

# Inter-Citic Minerals Inc.

## Management's Discussion and Analysis

This Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements for the third quarter ended August 31, 2008 (unaudited), the audited consolidated financial statements for the year ended November 30, 2007 and the Annual Information Form ("AIF") for the year ended November 30, 2007 for Inter-Citic Minerals Inc. ("**Inter-Citic**", or the "**Company**"), and is current as at October 10, 2008. Unless otherwise noted, all financial information is expressed in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles and with consistent application of accounting policies. Additional information regarding the Company and its operations and activities can be found on its website at [www.inter-citic.com](http://www.inter-citic.com), or on SEDAR at [www.sedar.com](http://www.sedar.com), including the documents referenced above.

Mr. B. Terrence Hennessey, P.Geo., of Micon International Limited, is a qualified person under National Instrument 43-101 ("**NI 43-101**") and has reviewed disclosure of a technical nature in this Management's Discussion and Analysis.

### HIGHLIGHTS FOR THE QUARTER

- The Company reported results of approximately 130 drill holes (approximately 30,000 meters of drilling out of 50,000 meters planned for 2008) for the Dachang Gold Project ("**Dachang**"), as announced in the Company's press releases of June 26, July 18, August 7 and, subsequent to the quarter, September 29, 2008. The 2008 fieldwork at Dachang has thus far been focused on in-fill drilling on a substantial portion of the Dachang Main Zone ("**DMZ**"), which is now complete, and remaining drilling will concentrate on resource expansion on new areas of the property. There are now 7 diamond drills in operation at Dachang.
- Subsequent to the quarter, on September 11, 2008, the Company reported that it was successful in mapping new areas of discovery using Induced Polarization ("**IP**") tools. Certain targets have since been drill tested and the Company is awaiting assay results for these holes.
- On July 23, 2008 the Company announced that it had hired a mining engineer to assist with advancing development plans for the Dachang Gold Project, including the preparation and drafting of a preliminary assessment (scoping study).

### OVERVIEW

Inter-Citic is a development stage company engaged in the acquisition, exploration and development of exploration stage resource properties.

To date the Company has entered into earn-in agreements to acquire two exploration properties, the Dachang Gold Project in the Province of Qinghai, China, and the Zalantun Gold Project ("**Zalantun**") in the Inner Mongolia Autonomous Region, in the People's Republic of China ("**China**" or the "**PRC**").

As at the date of this report, the Dachang Gold Project has received government approval, has been issued a formal business license (valid until 2033), completed formal transfer of title of the exploration licenses of the subject lands and acquired new exploration licenses for additional lands for a total land area of approximately 279 km<sup>2</sup>.

The Company has been conducting exploration at Dachang since 2004. The Company conducted its 2007 exploration program, including approximately 28,000 meters of diamond drilling, between the months of May and December of the year. Results to date have been announced in the Company's press releases of

July 12, August 13, September 17, October 15 and November 26, 2007, January 8, 2008 and March 3, 2008. Exploration results for the Project can be found on the Company's website at [www.inter-citic.com](http://www.inter-citic.com).

The Company began its 2008 exploration program for Dachang during May of 2008, including up to 50,000 metres of diamond drilling on the DMZ area of the property. As at the date of this report there were 7 drills in operation at Dachang.

The aim of the 2008 drill program on the DMZ is to test continuity of the Company's inferred resource area of the DMZ (as described in the Company's press release of April 10, 2008) and to convert a large percentage of the inventory to a measured and indicated level. As of the date of this MD&A this drilling is substantially complete.

The Company plans to continue exploration drilling, with the remaining 20,000 meters of drilling to focus on the eastern extensions of the DMZ, internal areas of the DMZ open to expansion, Placer Valley and new geochemical and IP targets, in that order of priority. The DMZ mineralization remains open at depth and to the east, and further testing of this structure will continue to focus on shallow potentially bulk-mineable mineralization.

The Company has been very successful in identifying mineralized zones for drilling through systematic soil and trench sampling, and the Company will continue to drill targets identified through surface and trench samples throughout the year. In addition, the Company was successful in identifying new targets using IP tools in areas where thicker than typical overburden makes exploration surface trenching impossible, as described in the Company's press release of September 11, 2008.

The Company has also initiated work on a preliminary assessment (scoping study) in conjunction with industry consultants.

During 2007 the Company wrote-down \$91,825 of previously capitalised exploration expenses for the Zalantun Gold Project, reflecting ongoing delays in organizing the project and the Company's decision to focus substantially all of its resources in the exploration of Dachang. The Company does not anticipate any further investment in this project.

In the medium to long term, the Company intends to continue to explore Dachang with a view to identifying gold reserves and to continue to evaluate and ultimately implement strategies for becoming a gold producer in the PRC. To date the Company has not found any mineral reserves or engaged in any production on any of its properties.

The Company currently has approximately \$20 million in cash available for the continued exploration of Dachang. Due to market circumstances beyond the control of the Company, the Company no longer expects to raise up to approximately \$7 million from the exercise of in-the-money options and share-purchase warrants that would otherwise expire (see **Cash Resources and Liquidity**, below). Additional financings will be required in the future to fund ongoing operations and meet the Company's commitments as they come due, including its project commitments (see Exploration Projects, Activities and Commitments, below). Although to date the Company has been successful in sourcing funds necessary to continue its business activities, the Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. Given recent market turmoil and uncertainty in the Company's share price, the Company cannot predict when additional equity offerings will be possible, but is confident that current cash resources are sufficient to sustain the Company for the upcoming business cycle. To date the Company has not found any proven reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future. Mineral resource exploration and development is extremely risky and speculative by nature, as there is no guarantee that mineral deposits will be found, and even if they are, that they can be mined economically. In the event that exploration on the properties, confirmation of the Company's interest in the underlying mineral claims, the Company's ability to obtain appropriate financing to put these properties into production, and profitability of future production, especially with respect to the Dachang Gold Project, is not successful,

assets may not be realized or liabilities discharged at their carrying amounts, and these differences could be material.

