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

### **Management's Discussion and Analysis of Financial Condition and Results of Operations Three months ended March 31, 2021 (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 ended March 31, 2021. (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 May 13, 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 ended March 31, 2021 and the three months ended March 31, 2020, 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 March 31, 2021*

- Revenue increased to US\$272.1 million compared to US\$148.6 million for the same period in 2020.
- Mine operating earnings increased by 360% to US\$83.8 million from US\$18.2 million for the same period in 2020.
- Net income of US\$57.0 million increased by US\$65.7 million from a net loss of US\$8.7 million for the same period in 2020.
- Cash flow from operation increased by 964% to US\$170.2 million from US\$16.0 million for the same period in 2020.
- Total gold production increased by 3% to 53,521 ounces from 51,829 ounces for the same period in 2020.
- Total copper production increased by 37% to 48.9 million pounds (approximately 22,191 tonnes) from 35.7 million pounds (approximately 16,185 tonnes) for the same period in 2020.

## 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 ended March 31, 2021. 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							
	2021	2020				2019		
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
<i>(US\$ in thousands except per share)</i>								
Revenue	<b>272,070</b>	265,810	240,451	209,188	148,583	162,326	186,375	163,166
Cost of sales	<b>188,319</b>	175,717	174,346	173,701	130,414	146,952	160,094	155,876
Mine operating earnings	<b>83,751</b>	90,093	66,105	35,487	18,169	15,374	26,281	7,290
General and administrative expenses	<b>8,099</b>	13,656	8,026	5,793	9,186	15,280	11,762	9,532
Exploration and evaluation expenses	<b>41</b>	174	77	165	61	(156)	368	175
Research and development expenses	<b>4,424</b>	11,019	3,251	2,264	1,966	3,200	4,308	4,541
Income (loss) from operations	<b>71,187</b>	65,244	54,751	27,265	6,956	(2,950)	9,843	(6,958)
Gain on recognition of other assets	<b>-</b>	-	-	-	-	14,067	11,245	-
Foreign exchange gain (loss)	<b>1,728</b>	4,806	6,366	(2,331)	(5,438)	4,074	(9,616)	(7,414)
Finance costs	<b>9,743</b>	9,732	10,241	11,525	10,516	10,398	10,560	11,482
Profit (loss) before income tax	<b>64,079</b>	63,961	51,665	17,597	(7,793)	4,732	2,380	(24,817)
Income tax expense (credit)	<b>7,112</b>	7,513	4,029	(926)	876	9,037	2,701	(1,866)
Net profit (loss)	<b>56,967</b>	56,448	47,636	18,523	(8,669)	(4,305)	(321)	(22,951)
Basic earnings (loss) per share (cents)	<b>14.30</b>	14.10	11.87	4.52	(2.25)	(1.19)	(0.17)	(5.79)
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 March 31,	
	2021	2020
Gold sales (US\$ million)	<b>56.66</b>	55.50
Realized average price (US\$) of gold per ounce	<b>1,803</b>	1,572
Gold produced (ounces)	<b>30,222</b>	35,297
Gold sold (ounces)	<b>31,419</b>	35,295
Total production cost (US\$ per ounce)	<b>1,529</b>	1,361
Cash production cost <sup>(1)</sup> (US\$ per ounce)	<b>1,031</b>	995

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

Gold production at the CSH Mine decreased by 14% to 30,222 ounces for the three months ended March 31, 2021 compared to 35,297 ounces for the three months ended March 31, 2020. The total production cost of gold for the three months ended March 31, 2021 increased to US\$1,529 per ounce compared to US\$1,361 for the three months ended March 31, 2020. The cash production cost of gold for the three months ended March 31, 2021 increased to US\$1,031 per ounce from US\$995 for the same period in 2020. Changes in total gold production, production cost and cash cost are mainly due to higher amounts of waste mined and longer waste haulage distance leading to higher movement costs.

