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, 2011 (unaudited), and the audited consolidated financial statements for the year ended November 30, 2010 and the Annual Information Form ("**AIF**") for the year ended November 30, 2010 for Inter-Citic Minerals Inc. ("**Inter-Citic**" or "**the Company**"), and is current as at October 11, 2011. 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, or on SEDAR at www.sedar.com, including the documents referenced above.

Disclosure of a technical nature in this Management's Discussion and Analysis has been reviewed by Mr. B. Terrence Hennessey, P.Geo., of Micon International Limited, the Company's independent Qualified Person as that term is defined under National Instrument 43-101 ("**NI 43-101**"), as well as Mr. Michael Leahey, the Company's internal Qualified Person in respect of geological aspects of the Company's mineral property and Mr. Malcolm J.A. Swallow, P.Eng., the Company's Vice President, Development and internal Qualified Person in respect of engineering matters.

HIGHLIGHTS FOR THE QUARTER

Unsolicited Proposal from Chinese Mining Company

- Subsequent to the quarter, as described in the Company's press release of October 6, 2011, the Company rejected an unsolicited preliminary proposal from a large Chinese mining company that, to the best of the Company's knowledge, is neither an insider nor a shareholder of the Company, to acquire all of the outstanding shares of the Company at a price of between $1.20 and $1.70 per share (the "Proposal"). In considering the Proposal, a Special Committee of the Company's Board of Directors, and the Board of Directors, in consultation with the Company's independent financial advisors, determined that the indicative price significantly undervalues Inter-Citic and its prospects, and is therefore not in the best interests of shareholders.

Private Placement

- During the quarter, the Company completed a $21 million non-brokered private placement financing (as previously announced on May 26, 2011) consisting of 11,052,632 units (each consisting of one common share and one-half common share purchase warrant) of the Company at a price of $1.90. The private placement closed in two tranches, on June 27 and July 8, at significant premiums to market (in excess of 40% and 20%, respectively). Net proceeds (after finder fees and issuance costs) of $19.7 million is to be used to advance the Company's Dachang Gold Project by completing advanced engineering studies required under Chinese regulations in order to complete the mine permitting process, as well as continuing regional exploration for further resource expansion, and for general corporate purposes. For more information see **Cash Resources and Liquidity** section below.

Permitting and Development

- The Company is actively engaged in the permitting and development phase for a mining and metallurgical complex for the Dachang Main Zone and Placer Valley Zone resources (to consist of a mine, concentrator and metallurgical facility to produce gold in doré), and, as described in the Company's press release of July 13, 2011, the Company has engaged Standard Chartered Securities (North America) Inc. and Standard Chartered Bank ("Standard Chartered") to advise the Company and its Board of Directors in connection with the ongoing review of the Company's strategy, capital structure and future financing alternatives, including evaluating and advising on the appropriateness of listing the Company's shares on the Hong Kong Stock Exchange.

Exploration

- Subsequent to the quarter, the Company announced the discovery of new extensive at-surface gold mineralization through trenching at its Dachang Gold Project ("**Dachang**"). As part of its \$6.3 million exploration program for 2011, the Company has conducted extensive trenching in new areas of the property including almost 15,000 metres of trenching completed to date, having already exceeded the original budget for trenching by 50% as a result of encouraging results. Further information concerning the 2011 exploration program can be found in the Company's press releases of August 8th and October 3rd, and in the **Exploration** section below.

OVERVIEW

Inter-Citic is a development stage company engaged in the acquisition, exploration and development of exploration stage resource properties. The Company has entered into an earn-in agreement in respect of the Dachang Gold Project – a project with a total land area of approximately 279 km^2 in the Province of Qinghai in the People's Republic of China ("**China**" or the "**PRC**"), that is now in the permitting and development phase.

On November 14, 2003, the Company entered into an earn-in agreement with the Qinghai Geological Survey Institute ("**QGSI**") regarding Dachang. On November 24, 2009, the Chinese party to the agreement was changed to the No. 5 Geology and Mineral Exploration Institute ("**No. 5 Institute**"), a company that shares the same parent company as QGSI. Under the terms of this agreement, the Company can earn an 83% interest in the project by contributing the equivalent of approximately \$22,517,300 (Renminbi 150,000,000) for exploration (all of which was advanced as at August 31, 2011), completion of metallurgical and pre-feasibility reports, and making a cash payment of the equivalent of approximately \$1,533,000 (Renminbi 10,000,000) upon the issuance of all applicable licenses, permits and approvals required to bring the project into production.

The Company has an 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 No. 5 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 No. 5 Institute seeks foreign investment.

In the short to medium term the Company intends to develop a mining and milling operation at Dachang. The Company has commenced permitting activities for mine and mill development for the Dachang Main Zone ("**DMZ**") and Placer Valley Zone ("**PVZ**") resources, including preparation of a "Geological Resources Report", "Chinese Feasibility Study" and "Environmental and Social Impact Assessment Report", as required under Chinese regulations (see below). In addition, the Company continues to explore other prospective areas of the property with a view to resource expansion. Current exploration focus is on new targets and prospective trench results, and to test the deep potential of the Dachang fault structures. See **Development and Exploration Activities and Commitments** section below. The Company has also engaged Standard Chartered Securities (North America) Inc. and Standard Chartered Bank ("Standard Chartered") to advise the Company and its Board of Directors in connection with the ongoing review of the Company's strategy, capital structure and future financing alternatives, including evaluating and advising on the appropriateness of listing the Company's shares on the Hong Kong Stock Exchange.

As at August 31, 2011, the Company had approximately \$21.5 million in net working capital, including restricted cash. The Company expects annual cash operating expenses to be in the range of \$3.5 to \$4.5 million, but has flexibility with respect to allocation of funding to ongoing exploration as the project transitions from advanced exploration to development. Net proceeds from the recently completed private placement is sufficient for completing the first stage in the permitting process for a mine and mill operation at Dachang, including the completion of a Chinese-Standard Feasibility Study ("**CFS**"), a Mineral Resources Development and Utilization Program ("**MRDUP**") and the associated Project Application

Report (“**PAR**”). Additional financing will be required to advance the project and to complete all of the necessary permitting activities. 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 (see **Risks and Uncertainties** below).

