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## **China Gold International Resources Corp. Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Year ended December 31, 2020**

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

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months and year ended December 31, 2020. (Stated in U.S. dollars, except as otherwise noted)*

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The following Management Discussion and Analysis of financial condition and results of operations (“MD&A”) is prepared as of March 31, 2021. It should be read in conjunction with the consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as “China Gold International”, the “Company”, “we” or “our” as the context may require) for the three months and year ended December 31, 2020 and the three months and year ended December 31, 2019, respectively. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to the Company’s plans, objectives, expectations and intentions, which are based on the Company’s current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in the Company’s Annual Information Form (“Annual Information Form” or “AIF”) dated March 31, 2021 on SEDAR at [www.sedar.com](http://www.sedar.com), [www.chinagoldintl.com](http://www.chinagoldintl.com) and [www.hkex.com.hk](http://www.hkex.com.hk). For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the Company, please refer to the sections titled “Forward-Looking Statements” and “Risk Factors” and to discussions elsewhere within this MD&A. China Gold International’s business, financial condition or results of operations could be materially and adversely affected by any of these risks.

## **FORWARD-LOOKING STATEMENTS**

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

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of China Gold International and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material change in China Gold International’s operations or in foreign exchange rates, the prevailing price of gold, copper and other non-ferrous metal products; the absence of lower-than-anticipated mineral recovery or other production problems; effective income and other tax rates and other assumptions underlying China Gold International’s financial performance as stated in the Company’s technical reports for its CSH Mine and Jiama Mine; China Gold International’s ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labor relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, pandemics such as COVID-19, litigation or arbitration and adverse changes in government regulation; the availability and accessibility of financing to China Gold International; and the performance by counterparties of the terms and conditions of all contracts to which China Gold International and its subsidiaries are a party. The forward-looking information is also based on the assumption that none of the risk factors identified in this MD&A or in the AIF that could cause actual results to differ materially from the forward-looking information actually occurs.

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

## THE COMPANY

### *Overview*

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

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("CSH Mine" or "CSH"), located in Inner Mongolia, China and the Jiama Copper-Gold Polymetallic Mine ("Jiama Mine" or "Jiama"), located in Tibet, China. China Gold International holds a 96.5% interest in the CSH Mine, while its Chinese joint venture ("CJV") partner holds the remaining 3.5% interest. The Company owns a 100% interest in the Jiama Mine, which hosts a large scale copper-gold polymetallic deposit containing copper, gold, molybdenum, silver, lead and zinc metals.

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

### *Performance Highlights*

#### *Three months ended December 31, 2020*

- Revenue increased to US\$265.8 million compared to US\$162.3 million for the same period in 2019.
- Mine operating earnings increased by 485% to US\$90.1 million from US\$15.4 million for the same period in 2019.
- Net income of US\$56.4 million increased by US\$60.7 million from a net loss of US\$4.3 million for the same period in 2019.
- Cash flow from operation increased by 186% to US\$86.8 million from US\$30.4 million for the same period in 2019.
- Total gold production increased by 14% to 59,177 ounces from 52,075 ounces for the same period in 2019.
- Total copper production increased by 72% to 50.1 million pounds (approximately 22,742 tonnes) from 29.2 million pounds (approximately 13,227 tonnes) for the same period in 2019.

#### *Year ended December 31, 2020*

- Revenue increased to US\$864.0 million compared to US\$657.5 million for the same period in 2019.
- Mine operating earnings increased by 227% to US\$209.9 million from US\$64.2 million for the same period in 2019.
- Net income of US\$113.9 million increased by US\$146.1 million from a net loss of US\$32.2 million for the same period in 2019.
- Cash flow from operation increased by 65% to US\$260.5 million from US\$158.3 million for the same period in 2019.
- Total gold production increased by 12% to 240,848 ounces from 214,715 ounces for the same period in 2019.
- Total copper production increased by 31% to 180.9 million pounds (approximately 82,059 tonnes) from 137.9 million pounds (approximately 62,533 tonnes) for the same period in 2019.

## Selected Annual Information

\*

	Year ended December 31				
	2020	2019	2018	2017	2016
<i>US\$ Millions except for per share</i>					
Total revenue	864	657	571	412	339
Income (loss) from operations	154	(3)	43	79	34
Net profit (loss)	114	(32)	(4)	64	(12)
Basic earnings (loss) per share (cents)	28.24	(8.28)	(1.22)	15.93	(3.36)
Diluted earnings (loss) per share (cents)	N/A	N/A	N/A	N/A	N/A
Total assets	3,323	3,197	3,216	3,230	2,967
Total non-current liabilities	1,284	818	1,301	1,324	737

\*Prepared under IFRS

## OUTLOOK

- Projected gold production of 235,000 ounces in 2021.
- Projected copper production of 177 million pounds in 2021.
- The Company continues to focus its efforts on optimizing the operation at both mines, stabilizing the Jiama Mine's production and potentially extending the mine life of CSH Mine.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining acquisition opportunities, namely projects outside of China.
- The Company has not experienced any significant impact on its operations from the COVID-19 pandemic. Both of the Company's mines have been operating without significant interruption during the three months and year ended December 31, 2020. The Company continues to closely monitor the health of its employees and supply chains to be able to respond to any potential disruptions, should any arise. The Company is also managing its cash reserves to be able to withstand any financial ramifications of potential disruptions.

## RESULTS OF OPERATIONS

### Selected Quarterly Financial Data

	Quarter ended							
	2020				2019			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
<i>(US\$ in thousands except per share)</i>								
Revenue	265,810	240,451	209,188	148,583	162,326	186,375	163,166	145,592
Cost of sales	175,717	174,346	173,701	130,414	146,952	160,094	155,876	130,324
Mine operating earnings	90,093	66,105	35,487	18,169	15,374	26,281	7,290	15,268
General and administrative expenses	13,656	8,026	5,793	9,186	15,280	11,762	9,532	13,495
Exploration and evaluation expenses	174	77	165	61	(156)	368	175	115
Research and development expenses	11,019	3,251	2,264	1,966	3,200	4,308	4,541	4,856
Income (loss) from operations	65,244	54,751	27,265	6,956	(2,950)	9,843	(6,958)	(3,198)
Gain on recognition of other assets	-	-	-	-	14,067	11,245	-	-
Foreign exchange gain (loss)	4,806	6,366	(2,331)	(5,438)	4,074	(9,616)	(7,414)	5,288
Finance costs	9,732	10,241	11,525	10,516	10,398	10,560	11,482	10,088
Profit (loss) before income tax	63,961	51,665	17,597	(7,793)	4,732	2,380	(24,817)	(7,137)
Income tax expense (credit)	7,513	4,029	(926)	876	9,037	2,701	(1,866)	(2,563)
Net profit (loss)	56,448	47,636	18,523	(8,669)	(4,305)	(321)	(22,951)	(4,574)
Basic earnings (loss) per share (cents)	14.10	11.87	4.52	(2.25)	(1.19)	(0.17)	(5.79)	(1.13)
Diluted earnings (loss) per share (cents)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

