

GobiMin Inc.

(Incorporated in Canada under the Canada Business Corporation Act)

Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)

September 30, 2006

(Expressed in United States Dollars except where otherwise noted)

GobiMin Inc.**Consolidated Balance Sheet****(Unaudited)**

(Expressed in United States Dollars)

	September 30, 2006	December 31, 2005
ASSETS	\$	\$
Current		
Cash and cash equivalents (Note 6)	15,015,135	7,894,272
Account receivable	1,332,761	-
Prepayments, deposits and other receivables	434,275	329,111
Loan to investee company (Note 7)	1,266,444	-
Inventories (Note 8)	1,275,958	1,258,653
Total current assets	19,324,573	9,482,036
Mineral properties (Note 9)	13,393,127	8,741,702
Equity investment (Note 10)	1,629,597	-
Due from related parties (Note 14)	170,724	186,458
Total assets	34,518,021	18,410,196
LIABILITIES		
Current		
Accounts payable	668,459	327,789
Due to related parties (Note 14)	59,357	-
Other payables and accrued liabilities	3,705,064	3,183,302
Derivative financial instrument liabilities (Note 16)	303,280	-
Promissory note payable (Note 12)	-	2,287,486
Bank loan (Note 13)	1,264,185	-
Income tax payable	903,658	480,186
Total current liabilities	6,904,003	6,278,763
Total liabilities	6,904,003	6,278,763
Non-controlling interests (Note 15)	402,954	219,301
Commitments (Note 20)		
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	15,877,740	3,834,003
Contributed surplus (Note 17)	3,263,488	3,592,116
Cumulative translation adjustments	(85,369)	20,284
Reserves (Note 18)	1,547,278	1,547,278
Retained earnings	6,607,927	2,918,451
Total shareholders' equity	27,211,064	11,912,132
Total liabilities and shareholders' equity	34,518,021	18,410,196

*See accompanying notes to the Interim Consolidated Financial Statements***APPROVED BY THE BOARD**Felipe Tan
DirectorHubert Marleau
Director

GobiMin Inc.
Consolidated Statements of Income and Retained Earnings
(Unaudited)

(Expressed in United States Dollars)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	\$	\$	\$	\$
Revenue (Note 14c)	6,174,557	4,461,268	12,068,076	9,886,926
Cost of sales	(1,193,467)	(1,148,778)	(3,260,720)	(2,577,575)
Depreciation	(278,388)	(232,569)	(789,629)	(682,685)
Selling and distribution cost	(166,980)	(162,985)	(366,105)	(344,132)
Write-off of mine construction cost (Note 9)	-	-	-	(192,799)
Gross Profit	4,535,722	2,916,936	7,651,622	6,089,735
Other revenue	163,078	120,304	306,624	131,362
General and administrative expenses	(775,716)	(827,119)	(2,214,893)	(1,539,335)
Stock based compensation (Note 17)	(71,062)	-	(238,097)	-
Equity loss in investment (Note 10)	(11,985)	-	(13,118)	-
Other operating expenses (Note 16)	(303,822)	(3,348)	(303,822)	(117,696)
Earnings before interest, tax and non-controlling interests	3,536,215	2,206,773	5,188,316	4,564,066
Interest expense	(11,669)	(4,301)	(11,669)	(13,846)
Earnings before tax and non-controlling interests	3,524,546	2,202,472	5,176,647	4,550,220
Income tax	(618,573)	(377,007)	(1,040,037)	(757,895)
Earnings before non-controlling interests	2,905,973	1,825,465	4,136,610	3,792,325
Non-controlling interests (Note 15)	(111,523)	(65,158)	(185,290)	(136,220)
Net earnings for the period	2,794,450	1,760,307	3,951,320	3,656,105
Retained earnings, beginning of period	3,559,538	3,686,406	2,918,451	1,790,608
Tax refund relating to capital transaction (Note 19)	253,939	-	253,939	-
Reverse takeover transaction costs	-	(286,778)	-	(286,778)
Special dividend payment in reverse takeover	-	(1,039,816)	-	(1,039,816)
Dividends paid	-	(385,500)	(515,783)	(385,500)
Retained earnings, end of the period	6,607,927	3,734,619	6,607,927	3,734,619
Basic earnings per share (Note 17e)	0.045	0.036	0.069	0.074
Diluted earnings per share (Note 17e)	0.042	0.036	0.063	0.074
Weighted average number of shares outstanding (Note 17e)	61,943,086	49,445,642	57,255,607	49,445,642
Diluted weighted average number of shares outstanding (Note 17e)	66,602,537	49,445,642	62,318,681	49,445,642

See accompanying notes to the Interim Consolidated Financial Statements

GobiMin Inc.**Consolidated Statements of Cash Flows
(Unaudited)**

(Expressed in United States Dollars)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash flows from (used in) operating activities	\$	\$	\$	\$
Net earnings for the period	2,794,450	1,760,307	3,951,320	3,656,105
Adjustments for items not involving cash:				
- Depreciation	278,388	232,569	789,629	682,685
- Amortization in general and administrative expenses	52,087	17,648	133,595	50,387
- Stock based compensation	71,062	-	238,097	-
- Unrealized loss on forward contracts (Note 16)	303,822	-	303,822	-
- Write-off of mine construction cost	-	-	-	192,799
- Gain on debt settlement	-	(27,789)	-	(27,789)
- Equity loss in investment	11,985	-	13,118	-
- Non-controlling interests	111,523	65,158	185,290	136,220
	3,623,317	2,047,893	5,614,871	4,690,407
Change in non-cash working capital items:				
- Account receivable	(995,422)	-	(1,332,761)	-
- Prepayments, deposits and other receivables	(72,045)	59,059	(105,164)	78,151
- Due from related parties	-	1,166	-	(2,840)
- Other assets	-	(76,399)	-	(76,399)
- Inventories	(368,396)	107,332	(17,305)	200,242
- Accounts payable	83,916	221,380	340,670	337,349
- Due to related parties	32,330	28,097	59,357	(29,137)
- Other payables and accrued liabilities	1,017,613	460,547	521,220	962,160
- Tax payable	480,544	268,923	423,472	301,301
Net cash from operating activities	3,801,857	3,117,998	5,504,360	6,461,234
Cash flows from (used in) financing activities				
Shares issued for cash from warrant and option exercise	1,276,435	-	4,598,416	-
Shares issued for cash from private placement	5,786,387	2,944,144	6,879,227	2,944,144
Repayment of debt	-	(14,642)	-	(14,642)
Repayment of promissory note	(2,391,928)	-	(2,391,928)	-
Bank loan (Note 13)	1,264,185	(240,187)	1,264,185	(240,187)
Loan to investee company (Note 7)	(1,266,444)	-	(1,266,444)	-
Dividend paid	-	(385,500)	(515,783)	(385,500)
Obligation under capital lease	-	(3,208)	-	(113,342)
Net cash from (used in) financing activities	4,668,635	2,300,607	8,567,673	2,190,473
Cash flows from (used in) investing activities				
Cash acquired in reverse takeover	-	1,213,417	-	1,213,417
Cash payment in reverse takeover	-	(2,342,736)	-	(2,342,736)
Tax refund relating to capital transaction (Note 19)	253,939	-	253,939	-
Interest in joint venture (Note 11)	(126,418)	-	(126,418)	-
Long term investments	-	-	(1,624,663)	-
Mineral properties	(2,621,888)	(559,003)	(5,564,528)	(2,002,581)
Net cash used in investing activities	(2,494,367)	(1,688,322)	(7,061,670)	(3,131,900)
Increase in cash and cash equivalents	5,976,125	3,730,283	7,010,363	5,519,807
Effect on foreign exchange rate changes on cash	14,872	(125,315)	110,500	(121,011)
Cash and cash equivalents at beginning of period	9,024,138	4,568,206	7,894,272	2,774,378
Cash and cash equivalents at end of period	15,015,135	8,173,174	15,015,135	8,173,174