RESULTS OF OPERATIONS

Selected financial information:

	August 31, 2011	**November 30, 2010**	**November 30, 2009**
Balance Sheet:			
Cash and Cash Equivalents, including Restricted Cash	$4,816,259	$11,648,645	$8,080,210
Short-term investments*	17,900,000	-	-
Total Assets	$89,322,121	$74,471,055	$55,299,665
Total Long-term Financial Liabilities (excluding Future Income Taxes)	-	-	-
Net Loss:			
Net Loss before the Undernoted	$3,129,956	$4,275,065	$2,846,574
Stock-based compensation	1,422,720	1,776,250	816,350
Depreciation and amortization	255,204	237,749	297,718
Interest and other	(55,650)	(66,542)	(132,759)
Net Loss for the period	**$4,752,230**	**$6,222,522**	**$3,827,883**
Net Loss Per Share (Basic and Diluted)	$0.04	$0.06	$0.05
Additional Data			
Net proceeds from issuance of shares and warrants	$20,283,226	$18,404,877	$4,759,267
Spent on exploration equipment purchases	$30,433	$492,042	$140,152
Spent on exploration expenses	$3,299,247	$10,165,145	$8,081,424

* Short-term investments represent highly-liquid interest bearing investments, principally in GICs, with initial maturity terms greater than three months but not more than one year.

Total assets increased by approximately $14.9 million from 2010 primarily due to the completion of the $21 million private placement in the third quarter offset by a reduction in cash balances as payments were made against 2010 exploration and development related year-end accruals (see **Specific Items** below). Funds received from the most recent financing not earmarked for immediate use were then invested in GICs with maturity terms greater than three months but less than one year.

Similarly in 2010, the increase in total assets was primarily as a result of the Zijin private placement in Q2 2010 for net proceeds of approximately $18 million, increasing the Company’s cash position, which was then deployed to the project (approximately $10 million in 2010), including exploration as well as permitting and development initiatives.

The scope and scale of exploration and/or permitting and development programs as well as general operating expenses have generally increased year over year as the Company accumulated more data and experience with the project. However, since 2010 the Company has focused on near surface resource expansion in new areas outside the DMZ and PVZ (as these areas are now in the permitting stage), and anticipates that exploration expenses relating to the DMZ and PVZ will continue at significantly lower levels than was the case in prior years. As the Company continues to focus on development of these areas of the project, permitting and development expenses are expected to increase steadily as progress is made in this regard, and although the Company will continue to invest in exploration in prospective areas outside the DMZ and PVZ, the Company has discretion with respect to exploration activity, which is primarily determined based on prior results and availability of adequate funding (see **Cash Resources and Liquidity**, below).

Net loss (before interest and certain other items, see above) was higher in 2010 compared to 2009 as a result of the timing of bonus awards to management. In addition, the Company experienced significantly increased indirect costs associated with the completion of the Zijin investment, and increased professional and corporate development costs relating to ongoing corporate initiatives. Net loss for 2011 to date is within the range expected for the year.

DEVELOPMENT AND EXPLORATION ACTIVITIES AND COMMITMENTS

A. Permitting and Development

The Company has commenced permitting activities for mine and mill development for the DMZ and PVZ resources at Dachang, including:

- A "Geological Resource Report" on the DMZ and PVZ has been completed for filing with Chinese regulators. This resource report to Chinese standards compares well with the similar resource area as outlined in the Mineral Resource update to NI 43-101 standards completed in July 2010.

- On March 2, 2011 the Company provided an update of the metallurgical testing carried out as part of its ongoing flowsheet development work aimed at permitting and constructing a gold mine with an associated concentrator and bacterial oxidation plant at Dachang. This extensive optimization test work resulted in an estimated overall predictable recovery of gold to doré from typical Dachang mineralization to 87.8% - an increase from 85% previously reported in the Company's 2009 Preliminary Economic Assessment ("**2009 PEA**" – see **Other Historical Information** below).

- On March 22, 2011 the Company announced the appointment of China Nerin Engineering Co., Ltd. ("**Nerin**"), one of China's largest engineering companies and an internationally accredited Level 1 Design Institute, to complete the CFS, the MRDUP and the PAR for the project. The production of a CFS, MRDUP and PAR are the first stages in the permitting process for a mine and mill development in China.

- In May 2011, a contract was entered into with the Chinese Research Academy of Environmental Sciences ("**CRAES**") to prepare the outlines for the supporting contracts for an Environmental and Social Impact Assessment Report ("**ESIA**") to be prepared by CRAES in early 2012. This work is ongoing. CRAES was established in 1978, is one of China's largest government sponsored environmental institutes and is a Chinese Class 1 national non-profit research institute for environmental protection.

- Subsequent to the quarter, in September 2011, the Company engaged a number of other consultants and contractors to carry out a variety of site specific studies in support of the CFS and permitting process, including geotechnical, structural, seismic and pit slope stability studies, among others.

This program is being led by the Company’s Vice-President, Development and the Company’s local Chinese partner working with local Chinese engineering staff employed by the Company and other consultants elsewhere in the world. This work is intended to move the DMZ and PVZ towards full operating permits and subsequent construction of a mine and mill complex. A number of other contracts for a variety of environmental and technical studies are also being negotiated at this time, with a view to ensuring an orderly and timely completion of the CFS and the ESIA, to allow a seamless move into design and construction.

The 2009 PEA forms the current basis for the permitting and development plan described above, with a base case annual production level of approximately 180,000 to 200,000 ounces of gold in doré being considered throughout these studies. The eventual mine and mill design and capacity will be subject to a number of operating and technical variables which will be extensively studied as part of the CFS, which is currently expected to be published in the next 6 months.

B. Metallurgical Testing

On March 2, 2009, the Company announced results of first stage metallurgical testing for Dachang. Results demonstrated relatively high concentrate gold grades with excellent float recovery of 96% using conventional floatation methods. The rougher concentrate graded 30 g/t and is considered high enough to be marketable. Further test work showed that the rougher concentrate could be upgraded to 57.7 g/t gold through regrind and cleaning stages, resulting in an overall recovery of 94% of the gold into a final cleaner concentrate with a mass of only 6.2% w/w. These results confirmed that it was possible to produce a marketable high-grade, low mass concentrate from the mineralization at Dachang.

On May 7, 2009, the Company reported results of bio-leach testing on bulk flotation concentrate. The Company believes that the results of this testing provide the Company with an economically viable process flow sheet for mineralization at Dachang by bio-leaching and conventional CIL. Gold CIL recovery of 89% was achieved on bio-leached flotation concentrate and overall gold recovery to doré are predicted at 85%.