## RESULTS OF OPERATIONS

Selected financial information:

	August 31, 2008	November 30, 2007	November 30, 2006	November 30, 2005
<b>Balance Sheet:</b>				
Cash and Cash Equivalents, including Restricted Cash	\$20,440,709	\$6,007,681	\$4,314,944	\$1,192,222
Total Assets	\$50,220,958	\$28,078,577	\$18,116,065	\$8,800,604
Total Long-term Financial Liabilities (excluding Future Income Taxes)	-	-	-	-
<b>Net Loss (Income):</b>				
Net Loss before the Undernoted	\$2,507,626	\$2,437,852	\$2,632,535	\$1,556,947
Write-down of Zalantun	-	91,825	-	-
Stock-based compensation	1,004,250	756,450	236,150	365,319
Other	-	(530,385) <sup>[1]</sup>	11,083	(523,827) <sup>[2]</sup>
<b>Net loss for the period</b>	<b>\$3,511,876</b>	<b>\$2,755,742</b>	<b>\$2,879,768</b>	<b>\$1,398,439</b>
Net Loss Per Share (Basic and Diluted)	\$0.05	\$0.04	\$0.05	\$0.03
<b>Additional Data</b>				
Net proceeds from issuance of shares and warrants	\$23,126,478	\$9,524,402	\$10,622,555	\$3,003,496
Spent on equipment purchases	\$1,069,630	\$757,799	\$530,336	\$119,117
Spent on exploration expenses	\$5,786,989	\$6,588,533	\$4,808,055	\$2,347,735

[1] During the second quarter of 2007 the Company disposed of its 80% interest in Yangzhong Zhonghai Techmat Co., Ltd. for gross proceeds of the equivalent of approximately \$582,250 (Renminbi 4,000,000), resulting in a net gain of \$582,247. Prior to this disposal the Company incurred expenses associated with security and maintenance of land, buildings and rare earth processing equipment in China that were held by the subsidiary. The Company also incurred legal and other expenses related to the disposition itself. During the year ended November 30, 2007, the net amount of these costs were \$51,862, including legal fees associated with the disposition of \$21,216 and are net of recovery of bad debts, sale of inventory previously written off, liquidation of property, plant and equipment, exchange gains and losses for the period and other related income or expenses as applicable.

[2] During 2005, the Company liquidated most of its rare earth processing equipment for net proceeds of approximately \$429,240 (Renminbi 2,940,000) and reversed approximately \$102,967 in accounts payable that were over-accrued at the time operations ceased.

Since 2004 the Company has focused exclusively on exploration of Dachang with a view towards proving reserves and progression to development. The Company successfully completed various financings in each year since 2004 for that purpose, including raising more than \$23 million in the first 6 months of 2008 (resulting in a significant increase in total assets compared to November 30, 2007). Funds raised will be used to purchase exploration equipment for use at Dachang, to pay for exploration costs at Dachang, and to fund ongoing operating expenses. Exploration programs increased each year as the Company accumulated more data and experience with the Project, as did general operating expenses. This trend is clearly evident in the data contained in the table above when comparing one year to the next, and clearly demonstrates the overall direction and business plan of the Company since acquiring the Dachang Project.

In addition, for certain payments in relation to mineral property interests the Company records a future income tax liability and a corresponding adjustment to the related asset carrying amounts, which also contributed to the increase in total assets from year to year.

At this time, the Company anticipates that exploration expenses at Dachang will continue to increase as the Company moves towards feasibility work and ultimate development of the project. During the first quarter of 2008, the Company successfully completed private placement financing for gross proceeds of approximately \$16 million for this purpose.

The Company expects that net loss before the undernoted in the table above is expected to generally remain consistent from year to year as the Company carries out this business plan. Although net loss before these items were significantly lower in 2005 (about \$1,076,000 lower, or more than 40%) compared to 2006, this is consistent with reduced exploration activity in that year. The Company expects that in general operating expenses from year to year will continue to be in the range of \$2.5 to \$3.0 million, however costs will vary somewhat depending on level of exploration activity from year to year and other items. For the first nine months of 2008 net loss was much higher than usual as a result of expenses associated with the filing of an application to list the Company's shares for trading on the American Stock Exchange, as well as costs associated with bonuses accrued to management and significantly increased marketing expenses in response to conditions in the financial markets (see **Specific Items**, below), resulting in a higher net loss to date.

## **EXPLORATION PROJECTS, ACTIVITIES AND COMMITMENTS**

### **Dachang Gold Project**

On November 14, 2003, the Company entered into an earn-in agreement with the Qinghai Geological Survey Institute regarding the Dachang Gold Project in the Province of Qinghai, China. Under the terms of this agreement, the Company can earn an 83% interest in the project by contributing the equivalent of approximately \$13,516,000 (Renminbi 90,000,000) for exploration (all of which was advanced as at August 31, 2008), completion of metallurgical and pre-feasibility reports, and making a cash payment of the equivalent of approximately \$1,343,000 (Renminbi 10,000,000) upon the issuance of a mining license required to bring the project into production.

The Company also has the option to acquire an additional 7% interest in the project based on the valuation of any potential mining project contained in the pre-feasibility report, for a total interest of 90%. The Qinghai Geological Survey Institute will retain a carried interest in the project. As part of the agreement, the Company also has a right of first refusal on any mineral exploration project for which the Qinghai Geological Survey Institute seeks foreign investment.

The Dachang Gold Project is located approximately 165 km from the City of Golmud in the Province of Qinghai, China, at an elevation of approximately 4,500 meters and consists of five exploration licenses covering approximately 279 km<sup>2</sup>. To date the Company has identified 55 gold-in-soil anomalies across six districts of the property. The six districts are as follows:

- Dachang East
- Dachang North
- Central Dachang
- Western Quarter
- North River
- Southwest Dachang.

