Jiama Mine not capitalizing interest expenditures as of the commencement of commercial production of Jiama's Phase II.

**Foreign exchange loss** of US$11.0 million for the three months ended September 30, 2018 compared to a gain of US$1.8 million for the same period in 2017. The loss is attributed to changes in the RMB/USD exchange rates and the revaluation of monetary items held in Chinese RMB.

**Interest and other income** of US$1.7 million for the three months ended September 30, 2018 was consistent with the comparative period in 2017.

**Income tax expense** of US$3.6 million for the quarter ended September 30, 2018 increased by US$3.4 million from US$0.2 million for the same period in 2017. During the current quarter, the Company had US$2.8 million of deferred tax expense compared to US$3.1 million deferred tax credit for the same period in 2017.

**Net loss** of US$4.6 million for the three months ended September 30, 2018, decreased by US$22 million from net income of US$17.4 million for the three months ended September 30, 2017.

### *Nine months ended September 30, 2018 compared to nine months ended September 30, 2017*

**Revenue** of US$407.6 million for the nine months ended September 30, 2018 increased by US$129 million or 46.3%, from US$278.6 million for the same period in 2017.

Revenue from the CSH Mine was US$134.7 million, a decrease of US$26.1 million, compared to US$160.8 million for the same period in 2017. Gold sold by the CSH Mine was 105,344 ounces (gold produced: 103,390 ounces), compared to 127,479 ounces (gold produced: 126,959 ounces) for the same period in 2017.

Revenue from the Jiama Mine was US$272.9 million, an increase of US$155.1 million, compared to US$117.8 million for the same period in 2017. Total copper sold was 36,617 tonnes (80.7 million pounds) for the nine months ended September 30, 2018, an increase of 109% from 17,481 tonnes (38.5 million pounds) for the same period in 2017.

**Cost of sales** of US$330.2 million for the nine months ended September 30, 2018, an increase of US$122.7 million or 59.1% from US$207.5 million for the same period in 2017. The overall increase is primarily attributed to a 203% increase in cost of sales for the Jiama Mine. Cost of sales as a percentage of revenue for the Company increased from 74% to 81% for the nine months ended September 30, 2017 and 2018, respectively.

**Mine operating earnings** of US$77.4 million for the nine months ended September 30, 2018 an increase of 9%, or US$6.3 million, from US$71.1 million for the same period in 2017. Mine operating earnings as a percentage of revenue decreased from 26% to 19% for the nine months ended September 30, 2017 and 2018, respectively.

**General and administrative expenses** of US$43.1 million, increased by US$24.6 million for the nine months ended September 30, 2018, from US$18.5 million for the nine months ended September 30, 2017. The increase is mainly due to R&D expenditure at both mine sites.

**Income from operations** of US$33.8 million for the nine months ended September 30, 2018, decreased by US$18.6 million, compared to a gain of US$52.4 million for the same period in 2017.

**Finance costs** of US$33.3 million for the nine months ended September 30, 2018, increased by US$17.3 million compared to US$16.0 for the same period in 2017, primarily due to the Jiama Mine no longer capitalizing interest expense as of the commencement of commercial production of Jiama's Phase II.

**Foreign exchange loss** of US$14.1 million for the nine months ended September 30, 2018 compare to a gain of US$8.7 million for the same period in 2017. The loss is related to changes in the RMB/USD exchange rates and the revaluation of monetary items held in Chinese RMB.

**Interest and other income** of US$15.9 million for the nine months ended September 30, 2018 increased from US$8.1 million for the same period in 2017. The increase is primarily attributable to sales of low grade product from the Jiama Mine.

**Income tax expense** of US$4.6 million for the nine months ended September 30, 2018 decreased by US$4.3 million from an income tax expense of US$8.9 million for the comparative period in 2017. During the current nine month period, the Company had US$3.6 million of deferred tax expense compared to US$3.9 million deferred tax credit for the same period in 2017.

**Net loss** of US$2.2 million for the nine months ended September 30, 2018, decreased by US$46.6 million from net income of US$44.4 million for the nine months ended September 30, 2017.

## 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 for the three and nine months ended September 30, 2018 and 2017:

**CSH Mine**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **US$** | US$ | **US$** | US$ |
| Cost of mining per tonne of ore | **1.18** | 1.38 | **1.41** | 1.34 |
| Cost of waste stripping per tonne of ore | **4.42** | 1.71 | **5.32** | 1.77 |
| Other mining costs per tonne of ore | **0.21** | 0.22 | **0.25** | 0.19 |
| Total mining costs per tonne of ore | **5.81** | 3.31 | **6.98** | 3.30 |
| Cost of reagents per tonne of ore | **2.44** | 0.96 | **2.04** | 0.92 |
| Other processing costs per tonne of ore | **1.43** | 0.83 | **1.46** | 0.90 |
| Total processing cost per tonne of ore | **3.87** | 1.79 | **3.50** | 1.82 |

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

Based on the new mining plan and IFRIC 20, partial waste stripping costs are capitalized.

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 pound of copper for the Jiama Mine:

**CSH Mine (Gold)**

| | **Three months ended September 30,** | | | | **Nine months ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | 2017 | | **2018** | | 2017 | |
| | **US$** | **US$ Per ounce** | US$ | US$ Per ounce | **US$** | **US$ Per ounce** | US$ | US$ Per ounce |
| Total production costs | **41,314,821** | **1,238** | 47,005,177 | 1,041 | **117,671,812** | **1,117** | 137,414,805 | 1,078 |
| Adjustments | **(14,432,598)** | **(433)** | (17,372,702) | (384) | **(41,409,728)** | **(393)** | (50,496,817) | (396) |
| Total cash production costs | **26,882,223** | **805** | 29,632,475 | 657 | **76,262,084** | **724** | 86,917,988 | 682 |

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

| | **Three months ended September 30,** | | | | **Nine months ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | 2017 | | **2018** | | 2017 | |
| | **US$** | **US$ Per Pound** | US$ | US$ Per Pound | **US$** | **US$ Per Pound** | US$ | US$ Per Pound |
| Total production costs | **95,758,095** | **2.50** | 29,818,324 | 2.48 | **248,790,106** | **3.08** | 83,379,058 | 2.31 |
| Adjustments | **(23,098,457)** | **(0.60)** | (4,431,154) | (0.37) | **(61,722,784)** | **(0.76)** | (12,843,291) | (0.36) |
| Total cash production costs | **72,659,638** | **1.90** | 25,387,170 | 2.11 | **187,067,322** | **2.32** | 70,535,767 | 1.95 |
| By-products credits | **(30,290,195)** | **(0.79)** | (13,459,755) | (1.12) | **(70,763,114)** | **(0.88)** | (40,173,260) | (1.11) |
| Total cash production costs after by-products credits | **42,369,443** | **1.11** | 11,927,415 | 0.99 | **116,304,208** | **1.44** | 30,362,507 | 0.84 |

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 the Company 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 CSH Mine did not enter into any new major contracts during the nine months ended September 30, 2018.

