**CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.**

**中 國 黃 金 國 際 資 源 有 限 公 司**

*(a company incorporated under the laws of British Columbia, Canada with limited liability)*

(Hong Kong Stock code: 2099)

(Toronto Stock code: CGG)

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2011

## FINANCIAL HIGHLIGHTS

| | 2011 | 2010 |
|---|---|---|
| | For the six months ended June 30, | |
| | US$ | US$ |
| Revenues | 128,361,468 | 37,679,906 |
| Net income | 30,923,351 | 784,737 |
| Basic earnings per share | 0.0759 | 0.0027 |
| Diluted earnings per share | 0.0759 | 0.0027 |
| Net cash flows from (used in) operations | 18,474,568 | (14,255,418) |
| Property, plant and equipment | 321,481,326 | 117,876,668 |
| Property, plant and equipment capital expenditures | 28,195,846 | 9,294,368 |
| Cash and cash equivalents | 339,894,093 | 16,331,252 |
| Working capital | 260,480,250 | 12,870,977 |

## RESULTS

The board (the "Board") of directors (the "Directors") of China Gold International Resources Corp. Ltd. (the "Company" together with its subsidiaries, referred hereto as the "Group") is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2011 with comparative figures for the comparable period in 2010, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2011

| | NOTES | Three months ended June 30, 2011 US$ | Three months ended June 30, 2010 US$ | Six months ended June 30, 2011 US$ | Six months ended June 30, 2010 US$ |
|---|---|---|---|---|---|
| Revenues | | 92,937,971 | 27,180,938 | 128,361,468 | 37,679,906 |
| Cost of sales | | (52,519,246) | (13,330,466) | (76,106,001) | (18,638,434) |
| Mine operating earnings | | 40,418,725 | 13,850,472 | 52,255,467 | 19,041,472 |
| Expenses | | | | | |
| General and administrative | | 5,216,800 | 1,170,560 | 9,153,315 | 2,116,293 |
| Exploration and evaluation expenditure | | 70,021 | 70,033 | 134,004 | 93,477 |
| | | 5,286,821 | 1,240,593 | 9,287,319 | 2,209,770 |
| Income from operations | | 35,131,904 | 12,609,879 | 42,968,148 | 16,831,702 |
| Other income (expense) | | | | | |
| Foreign exchange gain (loss) | | 397,324 | (871,603) | 431,736 | (253,306) |
| Interest and other income | | 2,065,384 | 1,885 | 2,149,693 | 1,885 |
| Gain on disposal of subsidiaries | | - | 20,000 | - | 20,000 |
| Listing expenses | | - | (1,193,536) | - | (1,544,558) |
| Finance costs | | (2,881,656) | (1,488,645) | (5,393,030) | (2,228,167) |
| Fair value change on warrant liabilities | | - | (873,150) | - | (7,155,807) |
| | | (418,948) | (4,405,049) | (2,811,601) | (11,159,953) |
| Income before income tax | | 34,712,956 | 8,204,830 | 40,156,547 | 5,671,749 |
| Income tax expense | | (7,292,539) | (3,235,113) | (9,233,196) | (4,887,012) |
| Net income for the period | | 27,420,417 | 4,969,717 | 30,923,351 | 784,737 |
| Other comprehensive income for the period | | | | | |
| Exchange difference arising on translation | | 23,770 | - | 482,596 | - |
| Total comprehensive income for the period | | 27,444,187 | 4,969,717 | 31,405,947 | 784,737 |
| Profit for the period attributable to | | | | | |
| Non-controlling interests | | 568,599 | 142,017 | 842,848 | 323,702 |
| Owners of the Company | | 26,851,818 | 4,827,700 | 30,080,503 | 461,035 |
| | | 27,420,417 | 4,969,717 | 30,923,351 | 784,737 |
| Total comprehensive income (expense) for the period attributable to | | | | | |
| Non-controlling interests | | 568,599 | 142,017 | 842,848 | 323,702 |
| Owners of the Company | | 26,875,588 | 4,827,700 | 30,563,099 | 461,035 |
| | | 27,444,187 | 4,969,717 | 31,405,947 | 784,737 |
| Basic earnings per share | | 6.78 cents | 2.82 cents | 7.59 cents | 0.27 cents |
| Diluted earnings per share | | 6.78 cents | 2.82 cents | 7.59 cents | 0.27 cents |
| Basic weighted average number of common shares outstanding | | 396,144,554 | 171,045,437 | 396,143,176 | 169,511,321 |
| Diluted weighted average number of common shares outstanding | | 396,321,383 | 171,521,595 | 396,339,577 | 169,937,452 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2011

| | NOTES | June 30, 2011 US$ | December 31, 2010 US$ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 339,894,093 | 301,608,717 |
| Restricted cash | | 6,856,833 | 6,725,129 |
| Accounts receivable | | 15,683,131 | 9,050,490 |
| Prepaid expenses and deposits | | 12,977,369 | 3,418,499 |
| Prepaid lease payments | | 139,570 | 137,808 |
| Inventory | | 30,898,552 | 34,154,278 |
| | | 406,449,548 | 355,094,921 |
| Assets classified as held for sale | | 53,163 | 54,696 |
| | | 406,502,711 | 355,149,617 |
| **Non-current assets** | | | |
| Prepaid expense and deposits | | 2,900,491 | 2,395,882 |
| Prepaid lease payments | | 6,693,278 | 6,634,081 |
| Amount due from a non-controlling shareholder | | 404,382 | 419,768 |
| Inventory | | 16,705,764 | 17,838,819 |
| Property, plant and equipment | | 321,481,326 | 297,901,855 |
| Intangible assets | | 970,278,360 | 975,282,711 |
| | | 1,318,463,601 | 1,300,473,116 |
| **Total assets** | | 1,724,966,312 | 1,655,622,733 |
| **Current liabilities** | | | |
| Accounts payable and accrued expenses | | 79,327,652 | 90,836,277 |
| Borrowings | | 60,542,324 | 31,861,146 |
| Tax liabilities | | 6,151,945 | 7,631,847 |
| | | 146,021,921 | 130,329,270 |
| Liabilities classified as held for sale | | 540 | 24,189 |
| | | 146,022,461 | 130,353,459 |
| **Net current assets** | | 260,480,250 | 224,796,158 |
| **Total assets less current liabilities** | | 1,578,943,851 | 1,525,269,274 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2011

| | June 30, 2011 US$ | December 31, 2010 US$ |
|---|---|---|
| **Non-current liabilities** | | |
| Deferred lease inducement | 126,364 | 143,213 |
| Borrowings | 203,376,728 | 180,785,118 |
| Deferred tax liabilities | 137,769,858 | 138,310,971 |
| Deferred income | 785,184 | 712,610 |
| Environmental rehabilitation | 1,846,955 | 1,887,923 |
| | 343,905,089 | 321,839,835 |
| **Total liabilities** | 489,927,550 | 452,193,294 |
| **Owners' equity** | | |
| Share capital | 1,228,183,687 | 1,228,098,150 |
| Equity reserves | 11,997,465 | 11,397,030 |
| Deficits | (9,165,997) | (39,246,500) |
| | 1,231,015,115 | 1,200,248,680 |
| Non-controlling interests | 4,023,607 | 3,180,759 |
| **Total owners' equity** | 1,235,038,762 | 1,203,429,439 |
| **Total liabilities and owners' equity** | 1,724,966,312 | 1,655,622,733 |

## Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2011 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2010.

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

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

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in those condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended December 31, 2010 were authorised for issuance and are not yet effective:

| | |
|---|---|
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosures of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[1] |
| IAS 19 (as revised in 2011) | Employee Benefits[2] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |

[1] Effective for annual periods beginning on or after July 1, 2012
[2] Effective for annual periods beginning on or after January 1, 2013

The directors of the Company anticipate that the application of the above new or revised standards will have no material impact on the results and the financial position of the Group.

2. SIGNIFICANT ACCOUNTING ESTIMATES

In the current interim period, the Group has the following changes in significant accounting estimates:

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 the management of the Group (the "Management"). As a result, the Management has increased the recovery rate used in its inventory model from 43% to 48.8% during the three months ended March 31, 2011. For the three months ended June 30, 2011, the Management has continued to use 48.8% as the recovery rate. The inventory balance was increased by approximately US$2,169,000 as at June 30, 2011.

3. SEGMENT INFORMATION

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

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

Following to completion of acquisition of the Skyland Group in December 2010, the CODM regularly reviews the following operations, the operating segments of the Group under IFRS 8:

(i) The mine-produced gold segment - the production of gold bullion through the Group's integrated processes, i.e., mining, extraction, production and selling of gold ore to external clients through it subsidiary, Inner Mongolia Pacific Mining Co. Ltd.

(ii) The mine-produced copper segment - the production of copper multi products and other by-products.

Information regarding the above segments is reported below.

(a) Segment revenues and results

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

For the six months ended June 30, 2011

| | Mine-produced gold US$ | Mine-produced copper US$ | Segment total and consolidated US$ |
|---|---|---|---|
| REVENUE - EXTERNAL | 81,999,296 | 46,362,172 | 128,361,468 |
| SEGMENT PROFIT | 36,825,354 | 15,430,113 | 52,255,467 |
| General and administrative | | | (9,153,315) |
| Exploration and evaluation expenditure | | | (134,004) |
| Foreign exchange gain | | | 431,736 |
| Interest and other income | | | 2,149,693 |
| Finance costs | | | (5,393,030) |
| Profit before income tax | | | 40,156,547 |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents gross profit of each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment after the acquisition of the Skyland Group.

For the six months ended June 30, 2010, the Group had one operating segment of mine-produced gold and the relevant information was set out in the condensed consolidated statement of comprehensive income.