The Company has been exploring Dachang since 2004, including:

1. 1:25,000 scale Geological Mapping over 200 km<sup>2</sup>;

2. Soil Geochemical Surveys over areas of approximately 229 km<sup>2</sup> (more than 60,000 conventional B-horizon soil samples collected and tested for gold, arsenic and antimony);
3. 24.6 km of 50 meter pole-dipole IP surveying and 32.6 kms of 25meter pole-dipole IP surveying;
4. Excavation and sampling of 464 trenches totalling more than 57,000 linear meters; and
5. 552 diamond drill holes totalling more than 84,000 meters.

During the first quarter of 2006, in the Company's Press Release of December 12, 2005, the Company announced an increase to its inferred mineral resource at Dachang by approximately 1.3 million tonnes grading 5.81 grams per tonne Au (approximately 239,000 ounces Au contained) as a result of positive initial drilling of the NR-2 anomaly.

In addition, as described in the Company's press release of April 10, 2008, the Company reported an update of the inferred mineral resource estimate on the Dachang Main Zone to 23.6 million tonnes grading approximately 3.51 gpt Au (approximately 2.66 million ounces Au contained).

With the NR-2 anomaly, the Dachang project combined total inferred mineral resource now stands at 24.9 million tonnes with an average grade of 3.63 gpt Au (approximately 2.90 million ounces Au contained).

To date, the Company has not found any mineral reserves or engaged in any production on any of its properties, and these estimates of inferred resources are not affected by any known environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues.

A detailed in-fill drill program on the DMZ was undertaken by the Company in 2007 with the aim of confirming continuity of grade and mineralization. Drilling along a 900 metre-long area of the DMZ, 2007's in-fill drill program increased both grade and contained ounces of gold, and has shown good geological continuity on the closely spaced drill sections. Of the 11,637 meters directed at in-fill drilling in the DMZ, a majority was directed at a 900-meter strike length of the DMZ (from sections 12800 to 8300) to test mineral continuity and grade. In 2006, 120-meter spaced drill fences returned an 890 meter section on this portion of the DMZ that contained 7.8 million tonnes grading 3.49 gpt, or 980 ounces Au per linear meter tested. In 2007, with much closer spaced 40 meter sections, an 820 meter section of this same area returned 7.5 million tonnes grading 3.56gpt, or 1,041 ounces Au per linear meter tested. This represents an increase over 2006 as to both grade and gold contained per linear metre.

In addition, the fault controlled mineralization that hosts the gold at Dachang has now been extended off the eastern end of the DMZ by approximately 1.5 kilometres and now defines a total 3.5 km strike length. The central and eastern portions of the existing DMZ still remain open to additional resource expansion above 150 meters and will require further testing. Below 150 meters the DMZ along much of its strike is yet to be tested. Also the most easterly sections of the fault so far tested (sections 2400E and 2900E) show that the DMZ mineralization is still strong and open in this direction. The fault structure going east has also changed - the DMZ fault flattens in the east to a 30-35° dip which has increased the dip length of the fault above 150 meters by more than 50%.

Trenching continues to be one of the most successful and cost-effective methods of gold exploration at Dachang due to the thin soil cover and near-surface mineralization observed throughout the property. A consistent spatial relationship has been observed between the gold in soil anomalies, trench values and underlying strongly altered and mineralized fault zones. In addition, as discussed, during 2008, the Company was successful in identifying new targets using IP tools in areas where thicker than typical overburden made exploration surface trenching impossible.

As discussed in the Overview above, the Company resumed exploration at Dachang in early May, 2008, including an expanded diamond-drilling program of up to 50,000 metres. On June 26, 2008, the Company announced results from the first 22 drill holes of the 2008 drilling program, including a new step-out drill hole with 29.5 meters averaging 4.78gpt contained gold and 21 in-fill holes (to test continuity of the

Company's inferred resource area of the DMZ as described in the Company's press release of April 10, 2008). Gold mineralization was reported in all 22 holes.

On July 18 the company reported on 31 drill holes and the occurrence of visible gold in core. On August 7, 2008 the Company reported the results of the next 26 drill holes, with gold mineralization found in 25 of the 26 drill holes. Subsequent to the quarter, on September 29, 2008, the Company reported the next 50 drill holes with all holes reporting gold mineralization. As at the end of September, 2008, approximately 34,400 meters of diamond drilling of the 50,000 meters planned for 2008 had been completed in 223 holes.

All exploration at Dachang since the involvement of the Company was completed under the direction of the Company. The Company completed and filed a technical report dated May 26, 2008 for the Dachang Gold Project which, in addition to information with respect to results from 193 holes (approximately 28,000 meters) drilled during 2007 as well as other information regarding ongoing work and findings at Dachang, can be found in the Company's press releases, available from the Company's website or from [www.sedar.com](http://www.sedar.com).

### **Capitalized Exploration Costs**

A breakdown of capitalized or expensed exploration costs for the Company's resource properties, on a property-by-property basis for the nine-month period ended August 31, 2008 together with the comparative figures for the year ended November 30, 2007 is included in the Company's Notes to Consolidated Financial Statements for the quarter ended August 31, 2008.

Differences in exploration expenditures from year to year and from quarter to quarter arise primarily as a result of differences in the scope, nature and timing of exploration activity. While it is normally expected that exploration that began in the previous year will conclude in Q1 of every year, it is expected that Q2 of every year will represent a transitional quarter for the Company, as it compiles and analyzes results of exploration for the previous year which would have been completed in Q1 and subsequently prepares for commencement of exploration for the current year. The Company began 2008 exploration of Dachang in early May, and the Company will continue to work towards beginning exploration earlier in the year every year, and believes that ultimately it can operate a year-round exploration and drilling camp at Dachang.