### Selected Quarterly Production Data and Analysis

CSH Mine	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Gold sales (US\$ million)	63.30	52.99	260.07	205.21
Realized average price (US\$) of gold per ounce	1,852	1,488	1,739	1,407
Gold produced (ounces)	34,753	34,474	149,572	146,805
Gold sold (ounces)	34,184	35,622	149,578	145,811
Total production cost (US\$ per ounce)	1,474	1,297	1,392	1,318
Cash production cost <sup>(1)</sup> (US\$ per ounce)	1,205	937	942	862

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

Gold production at the CSH Mine increased by 1% to 34,753 ounces for the three months ended December 31, 2020 compared to 34,474 ounces for the three months ended December 31, 2019. The total production cost of gold for the three months ended December 31, 2020 increased to US\$1,474 per ounce compared to US\$1,297 for the three months ended December 31, 2019. The cash production cost of gold for the three months ended December 31, 2020 increased to US\$1,205 per ounce from US\$937 for the same period in 2019. Changes in total production cost and cash cost are mainly due to longer waste haulage distance leading to higher movement costs.

Jiama Mine	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Copper sales (US\$ in millions)	95.29	74.00	291.18	308.27
Realized average price <sup>1</sup> (US\$) of copper per pound after smelting fee discount	1.78	2.26	1.64	2.13
Copper produced (tonnes)	22,742	13,227	82,059	62,533
Copper produced (pounds)	50,138,122	29,160,597	180,909,850	137,860,887
Copper sold (tonnes)	23,545	15,185	80,463	65,321
Copper sold (pounds)	51,908,517	33,477,926	177,391,325	144,008,887
Gold produced (ounces)	24,424	17,601	91,276	67,910
Gold sold (ounces)	24,999	18,390	89,771	69,997
Silver produced (ounces)	2,369,769	948,985	7,275,862	3,782,151
Silver sold (ounces)	2,407,638	1,029,733	7,113,859	3,960,521
Lead produced (tonnes)	23,457	-	72,031	2,752
Lead produced (pounds)	51,712,012	-	158,800,112	6,067,205
Lead sold (tonnes)	24,183	-	69,714	2,752
Lead sold (pounds)	53,313,232	-	153,691,955	6,067,205
Zinc produced (tonnes)	10,519	-	34,425	-
Zinc produced (pounds)	23,191,738	-	75,893,783	-
Zinc sold (tonnes)	10,917	-	33,315	-
Zinc sold (pounds)	24,068,017	-	73,447,451	-
Moly produced (tonnes)	187	-	187	92
Moly produced (pounds)	411,239	-	411,239	203,026
Moly sold (tonnes)	169	-	169	645
Moly sold (pounds)	372,762	-	372,762	1,422,637
Total production cost <sup>2</sup> (US\$) of copper per pound	2.87	3.55	2.80	3.17
Total production cost <sup>2</sup> (US\$) of copper per pound after by-products credits <sup>4</sup>	0.81	2.50	1.04	2.17
Cash production cost <sup>3</sup> (US\$) per pound of copper	2.29	2.92	2.14	2.50
Cash production cost <sup>3</sup> (US\$) of copper per pound after by-products credits <sup>4</sup>	0.23	1.87	0.38	1.51

- 1 A discount factor of 15.8% to 29.1% is applied to the copper benchmark price to compensate the refinery costs incurred by the buyers. The discount factor is higher if the grade of copper in copper concentrate is below 18%. The industry standard of copper in copper concentrate is between 18-20%.
- 2 Production costs include expenditures incurred at the mine sites for the activities related to production including mining, processing, mine site G&A and royalties etc.
- 3 Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A
- 4 By-products credit refers to the sales of gold and silver during the corresponding period.

During the three months ended December 31, 2020, the Jiama Mine produced 22,742 tonnes (approximately 50.1 million pounds) of copper, an increase of 72% compared with the three months ended December 31, 2019 (13,227 tonnes, or 29.2 million pounds).

Both total production cost of copper per pound after by-products and cash production cost of copper per pound after by-product decreased greatly as compared to the same period in 2019 due to higher mined tonnes, higher head grade, higher recovery rates, and more by-products recovered of lead, zinc and molybdenum.

## ***Review of Quarterly Data***

### ***Three months ended December 31, 2020 compared to three months ended December 31, 2019***

**Revenue** of US\$265.8 million for the fourth quarter of 2020 increased by US\$103.5 million from US\$162.3 million for the same period in 2019.

Revenue from the CSH Mine was US\$63.3 million, an increase of US\$10.3 million, compared to US\$53.0 million for the same period in 2019. Realized average gold price increased by 24% from US\$1,488/oz in Q4 2019 to US\$1,852/oz in Q4 2020. Gold sold by the CSH Mine was 34,184 ounces (gold produced: 34,753 ounces), compared to 35,622 ounces (gold produced: 34,474 ounces) for the same period in 2019.

Revenue from the Jiama Mine was US\$202.5 million, an increase of US\$93.2 million, compared to US\$109.3 million for the same period in 2019. Total copper sold was 23,545 tonnes (51.9 million pounds) for the three months ended December 31, 2020, an increase of 55% from 15,185 tonnes (33.5 million pounds) for the same period in 2019.

**Cost of sales** of US\$175.7 million for the quarter ended December 31, 2020, an increase of US\$28.7 million from US\$147.0 million for the same period in 2019. Cost of sales as a percentage of revenue for the Company decreased from 91% to 66% for the three months ended December 31, 2019 and 2020, respectively. Cost of sales was impacted by many operation factors such as mining costs, grade of ore, metal recovery rates and stripping ratio. Refer to the sections below for details of production factors for each individual mine.