On March 2, 2011, the Company reported results from multiple metallurgical test work programs carried out over the latter half of 2010 at independent laboratories and testing facilities in China, Australia and South Africa. As described in the press release, the testing produced an increase in the predicted recovery of gold to doré for typical Dachang mineralization to 87.8% from 85% as previously reported in the 2009 PEA. The aim of these programs was to confirm the earlier test work reported on by the Company on March 2 and May 7 of 2009, and to provide increased certainty as to metallurgical performance of the proposed treatment route for the production of gold to doré from the Dachang project. In addition, the comprehensive test work program confirmed that the effective grind for the Dachang project can be increased from a P80 of 85 microns to a P80 of 106 microns representing a significant saving in grinding costs and a potential increase in throughput for the project, for the same installed grinding power. This work was supervised by Gary A. Patrick, B.Sc., MAusIMM, who is the principal of Metallurg Pty. Ltd. and a Qualified Person under NI 43-101. Further information is provided in Company’s press release of March 2, 2011 which can be found on the Company’s website at www.inter-citic.com.

C. Exploration

The Dachang project is located approximately 160 km from the City of Golmud in the Province of Qinghai, China, at an elevation of approximately 4,500 metres and consists of five exploration licenses covering approximately 279 km^2. Since 2004, the Company has been exploring Dachang including:

1. 1:25,000 scale Geological Mapping over 200 km^2;

2. Soil Geochemical Surveys over areas of approximately 229 km^2 (more than 60,000 conventional B-horizon soil samples collected and tested for gold, arsenic and antimony);

3. 24.6 km of 50 metre pole-dipole IP and resistivity surveying and 32.6 km of 25 metre pole-dipole IP and resistivity surveying;

4. Excavation and sampling of 1,024 trenches totalling more than 103,000 linear metres; and

5. 1,228 diamond drill holes totalling more than 157,000 metres.

Highlights of Past Exploration Activities

- From 2007 to 2009, a detailed in-fill drill program on the DMZ was undertaken by the Company with the aim of defining and confirming continuity of grade and mineralization. The results of this program culminated in the NI 43-101 compliant mineral resource update announced by the Company on July 19, 2010.

- In 2010, the Company was focused entirely on near surface resource expansion targeting new areas of the 279 km^2 property known to contain gold mineralization. A total of 25,070 metres of diamond drilling was completed in 236 holes and a further 9,800 metres of shallow trenching was completed with a total of 129 new trenches excavated. This work exposed near surface mineralization in typical Dachang-style fault structures in three of the four new areas while work on the DMZ extension continue to intersect narrow bands of flat-lying sulphide mineralization on the direct eastern extension of the DMZ deposit under a thicker layer of overburden cover.

2011 Exploration Program

As announced on August 8th, the Company intends to continue exploration trenching and drilling on prospective areas of Dachang as well as perform systematic drilling under the current resource at vertical depths not previously reached before. To meet this objective Inter-Citic has allocated a budget of approximately $6.3 million for the 2011 exploration program.

On October 3rd the Company reported that it had completed almost 15,000 metres of trenching with approximately 8,500 metres of trenching in the southeast corner of the property ("**South East Anomaly**" or "**SEA**"). The SEA has now been sampled through surface trenching at intervals of between 40 to 60 metres and the results indicate at least five separate parallel fault structures that have strike lengths of 800 to 1,500 metres. Work on the new anomaly in South West Dachang ("**SW**") is just beginning and so far has been sampled through almost 800 metres of surface trenching. Both the SEA and SW anomalies are now in the process of being tested as part of the Company's 2011 drilling program.

A summary of the 2011 work to date is provided below:

District	**Zone**	**Work Performed in 2011**			
		Drilling		**Trenching**	
		No. of Holes	**Metres**	**No. of Trenches**	**Metres**
Western Quarter	Acadia	13	1,383	23	1,196
	Acadia Gap	6	582	19	1,387
	WQ1	-	-	9	768
	WQ2	-	-	8	568
DMZ	DMZ	3	1,433	-	-
	DMZ Gap	7	1,323	-	-
Placer Valley	PVZ	3	1,034	4	235
SE Anomaly	SE Anomaly	17	2,318	132	8,552
Central Dachang	861	-	-	26	1,235
SW Dachang	SW	-	-	12	780
Total		**49**	**8,073**	**233**	**14,721**

Additional results of the work performed will be released as they become available.

All exploration at Dachang since 2004 was completed under the direction of the Company.

D. Mineral Resource Update

On June 30, 2011 the Company announced an update to its mineral resource estimate at Dachang and the filing of an independent technical report under NI 43-101 prepared by Micon International Co Limited ("**Micon**"). In addition to the technical report, exploration results, maps and associated materials and other information regarding ongoing work and findings at Dachang, is available from the Company's website www.inter-citic.com or at www.sedar.com.

Dachang Mineral Resources at June 28, 2011

Location	**Resource Category**	**Million Tonnes**	**Grade (g/t Au)**	**Million Ounces Gold**
Dachang Main Zone & Placer Valley Zone	Measured	5.00	3.55	0.57
	Indicated	12.20	3.34	1.31
Total Measured & Indicated		**17.20**	**3.41**	**1.88**
Dachang Main Zone & Placer Valley Zone	Inferred	9.70	2.97	0.93
NR-2 Anomaly	Inferred	1.30	5.81	0.24
Exploration Areas	Inferred	10.27	2.31	0.76
Total Inferred		**21.27**	**2.83**	**1.93**

(Cut off grade for the above table is 0.6 g/t Au)

Micon has calculated the break-even cut-off grade for Dachang mineralization to be 0.6 g/t gold based on a gold price of US$750 per ounce.

Measured Mineral Resources were defined as those portions of the mineralized blocks where the average distance of all the samples used is less than 70 m, with a minimum distance of 20 m from the block centre. In addition, the blocks were estimated using a minimum of 2 drill holes, with a minimum of 6 and a maximum of 16 samples.

Indicated Mineral Resources were defined as those portions of the mineralized blocks where the average distance of all the samples used is less than 90 m, with a minimum distance of 50 m from the block centre. In addition, the blocks were estimated using a minimum of 2 drill holes, with a minimum of 6 and a maximum of 16 samples.

Inferred Mineral Resources were defined as those portions of mineralized area that are based on wide spaced drilling. The confidence on geological continuity has been interpreted, but there is not enough drilling to confirm the confidence on grade.

