Condensed consolidated financial statements of

# China Gold International Resources Corp. Ltd.

*(Formerly known as Jinshan Gold Mines Inc.)*

June 30, 2010
(Unaudited)
(Stated in United States dollars ("U.S."))

# China Gold International Resources Corp. Ltd.

(Formerly known as Jinshan Gold Mines Inc.)
June 30, 2010

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# China Gold International Resources Corp. Ltd.

(Formerly known as Jinshan Gold Mines Inc.)

Condensed consolidated statement of comprehensive income

(Stated in U.S. dollars)

(Unaudited)

| | Notes | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|---|---|---|---|---|
| | | **$** | $ | **$** | $ |
| **Revenues** | | **27,180,938** | 18,304,364 | **37,679,906** | 25,990,353 |
| Cost of sales | 10 | **13,330,466** | 13,149,487 | **18,638,434** | 18,438,691 |
| Mine operating earnings | | **13,850,472** | 5,154,877 | **19,041,472** | 7,551,662 |
| Expenses | | | | | |
| General and administrative | | **1,170,560** | 867,004 | **2,116,293** | 1,837,155 |
| Exploration and evaluation expenditure | | **70,033** | 279,627 | **93,477** | 606,273 |
| | | **1,240,593** | 1,146,631 | **2,209,770** | 2,443,428 |
| Income from operations | | **12,609,879** | 4,008,246 | **16,831,702** | 5,108,234 |
| Other (expenses) income | | | | | |
| Gain on disposal of subsidiaries | 10(c) | **20,000** | - | **20,000** | - |
| Foreign exchange loss | | **(871,603)** | (4,913,469) | **(253,306)** | (2,129,104) |
| Interest income | | **1,885** | 1,387 | **1,885** | 3,440 |
| Listing expenses | | **(1,193,536)** | - | **(1,544,558)** | - |
| Fair value change on warrant liabilities | 13 | **(873,150)** | (892,796) | **(7,155,807)** | (1,164,408) |
| Finance costs | 5 | **(1,488,645)** | (1,016,393) | **(2,228,167)** | (2,289,443) |
| | | **(4,405,049)** | (6,821,271) | **(11,159,953)** | (5,579,515) |
| Income (loss) before income tax | | **8,204,830** | (2,813,025) | **5,671,749** | (471,281) |
| Income tax expense | 6 | **3,235,113** | 962,221 | **4,887,012** | 962,221 |
| **Net income (loss) and comprehensive income (loss) for the period** | | **4,969,717** | (3,775,246) | **784,737** | (1,433,502) |
| Attributable to | | | | | |
| Non-controlling interest | | **142,017** | 159,712 | **323,702** | 233,001 |
| Owners of the Company | | **4,827,700** | (3,934,958) | **461,035** | (1,666,503) |
| | | **4,969,717** | (3,775,246) | **784,737** | (1,433,502) |
| Basic earnings (loss) per share | 7 | **0.03** | (0.02) | **0.00** | (0.01) |
| Diluted earnings (loss) per share | 7 | **0.03** | (0.02) | **0.00** | (0.01) |
| Basic weighted average number of common shares outstanding | 7 | **171,045,437** | 163,889,159 | **169,511,321** | 163,889,159 |
| Diluted weighted average number of common shares outstanding | 7 | **171,521,595** | 163,889,159 | **169,937,452** | 163,889,159 |

See accompanying notes to the condensed consolidated financial statements.

# China Gold International Resources Corp. Ltd.

(Formerly known as Jinshan Gold Mines Inc.)

Condensed consolidated statement of financial position

(Stated in U.S. dollars)

(Unaudited)

| | Notes | **June 30, 2010** | December 31, 2009 |
|---|---|---|---|
| | | **$** | $ |
| **Current assets** | | | |
| Cash and cash equivalents | | **16,331,252** | 23,984,660 |
| Restricted cash | 10(b) | **10,756,703** | - |
| Accounts receivable | | **2,070,198** | 1,681,880 |
| Prepaid expenses and deposits | 8 | **1,557,936** | 1,734,181 |
| Inventory | 9 | **30,385,142** | 10,166,429 |
| | | **61,101,231** | 37,567,150 |
| Assets classified as held for sale | 10 | **69,794** | 188,971 |
| | | **61,171,025** | 37,756,121 |
| **Non-current assets** | | | |
| Inventory | 9 | **15,485,352** | 18,852,686 |
| Property, plant and equipment | 10 | **117,876,668** | 117,918,672 |
| Prepaid expenses and deposits | 8 | **796,430** | - |
| Long-term receivable | | **24,252** | 49,689 |
| | | **134,182,702** | 136,821,047 |
| **Total assets** | | **195,353,727** | 174,577,168 |
| **Current liabilities** | | | |
| Accounts payable and accrued expenses | 14 | **39,768,345** | 35,072,604 |
| Borrowings | 11 | **8,513,998** | 12,092,005 |
| | | **48,282,343** | 47,164,609 |
| Liabilities classified as held for sale | 10 | **17,706** | 41,252 |
| | | **48,300,049** | 47,205,861 |
| **Non-current liabilities** | | | |
| Deferred lease inducement | | **193,758** | 193,758 |
| Borrowings | 11 | **81,134,730** | 80,841,331 |
| Warrant liabilities | 13 | **-** | 5,286,123 |
| Deferred tax liabilities | 6 | **3,526,047** | 1,339,601 |
| Environmental rehabilitation | 12 | **1,993,537** | 1,599,120 |
| | | **86,848,072** | 89,259,933 |
| **Total liabilities** | | **135,148,121** | 136,465,794 |
| **Owners' equity** | | | |
| Share capital | 13 | **120,577,351** | 99,186,918 |
| Equity reserve | | **3,044,509** | 3,125,447 |
| Deficit | | **(65,012,168)** | (65,473,203) |
| | | **58,609,692** | 36,839,162 |
| Non-controlling interest | | **1,595,914** | 1,272,212 |
| **Total owners' equity** | | **60,205,606** | 38,111,374 |
| **Total liabilities and owners' equity** | | **195,353,727** | 174,577,168 |

Approved and authorized for issue by Board on August 16, 2010:

***(Signed) Zhanming Wu***
Zhanming Wu, Director

***(Signed) Bing Liu***
Bing Liu, Director

See accompanying notes to the condensed consolidated financial statements.

# China Gold International Resources Corp. Ltd.

(Formerly known as Jinshan Gold Mines Inc.)

Condensed consolidated statement of changes in equity

(Stated in U.S. dollars)

(Unaudited)

| | Notes | Number of shares | Share capital | Equity reserve | Deficit | Subtotal | Non-controlling interest | Total owners' equity |
|---|---|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ | $ | $ |
| Balance, January 1, 2009 | | 163,889,159 | 90,384,469 | 4,884,800 | (56,125,822) | 39,143,447 | 295,731 | 39,439,178 |
| Shares issued for | | | | | | | | |
| Exercise of warrants | 13 | 2,250,000 | 5,597,821 | - | - | 5,597,821 | - | 5,597,821 |
| Exercise of stock options | 13 | 1,490,300 | 3,204,628 | (1,297,570) | - | 1,907,058 | - | 1,907,058 |
| Stock-based compensation | | - | - | (461,783) | - | (461,783) | - | (461,783) |
| Net loss and comprehensive loss | | - | - | - | (9,347,381) | (9,347,381) | 976,481 | (8,370,900) |
| Balance, December 31, 2009 | | 167,629,459 | 99,186,918 | 3,125,447 | (65,473,203) | 36,839,162 | 1,272,212 | 38,111,374 |
| Shares issued for | | | | | | | | |
| Exercise of warrants | 13 | 4,060,000 | 21,008,571 | | - | 21,008,571 | - | 21,008,571 |
| Exercise of stock options | 13 | 135,000 | 381,862 | (118,853) | - | 263,009 | - | 263,009 |
| Stock-based compensation | | - | - | 37,915 | - | 37,915 | - | 37,915 |
| Net income and comprehensive income | | - | - | - | 461,035 | 461,035 | 323,702 | 784,737 |
| **Balance, June 30, 2010** | | **171,824,459** | **120,577,351** | **3,044,509** | **(65,012,168)** | **58,609,692** | **1,595,914** | **60,205,606** |
| | | | | | | | | |
| Balance January 1, 2009 | | 163,889,159 | 90,384,469 | 4,884,800 | (56,125,822) | 39,143,447 | 295,731 | 39,439,178 |
| Stock-based compensation | | - | - | 166,450 | - | 166,450 | - | 166,450 |
| Net income (loss) and comprehensive income (loss) | | - | - | - | (1,666,503) | (1,666,503) | 233,001 | (1,433,502) |
| Balance, June 30, 2009 | | 163,889,159 | 90,384,469 | 5,051,250 | (57,792,325) | 37,643,394 | 528,732 | 38,172,126 |

See accompanying notes to the condensed consolidated financial statements.

# China Gold International Resources Corp. Ltd.

(Formerly known as Jinshan Gold Mines Inc.)

Condensed consolidated statement of cash flows

(Stated in U.S. dollars)

(Unaudited)

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Notes | **2010** | 2009 | **2010** | 2009 |
| **Operating activities** | | | | | |
| Income (loss) before income tax for the period | | **8,204,830** | (2,813,025) | **5,671,749** | (471,281) |
| Items not requiring use of cash and cash equivalents | | | | | |
| Depreciation and depletion | | **2,468,510** | 1,284,074 | **3,857,736** | 2,531,119 |
| Fair value change on warrant liabilities | 13 | **873,150** | 892,796 | **7,155,807** | 1,164,408 |
| Finance costs | 5 | **1,488,645** | 1,016,393 | **2,228,167** | 2,289,443 |
| Stock-based compensation | | **208,166** | 40,717 | **37,915** | 166,450 |
| Unrealized foreign exchange | | **732,496** | 2,912,930 | **253,306** | 1,773,467 |
| Gain on disposal of subsidiary | | **(20,000)** | - | **(20,000)** | - |
| Change in non-cash operating working capital items | | | | | |
| Accounts receivable | | **(1,114,328)** | 127,005 | **(388,318)** | 74,651 |
| Prepaid expenses and deposits | | **109,011** | 2,565,689 | **(594,747)** | 3,223,967 |
| Amount due from a shareholder | | **-** | (1,336,124) | **-** | (1,433,577) |
| Inventory | | **(6,278,646)** | 2,462,341 | **(16,851,379)** | (364,926) |
| Accounts payable and accrued liabilities | | **(4,897,196)** | 2,118,463 | **(10,488,106)** | 2,580,366 |
| Cash generated (used in) from operations | | **1,774,638** | 9,271,259 | **(9,137,870)** | 11,534,087 |
| Interest paid | | **(1,386,458)** | (1,037,651) | **(2,649,982)** | (2,737,027) |
| Income taxes paid | | **(2,160,698)** | (962,221) | **(2,467,566)** | (962,221) |
| Net cash flows from (used in) operating activities | | **(1,772,518)** | 7,271,387 | **(14,255,418)** | 7,834,839 |
| **Investing activities** | | | | | |
| Property, plant and equipment additions | | **(7,811,789)** | (16,078,838) | **(9,294,368)** | (26,770,796) |
| Disposal of subsidiaries | | **20,000** | - | **20,000** | - |
| Restricted cash deposits received | | **10,756,703** | | **10,756,703** | 5,215,704 |
| Net cash flows from (used in) investing activities | | **2,964,914** | (16,078,838) | **1,482,335** | (21,555,092) |
| **Financing activities** | | | | | |
| Issuance of common shares | | **6,853,305** | - | **8,829,650** | - |
| Customer advances | | **-** | 3,675,639 | **-** | 20,488,504 |
| Proceeds from borrowings | | **-** | 7,317,062 | **-** | 7,317,062 |
| Repayments of borrowings | 11 | **-** | - | **(3,931,026)** | (18,909,916) |
| Net cash flows from financing activities | | **6,853,305** | 10,992,701 | **4,898,624** | 8,895,650 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **360,158** | 22,014 | **221,051** | (4,347) |
| Net increase (decrease) in cash and cash equivalents | | **8,405,859** | 2,207,264 | **(7,653,408)** | (4,828,950) |
| Cash and cash equivalents, beginning of period | | **7,925,393** | 5,106,525 | **23,984,660** | 12,142,739 |
| **Cash and cash equivalents, end of period** | | **16,331,252** | 7,313,789 | **16,331,252** | 7,313,789 |
| Cash and cash equivalents are comprised of | | | | | |
| Cash in bank | | **16,331,252** | 7,313,789 | **16,331,252** | 7,313,789 |

See accompanying notes to the condensed consolidated financial statements.

## 1. General business description

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

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

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

## 2. Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

## 3. Accounting Policies and new International Financial Reporting Standards ("IFRS")

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the Group's annual financial statements for the year ended December 31, 2009.

In the current interim period, the Group has applied for the first time the following new and revised standards, amendments and interpretations issued by the IASB which are effective for the Group's financial year beginning January 1, 2010.

- IFRSs (Amendments) — Amendment to IFRS 5 as part of Improvements to IFRSs issued in May 2008
- IFRSs (Amendments) — Improvements to IFRSs issued in April 2009 (except for amendment to IAS 1)
- IAS 27 (January 2008) — Consolidated and Separate Financial Statements
- IAS 39 (Amendment) — Eligible Hedged Items
- IFRS 2 (Amendment) — Group Cash-settled Share-based Payment Transactions
- IFRS 3 (Revised) — Business Combinations
- IFRIC 17 — Distributions of Non-cash Assets to Owners

The adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

## 3. Accounting Policies and new International Financial Reporting Standards ("IFRS") (continued)

The Group has not early applied the following new and revised standards, amendments, or interpretations that have been issued but not yet effective:

- IFRSs (Amendments) — Improvements to IFRSs issued in May 2010[(i)]
- IAS 24 (Revised) — Related Party Disclosures[(ii)]
- IAS 32 (Amendment) — Classification of Rights Issues[(iii)]
- IFRS 1 (Amendment) — Limited Exemption for Comparative IFRS 7 Disclosure for First Time Adopters[(v)]
- IFRS 9 — Financial Instruments[(iv)]
- IFRIC 14 (Amendment) — Prepayments of a Minimum Funding Requirement[(ii)]
- IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments[(v)]

(i) Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
(ii) Effective for annual periods beginning on or after January 1, 2011
(iii) Effective for annual periods beginning on or after February 1, 2010
(iv) Effective for annual periods beginning on or after January 1, 2013
(v) Effective for annual periods beginning on or after July 1, 2010

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the condensed consolidated financial statements.

The directors of the Company anticipate that the application of the new and revised standards, amendments and interpretations would have no material impact on the condensed consolidated financial statements of the Group.

## 4. Significant accounting judgements and estimates

In the current interim period, the Group's has the following changes in significant accounting judgements and estimates:

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. A change in the estimated life of the mine from 10 years to 24 years as a result of the recent technical report released in March 2010 has resulted in management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and as a result, the management has increased the life of the buildings from 10 years to 24 years effective January 1, 2010. The depreciation of buildings was reduced by $64,359 and $128,201 for the three and six months ended June 30, 2010, respectively due to the change of useful life of the buildings as mentioned above.

The assumptions used in the valuation of gold-in-process inventories particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads has been reconsidered by management. As a result, management has reduced the recovery rate used in its inventory model from 43% to 38.6% for the three months ended March 31, 2010. For the three months ended June 30, 2010, management has returned to use the rate of 43%.

(Stated in U.S. dollars)

## 5. Finance costs

The finance costs for the Group are broken down as follows:

| | Three months period ended June 30, | | Six months period ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Effective interest | **1,448,320** | 1,993,660 | **3,052,385** | 4,446,471 |
| Accretion on environmental rehabilitation | **40,325** | 101,052 | **85,267** | 202,107 |
| | **1,488,645** | 2,094,712 | **3,137,652** | 4,648,578 |
| Less: Amount capitalized | **-** | (1,078,319) | **(909,485)** | (2,359,135) |
| Total finance costs | **1,488,645** | 1,016,393 | **2,228,167** | 2,289,443 |

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction, or, where financed through general borrowings, at a capitalization rate of 6.67% (16.51% for the six months ended June 30, 2009) representing the average interest rate on such borrowings.