**Mine operating earnings** of US\$90.1 million for the three months ended December 31, 2020, an increase of 485%, or US\$74.7 million, from US\$15.4 million for the same period in 2019. Mine operating earnings as a percentage of revenue increased from 9% to 34% for the three months ended December 31, 2019 and 2020, respectively.

**General and administrative expenses** decreased by US\$1.6 million, from US\$15.3 million for the quarter ended December 31, 2019 to US\$13.7 million for the quarter ended December 31, 2020. The decrease was due to the Company's continuous implementation of an overall cost reduction program.

**Research and development expenses** of US\$11.0 million for the three months ended December 31, 2020, increased from US\$3.2 million for the comparative 2019 period. The increase in 2020 was due to the Company's R&D activities related to recovery rates and processing and mining optimization.

**Income from operations** of US\$65.2 million for the fourth quarter of 2020, increased by US\$68.2 million, compared to a loss of US\$3.0 million for the same period in 2019.

**Finance costs** of US\$9.7 million for the three months ended December 31, 2020, decreased by US\$0.7 million compared to US\$10.4 million for the same period in 2019.

**Foreign exchange gain** of US\$4.8 million for the three months ended December 31, 2020, increased from US\$4.1 million for the same period in 2019. The gain was attributed to changes in the RMB/USD exchange rates and the revaluation of monetary items held in Chinese RMB.

**Income tax expense** of US\$7.5 million for the quarter ended December 31, 2020, decreased by US\$1.5 million from US\$9.0 million for the comparative period in 2019. During the current quarter, the Company had US\$5.3 million of deferred tax credit compared to US\$0.8 million for the same period in 2019.



**Net income** of US\$56.4 million for the three months ended December 31, 2020, increased by US\$60.7 million from a net loss of US\$4.3 million for the three months ended December 31, 2019.

*Year ended December 31, 2020 compared to year ended December 31, 2019*

**Revenue** of US\$864.0 million for the year ended December 31, 2020 increased by US\$206.5 million from US\$657.5 million for the same period in 2019.

Revenue from the CSH Mine was US\$260.1 million, an increase of US\$54.9 million, compared to US\$205.2 million for the same period in 2019. Realized average gold price increased by 24% from US\$1,407/oz in 2019 to US\$1,739/oz in 2020. Gold sold by the CSH Mine was 149,578 ounces (gold produced: 149,572 ounces), compared to 145,811 ounces (gold produced: 146,805 ounces) for the same period in 2019.

Revenue from the Jiama Mine was US\$604.0 million, an increase of US\$151.8 million, compared to US\$452.2 million for the same period in 2019. Total copper sold was 80,463 tonnes (177.4 million pounds) for the year ended December 31, 2020, an increase of 23% from 65,321 tonnes (144.0 million pounds) for the same period in 2019.

**Cost of sales** of US\$654.2 million for the year ended December 31, 2020, an increase of US\$61.0 million from US\$593.2 million for the same period in 2019. Cost of sales as a percentage of revenue for the Company decreased from 90% to 76% for the year ended December 31, 2019 and 2020, respectively. Cost of sales was impacted by many operation factors such as mining costs, grade of ore, metal recovery rates and stripping ratio. Refer to the sections below for details of production factors for each individual mine.

**Mine operating earnings** of US\$209.9 million for the year ended December 31, 2020, an increase of 227%, or US\$145.7 million, from US\$64.2 million for the same period in 2019. Mine operating earnings as a percentage of revenue increased from 10% to 24% for the year ended December 31, 2019 and 2020, respectively.

**General and administrative expenses** decreased by US\$13.4 million, from US\$50.1 million for the year ended December 31, 2019 to US\$36.7 million for the year ended December 31, 2020. The decrease was due to the Company's continuous implementation of an overall cost reduction program.

**Research and development expenses** of US\$18.5 million for the year ended December 31, 2020, increased from US\$16.9 million for the comparative 2019 period. The increase in 2020 was due to the Company's R&D activities in relation to increasing metal recovery rates and optimizing processing and mining.

**Income from operations** of US\$154.2 million for the year ended December 31, 2020, increased by US\$157.5 million, compared to a loss of US\$3.3 million for the same period in 2019.

**Finance costs** of US\$42.0 million for the year ended December 31, 2020, decreased by US\$0.5 million compared to US\$42.5 million for the same period in 2019.

**Foreign exchange gain** of US\$3.4 million for the year ended December 31, 2020, increased from a loss of US\$7.7 million for the same period in 2019. The gain was attributed to changes in the RMB/USD exchange rates and the revaluation of monetary items held in Chinese RMB.

**Interest and other income** of US\$9.8 million for the year ended December 31, 2020 increased from US\$3.3 million for the same period in 2019. The increase in 2020 was primarily attributed to the sales of lead-zinc concentrate at the Jiama Mine.

**Income tax expense** of US\$11.5 million for the year ended December 31, 2020, increased by US\$4.2 million from US\$7.3 million for the comparative period in 2019. During the current year, the Company had US\$12.5 million of deferred tax credit compared to US\$3.4 million for the same period in 2019.

**Net income** of US\$113.9 million for the year ended December 31, 2020, increased by US\$146.1 million from a net loss of US\$32.2 million for the year ended December 31, 2019.



## NON-IFRS MEASURES

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

The Company has included cash production cost per ounce gold data to supplement its consolidated financial statements, which are presented in accordance with IFRS. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance, operating results or financial condition prepared in accordance with IFRS. The Company has included cash production cost per ounce data because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flow. The measure is not necessarily indicative of operating results, cash flow from operations, or financial condition as determined under IFRS. Cash production costs are determined in accordance with the Gold Institute's Production Cost Standard. Although the Gold Institute ceased operations in 2002, the Company believes that the Gold Institute's Production Cost Standard continues to represent the market accepted standard for reporting cash cost of production. However, different issuers may apply slight deviations to the standard so the cash production costs disclosed by the Company may not be directly comparable to other issuers.