## Production Update

| CSH Mine | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Ore mined and placed on pad (tonnes) | **1,959,973** | 5,520,391 | **7,058,982** | 15,000,288 |
| Average ore grade (g/t) | **0.43** | 0.57 | **0.55** | 0.55 |
| Recoverable gold (ounces) | **15,611** | 60,430 | **73,053** | 160,617 |
| Ending gold inventory (ounces) | **178,553** | 213,877 | **178,553** | 213,877 |
| Waste rock mined (tonnes) | **19,910,536** | 23,299,218 | **48,340,340** | 67,720,295 |

For the three months ended September 30, 2018, the total amount of ore placed on the leach pad was 1.96 million tonnes, with total contained gold of 15,611 ounces (486 kilograms). The overall accumulative project-to-date gold recovery rate has slightly increased to approximately 53.59% at the end of September 2018 from 52.87% at the end of June 2018.

In the second half of 2017, there were a series of wall failures on one side of the pit at the CSH Mine leading to short term interruptions of mining activities. 2017 production was not significantly impacted. The Company is conducting studies to develop remediation plans to address the slope stability issues and to assess the impact on the long term mine plan. 2018 production estimates have been reduced accordingly.

## Exploration

The Company's mineral exploration plan for 2017 included 10,450 +/- meters, involving nine or more drill sites. The drill sites step out from known mineralized zones. The 2017 drilling program commenced in Q3 of 2017 and continues.

The Company's 2018 exploration program involves drilling of 6,005 +/- additional meters involving five or more drill sites. By the end of September 2018, 6161 meters or 103% of the 2018 total has been completed. Combined 10,844 +/- meters or 104% of the combined 2017 and 2018 drilling programs have now been completed. The Company is examining and modelling core and waiting on additional assays.

## Mineral Resource Update

CSH Mine Resources by category, Northeast and Southwest pits combined at December 31, 2017 under NI 43-101:

| | | | Metal | |
|---|---|---|---|---|
| **Type** | **Quantity Mt** | **Au g/t** | **Au t** | **Au Moz** |
| Measured | 16.25 | 0.65 | 10.57 | 0.34 |
| Indicated | 128.77 | 0.61 | 79.14 | 2.54 |
| M+I | 145.01 | 0.62 | 89.71 | 2.88 |
| Inferred | 81.54 | 0.51 | 41.93 | 1.35 |

## Mineral Reserves Update

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2017 under NI 43-101:

| | | | Metal | |
|---|---|---|---|---|
| **Type** | **Quantity Mt** | **Au g/t** | **Au t** | **Au Moz** |
| Proven | 15.41 | 0.66 | 10.22 | 0.33 |
| Probable | 85.50 | 0.64 | 55.14 | 1.77 |
| **Total** | **100.90** | **0.65** | **65.35** | **2.10** |

### *The Jiama Mine*

The Jiama Mine hosts 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 expansion reached commercial production at the end of 2017. The Series II expansion commenced commercial production in July 2018.

### Production Update

| Jiama Mine | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Ore processed (tonnes) | **3,372,400** | 879,938 | **7,2041,141** | 3,245,698 |
| Average copper ore grade (%) | **0.68** | 0.90 | **0.71** | 0.85 |
| Copper recovery rate (%) | **72** | 81 | **73** | 76 |
| Average gold ore grade (g/t) | **0.30** | 0.52 | **0.39** | 0.47 |
| Gold recovery rate (%) | **54** | 67 | **53** | 61 |
| Average silver ore grade (g/t) | **15.39** | 25.41 | **17.21** | 28.17 |
| Silver recovery rate (%) | **60** | 60 | **56** | 53 |

According to the mining plan for the Phase II expansion, the Jiama Mine began to produce low grade ore from the open pit mine. As a result such, the Company expected the average ore grade to be lower than previous years which used higher grade ore from underground mining only. Production cost was also expected to be higher since the commencement of commercial production of Phase II due to the lower grade of ore.

During the first nine months of 2018, metal recovery rates were also lower compared to the same period in 2017 due to presence of the oxide ore from the open pit mine. Recovery rates are expected to increase during the latter of 2018 as the ratio of oxide ore gradually decreases.

### Exploration

In 2017 the Company developed an exploration program to test for structural controls, extensions of the known mineralize zones and other targeted zones. The 2017-2018 program called for 6,920 +/- meters involving six surface drill sites and 10,155 +/- meters involving fourteen +/- underground drill sites. The drilling program commenced in second half of 2017 and is still underway. As of September 2018, 70% of surface drilling and 69% underground drilling have been completed. Core is being logged and sent for assay. Given favorable drilling conditions, the 2017-2018 exploration program and its evaluation is expected to be completed in Q2 of 2020.

### Mineral Resources Estimate

A 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. The drilling programs subsequent to November 2012, including an extensive drill program conducted in 2013, will be included in future updates of the Mineral Resources and Reserves.

Mining One Pty Ltd. noted that gold and silver mineralization within the ore body had a significantly higher spatial variability than the other elements. 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, 2017

| 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 | 96.3 | 0.39 | 0.04 | 0.04 | 0.02 | 0.08 | 5.62 | 381 | 35 | 42 | 22 | 0.26 | 17.46 |
| Indicated | 1,378.0 | 0.41 | 0.03 | 0.05 | 0.03 | 0.11 | 6.00 | 5,654 | 466 | 732 | 460 | 4.88 | 270.57 |
| M+I | 1,474.4 | 0.41 | 0.03 | 0.05 | 0.03 | 0.11 | 5.97 | 6,035 | 500 | 774 | 482 | 5.14 | 288.03 |
| Inferred | 406.1 | 0.31 | 0.03 | 0.08 | 0.04 | 0.10 | 5.13 | 1,247 | 123 | 311 | 175 | 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 Grade: = (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, 2017

| 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 | 21.2 | 0.60 | 0.05 | 0.05 | 0.03 | 0.21 | 9.05 | 129 | 10 | 10 | 7 | 0.14 | 6.23 |
| Probable | 408.0 | 0.61 | 0.03 | 0.13 | 0.08 | 0.18 | 11.28 | 2,499 | 131 | 548 | 317 | 2.41 | 149.67 |
| P+P | 429.1 | 0.61 | 0.03 | 0.13 | 0.07 | 0.19 | 11.17 | 2,628 | 141 | 559 | 324 | 2.56 | 155.90 |