## 6. Income tax expense

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which is calculated at 28.5% of the estimated assessable profit for the three and six months ended June 30, 2010 (30% for the three and six months ended June 30, 2009). The Company and its subsidiaries in Canada had no assessable profit for the three and six months ended June 30, 2010 (Nil for the three and six months ended June 30, 2009).

PRC Enterprise Income Tax is calculated at the prevailing tax rate on taxable income determined in accordance with the relevant laws and regulations in the PRC.

For the three and six months ended June 30, 2010, the Company's subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% (25% for the three and six months ended June 30, 2009) of taxable income. Income tax expense for the three and six months ended June 30, 2010 represents PRC Enterprise Income Tax of $2,317,698 and $2,700,566 ($962,221 and $962,221 for the three and six months ended June 30, 2009), respectively and deferred tax expenses of $917,415 and $2,186,446, respectively (Nil for the three and six months ended June 30, 2009).

(Stated in U.S. dollars)

## 7. Earnings (loss) per share

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

| | Three months period ended June 30, | | Six months period ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Income (loss) attributable to owners of the Company for the purpose of basic and diluted earnings (loss) per share | **4,827,700** | (3,934,958) | **461,035** | (1,666,503) |
| Weighted average number of shares, basic | **171,045,437** | 163,889,159 | **169,511,321** | 163,889,159 |
| Dilutive securities | | | | |
| Options | **476,158** | - | **426,131** | - |
| Weighted average number of shares, diluted | **171,521,595** | 163,889,159 | **169,937,452** | 163,889,159 |
| Basic earnings (loss) per share | **0.03** | **(0.02)** | **0.00** | **(0.01)** |
| Diluted earnings (loss) per share | **0.03** | **(0.02)** | **0.00** | **(0.01)** |

For the three and six months ended June 30, 2010, the warrants were excluded from the diluted EPS computation because their effect would have been anti-dilutive. Due to a net loss for the three and six months ended June 30, 2009, all stock options and warrants (disclosed in Note 13 (b) and 13 (c)) were excluded from the diluted EPS computation because their effect would have been anti-dilutive.

## 8. Prepaid expenses and deposits

| | **June 30,** | December 31, |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Refundable CSH Gold Mine construction deposits | **-** | 192,876 |
| Deposits for mine supplies and services | **827,596** | 705,420 |
| Rent deposits | **246,877** | 246,846 |
| Deposits for spare parts | **105,028** | 133,036 |
| Insurance | **194,951** | 286,787 |
| Other | **183,484** | 169,216 |
| Total prepaid expenses and deposits | **1,557,936** | 1,734,181 |

Amounts of $796,430 (Nil at December 31, 2009) represented deposit for environmental protection that are utilized for more than one year.

(Stated in U.S. dollars)

9. Inventory

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Gold in process | **41,325,590** | 27,076,254 |
| Gold doré bars | **3,067,920** | 1,069,014 |
| Consumables | **760,006** | 344,231 |
| Spare parts | **716,978** | 529,616 |
| Total inventory | **45,870,494** | 29,019,115 |

Inventory totalling $13,330,466 and $18,638,434 for the three and six months ended June 30, 2010 ($13,149,487 and $18,438,691 for the three and six months ended June 30, 2009), respectively, was recognized in cost of sales after commercial production began.

Management has allocated inventory that is expected to be recovered more than twelve months after the reporting period to take into consideration the longer term process involved in recovering gold from a heap leaching system.

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Amounts expected to be recovered within 12 months | **30,385,142** | 10,166,429 |
| Amounts expected to be recovered after 12 months | **15,485,352** | 18,852,686 |
| Total inventory | **45,870,494** | 29,019,115 |

## 10. Property, plant and equipment

| | Motor vehicles | Furniture and office equipment | Crusher | Machinery and equipment | Buildings | Leasehold improvements | Mineral assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| *Cost* | | | | | | | | | |
| As at December 31, 2009 | 1,121,931 | 884,070 | - | 26,708,182 | 4,777,971 | 100,458 | 18,760,374 | 75,982,945 | 128,335,931 |
| **As at June 30, 2010** | 1,187,764 | 914,120 | 71,511,403 | 25,665,267 | 4,922,134 | 100,458 | 20,682,884 | 7,167,634 | 132,151,664 |
| *Accumulated depreciation* | | | | | | | | | |
| As at December 31, 2009 | (479,685) | (503,867) | - | (5,152,288) | (864,813) | (4,566) | (3,412,040) | - | (10,417,259) |
| **As at June 30, 2010** | (553,940) | (578,881) | (1,582,371) | (6,110,734) | (951,214) | (13,699) | (4,484,157) | - | (14,274,996) |
| *Carrying value* | | | | | | | | | |
| As at December 31, 2009 | 642,246 | 380,203 | - | 21,555,894 | 3,913,158 | 95,892 | 15,348,334 | 75,982,945 | 117,918,672 |
| **As at June 30, 2010** | **633,824** | **335,239** | **69,929,032** | **19,554,533** | **3,970,920** | **86,759** | **16,198,727** | **7,167,634** | **117,876,668** |

Included in the cost above is $15,983,920 as at June 30, 2010 (at December 31, 2009: $15,074,435) related to finance costs which have been capitalized as construction in progress and mineral assets.

Construction in progress as at December 31, 2009 mainly consisted of the crushing facility construction for the CSH Gold Mine. Costs for the construction of the crushing facility for the CSH Gold Mine amounting to $69,666,569 (Nil for the six months ended June 30, 2009) were transferred to crusher from construction in progress during the six months ended June 30, 2010. The life of the crushing facility has been estimated to be 14 years.

(Stated in U.S. dollars)

## 10. Property, plant and equipment (continued)

During the period, the Group spent $9,294,368 ($26,770,796 for the six months ended June 30, 2009) on additions of property, plant and equipment.

Depreciation and depletion expenses amounted to $2,468,510 and $3,857,736 for the three and six months ended June 30, 2010 ($1,284,074 and $2,531,119 for the three and six months ended June 30, 2009), and $2,445,403 and $3,813,128 was included in cost of sales for the three and six months ended June 30, 2010 ($1,278,415 and $2,519,801 for the three and six months ended June 30, 2009), respectively.

*Mineral property interests*

*(a) CSH Gold Mine*

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

| | January 1, 2009 | Increase/decrease during the year | December 31, 2009 | Increase/decrease during the period (3) | **June 30, 2010** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| Exploration expenditure charged to profit or loss | 8,903,877 | 267,299 | 9,171,176 | 58,040 | **9,229,216** |
| Mineral assets (1) | 11,957,158 | 6,803,216 | 18,760,374 | 1,922,510 | **20,682,884** |
| Construction in progress (2) | 28,727,117 | 47,255,828 | 75,982,945 | (68,815,311) | **7,167,634** |

(1) During the six months ended June 30, 2010, there were additions in mineral assets resulting from changes in the discount rate applied in estimating the provision for environmental rehabilitation of $295,265 ($Nil for the six months ended June 30, 2009).

(2) During the six months ended June 30, 2010, $69,666,569 was transferred out of construction in progress to crusher and the Group reversed $5,719,987 accruals on construction in progress upon the completion of the crushing facility construction (Nil for the six months ended June 30, 2009).

(3) During the six months ended June 30, 2010, additions to mineral assets and construction in progress were $2,368,294 and $6,571,243 ($11,174,682 and $25,506,841 for the six months ended June 30, 2009), respectively.

(Stated in U.S. dollars)

**10. Property, plant and equipment (continued)**

*Assets classified as held for sale and liabilities classified as held for sale*

*(b) Dadiangou Gold Project*

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

In 2009, the Group decided to sell its interest in Gansu Pacific Mining Company Ltd. ("Gansu Pacific") and in December 2009, the Group entered into a letter of intent with a potential purchaser in relation to the disposal of its entire interest in Gansu Pacific. The consideration will be determined after the completion of due diligence procedures. As a result, the Group has recorded the assets and liabilities of Gansu Pacific at December 31, 2009 and June 30, 2010 as assets classified as held for sale and liabilities classified as held for sale.

On April 28, 2010, the Company's subsidiary, Gansu Pacific, and its joint venture partner, Nuclear Industry Northwest Economic and Technology Co, have entered into an agreement to sell the Dadiangou Gold Project in Gansu Province, China. The parties are selling the project to Gansu Zhongjin Gold Mining Co. Ltd., a subsidiary of Zhongjin Gold Corporation Limited, a company listed on the Shanghai Stock Exchange and a subsidiary of CNG. The purchase price is RMB 88 million (approximately $13.1 million), of which the Group will be entitled to 53%, or RMB 46.6 million (approximately $7 million). The transaction has not yet been completed as of the date of this report. At June 30, 2010, the Group had received deposit from the purchaser of $10,756,703, and such amounts cannot be used until the completion of the disposal transaction. Hence, the amount has been included as restricted cash at June 30, 2010.

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

**Assets classified as held for sale**

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Cash | **3,592** | 81,186 |
| Accounts receivable | **2,525** | 1,047 |
| Property, plant and equipment | **63,677** | 75,071 |
| | **69,794** | 157,304 |

**Liabilities classified as held for sale**

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Accounts payable | **17,706** | 17,054 |
| | **17,706** | 17,054 |

(Stated in U.S. dollars)

**10. Property, plant and equipment (continued)**

*(c) Xinjiang Projects*

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

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

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

**Assets classified as held for sale**

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

**Liabilities classified as held for sale**

| | December 31, 2009 |
|---|---|
| | $ |
| Accounts payable | 24,198 |
| | 24,198 |

On April 26, 2010, the Company's subsidiary, Pacific PGM Inc., entered into an agreement with an independent third party to dispose of all equity interests in Yunnan Southern Copper (Barbados) Inc. which in turn held a 99% interests in Yunnan Xindian for a total consideration of US$20,000.

In May 2010, the transaction was completed and the Group disposed of its entire interest in Yunnan Southern Copper (Barbados) Inc. for a total consideration of $20,000. The net assets at the date of disposal were as follows:

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

## 11. Borrowings

| | Effective interest rate | Maturity | **June 30, 2010** | December 31, 2009 |
|---|---|---|---|---|
| | % | | **$** | $ |
| Current | | | | |
| Current portion of long-term loan - ABC(ii) | 5.184 | September 9, 2014 | **1,469,098** | 1,458,619 |
| Notes payable (i) | 12.000 | June 26, 2011 | **7,044,900** | 10,633,386 |
| | | | **8,513,998** | 12,092,005 |
| Non-current | | | | |
| Long-term loan - ABC (ii) | 5.184 | September 9, 2014 | **41,134,730** | 40,841,331 |
| Long-term loan - CNG (ii) | 6.000 | December 6, 2011 | **40,000,000** | 40,000,000 |
| | | | **81,134,730** | 80,841,331 |
| | | | **89,648,728** | 92,933,336 |

(i) Notes payable

| | Note A | Note B | Note C | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balances of notes payable, December 31, 2008 | 22,930,784 | 9,246,978 | 5,682,143 | 37,859,905 |
| Unrealized foreign exchange loss | 3,693,230 | 1,243,176 | 960,770 | 5,897,176 |
| Effective interest | 4,721,339 | 2,235,146 | 1,107,779 | 8,064,264 |
| Interest paid | (3,024,764) | (1,291,349) | (795,898) | (5,112,011) |
| Principal payments | (28,320,589) | - | - | (28,320,589) |
| Principal repurchase | - | (7,755,359) | - | (7,755,359) |
| Balances of notes payable, December 31, 2009 | - | 3,678,592 | 6,954,794 | 10,633,386 |
| Unrealized foreign exchange loss (gain) | - | 1,468 | (92,995) | (91,527) |
| Effective interest | - | 143,241 | 621,000 | 764,241 |
| Interest paid | - | (13,777) | (437,899) | (451,676) |
| Principal repurchase | - | (3,809,524) | - | (3,809,524) |
| **Balances of notes payable, June 30, 2010** | **-** | **-** | **7,044,900** | **7,044,900** |

*(a) Note A*

On December 14, 2006, the Group completed a $25,935,546 (CAD30,000,000) ("Note A") private placement offering consisting of senior unsecured promissory notes ("Notes") and 6,000,000 warrants for financing the development of the CSH Gold mine. The Notes matured and were repaid in full on December 14, 2009 in Canadian dollars. The effective interest rate was 19.54%.

The Group has allocated a $25,935,546 face value of the private placement offering to the Notes and warrants based on the fair value of the warrants and the Notes. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 3.9%, an expected life of two years, an expected volatility of 79%, and a dividend yield rate of Nil. Each warrant entitled the holder to acquire one common share at CAD1.60 each which expired on December 14, 2008. The expiry date has been extended to December 14, 2010.

**11. Borrowings (continued)**

(i) Notes payable (continued)

*(a) Note A (continued)*

The Group has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Group's common shares traded at or above a volume weighted average share price of CAD2.75 for 20 consecutive trading days. The expiry date was accelerated by the Group on March 18, 2010. On December 14, 2009, Note A was repaid in full. By April 17, 2010, all the warrants had been exercised (see Note 13 (c)(i)).

*(b) Notes B and C*

On June 26, 2007, the Group concluded an $18,668,907 (CAD20,000,000) private placement offering consisting of senior unsecured promissory notes ("June 07 Notes") and 4,000,000 warrants. Ivanhoe Mines Ltd. ("Ivanhoe Mines"), a substantial shareholder of the Group at that time, purchased $7,000,840 (CAD7,500,000) ("Note C") of the June 07 Notes and $11,668,067 (CAD12,500,000) ("Note B") was purchased by third parties. The June 07 Notes mature on June 26, 2010, are repayable in Canadian dollars and carry an annual interest rate of 12%. Interest on the June 07 Notes is payable on a calendar quarterly basis commencing on September 30, 2007. The Group can elect to prepay Note B anytime after 18 months from the issue date with no prepayment penalty and Note C after six months from the issue date with no prepayment penalty. Note B ranks pari passu with the notes issued in December 2006 ("Note A") while Note C is subordinate to Notes A and B. The effective interest rate of Note B and Note C is 19.48% and 17.66% respectively.

The Group has allocated the $18,668,907 face value of the private placement offering to the June 07 Notes and warrants based on the fair value of the warrants and the June 07 Notes. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 4.6%, an expected life of two years, an expected volatility of 72%, and a dividend yield rate of Nil. Each warrant entitles the holder to acquire one common share at CAD2.50 and expires on June 26, 2009. The expiry date has been extended to June 26, 2011.

On December 14, 2009, CAD8,500,000 of Note B was repurchased from the market at a consideration of $8,024,167. The loss on the repurchase was $268,808 and included in finance cost. The balance of CAD4,000,000 was repurchased on January 11, 2010 at a consideration of $3,931,026 and the loss on the purchase was $121,502 and included in finance cost. On June 1, 2010, the maturity date for Note C has been extended from June 26, 2010 to June 26, 2011. The effective interest rate is revised from 17.66% to 12%.

The Group has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Group's common shares trade at or above a volume weighted average share price of CAD4.25 for 20 consecutive trading days.

On April 16, 2010, the expiry date of the warrants with an exercise price of CAD2.50 was accelerated by the Group. During the six months ended June 30, 2010, all the warrants at CAD2.50 had been exercised (see Note 13 (c)(ii)).

(Stated in U.S. dollars)

## 11. Borrowings (continued)

(ii) Long-term loans

On September 14, 2009, the Company's subsidiary, Inner Mongolia Pacific Mining Co., Ltd. ("IMP"), secured a five-year Renminbi ("RMB") 290,000,000 ($42,603,828) long-term loan from the Agricultural Bank of China ("ABC"). The purpose of the term loan is to satisfy the outstanding funding requirements for the capital expansion loan provided by CNG in June 2009. The term loan is supported by a guarantee from CNG. The annual interest rate for the term loan is currently 5.184%, and interest is payable monthly. The term loan principal is repayable through periodic instalments with RMB 10,000,000 (US$1,469,098) due in each of September 2010 and 2011 and further instalments of RMB 30,000,000 (US$4,407,293) due in successive three-month intervals starting in September 2012 through to September 2014, when the remaining outstanding balance is scheduled to be repaid in full.