The following tables provide a reconciliation of cost of sales to the cash costs of production in total dollars and in dollars per gold ounce for the CSH Mine or per copper pound for the Jiama Mine:

### CSH Mine (Gold)

	Three months ended December 31,				Year ended December 31,			
	2020		2019		2020		2019	
	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce
Total Cost of sales	50,400,816	1,474	46,189,909	1,297	208,152,055	1,392	192,228,416	1,318
Adjustment – Depreciation & depletion	(9,011,507)	(264)	(12,525,697)	(352)	(65,315,849)	(437)	(65,123,084)	(446)
Adjustment – Amortization of intangible assets	(193,794)	(5)	(284,942)	(8)	(1,923,637)	(13)	(1,395,056)	(10)
Total cash production costs	41,195,515	1,205	33,379,270	937	140,912,569	942	125,710,276	862

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

	Three months ended December 31,				Year ended December 31,			
	2020		2019		2020		2019	
	US\$	US\$ Per Pound	US\$	US\$ Per Pound	US\$	US\$ Per Pound	US\$	US\$ Per Pound
Total Cost of sales	125,314,548	2.41	104,954,616	3.14	446,024,457	2.52	401,017,851	2.78
General and administrative expenses	12,814,567	0.25	10,691,637	0.31	31,480,286	0.18	38,397,941	0.27
Research and development expenses	11,018,405	0.21	3,199,894	0.10	18,499,635	0.10	16,904,660	0.12
Total production cost	149,147,520	2.87	118,846,147	3.55	496,004,378	2.80	456,320,452	3.17
Adjustment – Depreciation & depletion	(21,664,945)	(0.41)	(15,650,178)	(0.47)	(81,238,181)	(0.46)	(68,760,126)	(0.48)
Adjustment – Amortization of intangible assets	(8,819,569)	(0.17)	(5,478,025)	(0.16)	(35,988,790)	(0.20)	(27,518,162)	(0.19)
Total cash production costs	118,663,006	2.29	97,717,944	2.92	378,777,407	2.14	360,042,164	2.50
	(106,956,933)						(143,142,843)	
By-products credits	( )	(2.06)	(35,259,216)	(1.05)	(312,118,617)	(1.76)	( )	(0.99)
Total cash production costs after by-products credits	11,706,073	0.23	62,458,728	1.87	66,658,790	0.38	216,899,321	1.51

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

## MINERAL PROPERTIES

### *The CSH Mine*

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

The CSH Mine is owned and operated by Inner Mongolia Pacific Mining Co. Limited, a Chinese Joint Venture in which the Company holds a 96.5% interest and Ningxia Nuclear Industry Geological Exploration Institution holds the remaining 3.5%.

The CSH Mine has two open-pit mining operations with a combined mining and processing capacity of 60,000 tpd. The run-of-mine ore is heap leached with cyanide solution to extract gold and electro-winned to produce a gold dore which is sold to refiners.

In July 2019, CSH updated its mine plan based on a result of latest ultimate limit optimization, in which the production rate was reduced to 40,000 t/d with a life of mine (“LoM”) of seven years as of 2019.

In June 2020, the operation of southwest pit ended.

The major new contracts entered into during the year ended December 31, 2020:

Item No.	Contract Name	Counterpart	Subject amount (US \$ millions)	Contract period (effective day and expiration date)	Date of Contract
1	Contract for supply of on-site mixed emulsion explosives	Bayannur Sheng'an Chemical Co., Ltd. Urad Middle Banner Branch	Estimated: 12.1	2020.1.1 – 2020.12.31	2020.1.1
2	Supply Agreement of Liquid Sodium Cyanide	Inner Mongolia Chengxin Yong'an Chemicals Co., Ltd.	Estimated: 18.5	2020.1.1 – 2020.12.31	2020.1.1
3	Purchase and sale contract of gold bearing materials	Hunan Zhongxing Environmental Protection Technology Co., Ltd	Estimated: 10.6	2020.6.23 – 2020.7.22	2020.6.23
4	Contract for supply of Liquid sodium cyanide (20000 tons)	Chengxin Yongan Chemical Co.,Ltd	Estimated: 6.8	2021.1.1 – 2021.12.31	2020.7.23
5	Contract for supply of on-site mixed emulsion explosives	Bayannur Sheng'an Chemical Co., Ltd. Urad Middle Banner Branch	Estimated: 10.3	2020.7.1 – 2023.5.31	2020.6.30

### Production Update

CSH Mine	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Ore mined and placed on pad (tonnes)	2,564,675	3,827,729	11,508,406	14,751,364
Average ore grade (g/t)	0.46	0.53	0.57	0.53
Recoverable gold (ounces)	24,156	39,168	124,330	153,156
Ending gold in process (ounces)	160,713	174,904	160,713	174,904
Waste rock mined (tonnes)	17,375,012	20,274,260	64,940,037	68,265,938

For the three months ended December 31, 2020, the total amount of ore placed on the leach pad was 2.6 million tonnes, with total contained gold of 24,156 ounces (751.3 kilograms). The overall accumulative project-to-date gold recovery rate has gradually increased to approximately 54.99% at the end of December 2020 from 54.26% at the end of December 2019. Of which, gold recovery from the phase I heap was 59.77% and; gold recovery from the Phase II heap was 50.34% at December 31, 2020.

## Exploration

At the beginning of 2020, an exploration program at the south-west pit depth was started to identify and to upgrade the gold Mineral Resources below the ultimate pit limit for potentially extending the life of mine. Six surface diamond drill holes were completed totaling 3,690+/-m. Meanwhile an additional surface diamond drill hole was completed based on the mineralization interceptions, totaling 964.35+/-m.

In the third quarter, the other exploration program at the north-east pit depth was planned, with 25 surface diamond drill holes totaling 16,735+/-m and one hydrogeological drill hole of 725+/-m, to investigate hydrogeological conditions and to upgrade Mineral Resources at depth. 24 surface drill holes and one hydrogeological drill hole were completed, totaling 15,494.72+/-m and 755.49+/-m, respectively. There was a sticking as the remaining one drill hole reached 780+/-m, causing a redrill with 329+/-m completed.

## Mineral Resources Update

CSH Mine Mineral Resources by category, at December 31, 2020 under NI 43-101 are listed below:

Type	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Measured	3.13	0.54	1.69	0.05
Indicated	105.10	0.64	65.31	2.10
M+I	108.23	0.63	67.00	2.15
Inferred	83.80	0.51	43.07	1.38

## Mineral Reserves Update

CSH Mine Mineral Reserves by category at December 31, 2020 under NI 43-101 are summarized below:

Type	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Proven	2.56	0.57	1.45	0.05
Probable	52.80	0.66	35.08	1.13
<b>Total</b>	<b>55.35</b>	<b>0.66</b>	<b>36.53</b>	<b>1.17</b>

## The Jiama Mine

Jiama is a large copper-gold polymetallic deposit containing copper, gold, silver, molybdenum, lead, zinc and other metals located in the Gandise metallogenic belt in Tibet Autonomous Region of China.