GobiMin Inc.
Consolidated Statements of Cash Flows
(Unaudited) - continued
(Expressed in United States Dollars)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	\$	\$	\$	\$
Supplementary cash flow information:				
Interest received	154,659	23,523	240,820	29,766
Interest paid	-	(4,301)	-	(13,372)
Income tax paid	(145,798)	(125,579)	(628,677)	(473,893)

See accompanying notes to the Interim Consolidated Financial Statements

1. NATURE OF OPERATIONS

GobiMin Inc., formerly Goldsat Mining Inc. (“Goldsat”), together with its subsidiaries, collectively referred to herein as the “Company” or “GobiMin”, is engaged in the development and exploitation of mineral properties in Hami of the Xinjiang Uygur Autonomous Region of the People’s Republic of China (“China”) through its operating Chinese subsidiaries, Xinjiang Yakesi Resources Company Limited (“Yakesi”) and Hami Jubao Resources Development Limited (“Jubao”). The Company owns 97% of Yakesi and 92.9% of Jubao.

The ore being mined by the Company is predominately nickel and copper. It then processes the ore through its processing plant to produce nickel and copper concentrates. The concentrates are then sold to its customer, Jinchuan Group Ltd. (“Jinchuan”), China’s largest nickel producer and smelter operator. Jinchuan owned approximately 12% of the Company’s total common shares outstanding as at September 30, 2006.

2. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements of GobiMin have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of application as those disclosed in note 2 of GobiMin’s annual consolidated financial statements for the year ended December 31, 2005. Generally accepted accounting principles for interim consolidated financial statements do not conform in all respects to the disclosures required for annual consolidated financial statements and, accordingly, these unaudited interim consolidated financial statements should be read in conjunction with GobiMin’s annual consolidated financial statements and accompanying notes for the year ended December 31, 2005. In the opinion of management, all adjustments considered necessary for the fair presentation of results for the periods presented have been reflected in these unaudited interim consolidated financial statements. These adjustments consist only of normal recurring adjustments. Operating results for these interim periods are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2006.

3. ACCOUNTING CHANGES

Reporting currencies

The Company changed its reporting currency to United States dollars effective September 30, 2005. The change in reporting currency was made to facilitate investors’ ability to compare the Company’s financial conditions with other publicly traded companies in the industry. The interim consolidated financial statements were translated from Canadian dollars and other currencies to United States dollars using the current rate method. Under this method, the assets and liabilities were translated using the exchange rate in effect at the balance sheet date. The statements of operations and cash flows were translated at the average rate for the respective reporting periods. Any resulting foreign exchange gains and losses were recorded as a separate component of shareholders’ equity and described as cumulative translation adjustments. The translated amount for non-monetary items became the historical basis for those items in subsequent reporting periods.

4. NEW SIGNIFICANT ACCOUNTING POLICIES

Derivative Financial Instruments

The Company recognizes derivative financial instruments on a marked-to-market basis. The Company has classified its investment in London Metal Exchange (“LME”) forward contracts as held for trading and therefore carries it at fair market value, with the unrealized gain or loss recorded in other revenue or expenses in the Statements of Income.

Proportionate Consolidation

For a venture that the Company and the other parties have joint control over and share both benefits and risks, the Company accounts for its interest in this joint venture by proportionate consolidation, whereby the Company’s pro rata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined on a line-by-line basis with similar items in the Company’s financial statements.

GobiMin Inc.
Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2006
(Expressed in United States Dollars)

5. SEASONALITY OF OPERATIONS

The Company's subsidiaries temporarily suspend the processing of the ore due to the winter conditions. The quantities of finished goods produced for sale in winter are significantly lower than the capacity of the Company's plant facilities. Winter is generally from late November to early March.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at September 30, 2006 include cash denominated in different currencies as follows:

Bank location	Currency	Amount	US\$ Equivalent
Canada	CAD	951,604	853,074
Hong Kong	HKD	61,607,884	7,906,758
China	RMB	49,480,918	6,255,303
Total			15,015,135

Cash and cash equivalents at December 31, 2005 include cash denominated in different currencies as follows:

Bank location	Currency	Amount	US\$ Equivalent
Canada	CAD	387,409	332,280
Hong Kong	HKD	27,942,432	3,604,574
China	RMB	31,919,321	3,957,418
Total			7,894,272

The RMB is not freely convertible into other currencies. However, under China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

The fair market values of cash and cash equivalents approximate their carrying values at September 30, 2006.

7. LOAN TO INVESTEE COMPANY

On September 30, 2006, the Company advanced an unsecured, interest bearing shareholder loan totalling \$1,266,444 (RMB 10,000,000) to Tibet Dazi PuXiong Copper Company Limited ("PuXiong"), in which GobiMin owns a 30% equity interest. The loan is due by the end of March 2007 with an interest rate of 5.5% per annum. The other shareholder of 70% equity interest of PuXiong also advanced a shareholder loan of \$2,275,528 (RMB 18,000,000) to PuXiong at the same terms.