On December 3, 2009, the Group secured a two year term loan in the amount of US$40,000,000 from its largest shareholder, CNG. The purpose of the term loan was to redeem the CAD30,000,000 of the 12% promissory notes due to mature on December 14, 2009. The funds were also used for the early redemption of the CAD12,500,000 of the 12% promissory notes, due to mature on June 26, 2010. The loan is unsecured with interest at 6% per annum payable quarterly. Subject to prior repayment, the loan will become due and payable in December 2011.

## 12. Environmental rehabilitation

The environmental rehabilitation relates to reclamation and closure costs relating to the Group's mine operations at the CSH Gold Mine. The environmental rehabilitation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total $9,571,000 (at December 31, 2009: $9,495,000), discounted at 9% (at December 31, 2009: 10%) per annum at June 30, 2010. The settlement of the obligations will occur through to 2030. No assets have been legally restricted for the purposes of settling the environmental rehabilitation.

The following is an analysis of the environmental rehabilitation:

| | **January 1 to June 30, 2010** | January 1 to December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of period | **1,599,120** | 4,131,735 |
| Additions to site reclamation during the period | **-** | 244,066 |
| Accretion incurred in the current period | **85,267** | 392,277 |
| Foreign exchange loss (gain) | **13,885** | (23,041) |
| Reductions resulted from changes in the estimated timing and amount of cash flows | **-** | (3,145,917) |
| Additions resulted from changes in discount rate | **295,265** | - |
| | **1,993,537** | 1,599,120 |

(Stated in U.S. dollars)

**13. Share capital, options and warrants**

*(a) Common shares*

Authorized - Unlimited common shares without par value

Issued and outstanding - 171,824,459 common shares at June 30, 2010

Issued and outstanding - 167,629,459 common shares at December 31, 2009

*(b) Stock options*

The Group has a stock option plan which permits the Board of Directors of the Company to grant options to directors, employees and non-employees to acquire common shares of the Group at the fair market value on the date of approval by the Board of Directors. A portion of the stock options vests immediately on the grant date and the balance vests over a period of up to five years from the grant date.

The stock options have a life of up to six years from the grant date. The fair market value of the exercise price is the weighted average price of the common shares for the five days on which they were traded immediately preceding the date of approval by the Board of Directors. The Compensation and Benefits Committee makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements.

The Group is authorized to issue options to a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. At June 30, 2010 and December 31, 2009, there were 15,982,446 and 15,215,946 options available for future grants, respectively.

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

| | **June 30, 2010** | | December 31, 2009 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| | | CAD | | CAD |
| Balance, beginning of period | 1,547,000 | 2.04 | 5,787,300 | 1.75 |
| Optiona Granted | 400,000 | 5.12 | - | - |
| Options exercised | (135,000) | 1.78 | (1,490,300) | 1.36 |
| Options forfeited | (612,000) | 2.16 | (2,625,000) | 1.06 |
| Options expired | - | - | (125,000) | 1.74 |
| Balance, end of period | **1,200,000** | **3.05** | 1,547,000 | 2.04 |

Due to forfeitures of stock options by employees before the vesting date, the Group re-estimated the number of options that will ultimately vest in the future and recognized a compensation cost of $208,166 and $37,915 ($40,717 and $166,450 expenses for the three and six months ended June 30, 2009) during the three and six months ended June 30, 2010, respectively.

(Stated in U.S. dollars)

**13. Share capital, options and warrants (continued)**

*(b) Stock options (continued)*

400,000 stock options were granted during the three and six months ended June 30, 2010 (Nil for the three and six months ended June 30, 2009). The options were granted on June 1, 2010 and expire on June 1, 2015. The exercise price was CAD4.35 per share from June 1, 2010 until June 1, 2011, CAD4.78 per share from June 2, 2011 until June 1, 2012, CAD5.21 per share from June 2, 2012 until June 1, 2013, CAD5.64 per share from June 2, 2013 until June 1, 2014, and CAD 6.09 per share from June 2, 2014 until June 1, 2015 or such later termination date as may apply. 20% of the shares are vested immediately, an additional 20% of the shares are vested on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014, respectively. The fair value of these options at date of grant was approximately $860,000, of which approximately $204,000 and $204,000 has been charged to the profit and loss for the three and six months ended June 30, 2010.

The fair value of the options granted was determined using the Black-Scholes option pricing model. The inputs into the model were as follows:

| | 2010 |
|---|---|
| Risk free interest rate | 1.44% |
| Expected life (years) | 2.5 |
| Expected volatility | 94.57% |
| Expected dividend per share | Nil |

The following table summarizes information about stock options outstanding and exercisable at June 30, 2010.

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| **Expiring in** | **Number outstanding at June 30, 2010** | **Remaining contractual life (years)** | **Weighted average exercise price** | **Number exercisable at June 30, 2010** | **Weighted average exercise price** |
| | | | **CAD** | | **CAD** |
| **2011** | **165,000** | **1.00** | **1.05** | **165,000** | **1.05** |
| **2013** | **635,000** | **3.05** | **2.20** | **230,000** | **2.20** |
| **2015** | **400,000** | **4.92** | **5.21** | **80,000** | **5.21** |
| | **1,200,000** | | **3.05** | **475,000** | **3.05** |

(Stated in U.S. dollars)

**13. Share capital, options and warrants (continued)**

*(b) Stock options (continued)*

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

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Expiring in | Number outstanding at December 31, 2009 | Remaining contractual life (years) | Weighted average exercise price | Number exercisable at December 31, 2009 | Weighted average exercise price |
| | | | CAD | | CAD |
| 2011 | 210,000 | 1.50 | 1.05 | 210,000 | 1.05 |
| 2013 | 1,337,000 | 3.56 | 2.20 | 350,000 | 2.20 |
| | 1,547,000 | | 2.04 | 560,000 | 1.77 |

*(c) Warrants*

The following is a summary of number of warrants outstanding:

| | **January 1 to June 30, 2010** | January 1 to December 31, 2009 |
|---|---|---|
| Balance, beginning of period | **4,060,000** | 6,310,000 |
| Exercised | **(4,060,000)** | (2,250,000) |
| Balance, end of period | **-** | 4,060,000 |

The following is a summary of warrants amounts outstanding:

| | **January 1 to June 30, 2010** | January 1 to December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of period | **5,286,123** | 274,507 |
| Exercised | **(12,441,930)** | (2,175,105) |
| Fair value change on warrant liabilities | **7,155,807** | 7,186,721 |
| Balance, end of period | **-** | 5,286,123 |

(Stated in U.S. dollars)

**13. Share capital, options and warrants (continued)**

*(c) Warrants (continued)*

*Warrants issued with Canadian dollar exercise prices*

As a result of having exercise prices denominated in other than the Group's functional currency, being the U.S. dollar, these warrants meet the definition of derivatives and are therefore classified as held for trading and recorded as derivative liabilities measured at fair value. The fair value of the warrants was determined using the Black-Scholes option pricing model at the end of each reporting period. Upon exercise into common shares, the fair values of warrants included in derivative liabilities were reclassified to equity.

The fair value of warrants granted was determined using the Black-Scholes option pricing model, using the following weighted average assumptions at the end of each reporting period:

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| Risk free interest rate | **N/A** | 0.68% |
| Expected life (years) | **N/A** | 0.31 |
| Expected volatility | **N/A** | 96.93% |
| Expected dividend per share | **N/A** | Nil |

Option pricing models require the input of highly subjective assumptions regarding volatility. The Group has used historical volatility to estimate the volatility of the share price.

No warrants were outstanding at June 30, 2010.

The following table summarizes information about warrants outstanding at December 31, 2009:

| Number of warrants | | Exercise price | Expiry date |
|---|---|---|---|
| | | CAD | |
| 1,610,000 | (i) | 1.60 | December 14, 2010 |
| 2,450,000 | (ii) | 2.50 | June 26, 2011 |
| 4,060,000 | | | |

(i) As mentioned in Note 11 (i), the Group exercised its right to accelerate the expiry date of the CAD1.60 per share warrants. The expiry date of these warrants was April 22, 2010. These warrants were fully exercised by April 17, 2010.

(ii) On April 16, 2010, the Group exercised the right to accelerate the expiry date of these warrants, which had expired on May 17, 2010. All these warrants were exercised.

(Stated in U.S. dollars)

**14. Accounts payable and accrued expenses**

Accounts payable and accrued expenses of the Group are principally comprised of amounts outstanding for construction activities and trade purchases relating to gold production activities. Included within accounts payable and accrued expenses are construction costs payable and deposit received from sales of Dadiangou Gold Project of $9,471,059 and $10,756,703 (at December 31, 2009: $15,454,985 and Nil), respectively.

**15. Related party transactions**

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

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **%** | % |
| CNG | **39.3** | 40.3 |

The breakdown of the sales transactions to CNG is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Gold sales to CNG | **24,006,825** | 17,128,779 | **34,505,793** | 24,814,768 |
| Silver sales (netted in cost of sales) to CNG | **-** | 97,748 | **401,759** | 135,058 |

The Group incurred the following interest expenses with CNG. Interest expense has been recorded on the effective interest method.

| | Three months period ended June 30, | | Six months period ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Interest | **664,034** | 193,050 | **1,484,730** | 371,763 |

During the six months ended June 30, 2010, the Group entered into an agreement, with Gansu Zhongjin Gold Mining Co. Ltd., a subsidiary of CNG, to dispose of its entire interest in Gansu Pacific. The transaction has not yet been completed as of the date of this report (see Note 10(b)).

(Stated in U.S. dollars)

**15. Related party transactions (continued)**

*Related party balances*

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

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | $ | $ |
| Assets | | |
| Listing expense receivable from CNG's subsidary | **1,544,558** | 1,184,911 |
| Accounts receivable from CNG | **130,624** | 346,437 |
| Prepaid expenses to CNG's subsidary | **295,839** | 283,451 |
| Total related party assets | **1,971,021** | 1,814,799 |

The accounts receivable from CNG arose from sales of gold to CNG. There is no credit period.

Listing expense receivable is from Skyland Mining Limited ("Skyland"), CNG's subsidiary and accounts receivable from CNG are included in accounts receivable and prepaid expenses to CNG's subsidiary are included in prepaid expenses and deposits in the condensed consolidated statement of financial position.

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

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | $ | $ |
| Liabilities | | |
| Accounts payable to CNG 's subsidiaries | **68,528** | 109,391 |
| Interest payable to CNG | **-** | 166,667 |
| Total related party liabilities | 68,528 | 276,058 |

*Key management personnel*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Salary cost | | | | |
| Salaries and other benefits | **159,710** | 177,638 | **278,039** | 344,087 |
| Post employment benefits | **-** | 3,531 | **4,156** | 10,935 |
| | **159,710** | 181,169 | **282,195** | 355,022 |

(Stated in U.S. dollars)

## 16. Segment information

IFRS 8 *Operating Segments* ("IFRS 8") requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

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

The Group derives its revenue primarily from mining, extraction, production, and selling of gold ore to external clients.

The executive directors review the Group's consolidated financial statements prepared under IFRS for the purposes of resources allocation and performance evaluation. The Group's segment income is $4,969,717 and $784,737 during the three and six months ended June 30, 2010 (segment loss of $3,775,246 and $1,433,502 for the three and six months ended June 30, 2009) which is the same as the net income (loss) and comprehensive income (loss) for the period as disclosed in the condensed consolidated statement of comprehensive income.

The Group operates in two geographical areas, Canada and China. The Group's Corporate Division located in Canada only earns revenues that are considered incidental to the activities of the Group and therefore does not meet the definition of an operating segment as defined in IFRS 8. During the period, the Group's revenue was solely generated from the CSH Gold Mine for gold sales to customers in China.

The CSH Gold Mine has been generating revenue since 2008. The total segment revenue comprises revenue from one customer. The Group sells 92% (100% for the six months ended June 30, 2009) of its gold to one creditworthy customer, CNG who is also the Company's substantial shareholder for the six months ended June 30, 2010. The sales to CNG do not constitute economic dependence for the Group as there are other customers in China to whom gold can be sold.

## 17. Supplemental cash flow information

*Non-cash investing and financing activities*

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

| | Three months periods ended June 30, | | Six months periods ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Value of warrants transferred to share capital upon exercise | **10,077,953** | - | **12,441,930** | - |
| Transfer of share option reserve upon exercise of options | **-** | - | **118,853** | - |

(Stated in U.S. dollars)

## 18. Capital risk management

The Group manages its common shares, stock options, and warrants as capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to operate its mine, pursue the development of its mineral properties, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Group manages the capital structure and makes adjustments to it in light of operating results, changes in economic conditions, and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may attempt to issue new shares, warrants or options, issue new debt, acquire or dispose of assets, or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including operating results, successful capital deployment, and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Group does not pay out dividends. The Group's investment policy is to invest its short-term excess cash in highly liquid short-term interest- bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures.

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the internally generated positive cash flows from the CSH Gold Mine. The Group has complied with all covenants included in its long-term loan and the indenture for its notes payable.

## 19. Financial instruments

| | | Carrying amount | |
|---|---|---|---|
| | Financial instrument classification | **June 30, 2010** | December 31, 2009 |
| | | **$** | $ |
| *Financial assets* | | | |
| Cash and cash equivalents | Loans and receivables | **16,331,252** | 23,984,660 |
| Restricted cash | Loans and receivables | **10,756,703** | - |
| Accounts receivable | Loans and receivables | **2,070,198** | 1,681,880 |
| Long-term receivable | Loans and receivables | **24,252** | 49,689 |
| *Financial liabilities* | | | |
| Accounts payable and accrued expenses | Other financial liabilities | **39,768,345** | 35,072,604 |
| Notes payable | Other financial liabilities | **7,044,900** | 10,633,386 |
| Long-term loans | Other financial liabilities | **82,603,828** | 82,299,950 |
| Warrant liabilities | Fair value through profit or loss ("FVTPL") | **-** | 5,286,123 |

**19. Financial instruments (continued)**

The fair values of the Group's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximate their carrying values due to their short term nature. The carrying amounts of long-term receivable, notes payable and long-term loan measured at amortized cost in the Group's financial statements approximate their fair values.

The Group's financial instruments are exposed to certain financial risks including currency risk, credit risk, price risk, liquidity risk and interest risk. The following disclosure does not include the effect of financial assets and liabilities classified as held for sale as at December 31, 2009 and June 30, 2010 as the amounts involved and the risk exposure are considered insignificant.

*(a) Currency risk*

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Group operates in China and Canada and its functional currency is the U.S. dollar. A significant change in the currency exchange rates between RMB or Canadian dollar relative to U.S. dollar could have a significant effect on the Group's results of operations, financial position or cash flows. The Group has not hedged its exposure to currency fluctuations.

The Group is exposed to currency risk through the assets and liabilities denominated in Canadian dollars and RMB.

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase in the Group's income before tax/decrease in income before tax of approximately $285,000 for the six months ended June 30, 2010 (decrease in the Group's loss before tax/increase in loss before tax of approximately $4,221,000 for the six months ended June 30, 2009).

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in an increase in the Group's income before tax/decrease in income before tax of approximately $5,782,000 for the six months ended June 30, 2010 (decrease in the Group's loss before tax/increase in loss before tax of approximately $4,916,000 for the six months ended June 30, 2009).

*(b) Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Group sells 92% of its gold to one creditworthy customer, CNG, who is also the Company's substantial shareholder and exposes the Group to concentration of credit risk. The failure of this customer to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from this customer, if necessary. The Group's cash and short-term bank deposits are held in large Chinese and Canadian banks. These deposits mature at various dates within 3 months. The Group does not have any asset backed commercial paper in its short-term bank deposits. The Group's accounts receivable consists primarily of goods and services tax refund due from the Federal Government of Canada and listing expense receivable from Skyland, all of which are not outstanding for more than 180 days.

The Group has concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in PRC or Canada during the period.

(Stated in U.S. dollars)

**19. Financial instruments (continued)**

*(b) Credit risk (continued)*

Maximum exposure to credit risk is as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | **16,331,252** | 23,984,660 |
| Restricted cash | **10,756,703** | - |
| Accounts receivable | **2,070,198** | 1,681,880 |
| Long-term receivable | **24,252** | 49,689 |
| | **29,182,405** | 25,716,229 |

*(c) Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 18. The Group has secured financing as set out in Note 11(ii).