During the quarter, the Company capitalised \$4,944,093 in costs relating to the Dachang Gold Project (compared to \$2,471,014 last year), excluding future tax liabilities of \$675,000 (compared to \$535,000 last year), representing an increase of \$2,473,079 (100%). On a year to date basis and excluding future tax liabilities, the Company capitalised \$5,932,430 in the first nine months of 2008 compared to \$3,559,675 in 2007 (increase of \$2,372,755, or 67%). Although the Company enjoyed comparatively lower exploration costs in Q2 compared to the same period last year (as a result of the Company's significantly reduced mobilization costs in Q2 of 2008 compared to 2007 as exploration began earlier this year compared to last and as the Company gains operating experience and efficiency at Dachang from year to year), the significant increase during Q3 is in line with expectations given the overall increase in drilling planned.

### **Office Lease**

The Company has entered into a lease for office space to the year 2009 with minimum lease payments as follows: balance of 2008 - \$21,589, 2009 - \$21,589.

## SUMMARY OF QUARTERLY RESULTS

Selected quarterly information for the past eight quarters:

(unaudited)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Net Loss:</b>								
Net Loss before the Undernoted:	\$719,461	\$1,053,831	\$1,119,187	\$801,556	\$401,159	\$764,164	\$660,820	\$725,528
Write-down of Zalantun	-	-	-	91,825	-	-	-	-
Rare Earth <sup>[1]</sup>	-	-	-	-	34,785	(565,219)	49	11,606
Interest	(162,483)	(137,163)	(85,207)	(48,732)	(84,990)	(32,350)	(23,775)	(100,230)
Stock-based compensation	\$893,250	-	\$111,000	-	\$25,500	597,000	133,950	38,500
<b>Overall</b>	<b>\$1,450,228</b>	<b>\$916,668</b>	<b>\$1,144,980</b>	<b>\$844,649</b>	<b>\$376,454</b>	<b>\$763,595</b>	<b>\$771,044</b>	<b>\$675,404</b>
Net Loss Per Share (Basic and Diluted)	\$0.018	\$0.011	\$0.016	\$0.011	\$0.006	\$0.012	\$0.014	\$0.011

[1] See Note [1] and [2] under **Results of Operations – Selected Financial Information**, above.

Generally speaking, the Company's annual exploration program for Dachang begins by the end of Q2 and runs through Q3 and Q4. Exploration results are compiled and released as they are received throughout this period and into Q1 of the following year, with planning and mobilization for the following year's exploration program occurring in Q2, although as the Company begins exploration earlier each year some of these costs may be incurred by the end of Q1, as was the case this year. Expenditures on exploration are generally consistent with this pattern of activity, as are the Company's overhead expenses, in that they are expected to be lowest in Q1, begin to increase in Q2 and then level off at their highest in Q3 and Q4 (again, this trend is expected to shift from Q2 to Q1 as the Company mobilizes earlier each year). Moreover, overheads are affected by the timing and nature of the Company's financing initiatives, as can be seen in a temporary "ballooning" of expenses in Q1 of 2007 as the Company's travel and promotional activities increased significantly as a result of the major financing that took place at the time. Although there was a significant increase in expenses in both Q1 and Q2 of 2008, during which time the largest single financing of the Company's history was completed, the primary reasons for this increase were in fact not related to the financing, but, rather, to increased expenses associated with executive compensation as well as to costs associated with the filing of an application to list the Company's shares on the American Stock Exchange in the United States of America (see **Specific Items**, below). In Q3 of 2008, the significant increase in expenses is almost entirely attributable to increased marketing costs as noted earlier. Costs were significantly lower in Q3 of 2007 in part due to a stronger Canadian dollar and so increased foreign exchange gains, as well as lower executive compensation, professional fees and corporate relations costs (see **Specific Items**, below). At the time, in spite of this, the Company believed that this increase was coincidental and that expenses would most likely be somewhat higher in the next quarter to compensate for the decrease in Q3, which in fact occurred.

Notwithstanding the above, however, overall operating expenses have increased and continue to significantly for the Company as it expands its exploration activities and continues to pursue financings to support those activities. With respect to exploration, changes relate to the timing, nature and extent of exploration from year to year. As discussed, the Company has begun exploration at Dachang earlier every year since 2004 and has increased its drilling and trenching budgets significantly (for example, approximately 50,000 meters of diamond drilling is budgeted for 2008 compared to approximately 28,000 meters for 2007, 15,000 meters in 2006 and only about 2,500 meters the year before). These initiatives resulted in higher expenses across the board as the Company managed this increased activity level, and again, the Company expects this trend to continue in the future as the Dachang Project is developed.

Additional details regarding overall expenses from quarter to quarter during 2006 and 2007 can be found in the Company's annual and interim Management's Discussion and Analysis for each period, as applicable, which are available on its website at [www.inter-citic.com](http://www.inter-citic.com), or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **SPECIFIC ITEMS**

The Company's consolidated financial statements for the third quarter ended August 31, 2008 include a detailed breakdown of expenses. Specific items of note are as follows:

- Corporate relations expense increased significantly from \$65,007 in Q3 of 2007 to \$308,785 in 2008 (an increase of \$243,778, or 375%) as a result of new and increased marketing initiatives in response to turmoil in the global capital markets.
- Stock-based compensation expense increased significantly from \$25,500 in Q3 of 2007 to \$893,250 in Q3 of 2008 (as the Company continued in its efforts to secure the services of key management, consultants and directors in an increasingly competitive business environment (see Risks and Uncertainties – Dependence on Key Personnel, and, Competition, below).
- The Company earns interest income on highly liquid interest-bearing investments with maturities of less than 90 days from the date of acquisition. Interest income in recent periods has been higher than in the past as the Company has increased cash available to earn interest income further to significantly increased financing activity in recent years.

### **RELATED PARTY TRANSACTIONS**

Details regarding transactions with related parties are detailed in Note 10 of the Company's Notes to Consolidated Financial Statements for the third quarter ended August 31, 2008. All related party expenditures were in the normal course of business at market rates.