8. INVENTORIES

	September 30, 2006	December 31, 2005
Raw materials	\$ 710,728	\$ 238,413
Finished goods	565,230	1,020,240
	1,275,958	1,258,653

GobiMin Inc.
Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2006
(Expressed in United States Dollars)

9. MINERAL PROPERTIES

	Cost	Accumulated Amortization/ Written off	Net Book Value
<u>September 30, 2006</u>			
Leasehold land and buildings	3,450,373	(853,681)	2,596,692
Plant and machinery	1,855,086	(1,046,962)	808,124
Furniture, equipment and motor vehicles	611,951	(74,176)	537,775
Intangible asset	6,219,711	(2,922,106)	3,297,605
Construction in progress	5,029,237	-	5,029,237
Exploration costs	1,123,694	-	1,123,694
	18,290,052	(4,896,925)	13,393,127
<u>December 31, 2005</u>			
Leasehold land and buildings	2,047,995	(547,779)	1,500,216
Plant and machinery	1,735,929	(852,271)	883,658
Furniture, equipment and motor vehicles	429,540	(33,803)	395,737
Intangible asset	6,066,514	(2,506,209)	3,560,305
Construction in progress	2,401,786	-	2,401,786
	12,681,764	(3,940,062)	8,741,702

Some of the buildings, equipment and motor vehicles are pledged to secure short-term bank loans (note 13).

From time to time, the management evaluates the estimated economic benefit derived from shaft construction relating to future mining potential. Mine construction costs are written off as soon as it is determined that their carrying values may exceed their estimated net recoverable amounts.

In the first and second quarters of 2005, the construction of one shaft at Yellow Mountain (Huangshan) was suspended as management determined that the economic benefit would be negative. A cost of \$192,799 for the shaft development in those quarters was written off.

10. EQUITY INVESTMENT

Investments in shares of incorporated companies, in which the Company's ownership is greater than 20% but no more than 50% and significant influence is present, are accounted for by the equity method.

Equity investment represents the Company's 30% equity interest in PuXiong, which owns the exploration license of the Malonglang copper-zinc project located in Dazi County, Tibet in China. The consideration for such acquisition was RMB13,000,000 in cash. The Company accounts for its investment on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of the undistributed earnings and losses of PuXiong. For the nine month period ended September 30, 2006, the Company recorded \$13,118 as equity loss on this investment.

11. INTEREST IN JOINT VENTURE

During the three months ended September 30, 2006, GobiMin formed a new joint venture, Xinjiang Xinya Minerals Ltd. ("Xinjiang Xinya"), with Xinjiang Huaxin Minerals Ltd. ("Xinjiang Huaxin"). GobiMin and Xinjiang Huaxin each acquired a 50% interest in Xinjiang Xinya by injecting RMB 1 million cash (\$126,418) into the new joint venture as share capital. The joint venture is formed for the mining exploration and development in northwest China.

GobiMin Inc.
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The Company adopts proportionate consolidation method to account for its interest in Xinjiang Xinya. The Company's proportionate share of its interest in and results from the joint venture as at and for the three months ended September 30, 2006 are as follows:

	September 30, 2006
Cash and cash equivalents	\$ 55,440
Other receivables	70,794
	126,234
	Three months ended September 30, 2006
General and administration expenses	\$ (184)
Net cash used in operating activities	(70,978)

12. PROMISSORY NOTE PAYABLE

The promissory note represents part of the consideration for the acquisition of one of the former shareholder's interest in one of the Company's subsidiaries. The note is non-interest bearing and was paid off in September 2006.

13. BANK LOAN

The bank loan is a one-year secured loan that the Company's Chinese subsidiary borrowed from Construction Bank of China. The loan is secured by the buildings, equipment and motor vehicles of the Chinese subsidiary of the Company, with a net book value totaling RMB 10,688,538 (approximately \$1,353,644) as at September 30, 2006. The loan bears a monthly interest rate of approximately 0.563% and is due on July 30, 2007.

14. RELATED PARTY TRANSACTIONS

- a) Due from related parties pertains to loans to 14 employees in the Chinese subsidiary of the Company for financial assistance related to home purchases. The balance of the loans at September 30, 2006 is \$170,724 (December 31, 2005: \$186,458). These loans are non-interest bearing and forgivable after eight years of service from the date of granting of the loan. Should the employee leave the Company prior to the end of the eighth year from the granting date of the loan, the original loan principal will become immediately repayable. These loans are collateralized by the properties bought and are being amortized on a straight-line basis over eight years. The related party transaction was recorded at the exchange amount as agreed upon by the related parties.
- b) Due to related parties pertains to accounts payable to the minority shareholder of the Chinese subsidiary of the Company for the loading services provided. The balance of the accounts payable at September 30 2006 is \$59,357 (December 31, 2005: nil). The transaction is conducted 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.
- c) The Company has only one customer, Jinchuan. As at September 30, 2006, Jinchuan owned approximately 12% of the total outstanding shares of the Company.

15. NON-CONTROLLING INTERESTS

Non-controlling interests represent minority shareholders' 3% interests in Yakesi and 7.1% interests in Jubao.

16. DERIVATIVE FINANCIAL INSTRUMENTS

At September 30 2006, GobiMin had an open position on forward contracts in LME of short selling 180 tonnes of nickel at an average accumulated price of \$27,433 per tonne. These forward contracts are maturing at various dates between November 2006 and March 2007. The unrealized loss on these forward contracts at September 30, 2006 was approximately \$303,822. In accordance with the Company's accounting policy (see note 4), the unrealized loss was recognized as Other Operating Expenses in the Consolidated Statements of Income and Retained Earnings and the related liability was recorded as Derivative Financial Instrument Liabilities on the Balance Sheet.

17. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS

a) Common Stock

	Number	Amount
		\$
Authorized:		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued and outstanding:		
Balance, December 31, 2005	51,540,542	3,834,003
Shares issued for cash from private placement	5,280,000	6,715,301
Shares issued for option exercise	265,000	159,829
Shares issued for warrant exercise	6,890,460	5,168,607
Balance, September 30, 2006	<u>63,976,002</u>	<u>15,877,740</u>

b) Contributed Surplus

	Amount
	\$
Balance, December 31, 2005	3,592,116
Fair value of warrants from the private placement	163,926
Options & warrants exercised and cancelled	(731,002)
Stock-based compensation expense	238,448
Balance, September 30, 2006	<u>3,263,488</u>

Private Placements

On January 6, 2006, the Company closed a private placement financing for \$1,092,840 consisting of 1,160,000 units at a price of \$0.94. Each unit consists of one common share and one-half of one common share purchase warrant, each purchase warrant exercisable into one common share of the Company at \$1.28 per share until January 31, 2007. The fair value of the warrants from the private placement of \$163,926 has been recognized as a separate component of equity.