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) an 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 mineral 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, 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, 2018, the Company had an accumulated surplus of US$233.5 million, working capital of US$87.2 million and borrowings of US$1,231.7 million. The Company’s cash balance at September 30, 2018 was US$183.5 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$501.3 million of 3.25% unsecured bonds maturing on July 6, 2020, of which US$16 million is included in the current portion of borrowings, and US$485.3 million of short term debt facilities with interest rates ranging from 2.75% to 4.40% 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 an 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. The loan is secured by the mining rights for the Jiama Mine. As of September 30, 2018 the Company has drawdown RMB3.495 billion, approximately US$508 million under the Loan Facility. The Company believes that the availability of debt financing in China at favorable rates will continue for the foreseeable future. On July 6, 2017, the Company, through its wholly-owned subsidiary, Skyland Mining (BVI) Limited, completed the issuance of bonds in an aggregate principal amount of US$500 million. The bonds were issued at a price of 99.663%, bearing coupon rate of 3.25% with a maturity date of July 6, 2020. The bonds are listed on the Stock Exchange of Hong Kong Limited as of July 7, 2017.

The Company continues to review and assess its assets for impairment as part of its financial reporting processes. To date, the assessment carried out by the Company support the carrying values of the Company's assets and no impairment has been required. However, the management of the Company continues to evaluate key assumptions on estimates and management judgements in order to determine the recoverable amount of the CSH Mine and the Jiama Mine.

## Cash flows

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the three and nine months ended September 30, 2018 and September 30, 2017.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Net cash from operating activities | **53,557** | 54,813 | **109,646** | 65,491 |
| Net cash (used in) investing activities | **(48,230)** | 82,941 | **(68,279)** | (1,998) |
| Net cash (used in) from financing activities | **31,257** | (7,610) | **(2,027)** | 82,726 |
| Net increase in cash and cash equivalents | **36,584** | 130,144 | **39,340** | 150,215 |
| Effect of foreign exchange rate changes on cash and cash equivalents | **(1,685)** | 1,649 | **(3,133)** | 2,121 |
| Cash and cash equivalents, beginning of period | **148,626** | 80,473 | **147,318** | 59,930 |
| **Cash and cash equivalents, end of period** | **183,525** | 212,266 | **183,525** | 212,266 |

### *Operating cash flow*

For the three months ended September 30, 2018, net cash inflow from operating activities was US$53.6 million which is primarily attributable to (i) depreciation and depletion of US$27.5 million (ii) foreign exchange loss of US$12.3 and iii) finance cost of US$10.9 million partially offset by (i) interest paid of US$13.9 million and (ii) a decrease in prepaid expenses of US$2.3 million.

For the nine months ended September 30, 2018, net cash inflow from operating activities was US$109.6 million which is primarily attributable to (i) depreciation and depletion of US$92.1 million (ii) decrease in accounts payable of US$24.6 million (iii) and finance cost of US$33.3 million partially offset by (i) interest paid of US$34.3 million and (ii) an increase in inventory of US$28 million.

### *Investing cash flow*

For the three months ended September 30, 2018, the net cash outflow from investing activities was US$48.2 million which is primarily attributable to (i) payment for the acquisition of property, plant and equipment of US$50.4 million and (ii) placement of restricted cash balances of US$30.8 million, partially offset by (i) release of restricted bank balance of US$32.2 million.

For the nine months ended September 30, 2018, the net cash outflow from investing activities was US$68.3 million which is primarily attributable to (i) placement of restricted cash balances of US$93.6 million and (ii) payment for the acquisition of property, plant and equipment of US$75.6 million, partially offset by (i) release of restricted bank balance of US$98.8 million.

### *Financing cash flow*

For the three months ended September 30, 2018, the net cash inflow from financing activities was US$31.3 million which is primarily attributable to proceeds from borrowings of US$68.5 million offset by repayment of borrowings of US$37.1 million.

For the nine months ended September 30, 2018, the net cash outflow from financing activities was US$2.0 million which is primarily attributable to the repayment of borrowings of US$125 million offset by proceeds from borrowings of US$123.5 million.

### Expenditures Incurred

For the nine months ended September 30, 2018, the Company incurred mining costs of US$68.5 million, mineral processing costs of US$75.6 million, transportation costs of US$5.7 million.

### Gearing ratio

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at September 30, 2018, the Company's total debt was US$1,232 million and the total equity was US$1,491 million. The Company's gearing ratio was therefore 0.83 as at September 30, 2018 and 0.82 as at June 30, 2018.

### 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.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES. ASSOCIATES AND JOINT VENTURES, AND FUTURE PLAN FOR MATERIAL INVESTMENTS OF CAPITAL ASSETS

Other than as disclosed elsewhere in this MD&A or in the unaudited condensed consolidated financial statements for the nine months ended September 30, 2018, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the nine months ended September 30, 2018. Other than as disclosed in this MD&A, there was no plan authorized by the Board for other material investments or additions of capital assets at the date of this MD&A.

## CHARGE ON ASSETS

Other than as disclosed elsewhere in this MD&A and interim financial statements, none of the Group's assets were pledged as at September 30, 2018.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation. However, the Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Refer to Note 30, Financial Instruments, in the annual consolidated financial statements for the year ended December 31, 2017.

## COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include principal payments on the Company's bank loans and syndicated loan facility, material future aggregate minimum operating lease payments required under 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 condensed consolidated financial statements.

On July 7, 2017, the Company, through its wholly owned subsidiary Skyland Mining (BVI) Limited, issued bonds on the HKSE, denominated U.S. dollar, with an aggregate principal amount of US$500 million. The Bonds were issued at a price of 99.663%, bearing a coupon of 3.25% per annum with a maturity date of July 6, 2020. Interest is payable in semi-annual installments on January 6 and July 6 of each year.

The following table outlines payments for commitments 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 | **730,462** | 117,019 | 297,273 | 316,170 |
| Repayment of bonds | **501,252** | 15,959 | 485,293 | - |
| **Total** | **1,231,714** | **132,978** | **782,566** | **316,170** |

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

## RELATED PARTY TRANSACTIONS

CNG owned 39.3 percent of the outstanding common shares of the Company as at September 30, 2018 and September 30, 2017.