Updated Mineral Resource Estimate Overview

The mineral resources for the DMZ and the PVZ were determined by Micon using computerized block modelling methods. These resources supersede those reported for the zones in 2009. The mineral resources reported for the NR-2 zone at the North River area are unchanged from those determined by David G. Wahl, P.Eng., P.Geo., in 2005 (reported in a press release on December 12, 2005), and were reviewed in 2008 by B. Terrence Hennessey, P.Geo., who took responsibility for them. The NR-2 resources were estimated using polygonal method and are classified as inferred resources. In 2009 Inter-Citic staff estimated a small amount of additional new mineral resources in certain exploration areas drilled in 2008. These were also determined using sectional polygonal methods and were reported in the 2009 technical report and were updated in 2010. In 2010, Inter-Citic conducted a 25,070 m drill program and a 9,800 m trenching program focused on expanding the resources outside of the DMZ and PVZ. The new exploration area resources are entirely in the inferred category based on the level of information.

Main Zone and Placer Valley Resource

Micon has carried out a resource estimate for the DMZ and PVZ using geology and assay information from 880 drill holes and 430 surface trenches. Primary assay data were composited for gold and were analyzed to determine the basic statistical and geostatistical parameters. This information has been used in several modelling algorithms, which have been compared and checked for validity. A total of 116 specific gravity measurements were collected. The final resource has been categorized into indicated and inferred categories in accordance with the JORC and CIM guidelines.

Based on analysis of grade distribution, individual assays were capped at a maximum of 40 g/t Au. The capped assays were composited to a standard length of 1m. Three-dimensional wireframe solids were prepared for 22 mineralized zones, 14 in the DMZ and 8 in the PVZ, using a cut-off grade of 0.5 g/t Au. A block model was created with blocks measuring (X) 10 m by (Y) 5 m by (Z) 5 m.

Grades were interpolated into individual blocks by ordinary kriging, using separate search ellipsoid dimensions for each vein group based on variography. The average of the specific gravity measurements made by Inter-Citic was 2.7, and a bulk density of 2.7 t/m3 was used to convert volumes to tonnages. The block model was validated by visual inspection, and by three analytical techniques. All validation methods demonstrated that the ordinary kriging estimation had not introduced any bias or over-estimation into the block model.

Both the CIM and JORC definitions require that reported mineral resources must have reasonable prospects for eventual economic extraction. In Micon’s opinion, the appropriate cut-off grade for reporting mineral resources for the DMZ and PVZ is 0.6 g/t Au.

Exploration Areas

Since 2008, Inter-Citic has completed many drill holes outside the areas of the DMZ, DMZ-X and PVZ which were included in the geostatistical resource. This drilling, along with results from nearby trenching and inferences made from soil geochemistry, has allowed Inter-Citic to estimate preliminary mineral resources for several target zones in exploration areas. Those zones include Placer Valley East, Ruby Zone, 861 Zone, XP Zone, Acadia Zone and NR1.

The exploration area mineral resources were estimated using the sectional polygonal method, as have all previous initial inferred resources at Dachang. The anastomosing brittle faults hosting the mineralization are difficult to interpret, geologically domain and block model until a significant amount of drilling has been completed.

The updated exploration area mineral resources presented were based on interpretation of continuous mineralisation as determined from drill and trench logs and assays, interpreted on section, and were sometimes influenced by plan interpretation of soil sample results. Full zone width composites were calculated for each drill hole and trench using a 0.5 g/t Au cut-off and a minimum required value of 2.0

gram-metres (g-m), with individual composites carrying up to 2.0 m (drilled width) of internal waste. Exceptions to these rules occur, when necessary, to allow for consistent geological interpretation and to avoid a misleading interpretation regarding the deposit grade.

The mineral resources determined for the exploration areas are set out in the table below:

Exploration Area Inferred Mineral Resources as at June 28, 2011

Zone	Million Tonnes	Grade (g/t Au)
Acadia	2.55	1.81
861/XP	1.70	2.78
North River 1	1.44	2.10
DMZ - Extension	2.54	2.02
DMZ - North	0.33	2.76
PVZ - Extension	1.40	3.15
Ruby Zone	0.31	2.85
Total	**10.27**	**2.31**

The updated mineral resource estimate for the DMZ and other exploration areas was prepared for the Company under the supervision of Stanley C. Bartlett, P.Geo., and Dibya Kanti Mukhopadhyay, M.Sc., MAusIMM (CP) of Micon International Co Limited, independent “Qualified Persons” as that term is defined under NI 43-101. The estimate complies with the CIM mineral resource definitions referenced in NI 43-101.

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

E. Other Historic Information

On July 6, 2009, the Company announced results of the 2009 PEA for Dachang. The 2009 PEA was prepared based upon a mineral resource prepared and reported in 2009 and uses the results derived from a programme of preliminary process test work, conceptual mining schedules and cost forecasts prepared at that time and was prepared by qualified, experienced, independent engineering consulting groups, working under the direction of Mr. Patrick Gorman, M.Sc., C.Eng., Eur.Ing., MIMMM.

The results of the 2009 PEA were positive and a number of recommendations were set forth as outlined below. This information has been copied from the original report and is presented here for information purposes only.

The preferred case reported in the 2009 PEA comprises an open pit mine delivering 2 million tonnes per year of ore to a fully integrated flotation, BIOX® and CIL circuit which produces doré. Highlights of the preferred case reported in the 2009 PEA include:

- At a gold price of US$750/troy ounce the Dachang project is estimated to generate an after tax IRR in excess of 40% and an after tax project NPV at a 5% discount rate in excess of US$198 million.
- At a gold price of US$800/troy ounce, the after tax IRR increases to 47% and NPV exceeds US$241 million.
- Total gold production of approximately 1.5 million ounces is forecast to be generated during a mine life of approximately 9 years.
- Estimated mine site cash operating costs average US$404/oz and project capital cost is forecast to be US$104 million.

The economic model in the 2009 PEA was based upon conceptually scheduling an estimated 17.8 million tonnes of mineral resources at an average grade of 3 grams gold/tonne. This was derived from pit optimizations generated from using a resource model prepared for the DMZ only. It did not include resources contained in areas such as Placer Valley.

The Company cautions that the results of the 2009 PEA are preliminary in nature and includes mineral resources that are not mineral reserves and do not demonstrate economic viability as defined by NI 43-101. The 2009 PEA includes inferred mineral resources that are considered to be too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized. There is no certainty that the preliminary assessment will be realized as presented since certain engineering parameters related to construction, operating, environment, geotechnical and other technical and cost factors will require further systematic assessment and validation during the pre-feasibility study phase. The results of the 2009 PEA are considered to have an accuracy of +/- 30%.