On July 7, 2006, the Company closed a private placement with an aggregate of 4,120,000 common shares at a price of \$1.52 (CAD\$1.70) per share, for aggregate proceeds of \$6,278,799 (CAD\$7,004,000). The agents received a cash commission of \$313,239 (CAD\$ 349,418) on the gross proceeds and were granted options to acquire an additional 149,400 common shares for a period of six months at a price of \$1.52 (CAD\$1.70). For this private placement, the Company incurred \$179,173 (CAD\$199,868) for financial advisory fee, legal fee and listing fee, which were all recorded as share issuance costs.

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Escrowed Shares

27,532,500 common shares were placed in escrow in accordance with the escrow agreement dated September 30, 2005. The escrow shares are subject to a three year term.

The total number of shares held in escrow at September 30, 2006 was 20,649,375.

c) Stock options

On May 26, 2005, the Company adopted a resolution canceling all of its outstanding stock option plans and creating a new stock option plan to grant options to its employees, directors and officers to purchase common shares. A number of 5,700,000 (December 31, 2005: 4,900,000) common shares were reserved for issuance pursuant to the exercise of options to be granted under the plan.

A summary of the status of the Company's stock option plan as of September 30, 2006, and changes during the periods ended on those dates is presented below:

	Nine months ended September 30, 2006	
	Number of Options	Weighted average exercise price
		\$
At December 31, 2005	2,985,000	0.60
Cancelled	(230,000)	0.94
Issued on February 7, 2006	135,000	1.41
Issued on May 19, 2006	30,000	1.84
Issued on July 4, 2006	155,000	1.66
Exercised	(265,000)	0.55
At September 30, 2006	2,810,000	0.69

The following table summarizes the employee stock options outstanding and exercisable at September 30, 2006:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$		(Years)	\$		(Years)	\$
0.55	2,285,000	4.00	0.55	1,385,000	4.00	0.55
0.95	10,000	4.17	0.95	2,000	4.17	0.95
0.95	250,000	1.29	0.95	250,000	1.19	0.95
1.29	50,000	1.25	1.29	50,000	1.25	1.29
1.41	30,000	4.36	1.41	6,000	-	-
1.83	30,000	4.64	1.83	-	-	-
1.66	155,000	5.00	1.66	-	-	-
	2,810,000	3.78	0.69	1,693,000	3.52	0.63

On July 7, 2006, 149,400 agent options were issued to the agents of the private placement (see note 17b) (the "Agent Options"). The weighted average exercise price and weighted average remaining contractual life of the Agent Options are \$1.52 and 2.7 years, respectively. The number of options outstanding and options exercisable as at September 30, 2006 is 149,400 options.

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The Company determines fair value of the employee stock options using the Black-Scholes option pricing model. In determining the fair value of these employee stock options, the following assumptions were used:

Risk free interest rate:	4.4%
Expected life:	5 years
Expected volatility:	75.5%
Dividend yield:	0.61%

d) Warrants

	Nine months ended September 30, 2006	
	Warrants	Weighted average exercise price
		\$
At December 31, 2005	11,375,460	0.55
Issued at January 6, 2006	580,000	1.28
Exercised	(6,890,460)	0.64
At September 30, 2006	<u>5,065,000</u>	<u>0.53</u>

The following table summarizes the warrants outstanding and exercisable at September 30, 2006:

Exercise Price	Number of Warrants Outstanding	Weighted Average Remaining Contractual Life (Years)	Number of Warrants Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$		(Years)		(Years)	\$
0.43	4,500,000	0.5	4,500,000	0.5	0.43
1.28	565,000	0.33	565,000	0.33	1.28
	<u>5,065,000</u>	<u>0.48</u>	<u>5,065,000</u>	<u>0.48</u>	<u>0.53</u>

e) Basic and Diluted Earnings Per Share

	Three months ended	
	September 30, 2006	September 30, 2005
Net earnings available to shareholders		
Basic and diluted	\$2,794,450	\$1,760,307
Weighted average shares outstanding		
Basic	61,943,086	49,445,642
Effect of dilutive stock options and warrants	4,659,451	-
Diluted	66,602,537	49,445,642
Earnings per share (basic)	\$0.045	\$0.036
Earnings per share (diluted)	<u>\$0.042</u>	<u>\$0.036</u>

GobiMin Inc.
Notes to Interim Consolidated Financial Statements (Unaudited)
September 30, 2006
(Expressed in United States Dollars)

	Nine months ended	
	September 30, 2006	September 30, 2005
Net earnings available to shareholders		
Basic and diluted	\$3,951,320	\$3,656,105
Weighted average shares outstanding		
Basic	57,255,607	49,445,642
Effect of dilutive stock options and warrants	5,063,074	-
Diluted	62,318,681	49,445,642
<hr/>		
Earnings per share (basic)	\$0.069	\$0.074
Earnings per share (diluted)	\$0.063	\$0.074

18. RESERVES

Pursuant to the relevant laws and regulations in China, a portion of the net earnings of the Company's subsidiaries in China was transferred to general reserve, at the discretion of its board of directors at the end of each year. Subject to certain restrictions set out in the relevant law and regulations in China and the articles of associations of the relevant companies, the general reserve may be used to off-set losses or for capitalization as paid-up capital.

19. TAX REFUND ON CAPITAL TRANSACTION

In July 2006, the Company's subsidiary in China obtained an approval from the China tax authority regarding approximately RMB2 million (\$253,939) tax refund for the subsidiary's reinvestment of retained earnings as its share capital. This tax refund was made pursuant to China Foreign Investment Enterprises and Foreign Enterprises Income Tax Law.

20. COMMITMENTS

As at September 30, 2006, capital commitments that the Company had contracted for, but not provided for, amounted to \$2,467,940 (December 31, 2005: \$3,114,548). The commitments relate to exploration work on Yellow Mountain (Huangshan) site, shaft construction, equipments in the new mill and other maintenance work at the current facility.

21. ECONOMIC DEPENDENCE

The Company has only one customer over the period covered by these unaudited interim consolidated financial statements. The customer is Jinchuan (See note 14c). Should the customer terminate the purchase agreement it signed with the Company, the sale of the Company's finished products depends on the Company's ability to locate and secure alternative sales outlets. The potential alternative can be selling nickel concentrate to other customers with smelter facilities in China.

22. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment, being the development and exploitation of mineral properties. All mineral property interests and capital assets are located in China. All of the Company's revenues are derived from Chinese sources.

23. SUBSEQUENT EVENTS

On September 28, 2006, GobiMin signed an agreement to retain the services of CHF Investor Relations for two years commencing from October 1, 2006. The Company will pay a monthly fee of approximately \$5,379 (CAD\$6,000), plus approved disbursements. It is agreed that CHF Investor Relations shall receive upon engagement 240,000 stock options priced between \$1.66 (CAD\$1.85) per share and \$2.69 (CAD\$3.00) per share vesting in equal tranches throughout the vesting period ending on January 1, 2009.