(b) Segment assets and liabilities

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

| Segment assets | June 30, 2011 US$ | December 31, 2010 US$ |
|---|---|---|
| Mine-produced gold | 177,932,772 | 174,669,469 |
| Mine-produced copper | 1,191,918,439 | 1,164,270,352 |
| Total segment assets | 1,369,851,211 | 1,338,939,821 |
| Assets classified as held-for-sale | 53,163 | 54,696 |
| Cash and cash equivalents | 339,894,093 | 301,608,717 |
| Restricted cash | 6,856,833 | 6,725,129 |
| Other receivables | 7,949,244 | 7,737,500 |
| Prepaid expenses and deposits | 204,443 | 354,089 |
| Property, plant and equipment | 157,325 | 202,781 |
| Consolidated assets | 1,724,966,312 | 1,655,622,733 |

| Segment liabilities | June 30, 2011 US$ | December 31, 2010 US$ |
|---|---|---|
| Mine-produced gold | 34,042,562 | 33,832,667 |
| Mine-produced copper | 44,508,641 | 52,949,165 |
| Total segment liabilities | 78,551,203 | 86,781,832 |
| Liabilities classified as held-for-sale | 540 | 24,189 |
| Other payables and accrued expenses | 9,560,533 | 14,286,825 |
| Borrowings | 263,919,052 | 212,646,264 |
| Deferred lease inducement | 126,364 | 143,213 |
| Deferred tax liabilities | 137,769,858 | 138,310,971 |
| Consolidated liabilities | 489,927,550 | 452,193,294 |

(c) Other segment information

| | Six months ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| | Mine-produced gold US$ | Mine-produced copper US$ | Segment total US$ | Unallocated US$ | Total US$ |
| *Amount included in the measure of segment profit or loss or segment assets* | | | | | |
| Additions of property, plant and equipment | 11,013,150 | 17,183,713 | 28,196,863 | - | 28,196,863 |
| Depreciation of property, plant and equipment | 5,928,206 | 3,429,426 | 9,357,632 | 37,864 | 9,395,496 |
| Amortization of intangible assets | - | 6,094,976 | 6,094,976 | - | 6,094,976 |
| Release of prepaid lease payment | - | 80,355 | 80,355 | - | 80,355 |
| Gain on disposal of property, plant and equipment | (19,398) | - | (19,398) | - | (19,398) |

For the six months ended June 30, 2010, the Group had one operating segment and relevant information was set out in the relevant notes to the condensed consolidated financial statements.

(d) Geographical information

The Group operated in two geographical areas, Canada and the PRC. The Group's corporate division located in Canada only earns revenues that are considered incidental to the activities of the Group and therefore does not meet the definition of an operating segment as defined in IFRS 8, *Operating Segments*. During the three and six months ended June 30, 2011, the Group's revenue was generated from gold sales and copper multi products (three and six months ended June 30, 2010: gold sales) to customers in the PRC.

(e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

| | Six months ended June 30, | |
|---|---|---|
| | 2011 US$ | 2010 US$ |
| Revenue from customers attributable to gold sales - CNG | 76,847,866 | 34,505,793 |

The Group sells approximately 93.7% of its gold to one creditworthy customer, CNG who is also the Group's substantial shareholder for the six months ended June 30, 2011 (91.6% for the six months ended June 30, 2010), respectively. The sales to CNG do not constitute economic dependence for the Group as there are other customers in the PRC to whom gold can be sold.

## 4. INCOME TAX EXPENSE

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which is calculated at 26.5% of the estimated assessable profit for the six months ended June 30, 2011 (28.5% for the six months ended June 30, 2010). The Company and its subsidiaries in Canada had no assessable profit for the six months ended June 30, 2011 (three and six months ended June 30, 2010: nil).

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, 2011, 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, 2010) except for 墨竹工卡縣甲瑪工貿有限公司 ("Jiama Industry and Trade") established in the westward development area of PRC and is subject to preferential tax rate of 15% of taxable income. Income tax expense for the three and six months ended June 30, 2011 represents PRC Enterprise Income Tax of US$8,042,064 and US$9,774,309 (US$2,317,698 and US$2,700,566 for the three and six months ended June 30, 2010), respectively and deferred tax credits of US$749,525 and US$541,113, respectively (deferred tax expenses of US$917,415 and US$2,186,446 for the three and six months ended June 30, 2010).

## 5. EARNINGS PER SHARE

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Income attributable to owners of the Company for the purposes of basic and diluted earnings per share (US$) | 26,851,818 | 4,827,700 | 30,080,503 | 461,035 |
| Weighted average number of shares, basic | 396,144,554 | 171,045,437 | 396,143,176 | 169,511,321 |
| Dilutive securities - Options | 176,829 | 476,158 | 196,401 | 426,131 |
| Weighted average number of shares, diluted | 396,321,383 | 171,521,595 | 396,339,577 | 169,937,452 |
| Basic earnings per share | 6.78 cents | 2.82 cents | 7.59 cents | 0.27 cents |
| Diluted earnings per share | 6.78 cents | 2.82 cents | 7.59 cents | 0.27 cents |

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.

6. DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2011 and 2010.

7. INVENTORY

| | June 30, 2011 US$ | December 31, 2010 US$ |
|---|---|---|
| Gold in process | 30,970,840 | 34,391,977 |
| Gold doré bars | 9,415,309 | 9,044,958 |
| Consumables | 2,270,415 | 3,616,043 |
| Copper concentrates | 1,318,906 | 2,608,811 |
| Spare parts | 3,628,846 | 2,331,308 |
| Total inventory | 47,604,316 | 51,993,097 |
| Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets) | (16,705,764) | (17,838,819) |
| Amounts shown under current assets | 30,898,552 | 34,154,278 |

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

Inventory totaling US$52,519,246 and US$76,106,001 for the three and six months ended June 30, 2011 (US$13,330,466 and US$18,638,434 for the three and six months ended June 30, 2010) was recognized in cost of sales.

8. INTANGIBLE ASSETS

| | Mining rights US$ |
|---|---|
| COST | |
| At January 1, 2010 | - |
| Acquired on acquisition of subsidiaries (Note) | 976,092,004 |
| Exchange realignment | 374,486 |
| At December 31, 2010 | 976,466,490 |
| Exchange realignment | 1,095,375 |
| At June 30, 2011 | 977,561,865 |
| ACCUMULATED AMORTIZATION | |
| At January 1, 2010 | - |
| Additions | (1,182,643) |
| Exchange realignment | (1,136) |
| At December 31, 2010 | (1,183,779) |
| Additions | (6,094,976) |
| Exchange realignment | (4,750) |
| At June 30, 2011 | (7,283,505) |
| CARRYING VALUE | |
| At December 31, 2010 | 975,282,711 |
| At June 30, 2011 | 970,278,360 |

Note:

In relation to the purchase price adjustment provision included in the share purchase agreement dated August 30, 2010 entered into among China National Gold Group Hong Kong Limited, Rapid Results Investments Ltd. (collectively referred to the "Vendors") and the Company as disclosed in the Group's annual consolidated financial statements for the year ended December 31, 2010, the Company and the Vendors have reached agreement in respect of the calculation of the purchase price adjustment during the six months ended June 30, 2011. The purchase price adjustment of approximately US$2,656,000 was waived by the Company and the Vendors are not required to return the proportional common shares issued by the Company.

The number of consideration shares and the fair value of purchase consideration for the acquisition of Skyland Group, and the fair value of intangible assets acquired (and related tax effect) as disclosed in the Group's annual consolidated financial statement for the year ended December 31, 2010 are then determined to be finalized without making any adjustments during the six months ended June 30, 2011.

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

Amortization on mining rights acquired is provided to write off the cost of the mining rights using the unit-of-production method based on the actual production volume over the estimated total proven and probable reserves of the mines when the production level intended by Management has been reached.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

### THE COMPANY

China Gold International, previously known as Jinshan Gold Mines Inc., is a gold and base metal mining company based in Vancouver, Canada.

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

The Company is also involved in the acquisition, exploration, and development of gold and base metals properties.

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

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

***Performance Highlights***

- Gold production from the CSH Mine increased by 52.7% from 36,187 ounces in the six months ended June 30, 2010 to 55,259 ounces in the six months ended June 30, 2011.

- Gold sales from the CSH Mine increased by 114.9% and 117.6% from US$27.2 million and US$37.7 million in the three and six months ended June 30, 2010, to US$58.4 million and US$82.0 million in the three and six months ended June 30, 2011, with 56,190 ounces of gold sold at an average price of US$1,459 per ounce in the six months ended June 30, 2011. Net income from the CSH Mine contributed US$28.9 million to the Company's net income of US$30.9 million.

- During the three and six months ended June 30, 2011, the Jiama Mine has produced 2,813 tonnes (6,201,664 pounds) and 4,180 tonnes (9,215,380 pounds) of copper in copper concentrate.

| | | Three months ended June 30 | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| Gold production - CSH | (ounces) | **37,519** | 23,716 | **55,259** | 36,187 |
| Gold production - Jiama | (ounces) | **1,821** | N/A | **2,644** | N/A |
| Total gold production | (ounces) | **39,340** | 23,716 | **57,903** | 36,187 |

| | | | | | |
|---|---|---|---|---|---|
| Total copper concentrate production - Jiama | (tonnes) | **2,813** | N/A | **4,180** | N/A |
| | (pounds) | **6,201,664** | N/A | **9,215,380** | N/A |

| | | | | | |
|---|---|---|---|---|---|
| Total silver production - Jiama | (ounces) | **218,022** | N/A | **333,526** | N/A |

| | Three months ended June 30, 2011 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | (US$ except per share) | | | |
| Net income | **27.4 Million** | 5.0 Million | **30.9 Million** | 0.8 Million |
| Basic income per share (cents) | **6.78** | 2.82 | **7.59** | 0.27 |
| Net cash flows from (used in) operations | **36.4 Million** | ( 1.8) Million | **18.5 Million** | ( 14.3) Million |
| Property, plant and equipment capital expenditures | **7.9 Million **** | 7.8 Million | **28.2 Million** | 9.3 Million |

| | Balance, June 30, 2011 US$ | Balance, June 30, 2010 US$ |
|---|---|---|
| Cash and cash equivalents | **339.9 Million** | 16.3 Million |
| Working capital * | **260.5 Million** | 12.9 Million |

*Working capital consists of current assets less current liabilities

**Exclude deposit paid for acquisition of property, plant and equipment of US$3.2 million, which resulted net payment for acquisition of property, plant and equipment of US$4.7 million in the second quarter of 2011

### *Outlook*

- For 2011, the Company has budgeted annual production of approximately 125,000 ounces of gold for the CSH Mine. At the end of the second quarter, the CSH Mine has produced 55,259 ounces of gold.

- For 2011, the Company has budgeted annual processing of 1.5 million tonnes of ore for the Jiama Mine. At the end of the second quarter, the Jiama Mine processed 697,134 tonnes of ore.

- At the CSH Mine, a two year 58,000 metre (110 holes) drilling program has been planned to fully evaluate the mine's potential for gold mineralization, both down depth and surrounding the mining permit area, in response to the success of its initial diamond drilling in 2010 when eight holes (4,187 metres), intercepted mineralization at depth below the open pit for six holes and discovered anomalous gold values in two holes drilled to test for the surface trenching intercepts adjacent to the open pit.

- At the Jiama Mine, the Company is now conducting a feasibility study and reserve analysis with a view to increasing the scale of the Phase II expansion of the Jiama Mine's operations. This process is expected to culminate in an updated feasibility study, which is anticipated to be completed in the second half of 2011.