### **CASH RESOURCES AND LIQUIDITY**

On February 5, 2008, the Company completed private placement financing for total gross proceeds of \$16,000,000 (net proceeds of \$14,896,951). In addition, during the first two quarters of 2008, the Company raised an additional \$8,229,527 as a result of the exercise of 535,000 stock options and 6,497,927 share-purchase warrants. As at August 31, 2008, the Company has in excess of \$20 million in cash, cash equivalents and restricted cash.

However, by its very nature as a development stage exploration company, the Company continued to generate negative cash flow from operations in the third quarter of 2008 (\$596,768) compared to 2007 (\$626,932), for reasons related to the Company's business activities, as discussed. The Company continues to invest in the exploration of Dachang with a view to eventual development of the project and commencement of profitable production sufficient to recover its investment. To date the Company has not found any mineral reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future.

Although the Company determines the scope of exploration of its mineral properties based on prior results and available resources, the Company relies on equity offerings from time to time to fund its operations, and additional financings will be required in the future to fund ongoing operations and meet the Company's commitments as they come due, including its project commitments (see Exploration Projects, Activities and Commitments). As discussed in the Overview, above, although to date the Company has been successful in sourcing funds necessary to continue its business activities, the Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development.

To date the Company has not found any proven reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future. Mineral resource exploration and development is extremely risky and speculative by nature, as there is no guarantee that mineral deposits will be found, and even if they are, that they can be mined economically. In the event that exploration on the properties, confirmation of the Company's interest in the underlying mineral claims, the Company's ability to obtain appropriate financing to put these properties into production, and profitability of future production, especially with respect to the Dachang Gold Project, is not successful, assets may not be realized or liabilities discharged at their carrying amounts, and these differences could be material.

The Company does not have any material capital lease agreements, nor does the Company hold any investments in asset-backed securities.

### **Restricted Cash**

Restricted cash relates to advances held in China and committed to continuing exploration of the Dachang Gold Project. The balance of restricted cash will vary depending on the timing of contributions compared to expenditure of those funds on exploration and related expenses. During 2007 the Company advanced approximately \$1,704,000 to the project and spent approximately \$1,082,000 for this purpose. During the first three quarters of 2008, the Company advanced a further \$6,650,000, with approximately an additional \$2,103,000 spent during the first three quarters of 2008.

### **Private Placement Financing (February, 2008)**

On February 5, 2008, the Company announced the completion of a brokered private placement of 8 million common shares at a price of \$2.00 per common share, for total gross proceeds of \$16 million. In connection with this private placement, the Company paid cash commission of \$960,000 and issued 480,000 share-purchase warrants to the Underwriters. Each share-purchase warrant entitles the holder to purchase one common share of the Company at a price of \$2.00 per common share until February 5, 2009. Proceeds from this financing will be used by the Company to advance the Dachang Gold Project and for general working capital purposes.

### **OUTSTANDING SHARE DATA**

As at October 10, 2008, the Company had outstanding:

- 82,612,839 common shares (98,500,000 common shares, without par value, were authorized),
- 3,273,900 share-purchase warrants, each of which is convertible to one common share of the Company, as follows:
  - (i) 2,420,300 share-purchase warrants that entitle the holder to acquire one common share of the Company at a price of \$2.25 until November 9, 2008, and
  - (ii) 373,600 share-purchase warrants that entitle the holder to acquire one common share of the Company at a price of \$2.25 until November 17, 2008, and
  - (iii) 480,000 share-purchase warrants that entitle the holder to acquire one common share of the Company at a price of \$2.00 until February 5, 2009
- 4,770,000 stock options, each of which is convertible to one common share of the Company at a weighted average price per stock option of \$1.21, for a weighted-average period per stock option of 2.00 years. Exercise prices range from \$0.50 to \$1.95.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

The Company believes that it has designed and implemented disclosure controls and procedures as at August 31, 2008 that are sufficient in providing reasonable assurance that material information related to the Company and its consolidated subsidiaries is made known and is adequately disclosed in the Company's annual filings as defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

In addition, there has not been any change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **CRITICAL ACCOUNTING POLICIES**

A detailed summary of the Company's significant accounting policies is included in Note 3, Significant Accounting Policies, of the Company's Notes to Consolidated Financial Statements for the third quarter ended August 31, 2008 and the year ended November 30, 2007.

The Company considers the following policies critical to understanding the judgements that are involved in preparing the consolidated financial statements of the Company and the uncertainties that could impact results of operations, financial condition and cash flows.

### **Development Stage Entity**

The Company has adopted the Accounting Guideline 11 – Enterprises in the Development Stage (AcG11), relating to enterprises in the development stage, as detailed by the Canadian Institute of Chartered Accountants ("CICA"). The Company is engaged in the acquisition, exploration and development of exploration-stage mineral properties. To date the Company has not found any proven or probable reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future. Mineral resource exploration and development is extremely risky and speculative by nature, as there is no guarantee that mineral deposits will be found, and even if they are, that they can be mined economically. In the event that exploration on the properties, confirmation of the Company's interest in the underlying mineral claims, the Company's ability to obtain appropriate financing to put these properties into production, and profitability of future production, especially with respect to the Dachang Gold Project, is not successful, assets may not be realized or liabilities discharged at their carrying amounts, and these differences could be material. Please also see Risks Associated with Exploration and Development, below.

### **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the quarter. Actual results could differ from those estimates.

The most significant estimates are related to resource properties, valuation of incentive stock options and share-purchase warrants and calculation of future tax liability.

### **Resource Properties**

The Company considers its exploration costs to have the characteristics of property, plant and equipment. Costs associated with acquisition, direct exploration and development of resource properties are capitalized

pending commencement of production, at which time they will be amortized over the estimated production life. The Company assesses its capitalized resource property costs on a regular basis. If capitalized expenditures on individual resource properties exceed the estimated net recoverable amount, the properties are written down to the estimated fair value. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company is in the process of exploring its property interests. Amounts reflected in the financial statements reflect cost to date and may not represent future value to the Company. No mineral reserves have been determined to exist on these properties. Therefore, the recoverability of the amounts reflected is dependent on future successful exploration and development of the properties.