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(Incorporated in Canada under the Canada Business Corporations Act)

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The following discussion and analysis of the consolidated operating results and financial condition of GobiMin Inc. for the quarter ended September 30, 2006 should be read in conjunction with its consolidated interim financial statements for the quarter ended September 30, 2006 and its audited consolidated financial statements for the year ended December 31, 2005. The financial information was prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This Management's Discussion and Analysis was prepared on November 15, 2006.

Certain statements included in this discussion constitute forward-looking statements. Such forward-looking statements can often, but not always, be identified by the use of words such as "can", "could", "believe", "propose", "anticipate", "intend", "consider", "estimate", "expect", or other variations of such expressions, or forward-looking statements may declare that certain measures, events or results "can", "could" or "will" be taken or occur or be attained. Such forward-looking statements involve known and unknown risks and uncertainties as well as other factors that could cause actual results, performances or achievements of the Company to differ materially from the future results, performances or achievements implied or suggested in such forward-looking statements. Such risks, uncertainties and other factors include but are not limited to the risk factors discussed under the heading "Risk Factors" below. Accordingly, shareholders are cautioned not to put undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this discussion and the Company disclaims any obligations to update any forward-looking statements in order to account for any events or circumstances that might occur after the date that such forward-looking statements were established.

Corporate Overview

GobiMin Inc., formerly Goldsat Mining Inc. ("Goldsat"), together with its subsidiaries, collectively referred to herein as the "Company" or "GobiMin", is engaged in the exploration, development and mining of mineral properties in the People's Republic of China ("China"). The Company's base metals projects are located in Hami of the Xinjiang Uygur Autonomous Region of China.

GobiMin, through its subsidiaries, presently mines nickel and copper ore from two underground mines. Ore is processed through a 150,000 tonnes annual capacity plant to produce nickel and copper concentrates, which are sold to its customer, Jinchuan Group Ltd. ("Jinchuan"), the largest nickel producer and smelter operator in China. The Company has completed the construction of a new concentration plant with an annual capacity of 250,000 tonnes which is scheduled to be in operation in the fourth quarter of 2006. The Company continues to pursue additional base metals opportunities.

Business Summary

In this quarter the Company continued to execute well in all key areas of its business. The results can be seen in the revenue growth, strong gross margin and net income reaching record level in the third quarter. Market conditions remained favourable and the Company improved its cost structure. The financial highlights in this third quarter are:

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- Record quarterly revenue of \$6.2 million, an increase of 38% over the \$4.5 million recorded in Q3 2005
- Gross margin was 73%, compared to 65% in Q3 2005
- Record quarterly \$2.8 million net income, compared to \$1.8 million in Q3 2005, an increase of 59%.
- Cash cost, after by-product credits, improved to \$8.80 per tonne of ore or \$0.67 per pound of nickel payable sold, compared to \$17.85 or \$1.10 respectively for last year's same period.
- Cash position rose to a record \$15 million

During this quarter, GobiMin continued the diamond drilling program at Yellow Mountain which aims to support the historical resource estimate to comply with National Instrument 43-101 ("NI43-101"). The most recent press release in October 2006 documented the results of the first six holes, which are very encouraging and in line with historical results. The total drilling program will be increased to 18,000 meters over 18 holes, to be completed in November 2006 and the NI43-101 resources calculation will be completed in the first half of 2007. The discovery at Yellow Mountain property was first reported in early 1990s with historical resources of 67 million tonnes at 0.48% nickel and 0.31% copper under category C and D of the China Geological and Mineral Resources Classification System. These historical resources do not comply with NI43-101 and therefore should not be relied upon.

One new production shaft in Yellow Mountain East was completed during the quarter and should come on stream in the fourth quarter. Three more new production shafts are under construction. All will come on stream during 2007. Given four new shafts and the currently producing shafts under operation, our future production capacity should increase to 400,000 tonnes per year from 150,000 tonnes in 2005. A new mill of 1,000 tonnes per day was completed in this quarter and will start production by the end of the year.

Dazi PuXiong Copper Company Limited ("PuXiong"), in which the Company acquired a 30% equity interest in May 2006, has commenced test operation of its mill with 500 tonnes per day capacity in October 2006. Owning the only mill in Dazi area, PuXiong has signed agreements with neighbouring operating mines to custom toll ores. This shall bring the mill to operate at full capacity by the year-end. PuXiong's Malonglang copper-zinc project is currently under exploration.

GobiMin entered into a joint venture agreement with Xinjiang Huaxin Minerals Ltd., which is a subsidiary of Xinjiang Bureau of Geology and Mineral Resources ("Xinjiang Bureau"). By combining GobiMin's project development expertise and Xinjiang Bureau's resource strength, the new joint venture aims to acquire quality projects in Xinjiang. The joint venture is currently processing its application for the exploration licenses of one zinc project in Xinjiang region.

During this quarter, the Company raised gross proceeds of approximately \$6.3 million (CAD\$ 7 million) in a private placement of 4,120,000 common shares, through a syndicate led by Desjardins Securities Inc. and including MGI Securities Inc. and Wellington West Capital Markets Inc.

In the third quarter of 2006, 2,288,230 warrants expiring this quarter were all exercised and brought in \$1,276,435 (CAD\$1,423,863).

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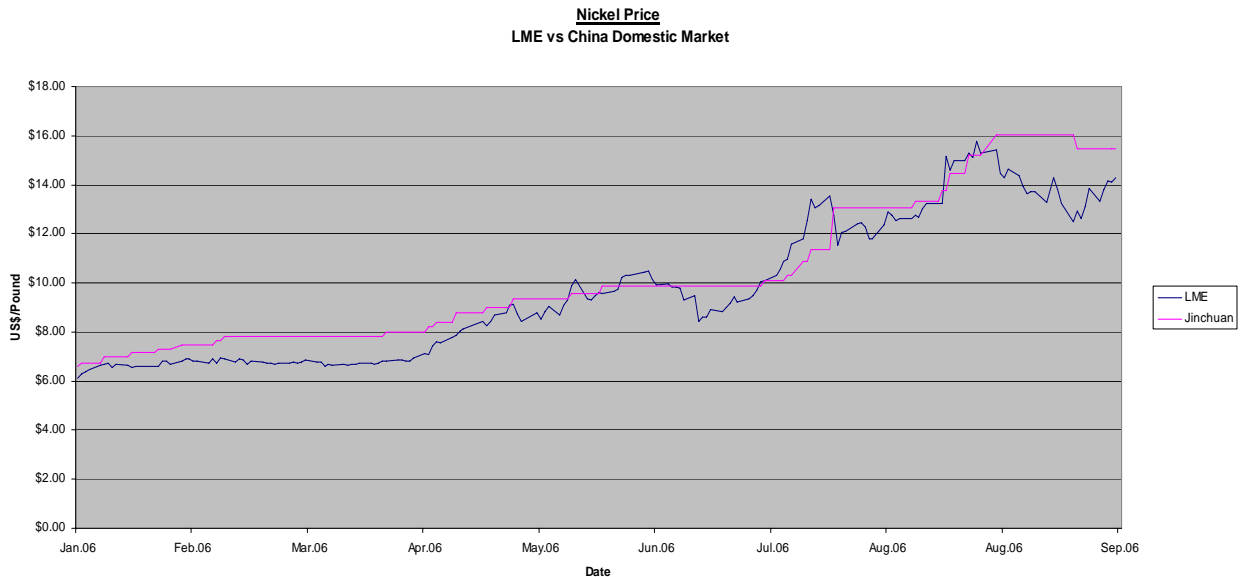
(Expressed in United States Dollars)