- An aggressive three year exploration program has also been planned for the Jiama Mine to delineate the scale of a potential gold deposit, expand and upgrade the resources, and investigate the porphyry copper-molybdenum mineralization both down depth and along the strike. The program plan consists of 31,200 metres of drilling with a total of 56 diamond drilling holes in three phases, within a budget of US$5.6 million.

- The Company will continue to leverage upon China National Gold Group's ("CNG"), the Company's controlling shareholder, technical and operating experiences in China to improve operations at the CSH Gold Mine and the Jiama Mine. In addition, the Company continues to focus its efforts on increasing and optimizing production while minimizing costs.

- To fulfill its growth strategy, the Company is continually working with CNG to identify potential international mining opportunities, namely projects outside of China, that can be readily and quickly brought into production for further expansion through exploration. The Company is seeking projects outside of China in reliance on the non-compete undertaking executed by CNG in favor of the Company, under which CNG has undertaken not to compete with the Company for international projects and in return, the Company has undertaken to restrict its pursuit of additional mining projects in China.

## SIGNIFICANT ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 3 of the condensed interim consolidated financial statements.

## CHANGE IN ACCOUNTING POLICIES

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

## FORWARD LOOKING STATEMENTS

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

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

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

## HISTORICAL FINANCIAL INFORMATION

The condensed interim consolidated financial statements of the Company include the condensed interim consolidated financial statements of China Gold International and its subsidiaries (including operating subsidiaries, namely, the Chang Shan Hao Chinese Joint Venture ("CSH CJV") and the newly acquired Jiama Mine). The assets and liabilities of the Dadiangou CJV have been segregated and are presented as assets held for sale. The Company's financial statements are presented in U.S. dollars.

### *Principal Income Statement Components*

**Revenue** is derived from the principal product produced at the CSH Mine, which is gold doré bars and the principal product at the Jiama Mine, which is copper concentrate with gold credit.

The sales price of gold doré bars is primarily determined by spot gold prices in the market, with reference to prices on the Shanghai Gold Exchange. The sales price of copper concentrate is based on a sales contract which is primarily based on spot copper prices in the market, with reference to prices on the Shanghai Metal Exchange. The sales price for copper concentrate is then reduced by approximately 10% to cover the smelting cost of the contained copper value in the copper concentrate. Sales prices for gold doré bars and for copper concentrate historically correlate with international gold and copper prices, respectively.

The following table sets forth the monthly weighted average sales price (exempted from Value Added Tax "VAT" at 17%) for gold produced by the CSH Mine during 2010 and 2011:

| | Weighted average sales price (US$ per ounce) | | Weighted average sales price (US$ per ounce) |
|---|---|---|---|
| January 2010………………………………………………. | 1,090.6 | October 2010……………… | 1,297.9 |
| February 2010………………………………………………. | 1,115.9 | November 2010………………………………………………. | 1,343.2 |
| March 2010………………………………………………. | 1,108.4 | December 2010………………………………………………. | 1,248.1 |
| April 2010………………………………………………. | 1,097.9 | January 2011………………………………………………. | 1,335.6 |
| May 2010………………………………………………. | 1,178.6 | February 2011………………………………………………. | 1,426.9 |
| June 2010………………………………………………. | 1,215.5 | March 2011………………………………………………. | 1,431.9 |
| July 2010……………………… | 1,156.9 | April 2011………………………………………………. | 1,431.2 |
| August 2010……………………. | 1,224.3 | May 2011………………………………………………. | 1,524.2 |
| September 2010………… | 1,277.0 | June 2011………………………………………………. | 1,537.8 |

The following table sets forth the monthly weighted average sales price (including VAT at 17%) for copper concentrate produced by the Jiama Mine during 2010 and 2011 (no sales were made in the months where Nil appears):

| | Weighted average sales price (US$ per tonne) |
|---|---|
| December 2010………. | Nil |
| January 2011………… | Nil |
| February 2011………. | 9,989.2 |
| March 2011…………. | 9,794.8 |
| April 2011……………. | 9,843.5 |
| May 2011……………. | 8,932.8 |
| June 2011……………. | 9,058.8 |

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

Our production volume is primarily determined by ore grade, mining and processing capacity and metal recovery rates. Production volume at the CSH Mine is also adversely affected by the drop in temperature during the winter months as the leaching of gold slows. The average monthly commercial production volume at the CSH Mine for the three months ended June 30, 2011 was approximately 12,056 ounces compared to 7,905 ounces for the three months during 2010. The average monthly commercial production volume for the six months ended June 30, 2011 and 2010 was approximately 9,210 ounces and 6,301 ounces, respectively.

Production at the Jiama Mine commenced in September 2010. In May and June 2011, the mine was processing 6,000 tonnes of ore per day (tpd). The acquisition of the Jiama Mine was completed on December 1, 2010. The Company has been ramping up the production of copper concentrate month over month since the beginning of this year. The revenue generated at the Jiama Mine is expected to represent a substantial portion of the Company's revenue in future financial periods.

**Cost of sales** primarily includes mining costs (primarily fees paid to third-party contractors for the provision of mine construction work and mining services), ore processing costs (primarily costs of raw materials used in the production process such as chemicals and drip metres, labor and utilities costs), other mine operating costs (primarily administrative and management staff salaries, benefits and office expenses), taxes, depreciation and depletion. Historically, mining costs have been the largest component of the costs of production. Increases in depreciation and depletion expense due to additional capital expenditures will also increase the cost of sales.

Depreciation and depletion primarily consist of (i) depreciation of property, plant and equipment; and (ii) depletion of exploration expenditures incurred on sites within an existing mine or in areas within the boundary of a known mineral deposit which contain proven and probable reserves, provided that 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** primarily consists of administrative and management staff salaries, benefits and travel expenses of administrative and management staff of our head office in Canada and the Jiama Mine, office expenses, investor relations expenses, professional fees, and other miscellaneous expenses relating to the general administration of the Company.

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

Exploration and evaluation expenditures are charged to the consolidated statement of comprehensive income in the period incurred until it is determined that a mineral property has economically recoverable reserves. For the criteria used when assessing economic recoverability, see Note 3 in our annual audited consolidated financial statements for the year ended December 31, 2010. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and are included in the carrying amount of mineral assets under property, plant and equipment.

**Foreign exchange gain (loss)** primarily consists of foreign exchange differences arising from the translation of the balances of RMB-denominated term loans and the syndicated loan facility into U.S. dollars, and the translation of the RMB-denominated financial statements of the foreign subsidiaries into U.S. dollars.

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

**Interest income** primarily consists of interest earned on bank deposits.

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

We expect our working capital and capital expenditures will continue to be partially funded with bank loans. Accordingly, we expect finance costs will continue to affect our results of operations. Fluctuations in interest rates in the future will affect our finance costs, which in turn will affect our results of operations.

**Fair value change on warrant liabilities** represents the change, between reporting periods, in the estimated fair value of warrants that were granted and outstanding as of the end of the previous reporting period. The fair value of warrants is determined using the Black-Scholes option pricing model and requires the input of various subjective assumptions such as the expected volatility of our share price and expected per share dividends. All of the outstanding warrants were exercised by the end of the second quarter of 2010, and thus no fair value changes were recognized in 2011.

**Income tax** for the Company is subject to Canadian federal and provincial tax rates of 26.5% and 28.5% for the six months ended June 30, 2011 and 2010, respectively. The Company and its subsidiaries incorporated in Canada however have had no assessable profit since incorporation. During the same periods, our CSH Chinese Joint Venture was subject to the PRC enterprise income tax at a rate of 25% and 25%, respectively for the six months ended June 30, 2011 and 2010. Our newly acquired subsidiary, Jiama Industry and Trade, established in the western area of the PRC, was subject to a preferential enterprise income tax of 15% due to its location in Tibet.

For the six months ended June 30, 2011 and 2010, we recognized total income tax expenses of US$9.2 million and US$4.9 million, respectively. The total income tax expense for the six months ended June 30, 2011 represents a deferred tax credit of US$541,000 and current income tax expense of US$9.8 million. A deferred tax expense of US$2.2 million and current income tax expense of US$2.7 million represent the total income tax expense for the six months ended June 30, 2010.

## RESULTS OF OPERATIONS

## *Selected Quarterly Financial Data*

| QUARTER ENDED<br>(US$ in thousands except per share) | **2011** | | 2010 | | | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| | **30-Jun** | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Revenues ($ in thousands) | **92,938** | 35,423 | 48,886 | 46,631 | 27,181 | 10,499 | 34,009 | 21,048 |
| Cost of sales | **52,519** | 23,587 | 26,824 | 23,179 | 13,330 | 5,308 | 23,580 | 13,973 |
| Mine operating earnings | **40,419** | 11,837 | 22,063 | 23,452 | 13,850 | 5,191 | 10,429 | 7,075 |
| General and administrative expenses | **5,217** | 3,937 | 1,828 | 1,396 | 1,171 | 946 | 537 | 1,340 |
| Exploration and evaluation expenses | **70** | 64 | 559 | 69 | 70 | 23 | 907 | 396 |
| Income from operations | **35,131** | 7,836 | 19,675 | 21,987 | 12,610 | 4,222 | 8,985 | 5,339 |
| Foreign exchange (gain) loss | **(397)** | (34) | 595 | 631 | 872 | (618) | 447 | 3,311 |
| Finance costs | **2,882** | 2,511 | 2,164 | 1,450 | 1,489 | 740 | 2,376 | 1,830 |
| Listing expenses | **-** | - | 43 | 514 | 1,194 | 351 | 1,222 | 926 |
| Profit (loss) before income tax | **34,713** | 5,444 | 16,923 | 19,405 | 8,205 | (2,533) | 7,363 | (2,544) |
| Income tax expense | **7,293** | 1,941 | 4,392 | 5,581 | 3,235 | 1,652 | 4,193 | 937 |
| Net income (loss) | **27,420** | 3,503 | 12,530 | 13,825 | 4,970 | (4,185) | (3,457) | (3,480) |
| Basic earnings (loss) per share (US$) | **0.07** | 0.01 | 0.06 | 0.08 | 0.03 | (0.03) | (0.02) | (0.02) |
| Diluted earnings (loss) per share (US$) | **0.07** | 0.01 | 0.06 | 0.08 | 0.03 | (0.03) | (0.02) | (0.02) |