Note that mineral reserves and resources are estimated in accordance with N.I. 43-101, as required by Canadian Securities regulatory authorities. For United States reporting purposes, Industry Guide 7 under the Securities Exchange Act of 1934, as interpreted by the staff of the United States Securities and Exchange Commission (“SEC”), applies different standards to classify mineralization as a reserve.

Readers are advised that the terms “mineral resource,” “measured mineral resource,” “indicated mineral resource” and “inferred mineral resource” are not defined terms under standards in the United States and normally are not permitted to be used in reports and registration statements filed with the SEC. As such, information contained in this report concerning descriptions of mineralization and resources required under Canadian standards may not be comparable to similar information made public by US companies in SEC filings. Readers are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

### **Income Taxes**

Income taxes are calculated using the asset and liability method. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The benefit of future income tax assets is only recognized where their realization is judged to be more likely than not. Future income tax assets and liabilities are measured using tax rates and laws expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. A valuation allowance is provided against future income tax assets to the extent it is considered not likely that the future income tax assets will be realized.

### **Stock Based Compensation**

The Company has one stock-based compensation plan, which is described in Note 12 (d) of the Notes to Consolidated Financial Statements for the third quarter ended August 31, 2008. The Company accounts for stock-based compensation in accordance with CICA 3870 (Stock-based Compensation and Other Stock-based Payments) and recognizes stock-based compensation based on the fair value method of accounting. Under this method, the fair value of stock-based compensation is determined based on the Black-Scholes valuation model and is recognized based on vesting of options granted under the stock option plan. Amounts recognized are expensed and also credited to Contributed Surplus. Consideration paid on exercise of stock options is credited to Share Capital.

Please refer to the notes of the consolidated financial statements of the Company for the third quarter ended August 31, 2008 for further information on the Company’s financial policies and estimates.

### **RISKS AND UNCERTAINTIES**

The following describes certain principal risks, some or all of which have been described in prior management’s discussion and analysis as well as the Company’s current AIF, but is not, by its very nature, all-inclusive.

## **Risks Associated with Exploration and Development**

The Company is engaged in mineral exploration and development. To date the Company has not found any mineral reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future. The Company has no history of earnings, nor has it previously engaged in the mining and production of gold. Mineral resource exploration and development is extremely risky and speculative by nature, as there is no guarantee that mineral deposits will be found, and even if they are, that they can be mined economically. The mining industry is also subject to market pressures from unpredictable commodity and metal prices, which may have a significant impact on the economic viability of a known deposit. A significant commitment of time and money is required for high cost exploration activity, such as diamond-bore drilling, in order to establish mineral reserves, develop a feasibility study and then to implement construction of a mine and commence production. At any time during this process there are numerous factors that alone or in combination may impede or interfere with intended plans, and the impact of these variables cannot be predicted or determined with certainty. Such factors include, but are not limited to, market (including currency) fluctuations, location of the Company's projects, political stability, government regulations, environmental protection, the nature of the deposit, competition, and availability of ongoing financial and personnel resources, both in sufficient quantity and within required timeframes. Many of these risk factors are discussed in other areas of this section, below, but all can be related directly to the nature of the business of the Company.

In addition, the Company's exploration activities and specifically the nature and location of those activities have associated with them certain operating risks that cannot be predicted but may be significant. Although the Company maintains health and safety standards onsite (including emergency evacuation protocols) to mitigate the risk of injury to individuals working on its exploration projects, there is no guarantee that a serious injury will not occur, nor can the impact of such an event be measured. The Company maintains property, third party liability and personal injury insurance, including an emergency medical evacuation program for certain employees, and the Company performs ongoing review of its health and safety practices, however there may be risks for which insurance may not be sufficient or for which coverage may not be extended.

The Company has relied on the results of prior exploration work and the review of that work by independent and internal qualified persons (as that term is defined in National Instrument 43-101) and others in the assessment of its resource properties. The respective partners for each project have provided the results of this prior work to the Company. In the case of the Dachang project, a significant portion of the Company's mineral resource estimate is based on this prior work, and although the results have been independently tested by way of due diligence and test sampling, there is no guarantee that material differences do not exist.

### **Mineral Resource Estimates**

During the first quarter of 2006, in the Company's Press Release of December 12, 2005, the Company announced an increase to its inferred mineral resource at Dachang by approximately 1.3 million tonnes grading 5.81 grams per tonne Au (approximately 239,000 ounces Au contained) as a result of positive initial drilling of the NR-2 anomaly.

In addition, as described in the Company's press release of April 10, 2008, the Company reported an update of the inferred mineral resource estimate on the Dachang Main Zone to 23.6 million tonnes grading approximately 3.51 gpt Au (approximately 2.66 million ounces Au contained).

With the NR-2 anomaly, the Dachang project combined total inferred mineral resource now stands at 24.9 million tonnes with an average grade of 3.63 gpt Au (approximately 2.90 million ounces Au contained).

To date, the Company has not found any mineral reserves or engaged in any production on any of its properties. These inferred mineral resources have not been sufficiently drilled to demonstrate economic viability. Additional drilling will be required to upgrade these inferred mineral resources to an indicated or measured resource. There can be no certainty that further drilling will enable this inferred mineral resource

to be upgraded. Although these estimates of inferred resources are not currently affected by any known environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues, this could change in the future. The future economic viability of these inferred mineral resources may be adversely affected by their location, as the Dachang project is situated at an elevation of approximately 4,500 meters above sea level, in a high-cold mountainous area exhibiting desert alpine climate and vegetation with limited infrastructure. The nearest major city center is approximately 165 km away, with the nearest primary road and power lines approximately 120 km from the property. Although the Company believes that the inferred mineral resources have reasonable prospects for economic extraction, there is no guarantee that this will in fact be the case and confidence in the estimate is insufficient to allow the meaningful application of technical and economic parameters or to enable an evaluation of economic viability.