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Key Economic Trends

Nickel

One of the products sold by GobiMin is nickel concentrate. The price received for the concentrate is calculated at a discount to Chinese domestic cathode nickel price (which is correlated to the London Metal Exchange ("LME") nickel price). The average Chinese domestic cathode nickel price was approximately 107% of LME nickel price during the first nine months in 2006 as shown in the price chart below which can also be found in GobiMin's website www.gobimin.com:



The discount is to reflect the smelter and refining charges as well as recovery loss to convert concentrate into nickel cathode. The cash settlement price of nickel on the LME averaged \$13.24 per pound during the third quarter of 2006, with a high of \$15.77 per pound and a low of \$10.29, compared to an average of \$6.61 during the third quarter of 2005. Management is of the view that the price for nickel will continue to be volatile and remain strong due to low inventories, limited new supply and strong demand.

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Copper

Another product sold by GobiMin is copper concentrate. The price received for the concentrate is calculated at a discount to Chinese domestic copper price (which is correlated to LME copper price). The discount is to reflect the smelter and refining charges as well as recovery loss to convert the concentrate into copper metal. The cash settlement price of copper on the LME averaged \$3.48 per pound in the third quarter of 2006, compared to an average of \$3.27 per pound in the second quarter of 2006. Management is of the view that the price for copper shall remain high due to the low inventory level, limited increase in supply and steady demand.

Accounting Changes***Reporting currencies***

The Company changed its reporting currency to United States dollars effective September 30, 2005. The change in reporting currency was made to facilitate an investor's ability to compare the Company's financial condition with other publicly traded companies in the industry. The consolidated financial statements were translated from Canadian dollars and/or other currencies to the United States dollars using the current rate method. Under this method, the assets and liabilities were translated using the exchange rate in effect at the balance sheet date. The statements of operations and cash flows were translated at the average rate for the respective reporting periods. Any resulting foreign exchange gains and losses were recorded as a separate component of shareholders' equity and described as cumulative translation adjustments. The translated amount for non-monetary items became the historical basis for those items in subsequent reporting periods.

Critical Accounting Policies and Estimates

The Company's accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2005. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported results. Changes to these estimates could materially impact the consolidated financial statements. The policies and estimates made by the Company that are considered to be most critical are described below.

Depreciation of mineral properties

Mineral properties comprise the largest component of the Company's assets and as such, the depreciation and amortization of these assets has a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company amortizes the properties, plant and equipments using the straight-line method with an estimated residual value of 5%. Construction in progress is stated at cost less any impairment loss, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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Impairment of long-lived assets

Undiscounted future net cash flows expected to be generated by the assets of the Company is calculated using management's best estimates of future production, sales prices, operating and capital costs. Because of the changing market environment, it is impossible to predict with certainty the revenue expected to be generated from the assets, as well as to measure with certainty further costs to be incurred for earning such revenue. If an unfavourable market condition persists, the Company may not be able to recover the carrying value of its assets.

Asset retirement obligations

According to current Chinese environmental regulations and contracts of the Company, there is no obligation for the Company to dismantle and remove plant and equipment or to remediate sites upon the cessation of operations. Therefore, the Company has not made any provision on the asset retirement obligations. If there is any change in the regulations in future, the Company will make necessary provisions to account for the related potential liabilities. Currently, the Company pays an annual environmental fee to the local government for the cost of operating a processing plant. This fee is fixed as per the government policy and is expensed as incurred.

Equity Investment

Investments in shares of incorporated companies, in which the Company's ownership is greater than 20% but no more than 50% and significant influence is present, are accounted for by the equity method. The Company accounts for its investment by the equity basis, which is carried at cost, adjusted for the Company's proportionate share of the undistributed earnings and losses.

Interest in Joint Ventures

For a venture that the Company and the other parties have joint control over and share both benefits and risks, the Company accounts for its interest in this joint venture by proportionate consolidation, whereby the Company's pro rata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined on a line-by-line basis with similar items in the Company's financial statements.

Derivative Financial Instruments

The Company recognizes derivative financial instruments on a marked-to-market basis. The Company has classified its investment in LME forward contracts as held for trading and therefore carries it at fair market value, with the unrealized gain or loss recorded in other revenue or expenses.

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Selected Quarterly Information

Selected quarterly information is provided as follows:

For the quarter ended	September 30, 2006	June 30, 2006	March 31, 2006
Revenue	\$ 6,174,557	\$ 3,549,385	\$ 2,344,135
Net earnings (loss)	2,794,450	878,687	278,183
Basic earnings per share	0.045	0.016	0.006
Diluted earnings per share	0.042	0.014	0.005
Net cash from operating activities	3,801,857	1,417,079	258,424
Total assets	34,518,021	23,552,441	21,793,901

For the quarter ended	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Revenue	\$ 1,144,131	\$ 4,461,268	\$ 3,947,100	\$ 1,478,558
Net earnings (loss)	(248,258)	1,760,307	1,781,864	113,934
Basic earnings per share	(0.006)	0.036	0.049	0.003
Diluted earnings per share	(0.006)	0.036	0.049	0.003
Net cash from operating activities	69,921	3,117,998	2,571,943	771,291
Total assets	18,410,196	17,960,859	14,087,570	11,338,039

The quarters ended June 30, 2005 and March 31, 2005 were reported in HK\$ in 2005 interim financial statements and converted in US\$ in the above table, using the average exchange rate for income statement items and quarter-end rate for balance sheet items.