## *Selected Quarterly Production Data*

| | **CSH Mine** | **Jiama Mine** | **CSH Mine and Jiama Mine** | **CSH Mine** | **Jiama Mine** | **CSH Mine and Jiama Mine** | CSH Mine | |
|---|---|---|---|---|---|---|---|---|
| | **Three months ended<br>June 30, 2011** | | | **Six months ended<br>June 30, 2011** | | | Three months ended<br>June 30, 2010 | Six months ended<br>June 30, 2010 |
| | **US$** | **US$** | **US$** | **US$** | **US$** | **US$** | US$ | US$ |
| Revenue | **58,414,263** | **34,523,708** | **92,937,971** | **81,999,296** | **46,362,172** | **128,361,468** | 27,180,938 | 37,679,906 |
| Cost of sales | **32,204,610** | **20,314,636** | **52,519,246** | **45,173,942** | **30,932,059** | **76,106,001** | 13,330,466 | 18,638,434 |
| Mine operating earnings | **26,209,653** | **14,209,072** | **40,418,725** | **36,825,354** | **15,430,113** | **52,255,467** | 13,850,472 | 19,041,474 |
| Gold produced (ounces) | **37,519** | **-** | **37,519** | **55,259** | **-** | **55,259** | 23,716 | 36,187 |
| Gold sold (ounces) | **39,225** | **-** | **39,225** | **56,190** | **-** | **56,190** | 23,235 | 32,699 |
| Copper produced (tonnes) | **-** | **2,813** | **2,813** | **-** | **4,180** | **4,180** | - | - |
| Copper produced (pounds) | | **6,201,664** | **6,201,664** | | **9,215,380** | **9,215,380** | | |
| Copper sold (tonnes) | **-** | **3,280** | **3,280** | **-** | **4,385** | **4,385** | - | - |
| Copper sold (pounds) | | **7,230,648** | **7,230,648** | | **9,666,753** | **9,666,753** | | |
| Total cost of gold sold per ounce | **821** | **-** | **821** | **804** | **-** | **804** | 574 | 570 |
| Total cost of copper sold per tonne | **-** | **6,194** | **6,194** | **-** | **7,054** | **7,054** | - | - |
| Total cost of copper sold per pound | | **2.81** | **2.81** | | **3.20** | **3.20** | | |
| Cash cost* per ounce of gold | **743** | **-** | **743** | **696** | **-** | **696** | 468 | 453 |
| Cash cost* per tonne of copper | | **4,342** | **4,342** | | **4,725** | **4,725** | | |
| Cash cost* per pound of copper | **-** | **1.97** | **1.97** | **-** | **2.14** | **2.14** | - | |
| Cash cost* per tonne of copper equivalent | | **3,147** | **3,147** | | **3,461** | **3,461** | | |
| Cash cost* per pound of copper equivalent | **-** | **1.43** | **1.43** | **-** | **1.57** | **1.57** | - | |

* Non-IFRS measure

***Review of Quarterly Data***

**Three Month Comparative**

**Three months ended June 30, 2011 compared to three months ended June 30, 2010**

**Revenue** increased by 241.9%, or US$65.7 million, from US$27.2 million for the three months ended June 30, 2010, to US$92.9 million for the three months ended June 30, 2011. The additional revenue from the newly acquired Jiama Mine accounted for 127.0%, or US$34.5 million, of the increase. The balance relating to revenue from the CSH Mine was due to an increase in the volume of gold sold as well as a US$319 increase in the weighted average price of gold over the prior year's second quarter. For the three months ended June 30, 2011, the CSH Mine produced a total of 37,519 ounces of gold and sold 39,225 ounces of gold at a weighted average price of US$1,489 per ounce. For the three months 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 US$1,170 per ounce.

**Cost of sales** increased by 294.0% or US$39.2 million, from US$13.3 million for the three months ended June 30, 2010 to US$52.5 million, for the three months ended June 30, 2011. Jiama's cost of sales accounted for 152.4%, or US$20.3 million, of the increase. Cost of sales as a percentage of revenue was higher for the Company at 56.5% due to the addition of Jiama's cost of sales as a percentage of revenue of 58.8%. Cost of sales as a percentage of revenue for the CSH Mine was 55.1% for the three months ended June 30, 2011 compared to 49.0% for the three months ended June 30, 2010.
**Mine operating earnings** for the Company increased by 191.8%, or US$26.5 million, from US$13.9 million for the three months ended June 30, 2010 to US$40.4 million for the three months ended June 30, 2011. Mine operating earnings as a percentage of revenue decreased to 43.5% for the three months ended June 30, 2011 compared to 51.0% for the three months ended June 30, 2010. The decrease was mainly due to the addition of Jiama and the lower average ore grade at the CSH Mine.

**General and administrative expenses** increased by 346%, or US$4.0 million, from US$1.17 million for the three months ended June 30, 2010 to US$5.2 million for the three months ended June 30, 2011. The increase was primarily attributable to the addition of Jiama's expenses, totaling US$3.3 million, of which US$1.5 million related to salaries and benefits. General and administrative expenses increased by 33% from US$3.9 million to US$5.2 million from the first to the second quarter of 2011.

**Exploration and evaluation expenditures** remained unchanged at US$70,000 for the three months ended June 30, 2010 and June 30, 2011. Quarter over quarter, there was an increase of 9%, or US$6,000, from the first quarter compared to the second quarter of 2011. (The capitalized exploration expenditures for the CSH Mine and the Jiama Mine can be found in the section titled "Mineral Properties.")

**Income from operations** for the second quarter of 2011 increased by 178.6%, or US$22.5 million, from US$12.6 million for the three months ended June 30, 2010 to US$35.1 million for the three months ended June 30, 2011. A significant portion of the increase was due to the addition of Jiama, which contributed US$10.9 million for the three month period. The increase was also due to higher production rates at both mines, resulting in an increase of US$26.5 million in mine operating earnings. Income from operations for the second quarter of 2011 also increased by US$27.3 million from US$7.8 million in the three months ended March 31, 2011.

**Listing expenses** decreased by 100% from US$1.2 million for the three months ended June 30, 2010 to US$ nil for the three months ended June 30, 2011. This decrease was due to completion of the listing on the HKSE in December 2010.

**Finance costs** increased by 94%, or US$1.4 million from US$1.5 million for the three months ended June 30, 2010 to US$2.9 million for the three months ended June 30, 2011, primarily attributed to the addition of Jiama's finance costs of US$2.8 million. There was no capitalized interest for the three months ended June 30, 2011. Finance costs increased by US$370,000 from the US$2.5 million which was incurred in the three months ended March 31, 2011.

As all the issued and outstanding stock-purchase warrants were exercised by the end of May 2010, there is no expense relating to the change in the fair value of stock-purchase warrants in 2011. The change in fair value of stock-purchase warrants in the comparative period was US$873,000.

**Foreign exchange gain** increased by 146%, or US$1.3 million from a loss of US$871,000 for the three months ended June 30, 2010 to a gain of US$397,000 for the three months ended June 30, 2011. The current period's gain is related to the conversion of the foreign subsidiaries books of account denominated from Chinese RMB to US dollar. The Company had a foreign exchange gain of US$34,000 for the three months ended March 31, 2011.

**Interest and other income** increased from US$2,000 for the three months ended June 30, 2010 to US$2,065,000 for the three months ended June 30, 2011. This increase was primarily due to Jiama's addition of (i) bank interest of US$73,000 and (ii) amortization of a government grant of US$56,000. This compares to interest and other income of US$84,000 for the three months ended March 31, 2011. A gain on modification of borrowing of US$1.9 million was recognized for modifications made on the CSH loan due to the Agricultural Bank of China.

**Income tax expense** increased by 125%, or US$4.0 million, from US$3.2 million for the three months ended June 30, 2010 to US$7.3 million for the same period in 2011. The increase was due to higher mine operating earnings resulting in an increase in taxable income. This compares to income tax expense of US$1.9 million for the three months ended March 31, 2011.

**Net income** attributable to owners of the Company increased by US$22.1 million from a net income of US$4.8 million for the three months ended June 30, 2010 to US$26.9 million for the three months ended June 30, 2011. The improvement in net income is also a result of higher production rates, increased sales, and overall increase in income from operations. This compares to net income attributable to owners of the Company of US$3.2 million for the three months ended March 31, 2011.

### Six Month Comparative

**Six months ended June 30, 2011 compared to six months ended June 30, 2010**

**Revenue** increased by 240.7%, or US$90.7 million, from US$37.7 million for the six months ended June 30, 2010, to US$128.4 million for the six months June 30, 2011. The additional revenue from the newly acquired Jiama Mine accounted for 123.0%, or US$46.4 million, of the increase. The balance relates to revenue from the CSH Mine due to an increase in the volume of gold sold as well as a US$307 increase in the weighted average price of gold over the prior year's first half. For the six months ended June 30, 2011, the CSH Mine produced a total of 55,259 ounces of gold and sold 56,190 ounces of gold at a weighted average price of US$1,459 per ounce. For the six months 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 US$1,152 per ounce.

**Cost of sales** increased by 308.3% or US$57.5 million, from US$18.6 million for the six months ended June 30, 2010 to US$76.1 million, for the six months ended June 30, 2011. Jiama's cost of sales accounted for 166.0%, or US$30.9 million, of the increase. Cost of sales as a percentage of revenue was higher for the Company at 59.3% due to the addition of Jiama's cost of sales as a percentage of revenue of 66.7%. Cost of sales as a percentage of revenue for the CSH Mine was 55.1% for the six months ended June 30, 2011 compared to 49.5% for the six months ended June 30, 2010.

**Mine operating earnings** for the Company increased by 174.4%, or US$33.2 million, from US$19.0 million for the six months ended June 30, 2010 to US$52.2 million for the six months ended June 30, 2011. Mine operating earnings as a percentage of revenue decreased to 40.7% for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 at 50.5%. The decrease was mainly due to the addition of Jiama and lower average ore grade.

**General and administrative expenses** increased by 333%, or US$7.0 million, from US$2.1 million for the six months ended June 30, 2010 to US$9.2 million for the six months ended June 30, 2011. The increase is primarily attributable to the addition of Jiama's general and administrative expenses totaling US$5.7 million of which significant costs were salaries and benefits of US$2.7 million and mineral resource compensation of US$960,000. Professional fees and investor relations costs contributed to an increase of US$1.0 million, as a result of the Company's initial public offering in Hong Kong and the acquisition of the Skyland Group.

**Exploration and evaluation expenditures** increased by 43% or US$40,000 to US$134,000 for the six months ended June 30, 2011 compared to US$93,000 for the six months ended June 30, 2010. The increase is due to the new exploration programs underway at both of the CSH and Jiama Mines during 2011. (The capitalized exploration expenditures for the CSH Mine and the Jiama Mine can be found in the section titled "Mineral Properties.")

**Income from operations** increased by 155%, or US$26 million, from US$16.8 million for the six months ended June 30, 2010 to US$42.9 million for the six months ended June 30, 2011. The addition of Jiama contributed US$9.7 million for the six months ended June 30, 2011. The overall increase is attributable to higher production rates for both the CSH and Jiama mines.

**Listing expenses** decreased by 100.0% from US$1.5 million for the six months ended June 30, 2010 to US$ nil for the six months ended June 30, 2011. This decrease is due to completion of the listing on the HKSE in December 2010.