<b>Jiama Mine</b>	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Copper sales (US\$ in millions)	<b>116.57</b>	54.66
Realized average price <sup>1</sup> (US\$) of copper per pound after smelting fee discount	<b>2.21</b>	1.72
Copper produced (tonnes)	<b>22,191</b>	16,185
Copper produced (pounds)	<b>48,923,721</b>	35,682,121
Copper sold (tonnes)	<b>23,907</b>	14,412
Copper sold (pounds)	<b>52,705,436</b>	31,772,300
Gold produced (ounces)	<b>23,299</b>	16,532
Gold sold (ounces)	<b>24,941</b>	14,846
Silver produced (ounces)	<b>1,732,653</b>	1,263,835
Silver sold (ounces)	<b>1,899,867</b>	1,046,041
Lead produced (tonnes)	<b>20,822</b>	9,275
Lead produced (pounds)	<b>45,905,657</b>	20,448,655
Lead sold (tonnes)	<b>23,091</b>	5,999
Lead sold (pounds)	<b>50,906,530</b>	13,226,567
Zinc produced (tonnes)	<b>9,652</b>	5,198
Zinc produced (pounds)	<b>21,279,737</b>	11,459,498
Zinc sold (tonnes)	<b>10,738</b>	3,638
Zinc sold (pounds)	<b>23,672,916</b>	8,019,451
Total production cost <sup>2</sup> (US\$) of copper per pound	<b>2.88</b>	2.87
Total production cost <sup>2</sup> (US\$) of copper per pound after by-products credits <sup>4</sup>	<b>1.01</b>	1.67
Cash production cost <sup>3</sup> (US\$) per pound of copper	<b>2.26</b>	1.94
Cash production cost <sup>3</sup> (US\$) of copper per pound after by-products credits <sup>4</sup>	<b>0.39</b>	0.74

<sup>1</sup> 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%.

<sup>2</sup> 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.

<sup>3</sup> Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

<sup>4</sup> By-products credit refers to the sales of gold and silver during the corresponding period.

During the three months ended March 31, 2021, the Jiama Mine produced 22,191 tonnes (approximately 48.9 million pounds) of copper, an increase of 37% compared with the three months ended March 31, 2020 (16,185 tonnes, or 35.7 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 2020 due to higher mined tonnes, higher head grade, higher recovery rates, and more by-products recovered of lead and zinc.

### **Review of Quarterly Data**

#### **Three months ended March 31, 2021 compared to three months ended March 31, 2020**

**Revenue** of US\$272.1 million for the first quarter of 2021 increased by US\$123.5 million from US\$148.6 million for the same period in 2020.

Revenue from the CSH Mine was US\$56.7 million, an increase of US\$1.2 million, compared to US\$55.5 million for the same period in 2020. Realized average gold price increased by 15% from US\$1,572/oz in Q1 2020 to US\$1,803/oz in Q1 2021. Gold sold by the CSH Mine was 31,419 ounces (gold produced: 30,222 ounces), compared to 35,295 ounces (gold produced: 35,297 ounces) for the same period in 2020.

Revenue from the Jiama Mine was US\$215.4 million, an increase of US\$122.3 million, compared to US\$93.1 million for the same period in 2020. Total copper sold was 23,907 tonnes (52.7 million pounds) for the three months ended March 31, 2021, an increase of 66% from 14,412 tonnes (31.8 million pounds) for the same period in 2020.

**Cost of sales** of US\$188.3 million for the quarter ended March 31, 2021, an increase of US\$57.9 million from US\$130.4 million for the same period in 2020. Cost of sales as a percentage of revenue for the Company decreased from 88% to 69% for the three months ended March 31, 2020 and 2021, 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\$83.8 million for the three months ended March 31, 2021, an increase of 360%, or US\$65.6 million, from US\$18.2 million for the same period in 2020. Mine operating earnings as a percentage of revenue increased from 12% to 31% for the three months ended March 31, 2020 and 2021, respectively.

**General and administrative expenses** decreased by US\$1.1 million, from US\$9.2 million for the quarter ended March 31, 2020 to US\$8.1 million for the quarter ended March 31, 2021. The decrease was due to the Company's continuous implementation of an overall cost reduction program.

**Research and development expenses** of US\$4.4 million for the three months ended March 31, 2021, increased from US\$2.0 million for the comparative 2020 period. The increase in 2021 was due to the Company's R&D activities related to recovery rates and processing and mining optimization.

**Income from operations** of US\$71.2 million for the first quarter of 2021, increased by US\$64.2 million, compared to US\$7.0 million for the same period in 2020.