Results of Operations

Revenues

The Company recorded quarterly revenues of \$6,174,557 compared to \$4,461,268 for the third quarter of 2005. Revenues were \$5,301,640 for nickel, \$872,917 for copper and other by-product credits in the third quarter of 2006 versus \$4,163,178 for nickel and \$298,090 for copper in the corresponding period in 2005. Revenue was higher partly due to the stronger nickel and copper market. Starting from the second quarter, the Company successfully separated copper concentrates from nickel concentrates while in the past, the Company produced mixed nickel-copper concentrates only. As a result, the price factor for realized copper revenue has been increased from approximately 30% to over 60%. Copper accounted for 14.1% of revenues in the third quarter of 2006, considerably higher than 6.7% in the third quarter of 2005.

Other revenues for the third quarter of 2006 were \$163,078 (third quarter of 2005: \$120,304), mainly from interest income of the Company's cash balances.

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During the third quarter of 2006, the Company sold 727,000 pounds of nickel payable and 320,000 pounds of copper payable, compared to 921,000 pounds of nickel and 593,000 pounds of copper in the corresponding period in 2005. The plant processed 54,281 tonnes (third quarter of 2005: 51,684 tonnes) of ore with a nickel head grade of 0.72% (third quarter of 2005: 0.80%) and recoveries amounting to 86% (third quarter of 2005: 89%). The lower recovery in this quarter is the normal result of the new copper separation process. Nickel grade of ore processed has already improved to 0.72% from 0.65% in the previous quarter.

Average realized nickel payable price realized in the third quarter of 2006 was \$7.29 per pound sold and average realized copper price was \$2.73 per pound sold, compared to \$4.52 and \$0.50 respectively in the corresponding period in 2005. The higher realized price for the current period was mainly due to the increasing market price of nickel and copper and higher price factor of copper from the launch of the copper separation program.

The following table summarizes the Company's production and revenue information for the periods:

Mining Operations	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Ore (tonnes)		
Processed	54,281	51,684
Sold	55,402	56,772
Nickel grade of ore processed	0.72%	0.80%
Nickel grade of ore sold	0.69%	0.83%
Metallurgical recovery	86%	89%
Metal sold ('000 pounds)		
Nickel payable	727	921-
Copper payable	320-	593-
Metal sold		
Nickel	\$5,301,640	\$4,163,178
Copper and others	\$872,917	\$298,090
Total Revenue	\$6,174,557	\$4,461,268
Average realized nickel payable price per pound sold	\$7.29	\$4.52
Average realized copper payable price per pound sold	\$2.73	\$0.50
Average cash cost per pound of nickel payable sold, net of by-product credits ⁽¹⁾	\$0.67	\$1.10
Average cash cost per tonne of ore sold, net of by-product credits ⁽¹⁾	\$8.80	\$17.85

(1) Cash cost is a non-GAAP measure, which excludes depreciation and asset write-off, and includes mining, milling and haulage costs, after deducting the copper, gold and silver revenue.

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Cost of sales

Cost of sales amounted to \$1,193,467 in the third quarter of 2006 compared to \$1,148,778 for the third quarter of 2005. The cost of sales includes the costs of mining, milling, haulage from mine sites to the mill and resource tax to the local government. Cash operating cost per tonne of ore, net of by-product credits, averaged \$8.80 for the third quarter of 2006 compared to \$17.85 for the third quarter of 2005. The significant decrease in cash cost per tonne of ore in 2006 was mainly due to the increasing by-product credits, driven by higher copper market price and copper price factor from the copper separation. Accordingly the cash cost per pound of nickel decreased to \$0.67 in the third quarter of 2006 from \$1.10 in the third quarter of 2005. This reinforces one of the initiatives that the Company promised to deliver in 2006 - to improve the operating cost structure by implementing the copper separation program.

Cash cost figure, a non-GAAP measure, represents the total of all cash costs directly attributable to the related mining and milling operations after the deduction of credits with respect to by-product sales. The Company produces nickel and copper concentrates. Disclosure of cash cost by the Company may not be directly comparable to other nickel producers and is only intended to provide investors with information about the cash generating capacity of the mining operations of the Company.

The selling and distribution expenses were \$166,980 in the third quarter of 2006 versus \$162,985 in the third quarter of 2005. The expense is incurred for the rail and truck transportation of concentrates to the customer's smelter site.

The following table presents the calculation of cash operating cost per tonne of ore sold:

	Three Months Ended September 30, 2006		Three Months Ended September 30, 2005	
	\$	\$/tonne	\$	\$/tonne
Cost of sales ⁽¹⁾	1,193,467	21.54	1,148,778	20.23
Selling and distribution cost	166,980	3.01	162,985	2.87
By-product credits:				
Copper, gold and silver	(872,917)	(15.75)	(298,090)	(5.25)
Cash operating cost	487,530	8.80	1,013,673	17.85

(1) Cost of sales excludes depreciation and write-off of mine construction cost.

Other expenses

The depreciation expense increased to \$278,388 from \$232,569 in the third quarter of 2005, reflecting more capital investment activities in mine sites and copper separation program starting early 2006.

The general and administrative expenses incurred by the Company in the third quarter of 2006 were \$775,716 compared to \$827,119 in the third quarter of 2005. The expenses mainly include staff cost, auditing fee, consulting fee, investor relations, research and development and others.

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In the third quarter of 2006, the Company incurred \$71,062 of stock-based compensation (third quarter of 2005: nil), due to a quarterly allocation of the expense from stock options that were granted since the listing of the Company.

The other expenses in the third quarter of 2006 were \$303,822, which was an unrealized loss from the Company's investment in LME's nickel forward contracts recognized on marked-to-market basis. The Company has an open position of short selling 180 tonnes of nickel as at the end of the third quarter of 2006 where LME nickel cash settlement price increased to \$31,500 per tonne. Subsequent to the period end, the Company has unwinded 120 tonnes of nickel with a balance of 60 tonnes short position outstanding, expiring in March 2006. The Company has no other future position.

Earnings per share

Despite the increased number of outstanding common shares, the basic earnings per share for the third quarter this year was increased to \$0.045 (third quarter of 2005: \$0.036) and the diluted earning per share was \$0.042 (third quarter of 2005: \$0.036).

EBITDA

Earnings before interest income and expense, income taxes, stock-based compensation, write-off expense, depreciation and amortization ("EBITDA"), a non-GAAP performance measure, reached a record high of \$3.8 million during the third quarter of 2006, compared to \$2.3 million in the third quarter of 2005.