The Jiama Mine has both underground mining and open-pit mining operations. Phase I of the Jiama Mine commenced operation in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011. Phase II of the Jiama Mine commenced mining operations in 2018 with 44,000 tpd design capacity. The combined mining and processing capacity at the Jiama Mine is 50,000 tpd.

The major new contracts entered into during the year ended December 31, 2020:

Item No.	Contract Name	Counterpart	Subject amount (US \$ millions)	Contract period (effective day and expiration date)	Date of Contract
1	Steel ball purchase contract	Tongling Nonferrous Jinshen wear resistant materials Co., Ltd.	Estimated: 2.9	2020.4.28– 2020.10.27	2020.4.28
2	Steel ball purchase contract	Chinalco Industrial Services Co., Ltd	Estimated: 3.0	2020.4.28– 2020.10.27	2020.4.28
3	Steel ball purchase contract	Chinalco Industrial Services Co., Ltd	Estimated: 3.0	2020.6.6– 2021.6.5	2020.6.6

4	Production Technical Service Contract	China Gold Group Inner Mongolia Mining Co., Ltd	Estimated: 4.2	2020.4.5– 2021.4.4	2020.4.5
5	Contract of pressure filtration production and operation project of No.1 processing plant	Tibet Tianchu LiuYe Construction Industry Co., Ltd	Estimated: 2.8	2020.6.30– 2021.6.29	2020.6.30
6	Blasting service contract	Tibet Zhongjin Xinlian Blasting Engineering Co., Ltd	Estimated: 9.9	2020.1.1– 2020.12.31	2020.1.1
7	Blasting service contract	Tibet Gaozheng Blasting Engineering Co., Ltd	Estimated: 9.9	2020.1.1– 2020.12.31	2020.1.1
8	Mixed ore sales contract	Tibet Hongshang Trade Co., Ltd.	Estimated: 42.4	2020.1.1– 2020.12.31	2020.1.1
9	Raw ore sales contract	Tibet Hongshang Trade Co., Ltd.	Estimated: 4.2	2020.6.15- 2023.6.14	2020.6.15
10	Mixed ore sales contract	Tibet Hongshang Trade Co., Ltd.	Estimated: 32.5	2020.5.1-2020.6.1	2020.5.1
11	Mixed ore sales contract	Tibet Mingchuan Trade Co., Ltd	Estimated: 381.4	2020.6.12-2023.6.11	2020.6.12
12	Molybdenum concentrate sales contract	Tibet Hongshang Trade Co., Ltd.	Estimated: 23.2	2020.7.15-2023.7.14	2020.7.15
13	Supplementary Agreement for 4-12 Slope Road 2000 Tons/Day Underground Mining Project (ie 4610 Flat Tunnel Deep Cutting and Mining Project)	The 2nd Engineering Co.,Ltd Of China Railway 17 Bureau Group Corporation	Estimated: 17.1	2020.11.1-2021.10.15	2020.1.1
14	Tibet Huatailong Mining Development Co., Ltd. Jiama Copper Polymetallic Mine 4300m middle section deep development project (third bid section) contract	Zhejiang Hua Ye Mine Group Co.,Ltd	Estimated: 14.4	2020.5.21-2021.12.20	2020.7.4
15	Tibet Huatailong Mining Development Co., Ltd. Jiama Copper Polymetallic Mine 4300m Middle Section Deep Development Project (Second Bid Section) Contract	Ycjh Mining Engineering Co.,Ltd	Estimated: 13.5	2020.5.21-2021.12.20	2020.7.4
16	Contract for purchase of Cement	Sichuan Jiu Tai Fu Xin Mining Co. Ltd	Estimated: 10.3	2020.8.18-2021.8.17	2020.8.18
17	Blasting service contract	Tibet Gaozheng Blasting Engineering Co., Ltd	Estimated: 10.1	2020.12.1-2021.11.30	2020.12.1
18	Blasting service contract	Tibet Zhongjin Xinlian Blasting Engineering Co., Ltd	Estimated: 10.1	2020.12.1-2021.11.30	2020.12.1
19	Steel ball purchase contract	Chinalco Industrial Services Co., Ltd	Estimated: 5.7	2020.9.30-2021.9.29	2020.9.30
20	Contract for purchase of sodium hydrosulfide	Fengshi Chemical (Shanghai) Co., Ltd	Estimated: 4.9	2020.11.12-2021.11.11	2020.11.12
21	The first batch of chemical purchase contract	Yunnan Tiefeng Mining & Chemical New Technology Co. Ltd	Estimated: 3.4	2020.8.31-2021..8.30	2020.8.31
22	Contract for purchase of lime	Xizang Bai Chuan Trading Co. Ltd	Estimated: 3.0	2020.8.31-2021.8.30	2020.8.31
23	Contract for purchase of semi-autogenous mill lining plate	Citic Heavy Industries Co.,Ltd.	Estimated: 3.0	2020.9.8-2021.9.7	2020.9.8

In 2019, Tibet Huatailong Mining Development Co. Ltd. ("Huatailong"), the company holds the Jiama mine, entered into a cooperation agreement (the "Cooperation Agreement") with an independent third party property developer, Zhongxinfang Tibet Construction Investment Co., Ltd. ("Zhongxinfang") in relation to the development of a composite project in Lhasa, Tibet, China. Pursuant to the Cooperation Agreement, the Huatailong agreed to transfer the land use right for the development and the Zhongxinfang agreed to compensate the Huatailong by transferring a block of the buildings and twenty car parks within two years from the date of the Cooperation Agreement and all related tax exposures including but not limited to land appreciation tax, enterprises income tax and other related tax. The land use right was transferred to the Zhongxinfang in 2019.

