

## **GobiMin Inc.**

Consolidated Financial Statements

December 31, 2010 and 2009

(Expressed in United States Dollars except where otherwise noted)

## **INDEPENDENT AUDITOR'S REPORT**

### **To the shareholders of GobiMin Inc.**

We have audited the accompanying consolidated financial statements of GobiMin Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of GobiMin Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian Generally Accepted Accounting Principles.



BDO Limited  
Certified Public Accountants  
April 19, 2011

**GobiMin Inc.****Consolidated Balance Sheets**

As at December 31, 2010 and 2009

(Expressed in United States Dollars)


	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 5)	37,959,529	73,350,405
Time deposit (Note 5)	-	5,000,000
Silver bullion (Note 6)	9,549,403	-
Prepayments, deposits and other receivables (Note 7)	21,041,394	6,638,779
Amount due from an investee company (Note 8)	3,631,270	-
Loan to a related party (Note 15 (e))	15,173,745	-
Dividend receivable from an investee company	-	39,200
<b>Total current assets</b>	<b>87,355,341</b>	<b>85,028,384</b>
<b>Non-current</b>		
Mineral properties and equipment (Note 9)	4,667,886	1,127,567
Equity investments (Note 10)	8,210,447	2,675,844
Available-for-sale financial assets (Note 11)	223,174	-
Other financial assets (Note 12)	16,548,801	-
Amount due from an investee company (Note 8)	1,981,691	-
Amount due from related parties (Note 15)	1,893,564	1,572,148
<b>Total non-current assets</b>	<b>33,525,563</b>	<b>5,375,559</b>
<b>Total assets</b>	<b>120,880,904</b>	<b>90,403,943</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Other payables and accrued liabilities (Note 14)	28,046,514	968,798
Deferred gain on disposal of equity investments (Note 14)	5,682,689	-
<b>Total current liabilities</b>	<b>33,729,203</b>	<b>968,798</b>
<b>Total liabilities</b>	<b>33,729,203</b>	<b>968,798</b>
Non-controlling interests (Note 16)	2,276,112	1,262,175
Commitments (Note 24)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 22(a))	28,857,226	29,267,506
Contributed surplus (Note 22(c))	5,506,759	5,604,073
Reserves (Note 23)	7,666	7,666
Retained earnings	46,266,614	50,638,277
Accumulated other comprehensive income (Note 26)	4,237,324	2,655,448
<b>Total shareholders' equity</b>	<b>84,875,589</b>	<b>88,172,970</b>
<b>Total liabilities and shareholders' equity</b>	<b>120,880,904</b>	<b>90,403,943</b>

See accompanying notes to the Consolidated Financial Statements

APPROVED BY THE BOARD



**Felipe Tan**  
Director



**Hubert Marleau**  
Director

**GobiMin Inc.**  
**Consolidated Statements of Income**  
Years Ended December 31, 2010 and 2009  
(Expressed in United States Dollars)

	<b>2010</b>	<b>2009</b>
	\$	\$
Revenue	-	940,433
Cost of sales	-	(642,677)
Depreciation	-	(257,235)
Selling and distribution cost	-	(122,492)
Gross loss	-	(81,971)
Other revenue and gains (Note 17)	<b>406,515</b>	453,647
General and administrative expenses	<b>(3,440,917)</b>	(3,821,382)
Stock based compensation (Note 22(c))	<b>(361,294)</b>	(396,158)
Equity (loss)/gain in investment (Note 10)	<b>(305,233)</b>	104,918
Write-off of assets (Note 18)	-	(110,000)
Other operating expenses	-	(17,630)
Operating loss	<b>(3,700,929)</b>	(3,868,576)
Gain on deregistration / disposal of subsidiaries (Note 4)	<b>142,102</b>	31,386,886
Fair value gain on other financial assets (Note 19)	<b>1,564,480</b>	-
Interest expense	-	(32,785)
Loss on financial instrument	-	(58,897)
Exchange (loss)/gain	<b>(288,716)</b>	2,079,954
(Losses)/earnings before tax and non-controlling interests	<b>(2,283,063)</b>	29,506,582
Income tax (Note 21)	-	-
(Losses)/earnings before non-controlling interests	<b>(2,283,063)</b>	29,506,582
Non-controlling interests (Note 16)	-	-
<b>Net (losses)/earnings for the year</b>	<b>(2,283,063)</b>	29,506,582
<b>(Losses)/earnings per share</b> (Note 22(f))		
Basic	<b>(0.03)</b>	0.43
Diluted	<b>(0.03)</b>	0.42
<b>Weighted average number of shares outstanding</b> (Note 22(f))	<b>Share</b>	<b>Share</b>
Basic	<b>67,497,354</b>	69,301,637
Diluted	<b>67,497,354</b>	69,687,972

See accompanying notes to the Consolidated Financial Statements

**GobiMin Inc.**  
**Consolidated Statements of Comprehensive Income**  
Years Ended December 31, 2010 and 2009  
(Expressed in United States Dollars)

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>Net (losses)/earnings for the year</b>	<b>(2,283,063)</b>	29,506,582
Unrealized exchange gain on translation of self-sustaining foreign operations	<b>1,581,876</b>	1,833,527
Release of exchange reserve in relation to the disposal of subsidiaries	-	(4,597,973)
	<b>1,581,876</b>	(2,764,446)
<b>Comprehensive income</b>	<b>(701,187)</b>	26,742,136

**GobiMin Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
Years Ended December 31, 2010 and 2009  
(Expressed in United States Dollars)

	<b>2010</b>	2009
	\$	\$
<b>Share Capital</b>		
Balance at beginning of year	29,267,506	29,918,738
Issued for option exercise (Note 22 (a))	1,047,944	437,022
Share buy-back (Note 22 (a))	(1,458,224)	(1,088,254)
Balance at end of year	<b>28,857,226</b>	29,267,506
<b>Contributed Surplus</b>		
Balance at beginning of year	5,604,073	5,398,535
Options exercised (Note 22 (c))	(395,859)	(166,264)
Share buy-back (Note 22 (c))	(62,749)	(24,356)
Stock based compensation (Note 22 (c))	361,294	396,158
Balance at end of year	<b>5,506,759</b>	5,604,073
<b>Reserves</b>		
Balance at beginning of year	7,666	-
Current year reserves (Note 23)	-	7,666
Balance at end of year	<b>7,666</b>	7,666
<b>Retained Earnings</b>		
Balance at beginning of year	50,638,277	26,631,480
Net (losses)/earnings	(2,283,063)	29,506,582
Charge from share buy-back	(1,254,971)	(669,780)
Transfer to general reserve (Note 23)	-	(7,666)
Dividend paid (Note 20)	(833,629)	(4,822,339)
Balance at end of year	<b>46,266,614</b>	50,638,277
<b>Accumulated Other Comprehensive Income</b>		
Balance at beginning of year	2,655,448	5,419,894
Other comprehensive income (Note 26)	1,581,876	(2,764,446)
Balance at end of year	<b>4,237,324</b>	2,655,448

See accompanying notes to the Consolidated Financial Statements

**GobiMin Inc.**  
**Consolidated Statements of Cash Flows**  
Years Ended December 31, 2010 and 2009  
(Expressed in United States Dollars)

	2010	2009
	\$	\$
<b>Cash flows (used in) from operating activities</b>		
Net (losses)/earnings for the year	(2,283,063)	29,506,582
Adjustments for items not involving cash:		
- Depreciation	-	257,235
- Amortization in general and administrative expenses	274,963	626,240
- Stock based compensation	361,294	396,158
- Exchange loss / (gain)	288,716	(2,079,954)
- Fair value gain on other financial assets (Note 19)	(1,564,480)	-
- Write-off of assets (Note 18)	-	110,000
- Equity loss / (gain) in investment (Note 10)	305,233	(104,918)
- Gain on deregistration / disposal of subsidiaries (Note 4)	(142,102)	(31,386,886)
	<b>(2,759,439)</b>	<b>(2,675,543)</b>
Change in non-cash working capital items:		
- Prepayments, deposits and other receivables	(2,732,757)	(5,935,828)
- Amount due from related parties	(265,749)	(1,138,526)
- Other payables and accrued liabilities	279,276	452,155
- Derivative financial instrument liabilities	-	(94,014)
<b>Net cash used in operating activities</b>	<b>(5,478,669)</b>	<b>(9,391,756)</b>
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash from option exercise	652,085	270,761
Capital contribution to subsidiary by non-controlling interests	1,138,031	1,099,326
Share buy-back (Note 22(d))	(2,775,944)	(1,782,390)
Repayment from a former subsidiary	-	2,280,337
Dividend paid (Note 20)	(833,629)	(4,822,339)
<b>Net cash used in financing activities</b>	<b>(1,819,457)</b>	<b>(2,954,305)</b>
<b>Cash flows from (used in) investing activities</b>		
Purchase of mineral properties and equipment	(3,807,354)	(1,019,268)
Proceed from disposal of a motor vehicle	2,152	-
Dividend received	39,200	-
Purchase of other financial assets	(827,307)	-
Amount due from an investee company	(15,162,364)	-
Loan to a related party (Note 15 (e))	(15,173,745)	-
Acquisition of equity investment	(6,862,785)	-
Disposal of equity interest of subsidiaries (Note 4)	-	36,961,595
Equity investments in joint ventures / investee companies	-	(7,677)
Release of restricted cash	-	489,960
Uplift / (placing) of time deposit (Note 5)	5,000,000	(5,000,000)
Deposit received from disposal of equity investments (Note 14)	7,722,008	-
<b>Net cash (used in) from investing activities</b>	<b>(29,070,195)</b>	<b>31,424,610</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(36,368,321)</b>	<b>19,078,549</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>977,445</b>	<b>654,783</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>73,350,405</b>	<b>53,617,073</b>
<b>Cash and cash equivalents at end of year</b>	<b>37,959,529</b>	<b>73,350,405</b>
<b>Supplementary cash flow information</b>		
Interest received	211,978	403,121
Realized forward contract loss	-	58,897

See accompanying notes to the Consolidated Financial Statements

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2010 and 2009  
(Expressed in United States Dollars)

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**1. NATURE OF OPERATIONS**

GobiMin Inc., together with its subsidiaries (collectively referred to herein as the “Company” or “GobiMin”), is engaged in the development, exploration and exploitation of mineral properties, mainly in the Xinjiang Uygur Autonomous Region (“Xinjiang”) of the People’s Republic of China (“China”).