The following table presents the calculation of EBITDA for the periods indicated:

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Net earnings	\$ 2,794,450	\$ 1,760,307	\$ 3,951,320	\$ 3,656,105
Interest (income) expense	(151,409)	(114,062)	(294,955)	(110,734)
Income tax	618,573	377,007	1,040,037	757,895
Depreciation	278,388	232,569	789,629	682,685
Amortization in general and administration expenses	52,087	17,648	133,595	50,387
Stock based compensation	71,062	-	238,097	-
Write-off of mine construction cost	-	-	-	192,799
Non-controlling interest	111,523	65,158	185,290	136,220
EBITDA	3,774,674	2,338,627	6,043,013	5,365,357

As a non-GAAP measurement, EBITDA does not comply with GAAP and, therefore, amount presented in the above table may not be comparable to similar data presented by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

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Income tax

Xinjiang Yakesi Resources Co. Ltd. ("Yakesi"), a 97%-owned subsidiary of the Company in China, is subject to corporate income tax rate of 15% in 2006. Yakesi is eligible for an exemption from 3% regional tax rate and a 50% relief from the 30% state tax rate in China. The Company has not recognized any tax benefit for losses incurred in Canada and Hong Kong as management has determined that it is likely that these tax assets will not be recovered.

Liquidity and Capital Resources

The following table summarizes the Company's consolidated cash flows and cash on hand for the third quarter of 2006:

	September 30, 2006	December 31, 2005
Cash and cash equivalents	\$15,015,135	\$7,894,272
Working capital	\$12,420,570	\$3,203,273
	Three Months ended September 30, 2006	Three Months ended September 30, 2005
Cash provided by operating activities	\$3,801,857	\$3,117,998
Cash used in investing activities	(\$2,494,367)	(\$1,688,322)
Cash provided by financing activities	\$4,668,635	\$2,300,607
	Nine Months ended September 30, 2006	Nine Months ended September 30, 2005
Cash provided by operating activities	\$5,614,871	\$6,461,234
Cash used in investing activities	(\$7,061,670)	(\$3,131,900)
Cash provided by financing activities	\$8,567,673	\$2,190,473

Operating activities

In the third quarter of 2006, cash provided from operating activities was \$3,801,857 compared to \$3,117,998 in the third quarter of 2005. Cash flows from the operations were higher in 2006 mainly because of the higher net profit by \$1 million. As disclosed in the second quarter results, the Company expected the third quarter's gross margin to be above 60% as a result of the implementation of copper separation program and grade level ramping up as planned. The actual gross margin of the third quarter was 73%, higher than expected, due to the improved cost structure and strong market price. This quarter's operating performance strengthened the Company's ability to meet its 2006 financial budget and to achieve consistent cash flow growth in the future years.

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Financing activities

Financing activities generated net cash inflow of \$4,668,635 in the third quarter of 2006. On July 6, 2006, the Company closed a private placement by issuing 4,120,000 shares at a price of CAD\$1.70. The net proceeds were approximately \$5.8 million after issuance costs. In addition, the Company received \$1.3 million from warrant exercise and another \$1.3 million from a secured bank loan through its Chinese subsidiary. The Company also paid off the \$2.4 million promissory note due on September 30, 2006 and advanced \$1.3 million shareholder loan to its associate company, PuXiong. This loan will facilitate PuXiong to speed up its test run of the newly built mill and purchase more ores from other sites to improve its profitability. The PuXiong project should start generating revenues in the fourth quarter and will bring continuous income stream to the Company.

Investing activities

Investing activities consumed \$2,494,367 of cash in the third quarter of 2006 compared to \$559,003 consumed in the same period of 2005. \$0.83 million was incurred in building the new concentration plant as mentioned above. \$0.49 million was spent in the construction of new shafts in Yellow Mountain East (Huangshan Dong). \$0.79 million was spent on the drilling program at Yellow Mountain (Huangshan) in May 2006. The Company used \$0.16 million to improve office building and to acquire office equipments.

At September 30, 2006, the Company's cash and bank balances amounted to \$15 million, of which, approximately \$6.3 million is denominated in RMB. The RMB is not freely convertible into other currencies. However, under China's Foreign Exchange Control Regulations, Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks that are authorized to conduct foreign exchange business (please refer to "Risk Factors" in the Management's Discussion and Analysis of Financial Results for the year ended December 31, 2005).

Management expects to generate positive cash flow from its operating mines based on current nickel prices. For 2006, the Company's cash requirements are primarily to fund the construction of the new plant facility, drilling program at Yellow Mountain (Huangshan), and planned development at the mines. Cash flow from the operating mines of the Company, based on current nickel prices, should be adequate to fund these expenditures.

Balance Sheet

Cash

The Company had \$15,015,135 in cash and cash equivalent as at September 30, 2006 compared to \$7,894,272 as at December 31, 2005.

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Share capital

As at September 30, 2006, the Company had 64 million common shares issued and outstanding. Approximately 5.3 million shares were issued in connection with two private placements in January and July 2006. Approximately 7.2 million shares were issued for warrants and stock options exercised during the first three quarters of 2006 resulting in total proceeds of approximately \$12.0 million.

The Company had a total of 2,985,000 stock options outstanding as at December 31, 2005. During the nine months ended September 30, 2006, 265,000 options were exercised, 230,000 options were cancelled and 469,400 options were granted to directors, employees, consultants and agents in the July's private placement. 580,000 warrants were issued in connection with the private placement in January 2006 and 6,890,460 warrants were exercised during the nine months ended September 30, 2006.

Contractual obligations and commitment

As at September 30, 2006, capital commitments that the Company had contracted for, but not provided for, amounted to \$2,467,940 (December 31, 2005: \$3,114,548). The contracts relate to the exploration work at Yellow Mountain (Huangshan), shaft construction, equipments in the new mill and other maintenance work at the current facility.

Risk factors

The business of mineral exploration and development involves a high level of risk. Some of the main risk facing the Company include, but are not limited to, fluctuation in metal prices and foreign currencies; exploration, development and operating risks; uncertainty or ore reserves and resource estimates; capital requirements; competition, reliance on third parties, environmental and insurance risks. In addition to the business risks mentioned, readers should be aware that there are potential risks to doing business in China that may be unanticipated. The details of the Company's risk factors are discussed in the Management's Discussion and Analysis of Financial Results for the year ended December 31, 2005, which are available at www.sedar.com.

Outlook

The Company expects that the new mill will commence production and reach its full annual capacity of 1,000 tonnes per day within the fourth quarter of 2006. The 2007 production level is expected to be increased to a greater level, with four more mining shafts coming on stream. The 18,000 meters exploration drilling in Yellow Mountain project will be completed before the year-end of 2006. The Company plans to complete a NI 43-101 resources calculation in the first half of 2007.

As a well-established player in the local mining industry, the Company continues to make its best efforts to seek opportunities of acquiring quality mining projects.