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

The Company's subsidiary, Inner Mongolia Pacific is a party to a non-exclusive contract for the purchase and sale of doré with CNG (the "Dore Sales Contract") pursuant to which Inner Mongolia Pacific sells gold doré bars to CNG. The pricing is based on the monthly 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. The Dore Sales Contract has been in effect since October 24, 2008 and has been renewed for a current term that commences on January 1, 2018 and expires on December 31, 2020, which renewal was approved by the Company's shareholders on June 28, 2017.

Revenue from sales of gold doré bars to CNG of US$134.7 million for the nine months ended September 30, 2018 decreased from US$160.8 million for the nine months ended September 30, 2017.

The Company is also a party to a Product and Service Framework Agreement with CNG, pursuant to which CNG provides construction, procurement and equipment financing services to the Company and also purchases the copper concentrates produced at the Jiama Mine. The quantity of copper concentrates, pricing terms and payment terms may 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. On June 28, 2017, the Supplemental Product and Service Framework Agreement was approved and extended to expire on December 31, 2020. For the nine months ended September 30, 2018, revenue from sales of copper concentrate and other products to CNG was US$116.5 million, compared to US$49.1 million for the same period in 2017.

For the nine months ended September 30, 2018, construction services of US$10.6 million were provided to the Company by subsidiaries of CNG (US$15.4 million for the nine months ended September 30, 2017).

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 Deposit Services Agreement and Loan Agreement entered into on December 18, 2017 among the Company 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 nine months ended September 30, 2018. The Company continues to review possible acquisition targets.

## 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, 2017.

## CHANGE IN ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the nine months ended September 30, 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017.

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

**Financial Instruments**

On January 1, 2018, the Group adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. The standard is effective for annual periods beginning on or after January 1, 2018. The Group adopted the standard using the modified retrospective approach. IFRS 9 did not impact the Group's classification and measurement of financial assets and liabilities except for equity securities as described below. The standard also had negligible impact on the carrying amounts of our financial instruments at the transition date.

The following summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Group's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The change did not impact the carrying amounts of any of the financial assets of the Group on the transition date. The Group designated its listed and unlisted equity securities under the category of 'investments in equity securities', which have been previously classified as available-for-sale investments under IAS 39, as financial assets at fair value through other comprehensive income ("FVTOCI"), and measured such investments initially at fair value. Subsequent changes in fair value will be recognized in other comprehensive income only and will not be transferred into profit or loss upon disposal. As a result of this change, the Group reclassified US$8,551,000 of impairment loss recognized in prior years on the listed equity security which continues to be owned by the Group as at January 1, 2018 from retained profits to investment revaluation reserve on January 1, 2018 from retained profits to investment revaluation reserve on January 1, 2018. As a result of adopting IFRS 9, the net change in fair value of the listed and unlisted equity securities is now presented as an item that will not be reclassified subsequently to profit or loss in the consolidated statement of profit or loss and other comprehensive income.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the financial assets measured at amortised cost on the transition date given the Group transacts exclusively with large international financial institutions and other organizations with strong credit ratings and the negligible historical level of customer defaults.

**Revenue recognition**

On January 1, 2018, the Group adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 18 – Revenue ("IAS 18"). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018. The Group adopted the standard on January 1, 2018 using the modified retrospective approach without applying any practical expedients.

IFRS 15 requires entities to recognize revenue when 'control' of goods or services is transferred to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the 'risks and rewards' of the goods or services is transferred to the customer. The Group concluded there is no change in the timing of revenue recognition of gold doré bars, copper concentrate and other by-products sales under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. As such, no adjustment was required to the Group's condensed consolidated financial statements as at January 1, 2018. Hence, Revenue is recognized at the point when the gold doré bars, copper concentrate and other by-products are delivered and titles have passed to customers.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. In this regards, "advance from customers" of US$2,724,000 as at January 1, 2018 has been reclassified to "contract liabilities" accordingly.

IFRS 15 requires that variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Group concluded that the adjustments relating to the final assay results for the quantity and quality of gold and copper concentrate sold and the retrospective pricing adjustment for the annual pricing terms are not historically significant and expected not to be significant. It does not constrain the recognition of revenue.

Other than those new IFRSs mentioned above, the application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosure in the condensed consolidated financial statements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company holds a number of financial instruments, the most significant of which are investments in equity securities, accounts receivables, accounts payables, 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, 2018.

## OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2018, 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, 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, 2018 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, 2018 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, 2018, 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) 2013 framework to evaluate the Company's ICFR as of September 30, 2018 and have concluded that these controls and procedures were effective as of September 30, 2018 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, 2018, 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 scientific or technical information in this MD&A was approved by Mr. Zhongxin Guo, P.Eng. the Company's senior mining engineer and a Qualified Person ("QP") for the purposes of NI 43-101.

November 14, 2018

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

(incorporated in British Columbia, Canada with limited liability)

Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2018

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

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CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 (unaudited)

| | NOTES | Three months ended September 30, 2018 US$'000 | Three months ended September 30, 2017 US$'000 | Nine months ended September 30, 2018 US$'000 | Nine months ended September 30, 2017 US$'000 |
|---|---|---|---|---|---|
| Revenues | 3 | 158,841 | 98,543 | 407,613 | 278,569 |
| Cost of sales | | (123,743) | (71,565) | (330,168) | (207,474) |
| Mine operating earnings | | 35,098 | 26,978 | 77,445 | 71,095 |
| Expenses | | | | | |
| General and administrative expenses | 4 | (15,734) | (7,103) | (43,144) | (18,539) |
| Exploration and evaluation expenditure | | (134) | (40) | (463) | (129) |
| | | (15,868) | (7,143) | (43,607) | (18,668) |
| Income from operations | | 19,230 | 19,835 | 33,838 | 52,427 |
| Other (expenses) income | | | | | |
| Foreign exchange (loss) gain, net | | (11,024) | 1,838 | (14,141) | 8,684 |
| Interest and other income | | 1,705 | 1,743 | 15,930 | 8,128 |
| Finance costs | 5 | (10,909) | (5,800) | (33,251) | (15,978) |
| | | (20,228) | (2,219) | (31,462) | 834 |
| (Loss) profit before income tax | | (998) | 17,616 | 2,376 | 53,261 |
| Income tax expense | 6 | (3,591) | (208) | (4,571) | (8,872) |
| (Loss) profit for the period | | (4,589) | 17,408 | (2,195) | 44,389 |
| Other comprehensive (expenses) income for the period | | | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | | | |
| Exchange difference arising on translation | | (9,734) | 6,878 | (14,602) | 12,044 |
| Fair value gain on investment in an equity security | | - | 6,947 | - | 5,144 |
| *Items that may not be reclassified subsequently to profit or loss:* | | | | | |
| Fair value (loss) on investment in an equity security | | (2,735) | - | (1,829) | - |
| Total comprehensive (expenses) income for the period | | (17,058) | 31,233 | (18,626) | 61,577 |
| (Loss) profit for the period attributable to | | | | | |
| Non-controlling interests | | 290 | 232 | 716 | 700 |
| Owners of the Company | | (4,879) | 17,176 | (2,911) | 43,689 |
| | | (4,589) | 17,408 | (2,195) | 44,389 |
| Total comprehensive (expenses) income for the period attributable to | | | | | |
| Non-controlling interests | | 295 | 230 | 725 | 697 |
| Owners of the Company | | (17,353) | 31,003 | (19,351) | 60,880 |
| | | (17,058) | 31,233 | (18,626) | 61,577 |
| (Loss) earnings per share - Basic (US$) | 7 | (1.23) cents | 4.33 cents | (0.73) cents | 11.02 cents |
| Weighted average number of common shares - Basic | 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, 2018 (unaudited)