Exploration and development of mineral properties, and as a result investing in the securities of the Company, involves a high degree of inherent risk. The marketability of the natural resources that may be discovered will be affected by numerous factors beyond the control of the Company. The return, if any, on the investment in shares of a resource company is subject to market conditions that are beyond the control of the Company. Some of the factors affecting resource exploration and development generally include the proximity and capacity of resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure and land use, importing and exporting minerals and environmental protection. The effect of these factors cannot be accurately predicted and any or all of these risk factors facing exploration and development companies generally, and the Company in particular, could result in a material adverse impact on the Company's business, operations and financial condition.

#### **Reserves and Resources – Differences Between Canadian and U.S. Standards**

Mineral reserves and resources are estimated in accordance with N.I. 43-101, as required by Canadian Securities regulatory authorities. For United States reporting purposes, Industry Guide 7 under the Securities Exchange Act of 1934, as interpreted by the staff of the United States Securities and Exchange Commission ("SEC"), applies different standards to classify mineralization as a reserve.

Readers are advised that the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource" are not defined terms under standards in the United States and normally are not permitted to be used in reports and registration statements filed with the SEC. As such, information contained in this report concerning descriptions of mineralization and resources required under Canadian standards may not be comparable to similar information made public by US companies in SEC filings. Readers are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

#### **Canadian Corporate Governance Requirements and Securities Laws**

The Company complies with the corporate governance and securities laws of Canada, which may differ from those of the United States and elsewhere.

#### **Differences between Canadian and United States Accounting Principles**

Canadian generally accepted accounting principles vary in certain significant respects from the principles and practices generally accepted in the United States. Readers are urged to refer to Note 13 of the Company's Notes to Consolidated Financial Statements for the year ended November 30, 2007 for information regarding significant differences from United States accounting principles.

#### **Risks Associated with Operations in China**

The Company's current business focus and as a result essentially all of the Company's physical assets are in China, including the Company's interests in Dachang and Zalantun.

As in any jurisdiction, the Company is subject to social, political and economic developments and trends that are beyond its control. The Company's business is in China and the Company is therefore subject to a variety of laws and regulations at state, provincial and municipal or local levels that include laws and regulations concerning the form and manner in which foreign companies may invest and operate in China. Although China has recently and continually introduced reforms to encourage foreign investment and develop a more market-based economy, there is no guarantee that this trend will continue, and the government of China continues to exert significant influence through laws, regulations and policies.

The mining industry in China is regulated through the Mineral Resources Law of China (adopted in 1986 and amended 1997) and associated policies, rules and regulations at State and local levels. The Ministry of Land and Resources in China is responsible for administration of exploration and mining claims. Exploration claims (other than those for oil and gas) are issued for a maximum term of three years and are renewable provided minimum expenditure thresholds have been met. Holders of exploration rights have a legal priority to subsequent mining rights, which are issued based on the nature of the deposit. However there is no guarantee that exploration and mining rights will continue to be granted or renewed, or that any conditions imposed as part of the issuance of these rights can be satisfied, or that the perceived quality of these legal rights will be sufficient to enable the Company to attract the funding required to implement business plans based on these rights. Holders of mining rights must submit environmental impact studies for approval. Mining rights also have specific timeframes within which mining must occur. Specifically, for gold mining, foreign companies must also receive approval from, among others, the Chinese National Development and Reform Commission, a department of the Chinese central government, the State Council, a government body which has a mandate to develop national economic strategies, annual and long term economic plans, and to report on the national economy and social development.

A stated objective of the Company is to ultimately become a gold producer in China. The value of the Company's projects is ultimately tied to the Company's ability to realize on the sale of gold production. Since late 2002, with the establishment of the Shanghai Gold Exchange and relaxation of restrictive rules governing the sale of gold, mining companies in China are able to sell gold production at market prices. Foreign gold mining companies are currently able to repatriate profits in foreign currencies. However, the nature and impact to the interests of the Company of possible further changes or reforms to these rules and policies in the future cannot be predicted.

The Company's projects in China are (in the case of Dachang) organized as "Co-operative Joint Venture" companies in accordance with the Law of the People's Republic of China on Sino-Foreign Co-operative Joint Venture Enterprises and associated policies, rules and regulations. China became a member of the World Trade Organization in December of 2001 and has committed to ensure transparency in its legal system. While China's general relaxation of restrictions on foreign trade and investment and developments in its mining industry since that time has improved the operating parameters for foreign exploration and mining companies, the continued progress of these reforms depends on political, economic and international influences beyond the Company's control.

China's control over its currency and hence the Company's ability to advance funds to China (for capital investment or operations) is subject to changes in the valuation of the Renminbi as well as rules and regulations of the State Administration of Foreign Exchange. Fluctuations in the value of the Renminbi may have an adverse affect on the operations and operating costs of the Company.

China continues to exert a great deal of control and influence on its society and economy through laws, policies and regulations. The impact of changes to these laws, policies and regulations on the Company's operations in China, including relative impact on the Company's ability to operate in China through changes to foreign enterprise rules (including repatriation of profits), possible restrictions on the production and sale of gold or other mining products, the maintenance of business, exploration and/or mining licenses, environmental laws, taxation, or in other matters having an impact on the Company's business and operations, cannot be accurately predicted.

### **Dependence on Key Personnel**

As an exploration company the Company relies heavily on the availability of individuals and organizations with the necessary skill and knowledge required to execute exploration programs of the scale and scope appropriate to its exploration properties. This includes the availability of individuals and organizations that are capable of efficiently and effectively executing exploration activities such as drilling, compiling and interpreting data, and planning subsequent follow-up work.