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

| | Weighted average interest rate | Within 1 year | 1-2 years | 2-5 years | Total undiscounted cash flow | Carrying Amount |
|---|---|---|---|---|---|---|
| | % | $ | $ | $ | $ | **$** |
| As at June 30, 2010 | | | | | | |
| Accounts payable and accrued expenses | - | 39,768,345 | - | - | 39,768,345 | 39,768,345 |
| Long-term loan - ABC | 5.18 | 3,648,275 | 3,576,771 | 42,209,946 | 49,434,992 | 42,603,828 |
| Long-term loan - CNG | 6.00 | 2,433,333 | 41,060,000 | - | 43,493,333 | 40,000,000 |
| Note payables | 12.00 | 7,880,444 | - | - | 7,880,444 | 7,044,900 |
| | | 53,730,397 | 44,636,771 | 42,209,946 | 140,577,114 | 129,417,073 |
| As at December 31, 2009 | | | | | | |
| Accounts payable and accrued expenses | - | 35,072,604 | - | - | 35,072,604 | 35,072,604 |
| Long-term loan - ABC | 5.18 | 3,660,480 | 3,583,815 | 42,946,690 | 50,190,985 | 42,299,950 |
| Long-term loan - CNG | 6.00 | 2,433,333 | 42,433,333 | - | 44,866,666 | 40,000,000 |
| Note payables | 12.00 | 11,373,917 | | - | 11,373,917 | 10,633,386 |
| | | 52,540,334 | 46,017,148 | 42,946,690 | 141,504,172 | 128,005,940 |

(Stated in U.S. dollars)

**19. Financial instruments (continued)**

*(d) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's short term bank deposits, notes payables and long-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations but changes to exchange rates could affect interest payable (see Note 11) and is subject to fair value interest rate risk. The risk that the Group will realize a decrease in profit as a result of a decline in the interest rates relates to its variable rate bank balances and a 30 basis point higher/lower in the interest rate of its variable rate bank balances would result in an increase in the Group's income before tax/decrease in income before tax of $24,000 for the six months ended June 30, 2010 (decrease in the Group's loss before tax/increase in loss before tax of $11,000 for the six months ended June 30, 2009).

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

*(e) Fair value measurements recognized in the statement of financial position*

The analysis of financial instruments that are measured subsequent to initial recognition at fair value can be categorized into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial liabilities at FVTPL include warrant liabilities and are categorized into Level 3. The amount of fair value change on warrant liabilities charged to profit or loss amounted to $873,150 and $7,155,807 for the three and six months ended June 30, 2010 ($892,796 and $1,164,408 for the three and six months ended June 30, 2009), respectively. The total amounts at December 31, 2009 was transferred out of level 3 during the three months ended June 30, 2010 as all the warrants were exercised.

| | **June 30 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Level 3 | **-** | 5,286,123 |

(Stated in U.S. dollars)

**19. Financial instruments (continued)**

*(f) Price risk*

The Group is exposed to price risk of the Group's shares through its financial liabilities at FVTPL – warrant liabilities. Therefore, the Group are exposed to price risk because of changes in market prices of its shares.

*Price sensitivity analysis*

The sensitivity analysis has been determined based on the exposure to prick risks for warrant liabilities fluctuating in the Toronto Stock Exchange stock market. If the Group's share price had been 50% higher/lower at June 30, 2009 and all other variables were held constant, the Group's loss before income tax would be increased/decreased by approximately $1.5 million / $1.0 million for the six months ended June 30, 2009. No sensitivity analysis are presented for the six months ended June 30, 2010 as the warrants have been fully exercised.

**20. Commitments and contingencies**

*Operating leases commitments*

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Within one year | **94,263** | 95,482 |
| Between two and five years | **363,584** | 391,307 |
| | **457,847** | 486,789 |

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for an average term of three to five years.

*Capital commitments*

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | **$** |
| Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for | **1,291,654** | 10,465,453 |

*Other commitments and contingencies existed at June 30, 2010*

In October 2006, the Group signed a ten year service contract with a third party to provide mining services for the CSH Gold Mine commencing in the first quarter of 2007. The value of the mining service each year will vary and is dependent upon the amount of mining work performed.

**20. Commitments and contingencies (continued)**

The Group is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Group does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Group.

# China Gold International Resources Corp. Ltd.

*(Formerly known as JINSHAN GOLD MINES INC.)*

# Management's Discussion and Analysis of Financial Condition and Results of Operations
# June 30, 2010

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

**Suite 1030, One Bentall Centre, 505 Burrard Street, Box 31, Vancouver, BC, V7X 1M5**
Tel: 604-609-0598 Fax: 604-688-0598 E-mail: info@chinagoldintl.com, www.chinagoldintl.com

*The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") was prepared as of August 16, 2010. They should be read in conjunction with the condensed consolidated financial statements and notes thereto of China Gold International Resources Corp. Inc. ("China Gold International" or the "Company") for the six months ended June 30, 2010 and the annual audited consolidated financial statements for the year ended December 31, 2009. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries on a consolidated basis are collectively known as the "Group".*

*The following discussion contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of our Company please refer to the section entitled "Forward Looking Statements" and "Risk Factors" and to discussions elsewhere in this MD&A.*

## OVERVIEW

China Gold International Resources Corp. Inc., previously known as Jinshan Gold Mines Inc., is a mining company based in Vancouver, Canada and its principal property is the Chang Shan Hao Gold Mine ("CSH Gold Mine" or "CSH Mine"), which is located in Inner Mongolia, China. China Gold International holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture partner holds the remaining 3.5% interest. China Gold International started up gold production at the CSH Gold Mine in July 2007 and commenced commercial production on July 1, 2008.

According to the Behre Dolbear Technical Report ("BD ITR") released March 30, 2010, the CSH Mine had measured and indicated gold resources (inclusive of reserves) of approximately 4,992,000 ounces (155.3 tonnes) at 0.64 grams per tonne, inferred gold resources of 7,000 ounces (0.2 tonnes) at 0.43 grams per tonne and gold reserves of approximately 3,001,000 ounces (93.3 tonnes) at 0.67 grams per tonne as of December 31, 2009. The CSH Mine commenced commercial production in July 2008 with a design processing capacity of 20,000 tonnes of ore per day. For the six months ended December 31, 2008, we processed 3.1 million tonnes of ore with total gold production of 33,671 ounces. For the year ended December 31, 2009, we processed 9.7 million tonnes of ore with total gold production of 83,570 ounces.

Since December, we have implemented a series of steps to achieve additional production growth. In particular, we have installed a new ore crushing facility which ramped up to its design processing capacity of 30,000 tonnes of ore per day by March 2010. For the six months ended June 30, 2010, we processed 6.9 million tonnes of ore with total gold production of 36,187 ounces. According to the Behre Dolbear Technical Report, the total gold production is forecasted to be approximately 132,210 ounces and 144,780 ounces in 2010 and 2011, respectively.

The Company has negotiated the sale of its two other resource properties, the Dadiangou gold project and the Xinjiang projects, in order to concentrate on its principal property, the CSH Gold Mine, and the purchase of similar producing properties in the near future. Following an auction process and review and consideration by the independent members of the Board of the Company, China Gold International's subsidiary, Gansu Pacific Mining Co. Ltd (Gansu) and its joint venture partner, Nuclear Industry Northwest Economic and Technology Co., have entered into an agreement to sell the Dadiangou gold project in Gansu Province, China, to a related party. The purchase price is RMB 88 million ($13.1 million) of which the Company will be entitled to 53% or RMB 46.6 million ($7.0 million). The sale is still subject to conditions and has not yet completed.

China Gold International's subsidiary, Pacific PGM Inc., entered into an agreement with an independent third party to dispose of all equity interests in Yunnan Southern Copper (Barbados) Inc. for consideration of $20,000. Yunnan held a 99% interest in the Xinjiang Projects. The sale completed on May 25, 2010 resulting in a gain of $20,000.

The last of the 12% promissory notes issued in 2006 and 2007, Note C for CDN$7.5 million, due to be repaid on June 26, 2010, was renegotiated with the same terms and is now due to be repaid on June 26, 2011. The Note is being held by the Company's controlling shareholder, China National Gold Group Corporation ("CNG"). In addition, the Company is also responsible for its first principal repayment of $1.5 million on its RMB290 million ($42.3 million) loan from the Agricultural Bank of China in September 2010.

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

China Gold International is a reporting issuer in British Columbia, Alberta and Ontario, and the Company's shares trade under the symbol CGG (formerly JIN) on the Toronto Stock Exchange ("TSX"). Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

## HIGHLIGHTS

| | Three months ended June 30, 2010 | Six months ended June 30, 2010 |
|---|---|---|
| Commercial gold production (ounces) | **23,716** | **36,187** |
| Pre-commercial gold production (ounces) | **-** | **-** |
| Total gold production (ounces) | **23,716** | **36,187** |

| | Three months ended June 30, 2010 | Three months ended June 30, 2009 | Six months ended June 30, 2010 | Six months ended June 30, 2009 |
|---|---|---|---|---|
| Net income (loss) | **$ 5.0 Million** | ($ 3.8) Million | **$ 0.8 Million** | ($ 1.4) Million |
| Basic income (loss) per share | **$0.03** | ($0.02) | **$0.00** | ($0.01) |
| Net cash flows (used in) from operations | **($ 1.8) Million** | $ 7.3 Million | **($ 14.3) Million** | $ 7.8 Million |
| Property, plant and equipment cash expenditures | **$ 7.8 Million** | $ 16.1 Million | **$ 9.3 Million** | $ 26.8 Million |

| | Balance, June 30, 2010 | Balance, June 30, 2009 |
|---|---|---|
| Cash and cash equivalents | **$ 16.3 Million** | $ 7.3 Million |
| Working capital(deficiency)* | **$ 12.9 Million** | ($ 57.9) Million |

*Working capital consists of current assets less current liabilities

The Company completed the installation of a 30,000 tonnes per day crushing facility and began test running such facility in mid-August 2009. The throughput has gradually ramped up and in March 2010, the crushing facility began operating at its design capacity of 30,000 tonnes of ore per day.

The Company continues to look for ways to improve gold recoveries during the winter months as the recoveries are sensitive to cold temperatures. This winter has been exceptionally harsh. Some of the trial un-buried drip meters froze, and as a result, gold recoveries during the first quarter of 2010 suffered. The second quarter of 2010 was warmer and thus recoveries and gold production are still expected to come close to reaching our projected cumulative levels for 2010 with more recoveries during the warmer months of the year.

The Company continues to draw upon CNG technical and operating experience in China to improve operations at the CSH Gold Mine. Together with CNG's technical expertise, the Company will continue to focus its efforts on increasing and optimizing gold production.

The Company is continually working with China National Gold Group Corporation ("China National Gold" or "CNG") to identify potential projects that can be readily and quickly brought into production. The Company's objective is to identify projects that may also include the potential for further exploration to increase upon the existing resource base of the project. One such project has been identified. On September 23, 2009, the Company announced that it executed a memorandum of understanding with CNG and another partner to acquire a 100% interest in the Jiama mineral property ("Jiama"). The Jiama property is a significant polymetallic deposit consisting of copper, gold, silver, molybdenum, and other minerals. The parties have commenced the negotiation and preparation of definitive agreements regarding the purchase and sale of the property. As the acquisition will be a related party transaction under Canadian securities laws, the Company has established a special committee of independent directors to review the transaction. A review process is in progress to conform to related party transaction requirements, and upon completion of this process, the terms of any potential acquisition will be determined by negotiation between CNG and its partner on the one hand and a special committee of the Board on the other.

## ACCOUNTING POLICIES AND NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

Except as described below, please refer to Note 4 of the Company's annual audited consolidated financial statements for the accounting policies applied for the six month period ended June 30, 2010.

In the current interim period, the Group has applied for the first time the following new and revised standards, amendments to standards, and interpretations issued by the International Accounting Standard Board (IASB) which are now effective for the financial year beginning January 1, 2010.

- IFRSs (Amendments) — Amendment to IFRS 5 as part of Improvements to IFRSs issued in May 2008
- IFRSs (Amendments) — Improvements to IFRSs issued in April 2009 (except for amendment to IAS 1)
- IAS 27 (January 2008) — Consolidated and Separate Financial Statements
- IAS 39 (Amendment) — Eligible Hedged Items
- IFRS 2 (Amendment) — Group Cash-settled Share-based Payment Transactions
- IFRS 3 (Revised) — Business Combinations
- IFRIC 17 — Distributions of Non-cash Assets to Owners

The Group has not early applied the following new and revised standards, amendments to standards, or interpretations that have been issued but are not yet effective:

- IFRS (Amendments) — Improvements to IFRSs issued in May 2010 [(i)]
- IAS 24 (Revised) — Related Party Disclosures [(ii)]
- IAS 32 (Amendment) — Classification of Rights Issues [(iii)]
- IFRS 1 (Amendment) — Limited Exemption for Comparative IFRS 7 Disclosure for First Time Adopters [(v)]
- IFRS 9 — Financial Instruments [(iv)]
- IFRIC 14 (Amendment) — Prepayments of a Minimum Funding Requirement [(ii)]
- IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments [(v)]

(i) Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
(ii) Effective for annual periods beginning on or after January 1, 2011
(iii) Effective for annual periods beginning on or after February 1, 2010
(iv) Effective for annual periods beginning on or after January 1, 2013
(v) Effective for annual periods beginning on or after July 1, 2010

The Group anticipates that the application of these new and revised standards, amendments to standards, and interpretations would have no material impact on the Company's condensed consolidated financial statements.

## SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Except as identified below, the significant accounting judgments and estimates that are applicable to the six month period ended June 30, 2010 are consistent with those identified in Note 5 of the Company's annual audited consolidated financial statements.

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. A change in the estimated life of the mine from 10 years to 24 years as a result of the recent technical report released in March 2010 has resulted in Management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and as a result, Management has increased the life of the buildings from 10 years to 24 years effective January 1, 2010. The depreciation of buildings was then reduced by $64,359 and $128,201 for the three and six months ended June 30, 2010, respectively.

The assumptions used in the valuation of gold-in-process inventories particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads were reconsidered by Management. During the year ended December 31, 2009, the recovery rate assumption of 51% less the impairment taken of $3 million resulted in a rate used of approximately 43%. For the three month period ended March 31, 2010, Management reduced the recovery rate used in its inventory from 43% to 38.6% with concern over the lower results due to the harsh winter. As a result, the inventory balance was reduced by approximately $136,000 for the decreased recovery. For the three months ended June 30, 2010, Management has returned to use the rate of 43%.

**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; projected revenues and cash flows from gold production at the CSH Gold Project; performance of the crusher and recovery rates from the processing facility; obtaining regulatory confirmations and updated and expanded permits for the CSH Gold Project to cover all resources and reserves and the entire contemplated mine life; anticipated operating costs; the potential acquisition of other mineral property assets; completion of the proposed sale of the Dadiangou Gold Project; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of China Gold International and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material adverse change in China Gold International's operations or in foreign exchange rates, the prevailing price of gold, effective tax rates and other assumptions underlying the financial performance of the CSH Gold Project as listed in the CSH Technical Report; China Gold International's ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labour relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, litigation or arbitration and adverse changes in government regulation; the availability and accessibility to China Gold International of financing; 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 that could cause actual results to differ materially from the forward-looking information actually occurs.

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

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

## FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in the section entitled "Risk Factors" in this MD&A, in our Annual Information Form dated March 31, 2010, and those set out below.