**Finance costs** increased by 142%, or US$3.2 million from US$2.2 million for the six months ended June 30, 2010 to US$5.4 million for the six months ended June 30, 2011, primarily attributable to the addition of Jiama's finance costs of US$4.0 million. There was no capitalized interest for the six months ended June 30, 2011.

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

**Foreign exchange gain** increased by US$685,000 from a loss of US$253,000 for the six months ended June 30, 2010 to a gain of US$431,000 for the six months ended June 30, 2011. The gain in 2011 is due to the foreign subsidiaries conversion of functional currency, denominated in RMB to US dollars.

**Interest and other income** increased from approximately US$2,000 for the six months ended June 30, 2010 to approximately US$2,150,000 for the six months ended June 30, 2011. This increase was primarily due to (i) Jiama's amortization of a government grant of US$131,000 (ii) Jiama's bank interest income of US$77,000 and (iii) US$36,000 of interest income on all other bank balances. A gain on modification of borrowing of US$1.9 million was recognized for modifications made on the CSH loan due to the Agricultural Bank of China.

**Income tax expense** increased by 89%, or US$4.3 million, from US$4.9 million for the six months ended June 30, 2010 to US$9.2 million for the six months ended June 30, 2011, due to an increase in taxable income during the period. Income tax expense for the CSH Mine totaled US$8.4 million, and US$858,000 was realized for the Jiama Mine, for the six months ended June 30, 2011.

**Net income** attributable to owners of the Company increased by US$29.6 million from US$461,000 for the six months ended June 30, 2010 to income of US$30.1 million for the six months ended June 30, 2011.

## NON-IFRS MEASURES

The following table provides certain unit cost information on a cash cost of production per ounce (non-IFRS) basis for the CSH Gold Mine for the three and six months ended June 30, 2011 and 2010:

| | **CSH Mine** | | | |
|---|---|---|---|---|
| | **Three months ended June 30,** | | **Six months ended June 30,** | |
| | **2011**<br>**US$** | 2010<br>US$ | **2011**<br>**US$** | 2010<br>US$ |
| Cost of mining per tonne of ore | **1.28** | 1.05 | **1.28** | 1.05 |
| Cost of mining waste per tonne of ore | **2.61** | 1.46 | **1.96** | 1.30 |
| Other mining costs per tonne of ore | **0.39** | 0.42 | **0.37** | 0.49 |
| Total mining costs per tonne of ore | **4.28** | 2.93 | **3.61** | 2.84 |
| | | | | |
| Cost of reagents per tonne of ore | **1.08** | 0.70 | **0.94** | 0.63 |
| Other processing costs per tonne of ore | **0.81** | 0.44 | **0.93** | 0.37 |
| Total processing cost per tonne of ore | **1.89** | 1.14 | **1.87** | 1.00 |

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

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

| | CSH Mine | | | | | | | | Jiama Mine | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Three months ended June 30, | | | | Six months ended June 30, | | | | Three months ended | | | Six months ended | | |
| | 2011 | | 2010 | | 2011 | | 2010 | | June 30, 2011 | | | June 30, 2011 | | |
| | US$ | US$ per ounce | US$ | US$ per ounce | US$ | US$ per ounce | US$ | US$ per ounce | US$ | US$ per tonne | US$ per pound | US$ | US$ per tonne | US$ per pound |
| Cost of sales | 32,204,611 | 821 | 13,330,465 | 574 | 45,173,942 | 804 | 18,638,433 | 570 | 20,314,636 | 6,194 | 2.81 | 30,932,059 | 7,054 | 3.20 |
| Adjustments | (3,058,551) | (78) | (2,446,558) | (106) | (6,069,272) | (108) | (3,805,282) | (117) | (6,073,231) | (1,852) | (0.84) | (10,213,447) | (2,329) | (1.06) |
| Total cash costs | 29,146,060 | 743 | 10,883,907 | 468 | 39,104,670 | 696 | 14,833,151 | 453 | 14,241,405 | 4,342 | 1.97 | 20,718,612 | 4,725 | 2.14 |

The adjustments above include depreciation and depletion, amortization of intangible assets, the release of prepaid lease payments and selling expenses included in cost of sales. The total cash costs per gold ounce above differ from the unit cash costs disclosed in the Behre Dolbear Independent Technical Report ("ITR") for the CSH Mine for two reasons. First, the Behre Dolbear ITR is prepared on a cash basis while the calculation above is prepared on an accrual basis. This means that the cost of sales above includes an allocation of costs incurred over time while the Behre Dolbear ITR does not. Second, the Behre Dolbear ITR is prepared based on units produced while the calculations above are based on units sold.

## MINERAL PROPERTIES

### *The CSH Mine*

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

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

The following table shows the exploration expenditures expensed and capitalized during the three and six months ended March 31 and June 30, 2011 and 2010:

| | CSH Mine | | | |
|---|---|---|---|---|
| | Three months ended March 31. | | Six months ended June 30, | |
| | 2011 | 2010 | **2011** | 2010 |
| | US$ | US$ | **US$** | US$ |
| Exploration expensed | 21,175 | 32,093 | **76,486** | 648,496 |
| Exploration capitalized | - | - | **1,334,232** | - |
| | 21,175 | 32,093 | **1,410,718** | 648,496 |

***Mineral Resources and Ore Reserves***

An updated mine plan for the CSH Mine was developed and reported as at June 30, 2010 in the Behre Dolbear ITR dated November 17, 2010. This plan was prepared based on heap leaching with a crushing plant throughput rate of 30,000 tpd which was achieved as planned, by March 31, 2010. The detailed technical information can be found in the technical report filed at www.sedar.com and www.hkexnews.hk.

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

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

The reserves, accounting for mine depletion in 2010, are summarized in the table below:

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

***Production Update***

Since March, 2010, mine production has consisted almost entirely of crushed ore, and the crusher facility has consistently operated at its design capacity of 30,000 tpd. According to the most recent column leach test done by Metcon Research of KD Engineering, when the ore is crushed, the gold recovery will greatly improve depending on the gold grades. The higher the gold grade, the better the recovery will be.

| | CSH Mine | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| | **2011** | 2010 | **2011** | 2010 |
| | **US$** | US$ | **US$** | US$ |
| Ore mined and placed on pad (tonnes) | **3,153,662** | 3,842,428 | **5,498,050** | 7,019,707 |
| Average grade of ore (grams per tonne) | **0.52** | 0.68 | **0.56** | 0.71 |
| Recoverable gold at 49% recovery rate (ounces) | **26,267** | 34,921 | **48,683** | 58,959 |
| Ending ore inventory (ounces) | **49,128** | 81,869 | **49,128** | 81,869 |
| Waste rock mined (tonnes) | **11,179,419** | 4,795,907 | **12,754,271** | 8,309,490 |

For the six months ended June 30, 2011, the total amount of ore put on the leach pad was 5,498,050 tonnes, with total contained gold of 3,083,323 grams (99,131 oz). The gold recovery rate has increased from approximately 43% to 49% based on our technical team’s analysis and estimation. The Company continues to carefully monitor the behavior of gold inventory in the process.

***Exploration***

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

The Company commenced a major drilling campaign at its CSH Mine in Inner Mongolia, China on May 20, 2011. The drill program will consist of approximately 55,000 metres of diamond drilling in over 100 drill holes. As of mid- July

2011, 21 drill rigs were turning at the site. The focus of the drill program is to delineate more resources at depth with the expectation to further expand the current mining capacity. The total budget for the drill program is approximately 50 million RMB (about US$7.7 million). As of the middle of July 2011, approximately 11,600 metres of drilling was complete. The drilling program is expected to be completed in the fourth quarter of 2011.

***The Jiama Mine***

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

The deposit is presently being mined as a combined open-pit and underground mining operation. The development includes two open pits, being the smaller Tongqianshan pit and the larger Niumatang Pit, as well as an underground operation that is accessed through two shafts having an initial 355 metre depth and that is planned to extend to a final depth of 600 metres. The first phase of development, which primarily involved the development of open-pit infrastructure at the Tongqianshan pit, ore processing facilities, an underground ore transportation system, and a 6,000 tpd mineral processing plant, is now complete. The Jiama Mine commenced mining operations in the latter half of 2010 with production reaching the planned 6,000 tpd as planned for Phase I. For Phase II development, which was originally planned for a 12,000 tpd mining operation, the Company has retained an engineering firm to conduct a conceptual mine study with a view to build a larger scale mining operation using additional drilling results.

The following table shows the exploration expenditures expensed and capitalized during the three and six months ended March 31 and June 30, 2011:

| | **Jiama Gold Mine** | |
|---|---|---|
| | **Three months ended** | **Six months ended** |
| | March 31, 2011 | **June 30, 2011** |
| | US$ | **US$** |
| Exploration expensed | 1,194 | **1,201** |
| Exploration capitalized | 3,635,192 | **3,637,371** |
| | 3,636,386 | **3,638,572** |

***Mineral Resources and Ore Reserves***

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

The following skarn-type resources and reserves have been identified at the Jiama Property, as at December 31, 2010.

The skarn-type resources are reported at a cut-off grade of 0.3% copper, 0.03% molybdenum, or 1% lead, or 1% zinc. Resources are inclusive of reserves.

| Skarn Zone Resource Estimate at December 31, 2010 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Kt | Grade | | | | | | Metals | | | | | | |
| | Copper ("Cu") % | Molyb-denum ("Mo") % | Gold ("Au") g/t | Silver ("Ag") g/t | Lead ("Pb") % | Zinc ("Zn") % | Cu Kt | Mo Kt | Au t | Ag t | Pb Kt | Zn Kt |
| **Measured Resource** | | | | | | | | | | | | | |
| 82,814 | 0.83 | 0.042 | 0.30 | 16.0 | 0.06 | 0.05 | 6824 | 34.22 | 24.84 | 1,325 | 49.6 | 38.2 |
| **Indicated Resource** | | | | | | | | | | | | | |
| 101,641 | 0.68 | 0.041 | 0.22 | 13.7 | 0.10 | 0.05 | 691.1 | 41.67 | 22.21 | 1,392 | 81.3 | 50.8 |
| **Measured + Indicated Resource** | | | | | | | | | | | | | |
| **184,455** | **0.74** | **0.041** | **0.26** | **14.7** | **0.08** | **0.05** | **1,373.5** | **75.89** | **46.05** | **2,717** | **130.9** | **89.0** |
| **Inferred Resource** | | | | | | | | | | | | | |
| 164,916 | 0.64 | 0.053 | 0.21 | 13.1 | 0.14 | 0.06 | 1,055.4 | 87.43 | 34.63 | 2,160 | 230.8 | 98.9 |