| | NOTES | September 30, 2018 US$'000 | December 31, 2017 US$'000 (audited) |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 183,525 | 147,318 |
| Restricted bank balance | | 12,196 | 18,089 |
| Trade and other receivables | 8 | 21,851 | 24,848 |
| Prepaid expenses and deposits | | 13,612 | 2,769 |
| Prepaid lease payments | | 445 | 466 |
| Inventories | 9 | 252,791 | 224,501 |
| | | 484,420 | 417,991 |
| **Non-current assets** | | | |
| Prepaid expense and deposits | | 14,657 | 15,431 |
| Prepaid lease payments | | 14,587 | 15,659 |
| Deferred tax assets | | - | 2,562 |
| Investments in equity securities | 15 | 19,886 | 21,823 |
| Property, plant and equipment | 10 | 1,735,288 | 1,809,724 |
| Mining rights | 10 | 926,582 | 947,254 |
| | | 2,711,000 | 2,812,453 |
| **Total assets** | | 3,195,420 | 3,230,444 |
| **Current liabilities** | | | |
| Accounts and other payables and accrued expenses | 11 | 259,241 | 227,410 |
| Borrowings | 12 | 132,978 | 161,489 |
| Tax liabilities | | 4,962 | 7,702 |
| | | 397,181 | 396,601 |
| **Net current assets** | | 87,239 | 21,390 |
| **Total assets less current liabilities** | | 2,798,239 | 2,833,843 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 1,098,736 | 1,113,444 |
| Deferred tax liabilities | | 125,110 | 123,959 |
| Deferred income | | 3,640 | 4,579 |
| Entrusted loan payable | | 29,073 | 30,608 |
| Environmental rehabilitation | | 50,816 | 51,269 |
| | | 1,307,375 | 1,323,859 |
| **Total liabilities** | | 1,704,556 | 1,720,460 |

| | NOTE | September 30, 2018 US$'000 | December 31, 2017 US$'000 (audited) |
|---|---|---|---|
| **Owners' equity** | | | |
| Share capital | 13 | 1,229,061 | 1,229,061 |
| Reserves | | 13,409 | 37,176 |
| Retained profits | | 233,515 | 229,099 |
| | | 1,475,985 | 1,495,336 |
| Non-controlling interests | | 14,879 | 14,648 |
| **Total owners' equity** | | 1,490,864 | 1,509,984 |
| **Total liabilities and owners' equity** | | 3,195,420 | 3,230,444 |

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on November 14, 2018 and are signed on its behalf by:

| (Signed by) Xin Song | (Signed by) Liangyou Jiang |
|---|---|
| Xin Song<br>Director | Liangyou Jiang<br>Director |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 (unaudited)

| | Number of shares | Share capital US$'000 | Equity reserve US$'000 | Investment revaluation reserve US$'000 | Exchange reserve US$'000 | Statutory reserve US$'000 | Retained profits US$'000 | Subtotal US$'000 | Non-controlling interests US$'000 | Total owners' equity US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2017 | 396,413,753 | 1,229,061 | 11,179 | 1,278 | (19,429) | 12,163 | 172,205 | 1,406,457 | 13,732 | 1,420,189 |
| Profit for the period | - | - | - | - | - | - | 43,689 | 43,689 | 700 | 44,389 |
| Fair value gain on investment in an equity security | - | - | - | 5,144 | - | - | - | 5,144 | - | 5,144 |
| Exchange difference arising on translation | - | - | - | - | 12,047 | - | - | 12,047 | (3) | 12,044 |
| Total comprehensive income for the period | - | - | - | 5,144 | 12,047 | - | 43,689 | 60,880 | 697 | 61,577 |
| Dividends paid to a non-controlling shareholder | - | - | - | - | - | - | - | - | (276) | (276) |
| At September 30, 2017 | 396,413,753 | 1,229,061 | 11,179 | 6,422 | (7,382) | 12,163 | 215,894 | 1,467,337 | 14,153 | 1,481,490 |
| At January 1, 2018 | 396,413,753 | 1,229,061 | 11,179 | 8,221 | (639) | 18,415 | 229,099 | 1,495,336 | 14,648 | 1,509,984 |
| Impact of adopting IFRS 9 on January 1, 2018(note 2) | - | - | - | (8,551) | - | - | 8,551 | - | - | - |
| At January 1, 2018 (restated) | 396,413,753 | 1,229,061 | 11,179 | (330) | (639) | 18,415 | 237,650 | 1,495,336 | 14,648 | 1,509,984 |
| Loss for the period | - | - | - | - | - | - | (2,911) | (2,911) | 716 | (2,195) |
| Fair value loss on investment in an equity security | - | - | - | (1,829) | - | - | - | (1,829) | - | (1,829) |
| Exchange difference arising on translation | - | - | - | - | (14,611) | - | - | (14,611) | 9 | (14,602) |
| Total comprehensive (loss) income for the period | - | - | - | (1,829) | (14,611) | - | (2,911) | (19,351) | 725 | (18,626) |
| Transfer to statutory reserve - safety production fund | - | - | - | - | - | 1,224 | (1,224) | - | - | - |
| Dividends paid to a non-controlling shareholder | - | - | - | - | - | - | - | - | (494) | (494) |
| At September 30, 2018 | 396,413,753 | 1,229,061 | 11,179 | (2,159) | (15,250) | 19,639 | 233,515 | 1,475,985 | 14,879 | 1,490,864 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 (unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Net cash from operating activities** | 53,557 | 54,813 | 109,646 | 65,491 |
| **Investing Activities** | | | | |
| Interest income received | 740 | 446 | 2,035 | 4,948 |
| Payment for acquisition of property, plant and equipment | (50,416) | (71,338) | (75,566) | (167,061) |
| Deposit paid for acquisition of property, plant and equipment | - | (4) | (8) | (112) |
| Proceeds from disposal of property, plant and equipment | - | 35 | - | 35 |
| Payment for acquisition of land use right | - | - | - | (709) |
| Placement of restricted bank balance | (30,771) | (17,757) | (93,553) | (84,162) |
| Release of restricted bank balance | 32,217 | 19,122 | 98,813 | 87,095 |
| Repayment from loan to a related company | - | 152,437 | - | 161,964 |
| **Net cash (used in) from investing activities** | (48,230) | 82,941 | (68,279) | (1,998) |
| **Financing Activities** | | | | |
| Proceeds from borrowings | 68,525 | 509,908 | 123,459 | 602,108 |
| Repayment of borrowings | (37,098) | (517,518) | (124,992) | (519,720) |
| Proceeds from entrusted loan | - | - | - | 29,186 |
| Repayment of entrusted loan | - | - | - | (28,572) |
| Dividends paid to a non-controlling shareholder | (170) | - | (494) | (276) |
| **Net cash from (used in) financing activities** | 31,257 | (7,610) | (2,027) | 82,726 |
| **Net increase in cash and cash equivalents** | 36,584 | 130,144 | 39,340 | 150,215 |
| Cash and cash equivalents, beginning of period | 148,626 | 80,473 | 147,318 | 59,930 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (1,685) | 1,649 | (3,133) | 2,121 |
| **Cash and cash equivalents, end of period** | 183,525 | 212,266 | 183,525 | 212,266 |
| **Cash and cash equivalents are comprised of** | | | | |
| **Cash and bank deposits** | 183,525 | 212,266 | 183,525 | 212,266 |