In 2009, GobiMin acquired an equity interest of 70% in Xinjiang Tongyuan Minerals Ltd. (“Tongyuan”) for development of the Sawayaerdun Gold Project in Xinjiang, China and a 49% equity interest in China Precision Material Limited (“China Precision”) which is principally engaged in metal trading, predominantly silver.

On February 9, 2010, through the acquisition of a 49% equity interest in Hami Coal Corporation, formerly known as Fortune Aspect Limited (“Hami Coal”), GobiMin acquired an indirect equity interest of 24.49% in Balikun Yinxin Minerals Investments Limited (“Balikun Yinxin”) for the development of the Balikun Coal Project in Xinjiang, China through Xinjiang Ruide Mining Limited (“Ruide”).

GobiMin owns a 50% equity interest in a joint venture, Xinjiang Xinya Minerals Ltd. (“Xinya”), and a 40% equity interest in each of three joint ventures, Xinjiang Tongde Minerals Ltd., Xinjiang Tongan Minerals Ltd. and Xinjiang Tianhong Minerals Ltd., to engage in exploration of nickel, copper, gold, lead and zinc projects in Xinjiang, China.

GobiMin formerly owned a 40% indirect equity interest in another joint venture, Xinjiang Tongxing Minerals Limited (“Tongxing”), which is engaged in exploration and development of the Yanxi Copper Property. GobiMin has completed the disposal of a 32% equity interest in the Yanxi Copper Property on July 22, 2010, retaining an 8% indirect unlisted equity interest.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles under the following policies:

a) Principles of Consolidation:

These consolidated financial statements include accounts of GobiMin and all of its subsidiaries. All significant inter-company transactions and balances are eliminated.

b) Foreign currency translation:

The Company’s self-sustaining foreign subsidiaries are translated using the current rate method. The assets and liabilities of foreign subsidiaries are translated into US dollars at year-end exchange rates. Revenue and expenses are translated into US dollars at the average exchange rates of the year. The resulting translation difference is included in the accumulated other comprehensive income account. The Company’s integrated foreign subsidiaries are translated using the temporal method. Monetary assets and liabilities of such foreign subsidiaries are translated into US dollars at year-end exchange rates. Non monetary assets and liabilities are translated into US dollars at historical rates. Revenue and expenses are translated into US dollars at the average exchange rates of the year. The resulting translation difference is included in the operation results.

c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and highly liquid money market instruments with maturities of three months or less.

d) Mineral properties:

Included in mineral properties are property, plant and equipment, and exploration costs.



**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2010 and 2009  
(Expressed in United States Dollars)

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Property, plant and equipment are recorded at cost. Depreciation and amortization is computed using the straight-line method with an estimated residual value of 0 - 5%. The annual depreciation or amortization rates are as follows:

Buildings: 4.75% - 33.3%  
Leasehold improvement: 33.3%  
Production equipment: 9.5% - 19%  
Transportation equipment: 11.88% - 25%  
Other equipment: 11.88% - 19%

For the new mill plant and shafts, the Company used estimations of the buildings' service lives and residual value to calculate the depreciation expenses. The range of buildings' depreciation rates is from 4.75% to 33.3%.

Construction in progress is stated at cost less any impairment loss, and is not depreciated. It comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Exploration costs are stated at cost less any impairment loss. It comprises the direct costs of exploration work on mineral properties prior to the development. Upon commencement of commercial production of mineral properties, exploration costs are amortized over the mine's estimated life using the straight-line method with nil residual value.

Mineral properties are stated at cost less accumulated amortization and any impairment loss. The cost of mining rights is amortized on the straight-line basis over their estimated useful lives of 5-10 years. Mineral properties are tested for impairment whenever events or circumstances indicate that a carrying amount may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the assets. The amount of the impairment loss is calculated by the excess of the assets carrying value over its fair value. Fair value is determined using a discounted cash flow analysis.

e) Income taxes:

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be recognized.

f) Stock based compensation expense:

The fair value of stock options is estimated at the grant date using the Black-Scholes Option Pricing Model. This model requires the input of a number of assumptions, including expected dividend yields, expected stock price volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions generally outside of the control of the Company. If other assumptions are used, stock option expense could be significantly impacted. As stock options are exercised, proceeds received on exercise are credited to share capital.

g) Revenue recognition:

Revenue from the sale of nickel concentrate is recognized when risk and title pass to the customer, the price is fixed and determinable and collection of the proceeds is reasonably assured. The passing of title and risk occurs based on the terms of the off-take contract. The price is based on the formula in the off-take contract that includes average listed price of the customer and the price factor decided by the grade level of concentrate.

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
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h) Earnings per share:

The calculation of earnings per share is based on the weighted average number of shares issued and outstanding. Diluted earnings per share are calculated using the treasury stock method which includes the effect of the exercise of dilutive elements.

i) Use of estimates:

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expense during the reporting period. Actual results could differ from these estimates. Significant estimates and assumptions are used when accounting for items such as impairment of assets, determination of estimated useful lives of mineral properties and property and equipment, asset retirement obligation, fair value of convertible bonds and stock based compensation expense.

j) Asset retirement obligation:

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they are incurred and in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related asset and depreciated over the life of the asset. Over time, the liability is increased to reflect an interest element (accretion expenses) considered in its initial measurement at fair value. All the mine sites are in desert area in Northern China and management believes that the liability after the mine site retirement is immaterial. The amount of the liability will be subject to re-measurement at each reporting period. It is possible that the Company's estimates of its ultimate mine site retirement liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or the cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Company has not recorded a liability for its asset retirement obligations.

k) Financial instruments:

Financial assets and financial liabilities, including derivatives, are recognized when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in earnings. Loans and receivables, and other financial liabilities are measured at amortized cost and are amortized using the effective interest method. Available-for-sale financial assets, designated based on the criteria that management does not hold these for the purposes of trading, are presented as investments and measured at cost less any identified impairment loss as they are unlisted investments and the fair value of which cannot be reliably measured.

The Company has made the following classifications:

- Cash and cash equivalents, time deposits and convertible bonds are classified as "assets held-for-trading" and are measured at fair value.
- The 8% indirect unlisted equity interest in Tongxing are classified as "available-for-sales" and are measured at cost less impairment, if any.
- The listed debentures are classified as "held-to-maturity" and are measured at amortized cost.

**GobiMin Inc.****Notes to Consolidated Financial Statements**

Years ended December 31, 2010 and 2009

(Expressed in United States Dollars)

- Prepayments, deposits and other receivables, amount due from related parties and investee company, loan to a related party are classified as “loans and receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Other payables and accrued liabilities are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

Transaction costs are included in the initial carrying amount of all financial instruments.

## l) Silver bullion:

Silver bullion is classified as other asset and its value as at year end is stated at the future committed price.

## m) 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.

## n) 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 and reserves.

**3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

## Future Accounting Changes

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis and provide comparative data on an IFRS basis as required.

**4. GAIN ON DEREGISTRATION / DISPOSAL OF SUBSIDIARIES**For the year ended December 31, 2010

During the year, four of the subsidiaries of GobiMin were being deregistered (together referred as “Deregistered Companies”). Since the Deregistered Companies were all in net liabilities, a gain of \$142,102 was resulted from deregistration during the year.

<b>For the year ended</b>	<b>December 31, 2010</b>
	\$
Net liabilities of the Deregistered Companies as of deregistration date	(142,102)
<b>Gain on deregistration of subsidiaries</b>	<b>142,102</b>
<b>Consideration from deregistration</b>	<b>-</b>

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2010 and 2009  
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For the year ended December 31, 2009

On November 23, 2008, the Board of Directors of the Company approved the agreements for the disposal of the Company's equity interests in Xinjiang Yakesi Resources Co. Ltd ("Yakesi") and Hami Jubao Resources Co. Ltd ("Jubao") and by February 11, 2009, the agreements for the disposal of the equity interest in Yakesi and Jubao were approved by the Chinese government. The total sales proceeds received by the Company are approximately \$72.2 million (RMB492 million). The final installments and dividends, net of tax payment, of approximately \$37.0 million (RMB254 million) were received by the Company during the year ended December 31, 2009.