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

| Hornfels Zone Inferred Mineral Resource Estimate as of June 30, 2010 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Kt** | **Grade** | | | | | | **Contained Metal** | | | | | |
| | **Cu %** | **Mo %** | **Au g/t** | **Ag g/t** | **Pb %** | **Zn %** | **Cu Kt** | **Mo Kt** | **Au t** | **Ag t** | **Pb Kt** | **Zn Kt** |
| 655,000 | 0.23 | 0.045 | 0.02 | 1.17 | 0.00 | 0.01 | 1,500 | 290 | 13 | 770 | - | - |

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

| Ore Reserve Estimates for the Jiama Mine as of December 31, 2010 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Type** | **Kt** | **Grade** | | | | | | **Contained Metals** | | | | | |
| | | **Cu %** | **Mo %** | **Au g/t** | **Ag g/t** | **Pb %** | **Zn %** | **Cu Kt** | **Mo Kt** | **Au t** | **Ag t** | **Pb Kt** | **Zn Kt** |
| Proved | **53,444** | **0.83** | **0.038** | **0.32** | **16.3** | **0.06** | **0.04** | **441.4** | **29.95** | **17.0** | **872** | **29.6** | **21.4** |
| Probable | **51,837** | **0.85** | **0.040** | **0.29** | **16.5** | **0.11** | **0.05** | **438.7** | **20.90** | **15.11** | **857** | **52.6** | **26.8** |
| Total | **105,281** | **0.84** | **0.039** | **0.31** | **16.4** | **0.08** | **0.05** | **879.1** | **40.85** | **32.11** | **1729** | **82.2** | **48.2** |

***Commissioning and Production during the Commissioning Process***

The Jiama Mine went into commissioning for commercial production in September 2010 and by December 2010 the mine reached its designed capacity of 6,000 tpd. The mine is presently producing its principal product of copper concentrate with lesser amounts of gold and silver credits. Commercial production was effected by interruptions or shortages in the supply of electricity from the beginning of the year until January 23, 2011. However, as outlined in the Jiama Technical Report, due to the remote location of the Jiama Mine and the limited capacity of the central power grid of Tibet, power shortages in the dry winter months were anticipated. No further power outages have been or are expected to occur. The completion of the connection between Tibet's central power grid to China's national power grid is expected by the end of 2012.

***Results of Exploration Program***

The Company successfully completed its planned 50,000 metre drilling program from ninety-five holes at its Jiama Mine. Drilling results will be included in an updated resource estimate expected to be completed by the third quarter of 2011. The drilling program confirmed the high-grade skarn type mineralization is continuous in the licensed area. Further, a new standalone quartz diorite porphyrite dyke type gold mineralization zone was identified which may add a significant amount of high grade gold resources to the Jiama Mine.

An aggressive three year exploration program has been approved for the Jiama Mine to further define the extent of the mineralized system supporting the known deposit. The new exploration program consists of 31,200 metres of drilling with a total of 56 diamond drilling holes done in three phases with a budget of US$5.6 million (37.35 million RMB). It will focus on four targets in the 3 kilometre long three-in-one complex system consisting of the Hornfels, Skarn, and Porphyry mineralized bodies. The first target is the 100x100 metre and 200x100 metre spacing in-fill drilling in the center part of the Skarn type mineralized body. The purpose is to upgrade the current inferred and indicated resources to the indicated and measured category. The second target is further drilling work surrounding the existing standalone quartz-diorite porphyrite gold mineralized body and gold rich Skarn type mineralized body which has been confirmed by the drilling program in 2010. The purpose is to define a reasonable size gold or gold rich deposit. The third target is to define the Skarn type mineralized body boundary by drilling holes along the North-East strike extension of the major Skarn mineralized body. The fourth target is to drill a 2000-3000 metre deep hole to explore the depth of the porphyry mineralized body in the center of the mineralized zone. Along with the drilling program, a magnetotelluric geophysical survey may be conducted to define the extent of the deep porphyry system. The drilling program started in April 2011 and is scheduled for completion by November 2011. Initial results from the drilling program are expected by the end of 2011. As of mid- July 2011, 19 drill rigs were turning at the Jiama Mine. Approximately 11,800 metres of drilling was completed by mid- July 2011.

## LIQUIDITY AND CAPITAL RESOURCES

We operate in a capital intensive industry. Our liquidity requirements arise principally from the need for working capital to finance development of our mining and processing operations, exploration activities and acquisition of exploration and mining rights. Our principal sources of funds have been proceeds from the issuance of promissory notes, borrowing from commercial banks in the People's Republic of China 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 to 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, 2011, the Company had an accumulated deficit of US$9.2 million and working capital of US$260.5 million. China Gold International's cash balance at June 30, 2011 was US$339.9 million.

For the CSH Mine, the second principal installment of RMB30 million (approximately US$4.6 million) on the Company's RMB290 million (approximately US$44.8 million) term loan from the Agricultural Bank of China ("ABC") was paid in June 2011, and the third and fourth principal installments of RMB 20 million each (approximately US$3.1 million) are due in September 2011 and June 2012. Interest payments of approximately US$200,000 are paid monthly on the ABC loan and will continue to be paid in 2012. For the Jiama Mine, the first repayment of the loan for RMB200 million (approximately US$30.9 million) from the Bank of China ("BOC") is due on December 28, 2011. Interest payments of approximately US$416,000 are paid monthly on the BOC loan and will continue to be paid in 2012. During the three months ended March 31, 2011, an additional RMB203.0 million was drawn down from the syndicated loan facility. In June 2011, a new bank replaced a bank of the syndicated loan facility and lent the Jiama Mine RMB203 million to repay the principals of the syndicated loan, of which RMB63 million was repaid in June 2011 and RMB140 million was repaid in July 2011, bringing the total loan to RMB770.0 million (approximately US$119.0 million) as at June 30, 2011. The first payment of RMB100 million is due on the syndicated loan facility ("SLF") balance with various banks is not due until June 2013. Interest payments of approximately US$330,000 are paid monthly on the SLF and will continue to be paid next year in 2012.

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

***Cash flows***

The following table sets out selected cash flow data from our consolidated cash flow statements for the three and six months ended June 30, 2011 and 2010:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | US$ | US$ | US$ | US$ |
| Net cash flows from (used in) operating activities | 36,388,681 | (1,772,518) | 18,474,568 | (14,255,418) |
| Net cash flows (used in) from investing activities | (4,479,156) | 2,964,914 | (28,622,425) | 1,482,335 |
| Net cash flows from financing activities | 17,161,283 | 6,853,305 | 48,157,728 | 4,898,624 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 274,938 | 360,158 | 275,505 | 221,051 |
| Net increase (decrease) in cash and cash equivalents | 49,345,746 | 8,405,859 | 38,285,376 | (7,653,408) |
| Cash and cash equivalents, beginning of period | 290,548,347 | 7,925,393 | 301,608,717 | 23,984,660 |
| **Cash and cash equivalents, end of period** | 339,894,093 | 16,331,252 | 339,894,093 | 16,331,252 |

**For the three and six months ended June 30, 2011 and 2010**

***Operating cash flow***

For the three months ended June 30, 2011, net cash used in operating activities was US$36.4 million, which is primarily attributable to (i) a decrease in accounts payable of US$5.0 million, (ii) income taxes paid of US$3.5 million, (iii) a decrease in inventory of US$8.7 million, (iv) interest paid of US$2.5 million, (v) an increase in accounts receivable of US$5.7 million, and (vi) an increase in prepaid expenses and deposits of US$10.1 million, partially offset by (i) net income of US$34.7 million, (ii) depreciation and depletion of US$4.7 million, (iii) finance costs of US$2.9 million, (iv) amortization of intangible assets of US$3.9 million.

For the six months ended June 30, 2011, net cash used in operating activities was US$18.5 million, which is primarily attributable to (i) a decrease in accounts payable of US$12.9 million, (ii) income taxes paid of US$11.3 million, (iii) a decrease in inventory of US$4.4 million, (iv) interest paid of US$4.9 million, (v) an increase in accounts receivable of US$6.6 million, and (vi) an increase in prepaid expenses and deposits of US$9.5 million, partially offset by (i) net income of US$40.2 million, (ii) depreciation and depletion of US$9.4 million, (iii) finance costs of US$5.4 million, (iv) amortization of intangible assets of US$6.1 million.

***Investing cash flow***

For the three months ended June 30, 2011, net cash used in investing activities was US$4.5 million, which was primarily attributable to the acquisition of property, plant and equipment of US$4.7 million.

For the six months ended June 30, 2011, net cash used in investing activities was US$28.6 million, which is attributable to purchases of property, plant and equipment of US$28.2 million, net of construction payables.

***Financing cash flow***

For the three months ended June 30, 2011, net cash from financing activities was US$17.2 million, which is primarily attributable to proceeds from the syndicated loan facility of RMB203 million (US$31.3 million) for the Jiama Mine and payment on the ABC loan facility of RMB 30M (US$4.6M) by the CSH Mine and payment on the syndicated loan facility of RMB63 million (US$ 9.7million) by the Jiama Mine.

For the six months ended June 30, 2011, net cash from financing activities was US$48.2 million, which is primarily attributable to proceeds from the syndicated loan facility of RMB406 million (US$62.2 million) for the Jiama Mine and payment on the ABC loan facility of RMB 30M (US$4.6M) by the CSH Mine and payment on the syndicated loan facility of RMB63 million (US$ 9.7million) by the Jiama Mine.

## SELECTED BALANCE SHEET ITEMS

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

Accounts receivable increased by US$6.6 million from US$9.1 million as of December 31, 2010 to US$15.7 million as of June 30, 2011, primarily due to the US$1.7 million increase in other receivables and an increase of US$7.0 million in trade receivables for Jiama, offset by a decrease in VAT receivables of US$2.0 million for the Jiama Mine.

Our trade receivable turnover days for the six months ended June 30, 2011 and for the year ended December 31, 2010 were 20.8 days and 24.8 days respectively.

**Prepaid lease payments** consists of US$6.8 million prepaid for medium term lease leasehold land located in the PRC. The prepaid lease payments are amortized over the remaining lease term of 48 years.

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

As at June 30, 2011 and December 31, 2010, prepaid expenses and deposits were US$15.9 million and US$5.8 million, respectively. The increase of US$10.1 million in prepaid expenses and deposits was primarily due to (i) an increase in a deposit of US$8.6 million for mine supplies and services, (ii) a deposit of US$452,000 paid for the acquisition of property, plant and equipment and (iii) an increase in prepayment of resource taxes of US$402,000, (iv) an increase in a deposit for spare parts of US$0.5 million, offset by, a decrease in prepaid insurance of US$206,000.