During the year ended December 31, 2020, there was a construction contract dispute between independent third parties, the constructor, Huaxin Construction Group Co., Ltd. (formerly named as "Nantong Huaxin Construction Group Co., Ltd.") ("Huaxin") and Zhongxinfang, and the Group's subsidiary, Huatailong. The land use right was transferred to Zhongxinfang in 2019 pursuant to the cooperation agreement signed between Zhongxinfang and Huatailong in 2019 in relation to the Land Exchange. Huaxin proceeded a lawsuit against the parties to the construction contract, Zhongxinfang and Huatailong, for the recoverability of the construction costs of RMB149 million (equivalent to US\$21,319,000) and applied for pre-litigation preservation of assets from Huatailong. The Intermediate People's Court of Lhasa City, Tibet, adjudicated that the bank deposit of RMB140 million (equivalent to US\$19,775,000) of Huatailong to be frozen for one year from April 10, 2020 (the "1st Adjudication"). Based on the adjudication of the Intermediate People's Court of Lhasa City, Tibet after the 1st Adjudication on December 1, 2020 and related notice of execution effective from December 3, 2020, the related frozen bank deposit of US\$19,775,000 was released and reclassified from restricted bank balances to cash and cash equivalents accordingly.

Based on the first instance adjudication dated July 23, 2020 (the "First Instance Adjudication"), the litigation ruling adjudicated that Zhongxinfang and Huatailong shall have the joint obligation for the construction costs of RMB140 million (equivalent to US\$20,070,000) to Huaxin. Pursuant to the cooperation agreement signed between Zhongxinfang and Huatailong in 2019, Huatailong is not involved in the construction process. The related costs are the sole responsibilities of Zhongxinfang. Huatailong proceeded an appeal against the First Instance Adjudication on August 17, 2020 (the "Appeal"), and the High People's Court of Lhasa City, Tibet entered the final instance adjudication dated November 20, 2020 (the "Final Instance Adjudication"), that Huatailong has no obligation for the aforesaid construction costs and rescinded the First Instance Adjudication.

## Production Update

Jiama Mine	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Ore processed (tonnes)	4,064,717	2,179,358	14,990,810	12,348,777
Average copper ore grade (%)	0.67	0.72	0.67	0.64
Copper recovery rate (%)	83	84	82	79
Average gold grade (g/t)	0.26	0.34	0.27	0.29
Gold recovery rate (%)	71	73	70	60
Average silver grade (g/t)	28.71	23.70	24.94	17.30
Silver recovery rate (%)	63	57	61	55
Average lead grade (%)	0.78	-	0.69	0.06
Lead recovery rate (%)	74	-	70	36
Average zinc grade (%)	0.38	-	0.36	0.03
Zinc recovery rate (%)	68	-	64	27
Average moly grade (%)	0.004	-	0.002	0.001
Moly recovery rate (%)	31	-	60	59

During the year ended December 31, 2020, the metals recovery rates increased significantly, by 3% for copper, 10% for gold, and 6% for silver, based on the continued optimization of operating parameters regime of reagents, and the amelioration of steady flowsheet, as well as recoveries of lead, zinc and molybdenum.

## Exploration

In the fourth quarter of 2020, the Company continued the diamond drilling program, focusing on the well mineralized zones as outlined based on the drilling program in 2019. Eight projected surface drill holes were completed, totaling 7,973.48+-m, given six drill holes intersecting skarn deposit. The mineralization interceptions and sample assaying of 2020 drilling results will be analyzed together with 2019 exploration results to evaluate mineralization prospects.

## Mineral Resources Estimate

Jiama Mine resources by category at December 31, 2020 under NI 43-101:

### Jiama Project - Cu, Mo, Pb, Zn ,Au, and Ag Mineral Resources under NI 43-101 Reported at a 0.3% Cu Equivalent Cut off grade\*, as of December 31, 2020

Class	Quantity Mt	Cu %	Mo %	Pb %	Zn %	Au g/t	Ag g/t	Cu Metal (kt)	Mo Metal (kt)	Pb Metal (kt)	Zn Metal (kt)	Au Moz	Ag Moz
Measured	93.97	0.38	0.04	0.04	0.02	0.08	5.16	363.4	34.2	35.8	18.4	0.236	15.77
Indicated	1,344.54	0.40	0.03	0.05	0.03	0.10	5.66	5,420.8	459.0	724.3	456.1	4,510	247.43
M+I	1,438.51	0.40	0.03	0.05	0.03	0.10	5.63	5,784.2	493.2	760.1	474.5	4,746	263.20
Inferred	406.1	0.31	0.03	0.08	0.04	0.10	5.13	1,247	123.0	311	175	1,317	66.93

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

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

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

## Mineral Reserves Estimate

Jiama Mine reserves by category at December 31, 2020 under NI 43-101:

### Jiama Project Statement of NI 43-101 Mineral Reserve Estimate as of December 31, 2020

Class	Quantity Mt	Cu %	Mo %	Pb %	Zn %	Au g/t	Ag g/t	Cu Metal (kt)	Mo Metal (kt)	Pb Metal (kt)	Zn Metal (kt)	Au Moz	Ag Moz
Proven	19.21	0.60	0.05	0.03	0.02	0.20	8.03	115.4	9.3	5.8	3.9	0.123	4.96
Probable	370.53	0.60	0.03	0.12	0.07	0.17	10.51	2,221.7	124.2	461.5	258.7	2,016	125.22
P+P	389.74	0.60	0.03	0.12	0.07	0.17	10.39	2,337.1	133.5	467.3	262.6	2,139	130.18

Notes:

- All Mineral Reserves have been estimated in accordance with the JORC code and have been reconciled to CIM standards as prescribed by the NI 43-101.
- Mineral Reserves were estimated using the following mining and economic factors:
  - Open Pits:
    - 5% dilution factor and 95% recovery were applied to the mining method;
    - an overall slope angles of 43 degrees;
    - a copper price of US\$ 2.9/lbs;
    - an overall processing recovery of 88 - 90% for copper
  - Underground:
    - 10% dilution added to all Sub-Level Open Stopping;
    - Stope recovery is 87% for Sub-Level Open Stopping;
    - An overall processing recovery of 88 – 90% for copper.
- The cut-off grade for Mineral Reserves has been estimated at copper equivalent grades of 0.3% Cu (NSR) for the open pits and 0.45% Cu (NSR) for the underground mine.

## LIQUIDITY AND CAPITAL RESOURCES

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing its mining and mineral processing operations, exploration activities and acquisition of exploration and mining rights. The Company's principal sources of funds have been proceeds from borrowing from commercial banks in China, corporate bond financing, equity financings, and cash generated from operations. The Company's liquidity primarily depends on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

At December 31, 2020, the Company had an accumulated surplus of US\$295.5 million, working capital of US\$142.3 million and borrowings of US\$1,225 million. The Company's cash balance at December 31, 2020 was US\$243.3 million.