For the year ended	December 31, 2009
	\$
Net assets disposed of as at February 11, 2009	40,777,447
<b>Gain on disposal of subsidiaries</b>	<b>31,386,886</b>
Consideration from disposal	72,164,333
Proceeds from disposal of equity interest in subsidiaries:	
Consideration from disposal	72,164,333
Deposits received in 2008	(36,082,093)
Effect of foreign exchange rate changes in 2009	(73)
Final installments received	36,082,167
Dividends received from discontinued operations	6,429,449
Withholding and other tax paid to local tax bureau	(5,550,021)
	<b>36,961,595</b>

**5. CASH AND CASH EQUIVALENTS AND TIME DEPOSIT**

Cash and cash equivalents at December 31, 2010 include cash in different locations as follows:

Bank location	Denominated Currency	Amount	US\$ Equivalent
<u>Cash and cash equivalents:</u>			
Canada	CAD	267,621	<b>269,343</b>
Hong Kong	HKD	276,860,901	<b>35,632,034</b>
China	RMB	13,563,903	<b>2,058,152</b>
Total			<b>37,959,529</b>

Cash and cash equivalents and time deposit at December 31, 2009 include cash in different locations as follows:

Bank location	Denominated Currency	Amount	US\$ Equivalent
<u>Cash and cash equivalents:</u>			
Canada	CAD	232,549	222,200
Hong Kong	HKD	524,701,382	67,701,657
China	RMB	37,020,451	5,426,342
Indonesia	IDR	1,937,389	206
			<b>73,350,405</b>
<u>Time deposit:</u>			
Hong Kong	HKD	38,751,003	5,000,000
Total			<b>78,350,405</b>

**GobiMin Inc.**  
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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 the respective year end.

**6. SILVER BULLION**

The silver bullion represents the repayments from China Precision at the year end and was covered by a fixed future redemption commitment from China Precision for the same amount at which the silver bullion was transferred to the Company for repayment of the loans. Accordingly, the Company is not exposed to any risk arising from subsequent movement in the price of silver.

**7. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

As at December 31, 2010, other than the prepayment of expenses and rental deposit, the balance of prepayments, deposits and other receivables are mainly contributed by the following deposits and receivables.

On September 15, 2009, the Company entered into an agreement to participate in the development of the Sawayaerdun Gold Project by forming a joint venture, Tongyuan in which GobiMin owned a 70% equity interest. As at December 31, 2010, \$6,069,498 (RMB40,000,000) has been paid by Tongyuan as deposit for obtaining the exploration and mining license of Sawayaerdun Property (See note 24).

Pursuant to the share transfer agreement dated July 14, 2010, GobiMin disposed of a 32% equity interest in the Yanxi Copper Property on July 22, 2010 while GobiMin owned a remaining 8% indirect unlisted equity interest in the Yanxi Copper Property for a total consideration of \$33,333,333 (HKD259,000,000). The Company received the cash consideration totaling \$7,722,007 (HKD60,000,000) and the first lot of convertible bonds totaling \$14,157,014 (HKD110,000,000). The remaining convertible bonds for the amount of \$11,454,311 (HKD89,000,000) are to be received upon fulfilment of the various conditions set out in the share transfer agreement and the supplemental agreement thereof and the successful granting of mining licence of the Yanxi Copper Property. The remaining convertible bonds to be received are classified as other receivables.

**8. AMOUNT DUE FROM AN INVESTEE COMPANY**

The current portion of amount due from an investee company of \$3,631,270 (December 31, 2009: \$ nil) represents an advance to China Precision in which the Company has an equity interest of 49%. Such amount is unsecured, non-interest bearing, and without fixed repayment terms.

The non-current portion of the amount due from an investee company is the unsecured, non-interest bearing shareholder loan totaling \$1,981,691 (RMB13,060,000) advanced to Faithful Million Limited, in which GobiMin owns an indirect equity interest of 49%. The loan was arranged to finance the development of the Balikun Coal Project in Xinjiang.

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**9. MINERAL PROPERTIES AND EQUIPMENT**

	Cost	Accumulated Amortization/ Written off	Net Book Value
	\$	\$	\$
<b><u>December 31, 2010</u></b>			
Buildings	3,089,129	(174,795)	2,914,334
Furniture, equipment and motor vehicles	1,204,349	(434,058)	770,291
Mineral exploration rights	983,261	-	983,261
	<b>5,276,739</b>	<b>(608,853)</b>	<b>4,667,886</b>
<b><u>December 31, 2009</u></b>			
Buildings	121,445	(64,096)	57,349
Furniture, equipment and motor vehicles	895,242	(321,111)	574,131
Mineral exploration rights	496,087	-	496,087
	1,512,774	(385,207)	1,127,567

**10. EQUITY INVESTMENTS**

Equity investments represent the Company's equity interests of (1) 40% in each of the three joint ventures for exploration of nickel, copper, gold, lead and zinc projects in Xinjiang, China; (2) 49% in China Precision which is engaged in metal trading, predominately silver; and (3) 49% in Hami Coal for the development of the Balikpapan Coal Project in Xinjiang, China. Please also see note 15(e) for the second installment of consideration of \$15,173,145 (RMB100,000,000) payable for the Balikpapan Coal Project.

GobiMin formerly owned a 40% indirect equity interest in Tongxing which is engaged in exploration and development of the Yanxi Copper Property. GobiMin has completed the disposal of a 32% equity interest in the Yanxi Copper Property on July 22, 2010, retaining an 8% indirect unlisted equity interest which is re-classified as available-for-sales financial assets as mentioned in note 11.

The Company accounts for its investments on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of the undistributed earnings and losses of all the above joint ventures. During the year ended December 31, 2010, the Company recorded \$305,233 equity loss (2009: \$104,918 equity gain) on the investments.

**11. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

The Company formerly owned 40% indirect equity interest in Tongxing which is engaged in exploration and development of the Yanxi Copper Property. The Company has completed the disposal of a 32% equity interest in the Yanxi Copper Property on July 22, 2010 and the remaining 8% indirect unlisted equity interest in Tongxing is classified as available-for-sale financial assets. Since the equity interest in Tongxing does not have a quoted market price in an active market and its fair value cannot be reliably measured, it is measured at cost less any identified impairment loss.

**12. OTHER FINANCIAL ASSETS**

Part of these financial assets represents the convertible bonds of \$14.2 million (HKD110,000,000) issued by China Daye Non-Ferrous Metals Mining Limited ("China Daye") as partial payment of the consideration for the disposal of the 32% equity interest in the Yanxi Copper Property as mentioned in note 14. The convertible bonds are stated

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at \$15,721,494 (HKD122,156,012) as at year end based on the fair value as determined by an independent professional valuer.

The remaining balance of \$0.8 million represents the held-to-maturity listed debentures held by the Company at year end.

**13. INTEREST IN JOINT VENTURE**

In 2006, GobiMin formed a joint venture, Xinya, with Xinjiang Huaxin Minerals Ltd (“Huaxin”). GobiMin and Huaxin each holds a 50% interest in Xinya by injecting \$136,910 (RMB 1 million) cash into the joint venture as share capital. The joint venture is formed for mining exploration and development in northwest China. In 2008, the Company and Huaxin increased the paid-in capital in Xinya by injecting \$598,694 (RMB 4 million) respectively.

The Company adopts the proportionate consolidation method to account for its interest in Xinya. The Company’s proportionate share of its interest in and results from the joint venture as at and for the year ended December 31, 2010 are as follows:

	2010	2009
	\$	\$
Cash and cash equivalents	516,751	498,503
Intangible assets – exploration right	206,689	205,792
Fixed assets	506	654
Other receivables	1,808	192
Other payables	(144)	(4,648)
Net assets	725,610	700,493
	2010	2009
	\$	\$
General and administration expenses	(454)	(2,670)
Net cash from/(used in) operating activities	697	(42,731)
Net cash used in financing activities	-	-
Net cash used in investing activities	-	(19,210)
Effect of foreign exchange rate changes on Cash	17,551	2,565

**14. DEFERRED GAIN ON DISPOSAL OF EQUITY INVESTMENTS AND OTHER PAYABLES AND ACCRUED LIABILITIES**

Pursuant to the share transfer agreement dated July 14, 2010 and the supplemental agreement dated December 30 2010, GobiMin disposed of a 32% equity interest in the Yanxi Copper Property on July 22, 2010 while retaining an 8% indirect unlisted equity interest. The Company has received all the cash consideration and the first lot of convertible bonds. The application for mining license of the Yanxi Copper Property is in the process. After the mining license of the Yanxi Copper Property is granted, the Company shall receive the final lot of convertible bonds. Pursuant to the said agreements, should the mining license not be granted by August 31, 2011, the Company guarantees to refund to the buyer all the consideration received and in return, the buyer shall transfer the interest in the Yanxi Copper Property back to the Company.

The deferred gain on disposal of the 32% equity interest in the Yanxi Copper Property of \$5.7 million represents the cash received of \$7.7 million, convertible bonds received of \$14.2 million, convertible bonds receivable of \$11.5 million, netting off the share of assets as at June 21, 2010 of \$0.9 million and those payables and accrued liabilities as follows:

Other Payables and Accrued Liabilities

As at December 31, 2010, the balance of other payables and accrued liabilities are mainly contributed by the payable for the mining license fee, tax, stamp duty and related payments of \$26.8 million arising on the disposal of the Yanxi Copper Property.

**15. RELATED PARTY TRANSACTIONS AND BALANCES**

- a) No amount (2009: \$83,484) was due from related parties pertaining to receivables from Tongxing for Canadian consulting services on its exploration projects.
- b) Amount due from related parties of \$401,012 (2009: \$389,338) pertains to receivables from Tongxing for Chinese exploration services on its exploration projects.
- c) Amount due from related parties of \$1,172,993 (2009: \$1,099,326) pertains to receivables from minority shareholders of Tongyuan for Chinese exploration services on its current exploration projects.
- d) Tongyuan has paid a deposit of \$319,559 (2009: nil) to its minority shareholders for exploration services to the Sawayaerdun Gold Project.
- e) The Company advanced an interest bearing loan (the "Loan") totaling \$15,173,745 (RMB100,000,000) to a minority shareholder of the Company's investee companies, Ruide and Balikun Yinxin, pursuant to the agreements in respect of the acquisition of the indirect equity interest of 24.49% in the Balikun Coal Project in Xinjiang. The Loan is secured against a pledge of the equity interests of a mining company which owns a nickel-copper project in Hami, Xinjiang. Pursuant to the said agreements, a second installment of the acquisition consideration of \$15,173,145 (RMB100,000,000) is payable to the vendor upon receipt of an approval from National Development & Reform Commission ("NDRC Approval") to be obtained by Balikun Yinxin on or before September 30, 2011. Upon receipt of the NDRC Approval, the payment of the second installment will be settled by offsetting with the Loan.

The transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed by the parties. Except for item (e), the balances with related parties are unsecured and non-interest bearing without fixed repayment term.

**16. NON-CONTROLLING INTERESTS**

Non-controlling interests represent the 30% (2009: 30%) equity interest in Tongyuan held by minority shareholders.

**17. OTHER REVENUE AND GAINS**

The Company recognized \$406,515 (2009: \$453,647) other revenue and gains in 2010, of which \$211,978 (2009: \$403,121) represents interest income. The remaining portion of other revenue and gains represented rental income from the office building in Xinjiang and sales of a motor vehicle during 2010.

**18. WRITE-OFF OF ASSETS**

During 2009, GobiMin wrote off \$110,000 deposit paid for exploration assets in Indonesia exploration project, as the Company has lost contact with the local party after the local earthquake and the management believed the amount was not collectible. There was no such write-off of assets for the year ended December 31, 2010.



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**19. FAIR VALUE GAIN ON OTHER FINANCIAL ASSETS**

The fair value gain represents the change in fair value of the convertible bonds as at year end as determined by an independent professional valuer.

**20. DIVIDEND PAID**

In June 2010, GobiMin paid an annual dividend of CAD0.0125 per share for \$833,629 (2009: \$4,822,339) in accordance with the Company's dividend policy and 2009 annual performance.

**21. INCOME TAX**

No provision for Canada and Hong Kong Income tax has been made as the Company has no estimated assessable profits in either Canada or Hong Kong during the years ended December 31, 2009 and 2010. There is no related future tax asset recognized either, as management believes that the operating loss in Canada and Hong Kong is unlikely to be recovered in future years.

On March 16, 2007, the National People's Congress (NPC) of China approved the new Corporation Income Tax Law, which became effective on January 1, 2008. The new law establishes a unified 25% tax rate for both domestic enterprises and foreign invested enterprises. The new law will only be applicable to Yakesi and Jubao after the expiry of their current tax policy.

The Company's provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the (losses) / earnings before taxation as a result of the following:

	<u>2010</u>	<u>2009</u>
	\$	\$
(Losses) / earnings before tax	<b>(2,283,063)</b>	29,506,582
Statutory tax rates	<b>31%</b>	33%
Tax charged at statutory tax rates	<b>(707,749)</b>	9,737,172
Tax rate differential	<b>239,431</b>	(4,879,151)
Permanent difference	<b>402,589</b>	(6,715,288)
Loss expiry	-	50,195
Change in valuation allowance	<b>65,729</b>	1,807,072
Tax expense	<b>-</b>	-

Losses carry forwards and other temporary differences that give rise to future income tax assets (liabilities) as at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Canadian tax loss carry forwards	<b>1,237,577</b>	1,106,845
Unclaimed share issue costs	<b>47,581</b>	130,732
	<b>1,285,158</b>	1,237,577
Valuation allowance	<b>(1,285,158)</b>	(1,237,577)
Future income tax assets	<b>-</b>	-

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At December 31, 2010, the Company had accumulated non-capital losses for Canadian income tax purpose of approximately \$4,737,539 which will expire between 2011 and 2030.

**22. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS**

**a) Common Shares**

	Number	Amount
Authorized:		\$
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2008	70,324,402	29,918,738
Shares issued for option exercise	490,200	437,022
Shares bought back and cancelled	(2,557,300)	(1,088,254)
Balance, December 31, 2009	68,257,302	29,267,506
Shares issued for option exercise	<b>1,046,400</b>	<b>1,047,944</b>
Shares bought back and cancelled	<b>(3,412,865)</b>	<b>(1,458,224)</b>
Balance, December 31, 2010	<b>65,890,837</b>	<b>28,857,226</b>

**b) Preferred Shares**

GobiMin did not issue or authorize any preferred share for 2009 and 2010.

**c) Contributed Surplus**

	Amount
	\$
Balance, December 31, 2008	5,398,535
Charge from share buy-back	(24,356)
Options exercised	(166,264)
Stock-based compensation expense	396,158
Balance, December 31, 2009	5,604,073
Charge from share buy-back	<b>(62,749)</b>
Options exercised	<b>(395,859)</b>
Stock-based compensation expense	<b>361,294</b>
Balance, December 31, 2010	<b>5,506,759</b>

**d) Normal Course Issuer Bid**

On January 26, 2010, GobiMin announced that it intended to renew its normal course issuer bid to repurchase some of its common shares on the TSX Venture Exchange. The Company intends to acquire up to an additional 3,412,865 common shares, representing approximately 5% of the then common shares outstanding. Purchases are expected to be made in accordance with applicable regulations over a maximum period of 12 months ending January 31, 2011. Up to December 31, 2010, a total of 3,412,865 common shares were repurchased for an aggregate cost of \$2,775,944 (CAD2,841,753). All shares repurchased are returned to treasury for cancellation.

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**e) Stock Options**

On May 26, 2005, the Company adopted a resolution cancelling 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 6,700,000 (2009: 6,700,000) 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 December 31, 2010, and changes during the year is presented below:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding, beginning of year	3,256,400	1.76	4,398,000	1.72
Issued on February 12, 2009	-	-	50,000	0.71
Issued on July 7, 2010	1,309,000	0.76	-	-
Forfeited	(999,600)	3.30	(701,400)	2.24
Exercised	(1,046,400)	0.55	(490,200)	0.55
Outstanding, end of year	2,519,400	1.14	3,256,400	1.76

The following table summarizes the employee stock options outstanding and exercisable at December 31, 2010:

Exercise Price	Exercise Price	Number of Options Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price
CAD	\$		(Years)	\$		(Years)	\$
1.85	1.66	150,000	0.49	1.66	150,000	0.49	1.66
3.60	3.61	196,000	1.59	3.61	156,800	1.59	3.61
1.10	1.06	770,000	0.67	1.06	770,000	0.67	1.06
1.10	1.06	100,800	2.67	1.06	61,200	2.67	1.06
0.79	0.76	1,000,000	2.50	0.76	-	2.50	0.76
0.79	0.76	302,600	4.50	0.76	-	4.50	0.76
		2,519,400	2.00	1.14	1,138,000	0.88	1.49

**Stock Based Compensation**

In 2010, the weighted average fair value of options granted amounted to \$0.27 (2009: \$0.28) per option. 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:

	2010	2009
Risk free interest rate:	1.01%	0.58%
Expected life:	1-5 years	1 year
Expected volatility:	48%	113%
Dividend yield:	0-1%	0-1%

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f) **Basic and Diluted (Losses) / Earnings Per Share**

<b>For the year ended</b>	<b>December 31, 2010</b>	December 31, 2009
<b>Net (losses)/earnings available to shareholders</b>		
Basic and diluted	(\$2,283,063)	\$29,506,582
<b>Weighted average shares outstanding</b>		
Basic	67,497,354	69,301,637
Effect of dilutive stock options and warrants	-	386,335
Diluted	67,497,354	69,687,972
<b>(Losses) / earnings per share (basic)</b>	<b>(\$0.03)</b>	\$0.43
<b>(Losses) / earnings per share (diluted)</b>	<b>(\$0.03)</b>	\$0.42

**23. RESERVES**

During 2010, there was no movement in reserves while net earnings of \$7,666 of the Company's subsidiaries in China were transferred to general reserve in 2009.

**24. COMMITMENTS**

As at December 31, 2010, there are approximately \$1,284,997 (2009: \$3,592,097) in capital commitments that the Company had contracted, but not provided for.

On September 10, 2009, the wholly owned subsidiary of GobiMin, Xinjiang Weifu Mining Limited, entered into an agreement with Xinjiang Baodi Mining Company and a subsidiary of Brigade No. 2 of Xinjiang Bureau of Geology and Mineral Resources to form a joint venture company, Tongyuan, for the development of the Sawayaerdun Gold Project in Xinjiang, China. GobiMin agreed to invest \$7,328,844 (RMB50,000,000) in cash to Tongyuan for its 70% equity interest. The consideration for acquiring the exploration and mining license of the Sawayaerdun Gold Property is \$6,669,247 (RMB45,500,000) and Tongyuan has paid a deposit of \$6,069,498 (RMB40,000,000) as at December 31, 2010. The remaining commitment of \$834,556 (RMB5,500,000) will be paid based on the progress on the transfer of the exploration and mining licenses to Tongyuan.

On April 7, 2010, Tongyuan entered into an agreement for exploration service relating to the Sawayaerdun Gold Project. The contracted amount is \$674,254 (RMB4,600,000) and Tongyuan has paid a deposit of \$319,559 (RMB2,106,000) as at December 31, 2010. The remaining commitment is \$378,433 (RMB2,494,000).

The Company has approximately \$72,008 (2009: \$327,831) remaining commitment in the operating leases of its Hong Kong and Canada offices.

**25. SEGMENTED INFORMATION**

The Company conducted its business as a single operating segment, being the development, exploration and exploitation of mineral properties. It has no material operation after the disposal of the two operating subsidiaries in February 2009 (see note 4). All mineral property interests and capital assets were located in China. Before the disposal, all of the Company's revenues were derived from China sources and the Company had only one customer during the period covered by the related consolidated financial statements.

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**26. ACCUMULATED OTHER COMPREHENSIVE INCOME**

As at December 31, 2010, accumulated other comprehensive income represents net unrealized exchange gain on translation of self-sustaining foreign operations.