The Company has established a special advisory committee to continually evaluate and address the availability of personnel with the expertise required by the Company. The Company's Vice-President, Exploration has more than 20 years of experience as an exploration geologist. The Company has a qualified and experienced geologist on its Board of Directors, and the Company has an established relationship with a North American based drilling company that has carried out the Company's drilling program at Dachang. The Company has relationships with a number of other organizations that have also provided services essential to its exploration activities.

The Company has a high degree of reliance on its management team, and failure to retain the services of key personnel could have a materially negative impact on the Company.

While the competition for these services has increased significantly over the past several years (see discussion below), the Company has been successful in securing services necessary to carry out its business plan to date. However, the availability of these services in the future and the relative cost of securing them cannot be predicted.

### **Competition**

Recent increases in the price of gold have resulted in increased activity in the gold exploration and mining industry. Combined with the economic development and opening of China to western investment and the general scarcity of mineral deposits throughout the world, interest of foreign exploration and mining companies in China has increased significantly. As a result, the Company faces continued competition for financing dollars, personnel and other resources, the impact of which cannot be predicted.

### **Price of Gold**

Historically, gold prices have been volatile and can follow cyclical trends. Demand for gold is based on many factors, including demand for jewellery, industrial demand and demand from governments and financial institutions that hold gold reserves for investment, hedging and other purposes. Any decrease in gold prices could have an adverse effect on the Company's business, operations and financial results.

### **Environmental Risk**

The Dachang Gold Project is located proximate to the Sanjiangyuan Nature Reserve, established primarily to protect the sources of three major rivers (the Yangtze, Yellow and Lancang rivers). To date, the project has received all relevant government support and approvals, and the Company is committed to preserve and protect the environment within which it operates. The Company has a policy of applying the highest standards for environmental protection in its activities, in addition to being active in the betterment of the lives of local people. However the impact of possible future liabilities or impediments to development associated with or as a result of environmental matters cannot be measured or predicted, and there is potential that present or future environmental regulations will adversely affect the business and operations of the Company.

### **Cash Flow**

The Company has no source of operating cash flow to fund its exploration and development projects. Any further significant work would likely require additional equity or debt financing. The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company

to fulfill its obligations on existing or future exploration projects. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration, and the possible partial or total loss of the Company's interests in all or some of its properties.

### **Dividends**

The Company has not, since the date of its incorporation, declared or paid any dividends on its common shares and does not currently intend to pay dividends. Earnings, if any, will be retained to finance further growth and development of the business of the Company.

### **Resale of Shares**

The continued operation of the Company will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained. If the Company is unable to generate such revenues or obtain such additional financing, any investment in the Company may be lost. In addition, sales or availability for sale of substantial amounts of the shares of the Company could adversely affect the prevailing market prices or demand for those shares. In such event, the probability of resale of shares purchased would be diminished. Moreover, a decline in the market prices or demand of our shares could impair our ability to raise additional capital through the sale of shares should the Company attempt to do so.

Exploration and development of mineral properties, and as a result investing in the shares of the Company, involves a high degree of inherent risk. The marketability of the natural resources that may be discovered will be affected by numerous factors beyond the control of the Company. The return, if any, on the investment in shares of a resource company is subject to market conditions that are beyond the control of the Company. Some of the factors affecting resource exploration and development include the proximity and capacity of resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure and land use, importing and exporting minerals and environmental protection, and the effect of these and other risk factors as discussed above cannot be predicted.

### **OUTLOOK**

Over the next year the Company will continue to focus substantially all of its available resources to carry out exploration of its Dachang Gold Project.

### **CAUTION REGARDING FORWARD LOOKING STATEMENTS**

This Management's Discussion and Analysis ("MD&A") contains or incorporates by reference "**forward looking information**" which means disclosure regarding possible events, conditions, acquisitions, or results of operations that is based on assumptions about future conditions and courses of action based upon management's good faith expectations and beliefs concerning future developments and their potential effect on the Company. These may include statements with respect to the future financial and operating performance of Inter-Citic Minerals Inc. ("**Inter-Citic**" or the "**Company**"), its current and proposed subsidiaries, its current mineral projects, the estimation of mineral resources, working capital requirements, capital and exploration expenditures, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, title disputes or claims and limitations of insurance coverage. In some cases forward looking statements can be identified by the use of such words as "**plans**", "**proposes**", "**expects**", "**is expected**", "**budget**", "**scheduled**", "**estimates**", "**forecasts**", "**intends**", "**anticipates**", "**believes**" or variations of such words and phrases. Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the performance or achievements expressed or implied by the forward looking statements. There can be no assurance that future developments will be in accordance with such expectations or that the effect of future developments on the Company will be those anticipated by management. Such factors include, among others, general business, economic,

competitive, political and social uncertainties; the actual results of exploration activities; future mineral prices; accidents, labour disputes and other risks of the mining industry; political instability; insurrection or war; arbitrary changes in law; delays in obtaining governmental approvals or financing or in the completion of the company's exploration programs. As a result, actual actions, events or results may differ materially from those described in forward looking statements. Forward looking statements are made as of the date of this MD&A and the Company disclaims any obligation to update any forward looking statements, whether as a result of new information, future events or otherwise. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking statements.

**CAUTIONARY NOTE TO UNITED STATES READERS – DIFFERENCES REGARDING MINING TERMS IN THE UNITED STATES AND CANADA**

While the terms "mineral resource," "measured mineral resource," "indicated mineral resource," and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under standards in the United States. As such, information contained in this report concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the United States Securities and Exchange Commission. "Indicated mineral resource" and "inferred mineral resource" have a great amount of uncertainty as to their existence and a great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category. Readers are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.

This document may also contain information about adjacent properties on which we have no right to explore or mine. Readers are cautioned that mineral deposits on adjacent properties are not indicative of mineral deposits on our properties.

In addition, Canadian generally accepted accounting principles vary in certain significant respects from the principles and practices generally accepted in the United States. Readers are urged to refer to Note 13 of the Company's Notes to Consolidated Financial Statements for the year ended November 30, 2007 for information regarding significant differences from United States accounting principles.