F. Capitalized Exploration Costs

A breakdown of capitalized exploration costs for the nine month period ended August 31, 2011 together with the comparative figures for the year ended November 30, 2010 is included in the Company's Notes to Consolidated Financial Statements for the third quarter ended August 31, 2011. Capitalized costs consist primarily of drilling and costs for drilling support, including camp and consulting costs, as well as costs associated with other geological testing and mapping, assays, metallurgical testing, and permitting and development related expenses.

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 the following year, followed by an expectation that Q2 of every year will represent a transitional quarter for the Company as it compiles and analyzes results of exploration from the previous year and subsequently prepares for commencement of exploration for the current year, this is not always the case as exploration at Dachang may start and end earlier or later depending on many factors (weather, for example). As a result, expenditures from quarter to quarter may vary greatly. The Company sets exploration targets during the planning phase for the year, including budgets, and then monitors the productivity onsite against those plans during the season. In addition, permitting and development program costs for the DMZ and PVZ are also recorded as capitalized expenses relating to Dachang. To date, the Company has incurred approximately $4.3 million in permitting and development costs, of which approximately $1.2 million was incurred in the first nine months of 2011.

During the third quarter, the Company capitalized $2,517,909 in costs relating to Dachang (compared to $4,293,547 last year), excluding future tax liabilities of $397,000 (compared to $803,000 last year), representing a decrease of $1,775,638 (41%). This decrease is primarily related to the transition of the project from advanced exploration to development with permitting and development activities taking precedent. Exploration however continues but is now focused on new areas of the property as well as systematic drilling beneath the current resource areas of the DMZ.

G. Office Lease

The Company has entered into leases for office space to the year 2014 with minimum lease payments as follows: 2011 - $35,575, 2012 - $129,622, 2013 - $89,214 and 2014 - $22,303.

SUMMARY OF QUARTERLY RESULTS

Selected quarterly information for the past eight quarters:

	2011			2010				2009
(unaudited)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Net Loss:								
Net Loss before the Undernoted:	$901,086	$1,147,608	$1,081,262	$1,223,444	$870,446	$1,008,580	$1,172,595	$905,619
Stock-based compensation	-	1,422,720	-	100,650	54,636	192,214	1,428,750	58,800
Depreciation and amortization	3,355	128,162	123,687	2,700	3,329	125,054	106,666	1,122
Interest and other	(33,390)	(6,980)	(15,280)	(6,808)	(42,756)	(11,165)	(5,813)	(18,544)
Net Loss for the period	**$871,051**	**$2,691,510**	**$1,189,669**	**$1,319,986**	**$885,655**	**$1,314,683**	**$2,702,198**	**$946,997**
Net Loss Per Share (Basic and Diluted)	$0.008	$0.025	$0.011	$0.012	$0.008	$0.014	$0.030	$0.011

As discussed, the Company's annual exploration program for Dachang typically begins by the end of Q2 and runs through Q3 and Q4, ending either by the end of Q4 or sometimes in Q1 of the following year (as was the case in 2009 but not in 2010). Exploration results are compiled and released as they are received throughout this period and into the following year, with planning and mobilization for the current year's exploration program occurring in Q2, although if the Company begins exploration earlier in a particular year some of these costs may be incurred by the end of Q1 (this was not the case in 2009 as the Company took additional time to assess the results of the 2008 program which ended in the early part of 2009). 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. An indicator of this pattern of activity is depreciation and amortization expense from quarter to quarter, as the Company capitalizes depreciation of exploration equipment only while that equipment is in use during the exploration season.

Overall, expenses increased significantly in 2010 compared to 2009, as a result of the timing of bonus awards to management, significantly increased indirect costs associated with the completion of the Zijin investment, and increased professional and corporate development costs relating to ongoing corporate initiatives. It is expected that costs will generally increase as the Company's business evolves from exploration to development and ultimately production while continuing its exploration activities.

Additional details regarding overall expenses from quarter to quarter 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, or on SEDAR at www.sedar.com.

SPECIFIC ITEMS

The Company's consolidated financial statements for the quarter ended August 31, 2011 include a detailed breakdown of expenses.

- No stock-based compensation expense was recognized in the third quarter compared to an expense of $54,636 in the same period last year. The 2010 expense represents the cost of certain unvested stock options over the vesting period which ended in November 2010. Stock options granted by the Company often vests immediately with no residual charge recognized in subsequent periods.

- Excluding stock-based compensation and foreign exchange, the total expense for the quarter as well as the nine month period ended August 31, 2011 are generally consistent with the same periods last year. Specific items of note are as follows:
    - Salaries and benefits expense increased by $25,091 (9%) to $314,356 in the quarter from $289,265 in 2010 primarily due to a general merit increase to salaries for the year. The lower expense for the nine month period in 2011 however is primarily due to the timing of management bonuses as previously reported.
    - Corporate relations expense is slightly higher by $3,284 (4%) in the quarter. The increase of $270,694 (58%) for the nine month period is primarily due to timing of the Company's corporate communication program for 2011. As previously reported in Q1, the Company began the year having incurred one-time costs leading up to the Company's shares trading on the QXOTC starting on March 29, 2011.
    - Office and rent expense decreased by $33,715 (15%) from $227,523 to $193,808 in the third quarter as additional administrative support was needed in 2010 for many corporate initiatives including the opening of the Beijing office in September 2010.
    - Professional fees also remained flat for the quarter with an increase of only $1,296 (1%) over the same period last year. As reported in Q2, the higher expense for the nine month period is due to the Company's continued efforts to explore financing and other corporate development opportunities in Asia.
    - Travel and accommodation expense increased by $12,466 (11%) from $109,807 in 2010 to $122,273 in 2011, as more travel related costs were incurred during the quarter with the completion of the $21 million private placement.
- Foreign exchange loss increased by $22,218 (481%) to $26,841 from $4,623 in 2010 primarily as a result of the relative strength of the Chinese Yuan Renminbi against the Canadian dollar during the quarter, though foreign exchange gains/losses from period to period also vary depending on timing of advances to China for use in exploration and development, when such costs are incurred and when payments are made for services rendered.
- The Company earns interest income on highly liquid interest-bearing investments. Interest income will vary depending on cash available to earn interest income.