**27. FINANCIAL INSTRUMENTS**

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	2010	2009
	\$	\$
Held-for-trading (a)	<b>53,681,023</b>	78,350,405
Loans and receivables (b)	<b>43,721,664</b>	1,572,148
Held-to-maturity (c)	<b>827,307</b>	-
Available-for-sale (d)	<b>223,174</b>	-
Other financial liabilities (e)	<b>28,046,514</b>	968,798

- (a) Cash and cash equivalents, time deposit and convertible bonds received are measured at fair value.
- (b) Amount due from an investee company, amount due from related parties, loan to a related party, prepayments, deposits and other receivables are measured at amortized cost.
- (c) The listed debentures are measured at amortized cost.
- (d) The 8% indirect unlisted equity interest in Tongxing is measured at cost less impairment losses, if any.
- (e) Other payables and accrued liabilities are measured at amortized cost.

**Fair value of financial instruments**

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value, quoted market prices and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discount rates which reflect varying degrees of risk.

**Risks arising from financial instruments and risk management**

The Company is exposed to various types of market risks, including changes in foreign exchange rates, and interest rates in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Group's policy is to use derivatives only for managing existing financial exposures but not for trading or speculative purpose.

**Exchange Rate Risk**

The Company generates revenues and incurs expenditures primarily in Canada, Hong Kong and China and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. A significant change in the currency exchange rates between the U.S. dollars relative to the Hong Kong dollars, RMB as well as Canadian dollars could have an effect on the Company's financial position and cash flows. The Company has not hedged its exposure to currency fluctuations.

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Many foreign currency exchange transactions involving RMB, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollars and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As at December 31, 2010 with other variables unchanged, a 1% strengthening (weakening) of the Chinese RMB against the Canadian dollar would have increased (decreased) net income and other comprehensive income by \$0.44 million and \$0.13 million, respectively.

#### **Credit Risk**

The Company is exposed to credit risk with respect to cash equivalents, other receivables, amounts due from investee companies, loan to a related party, amounts due from related parties and other financial assets. Save for the convertible bonds and held-to-maturity listed debentures which are stated at its fair value and amortized cost respectively, the carrying amount of these assets included on the balance sheet represents the maximum credit exposure. There is a concentration of credit risk arising from the convertible bonds received on disposal of the Yanxi Copper Property and the loan to a related party which are stated at \$15,721,494 and \$15,173,745 respectively as at December 31, 2010. Management believes that the risk of credit loss on the convertible bonds and the loan to the related party is minimal as the issuer of the convertible bonds is a Hong Kong listed company and the loan to the related party is fully secured by an equity pledge. The cash equivalents are call deposits at banks. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents in banks that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2010, the Company was holding cash and cash equivalents of \$37,959,529. The Company has determined that the cash and cash equivalents from previous financings will be more than sufficient to fund its requirements for investments in working capital and capital assets. The total \$28,046,514 (2009: \$968,798) financial liabilities are due within one year.

#### **Interest Risk**

As the Company has no significant variable interest-bearing assets and liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rate.

#### **Financial instrument**

The fair value hierarchy established by CICA Section 3862 "Financial Instruments – Disclosures" establishes three levels to classify the inputs to valuation techniques used to measure fair value.

The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including:

- ◆ Quoted prices for similar assets/liabilities in active markets;
- ◆ Quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time);
- ◆ Inputs other than quoted prices that are observable for the asset/liability (e.g interest rates, yield curves, volatilities, default rates, etc.); and

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◆ Inputs that are derived principally from or corroborated by other observable market data.  
Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

The Company's financial assets are measured at fair value as follows:

**Fair Value Measurements at Reporting Data Using**

<b>Assets:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b><u>December 31, 2010</u></b>				
Cash and cash equivalent	37,959,529	-	-	37,959,529
Convertible bonds	-	-	15,721,494	15,721,494
	<u>37,959,529</u>	<u>-</u>	<u>15,721,494</u>	<u>53,681,023</u>
<b><u>December 31, 2009</u></b>				
Cash and cash equivalent	73,350,405	-	-	73,350,405
Time Deposit	5,000,000	-	-	5,000,000
	<u>78,350,405</u>	<u>-</u>	<u>-</u>	<u>78,350,405</u>

**28. CAPITAL MANAGEMENT**

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirement on an ongoing basis, continue the development, exploration and exploitation of its mineral properties, and support any expansionary plans. The capital of the Company amounted to \$84,875,589 consists of the items included in shareholders' equity. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company is not subject to externally imposed capital requirements.

**29. ECONOMIC DEPENDENCE**

The Company conducts its business as a single operating segment, being the development, exploration 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 China sources.

**30. SUBSEQUENT EVENTS**

1. On January 4, 2011, GobiMin announced that it intended to renew its normal course issuer bid to repurchase on the TSX Venture Exchange up to an additional 3,294,541 common shares, representing approximately 5% of the then common shares outstanding. Purchases are expected to be made in accordance with applicable regulations over a maximum period of 12 months ending January 31, 2012. Since February 1, 2011 and up to April 19, 2011, a total of 1,700,000 common shares were repurchased at an aggregate cost of \$1,371,613 (CAD1,411,560). All shares repurchased will be returned to treasury for cancellation.
2. After the completion of the disposal of its 32% equity investments in the Yanxi Copper Property, GobiMin announced on January 4, 2011 that it had entered into a supplemental agreement with China Daye on December 30, 2010 to extend the deadline for obtaining the Yanxi Mining Licence to August 31, 2011 from December 31, 2010 as the Company and China Daye realized that the minable quantity of the Yanxi Copper Property will be negatively affected by the construction of a railway across the Yanxi Copper Property. Accordingly, the consideration to be received upon obtaining the Yanxi Mining Licence is reduced by HK\$21,000,000 to HK\$259,000,000. The amount of HK\$21,000,000 will be deducted from the second and

**GobiMin Inc.****Notes to Consolidated Financial Statements**

Years ended December 31, 2010 and 2009

(Expressed in United States Dollars)

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final lot of convertible bonds (the “Non-delivered CB”). The Company will also be responsible for applying for a mining licence (the “New Mining Licence”) for an area which is adjacent to the Yanxi Copper Property (the “New Area”). The New Mining Licence should be obtained on or before June 30, 2014. The Company will be entitled to the Non-delivered CB and an additional consideration in cash based on the resource estimate of the New Area, in total with a cap of HK\$106,000,000, of which 50% will be paid upon the Company providing the resources estimate report and the remaining 50% will be used to settle the licensing fee of the New Area with the balance paid to the Company upon obtaining the New Mining Licence. The final and total consideration for the disposal of the 80% indirect equity interest in Tongxing will accordingly be capped to HK\$365,000,000. Based on the reduced consideration of \$33.4 million (HK\$259,000,000), the Company shall have an estimated deferred gain of \$5.7 million for its disposal of the 32% equity interest in Tongxing, netting off the amount payable for the mining license fee, tax, stamp duty and related payments of \$26.8 million.

3. On January 31, 2011, GobiMin announced that it has entered into a supplemental agreement with the vendor to extend the deadline for obtaining the NDRC approval for the Balikun Coal Project from January 31, 2011 to September 30, 2011.
4. On April 19, 2011, GobiMin declared an annual dividend of \$0.01 (CAD0.01) per share for 2010 in accordance with its dividend policy. The dividend is payable on May 25, 2011 to shareholders of record on May 12, 2011.



**GobiMin Inc.**

(Incorporated in Canada under the Canada Business Corporations Act)

Management's Discussion and Analysis of Financial Results

For the year ended December 31, 2010

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## **GobiMin Inc.**

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

For the year ended December 31, 2010

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The following discussion and analysis of the consolidated operating results and financial condition of GobiMin Inc. for the year ended December 31, 2010 should be read in conjunction with GobiMin's audited consolidated financial statements for the year ended December 31, 2010 and the year ended December 31, 2009. The financial information was prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This Management's Discussion and Analysis was prepared on April 19, 2011.

*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.*

#### **1. Corporate Overview**

GobiMin Inc., together with its subsidiaries (collectively referred to herein as the "Company" or "GobiMin"), is engaged in the development, exploration and exploitation of mineral properties, mainly in the Xinjiang Uygur Autonomous Region ("Xinjiang") of the People's Republic of China ("China").

It holds an equity interest of 70% in a joint venture company to develop and operate the Sawayaerdun Gold Project located in Xinjiang.

An indirect equity interest of 24.49% in the Balikun Coal Project located in Xinjiang was acquired in early 2010. GobiMin and its partner jointly have a controlling interest in the Project and participate in its management and operations.

GobiMin also holds an equity interest of 49% in China Precision Material Limited ("China Precision"), which is principally engaged in metal trading, predominately silver.

In addition, GobiMin owns equity interests in 4 joint ventures to engage in base metals exploration, including nickel, copper, gold, lead and zinc, in Xinjiang.

In July 2010, GobiMin disposed of a 32% interest in the Yanxi Copper Property, retaining an 8% indirect unlisted equity interest. The total proceeds of the disposal will be fully received by GobiMin after obtaining the mining license of the Yanxi Copper Property.

## GobiMin Inc.

### Management's Discussion and Analysis of Financial Results

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With a cash balance of approximately US\$38 million as at December 31, 2010, GobiMin is actively reviewing potential and existing investments including high quality exploration and mining projects in China and overseas.