**Finance costs** of US\$9.7 million for the three months ended March 31, 2021, decreased by US\$0.8 million compared to US\$10.5 million for the same period in 2020.

**Foreign exchange gain** of US\$1.7 million for the three months ended March 31, 2021, increased from a loss of US\$5.4 million for the same period in 2020. 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\$0.9 million for the three months ended March 31, 2021, decreased from US\$1.2 million for the same period in 2020.

**Income tax expense** of US\$7.1 million for the quarter ended March 31, 2021, increased by US\$6.2 million from US\$0.9 million for the comparative period in 2020. During the current quarter, the Company had US\$0.4 million of deferred tax expense compared to US\$37,000 for the same period in 2020.

**Net income** of US\$57.0 million for the three months ended March 31, 2021, increased by US\$65.7 million from a net loss of US\$8.7 million for the three months ended March 31, 2020.

## **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 March 31,			
	2021		2020	
	US\$	US\$ Per ounce	US\$	US\$ Per ounce
Total Cost of sales	48,048,720	1,529	48,037,135	1,361
Adjustment – Depreciation & depletion	(15,153,167)	(482)	(12,358,839)	(350)
Adjustment – Amortization of intangible assets	(497,101)	(16)	(547,908)	(16)
Total cash production costs	32,398,452	1,031	35,130,388	995

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

	Three months ended March 31,			
	2021		2020	
	US\$	US\$ Per Pound	US\$	US\$ Per Pound
Total Cost of sales	140,270,592	2.66	82,377,046	2.59
General and administrative expenses	7,127,969	0.14	6,880,138	0.22
Research and development expenses	4,424,050	0.08	1,966,271	0.06
Total production cost	151,822,611	2.88	91,223,455	2.87
Adjustment – Depreciation & depletion	(24,756,577)	(0.47)	(20,339,425)	(0.64)
Adjustment – Amortization of intangible assets	(7,824,765)	(0.15)	(9,123,099)	(0.29)
Total cash production costs	119,241,269	2.26	61,760,931	1.94
By-products credits	(98,545,362)	(1.87)	(38,159,573)	(1.20)
Total cash production costs after by-products credits	20,695,907	0.39	23,601,358	0.74

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.

## Production Update

### CSH Mine

Three months ended March 31,

	2021	2020
Ore mined and placed on pad (tonnes)	3,432,864	1,726,400
Average ore grade (g/t)	0.42	0.61
Recoverable gold (ounces)	27,999	20,647
Ending gold in process (ounces)	158,320	164,997
Waste rock mined (tonnes)	10,579,578	5,117,072

For the three months ended March 31, 2021, the total amount of ore placed on the leach pad was 3.4 million tonnes, with total contained gold of 27,999 ounces (870.9 kilograms). The overall accumulative project-to-date gold recovery rate has gradually increased to approximately 55.12% at the end of March 2021 from 54.51% at the end of March 2020. Of which, gold recovery from the phase I heap was 59.77% and; gold recovery from the Phase II heap was 50.70% at March 31, 2021.

## Exploration

Two geological exploration programs were conducted at CSH Gold Mine in 2020 to increase mineral resources and to upgrade categories. In the first quarter of 2021, the drilling was completed. A total of 7 drill holes with 4,654.35m were completed at the southwest zone, and a total of 26 drill holes with 17,167.50m, including one hydro-geological hole with 755.50m, were executed at the northeast zone.

## 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 and zinc, 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.

During the year ended December 31, 2020, there was a construction contract dispute involving three parties. The parties are Huaxin Construction Group Co., Ltd. (formerly "Nantong Huaxin Construction Group Co., Ltd.") ("Huaxin") a construction contractor, Zhongxinfang, a real estate developer, and the Group's subsidiary, Huatailong.

Huatailong transferred its land use right to Zhongxinfang in 2019 pursuant to the cooperation agreement signed between Zhongxinfang and Huatailong ("Land Exchange"). Pursuant to the cooperation agreement, Zhongxinfang is obligated to develop the land and transfer a portion of the office buildings and twenty car parks (the "New Premises") to Huatailong no later than the end of 2021. As at March 31, 2021 and up to the date of issuance of these condensed consolidated financial statements, the project remains suspended due to litigations against Zhongxinfang. Based on Group's assessment on the completion status of the New Premises, the construction of the New Premises has been substantially completed and there has been no significant market value decline of comparable properties during the current period. Accordingly, no impairment loss (2020: nil) has been made on the other non-current assets as the directors of the Company are of the opinion that the recoverable amount of the non-current assets is above its carrying amount of US\$19,061,000 (equivalent to RMB125,252,000) as at March 31, 2021.