**Inventory** consists of gold-in-process (comprised of gold contained in the ore placed on the leach pad and in-circuit material within processing operations), doré bars, copper concentrate, auxiliary materials and spare parts. Total inventory for both mines decreased by US$4.4 million from US$52.0 million as of December 31, 2010 to US$47.6 million as of June 30, 2011.

Inventory at the CSH Mine decreased by US$3.3 million from US$45.2 million as of December 31, 2010 to US$42.0 million as of June 30, 2011. The decrease in inventory can be primarily explained by an increase of US$370,000 in gold doré inventory and a decrease of US$3.4 million in gold-in-process inventory. Approximately 5.5 million tonnes of ore was mined and placed on the leach pad during the six months ended June 30, 2011, slightly down from the 5.6 million tonnes in the previous six months ended December 31, 2010.

Inventory at the Jiama Mine decreased by US$1.2 million from US$6.8 million as of December 31, 2010 to US$5.6 million as of June 30, 2011. This decrease in inventory resulted from a decrease in consumables inventory from US$2.8 million as of December 31, 2010 to US$1.7 million as of June 30, 2011, a decrease in copper concentrate inventory from US$2.6 million to US$1.3 million over the same period, which was offset by an increase in spare parts inventory from US$1.4 million to US$2.6 million over the same period.

Inventory turnover days for the six months ended June 30, 2011 and for the year ended December 31, 2010 were 114.2 days and 276.5 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, 2011 and December 31, 2010, CSH's inventory primarily consisted of gold-in-process.

**Intangible assets** arose from the purchase of the Jiama Mine and relate primarily to the independent valuation of the fair value of the mining rights acquired. The fair value of the mining rights is based on the estimated recoverable amount from production of the Jiama Mine. The mining rights expire in 2013 and in the opinion of the directors of the Company, the Company will be able to renew the mining rights with the relevant government authority, on an ongoing basis. The mining rights are amortized on a unit of production basis using the actual production volume over the estimated total proven and probable reserves of the mines.

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

Accounts payable and accrued expenses decreased by US$11.5 million from US$90.8 million as of December 31, 2010 to US$79.3 million as of June 30, 2011. The majority of the decrease relates to a US$12.0 million drop in advances from customers and a US$8.5 million decrease in trade payables, offset by an increase of mining cost accruals of US$7.4 million.

The accounts payable turnover days for the six months ended June 30, 2011 and the year ended December 31, 2010 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, 2011 and the year ended December 31, 2010 was 204.0 days and 483.0 days. The accounts payable turnover days are relatively long primarily attributable to third-party mining and construction contractors, and the deposit received for the sale of the Dadiangou project.

**Deferred income tax liabilities** of US$137.8 million relate to the difference between the estimated fair value of intangible assets and property, plant and equipment, as accounted for on the acquisition of the Jiama Mine and their underlying income tax bases.

**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 began to recognize environmental rehabilitation liabilities at the commencement of pre-commercial production with the same amount of net present value of estimated future cash expenditures on reclamation and closure, and are accreting the balance of the environmental rehabilitation liabilities through to 2030. Such accretion is recorded as part of finance costs each period.

The environmental rehabilitation liability was calculated as the net present value of estimated future net cash outflows for reclamation and closure costs in a total amount of approximately US$9.6million and US$9.9 million discounted at 10.1% and 9.8% as of June 30, 2011 and December 31, 2010, respectively. The accretion incurred in connection with the environment rehabilitation represented interest expense calculated based on the foregoing discount rates and therefore it is recorded as part of finance costs. Our environmental rehabilitation liabilities decreased from US$1.9 million as of December 31, 2010 to US$1.8 million as of June 30, 2011 due to accretion.

We had net current assets of US$260.5 million and US$224.8 million as of June 30, 2011 and December 31, 2010, respectively.

## RELATED PARTY TRANSACTIONS

Revenue from sales of doré bars to CNG increased from US$34.5 million for the six months ended June 30, 2010 to US$76.8 million for the six months ended June 30, 2011 while silver sales to CNG increased by US$312,000 for the same period. The doré bars and silver sales were sold to CNG at market prices under the relevant agreements.

The Company incurred no interest expense to CNG for the six months ended June 30, 2011 compared with approximately US$1.5 million in the same six months ended June 30, 2010, as the loan to CNG was repaid in December 2010.

On December 1, 2010, the Company acquired Skyland Mining Limited, the owner of the Jiama Mine, from China National Gold Group Hong Kong Limited (“CNGHK”) and a third party, Rapid Result. The Company issued an aggregate of 170,252,294 common shares, of which 86,828,670 common shares were issued to CNGHK to complete the acquisition. The terms of the transaction were settled by a special committee of independent directors with the support of a valuation and fairness opinion by Haywood Securities Inc., an independent securities firm. The Skyland Purchase Agreement included a post-closing adjustment mechanism based on the net working capital of Skyland as at November 30, 2010 which could adjust the total consideration paid. An independent international auditing firm was consulted to produce a report on the working capital adjustment and calculation. The working capital adjustment was reviewed by the Company, the Company’s auditors and the Skyland vendors who all agreed with the report’s findings. The report calculated a working capital adjustment of US$2.66 million. As the amount was determined to be immaterial in relation to the size of the transaction and factoring in other reasons, the Company and the Vendors proposed to waive the application of the working capital adjustment and a Board resolution was approved to that effect. A written legal opinion was obtained from the Company’s lawyers confirming the waiver of the working capital adjustment, which was delivered according to the Purchase Agreement.

As a result of the acquisition of Skyland, the Company assumed an existing bank loan facility, due to the Bank of China, and a syndicate loan facility, due to various banks, both of which were guaranteed by CNG. However, as a condition of the Company's initial public offering and listing on the HKSE, CNG was released of its obligatory guarantee as of June 1, 2011. CNG's guarantees on the bank loan facility and syndicate loan facility were replaced by a direct security interest over the mining rights and assets of the Jiama Mine. CNG was also released as a guarantor of the CSH CJV loan due to the Agricultural Bank of China, which was replaced by the mining rights of the CSH Mine.

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

Assets include the following amounts due from related parties:

| | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| | **US$** | US$ |
| Assets | | |
| Restricted cash received from CNG from disposal of the Dadiangou Gold Project | **6,856,833** | 6,725,129 |
| *Amount due from shareholders:* | | |
| Listing expenses receivable from CNG | **2,735,852** | 2,735,852 |
| Listing expenses receivable from Rapid Result | **2,628,564** | 2,628,564 |
| | **5,364,416** | 5,364,416 |
| Trade and other receivables from CNG | **1,058,020** | 53,135 |
| Amount due from a non-controlling shareholder | **404,382** | 419,768 |
| Total related party assets | **13,683,681** | 12,562,448 |

The increase in restricted cash received on the disposal of the Dadiangou Gold Project is due to a change in the underlying exchange rate. Listing expenses receivable from CNG and Rapid Result are included in accounts receivable in the condensed interim consolidated statement of financial position. Trade and other receivables from CNG are comprised of (i) silver sales and (ii) salary expense reimbursement. Prepaid expenses relates to an advance payment made by CNG for spare parts and materials. The reduction in amount due from a non-controlling shareholder is due to a receipt of payment.

Liabilities include the following amounts due to related parties:

| | **June 30,** | December 31, |
|---|---|---|
| | **2011** | 2010 |
| | **US$** | US$ |
| Liabilities | | |
| Other payable to CNG for deposit from disposal | | |
| of the Dadiangou Gold Project | **6,856,833** | 6,725,129 |
| Account payable to CNG | **30,904** | 30,199 |
| Accounts payable to CNG's subsidiaries | **51,167** | 117,569 |
| Total related party liabilities | **6,938,904** | 6,872,897 |

The increase in other payable related to the deposit on the Dadiangou Gold Project is due to exchange rate changes.

***Key management compensation (other than directors):***

| | **Three months ended June 30,** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **US$** | US$ | **US$** | US$ |
| Salary cost | | | | |
| Salaries and other benefits | **194,261** | 159,710 | **356,939** | 278,039 |
| Post employment benefits | **2,526** | - | **9,125** | 4,156 |
| | **196,787** | 159,710 | **366,064** | 282,195 |

The salaries and benefits above are a summary of amounts paid to management.

## INDEBTEDNESS

Our borrowings are denominated in RMB, U.S. dollars and Canadian dollars. As of June 30, 2011 and 2010, we had the following outstanding borrowings:

| | Effective Interest Rate | Maturity Date | **June 30, 2011** | December 31, 2010 |
|---|---|---|---|---|
| | % | | **US$** | US$ |
| Current | | | | |
| Current portion of long-term loan | | | | |
| - Agricultural Bank of China ("ABC") (i) | 6.32 | September 9, 2011 | **8,005,084** | 1,517,197 |
| Bank loan from Bank of China (ii) | 4.62 | December 28, 2011 | **30,904,259** | 30,343,949 |
| Syndicated loan (iii) | 3.96 | July 1, 2011 | **21,632,981** | - |
| | | | **60,542,324** | 31,861,146 |
| Non-current | | | | |
| Long-term loan - ABC (i) | 6.32 | September 9, 2012 to September 9, 2014 | **28,767,667** | 40,964,331 |
| Bank loan from Bank of China (ii) | 4.62 | December 28, 2012 to December 28, 2014 | **77,260,647** | 75,353,123 |
| Syndicated loan (iii) | 3.96 | June 4, 2013 to June 4, 2016 | **97,348,415** | 64,467,664 |
| | | | **203,376,728** | 180,785,118 |
| | | | **263,919,052** | 212,646,264 |

Our indebtedness comprised the following:

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

In September 2009, the CSH CJV received an unsecured bank loan in the principal amount of RMB290 million (US$42.3 million) from the Agricultural Bank of China. 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 6.32% with monthly interest payments of approximately US$200,000. The loan is repayable through installments of RMB10 million repaid on September 9, 2010; RMB30 million repaid on June 9, 2011; RMB20 million due on September 9, 2011; RMB20 million due on June 9, 2012; RMB30 million due on September 9, 2012; RMB30 million due on December 9, 2012; RMB20 million due on March 9, 2013; RMB20 million due on June 9, 2013; RMB30million due on September 9, 2013; RMB30 million due on December 9, 2013; RMB20 million due on March 9, 2014; and RMB30 million due on September 9, 2014 when the remaining outstanding balance is to be repaid in full.

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

A bank loan facility from the Bank of China was acquired with the purchase of Skyland and the Jiama Mine. The bank loan of RMB700 million (US$108.2 million) carries interest at a floating rate based on the People's Bank of China base rate (the interest rate at date of inception of the loan agreement and at the end of reporting period is 4.62% per annum) with monthly installments of approximately US$416,000. The loan is repayable in four annual installments starting from December 28, 2011. RMB200 million (approximately US$30.5 million), RMB200 million (approximately US$30.5 million), RMB150 million (approximately US$22.9 million) and RMB150 million (approximately US$22.9 million) will be repayable on December 28, 2011, December 28, 2012, December 28, 2013 and December 28, 2014 respectively.