RELATED PARTY TRANSACTIONS

Details regarding transactions with related parties are detailed in Note 6 of the Company's Notes to Consolidated Financial Statements for the second quarter ended August 31, 2011. All related party expenditures were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

CASH RESOURCES AND LIQUIDITY

As at August 31, 2011, the Company had approximately $4.8 million in cash, cash equivalents and restricted cash as well as short-term investments of $17.9 million (approximately $21.5 million in net working capital). The Company does not have any material capital lease agreements, nor does the Company hold any investments in asset-backed securities.

However, by its very nature as a development stage exploration company, the Company continued to generate negative cash flow from operations (including changes in non-cash working capital items). In 2011, net cash used in operating activities amounted to $2,889,020 compared to $3,720,328 in 2010. The Company also 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. The Company has discretion with respect to exploration activity, which is primarily determined based on prior results and availability of adequate funding.

In the past, the Company has relied upon equity offerings to fund its operations, and additional financings will be required in the future to fund ongoing operations and to meet the Company's commitments as they come due, including its project commitments (see **Development and Exploration Activities and Commitments** above). 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.

Private Placement

During the quarter the Company successfully closed the $21 million non-brokered private placement financing previously announced on May 26, 2011. The first tranche of the financing representing 6,631,579 units closed on June 27th for total gross proceeds of $12.6 million. The second tranche representing 4,421,053 units closed on July 8th for total gross proceeds of $8.4 million. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to one common share of the Company at a price of $2.00 for a 2 year period from the closing date.

As part of this financing arrangement, the Company paid finder's fees of $1,260,000 in cash and 442,105 in share purchase warrants ("**Finder's Warrants**"). Each Finder's Warrant entitles the holder to acquire one common share of the Company at $2.66 for a 2 year period from the closing date.

The net proceeds will be used to advance the Dachang project by completing a CFS this year as well as other advanced engineering studies required under Chinese regulations in order to complete the mine permitting process as well as continuing regional exploration for further resource expansion and for general corporate purposes. As at the end of the quarter, $17.9 million was invested in GICs with maturity dates of up to one year.

Restricted Cash

Restricted cash relates to advances held in China, held substantially in Canadian dollars 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.

OUTSTANDING SHARE DATA

As at October 11, 2011, the Company had outstanding:

- 117,573,645 common shares (an unlimited number of common shares, without par value, were authorized),
- 8,762,826 stock options, each of which is convertible to one common share of the Company at a weighted average price per stock option of $1.15, for a weighted-average period per stock option of 3.05 years. Exercise prices range from $0.50 to $1.95.
- 9,301,420 share purchase warrants, each of which is convertible to one common share of the Company at a weighted average price per share purchase warrant of $1.83, for a weighted-average period per share purchase warrant of 1.12 years.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, restricted cash and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the fair values of these financial instruments, unless otherwise noted, approximate their carrying values due to their short-term nature.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in the Company's internal control over financial reporting that occurred during the period beginning on June 1, 2011 and ended on August 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A detailed summary of the Company's significant accounting policies is included in Note 3 of the Company's Notes to Consolidated Financial Statements for the third quarter ended August 31, 2011.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Critical accounting estimates represent estimates that are highly uncertain and could materially impact the financial statements. The following estimates are considered by management to be the most critical for investors to understand some of the processes and reasoning that go into the preparation of the Company's Consolidated Financial Statements, providing some insight also to uncertainties that could impact the Company's financial results.

Development Stage Entity

The Company has adopted the Accounting Guideline 11, *Enterprises in the Development Stage,* 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. In the event that exploration on the property, confirmation of the Company's interest in the underlying mineral claims, the Company's ability to obtain appropriate financing to put the property into production, and profitability of future production is not successful, assets may not be realized or liabilities discharged at their carrying amounts, and these differences could be material. See **Risks and Uncertainties - Risks Associated with Exploration and Development**, below.

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 when facts and circumstances suggest that the carrying value exceeds the estimated net recoverable amount. 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.

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 9 of the Notes to Consolidated Financial Statements for the third quarter ended August 31, 2011. 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 or capitalized and credited to contributed surplus. Consideration paid on exercise of stock options is credited to share capital.

Please refer to the Notes to the Consolidated Financial Statements of the Company for the third quarter ended August 31, 2011 for further information on the Company's financial policies and estimates.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

All Canadian public companies will be required to report their financial information using IFRS for fiscal years commencing in 2011. For the Company, the adoption date for IFRS is December 1, 2011 and the Company will be issuing annual audited consolidated financial statements in accordance with IFRS for the fiscal year ending November 30, 2012, and the first set of interim consolidated statements under IFRS will be for the quarter ending February 29, 2012.

The standards require that financial statements be issued with comparatives that are prepared in accordance with IFRS. Accordingly, the Company is required to prepare an opening balance sheet as at December 1, 2010, the transition date, in accordance with IFRS and maintain IFRS compatible information during the fiscal year ended November 30, 2011 so that the necessary financial information is available to prepare the comparative amounts for future IFRS statements. Financial information that is prior to the transition date need not be converted to IFRS but can be presented using the current Canadian GAAP model providing that it is appropriately labelled. The Company intends to maintain its records without change during the fiscal year ending November 30, 2011, and quarterly adjustment of that information to convert to IFRS will provide the comparative information necessary for the following fiscal year.

The planning of the transition to IFRS, the identification of issues where differences must be resolved and the recognition of all new information that must be disclosed under the new rules are the responsibility of the Company; it is the Company's intention that most of this work will be achieved using in-house personnel. Complementing this process, the Company has engaged a consultant to review all of these areas and to ensure that all relevant standards have been considered so that resulting financial reporting is in accordance with IFRS.

The Company has completed an initial diagnostic and is near to completing a detailed component evaluation of differences noted between current Canadian GAAP and IFRS. At this time, future income tax has been identified as a significant area of difference which would result in the removal of the future income tax liability currently presented on the balance sheet. Additional differences may also be discovered up to the date of issuance of the Company's first IFRS financial statements as IFRS continues to evolve. As part of the Company's conversion implementation plan (the "**Conversion**"), the Company will continue to monitor and review the effect that adopting IFRS will have compared to current Canadian GAAP. The Conversion is being led by the CFO and internal accounting personnel with oversight by the Audit Committee.