## 2. Financial Highlights

Year ended December 31,	2010	2009	2008
	\$	\$	\$
Revenue	-	0.9 million	21.4 million
Gain on deregistration/disposal of subsidiaries <sup>(1)</sup>	<b>0.1 million</b>	31.4 million	-
Net (losses)/earnings <sup>(1)</sup>	<b>(2.2 million)</b>	29.5 million	0.03 million
(LBITDA)/EBITDA <sup>(2)</sup>	<b>(3.4 million)</b>	30.5 million	6.3 million
Basic (losses)/earnings per share	<b>(0.03)</b>	0.43	0.00
Diluted (losses)/earnings per share	<b>(0.03)</b>	0.42	0.00
(LBITDA)/EBITDA per share <sup>(2)</sup>	<b>(0.05)</b>	0.44	0.09
Cash and cash equivalents and time deposit	<b>38 million</b>	78 million	54 million
Cash and cash equivalents and time deposit per share <sup>(2)</sup>	<b>0.58</b>	1.15	0.76
Working capital	<b>53.6 million</b>	84.1 million	65.2 million
Total assets	<b>120.9 million</b>	90.4 million	121.9 million
Annual dividend per share <sup>(3)</sup>	<b>0.01</b>	0.0125	0.01
Special dividend per share <sup>(3)</sup>	-	-	0.06

(1) Net losses for the year 2010 take into account the deregistration of 4 subsidiaries. The net earnings for the year 2009 comprised also the gain on the disposal of the 2 operating subsidiaries in China.

(2) As non-GAAP measurements, (LBITDA)/EBITDA, (LBITDA)/EBITDA per share, working capital and Cash and cash equivalents and time deposit per share do not comply with GAAP and, therefore, the amounts 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.

(3) The Company declared an annual dividend of \$0.01 (CAD0.01) per share for 2010 in accordance with its dividend policy. For 2009, the Company paid an annual dividend of \$0.0125 (CAD0.0125) per share based on 2009 annual performance. For 2008, the Company paid an annual dividend of \$0.01 (CAD0.01) per share pursuant to its dividend policy and a special dividend of \$0.06 (CAD0.07) per share following the disposal of the 2 operating subsidiaries in China.

## 3. Business Summary and Development

### (a) Gold Project in Xinjiang

The Company, through a wholly owned subsidiary, entered into an agreement with Xinjiang Baodi Mining Company ("Baodi") and a subsidiary of Brigade No. 2 of Xinjiang Bureau of Geology and Mineral Resources ("Brigade No. 2") to form a joint venture company, Xinjiang Tongyuan Minerals Ltd. ("Tongyuan"), in China to develop and operate the Sawayaerdun Gold Project in Xinjiang, China. GobiMin owns a 70% equity interest in Tongyuan while Baodi and Brigade No. 2 each own a 15% interest. Tongyuan has obtained the related mining license.

## **GobiMin Inc.**

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

For the year ended December 31, 2010

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The Gold Project is located 200 km northwest of the city of Kashi, western Xinjiang, China and lies within the Tian Shan Gold Belt, which is one of the most promising gold belts in China. Gold mineralization is contained within fine-grained clastic metasedimentary rocks of Devonian age. The portion of Zone IV with most drilling works done appears to be the thickest portion of the zone and therefore may represent a flexure or dilation zone within the F3 fault that contains Zone IV.

The main exploration works carried out this year include 33 drill holes with a total length of about 6,700 m and 33 trenches of approximately 1,350 m in the Zone IV, mostly in the northeastern portion of the zone. The Company has received a NI 43-101 technical report from Wardrop a Tetra Tech Company in March 2011 for the gold resources contained in the Zone IV within the Project, which can be viewed at [www.sedar.com](http://www.sedar.com). At a lower grade threshold of 0.5 grams/tonne gold, Zone IV is estimated to contain Indicated resources of about 34 million tonnes with an average grade of 1.3 grams/tonne gold (about 1,380,000 oz gold) and Inferred resources of about 13.5 million tonnes with an average grade of approximately 1.0 grams/tonne gold (about 424,800 oz gold).

In March 2011, there was a casualty reported at the site of the Gold Project due to an avalanche. The Company has extended its sincere condolences and set aside an amount of compensation for the family of the deceased despite the fact that its responsibility was not engaged. In order to avoid accidents in the future development and operation stages, the management has laid down additional stringent safety rules that should be followed by all staff at the site.

#### (b) Coal Project in Xinjiang

On February 9, 2010, GobiMin acquired an indirect equity interest of 24.49% in the Balikun Coal Project in Xinjiang, China and participates in its management and operations. GobiMin and its partner jointly have a controlling interest in the project through Xinjiang Ruide Mining Limited. According to a NI 43-101 Mineral Resource estimate prepared by Scott Wilson Ltd. in February 2010, the Balikun Coal Project hosts 38 million tonnes of coal in Measured Resources and 50 million tonnes in Indicated Resources. The power and water supply facilities have been installed and are in operation. The construction of a ventilation ramp with total length of 1,328 meters (2010 finished 568 meters) has been completed while the main ramp and an auxiliary ramp are approximately 30% and 40% completed respectively. Other achievements in 2010 include securing the sources of water, heating supply facilities, road for transportation and drainage system for underground construction and mining.

#### (c) Silver Operations

GobiMin holds an equity interest of 49% in China Precision which engages predominantly in silver trading. China Precision buys physical silver ingots from producers and sells them directly to end consumers. All its positions are hedged and it is not exposed to market price movements. In order to increase the vertical spectrum of the silver business, China Precision has developed a downstream silver business by establishing a small processing workshop in Hong Kong for transforming the silver into more variety of product forms and sell to the industrial customers. To increase product variety and profit contribution, GobiMin will continue to source and explore new potential business opportunities in this sector.

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

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#### (d) Base Metals Exploration Projects in Xinjiang

GobiMin currently owns equity interests in 4 exploration joint ventures in Xinjiang, China for nickel, copper, gold, lead and zinc. During 2010, GobiMin has been exploring several copper projects which show good indications of copper mineralization. Some exploration licenses were relinquished by not applying for renewal or sold to third parties due to not having good prospect. The Company will continue to conduct pre-survey and exploration to identify potential mineralization.

GobiMin formerly owned a 40% indirect equity interest in another joint venture, Xinjiang Tongxing Minerals Limited ("Tongxing"), which is engaged in exploration and development of the Yanxi Copper Property located about 115 km south of the city of Hami in Xinjiang, China. The Company entered into a Share Transfer Agreement on July 14, 2010 regarding the disposal of a company holding an 80% equity interest in Tongxing, among which, the Company disposed of its 32% interest in Tongxing. The transaction was completed on July 22, 2010 and GobiMin has received all the cash consideration and the first lot of convertible bonds. GobiMin currently retains an 8% indirect unlisted equity interest in the Yanxi Copper Property.

The Company has entered into a supplemental agreement with the buyer on December 30, 2010 to extend the deadline for obtaining the mining license of the Yanxi Copper Property (the "Yanxi Mining Licence") from December 31, 2010 to August 31, 2011. According to the supplemental agreement, the consideration to be received upon obtaining the Yanxi Mining Licence is reduced by HK\$21,000,000 to HK\$259,000,000 due to the construction of a railway across the Yanxi Copper Property that has a negative impact on the minable quantity. The amount of HK\$21,000,000 will be deducted from the second and final lot of convertible bonds (the "Non-delivered CB"). In addition to applying for Yanxi Mining Licence, the Company will also be responsible for applying for a mining licence (the "New Mining Licence") for an area which is adjacent to the Yanxi Copper Property (the "New Area"). The New Mining Licence should be obtained on or before June 30, 2014. The Company will be entitled to the Non-delivered CB and an additional consideration in cash based on the resource estimate of the New Area, in total with a cap of HK\$106,000,000, of which 50% will be paid upon the Company providing the resources estimate report and the remaining 50% will be used to settle the licensing fee of the New Area with the balance paid to the Company upon obtaining the New Mining Licence. The final and total consideration for the disposal of the 80% indirect equity interest in Tongxing will accordingly be capped to HK\$365,000,000. Based on the reduced consideration of \$33.4 million (HK\$259,000,000), the Company shall have an estimated deferred gain of \$5.7 million for its disposal of the 32% equity interest in Tongxing, netting off the amount payable for the mining license fee, tax, stamp duty and related payments of \$26.8 million.

#### (e) Investment Opportunities

The Company ceased to have its substantial mining operations in Hami, Xinjiang of China following the disposal of two operating subsidiaries in February 2009. Given its healthy cash position, the Company will keep on searching for potential investment opportunities.

## GobiMin Inc.

### Management's Discussion and Analysis of Financial Results

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#### (f) Normal Course Issuer Bid

On January 26, 2010, GobiMin has renewed its normal course issuer bid to repurchase up to an additional 3,412,865 common shares over a maximum period of 12 months ended January 31, 2011. The Company repurchased 3,412,865 common shares during the year. All shares repurchased were returned to treasury for cancellation. GobiMin has 65,890,837 shares outstanding as at December 31, 2010.