## 1. GENERAL

China Gold International Resources Corp. Ltd., (the "Company") is a publicly listed company incorporated in British Columbia, Canada on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange ("TSX") and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company together with its subsidiaries (collectively referred to as the "Group") is principally engaged in the acquisition, exploration, development and mining of mineral reserves in the People's Republic of China (the "PRC"). The Group considers 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 (the "Listing Rules") as well as International Accounting Standard 34, Interim Financial Reporting("IAS 34") issued by the International Accounting Standards Board.

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

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 three and nine months ended September 30, 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017.

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

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

**Financial instruments**

On January 1, 2018, the Group adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected credit loss' impairment model. The standard is effective for annual periods beginning on or after January 1, 2018. The Group adopted the standard using the modified retrospective approach. IFRS 9 did not impact the Group's classification and measurement of financial assets and liabilities except for equity securities as described below. The standard also had negligible impact on the carrying amounts of the financial instruments of the Group at the transition date.

2. PRINCIPAL ACCOUNTING POLICIES - continued

**Financial instruments** - continued

The following summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Group's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The change did not impact the carrying amounts of any of the financial assets of the Group on the transition date. The Group designated its listed and unlisted equity securities under the category of 'investments in equity securities', which have been previously classified as available-for-sale investments under IAS 39, as financial assets at fair value through other comprehensive income ("FVTOCI"), and measured such investments initially at fair value. Subsequent changes in fair value will be recognized in other comprehensive income only and will not be transferred into profit or loss upon disposal. As a result of this change, the Group reclassified US$8,551,000 of impairment loss recognized in prior years on the listed equity security which continues to be owned by the Group as at January 1, 2018 from retained profits to investment revaluation reserve on January 1, 2018. As a result of adopting IFRS 9, the net change in fair value of the listed and unlisted equity securities is now presented as an item that will not be reclassified subsequently to profit or loss in the consolidated statement of profit or loss and other comprehensive income.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the financial assets measured at amortised cost on the transition date given the Group transacts exclusively with large international financial institutions and other organizations with strong credit ratings and the negligible historical level of customer defaults.

**Revenue recognition**

On January 1, 2018, the Group adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 18 – Revenue ("IAS 18"). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018. The Group adopted the standard on January 1, 2018 using the modified retrospective approach without applying any practical expedients.

IFRS 15 requires entities to recognise revenue when ‘control’ of goods or services is transferred to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the ‘risks and rewards’ of the goods or services is transferred to the customer. The Group concluded there is no change in the timing of revenue recognition of gold doré bars, copper concentrate and other by-products sales under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. As such, no adjustment was required to the Group's condensed consolidated financial statements as at January 1, 2018. Hence, Revenue is recognized at the point when the gold doré bars, copper concentrate and other by-products are delivered and titles have passed to customers.

2. PRINCIPAL ACCOUNTING POLICIES - continued

**Revenue recognition** - continued

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. In this regards, "advance from customers" of US$2,724,000 as at January 1, 2018 has been reclassified to "contract liabilities" accordingly.

IFRS 15 requires that variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Group concluded that the adjustments relating to the final assay results for the quantity and quality of gold and copper concentrate sold and the retroactive pricing adjustment for the annual pricing terms are not historically significant and expected not to be significant. It does not constrain the recognition of revenue.

Other than those new IFRSs mentioned above, the application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures in these condensed consolidated financial statements.

3. REVENUE AND 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 CODM, which is responsible for allocating resources and assessing performance of the operating segments, has been defined as the executive directors of the Company. The CODM has identified two operating and reportable 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.