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments. The Company's borrowings are comprised of US\$296.6 million of 2.8% coupon rate unsecured bonds maturing on June 23, 2023, and US\$132.1 million of short term debt facilities with interest rates ranging from 1.20% to 4.51% per annum arranged through various banks in China. In addition, on November 3, 2015, the Company entered into a Loan Facility agreement with a syndicate of banks, led by Bank of China. The lenders agreed to lend an aggregate principle amount of RMB 3.98 billion, approximately US\$613 million with the interest rate of 2.83% per annum. The People's Bank of China Lhasa Center Branch's interest rate serves as a local benchmark for the interest on the drawdowns. The bank's interest rate is then discounted by 7 basis points (or 0.07%) to calculate the interest on the drawdowns. The loan interest rate was adjusted from benchmark interest rate minus 7 basis points to 5 year loan prime rate ("LPR") less 2% (LPR-2%) in second quarter of 2020. The interest rate of 2.65% shall be applied for the current year after converting. The proceeds from the Loan Facility are to be used for the development of the Jiama Mine. The loan is secured by the mining rights for the Jiama Mine. As of December 31, 2020 the Company has drawn down RMB 3,790 billion, approximately US\$580.9 million under the Loan Facility. On April 29, 2020, the Company entered into a Loan Facility agreement with a syndicate of banks. The lenders agreed to lend an aggregate principal amount of RMB 1.4 billion, approximately US\$197.8 million with the interest rate of 2.65% per annum currently, maturing on April 28, 2034. The company obtained a loan in the aggregate principal amount of RMB400 million with China Development Bank bearing interest at the People's Bank of China Loan Market Quote Rate (1 year) minus 2.65% on April 30, 2020. The current interest rate of the loan is 1.2% per annum. On July 6, 2020, the Company repaid the previously outstanding unsecured bonds issued in 2017 with an aggregate principal amount of US\$500 million and interest expense of US\$8.125 million. The Company believes that the availability of debt financing in China at favorable rates will continue for the foreseeable future.

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

## Cash flows

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the year ended December 31, 2020 and December 31, 2019.

	Year ended December 31,	
	2020	2019
	US\$'000	US\$'000
Net cash from operating activities	260,456	158,312
Net cash used in investing activities	(133,210)	(128,046)
Net cash (used in) from financing activities	(71,636)	14,982
Net increase in cash and cash equivalents	55,610	45,248
Effect of foreign exchange rate changes on cash and cash equivalents	5,388	(954)
Cash and cash equivalents, beginning of period	182,290	137,996
<b>Cash and cash equivalents, end of period</b>	<b>243,288</b>	<b>182,290</b>

## Operating cash flow

For the year ended December 31, 2020, net cash inflow from operating activities was US\$260.5 million which is primarily attributable to (i) profit before income tax of US\$125.4 million (ii) depreciation of property, plant and equipment of US\$148.7 million (iii) finance cost of US\$42.0 million and (iv) amortization of mining rights of US\$38.0 million, partially offset by (i) interest paid of US\$37.9 million (ii) income taxes paid of US\$19.3 million, (iii) increase in inventory of US\$14.9 million, and (iv) increase in trade and other receivables of US\$11.5 million.



### ***Investing cash flow***

For the year ended December 31, 2020, the net cash outflow from investing activities was US\$133.2 million which is primarily attributable to (i) payment for acquisition of property, plant and equipment of US\$150.2 million, and (ii) payment of restricted bank balance of US\$101.1 million for bank notes, partially offset by release of restricted bank balance of US\$115.0 million for bank notes.

### ***Financing cash flow***

For the year ended December 31, 2020, the net cash outflow mainly from financing activities was US\$71.6 million which is primarily attributable to proceeds from borrowings of US\$600.2 million which included the US\$300 million bond issuance on June 24, 2020 offset by repayment of borrowings of US\$671.4 million.

### **Expenditures Incurred**

For the year ended December 31, 2020, the Company incurred mining costs of US\$123.4 million, mineral processing costs of US\$140.1 million and transportation costs of US\$6.3 million.

### **Gearing ratio**

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at December 31, 2020, the Company's total debt was US\$1,225 million and the total equity was US\$1,595 million. The Company's gearing ratio was therefore 0.77 as at December 31, 2020 and 0.86 as at December 31, 2019.

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

Other than as disclosed elsewhere in this MD&A or in the annual consolidated financial statements for year ended December 31, 2020, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended December 31, 2020. Other than as disclosed in this MD&A, there was no plan authorized by the Board for other material investments or additions of capital assets at the date of this MD&A.

### **CHARGE ON ASSETS**

Other than as disclosed elsewhere in this MD&A and annual consolidated financial statements, none of the Company's assets were pledged as at December 31, 2020.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation. However, the Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Refer to Note 35, Financial Instruments, in the annual consolidated financial statements for the year ended December 31, 2020.

## **COMMITMENTS**

Commitments include principal payments on the Company's bank loans and syndicated loan facility, corporate bond, and capital commitments in respect of the future acquisition of property, plant and equipment and construction for both the CSH Mine and the Jiama Mine.

The Company's capital commitments relate primarily to the payments for purchase of equipment and machinery for both mines and payments to third-party contractors for the provision of mining and exploration engineering work and mine construction work for both mines. The Company has entered into contracts that prescribe such capital commitments; however, liabilities relating to them have not yet been incurred. Refer to Note 36, Commitments, in the annual consolidated financial statements for the year ended December 31, 2020.

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

On June 24, 2020, the Company, through its wholly owned subsidiary Skyland Mining (BVI) Limited, issued bonds denominated in U.S. dollar, with an aggregate principal amount of US\$300 million. The Bonds were issued at a price of 99.886%, bearing a coupon of 2.8% per annum with a maturity date of June 23, 2023. Interest is payable in semi-annual installments on December 23 and June 23 of each year. The bonds are listed on HKSE and Chongwa (Macao) Financial Asset Exchange (“MOX”).