### *Prices of Products*

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

The following table sets forth the monthly weighted average sales price for the gold produced at the CSH Mine since the commencement of commercial production in July 2008:

| | Weighted average sales price (US$ per ounce) | | Weighted average sales price (US$ per ounce) |
|---|---|---|---|
| July 2008 | 940.0 | July 2009 | 931.7 |
| August 2008 | 852.6 | August 2009 | 952.9 |
| September 2008 | 823.4 | September 2009 | 992.3 |
| October 2008 | 789.7 | October 2009 | 1027.0 |
| November 2008 | 818.9 | November 2009 | 1098.2 |
| December 2008 | 828.8 | December 2009 | 1063.0 |
| January 2009 | 856.0 | January 2010 | 1090.6 |
| February 2009 | 948.0 | February 2010 | 1115.9 |
| March 2009 | 912.0 | March 2010 | 1108.4 |
| April 2009 | 870.4 | April 2010 | 1097.9 |
| May 2009 | 951.1 | May 2010 | 1178.6 |
| June 2009 | 937.4 | June 2010 | 1215.5 |

Historically, the market prices for these metals have fluctuated significantly. The prices may be influenced by numerous factors beyond our control such as world supply and demand, selling and purchase activities by central banks and other macro-economic factors such as expectations regarding inflation rates, interest rates, currency exchange rates, as well as general global economic conditions and political trends. We do not currently employ any financial instruments to hedge market fluctuations. Fluctuations in market prices will lead to fluctuations in our financial results.

### *Production Volume*

Our production volume is primarily determined by the reserves at our mines, our production capacity and our recovery rate with respect to the CSH Mine. We commenced pre-commercial production at the CSH Mine in July 2007 and commercial production in July 2008. The average monthly commercial production volume at the CSH Mine for three months ended June 30, 2010 and 2009 was approximately 7,905 ounces and 6,633 ounces respectively while the average monthly commercial production volume at the CSH Mine for six months ended June 30, 2010 and 2009 was approximately 6,031 ounces and 6,878 ounces respectively. For the years ended December 31, 2009 and 2008, the average monthly commercial production volume was approximately 6,964 ounces and 5,612 ounces respectively.

The gold recovery rate at the CSH Mine is determined by various factors including the grade and size of ore placed on the leach pad and the weather conditions. The installation of the crushing facility at the CSH Mine allows the mine to crush the extracted ore to a size where 80% is smaller than nine millimeter screens before being loaded onto the leach pad. Reduced ore particle size will increase the gold recovery rate. The recovery for the Run of Mine (non-crushed) ore has been about 37%; however, gold will continue to be leached out from the ROM material during the current and future years. From 2010 on, most of the ore mined is fresh and crushed with only minor amounts of obviously well oxidized finer sized ore being hauled directly to the leach pad. For the crushed ore, the ITR reports recovery ranges from 60% to 80% over five years depending on the gold grade as indicated by the recent column leach testing. We have and will continue to experience lower production in the winter months due to low temperatures, which the company is actively seeking better control to keep the leach solution temperature from going down too much during the winter months. The recovery rate increases greatly during the warmer months of the year.

***Cost of Production***

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

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

***Finance Costs***

Historically, our working capital and capital expenditure needs have been primarily funded with proceeds from the issuances of promissory notes and loans from commercial banks and CNG. Effective interest expense on such indebtedness has been significant. It includes both the actual interest charged based on the interest rate as well as additional amounts either expensed or capitalized that relate to the original indebtedness. An example would be the promissory notes and the cost of the additional warrants issued as a result of the promissory notes. For the six month periods ended June 30, 2010 and 2009, our effective interest (including the amount capitalized) was $3.1 million and $4.4 million, respectively. For the years ended December 31, 2009 and 2008, our effective interest expense (including the amount capitalized) was $9.9 million and $9.1 million, respectively. Finance costs, as an item on our income statement, which excludes capitalized interest, have been significantly less than our effective interest. For the six month periods ended June 30, 2010 and 2009, our finance costs totaled $2.2 million and $2.3 million, respectively. For the years ended December 31, 2009 and 2008, our finance costs totaled $6.3 million and $3.6 million, respectively.

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

***Exchange Rate Fluctuations***

Our functional currency is the U.S. dollar. During 2006 and 2007, we issued promissory notes denominated in Canadian dollars. In recent years, the exchange rate between the U.S. dollar and Canadian dollar has fluctuated significantly, leading to relatively substantial amounts of foreign exchange gains or losses recorded by us, which in turn had an impact on our net profit or loss.

For the six month periods ended June 30, 2010 and 2009, we had foreign exchange losses of $0.3 million and $2.1 million respectively. Both were largely attributable to the Canadian dollar denominated promissory notes and the volatility or lack thereof between the CDN and US dollar. After redeeming the majority of the promissory notes to date, Series A Notes for CDN$30.0 million on December 14, 2009 and Series B Notes for CDN$12.5 million on January 11, 2010, the Series C Note for CDN$ $7.5 million still remains outstanding until it is redeemed no later than June 26, 2011. Accordingly, we expect fluctuations in the exchange rate between the U.S. dollar and Canadian dollar to continue to affect our results of operations, but not to the degree they have in the past.

***Fair Value Change on Warrant Liabilities***

In December 2006 and July 2007, we issued warrants as part of a series of issuances of promissory notes. In December 2006, as part of our issuance of the Series A Notes, we issued 6,000,000 warrants with an exercise price of CDN$1.60 per Share. In June 2007, as part of our issuance of the Series B and Series C Notes, we issued 4,000,000 warrants with an exercise price of CDN$2.50 per Share. The fair value change on our warrant liabilities has been significant since the issuance of these warrants. For the six month periods ended June 30, 2010 and 2009, we had fair value losses on our warrant liabilities of $7.2 million and $1.2 million, respectively while in the years ended 2009 and 2008, we had fair value losses of $7.2 million and a fair value gain of $12.8 million, respectively, on our warrant liabilities. The fair values of our warrants were determined by applying the Black-Scholes option pricing model, based on a number of assumptions which are subject to change. The significant change in fair value on our warrant liabilities has been attributable to a number of factors including a higher share price, a decrease in exchange rate between Canadian and U.S. dollars, a lower interest rate, and a shorter expected life of the warrants. As a result of our rising stock price, we were able to exercise the accelerated expiry right for the CDN$1.60 per Share warrants on March 18, 2010, resulting in all CDN$1.60 per Share warrants subsequently exercised by April 22, 2010. We were also able to exercise the accelerated expiry right for the CDN$4.25 per Share warrants on April 16, 2010 with all such warrants now expiring by May 17, 2010. At June 30, 2010, all warrants have been exercised.

***Exploration Success***

Our long-term growth depends on our ability to grow resources at CSH organically and to acquire economic and accretive reserves. The Company is working to continue to add resources at CSH. A drilling program has just been implemented for the warmer months in 2010. The Company is also reviewing a number of projects with both proven and probable resources as defined under NI 43-101 and with additional exploration potential for acquisition.

## HISTORICAL FINANCIAL INFORMATION

***Basis of Presentation***

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

### Principal Income Statement Components

***Revenue***

Revenue represents proceeds from the sale of gold produced at the CSH Mine to customers after the commencement of commercial production on July 1, 2008. The Company's revenue was generated from the sale of gold to China National Gold and two independent third-party refineries in China. Proceeds from the sale of gold at the CSH Mine to customers prior to the commencement of commercial production were netted off against costs and were capitalized and included in mineral assets under property, plant and equipment. For information on the capitalization of development costs, see note 10 of our condensed consolidated financial statements.

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

***Cost of sales***

Our cost of sales primarily consists of mining costs (which primarily include fees paid to third-party contractors), ore processing costs (which primarily include costs of auxiliary materials used in the production process (such as chemical products), production staff costs and utilities costs), other mine operating costs (primarily operating expenses of the CSH CJV, such as administrative and management staff salaries and benefits and office expenses), taxes, and depreciation and depletion. With respect to the CSH Mine, we are subject to the People's Republic of China ("PRC") resource tax at RMB3 per tonne of ore processed as well as a resource compensation fee at a rate of 2.8% of the revenue of the CSH CJV. The rates of this tax and fee are subject to adjustment by relevant PRC government authorities from time to time. Cost of sales is netted against sales of the silver by-product because the amount of proceeds from silver sales is insignificant. Fees paid to third-party contractors are primarily for the provision of mine construction work and mining services.

***Depreciation and depletion***

Depreciation and depletion primarily consist of (i) depreciation of property, plant and equipment; and (ii) depletion of exploration expenditures incurred on sites within an existing mine or in areas within the boundary of a known mineral deposit which contain proved and probable reserves, provided that such exploration costs are economically recoverable and commercial production has already commenced at such sites. For the accounting treatment of exploration expenditure incurred at other stages, see "Exploration and evaluation expenditures" below.

***General and administrative expenses***

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

***Exploration and evaluation expenditures***

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

Exploration and evaluation expenditures are charged to the consolidated statement of comprehensive income in the period incurred until such time when our management has determined that a mineral property has economically recoverable reserves. For the criteria our management uses when making assessment of economic recoverability, see note 4(k) in our annual audited consolidated financial statements. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and included in the carrying amount of mineral assets under property, plant and equipment.

***Foreign exchange gain (loss)***

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

Foreign exchange gain (loss) primarily consists of foreign exchange differences arising from the conversion of the balances of Canadian-dollar denominated promissory notes to U.S. dollars and the conversion of foreign subsidiaries denominated in RMB to U.S. dollars.

***Interest income***

Interest income primarily consists of interest on bank deposits.

***Finance costs***

Finance costs consist of effective interest accrued on our borrowings and accretion on environmental rehabilitation liabilities, net of capitalized interest. Interest expenses are capitalized if the borrowings underlying the interest expenses are for a specific project or mine development purposes.

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

***Fair value change on warrant liabilities***

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

***Income tax expense***

The Company was subject to Canadian federal and provincial tax at a rate of 28.5% and 30.0% for the six month period ended June 30, 2010 and 2009, respectively. During the same periods, our operating PRC subsidiaries, namely the CSH CJV and Dadiangou CJV, were all subject to PRC enterprise income tax at a rate of 25% and 25%.

For the three and six months ended June 30, 2010, we recognized $917,000 and $2.2 million of deferred tax expense respectively and current income tax expense of $2.3 million and $2.7 million respectively, for total tax expense of $3.2 million and $4.9 million respectively. For the three and six months ended June 30, 2009, there was no deferred tax but current tax was recognized of $962,000 and $962,000, respectively.

## RESULTS OF OPERATIONS OF OUR COMPANY

The following table provides selected financial data for the CSH Gold Mine for three and six month periods ended June 30, 2010 and 2009:

| | **Three months ended June 30, 2010** | **Six months ended June 30, 2010** | Three months ended June 30, 2009 | Six months ended June 30, 2009 |
|---|---|---|---|---|
| Revenue | **$ 27,180,938** | **$ 37,679,906** | $ 18,304,364 | $ 25,990,353 |
| Cost of sales | **(13,330,465)** | **(18,638,432)** | (13,149,487) | (18,438,691) |
| Mine operating earnings | **$ 13,850,473** | **$ 19,041,474** | $ 5,154,877 | $ 7,551,662 |
| Gold produced (ounces) | **23,716** | **36,187** | 19,899 | 29,269 |
| Gold sold (ounces) | **23,235** | **32,699** | 19,959 | 28,564 |
| Total cost of gold sold per ounce | **$ 574** | **$ 570** | $ 659 | $ 646 |
| Cash cost per ounce (Non-IFRS measure) | **$ 468** | **$ 453** | $ 595 | $ 557 |

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

The following table provides certain operating data for the CSH Gold Mine for three and six month periods ended June 30, 2010 and 2009:

| | **Three months ended June 30, 2010** | **Six months ended June 30, 2010** | Three months ended June 30, 2009 | Six months ended June 30, 2009 |
|---|---|---|---|---|
| Ore mined and placed on pad (tonnes) | **3,842,428** | **7,019,707** | 1,513,628 | 3,178,782 |
| Average grade of ore (grams per tonne) | **0.682** | **0.711** | 0.586 | 0.637 |
| Recoverable gold at 43% recovery rate (ounces) | **34,921** | **58,959** | 14,633 | 33,218 |
| Ending gold inventory (ounces) | **81,869** | **81,869** | 40,714 | 40,714 |
| Waste rock mined (tonnes) | **4,795,907** | **8,309,490** | 1,390,779 | 2,097,707 |

The following table provides certain unit costs for the CSH Gold Mine for three and six months ended June 30, 2010 and 2009:

| | **Three months ended June 30, 2010** | **Six months ended June 30, 2010** | Three months ended June 30, 2009 | Six months ended June 30, 2009 |
|---|---|---|---|---|
| Cost of mining per tonne of ore | **$ 1.05** | **$ 1.05** | $ 1.25 | $ 1.61 |
| Cost of mining waste per tonne of ore | **$ 1.46** | **$ 1.30** | $ 1.18 | $ 0.96 |
| Other mining costs per tonne of ore | **$ 0.42** | **$ 0.49** | 0.11 | $ 0.25 |
| Total mining costs per tonne of ore | **$ 2.93** | **$ 2.84** | $ 2.54 | $ 2.82 |
| | | | | |
| Cost of reagents per tonne of ore | **$ 0.70** | **$ 0.63** | $ 1.52 | $ 1.15 |
| Other processing costs per tonne of ore | **$ 0.44** | **$ 0.37** | $ 0.29 | $ 0.28 |
| Total processing cost per tonne of ore | **$ 1.14** | **$ 1.00** | $ 1.81 | $ 1.43 |

The following table provides cost information necessary to determine the cash cost of production per ounce (non-IFRS) for three and six months ended June 30, 2010 and 2009:

| | **Three months ended June 30, 2010 $** | **Six months ended June 30, 2010 $** | Three months ended June 30, 2009 $ | Six months ended June 30, 2009 $ |
|---|---|---|---|---|
| Mining cost (Oxide ore) | **4,040,650** | **7,342,638** | 2,661,173 | 1,894,265 |
| Waste cost | **5,605,958** | **9,105,506** | 2,883,761 | 1,783,284 |
| Other mining costs | **1,599,103** | **3,426,760** | 180,845 | 167,818 |
| Total mining costs | **11,245,710** | **19,874,904** | 5,725,779 | 3,845,367 |
| | | | | |
| Reagents cost | **2,685,460** | **4,438,051** | 1,668,363 | 2,305,867 |
| Other process costs | **1,678,604** | **2,607,334** | 888,244 | 433,055 |
| Total process cost | **4,364,064** | **7,045,385** | 2,556,607 | 2,738,922 |

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

The following table provides a reconciliation of cost of sales to the cash costs of production in total dollars and in dollars per gold ounce:

| | **Three months ended June 30, 2010** | | **Six months ended June 30, 2010** | | Three months ended June 30, 2009 | | Six months ended June 30, 2009 | |
|---|---|---|---|---|---|---|---|---|
| | | **Per gold oz.** | | **Per gold oz.** | | Per gold oz. | | Per gold oz. |
| Cost of sales | **$ 13,330,465** | **$ 574** | **$ 18,638,433** | **$ 570** | $ 13,149,487 | $ 659 | $ 18,438,691 | $ 646 |
| Adjustments: | | | | | | | | |
| Depreciation and depletion | **(2,445,403)** | **(105)** | **(3,803,128)** | **(117)** | (1,278,415) | (64) | (2,519,801) | (88) |
| Selling costs | **(1,155)** | **(0)** | **(2,154)** | **(0)** | (762) | (0) | (1,544) | (0) |
| Total cash costs | **$ 10,883,907** | **$ 468** | **$ 14,833,151** | **$ 453** | $ 11,870,310 | $ 595 | $ 15,917,346 | $ 557 |

## Selected Quarterly Data

| ($ in thousands, except per share information) | 2010 | | 2009 | | | | 2008 | |
|---|---|---|---|---|---|---|---|---|
| QUARTER ENDED | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Revenues | $27,181 | $10,499 | $34,009 | $21,048 | $18,304 | $7,686 | $16,275 | $13,096 |
| Net income (loss) | 4,970 | (4,185) | (3,457) | (3,480) | (3,775) | 2,341 | 5,665 | 7,769 |
| Basic earnings (loss) per share | 0.03 | (0.03) | (0.02) | (0.02) | (0.02) | 0.01 | 0.03 | 0.05 |
| Diluted earnings (loss) per share | 0.03 | (0.03) | (0.02) | (0.02) | (0.02) | 0.01 | 0.03 | 0.08 |

(1) Pre-dates the commencement of commercial production which began July 1, 2008.