Information regarding the above segments is reported below:

**Disaggregation of revenue**

| | For the nine months ended September 30, 2018 US$'000 |
|---|---|
| Gold bullion | 134,655 |
| Coppers concentrate | 197,813 |
| Other by-products | 75,145 |
| Total revenue | 407,613 |

3. REVENUE AND SEGMENT INFORMATION - continued

(a) Segment revenues and results

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

For the nine months ended September 30, 2018

| | Mine - produced gold US$'000 | Mine - produced copper US$'000 | Segment total US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| Revenues - external and segment revenue | 134,655 | 272,958 | 407,613 | - | 407,613 |
| Cost of sales | (117,672) | (212,496) | (330,168) | - | (330,168) |
| Mining operating earnings | 16,983 | 60,462 | 77,445 | - | 77,445 |
| Income (loss) from operations | 16,520 | 24,168 | 40,688 | (6,850) | 33,838 |
| Foreign exchange gain (loss), net | 10,168 | (24,309) | (14,141) | - | (14,141) |
| Interest and other income | 570 | 14,649 | 15,219 | 711 | 15,930 |
| Finance costs | (3,820) | (16,302) | (20,122) | (13,129) | (33,251) |
| Profit (loss) before income tax | 23,438 | (1,794) | 21,644 | (19,268) | 2,376 |

For the nine months ended September 30, 2017

| | Mine - produced gold US$'000 | Mine - produced copper US$'000 | Segment total US$'000 | Unallocated US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| Revenues - external and segment revenue | 160,761 | 117,808 | 278,569 | - | 278,569 |
| Cost of sales | (137,415) | (70,059) | (207,474) | - | (207,474) |
| Mining operating earnings | 23,346 | 47,749 | 71,095 | - | 71,095 |
| Income (loss) from operations | 23,217 | 34,429 | 57,646 | (5,219) | 52,427 |
| Foreign exchange (loss) gain, net | (3,281) | 11,405 | 8,124 | 560 | 8,684 |
| Interest and other income | 570 | 823 | 1,393 | 6,735 | 8,128 |
| Finance costs | (6,720) | (3,459) | (10,179) | (5,799) | (15,978) |
| Profit (loss) before income tax | 13,786 | 43,198 | 56,984 | (3,723) | 53,261 |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result 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, 2018 and 2017.

## 3. REVENUE AND SEGMENT INFORMATION - continued

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by segment representing assets/liabilities directly attributable to respective 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, 2018** | | | | | |
| Total assets | 747,637 | 2,411,454 | 3,159,091 | 36,329 | 3,195,420 |
| Total liabilities | 200,581 | 998,343 | 1,198,924 | 505,632 | 1,704,556 |
| **As of December 31, 2017** | | | | | |
| Total assets | 733,032 | 2,446,753 | 3,179,785 | 50,659 | 3,230,444 |
| Total liabilities | 208,545 | 1,003,410 | 1,211,955 | 508,505 | 1,720,460 |

## 4. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 US$'000 | 2017 US$'000 | 2018 US$'000 | 2017 US$'000 |
| Administration and office | 3,253 | 2,363 | 13,616 | 6,377 |
| Depreciation of property, plant and equipment | 821 | 721 | 3,405 | 2,101 |
| Professional fees | 3,215 | 580 | 6,148 | 1,354 |
| Salaries and benefits | 7,186 | 2,627 | 16,729 | 7,058 |
| Others | 1,259 | 812 | 3,246 | 1,649 |
| Total general and administrative expenses | 15,734 | 7,103 | 43,144 | 18,539 |

Research and development expenses of US$3,068,000 and US$8,421,000 for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017: nil) were recognized as part of general and administrative expenses, respectively.

## 5. FINANCE COSTS

| | Three months ended September 30, 2018 US$'000 | Three months ended September 30, 2017 US$'000 | Nine months ended September 30, 2018 US$'000 | Nine months ended September 30, 2017 US$'000 |
|---|---|---|---|---|
| Effective interests on borrowings | 10,199 | 12,176 | 31,016 | 33,487 |
| Accretion on environmental rehabilitation | 710 | 697 | 2,235 | 2,057 |
| | 10,909 | 12,873 | 33,251 | 35,544 |
| Less: Amount capitalised to property, plant and equipment | - | (7,073) | - | (19,566) |
| Total finance costs | 10,909 | 5,800 | 33,251 | 15,978 |

## 6. INCOME TAX EXPENSE

| | Three months ended September 30, 2018 US$'000 | Three months ended September 30, 2017 US$'000 | Nine months ended September 30, 2018 US$'000 | Nine months ended September 30, 2017 US$'000 |
|---|---|---|---|---|
| PRC Enterprise Income Tax | 743 | 3,315 | 3,226 | 14,881 |
| Overprovision of PRC Enterprise Income Tax in prior year | - | - | (2,266) | (2,100) |
| Deferred tax expense (credit) | 2,848 | (3,107) | 3,611 | (3,909) |
| Total income tax expense | 3,591 | 208 | 4,571 | 8,872 |

## 7. (LOSS) EARNINGS PER SHARE

(Loss) profit used in determining (loss) earnings per share are presented below:

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| (Loss) profit for the period attributable to owners of the Company for the purposes of basic (loss) earnings per share (US$'000) | (4,879) | 17,176 | (2,911) | 43,689 |
| Weighted average number of shares, basic | 396,413,753 | 396,413,753 | 396,413,753 | 396,413,753 |
| Basic (loss) earnings per share (US$) | (1.23) cents | 4.33 cents | (0.73) cents | 11.02 cents |

7. (LOSS) EARNINGS PER SHARE - continued

The Group has no outstanding potential dilutive instruments issued as at September 30, 2018 and 2017 and during the three and nine months ended September 30, 2018 and 2017. Therefore, no diluted (loss) earnings per share is presented.

8. TRADE AND OTHER RECEIVABLES

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Trade receivables | 7,021 | 20,685 |
| Less: allowance for impairment | (27) | (33) |
| | 6,994 | 20,652 |
| Amounts due from related companies (note 14(a)) [1] | 117 | 69 |
| Other receivables | 14,740 | 4,127 |
| Total trade and other receivables | 21,851 | 24,848 |

Notes:

[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, 2018 and December 31, 2017. The amounts are unsecured, interest free and repayable on demand.

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

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

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Less than 30 days | 6,784 | 20,538 |
| 31 to 90 days | - | 33 |
| 91 to 180 days | 133 | 26 |
| Over 180 days | 77 | 55 |
| | 6,994 | 20,652 |

## 9. INVENTORIES

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Gold in process | 211,869 | 196,611 |
| Gold doré bars | 16,166 | 14,726 |
| Consumables | 11,243 | 3,812 |
| Copper | 3,048 | 672 |
| Spare parts | 10,465 | 8,680 |
| Total inventories | 252,791 | 224,501 |

Inventory totalling US$117 million and US$315 million for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017: US$66 million and US$204 million) was recognised in cost of sales.

## 10. PROPERTY, PLANT AND EQUIPMENT / MINING RIGHTS

During the nine months ended September 30, 2018, the Group incurred approximately US$48.0 million, on construction in progress (nine months ended September 30, 2017: approximately US$125.4 million) and approximately US$70.4 million, on mineral assets (nine months ended September 30, 2017: US$63.6 million).