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

	<b>Total</b>	<b>Within</b>	<b>Within</b>	<b>Over five years</b>
	<b>US\$'000</b>	<b>One year</b>	<b>Two to five years</b>	<b>US\$'000</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Principal repayment of bank loans	<b>859,476</b>	116,783	325,829	416,864
Repayment of bonds including interest	<b>296,616</b>	8,204	288,412	-
Repayment of entrusted loan payable	<b>30,652</b>	-	30,652	-
Repayment of loans payable to a CNG subsidiary	<b>38,305</b>	15,316	22,989	-
<b>Total</b>	<b>1,225,049</b>	<b>140,303</b>	<b>667,882</b>	<b>416,864</b>

Subsequent to the reporting period, the entrusted loan of RMB 200 million (equivalent to approximately US\$30,652,000) was early repaid in full.

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

## RELATED PARTY TRANSACTIONS

China National Gold Group Co., Ltd. (formerly known as China National Gold Group Corporation) ("CNG") owned 40.01 percent of the outstanding common shares of the Company as at December 31, 2020 and 39.3 percent as at December 31, 2019.

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

The Company's subsidiary, Inner Mongolia Pacific is a party to a non-exclusive contract for the purchase and sale of doré with CNG (the "Dore Sales Contract") pursuant to which Inner Mongolia Pacific sells gold doré bars to CNG. The pricing is based on the monthly average price of gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period. The Dore Sales Contract has been in effect since October 24, 2008 and has been renewed for a current term that commenced on January 1, 2018 and expires on December 31, 2020, which renewal was approved by the Company's shareholders on June 28, 2017. On June 16, 2020, the third Supplemental Contract for Purchase and Sale of Dore was approved by the Company's Shareholders, commencing on January 1, 2021 and expiring on December 31, 2023.

Revenue from sales of gold doré bars to CNG was US\$260.1 million for the year ended December 31, 2020 which increased from US\$205.2 million for the year ended December 31, 2019.

The Company is also a party to a Product and Service Framework Agreement with CNG, pursuant to which CNG provides construction, procurement and equipment financing services to the Company and also purchases the copper concentrates produced at the Jiamia Mine. The quantity of copper concentrates, pricing terms and payment terms may be established from time to time by the parties with reference to the pricing principles for connected transactions set out under the Product and Service Framework Agreement. On June 28, 2017, the Supplemental Product and Service Framework Agreement was approved and extended to expire on December 31, 2020. For the year ended December 31, 2020, revenue from sales of copper concentrate and other products to CNG was US\$166.7 million, compared to US\$79.5 million for the same period in 2019. On June 16, 2020, the third Supplemental Product and Service Framework Agreement was approved by the Company's Shareholders, commencing on January 1, 2021 and expiring on December 31, 2023.

For the year ended December 31, 2020, construction services of US\$16.6 million were provided to the Company by subsidiaries of CNG (US\$9.5 million for the year ended December 31, 2019).

In addition to the aforementioned major related party transactions, the Company also obtains additional services from related parties in its normal course of business, including a Loan Agreement and a Deposit Services Agreement entered into on March 25, 2019, December 31, 2019, and December 22, 2020 among the Company and China Gold Finance.

Refer to Note 32 of the audited annual consolidated financial statements for the year ended December 31, 2020.

## **PROPOSED TRANSACTIONS**

The Board of Directors has given the Company approval to conduct reviews of a number of projects that may qualify as acquisition targets through joint venture, merger and/or outright acquisitions. The Company did not have any material acquisition and disposal of subsidiaries and associated companies for the year ended December 31, 2020. The Company continues to review possible acquisition targets.

## **CRITICAL ACCOUNTING ESTIMATES**

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 4 of the audited annual consolidated financial statements for the year ended December 31, 2020.

## **CHANGE IN ACCOUNTING POLICIES**

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the audited annual consolidated financial statements as at December 31, 2020.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company holds a number of financial instruments, the most significant of which are equity securities, accounts receivables, accounts payables, cash and loans. The financial instruments are recorded at either fair values or amortized amount on the balance sheet.

The Company did not have any financial derivatives or outstanding hedging contracts as at December 31, 2020.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As at December 31, 2020, the Company had not entered into any off-balance sheet arrangements.

## **DIVIDEND AND DIVIDEND POLICY**

The Company has not paid any dividends since incorporation and does not currently have a fixed dividend policy. The Board of Directors will determine any future dividend policy on the basis of, among other things, the results of operations, cash flows and financial conditions, operating and capital requirements, the rules promulgated by the regulators affecting dividends in both Canada and Hong Kong, China and at both the TSX and HKSE, and the amount of distributable profits and other relevant factors.

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

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

In Connection with the financial results for the year ended December 31, 2020, the Company has declared a special dividend in respect of the year ended 31 December 2020 of US\$ 0.12 per common share, in an aggregate amount of US\$47,570,000, payable on May 30, 2021 to shareholders of record as of April 20, 2021. The Board of Directors will determine any future dividends and dividend policy on the basis of earnings, financial requirements and other relevant factors.

## **OUTSTANDING SHARES**

As of December 31, 2020 the Company had 396,413,753 common shares issued and outstanding.

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

Management is responsible for the design of disclosure controls and procedures (“DC&P”) and the design of internal control over financial reporting (“ICFR”) to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company’s certifying officers. The Company’s Chief Executive Officer and Chief Financial Officer have each evaluated the Company’s DC&P and ICFR as of December 31, 2020 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of December 31, 2020, and provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company’s Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to evaluate the Company’s ICFR as of December 31, 2020 and have concluded that these controls and procedures were effective as of December 31, 2020 and provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the year ended December 31, 2020, there were no changes in the Company’s DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **RISK FACTORS**

There are certain risks involved in the Company’s operations, some of which are beyond the Company’s control. Aside from risks relating to business and industry, the Company’s principal operations are located within the People’s Republic of China and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Readers of this MD&A should give careful consideration to the information included in this document and the Company’s audited annual consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company’s mineral properties, natural disasters, pandemics such as COVID-19 and litigation. China Gold International’s business, financial condition or results of operations could be materially and adversely affected by any of these risks. For details of risk factors, please refer to the Company’s annual audited consolidated financial statements, and Annual Information Form filed from time to time on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.hkex.com.hk](http://www.hkex.com.hk).

## **QUALIFIED PERSON**

Disclosure of scientific or technical information in this MD&A was reviewed and approved by Mr. Zhongxin Guo, P.Eng., the Company’s Chief Engineer and a Qualified Person (“QP”) for the purposes of NI 43-101.

March 31, 2021