## Three month period ended June 30, 2010 compared to three month period ended March 31, 2010

### *Revenue*

Revenue increased by 158.9%, or $16.7 million, from $10.5 million for the three month period ended March 31, 2010, to $27.2 million for the three month period ended June 30, 2010. The increase was due to an increase in the ounces of gold sold at the CSH Mine as well as a $61 per ounce increase in the weighted average price of gold. For the three month period ended June 30, 2010, the CSH Mine produced a total of 23,716 ounces of gold and sold 23,235 ounces of gold at a weighted average price of $1,170 per ounce. For the three month period ended March 31, 2010, the CSH Mine produced a total of 12,484 ounces of gold and sold 9,464 ounces of gold at a weighted average price of $1109 per ounce. The reason for the increase in production was due to the warming of the weather during the three months ended June 30, 2010 in comparison to the three months ended March 31, 2010 which allowed more gold to leach resulting in higher gold production.

### *Cost of sales*

Cost of sales increased by 151% or $8.0 million, from $5.3 million for the three month period ended March 31, 2010 to $13.3 million, for the three month period ended June 30, 2010. The increase of cost of sales was primarily due to an increase in the production and sale of gold resulting in higher cost of sales compared to the first quarter. Cost of sales as a percentage of revenue decreased from 50.5% for the three month period ended March 31, 2010 to 49.0% for the three month period ended June 30, 2010.

### *Mine operating earnings*

As a result of the foregoing, mine operating earnings more than doubled from $5.2 million for the three month period ended March 31, 2010 to $13.9 million for the three month period ended June 30, 2010. Mine operating earnings as a percentage of revenue rose from 49.5% to 51.0% due to an increase in the weighted average sale price of gold for the three month period ended June 30, 2010 compared to the prior quarter.

### *General and administrative expenses*

General and administrative expenses increased by 23.8 %, or $225,000, from $946,000 for the three month period ended March 31, 2010 to $1,171,000 for the three month period ended June 30, 2010. This increase was primarily attributable to an increase of $244,000 in salaries and benefits, an increase of $88,000 in professional fees, and an increase of $63,000 in travel which was partially offset by decrease of $195,000 in administration and office expenses. The increase in salaries and benefits was primarily attributable to the stock based compensation effect of the options granted in this quarter.

### *Exploration and evaluation expenditure*

Exploration and evaluation expenditure increased by 204.4%, or $47,000, from $23,000 for the three month period ended March 31, 2010 to $70,000 for the three month period ended June 30, 2010. This increase was primarily due to the implementation of a new drilling program at the CSH Mine

***Income from operations***

As a result of the foregoing, income from operations increased by 198.7%, or $8.4 million, from income of $4.2 million for the three month period ended March 31, 2010 to income of $12.6 million for the three month period ended June 30, 2010.

***Listing expenses***

Listing expenses increase by 240.0%, or $843,000, from $351,000 for the three month period ended March 31, 2010 to $1.2 million for the three month period ended June 30, 2010. This increase was primarily due to increased professional services related to the proposed listing on an Asian stock exchange.

***Finance costs***

Finance costs increased by 101.3%, or $749,000, from $740,000 for the three month period ended March 31, 2010 to $1.5 million for the three month period ended June 30, 2010, primarily attributable to decrease in effective interest of $156,000 and a decrease in capitalized interest expense of $909,000. As of June 26, 2010, the cost of the warrants issued to the promissory note holders has all been expensed. As a result, the effective interest rate on the remaining CDN$7.5 million promissory note, extended to June 26, 2011 under the original terms, decreased to its annual interest rate of 12%. The decrease in the capitalized interest is due to the Crusher being put into use requiring the interest to be expensed instead.

***Fair value change on warrant liabilities***

The fair value change of warrant liabilities decreased by 86.1%, or $5.4 million, from $6.3 million for the three month period ended March 31, 2010 to $873,000 for the three month period ended June 30, 2010. The decrease represents the fair value change on a small amount of the remaining warrants which are now all exercised.

***Foreign exchange loss***

Foreign exchange changed by $1.5 million from a gain of $618,000 for the three month period ended March 31, 2010 to a loss of $872,000 for the three month period ended June 30, 2010. The reason for the loss in the second quarter and the gain in the first quarter relates to the conversion of foreign subsidiaries denominated in RMB to the US dollar functional currency.

***Interest income***

Interest income increased by $2,000 from $nil for the three month period ended March 31, 2010 to $2,000 for the three month period ended June 30, 2010. This increase was primarily due to an increase in bank deposits as a result of the exercise of all the outstanding warrants as our stock price rose.

***Income tax expense***

Income tax expense increased by 95.8%, or $1.5 million, from $1.7 million for the three months period ended March 31, 2010 to $3.2 million for the three month period ended June 30, 2010 due to an increase in taxable income during the period. .

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

As a result of the foregoing, net income (loss) and comprehensive income (loss) attributable to our shareholders increased by $9.2 million from a loss of $4.4 million for the three month period ended March 31, 2010 to income of $4.80 million for the three months ended June 30, 2010.

**Six month period ended June 30, 2010 compared to six month period ended June 30, 2009**

***Revenue***

Revenue increased by 45.0%, or $11.6 million, from $26.0 million for the six month period ended June 30, 2009, to $37.6 million for the six month period ended June 30, 2010. The increase was due to an increase in the ounces of gold sold at the CSH Mine as well as a $242 per ounce increase in the weighted average price of gold. For the six month period ended June 30, 2010, the CSH Mine produced a total of 36,187 ounces of gold and sold 32,699 ounces of gold at a weighted average price of $1,152 per ounce. For the six month period ended June 30, 2009, the CSH Mine produced a total of 29,269 ounces of gold and sold 28,564 ounces of gold at a weighted average price of $910 per ounce. The reason for the increase in production was primarily due to the addition of the Crushing facility greatly reducing the ore size added to the leach pad during the six months ended June 30, 2010 in comparison to the six months ended June 30, 2009 which allows more gold to leach resulting in higher gold production.

***Cost of sales***

Cost of sales increased by 1.1% or $200,000, from $18.4 million for the six month period ended June 30, 2009 to $18.6 million, for the six month period ended June 30, 2010. Cost of sales as a percentage of revenue decreased from 70.9% for the six month period ended June 30, 2009 to 49.5% for the six month period ended June 30, 2010. A concentrated effort has been made to continue to reduce the cost of sales by fine tuning processes, reducing costs of suppliers, finding and retaining the right management and employees, continually improving productivity, and building operating experience amongst other things.

***Mine operating earnings***

As a result of the foregoing, mine operating earnings more than doubled from $7.6 million for the six month period ended June 30, 2009 to $19.0 million for the six month period ended June 30, 2010. Mine operating earnings as a percentage of revenue rose from 29.0% to 50.5% due to reduced cost of sales and an increase in the weighted average sale price of gold for the six month period ended June 30, 2010 compared to the prior quarter.

***General and administrative expenses***

General and administrative expenses increased by 15.2 %, or $279,000, from $1.8 million for the six month period ended June 30, 2009 to $2.1 million for the six month period ended June 30, 2010. This increase was primarily attributable to an increase of $102,000 in professional fees, an increase of $71,000 in travel, an increase of $46,000 in investor relations, an increase of $43,000 in salaries and benefits which was partially offset by decrease of $41,000 in administration and office expenses.

***Exploration and evaluation expenditure***

Exploration and evaluation expenditure decreased by 84.6%, or $513,000, from $606,000 for the six month period ended June 30, 2009 to $93,000 for the six month period ended June 30, 2010. This decrease was primarily due to focus during the first half of the year on the implementation and ramping up of the crushing facility. A drilling program has just begun at the CSH Project, so these expenditures are expected to increase in coming months.

***Income from operations***

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

***Listing expenses***

Listing expenses were $1.5 million for the six month period ended June 30, 2010 compared to $nil for the six month period ended June 30, 2009. This increase was primarily due to the proposed listing on an Asian stock exchange which was not yet underway at June of 2009.

***Finance costs***

Finance costs decreased by 2.7%, or $61,000, from $2.3 million for the six month period ended June 30, 2009 to $2.2 million for the six month period ended June 30, 2010. Although effective interest decreased by $1.4 million, it was offset by a decrease in capitalized interest expense of $1.4 million. As of June 26, 2010, the cost of the warrants issued to the promissory note holders has all been expensed. As a result, the effective interest rate on the remaining CDN$7.5 million promissory note, extended to June 26, 2011 under the original terms, decreased to its annual interest rate of 12%.The decrease in the capitalized interest is due to the Crusher being put into use requiring the interest to be expensed instead.

***Fair value change on warrant liabilities***

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

***Foreign exchange loss***

Foreign exchange decreased by 88.1% or $1.9 million from a loss of $2.1 million for the six month period ended June 30, 2009 to a loss of $253,000 for the six month period ended June 30, 2010. The greater stability between the CDN and US dollar as well as only one remaining CDN$7.5 million promissory note accounts for the decrease in 2010.

***Interest income***

Interest income decreased by 45.2%, or $1,500, from $3,400 for the six month period ended June 30, 2009 to $1,900 for the six month period ended June 30, 2010. This decrease was primarily due to an increase in bank deposits as a result of the exercise of all the outstanding warrants as our stock price rose.

***Income tax expense***

Income tax expense increased by 407.9%, or $3.9 million, from $962,000 for the six month period ended June 30, 2009 to $4.9 million for the six month period ended June 30, 2010 due to an increase in taxable income during the period.

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

As a result of the foregoing, net income (loss) and comprehensive income (loss) attributable to our shareholders increased $2.2 million from a loss of $1.7 million for the six month period ended June 30, 2009 to income of $461,000 for the six months ended June 30, 2010.

**MINE DEVELOPMENT**

**CSH Mine–**

***Property Description***

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

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

***Joint venture agreement***

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

***Cumulative expenditures***

The following table shows the cumulative expenditures made as of June 30, 2010:

| | December 31, 2008 | Incurred during the period | December 31, 2009 | Incurred during the period(3) | **June 30, 2010** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** |
| Exploration expenditure charged to profit or loss | 8,903,877 | 267,299 | 9,171,176 | 58,040 | **9,229,216** |
| Mineral assets (1) | 11,957,158 | 6,803,216 | 18,760,374 | 1,922,510 | **20,682,884** |
| Construction in progress (2) | 28,727,117 | 47,255,828 | 75,982,945 | (68,815,311) | **7,167,634** |

(1) During the six months ended June 30, 2010, there was an increase in mineral assets resulting from changes in the discount rate applied in estimating the provision for environmental rehabilitation of $295,265 (Nil for the six months ended June 30, 2009). During the year ended December 31, 2009, there was an adjustment to the Group's estimate for environmental rehabilitation of $3,145,917.

(2) During the six months ended June 30, 2010, $69,666,569 was transferred out of construction in progress to crusher and the Group reversed $5,719,987 accruals on construction in progress upon the completion of the crushing facility construction (Nil for the six months ended June 30, 2009).

(3) During the six months ended June 30, 2010, additions to mineral assets and construction in progress were $2,368,294 and $6,571,243 respectively. During the six months ended June 30, 2009, additions to mineral assets and construction in progress were $11,174,682 and $25,506,841 respectively.

***Mineral Resources and Ore Reserves***

An updated mine plan for the CSH Gold Project has been developed and reported in the BD ITR dated March 30, 2010. This plan has been prepared for heap leaching with a crushing plant throughput rate of 30,000 tonnes per day by the end of the first quarter of 2010.

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

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

The reserves are summarized in the table below:

*CSH Mine Reserves by category, Northeast and Southwest pits combined December 2009*

| Classification | Cutoff Au (g/t) | Ore (M tonnes) | Grade Au (g/t) | Contained Au (kOz) | Contained Au (kgs) |
|---|---|---|---|---|---|
| **Proven** | 0.30 | 83.6 | 0.70 | 1,868 | 58,100 |
| **Probable** | 0.30 | 55.2 | 0.64 | 1,133 | 35,240 |
| **Total** | 0.30 | **138.8** | **0.67** | **3,001** | **93,340** |

**Resource Estimate**

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

At the end of December 2009, the project's Measured and Indicated Gold Resources, using 0.3 grams per tonne ("g/t") Au cut-off grade, stand at 243 million tonnes averaging 0.64 (g/t) gold. This translates into 4.99 million ounces of contained gold (inclusive of reserves) in the deposit. In the previous March 2008 ITR, 183 million tonnes of Measured and Indicated resources averaging 0.69 g/t gold were reported atthe same 0.30 g/t gold cut-off grade.

Details of the new resources are summarized in the following table:

*Table 2: CSH Mine Resources by category, Northeast and Southwest Zones (inclusive of reserves).*

| **Resources by category below pit surface to December 31st, 2009, CSH Mine Project, 2009 Resource Model** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Measured*** | | ***Indicated*** | | ***Measured+Indicated*** | | | ***Inferred*** | | |
| ***Cutoff (g/t)*** | **M Tonnes** | **Au Grade (g/t)** | **M Tonnes** | **Au Grade (g/t)** | **M Tonnes** | **Au Grade (g/t)** | **Million Ounces Au** | **M Tonnes** | **Au Grade (g/t)** | **Million Ounces Au** |
| ***0.3*** | **105.8** | **0.68** | **137.6** | **0.61** | **243.4** | **0.64** | **4.993** | **0.53** | **0.43** | **0.007** |
| *0.35* | 96.1 | 0.71 | 120.8 | 0.65 | 216.9 | 0.68 | 4.716 | 0.35 | 0.49 | 0.005 |
| *0.4* | 86.5 | 0.75 | 104.1 | 0.69 | 190.6 | 0.72 | 4.400 | 0.24 | 0.54 | 0.004 |
| *0.45* | 77.2 | 0.79 | 89.1 | 0.74 | 166.3 | 0.76 | 4.068 | 0.18 | 0.57 | 0.003 |
| *0.5* | 68.0 | 0.83 | 76.2 | 0.78 | 144.2 | 0.80 | 3.732 | 0.12 | 0.62 | 0.002 |

**Production Update**

In July 2007, China Gold International completed the construction of the 20,000 tonnes per day ("tpd") gold heap leach process facility. Since operations commenced in 2007, the Company's gold production at the CSH mine has totaled 163,074 ounces including 83,570 ounces poured in 2009. The CSH project has experienced erratic gold production numbers based on the monthly data, which has been below the gold production estimates set out in prior feasibility studies of approximately 9,000 oz per month. The Company has identified several reasons for this, including in particular that the previously identified "weathered" zone near surface is actually mixed with gradationally increasing amount of sulphide ore down depth, which, when not crushed, has very slow leaching kinetics or gold recovery is dramatically slowed down for ROM processing. Other factors include larger sized ore placed on the heap leach pad by the mining contractor than designed, which will take a longer period of time for gold to be leached out and seasonal slowdowns due to cold weather in winter months. The Company has implemented a number of adjustments that will augment recoveries and production rates including better control on ore size and irrigation rate.

In addition, a 30,000-tpd crushing plant was installed in August 2009 and underwent a process of commissioning and adjustment through the fall of 2009 and early 2010. Since March, 2010, mine production has consisted of almost entirely crushed ore, and the crusher facility reached its design capacity of 30,000-tpd in March 2010. According to the most recent column leach test done by Metcon Research of KDE, once the ore is crushed the gold recovery will be greatly improved to approximately 70% to 80% depending on the gold grades. The higher the gold grade, the better the recovery will be. Based on the new technical report done by Behre Dolbear, for 2010, the mining budget is set at 10.65 million tonnes and gold production is estimated to be 132,210 ounces. For the first three month period of 2010, the total amount of ore put on leach pad is 2,947,925 tonnes, about 7% over budget; while the total amount of gold put on leach pad is 2,201,831 grams (70,790 oz), about 40% over budget. This is mainly due to improved ore grade. However, the amount of gold poured for the three month period ended March 31st, 2010 was lower than expected which is mainly due to harsh long winter and some frozen dripmeters that were not buried. In addition, most of the ore are placed on top (3rd to 4th) lifts or farther away from the process plant, which will take a longer time to circulate in the solution. Like many other heap leach operations, gold production at the CSH project is expected to gradually increase from now on according to the BD ITR.