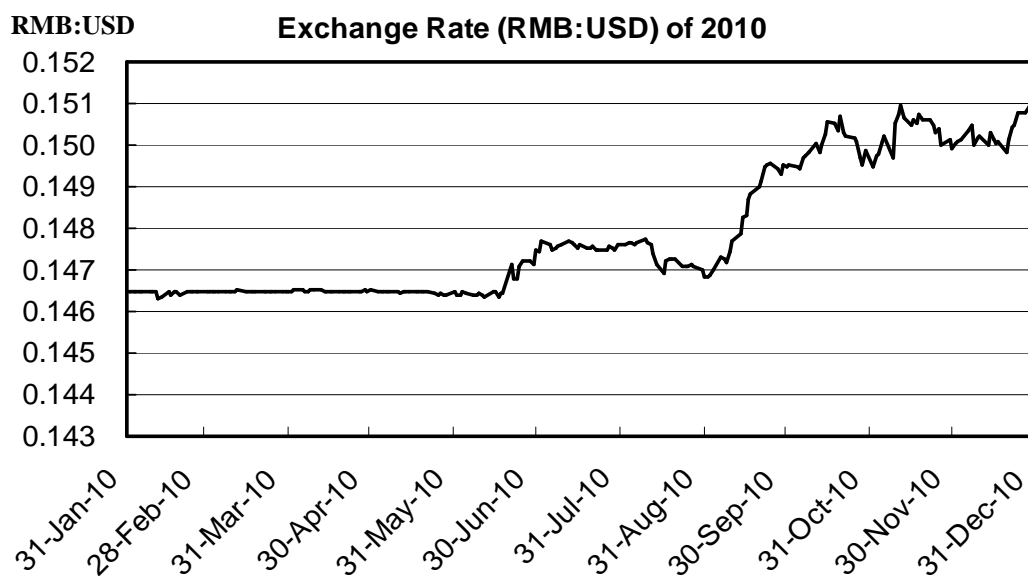
On January 4, 2011, GobiMin announced to renew its normal course issuer bid to repurchase up to an additional 3,294,541 common shares for a further one year. The normal course issuer bid will expire on January 31, 2012. Up to April 19, 2011, a total of 1,700,000 common shares were repurchased at an aggregate cost of \$1,317,613 (CAD1,411,560).

All shares repurchased will be returned to treasury for cancellation. A copy of the related Notice of Intention to Make a Normal Course Issuer Bid shall be provided to shareholders upon receipt of written request to the Company at its registered office.

## 4. Key Economic Trends

### (a) China Economy

Since GobiMin's operations are mostly conducted in China, the condition of the Chinese economy is a key factor on the Company's business. The currency fluctuation will have an impact on the Company's cost structure as the Company reports in US dollars. For the year ended December 31, 2010, the Chinese currency Renminbi ("RMB") appreciated by 3.46% against the US dollar.



## GobiMin Inc.

### Management's Discussion and Analysis of Financial Results

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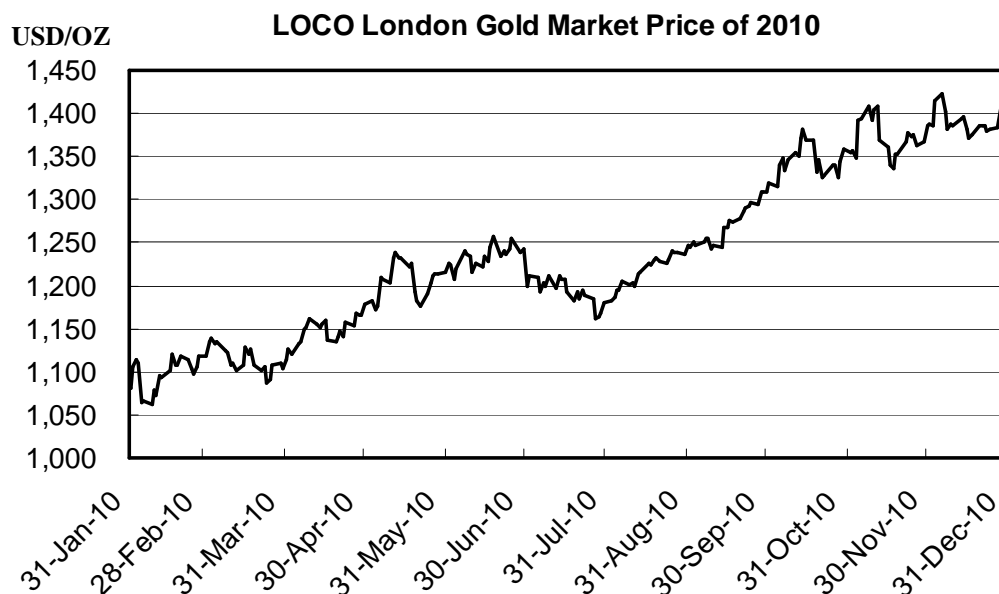
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#### (b) Gold Market

Although the Sawayaerdun Gold Project is under exploration stage, the gold market price shows good indication of the project value. For the year ended December 31, 2010, the gold price has increased by around 29.78% against that on January 1, 2010.



## 5. 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, 2010. The preparation of financial statements in conformity with 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.

#### (a) Revenue Recognition

Revenue from the sale of nickel concentrate was recognized when risk and title passed to the customer, the price is fixed and determinable and collection of the proceeds is reasonably assured. The passing of title and risk occurred based on the terms of the off-take contract. The price is based on the formula in the off-take contract that includes average listed price of the customer and the price factor decided by the grade level of concentrate.

#### (b) Depreciation of Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization is computed using the straight-line method with an estimated residual value of 0 - 5%. The annual depreciation or amortization rates are as follows:

## **GobiMin Inc.**

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Buildings: 4.75% - 33.3%

Leasehold improvement: 33.3%

Production equipment: 9.5% - 19%

Transportation equipment: 11.88% - 25%

Other equipment: 11.88% - 19%

Exploration costs are stated at cost less any impairment loss. It comprises the direct costs of exploration work on mineral properties prior to the development. Upon commencement of commercial production of mineral properties, exploration costs are amortized over the mine's estimated life using the straight-line method with nil residual value.

#### (c) Asset Retirement Obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they are incurred and in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related asset and depreciated over the life of the asset. Over time, the liability is increased to reflect an interest element (accretion expenses) considered in its initial measurement at fair value. All the mine sites are in desert area in Northern China and management believes that the liability after the mine site retirement is immaterial. The amount of the liability will be subject to re-measurement at each reporting period. It is possible that the Company's estimates of its ultimate mine site retirement liabilities could be changed as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or the cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

The Company has not recorded a liability for its asset retirement obligations.

#### (d) Equity Investment

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

#### (e) Proportionate Consolidation

For a venture that the Company and other parties have joint control over and share both benefits and risks, the Company accounts for its interest 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.**

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

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#### (f) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in earnings. Loans and receivables, and other financial liabilities are measured at amortized cost and are amortized using the effective interest method. Available-for-sale financial assets, designated based on the criteria that management does not hold these for the purposes of trading, are presented as investments and measured at cost less any identified impairment loss as they are unlisted investments and the fair value of which cannot be reliably measured.

## **6. New Accounting Standards**

### **Future Accounting Policies - International Financial Reporting Standards**

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ended March 31, 2011 including presenting an opening balance sheet as at January 1, 2010 and reporting under IFRS for comparative periods presented. The Company will also include its note on IFRS 1 in the interim unaudited consolidated financial statements for the quarter ended March 31, 2011.

The Company has developed an IFRS changeover plan to address key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities. The Company is tracking the changeover plan against key project milestones and will be ready to report all required IFRS financial statement information and reconciliations for the quarter ended March 31, 2011.

The Company is in the final stages of aggregating and analyzing potential adjustments required to the opening balance sheet at January 1, 2010 for changes to accounting policies resulting from identified differences between Canadian GAAP and IFRS. The Company also continues to analyze differences to net earnings and surplus under IFRS.

Adoption of IFRS requires that the IFRS standards be applied on a retroactive basis with the exception of those specifically exempted under IFRS 1 for first-time adopters. Absent an exemption, any changes to existing standards must be applied retroactively and reflected in the opening balance sheet of the comparative period. Other exemptions available under IFRS have been reviewed and are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

Key adjustments to the Company's opening balance sheet have been identified and analyzed, with estimates of the impact to the opening balance sheet and shareholders' equity at transition to IFRS.

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These potential adjustments represent management's best estimate and are expected to change, though not materially, prior to the issuance of IFRS financial statements. These estimated adjustments to the opening balance sheet and statement of equity at transition have been referenced to the corresponding explanation of the accounting policy difference between IFRS and Canadian GAAP. These accounting policy differences include items impacting shareholders' equity at transition and other items resulting in a change in financial statement presentation or reclassification.

- (a) The following table sets out key changes identified in accounting policies that impact shareholders' equity upon the transition from Canadian GAAP to IFRS. The possible impact of identified differences represents management's best estimate as at December 31, 2010 and these estimates and decisions may be revised before the Company issues IFRS financial statements.

<b>IFRS Accounting Policies</b>	<b>Expected Impact to Shareholders' Equity at Transition</b>
Employee benefits –past service cost and other	Differences exist between IFRS and Canadian GAAP in determining employee benefits, including the requirement to recognize unamortized past service cost and certain service awards. The adjustment for recognition of these unamortized vested past service costs and other employee benefits under IFRS totaled US\$22,000 presented within other liabilities.
Accounting for Exploration Costs	<p>Both Canadian GAAP and IFRS allow the choice of capitalizing or expensing exploration costs. The Company's policy under Canadian GAAP has been to capitalize all exploration costs. Management planned to consider the option of expensing exploration costs incurred under IFRS.</p> <p>The impact of such a change would be that greater amounts will be expensed. As this change must be applied on a retroactive basis, amounts previously capitalized under Canadian GAAP will be written off and charged to retained earnings as at January 1, 2010. This adjustment is expected to decrease shareholders' equity by US\$574,000.</p>

- (b) The following table sets out changes in key accounting policies that do not impact shareholders' equity upon the adoption of IFRS but require change in financial statement presentation and reclassification under IFRS upon transition. The possible impact of the identified differences represents management's best estimates as at December 31, 2010 and these estimates and decisions may be revised before the Company issues IFRS financial statements.