***(iii) Syndicated loan facility***

A syndicated loan facility agreement with various banks was acquired with the purchase of Skyland and the Jiama Mine. The syndicated loans carry interest at a floating rate based on the People's Bank of China base rate (the interest rate at the date of inception of the loan agreement and at the end of the reporting period was 3.96% per annum) with monthly installments of approximately US$330,000. The loan facility is repayable in four annual installments starting from 2013. RMB100 million (approximately US$15.3 million), RMB150 million (approximately US$22.9 million), RMB200 million (approximately US$30.9 million), and RMB180 million (approximately US$27.8 million) will be repayable on June 2013, June 2014, June 2015, and June 2016 respectively. The full amount of the facility drawn down as of June 30, 2011 is RMB770 million (approximately US$119.0 million), of which RMB 140 million was repaid in July 2011.

***Restrictive covenants***

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

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

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

As of June 1, 2011, the lenders (ABC, BOC, and a syndicate of banks comprised of the BOC, China Development Bank, and ABC) for the Group's RMB 1.74 billion (US$254.51million) loan facilities have agreed to release CNG, the Company's controlling shareholder, from its guarantees on the ABC, BOC, and syndicated loans. The guarantees will be replaced by a direct security interest over relevant mining rights at the CSH Mine and relevant mining rights and assets at the Jiama Mine in favour of the lenders.

## COMMITMENTS AND CONTINGENCIES

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

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

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

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

| | Payments Due By Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| Principal repayment on ABC term loan | **38,672,751** | 3,093,820 | 12,375,280 | 15,469,100 | 7,734,550 | - | - |
| Principal repayment on BOC loan (RMB700,000,000) | **108,164,905** | 30,904,259 | 30,904,259 | 23,178,194 | 23,178,194 | - | - |
| Principal repayment on Syndicated loan (RMB770,000,000) | **118,981,396** | 21,632,981 | - | 15,452,129 | 23,178,194 | 30,904,259 | 27,813,833 |
| Operating leases Vancouver(a) | **401,319** | 52,023 | 106,833 | 107,762 | 107,762 | 26,940 | - |
| Operating leases CSH Mine(a) | **521,515** | 16,088 | 32,176 | 32,176 | 32,176 | 32,176 | 376,724 |
| Operating leases Jiama(a) | **599,296** | 93,085 | 38,939 | 38,939 | 38,939 | 38,939 | 350,454 |
| Capital commitments of CSH Mine(b) | **2,404,666** | 2,404,666 | - | - | - | - | - |
| Capital commitments of the Jiama Mine(b) | **41,825,546** | 41,825,546 | - | - | - | - | - |
| Total | **311,571,394** | 100,022,467 | 43,457,487 | 54,278,300 | 54,269,815 | 31,002,314 | 28,541,011 |

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

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

In addition to the table set forth above, we have 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. We have similar agreements with third party contractors for the Jiama Mine.

## DERIVATIVES

The company did not have any derivatives as of June 30, 2011.

## OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2011, we had not entered into any material off-balance sheet arrangements.

## DIVIDEND AND DIVIDEND POLICY

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

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

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

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

Management is responsible for the design of disclosure controls and procedures (“DC&P”) and the design of internal control over financial reporting (“ICFR”) to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company’s certifying officers. The Company’s Chief Executive Officer and Interim Chief Financial Officer have each evaluated the design of the Company’s DC&P and ICFR as of June 30, 2011 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 Interim Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Interim Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of June 30, 2011 and have concluded that these controls and procedures have been designed to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the six months ended June 30, 2011, there were no changes in the Company's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond the Company's control. Aside from risks relating to business and industry, the Company's principal operations are located within the PRC and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Readers of this MD&A should give careful consideration to the information included in this document and the Company's unaudited interim condensed consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company's mineral properties, and litigation. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks. For details of risk factors, please refer to our annual audited consolidated financial statements, and Annual Information Form filed from time to time on SEDAR at www.sedar.com.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As of June 30, 2011, 396,143,176 basic weighted average common shares were issued and outstanding and 695,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a diluted weighted average basis, 396,339,577 common shares were outstanding.

## ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKSE in the half-year interim report and not shown elsewhere in this report is as follows:

### A1. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2011.

### A2. PURCHASE OF THE COMPANY'S LISTED SECURITIES BY SUBSTANTIAL SHAREHOLDERS

During the six months ended June 30, 2011 the Company's principal shareholder China National Gold Group Corporation acquired an additional 1,033,400 shares of the Company in the market and increased the number of shares which it held in the Company by 0.26% to 155,382,130 shares representing 39.22% of the Company's outstanding shares as of June 30, 2011.

### A3. SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions of the Company shows that as of June 30, 2011, the Company has been notified of the following interests in shares representing 10% or more of the Company's issued share capital:

| Name | Nature of interest | Shares held | Approximate percentage of outstanding shares |
|---|---|---|---|
| China National Gold Group Corporation (1) | Indirect | 155,382,130 | 39.22% |
| China National Gold Group Hong Kong Limited | Registered Owner | 155,382,130 | 39.22% |
| Rapid Result Investments Limited (2) | Registered Owner | 83,423,624 | 21.06% |

Notes:

1. China National Gold Group Corporation directly and wholly owns China National Gold Group Hong Kong Limited therefore the interest attributable to China National Gold Group Corporation represents its indirect interest in the Company's shares through its equity interest in China National Gold Group Hong Kong Limited.
2. Rapid Result Investments Limited is beneficially owned by various individuals and a family trust, each of whom is an independent third party and no such individual or family trust holds one-third or more of the equity interest of Rapid Result Investments Limited and therefore none of the individuals or family trust are deemed to be interested in the shares held by Rapid Result Investments Limited.

## A4. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND STOCK OPTIONS

As of June 30, 2011, the interests of the directors and chief executives of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of a Listed Issuer (the "Model Code"), were as follows:

**SHARES**

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

**STOCK OPTIONS**

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

Other than the holdings disclosed in the tables above, none of the directors, chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as at June 30, 2011.

## A5. MOVEMENTS IN STOCK OPTIONS

The following table discloses movements in the Company's stock options during the six months ended June 30, 2011:

| Name | Position | Options outstanding at beginning of the year | Options granted during the six month period | Options exercised during the six month period | Options forfeited during the six month period | Options expired during the six month period | Options outstanding at end of the six month period |
|---|---|---|---|---|---|---|---|
| Ian He | Director | 250,000 | Nil | Nil | Nil | Nil | 250,000 (1) |
| Yunfei Chen | Director | 100,000 | Nil | Nil | Nil | Nil | 100,000 (2) |
| Gregory Hall | Director | 100,000 | Nil | Nil | Nil | Nil | 100,000 (2) |
| John King Burns | Director | 100,000 | Nil | Nil | Nil | Nil | 100,000 (2) |
| Xiangdong Jiang | Director and Vice President of Production | 80,000 | Nil | Nil | Nil | Nil | 80,000 (3) |
| Total for directors and senior executives | | 630,000 | Nil | Nil | Nil | Nil | 630,000 |
| Total for other option holders | | 150,000 (4) | Nil | (37,000) | (48,000) | Nil | 65,000 (5) |
| **TOTAL** | | **780,000** | **Nil** | **(37,000)** | **(48,000)** | **Nil** | **695,000** |

Notes:

1. Consists of 150,000 of 200,000 stock options granted on July 20, 2007 and expiring on July 20, 2013 at an exercise price of CAD$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter and 100,000 stock options granted on June 1, 2010 and expiring on June 1, 2015 at an exercise price of CAD$4.35 from June 1, 2010 until June 1, 2011; CAD$4.78 from June 2, 2011 until June 1, 2012; CAD$5.21 from June 2, 2012 until June 1, 2013; CAD$5.64 from June 2, 2013 until June 1, 2014 and CAD$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.
2. Consists of 100,000 stock options granted on June 1, 2010 and expiring on June 1, 2015 at an exercise price of CAD$4.35 from June 1, 2010 until June 1, 2011; CAD$4.78 from June 2, 2011 until June 1, 2012; CAD$5.21 from June 2, 2012 until June 1, 2013; CAD$5.64 from June 2, 2013 until June 1, 2014 and CAD$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.
3. Consists of 80,000 of 200,000 stock options granted on July 20, 2007 and expiring on July 20, 2013 at exercise price of CAD$2.20 with vesting as to 20% on first anniversary of the date of grant and 20% each anniversary thereafter.
4. Consists of 25,000 stock options granted on June 29, 2006 to a consultant of the Company and expiring on June 29, 2011 at an exercise price of CAD$1.05 with vesting as to 30% on the first anniversary of the date of grant, 30% on the second anniversary of the date of grant and 40% on the third anniversary of the date of grant and 125,000 of 3,283,000 stock options granted on July 20, 2007 to various employees of the Company and expiring on July 20, 2013 at an exercise price of CAD$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter.
5. Consists of 65,000 of 3,283,000 stock options granted on July 20, 2007 to various employees of the Company and expiring on July 20, 2013 at an exercise price of CAD$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter.

## A6. COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has, throughout the six months ended June 30, 2011, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, in particular, the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

## A7. COMPLIANCE WITH MODEL CODE ON DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading Policy that has terms which are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules.

After specific enquiry with all members of the Board, the Board confirms that all of the directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2011.

## A8. INTERIM DIVIDENDS

The Board did not recommend the payment of interim dividends in respect of the six months ended June 30, 2011.

## A9. AUDIT COMMITTEE

Pursuant to the requirements under the Hong Kong Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all the existing Independent Non-executive Directors, namely Mr. He, Ying Bin Ian (chairman of the Audit Committee), Mr. Chen, Yunfei, and Mr. Hall, Gregory Clifton and Mr. Burns, John King. The Audit Committee have reviewed, and discussed with and the Company's auditors on, the unaudited interim results of the Group for the six months ended June 30, 2011.

## QUALIFIED PERSON

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

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

By order of the Board
China Gold International Resources Corp. Ltd.
Mr. Sun, Zhaoxue
*Chairman*

Hong Kong, August 11, 2011

*As of the date of this announcement, the executive Directors are Mr. Sun, Zhaoxue, Mr. Song, Xin, Mr. Wu, Zhanming and Mr. Jiang, Xiangdong, the non-executive Director is Mr. Liu, Bing and the independent non-executive Directors are Mr. He, Ying Bin Ian, Mr. Chen, Yunfei, Mr. Hall, Gregory Clifton and Mr. Burns, John King.*