In transitioning to IFRS, the Company will be eligible to make elections under IFRS 1 *First Time Adoption*. In some cases, the changes that would otherwise have been retrospective are, with election, applicable from the date of transition and prospectively applied; in a number of other cases, there is a mandatory approach to deal with the effects of the changes. The Company has completed an assessment of the elections available and, at this time, no elections under IFRS 1 are expected to be taken.

In addition, IFRS typically requires significantly more disclosure than is the case under current Canadian GAAP, particularly with respect to the notes to the financial statements. The Company, as part of the Conversion, has reviewed its data collection and reporting systems to ensure that the requisite information is available and reliable. Based on this ongoing review, the Company does not anticipate any substantial changes to the system for the recording and reporting of normal day-to-day transactions.

Key Issues That May Give Rise to Material Differences Under IFRS

The International Accounting Standards Board ("**IASB**") has a number of projects currently underway ranging from minor changes to a complete reconsideration of existing accounting standards. As a result, it is likely that there will be changes to a number of the IFRS standards between now and November 30, 2012. Comparative information must be prepared based on the IFRS standards in effect at the end of the current reporting period, and it is the Company's intention that the opening balance sheet at December 1, 2010 will be prepared using IFRS in effect on that date plus changes that are ratified before the statement is issued. If further changes and amendments to the Standards are finalized and required prior to November 30, 2012, the opening balance sheet and comparative information will be updated to incorporate these changes.

All changes incurred during the migration from current Canadian GAAP to IFRS will be netted to the opening deficit at December 1, 2010, the transition date.

Internal Control over Financial Reporting ("ICFR")

The Company has designed, implemented and tested its systems with respect to ICFR and determined that such systems provide reasonable assurance with respect to the completeness and accuracy of its financial reporting. With the change to IFRS, additional and more extensive disclosures will be required. As information necessary to provide the data for these additional disclosures is identified, ICFR will be expanded to ensure that appropriate controls are in place and that such controls are included within the testing programs so that the reliability of the data and hence the financial reporting is maintained.

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 established any mineral reserves or engaged in any production activities, 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 NI 43-101) and others in the assessment of its resource properties. A significant portion of the Company’s mineral resource estimate for the Dachang project is based the results of 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.

Uncertainty Relating to Mineral Resources

On June 30, 2011, the Company updated its mineral resource estimate for Dachang. Details of the updated mineral resource estimate are included in the **Exploration and Development Activities and Commitments** section above. To date, the Company has not established any mineral reserves or engaged in any production activities. These mineral resources have not been sufficiently drilled to demonstrate economic viability. Additional drilling will be required to upgrade inferred mineral resources to an indicated or measured resource. There can be no certainty that further drilling will enable inferred mineral resource to be upgraded. Although these mineral resource estimates 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 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 centre is approximately 160 km away, with the nearest primary road and power lines approximately 120 km from the property. Although the Company believes that the 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.

Commodity Prices

The price of Inter-Citic's common shares, the Company's financial results and exploration, development and mining activities may in the future be significantly adversely affected by declines in the price of gold. Gold and other mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of gold by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the U.S. dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold producing countries throughout the world. The price of gold has fluctuated widely in recent years, and future serious price declines could cause continued development of Dachang to be impracticable. In addition, any future production from Dachang would be dependent on gold prices that are adequate to make the project economic.

In addition to adversely affecting the Company's resource estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

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 located in China, including the Company's interests in Dachang.

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 generally introduced reforms to develop a more market-based economy, there is no guarantee that this trend will continue. The government of China, at all levels, continues to exert significant influence on market activities through laws, regulations and policies which are often ambiguously drafted and subject to divergent interpretation.

As the Company's resource property is located in China, a brief statement on the laws of China as they relate to mining is appropriate. However, as laws continually evolve and suffer from inconsistent application and interpretation, this is only a general statement and is not to be taken as a legal opinion or as an exhaustive summary of the relevant laws. The mining industry in China is regulated through the Mineral Resources Law of China (adopted in 1986 and amended in 1996) and associated policies, rules and regulations at state, provincial and local levels. Under Chinese law, mineral resources are owned by the state and in the past the bulk of activity in the minerals sector has been conducted by state owned or otherwise affiliated or related entities. The Ministry of Land and Resources in China is generally responsible for the administration of exploration and mining claims although there has been some dispute, particularly with respect to gold, as to which part of government has ultimate regulatory authority over gold exploitation projects. This leads to uncertainty as to whether all necessary approvals have or could be obtained. Exploration rights (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 "privileged" priority to subsequent mining rights, and such rights to mine may be issued based on the nature of the subject deposit provided that the holder meets the conditions and requirements specified at law. However there is no guarantee that exploration and mining rights will be or 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.

A stated objective of the Company is to ultimately become a gold producer in China. Under Chinese laws and regulations, before a gold producer can commence production, it must obtain mining rights and, among other things: (a) an approval of the project evaluation application from the local development and reform bureau; (b) a production safety permit from the local administration of work safety; (c) an environmental protection permit from the local environmental protection department; (e) a state-owned land use certificate from the local land and resources department; and (f) certificates of approval for storage and use of explosives. In addition, employees responsible for handling explosives must obtain a certificate of safekeeping of explosive equipment from the local public security bureau. Mining rights also have specific timeframes attached to them within which mining must occur. Specifically, for gold mining, foreign companies may also be required to receive approval from, among others, the Chinese National Development and Reform Commission, a department of the Chinese central government, or the State Council, which government bodies have a role in developing national economic strategies, annual and long term economic plans, and to report on the national economy and social development. There is no guarantee that the conditions necessary for the Company to meet its stated objectives will be satisfied.

Changes to the Chinese regulatory regime for the gold mining industry may have an adverse impact on the Company's results of operations and its ability to reach its stated objectives. The Chinese local, provincial and central authorities exercise a substantial degree of control over the Chinese gold industry. The Company's operations are subject to a range of Chinese laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, development, production, taxation, labour standards, occupational health and safety, waste treatment and environmental protection and operation management. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or enforcement thereof may increase the Company's operating costs and thus adversely affect its results of operations. There is no assurance that the Company will be able to comply with any new Chinese laws, regulations, policies, standards and requirements applicable to the gold mining industry or any changes in existing laws, regulations, policies, standards and requirements economically or at all. Further, any such new Chinese laws, regulations, policies, standards and requirements or any such change in existing laws, regulations, policies, standards and requirements may also constrain the Company's future expansion plans, adversely affect its profitability and limit its ability to meet its stated objective.