**Project Economics**

According to the new mine plan, the CSH mine life is extended from 2018 to 2023 with four more years of leaching afterwards. By the end of 2009 and prior to the use of the crusher, approximately 20 million tonnes of ROM ore were put under leach. The observed recovery from this uncrushed ROM material based on gold poured has been 37.3%. It is estimated that the ultimate recovery rate for the uncrushed ROM ore already on pad will be over 53%. With the new crushers now at the design capacity of 30,000 tpd, it is expected that the gold recovery will be greatly improved. According to the column test done by Metcon Research of KDE in 2009, the recovery rate for the crushed ore is a function of the ore grade. The higher the ore grade the higher the recovery rate, which ranges from the lowest of 62.1% in the SW pit to the highest of 80.9% in the NE pit. According to the new mine production plan, approximately 2.35 million ounces of gold will be produced in the next 15 years starting with annual production of approximately 132,210 ounces in 2010, and gradually increasing to over 150,000 ounces in 2014 and then to over 200,000 ounces in 2021. Production will decline sharply after that.

In the BD ITR dated March 30, 2010, gold prices ranging from $1,033 per ounce to $849 per ounce over the next 5 years were used to estimate the Pre-Income Tax NPV as of the end of December 2009 at $517 million at a 9% discount at the exchange rate of one US dollar to 6.83 RMB yuan. Please refer to the Behre Dolbear report dated March 30, 2010 for more information. Gold prices and the recovery rate are still the two most sensitive factors for the project economics.

**Exploration**

From 2003 through to 2005, China Gold International undertook annual drill campaigns that allowed China Gold International to complete resource estimates and quantify the size and scope of both the Northeast and Southwest Zones. This was followed by further drilling campaigns in 2007 through to 2008 to increase confidence levels in resource estimates and test extensions of mineralization. In 2007, 41 holes at approximately 11,500 metres were drilled, while in 2008, 23 holes at approximately 5,000 m were drilled.

Exploration and drilling is scheduled to continue at the CSH gold mine during the 2010 field season within the company's 25 square kilometer licensed area immediately adjoining the mining permit and mineralization at depth below the current mining permit. Priorities for exploration are given to trenching and drilling on several gold anomalies along the prospective stratigraphy that was defined by grid rock sampling during the previous field seasons. Deeper drill holes are also planned for the CSH property to explore for higher grades down dip.

**Environmental and Community Considerations**

The Company is committed to observe and dedicated to comply with Chinese and global environmental and social responsibility standards.

In 2006, an Environmental Impact Study ("EIS") was submitted to the Inner Mongolian Environment Protection Bureau ("EPB") to comply with local (Chinese) requirements, including industrial policies and regional economic development plans, and an Environmental and Social Impact Assessment for the CSH Mine was conducted by internationally recognized consultants Environmental Resources Management ("ERM") utilizing both Chinese EIA requirements as well as World Bank Group Environmental and Social Guidelines. A key aspect of this ERM assessment concerned minimization of community impact as a result of water use by the mine, and it has also been used to provide the basis for an Environmental Management Plan for the site. Various social issues were addressed in the study. This has contributed towards protection of local social heritage and culture, employment of local people (currently approximately 30% of the workforce), employment of women (currently approximately 10% of the workforce) as well as contributions towards local education, medical equipment, various community activities and support of poor families with food and coal (which collectively have been cost at approximately RMB1.6 million to date) having been implemented by the Company.

In November 2007, the CSH Gold Project received its environmental approval from the Inner Mongolian EPB following review of the documents and a site inspection by an expert panel. Environmental Approval, which requires approval of both the EIS and a Soil and Water Conservation Plan, is required to obtain a Mining Permit, thereby enabling the mining operation to commence production.

Due to the semi-desert conditions and scarce water supply in the area, the project is being developed as a zero discharge site, hence it only requires a Water Supply (and not a Discharge) Permit, to be issued by the regulatory authorities. A comprehensive Water Resource Estimation by the Baogang Engineering Investigation and Survey Institute in Baotou was followed by a similar independent study by international experts Golder Associates, and a further hydrogeology and water resources study was conducted by the Baogang Institute. The objective of the mine project in securing its water supply is to balance the extraction of water from local sources with the capacity for recharge of these sources. The collective studies have determined that a sustainable water extraction rate would be 4,000 $m^3$/day in average years and 3,000 $m^3$/day in dry years, which is sufficient to meet the demand of the mining operation. The current Water Permit allows water to be pumped from the Molen River and Xinhure alluvial aquifer as well as the Hushaogou bedrock aquifer, at a rate of up to approximately 1 $Mm^3$/year.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

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

At June 30, 2010, the Company had an accumulated deficit of $65,012,168 and working capital of $12,870,976. China Gold International's cash balance at June 30, 2010 was $16.3 million. The Company's last promissory note, Note C, for CDN$7.5 million was extended from June 26, 2010 to June 26, 2011. The first principal installment of $1.5 million on the Company's RMB 290 million term loan from the Agricultural Bank of China ("ABC") is due in September 2010. Quarterly interest on Promissory Note C of $225,000 totals $900,000 for the year with the next payment due September 30, 2010. Monthly interest payments of $175,000 on the ABC loan total $1,575,000 for the year. Finally, quarterly interest payments of $0.6 million are due for the balance of the quarters of 2010 for the $40.0 million CNG term loan.

Management believes that its forecasted operating cash flows from the CSH Mine are sufficient to cover the next twelve months of operations factoring in planned capital expenditures and current debt repayments.

*Cashflows*

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

| | Three month periods ended June 30, | | Six month periods ended June 30, | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Net cash (used in) flows from operating activities | **(1,772,518)** | 7,271,387 | **(14,255,418)** | 7,834,839 |
| Net cash flows from (used in) investing activities | **2,964,914** | (16,078,838) | **1,482,335** | (21,555,092) |
| Net cash flows from financing activities | **6,853,305** | 10,992,701 | **4,898,624** | 8,895,650 |
| Effect of foreign exchange rate changes on cash and cash equivalents | **360,158** | 22,014 | **221,051** | (4,347) |
| Net increase (decrease) in cash and cash equivalents | **8,405,859** | 2,207,264 | **(7,653,408)** | (4,828,950) |
| Cash and cash equivalents, beginning of period | **7,925,393** | 5,106,525 | **23,984,660** | 12,142,739 |
| **Cash and cash equivalents, end of period** | **16,331,252** | 7,313,789 | **16,331,252** | 7,313,789 |

### For the three and six months ended June 30, 2010

***Operating cash flow***

For the three months ended June 30, 2010, net cash used in operating activities was $1.8 million, which was primarily attributable to (i) an increase in inventory of $6.3 million, (ii) an increase in accounts receivable of $1.1 million, (iii) an increase in accounts payable and accrued liabilities of $4.9 million, (iv) interest paid of $1.4 million, and (v) income taxes paid of $2.2 million, partially offset by the add back of (i) depreciation and depletion of $2.5 million, (ii) finance costs of $1.5 million and (iii) a fair value change on warrant liabilities of $0.8 million to net income of $8.2 million.

For the six months ended June 30, 2010, net cash used in operating activities was $14.3 million, which was primarily attributable to (i) an increase in inventory of $16.9 million, (ii) an increase in accounts payable and accrued liabilities of $10.5 million, (iii) interest paid of $2.6 million, (iv) income taxes paid of $2.5 million, and (v) an increase in prepaid expenses of $0.6 million, partially offset by the add back of (i) fair value change on warrant liabilities of $7.2 million, (ii) depreciation and depletion of $3.9 million, and (ii) finance costs of $2.2 million, to net income of $5.6 million.

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

***Investing cash flow***

For the three months ended June 30, 2010, net cash from investing activities was $3.0 million, which was attributable to restricted cash pending the sale of Gansu of $10.8 million partially offset by purchases of property, plant and equipment of $7.8 million.

For the six months ended June 30, 2010, net cash from investing activities was $1.5 million, which was attributable to restricted cash pending the sale of Gansu of $10.8 million partially offset by purchases of property, plant and equipment of $9.3 million.

***Financing cash flow***

For the three months ended June 30, 2010, net cash from financing activities was $6.9 million, which was attributable to the exercise of warrants and stock options during the period.

For the six months ended June 30, 2010, net cash from financing activities was $4.9 million, which was attributable to the exercise of warrants and stock options during the period. This was partially offset by $3.9 million of borrowings repaid on the CDN$4 million balance of Note B in January of this year.

**SELECTED BALANCE SHEET ITEMS**

***Accounts receivable***

Accounts receivable primarily represents interest receivables, goods and services tax refund from relevant government authorities, listing expense receivable, and other receivables such as employee travel advances. We did not record any trade receivables from the sale of our gold dore bars to CNG as CNG pays an estimate sale price within two days before delivery. The estimate sale price is calculated on the basis of the estimated weight of gold and silver contained in the gold dore bars we sell. The final sale price is settled when the parties finalize the weight of gold and silver contained in the gold dore bars in accordance with the weighing and sampling procedures specified in the sale agreement.

Accounts receivable increased by $388,000 from $1.7 million as of December 31, 2009 to $2.1 million as of June 30, 2010, primarily due to an increase of listing expense receivable of $564,000, based on a cost sharing agreement with the owners of the Jiama property, and a decrease in the repayment of an amount due from shareholder of $216,000. The listing expenses included professional expenses incurred for a proposed Asian stock exchange listing.

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

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Less than 1 month | **102,974** | 65,167 |
| 1 to 3 months | **1,967,224** | 1,270,276 |
| Over 6 months | **-** | 346,437 |
| Total accounts receivable | **2,070,198** | 1,681,880 |

Our trade receivable turnover days for the six month period ended June 30, 2010 and for the year ended December 31, 2009 were zero because we did not have trade receivables relating to sales of our gold.

***Prepaid expenses and deposits***

Prepaid expenses and deposits primarily consist of CSH Mine construction deposits paid to third-party contractors, deposits for supplies and services for mining operations at the CSH Mine, rent deposits for our corporate offices, deposits to suppliers for purchase of spare parts, insurance premium for future periods and resource tax prepaid to relevant PRC government.

As of June 30, 2010 and December 31, 2009, prepaid expenses and deposits were $1.6 million and $1.7 million, respectively. The reduction of $176,246 in prepaid expenses and deposits was primarily due a decrease in refundable construction deposits of $193,000, $91,000 in insurance, and $28,000 in deposits in spare parts, offset by an increase of $122,000 in deposits for mine supplies and services.

***Inventory***

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

Costs capitalized and included in mineral assets were mine operating costs netted off against proceeds received from sales of products prior to the commencement of commercial production on July 1, 2008. Costs of $20.4 million that were capitalized and included in mineral assets (as part of property, plant and equipment) upon commencement of commercial production in July were reclassified as and transferred to inventory.

Our inventory increased from $29.0 million as of December 31, 2009 to $45.9 million as of June 30, 2010. The extremely harsh winter slowed the leaching process down resulting in lower than normal recovery rates in the first quarter but warmed up in the second quarter. We increased the recovery rate used from 38.6% in the first quarter back to 43.0% in the second quarter. Approximately 6.9 million tonnes of ore was mined and placed on the leach pad in the first half of 2010, up from 3.2 million tonnes in the same six month period ended June 30, 2009. With the Crusher in place, the ore was crushed to a size smaller than 9 millimeters which is much smaller than the uncrushed ore place in the same period to June 2009. Inventory turnover days for the six months ended June 30, 2010 and for the year ended December 31, 2009 were 449 days and 188.5 days, respectively. These inventory turnover periods were primarily attributable to the amount of gold-in-process we had which was in turn primarily attributable to the nature of the heap leaching method we use at the CSH Mine. It generally requires a significant period of time (several years) from the time when ore is placed on leach pads to the time when gold is poured. A five year leaching kinetics has been developed by KD Engineering.

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

***Accounts payable and accrued expenses***

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

Accounts payable and accrued expenses increased from $35.1 million as of December 31, 2009 to $39.8 million as of June 30, 2010.

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

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Less than 1 month | **27,712,634** | 24,526,308 |
| 1 to 3 months | **4,190,226** | 1,444,774 |
| 3 to 6 months | **1,262,983** | 2,525,308 |
| Over 6 months | **6,602,502** | 6,576,214 |
| Total | **39,768,345** | 35,072,604 |

The accounts payable turnover days for the six months ended June 30, 2010 and the year ended December 31, 2009 are calculated based on accounts payable and accrued expenses as of the period end divided by the cost of sales for the period. The accounts payable turnover days for the six months ended June 30, 2010 and the year ended December 31, 2009 was 389 days and 228 days. The accounts payable turnover days were relatively long primarily attributable to the increase of unpaid amounts to Chinese governmental authorities whose amounts come due in one to twelve months after the period end, third-party mining contractors at CSH mine, and the listing services provided by third-party vendors.

***Warrant liabilities***

Warrant liabilities represented the fair value of the warrants that were outstanding as of the end of each reporting period. Warrants were granted primarily in connection with the promissory notes issued in December 2006 and June 2007, respectively, and a private placement of common shares in August 2006. For further information on the promissory notes, the private placement of common shares in August 2006 and the warrants granted in relation thereto, see note 18 of the annual audited consolidated financial statements.

Total warrant liabilities increased from $5.3 million as of December 31, 2009 to $nil as of June 30, 2010, primarily attributable to the fact that all the warrant liabilities have been exercised.

***Environmental rehabilitation***

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

The environmental rehabilitation was calculated as the net present value of estimated future net cash outflows of the reclamation and closure costs in a total amount of approximately $9.5 million discounted at 9.0% and 10.0% as of June 30, 2010 and December 31, 2009, respectively. The accretion incurred in connection with the environment rehabilitation represented interest expense calculated based on the foregoing discount rates and therefore it was recorded as part of the finance costs. Our environmental rehabilitation liabilities increased from $1.6 million as of December 31, 2009 to $2.0 million as of June 30, 2010, primarily attributable to the decrease of the discount rate from 10.0% to 9.0%.

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

***Net current assets / Net current liabilities***

We had net current assets of $12.9 million as of June 30, 2010 and net current liabilities of $9.5 million as of December 31, 2009, respectively.

## RELATED PARTY TRANSACTIONS

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

| | **June 30,** | December 31, |
|---|---|---|
| | **2010** | 2009 |
| | **%** | % |
| CNG | **39.30** | 40.30 |

In October 2008, the Company terminated its contract for the refining and purchase and sale of gold doré with a third-party refiner and entered into an equivalent agreement for the purchase and sale of gold doré with CNG, who is shipping the gold doré to a designated refiner in China. The agreement with CNG is on substantially the same terms as the original contract with the third-party refiner, but the Company has determined that this arrangement addresses delays in payment and counterparty risks being experienced under the contract with the third-party refiner.

The breakdown of the sales transactions of CNG is as follows:

| | **Three month period ended June 30,** | | **Six month period ended June 30,** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Gold sales | **24,006,825** | 17,128,779 | **34,505,793** | 24,814,768 |
| Silver sales (netted in cost of sales) | **-** | 97,748 | **401,759** | 135,058 |

The Group incurred the following interest expense with CNG. Interest expense has been recorded on the effective interest method. The interest relates to the term loan and the promissory note extension. Please refer to the following section on "Indebtedness" for more information.

| | **Three month period ended June 30,** | | **Six month period ended June 30,** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Interest | **664,034** | 193,050 | **1,484,730** | 371,763 |

During the year ended December 31, 2009, the Group entered into a letter of intent with Zhongjin Gold Corporation Limited, a subsidiary of CNG to dispose of its entire interest in Gansu Pacific, the subsidiary that holds Dadiangou project. In May, an agreement was signed. The transaction has not yet been completed. See the "Overview" above for further details.

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

***Related party balances***

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

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Assets | | |
| Amount receivable from CNG | **130,624** | 346,437 |
| Listing expense receivable from CNG's subsidiary | **1,544,558** | 1,184,911 |
| Prepaid expenses to CNG's subsidiary | **295,839** | 283,451 |
| Total related party assets | **1,971,021** | 1,814,799 |

The accounts receivable from CNG arose from sales of gold to CNG. There is no credit period.

Listing expense receivable is from Skyland Mining Limited ("Skyland"), CNG's subsidiary and accounts receivable from CNG are included in accounts receivable and prepaid expenses to CNG's subsidiary are included in prepaid expenses and deposits in the condensed consolidated statement of financial position.