During the year ended December 31, 2020, Huatailong paid the tax and other surcharges related to the Land Exchange and expects to recover such payments from Zhongxinfang in accordance with the cooperation agreement between Huatailong and Zhongxinfang signed in 2019. On July 8, 2020, Huatailong applied for pre-litigation preservation of assets from Zhongxinfang. The Intermediate People's Court of Lhasa City, Tibet, adjudicated that the value of properties valued at RMB46 million (equivalent to US\$6,609,000) from Zhongxinfang was frozen for one year (the "Pre-litigation Preservation"). The first instance adjudication dated November 20, 2020 in relation to the lawsuit against Zhongxinfang for the recoverability of the tax and other surcharges (the "Tax and Other Surcharge") paid by Huatailong, became final upon expiry of appeal deadline in December 2020. The litigation ruling adjudicated that Zhongxinfang shall repay the Tax and Other Surcharge of RMB46 million (equivalent to US\$6,997,000) to Huatailong (the "November Adjudication") within 30 days from the effective date of the November Adjudication (the "Due Date"). As Zhongxinfang has not settled such amount within the Due Date, Huatailong applied for an enforcement of the November Adjudication in January 2021 (the "Enforcement"). Based on legal advice, the Enforcement is currently under proceeding and the result is not ascertain as at the date these condensed consolidated financial statements are authorised for issue.

## Production Update

Jiama Mine	Three months ended March 31,	
	2021	2020
Ore processed (tonnes)	3,968,330	3,409,208
Average copper ore grade (%)	0.67	0.61
Copper recovery rate (%)	83	78
Average gold grade (g/t)	0.27	0.24
Gold recovery rate (%)	68	63
Average silver grade (g/t)	21.29	20.94
Silver recovery rate (%)	64	55
Average lead grade (%)	0.65	0.54
Lead recovery rate (%)	80	51
Average zinc grade (%)	0.35	0.30
Zinc recovery rate (%)	69	51

During the three months ended March 31, 2021, the metals recovery rates increased by 5% for copper, 5% for gold, 9% for silver, 29% for lead and 18% for zinc, based on the continued optimization of operating parameters regime of reagents, and the amelioration of steady flowsheet.

## Exploration

The 2021 exploration program for Jiama Mine plans for 12 drill holes totaling 17,418m, focused on extremities of Jiama deposit.

## 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:

$$\text{CuEq Grade} = (\text{Ag Grade} * \text{Ag Price} + \text{Au Grade} * \text{Au Price} + \text{Cu Grade} * \text{Cu Price} + \text{Pb Grade} * \text{Pb Price} + \text{Zn Grade} * \text{Zn Price} + \text{Mo Grade} * \text{Mo Price}) / \text{Copper Price}$$

## 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:
    - a) 5% dilution factor and 95% recovery were applied to the mining method;
    - b) an overall slope angles of 43 degrees;
    - c) a copper price of US\$ 2.9/lbs;
    - d) an overall processing recovery of 88 - 90% for copper
  - Underground:
    - a) 10% dilution added to all Sub-Level Open Stopping;
    - b) Stope recovery is 87% for Sub-Level Open Stopping;
    - c) 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 March 31, 2021, the Company had an accumulated surplus of US\$303.5 million, working capital of US\$123.2 million and borrowings of US\$1,182 million. The Company's cash balance at March 31, 2021 was US\$323.7 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\$299.0 million of 2.8% coupon rate unsecured bonds maturing on June 23, 2023, and US\$145.1 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 March 31, 2021 the Company has drawn down RMB 3,360 billion, approximately US\$511.3 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 three months ended March 31, 2021 and March 31, 2020.