The value of the Company's project is ultimately tied to the Company's ability to realize on the sale of its 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 prices indicated by the Shanghai Gold Exchange which to some extent reflects market value. Foreign gold mining companies are generally able to repatriate profits in foreign currencies assuming that they are in compliance with Chinese law and have conducted all of the formalities necessary for such repatriation. Repatriation of capital contributions may not be undertaken without specific approvals. However, the nature of and impact on the interests of the Company of possible further changes or reforms to these rules and policies in the future cannot be predicted. 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 limiting the inflow of foreign currency convertible to Renminbi. Fluctuations in the value of the Renminbi and on the ability of the Company to fund its operations in China may have an adverse effect on the operations and operating costs of the Company.

The Company may suffer disadvantages when competing against companies from countries that are not subject to Canadian and US laws, including the US *Foreign Corrupt Practices Act* and the Canadian *Corruption of Foreign Public Officials Act*.

Risk of loss due to disease and other potential endemic health issues is also of concern in China and could impact on the performance of the Company.

It is quite common for foreign companies to form joint ventures with state owned mining enterprises which hold mining licences and to have mining licences transferred to the joint venture, all subject to approval. The Company's project in China is organized as a "Co-operative Joint Venture" company, with a state owned company, 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. While this connection to government-related entities can benefit the Company, there is often inequality with respect to the influence of the parties with the Chinese government in the event of a dispute. Like other state-sector entities, the actions and priorities of the Company's joint venture partners may be dictated by government policies, many of which may not be apparent to the Company, instead of purely commercial considerations. The Chinese government exerts a substantial degree of subjective control over the application and enforcement of laws and the Chinese judiciary may not act independently. Such inequality in influence and a tendency towards protection of local enterprises in the application of law can prove detrimental in the event of a business dispute arising between joint venture parties.

The Company has investigated title to all of its properties and believes that such title is in good standing. However, given the lack of a comprehensive registration system in China, the properties may be subject to prior unregistered agreements or transfers and undetected defects may affect title. The Company cannot give any assurance that title to its properties will not be challenged. In addition, under Chinese legislation, exploration licenses are granted for an initial period of three years and are extendible thereafter for subsequent two year periods. The legislation also requires a minimum expenditure on exploration by companies holding these licenses prior to extension. Although the Company has always exceeded these minimum requirements by significant amounts, the Company cannot give any assurance that title to its properties will not be challenged.

The Chinese government continues to exert a great deal of control and influence on Chinese society and economic development through laws, policies and regulations. The impact of changes to these laws, policies and regulations on the Company's operations in China, including their impact on the Company's ability to operate in China in the event of changes to foreign investment rules (including with respect to 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 on other matters having an impact on the Company's business and operations, cannot be accurately predicted.

Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure or otherwise. The occurrence of any environmental hazards may delay exploration, increase exploration costs, cause personal injuries or property damage, result in liability to the Company and its directors and/or damage our reputation. Such incidents may also result in a breach of the conditions of the Company's mining permits or other consents, approvals or authorizations, which may result in fines or penalties or even possible revocation of the Company's exploration permits. In the future, the Company may experience increased costs of production arising from compliance with environmental laws and regulations. Moreover, the development of the Chinese economy and the improvements in the living standards of the population may lead to a heightened awareness of environmental protection. As a result, it is possible that more stringent environmental laws, regulations and policies may be implemented in the future, or the existing environmental laws, regulations and policies may be more strictly enforced. The Company may not always be able to comply with existing or future laws, regulations or policies in relation to environmental protection and rehabilitation economically or at all. Should the Company fail to comply with any such existing or future laws, regulations or policies, it may be subject to penalties and liabilities under Chinese laws, and regulations, including but not limited to warnings, fines and suspension of operations. There is no assurance that future changes in environmental regulation, or other areas of regulation, if any, will not adversely affect the Company's operations and results.

In addition, the Chinese government continues to strengthen the enforcement of safety regulations in relation to the mining industry. There can be no assurance that more stringent laws, regulations or policies regarding production safety will not be implemented or that the existing laws, regulations and policies will not be more stringently enforced. The Company may not be able to comply with all existing or future laws, regulations and policies in relation to production safety economically or at all. Should the Company fail to comply with any production safety laws or regulations, it could be required to rectify the production safety problems within a limited period. Failure to rectify any problem could lead to suspension of operations. Should the Company fail to comply with any relevant laws, regulations or policies or should any accident occur as a result of the mishandling of dangerous articles, its business, reputation, financial condition and results of operations may be adversely affected, and it may be subject to penalties, civil liabilities or criminal liabilities.

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The appreciation of non-U.S. dollar currencies against the U.S. dollar can increase the cost of gold and/or other commodity production in U.S. dollar terms. Certain of the Company's expenditures are paid in Renminbi. Accordingly, a strengthened Renminbi relative to the Canadian dollar would negatively impact the Company.

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's Vice-President, Exploration has more than 20 years of experience as an exploration geologist. The Company's Vice-President, Development has more than 35 years of operations and project management experience in the mining industry. 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.

Conflicts of Interest

Certain directors of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors to be in a position of conflict. Any decision made by any of such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in applicable corporate law.

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 and 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 from this competition, the impact of which cannot be predicted.

Environmental Risk

The Dachang Gold Project is located in the proximity of the Sanjiangyuan Nature Reserve, established primarily to protect the sources of three major rivers in Asia (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, and has a policy of adopting and 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 no assurance that present or future environmental regulations will not adversely affect the operations of the Company.

Source of Financing

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 China.

Moreover, global financial conditions have been subject to increased volatility and numerous financial institutions have recently either gone into bankruptcy or have had to be rescued by governmental authorities. Such events may impact the ability of the Company to obtain equity or debt financing in the future or on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the Company's common shares could also be adversely affected.

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 procure additional financing and generate operating revenues. 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 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 the shares of the Company could impair the ability of the Company to raise additional capital through the sale of shares.

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.

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.

OUTLOOK

Over the next year the Company will continue to focus substantially all of its available resources to carry out exploration and development of its Dachang Gold Project, including permitting initiatives related to the development of a mine and mill facility and associated gold refining and production facility based around the resources established at the DMZ and PVZ. In addition, the Company has engaged Standard Chartered Securities (North America) Inc. and Standard Chartered Bank ("Standard Chartered") to advise the Company and its Board of Directors in connection with the ongoing review of the Company's strategy, capital structure and future financing alternatives, including evaluating and advising on the appropriateness of listing the Company's shares on the Hong Kong Stock Exchange.

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., 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.