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

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Liabilities | | |
| Interest payable to CNG | **-** | 166,667 |
| Accounts payable to CNG 's subsidiaries | **68,528** | 109,391 |
| Total related party liabilities | **68,528** | 276,058 |

***Key management personnel***

| | **Three month period ended June 30,** | | **Six month period ended June 30,** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Salaries and other benefits | **159,710** | 177,638 | **278,039** | 344,087 |
| Post employment benefits | **-** | 3,531 | **4,156** | 10,935 |
| | **159,710** | 181,169 | **282,195** | 355,022 |

## INDEBTEDNESS

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

| | Effective interest rate | Maturity | June 30, 2010 | December 31, 2009 |
|---|---|---|---|---|
| | % | | **$** | $ |
| Current | | | | |
| Current portion of long-term loan - ABC(ii) | 5.184 | September 9, 2014 | **1,469,098** | 1,458,619 |
| Notes payable (i) | 12.00 | June 26, 2011 | **7,044,900** | 10,633,386 |
| | | | **8,513,998** | 12,092,005 |
| Non-current | | | | |
| Long-term loan - ABC (ii) | 5.184 | September 9, 2014 | **41,134,730** | 40,841,331 |
| Long-term loan - CNG (iii) | 6.00 | December 6, 2011 | **40,000,000** | 40,000,000 |
| | | | **81,134,730** | 80,841,331 |
| | | | **89,648,728** | 92,933,336 |

On December 14, 2006, and June 26, 2007 private placement offerings were completed of senior unsecured promissory notes in the principal amount of CDN$30.0 million ($25.9 million)( Note A ) and CDN$12.5 million ($18.7 million) (Note B) and CDN$7.5 million (Note C) with interest at 12% per annum payable quarterly along with 6,000,000 and 4,000,000 warrants which entitled the holder to purchase one Share at an exercise price of CDN$1.60 per Share and CDN$2.50 per Share, respectively. We fully repaid Note A on December 14, 2009 and redeemed Note B January 11, 2010 in Canadian dollars. We exercised on early expiry dates for the warrants on March 18, 2010 and April 16, 2010, respectively. Note C, originally due June 26, 2010, was extended to June 26, 2011 under the same terms. The effective interest rate on Notes A and B was 19.5%. The effective interest rate on Note C was originally 17.7%. The effective interest rate on the extension of Note C is now the same as its annual rate of 12% with interest of $225,000 payable quarterly.

***(ii)Loan from the Agricultural Bank of China***

In September 2009, the CSH CJV received an unsecured bank loan in the principal amount of RMB290.0 million ($42.6 million) from the Agricultural Bank of China. China National Gold provided a guarantee for the loan. The loan is repayable within five years from the date of the first draw-down. The annual interest rate for the term loan is currently 5.184% with interest of $175,000 payable monthly.

***(iii)Shareholder's loan from China National Gold***

In December 2009, we received an unsecured non-revolving shareholder's loan from China National Gold Hong Kong in the principal amount of $40 million. The loan bears interest (payable on a quarterly basis) at an annual rate of 6% and matures in December 2011. The proceeds of the loan have partially been used to redeem Series A Notes due on December 14, 2009. We used the remaining amount of the proceeds to prepay Series B Notes in their entirety on January 11, 2010. The annual interest rate for the term loan is 6% with interest of $600,000 payable quarterly.

***Restrictive covenants***

We are subject to various customary conditions and covenants under the terms of our financing agreements. For example, under the indenture for the outstanding Series C Notes held by CNG, we are required to obtain note holder's consents prior to carrying out certain activities and entering into certain transactions, including but not limited to (i) incurring additional debt; (ii) creating additional charges on our assets; (iii) making guarantee in favor of any third party; (iv) dispose of material assets other than to an arm's length third party on arm's length commercial terms; (v) entering into commercial arrangements with any non-arm's length third party unless the arrangements are entered into in good faith and on arm's length commercial terms; (vi) changing the character of our main business; and (v) distributing dividends. We intend to repay the Series C Notes in full on June 26, 2011.

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

**Commitments and contingencies**

***Operating leases***

We have leased certain properties in China and Canada. All the leases are under operating lease arrangements and the leases are negotiated for an average term of three to five years. We are generally required to prepay certain amount of rental/ leasing fees under the terms of these leases.

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

| | **June 30,** | December 31, |
|---|---|---|
| | **2010** | 2009 |
| | **$** | $ |
| Operating leases | **457,847** | 486,789 |

***Capital commitments***

Our capital commitments related primarily to payments for purchase of equipment and machinery for the CSH Mine, the payments to Brigade 217, our joint venture partners for the CSH Joint Venture ("JV"), and payments to third-party contractors for provision of mining and exploration engineering work and mine construction work for the CSH Mine. We have entered into contracts that prescribed such capital commitments, but have not included them in our condensed consolidated financial statements.

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

The following table sets forth our capital commitments in respect of acquisition of property, plant and equipment for the CSH Mine and payments to our joint venture partners as of the dates indicated:

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for | **1,291,654** | 10,465,453 |

In addition to the table set forth above, we entered into service agreements with third-party contractors such as China Railway and China Metallurgical for the provision of mining and exploration engineering work and mine construction work for the CSH Mine. The amount of fees for such work performed and to be performed each year varies depending on the amount of work performed. For the six months ended June 30, 2010 and the year ended December 31, 2009, aggregate fees paid to third-party contractors amounted to approximately $21.3 million and $42.3 million, respectively.

The following table details the Company's contractual obligations as of June 30, 2010:

| | | Payments Due By Year | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **2010** | **2011** | **2012** | **2013** | **2014** | **Thereafter** |
| Principal repayment on notes payable | **$ 7,044,899** | $ - | $ 7,044,899 | $ - | $ - | $ - | $ - |
| Principal repayment on CNG term loan | **40,000,000** | - | 40,000,000 | - | - | - | - |
| Principal repayment on ABC term loan | **42,603,829** | - | 1,469,098 | 1,469,098 | 8,814,585 | 17,629,170 | 13,221,878 |
| Operating leases (a) | **457,847** | 47,131 | 94,263 | 96,788 | 97,629 | 97,629 | 24,407 |
| Capital commitments (b) | **1,291,654** | 1,291,654 | - | - | - | - | - |
| Total | **$ 91,398,229** | **$ 1,338,785** | **$ 48,608,260** | **$ 1,565,886** | **$ 8,912,214** | **$ 17,726,799** | **$ 13,246,285** |

(a) Operating leases are primarily for premises.
(b) Capital commitments relate to contracts signed for the construction of and equipment supply for the leach pad and plant expansion for the CSH Gold Mine.

## Quantitative and Qualitative Disclosures about Market Risks

### *Currency risk*

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

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a decrease in the Company's loss before tax/increase in loss before tax of approximately $285,000 for the six month period ended June 30, 2010, and an increase in the Company's profit before tax/decrease in profit before tax of approximately $4,221,000 for the six month period ended June 30, 2009.

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in a decrease in the Company's loss before tax/increase in loss before tax of approximately $5,782,000 for the six month period ended June 30, 2010 and an increase in the Company's loss before tax/decrease in loss before tax of approximately $4,916,000 for the six month period ended June 30, 2009.

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

***Credit risk***

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

Our cash and short-term bank deposits are deposited in large Chinese and Canadian banks. These investments mature at various dates within three months. We do not have any asset backed commercial paper in our short-term bank deposits. Our accounts receivable consists of listing expense receivable from CNG's subsidiary, Skyland, and amounts receivable from CNG for silver sales for which we have not concluded on selling at the present price, as well as goods and services tax refunds due from the Federal Government of Canada, all of which are outstanding for 180 days or less We had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in the PRC or Canada.

Our maximum exposure to credit risk is as follows:

| | **June 30, 2010** | December 31, 2009 |
|---|---|---|
| | **$** | $ |
| Bank balances | **16,331,252** | 23,984,660 |
| Restricted cash | **10,756,703** | - |
| Accounts receivable | **2,070,198** | 1,681,880 |
| Long-term receivable | **24,252** | 49,689 |
| | **29,182,405** | 25,716,229 |

***Liquidity risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk through the management of our capital structure and financial leverage.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that we will realize a loss as a result of a decline in the interest rates relates to our variable rate bank balances, and the risk is limited because these balances are not material. Our short term bank deposits, notes payables and short-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations. The risk we will realize a loss as a result of a decline in the interest rate relates to our variable interest rate bank balances. A 30 basis point higher or lower in the interest rate of our variable rate bank balances would result in a decrease or increase in our loss before income tax of approximately $24,000 and a decrease or increase in our income before income tax of approximately $11,000 for the six month period ended June 30, 2010 and 2009, respectively. We monitor interest rate exposure and will consider hedging significant interest rate explore should the need arises.

***Share price risk***

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

If our Share price on the Toronto Stock Exchange had been 50% higher or lower at June 30, 2009 and all other variables remain constant, our loss before income tax would increase / decrease by $1.5 million/ $1.1 million for the six month period ended June 30, 2009. As the warrants have been fully exercised as of June 30, 2010, no sensitivity analysis is needed.

## OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2009, we had not entered into any material off-balance sheet arrangements.

## DIVIDEND AND DIVIDEND POLICY

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

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

A dividend may be paid wholly or partly by the distribution of cash, specific assets 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.

In addition, we are subject to various customary conditions and covenants under the terms of our financing agreements, including those restricting our ability to declare and distribute dividends. Under the indenture for the outstanding Series C Notes held by China National Gold, we are required to obtain China National Gold's consent prior to distributing dividends. Therefore, prior to the repayment of the promissory notes in full, we will not be able to declare and distribute any dividends without the prior consent of China National Gold. We intend to repay such promissory notes in full.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's DC&P and ICFR as of June 30, 2010 and, in accordance with the requirements established under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of June 30, 2010 and have concluded that these controls and procedures have been designed to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls can provide absolute assurance that all control issues and instances of fraud will be detected. During the six month period ended June 30, 2010, there were no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## RISK FACTORS

*Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties described below and further outlined in our Annual Information Form dated March 31, 2010. The Company's principal operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks.*

**Fluctuations in the market prices of gold could materially and adversely affect China Gold International's business and results of operations.**

Substantially all of the Company's revenues and cash flows from operating activities are derived from the sale of gold doré bars. Historically, the market prices for gold has fluctuated widely and experienced periods of significant decline. Prices are influenced by numerous factors and events which are beyond the Company's control such as world demand and supply, forward selling activities, gold reserve movements at central banks, costs of production by other producers and other macro-economic factors such as expectations regarding inflation, interest rates, currency exchange rates (especially the strength of the U.S. dollar), as well as general global economic conditions and political trends. If market prices of gold and other nonferrous metals that China Gold International produces should fall due to these and other factors and events, China Gold International's business, results of operations and the price of the Common Shares could be materially and adversely affected.

**Failure to achieve production estimates could have a material adverse effect on future cash flow, results of operations and financial condition.**

Estimates of future production for mining operations are subject to change. The Company cannot give any assurance that it will achieve production estimates. Failure to achieve production estimates could have a material and adverse effect on future cash flow, results of operations and financial condition. The production estimates are based on, among other things, reserve estimates, assumptions regarding ground conditions and physical characteristics of ores (such as hardness and presence or absence of certain metallurgical characteristics) and estimated rates and costs of production. Actual production may vary from estimates for a variety of reasons, including risks and hazards of the types discussed elsewhere in this AIF, and as set out below:

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

Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property or the property of others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable. Estimates of production from properties not yet in production or from operations that are to be expanded are based on similar factors (including, in some instances, feasibility studies prepared by the Company's personnel and/or outside consultants), but it is possible that actual cash operating costs and economic returns will differ significantly from those currently estimated.

**China Gold International depends on the CSH Gold Project for substantially all revenue and cash flow from operating activities in the near term. Failure to obtain the expected economic benefits from this mine could materially and adversely affect the business, financial condition and results of operations.**

The Company's operations are exposed to uncertainties in relation to the CSH Gold Project, which is the Company's only operating mine at present. The Company contemplates the acquisition of additional producing mineral properties, including potentially the Jiama Project, but has not and may never complete any such acquisitions to diversify its operations. If the Company fails to derive the expected economic benefits from the CSH Gold Project due to a delay or difficulty encountered in the operation of the mine, an occurrence of any event that causes the mine to operate at less than optimal capacity or for other reasons, China Gold International's business, financial condition and results of operations could be materially and adversely affected.

**The interests of China Gold, China Gold International's controlling shareholder, may not be the same as, and may conflict, with those of other shareholders.**

China Gold holds approximately 40% of outstanding Common Shares, and holds a controlling interest in the Company. The interests of China Gold may conflict with those of other shareholders. As an example, China Gold holds a controlling interest in Zhongjin Gold Corporation, a public company whose shares are listed on the Shanghai Stock Exchange and whose principal scope of business includes the exploration, mining, processing smelting and refining of gold in the PRC. As the operations of Zhongjin Gold Corporation are substantially larger than those of the CSH Gold Project in terms of resources, annual gold production and revenue generated from the sale of gold, China Gold may, for business considerations or otherwise, take actions that favor itself or Zhongjin Gold Corporation instead of the interests of the shareholders of China Gold International. China Gold may exercise its influence over China Gold International as a controlling shareholder in manners inconsistent with the best interests of the other shareholders. If that occurs, the Company may lose some of its competitive advantages and its business and results of operations may be materially and adversely affected.

**Reserve and resource estimates are based on assumptions which may prove to be inaccurate, and China Gold International may produce less minerals than the current estimates.**

Ore reserves and mineral resources estimates are based on a number of assumptions. If those assumptions prove inaccurate, the Company may need to lower ore reserves and mineral resources. The accuracy of estimates is a function of the quantity and quality of available data and the assumptions made and judgments used in engineering and geological interpretation, which may prove to be unreliable. There is no assurance that estimates will prove accurate or that such mineral resources can be mined or processed profitably.

Estimates of resources and reserves may change significantly when new information becomes available or new factors arise, and interpretations and deductions on which resource and reserve estimates are based may prove to be inaccurate. Resource estimates indicate in-situ mineral occurrences from which valuable or useful minerals may be recovered, but do not take into account whether such resources could be mined or whether valuable or useful minerals could be recovered economically from them, nor do resource estimates incorporate mining dilution or allow for mining losses. China Gold International's reserve estimates represent the amount of minerals that it believes can be mined and processed, based on the selling price that is not lower than the total estimated costs of production and anticipated additional capital expenditures, and are calculated based on estimates of future production costs and metal prices. In the future the Company may need to revise reserve estimates, if, for instance, production costs increase or the sales prices to metals produced decrease and as a result a portion or all of the mineral reserves may become uneconomical to recover.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can or will be economically exploited or recovered.

**China Gold International may not be able to obtain further financing to fund the expansion and development of its business.**

The Company is in a capital-intensive industry and has relied on a mixture of equity capital and debt financing to fund operations. China Gold International also has outstanding a number of debt obligations that may need to be finalized on or prior to maturity depending on future cash flow, including Cdn$7.5 million of promissory notes due in June 2011 owing to China Gold. China Gold International has previously funded capital expenditures primarily by the issuance of equity and debt securities and credit facilities. In the future, China Gold International expects to use cash generated from operations, and potentially further financing, if required, to meet its business growth objectives and payment obligations, including further development of existing exploration, mining and processing operations, development of new properties and future acquisitions. Any required additional funding may be sought through the debt and equity markets or through project participation arrangements with third parties, but there is no assurance that China Gold International will be able to obtain sufficient funding or obtain funding at all when it is required and that such additional funding will be available on commercially acceptable terms. If any such additional funding is obtained, it may be on terms that are highly dilutive or otherwise adverse to its existing stockholders. Failure to obtain the funding or obtain the funding on commercially acceptable terms that the Company needs when it is required could have material and adverse effect on its business and results of operations.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As of June 30, 2010, 171,824,459 common shares were issued and outstanding and 1,200,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 173,024,459 common shares were outstanding.

As of August 16, 2010, 171,854,459 common shares were issued and outstanding and 1,160,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 173,014,459 common shares were outstanding.

## QUALIFIED PERSON

Dr. Qingping Deng, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to the CSH Gold Mine in this MD&A.

August 16, 2010