Depreciation of property, plant and equipment was US$27.5 million and US$92.1 million for the three and nine months ended September 30, 2018, respectively (for the three and nine months ended September 30, 2017: US$23.9 million and US$63.9 million, respectively). The depreciation amounts were partly recognised in cost of sales, general and administrative expenses and partly capitalised in inventory.

Amortisation of mining rights was US$7.6 million and US$17.1 million for the three and nine months ended September 30, 2018, respectively (for the three and nine months ended September 30, 2017: US$1.4 million and US$4.0 million, respectively). The amortisation amounts were recognised in cost of sales.

## 11. ACCOUNTS AND OTHER PAYABLES AND ACCRUED EXPENSES

Accounts and other payables and accrued expenses comprise the following:

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Accounts payable | 36,047 | 26,191 |
| Bills payable | 49,315 | 67,338 |
| Construction cost payables | 122,557 | 112,194 |
| Contract liabilities | 7,323 | 2,724 |
| Mining cost accrual | 23,150 | 1,940 |
| Payroll and benefit payables | 3,899 | 4,833 |
| Other accruals | 4,726 | 4,714 |
| Other tax payable | 5,640 | 4,523 |
| Other payables | 6,584 | 2,953 |
| Total accounts and other payables and accrued expenses | 259,241 | 227,410 |

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

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Less than 30 days | 12,341 | 15,838 |
| 31 to 90 days | 12,734 | 3,703 |
| 91 to 180 days | 3,288 | 2,850 |
| Over 180 days | 7,684 | 3,800 |
| Total accounts payable | 36,047 | 26,191 |

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, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Less than 30 days | 5,815 | 12,243 |
| 31 to 60 days | 14,428 | 6,122 |
| 61 to 90 days | 5,815 | 12,243 |
| 91 to 180 days | 23,257 | 36,730 |
| Total bills payable | 49,315 | 67,338 |

## 12. BORROWINGS

The borrowings are repayable as follows:

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Carrying amount repayable within one year | 132,978 | 161,489 |
| Carrying amount repayable within one to two years | 514,366 | 128,799 |
| Carrying amount repayable within two to five years | 268,200 | 636,478 |
| Carrying amount repayable over five years | 316,170 | 348,167 |
| | 1,231,714 | 1,274,933 |
| Less: Amounts due within one year (shown under current liabilities) | (132,978) | (161,489) |
| Amounts shown under non-current liabilities | 1,098,736 | 1,113,444 |

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Analysed as: | | |
| Secured | 508,053 | 534,878 |
| Unsecured | 723,661 | 740,055 |
| | 1,231,714 | 1,274,933 |

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

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Mining rights | 926,582 | 947,254 |

Borrowings carry interest at effective interest rates ranging from 2.75% to 4.40% (December 31, 2017: 2.35% to 4.35%) per annum.

## 13. SHARE CAPITAL AND OPTIONS

Common shares

(i) Authorized - Unlimited common shares without par value

(ii) Issued and outstanding

| | Number of shares | Amount US$'000 |
|---|---|---|
| Issued and fully paid: | | |
| At January 1, 2017, December 31, 2017 and September 30, 2018 | 396,413,753 | 1,229,061 |

## 14. 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.

Name and relationship with related parties during the period is as follows:

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

| | September 30, 2018 % | December 31, 2017 % |
|---|---|---|
| CNG | 39.3 | 39.3 |

## 14. RELATED PARTY TRANSACTIONS - continued

### (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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Gold doré sales by the Group | 39,962 | 56,899 | 134,655 | 160,761 |
| Copper and other product sales by the Group | 38,029 | 16,714 | 116,468 | 49,122 |
| Provision of transportation by the Group | 636 | 102 | 1,187 | 511 |
| Construction, stripping and mining service provided to the Group | 3,804 | 1,080 | 10,625 | 15,353 |
| Office lease to the Group | 964 | 282 | 3,034 | 832 |
| Interest income | 69 | 600 | 108 | 3,954 |
| Interest expenses | 746 | 829 | 2,328 | 2,228 |
| Loans provided to the Group | - | 29,187 | - | 36,434 |

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

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| | US$'000 | US$'000 |
| Assets | | |
| Amounts due from related companies (note 8) | 117 | 65 |
| Cash and cash equivalents held by a CNG subsidiary | 14,403 | 96,337 |
| Trade receivables from a CNG subsidiary | 6,451 | 19,721 |
| Prepaid expenses and deposits | 364 | 81 |
| Total amounts due from CNG and its subsidiaries | 21,335 | 116,204 |

14. RELATED PARTY TRANSACTIONS - continued

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

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

| | September 30, 2018 US$'000 | December 31, 2017 US$'000 |
|---|---|---|
| Liabilities | | |
| Loans payable to a CNG subsidiary | 50,878 | 53,564 |
| Entrusted loan payable | 29,073 | 30,608 |
| Construction cost payables to CNG subsidiaries | 20,449 | 22,852 |
| Trade payable to CNG subsidiaries | 573 | 722 |
| Contract liabilities with CNG subsidiary | 33 | 35 |
| Total amounts due to CNG and its subsidiaries | 101,006 | 107,781 |

As at September 30, 2018, the loans payable to a CNG subsidiary, which is included in borrowings, carry fixed interest rates of 4.35% (December 31, 2017 : 4.35%) 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 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.

(b) Compensation of key management personnel

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 US$'000 | 2017 US$'000 | 2018 US$'000 | 2017 US$'000 |
| Salaries and other benefits | 160 | 222 | 575 | 648 |
| Post-employment benefits | 8 | 4 | 23 | 14 |
| | 168 | 226 | 598 | 662 |

## 15. FINANCIAL INSTRUMENTS

As at September 30, 2018 and December 31, 2017, the Group's investments in equity securities include equity securities listed in Hong Kong and unlisted companies incorporated in the PRC.

Subsequent to initial recognition at fair value, investment in equity securities listed on the Stock Exchange is measured at fair value based on the quoted price (unadjusted) available on the Stock Exchange (Level 1 fair value measurement). As at September 30, 2018, investment in such equity securities is measured at fair value of US$17,851,000 (December 31, 2017: US$19,680,000) 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.

As at September 30, 2018, the carrying amounts of US$2,035,000 (January 1, 2018: US$2,143,000) investment in unlisted companies incorporated in the PRC are approximately their fair values (Level 3 fair value measurement).

## 16. EVENT AFTER THE REPORTING PERIOD

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