	<b>Three months ended March 31,</b>	
	<b>2021</b>	2020
	<b>US\$'000</b>	US\$'000
Net cash from operating activities	<b>170,198</b>	16,020
Net cash (used in) investing activities	<b>(57,851)</b>	(31,531)
Net cash (used in) financing activities	<b>(31,034)</b>	(378)
Net increase (decrease) in cash and cash equivalents	<b>81,313</b>	(15,889)
Effect of foreign exchange rate changes on cash and cash equivalents	<b>(868)</b>	(2,708)
Cash and cash equivalents, beginning of period	<b>243,288</b>	182,290
<b>Cash and cash equivalents, end of period</b>	<b>323,733</b>	163,693

### Operating cash flow

For the three months ended March 31, 2021, net cash inflow from operating activities was US\$170.2 million which is primarily attributable to (i) profit before income tax of US\$64.1 million (ii) depreciation of property, plant and equipment of US\$41.3 million (iii) increase in contract liabilities of US\$24.2 million and (iv) increase in accounts payable of US\$23.4 million, partially offset by (i) interest paid of US\$6.1 million (ii) income taxes paid of US\$6.0 million and (iii) unrecognized foreign exchange gain of US\$3.4 million.

### Investing cash flow

For the three months ended March 31, 2021, the net cash outflow from investing activities was US\$57.9 million which is primarily attributable to (i) payment for acquisition of property, plant and equipment of US\$57.0 million, and (ii) payment of restricted bank balance of US\$3.1 million for bank notes, partially offset by release of restricted bank balance of US\$1.9 million for bank notes.

## ***Financing cash flow***

For the three months ended March 31, 2021, the net cash outflow mainly from financing activities was US\$31.0 million which is primarily attributable to repayment of the entrusted loan of US\$30.6 million and dividend paid to the Huatailong minority shareholder of US\$413,000.

## **Expenditures Incurred**

For the three months ended March 31, 2021, the Company incurred mining costs of US\$32.3 million, mineral processing costs of US\$23.9 million and transportation costs of US\$1.6 million.

## **Gearing ratio**

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at March 31, 2021, the Company's total debt was US\$1,182 million and the total equity was US\$1,600 million. The Company's gearing ratio was therefore 0.74 as at March 31, 2021 and 0.86 as at March 31, 2020.

## **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 the three months ended March 31, 2021, 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 three months ended March 31, 2021. 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 March 31, 2021.

## **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 Jiamia 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 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 One year</b>	<b>Within Two to five years</b>	<b>Over five years</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Principal repayment of bank loans	<b>853,408</b>	115,959	323,527	413,922
Repayment of bonds including interest	<b>299,024</b>	8,270	290,754	-
Repayment of loans payable to a CNG subsidiary	<b>29,140</b>	29,140	-	-
<b>Total</b>	<b>1,181,572</b>	<b>153,369</b>	<b>614,281</b>	<b>413,922</b>

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

## RELATED PARTY TRANSACTIONS

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 March 31, 2021 and 39.3 percent as at March 31, 2020.

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 was renewed for a new term that commenced on January 1, 2018 and expired 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\$56.7 million for the three months ended March 31, 2021 which increased from US\$55.5 million for the three months ended March 31, 2020.

The Company is also a party to a Product and Service Framework Agreement with CNG, pursuant to which CNG provides construction, procurement and equipment financing services to the Company and also purchases the copper concentrates produced at the Jiama Mine. The quantity of copper concentrates, pricing terms and payment terms may be established from time to time by the parties with reference to the pricing principles for connected transactions set out under the Product and Service Framework Agreement. On June 28, 2017, the Supplemental Product and Service Framework Agreement was approved and extended to expire on December 31, 2020. 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 three months ended March 31, 2021, revenue from sales of copper concentrate and other products to CNG was US\$120.3 million, compared to US\$3 million for the same period in 2020.

For the three months ended March 31, 2021, construction services of US\$1.3 million were provided to the Company by subsidiaries of CNG (US\$1.0 million for the three months ended March 31, 2020).

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 14 of the condensed consolidated financial statements for the three months ended March 31, 2021.

## 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 three months ended March 31, 2021. 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 March 31, 2021.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As at March 31, 2021, the Company had not entered into any off-balance sheet arrangements.

## **DIVIDEND AND DIVIDEND POLICY**

The Company 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 March 31, 2021 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 March 31, 2021 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 March 31, 2021, 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 March 31, 2021 and have concluded that these controls and procedures were effective as of March 31, 2021 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 three months ended March 31, 2021, 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.

May 13, 2021