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<b>IFRS Accounting Policies</b>	<b>Expected Impact to Financial Statements at Transition</b>
Presentation of Property, Plant & Equipment	<p>IFRS requires that significant parts of an asset be depreciated separately and that depreciation commences when the asset is available for use. There will be no impact on shareholders' equity.</p> <p>IFRS also permits property, plant and equipment to be measured using the fair value model or the historical cost model. The Company is not planning on adopting the fair value measurement model for its property, plant and equipment but will continue to measure at amortized cost.</p>
Non-controlling interests	<p>Under Canadian GAAP, non-controlling interests were presented between liabilities and equity. IFRS requires presentation of non-controlling interests within the equity section of the balance sheet.</p>
Business combinations	<p>The Company's 50% interest in Xinjiang Xinya Minerals Limited (without controlling power) was recorded by proportionate consolidation in the Company's 2009 consolidated financial statements under Canadian GAAP. However, under IFRS 3, the assets and liabilities acquired should be recorded by a fair value to the extent of the acquirer's percentage ownership of the acquiree as equity investments.</p> <p>An exemption under IFRS 1 makes it possible to avoid restatement of business combinations that took place prior to the date of transition to IFRS. The Company has decided not to restate business combinations that took place prior to January 1, 2010 and there is no impact on the shareholders' equity. The expected impact on opening figures is the re-classification of certain assets and current liabilities to long term investments. The Company will apply IFRS 3 prospectively for business combinations occurring after January 1, 2010.</p>
Goodwill and intangible assets	<p>Goodwill and intangible assets under IFRS will be measured using the cost model, based on the recoverable assets amount which is the greater of value in use and fair value less costs to sell. The recoverable amount calculated under IFRS approximates the Canadian GAAP carrying value at December 31, 2009 and therefore no adjustment is required at transition.</p> <p>At each reporting date, the Company is required to review goodwill and intangible assets for indicators of impairment or reversals of impairment. In the event that certain conditions have</p>

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	been met, the Company would be required to reverse the impairment charge or a portion thereof.
Cumulative Translation Differences	IFRS 1 allows that the cumulative translation differences for all foreign operations be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. The Company will make this election and deem all cumulative translation differences to be zero on transition to IFRS as at January 1, 2010 and absorbed the previously accumulated cumulative translation balance into retained earnings.
Share-based Payments	IFRS requires that awards that vest in installments be measured and accounted for as though each installment is a separate award with the fair value being recognized over the vesting period of each installment. As a result, more compensation expense will be recognized under IFRS in the earlier portion of the vesting period than under Canadian GAAP. The expected impact involves the re-allocation between contributed surplus, share capital and retained earnings as of January 1, 2010 but there will be no impact on shareholders' equity.

The Company acknowledges that the above changes in accounting policy are not an exhaustive list of all possible significant items that will occur upon the transition to IFRS. The Company will continue to monitor developments in and interpretations of standards as well as industry practices and may change the accounting policies described above.

The Company's IFRS changeover plan includes the modification of internal controls over financial reporting for changes in accounting policy arising from the transition to IFRS and the education of key stakeholders including the management and employees. The impact on the Company's information technology, data systems and processes will be dependent upon the magnitude of changes resulting from these and other items. At this time, no significant impact on information or data systems has been identified and the Company does not expect to make changes which will materially affect internal controls over financial reporting.

**New IFRS & exposure draft**

The Company will continue to monitor the potential changes proposed by the International Accounting Standards Board ("IASB") and considers the impact changes in the standards would have on the Company's operations.

In November 2009, the IASB issued IFRS 9 to amend how financial instruments are classified and measured. The new standard is effective for annual periods beginning on or after January 1, 2013. The Company is analyzing the impact the new standard will have on its financial assets and liabilities.

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On August 17, 2010, the IASB published for comment an exposure draft with changes proposed to the accounting standards for leases. A final standard is expected to be released in June 2011. The exposure draft proposes a new accounting model where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts. The new classification would be the right-of-use model, replacing the operating and capital (termed finance under IFRS) lease accounting models that currently exist under Canadian GAAP.

The Company is monitoring the potential impact of other changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting though the Company does not expect the initial adoption of IFRS will have a considerable impact on the disclosure controls and procedures for financial reporting. The Company continues to capture IFRS comparative information, in parallel to Canadian GAAP information, for fiscal 2010 to quantify the effects of the potential significant differences between IFRS and Canadian GAAP which may or may not be material.

## 7. Selected Quarterly Information

<b>For the quarter ended</b>	<b>December 31, 2010</b>	September 30, 2010	June 30, 2010	March 31, 2010
	\$	\$	\$	\$
Revenue	-	-	-	-
Net (losses)/earnings	<b>(2,018,660)</b>	1,074,354	(110,071)	(1,228,686)
Basic (losses)/earnings per share	<b>(0.03)</b>	0.016	(0.002)	(0.018)
Diluted (losses)/earnings per share	<b>(0.03)</b>	0.016	(0.002)	(0.018)
Cash and cash equivalents and time deposit	<b>37,959,529</b>	46,581,299	47,993,399	53,437,711
Total assets	<b>120,880,904</b>	122,720,728	88,373,241	89,502,338

<b>For the quarter ended</b>	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	\$	\$	\$	\$
Revenue	-	-	-	940,433
Net (losses)/earnings	(7,378,103)	(790,924)	(492,595)	38,168,204
Basic (losses)/earnings per share	(0.107)	(0.012)	(0.007)	0.543
Diluted (losses)/earnings per share	(0.107)	(0.011)	(0.007)	0.541
Cash and cash equivalents and time deposit	78,350,405	75,676,346	80,599,671	92,026,901
Total assets	90,403,943	89,599,209	90,489,060	96,287,094

## 8. Results of Operations

### (a) Revenues

No revenue (2009: \$940,433) from operations has been recorded in this year since the disposal of the operating subsidiaries on February 11, 2009.

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Other revenue and gains in 2010 were \$406,515 (2009: \$453,647) including \$211,978 (2009: \$403,121) in interest income. The remaining portion of other revenue and gains represented rental income from the office building in Xinjiang and sales of a motor vehicle during the year 2010.

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

**Mining Operations**

<b>For the year ended</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Ore (tonnes)		
Processed	-	3,470
Sold	-	34,464
Nickel grade of ore	-	0.47%
Metallurgical recovery	-	92.1%
Metal contained in concentrate ('000 pounds)		
Nickel	-	329
Copper	-	-
Metal contained in concentrate sold (\$)		
Nickel	\$-	\$940,433
Copper and others	\$-	\$-
Total Revenue	\$-	\$940,433
Average realized price of nickel contained in concentrate (per pound)	\$-	\$2.86
Average realized price of copper contained in concentrate (per pound)	\$-	\$-
Average cash cost per pound of nickel contained in concentrate, net of by-product credits <sup>(1)</sup>	\$-	\$2.33
Average cash cost per tonne of ore, net of by-product credits <sup>(1)</sup>	\$-	\$22.20

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

**(b) Other expenses**

General and administrative expenses incurred in this year were \$3,440,917 compared to \$3,821,382 in 2009. The expenses mainly include office rental, staff cost and legal and professional fees.

In July 2010, the Company granted 1,309,000 options to its directors and employees at an exercise price of \$0.76 (CAD0.79), vested over three and five years respectively. The amortized portion of the total stock based compensation in 2010 amounted to \$361,294 compared to \$396,158 in 2009.

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(c) Losses per share

The basic and diluted losses per share in 2010 were \$0.03 (2009: basic and diluted earnings per share were \$0.43 and \$0.42 respectively).

(d) (LBITDA) / EBITDA

In this year, the losses before interest income and expense, income taxes, stock-based compensation, write-off expense, depreciation and amortization (“LBITDA”), a non-GAAP performance measure, were \$3,423,264 as compared to earnings before interest income and expense, income taxes, stock-based compensation, write-off expense, depreciation and amortization (“EBITDA”) of \$30,525,879 in 2009.

The following table presents the calculation of (LBITDA) / EBITDA for the years indicated:

<b>For the year ended</b>	<b>December 31, 2010</b>	December 31, 2009
	<b>\$</b>	<b>\$</b>
Net (losses)/earnings	<b>(2,283,063)</b>	29,506,582
Interest income	<b>(211,978)</b>	(403,121)
Interest expense	-	32,785
Income tax	-	-
Depreciation	-	257,235
Amortization in general and administration expenses	<b>274,963</b>	626,240
Stock based compensation	<b>361,294</b>	396,158
Write-off of assets	-	110,000
Fair value gain on other financial assets	<b>(1,564,480)</b>	-
Non-controlling interest	-	-
(LBITDA)/EBITDA <sup>(1)</sup>	<b>(3,423,264)</b>	30,525,879
(LBITDA)/EBITDA per share <sup>(2)</sup>	<b>(0.05)</b>	0.44

(1) As non-GAAP measurements, (LBITDA)/EBITDA and (LBITDA)/EBITDA per share do not comply with GAAP and, therefore, the amounts 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.

(2) Based on weighted average number of shares outstanding, a non-GAAP measure

(g) Annual dividend

On April 19, 2011, the Company declared an annual dividend of \$0.01(CAD0.01) per share in accordance with the Company's dividend policy. The dividend is payable on May 25, 2011 to shareholders of record on May 12, 2011.

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**9. Liquidity and Capital Resources**

The following table summarizes the Company's consolidated cash flows and cash on hand for the year ended December 31, 2010:

As at	December 31, 2010	December 31, 2009
	\$	\$
Cash and cash equivalents	37,959,529	73,350,405
Working capital <sup>(1)</sup>	53,626,138	84,059,586

For the year ended	December 31, 2010	December 31, 2009
	\$	\$
Net Cash used in operating activities	(5,478,669)	(9,391,756)
Net Cash used in financing activities	(1,819,457)	(2,954,305)
Net Cash (used in) / from investing activities	(29,070,195)	31,424,610

(1) Working capital is a non-GAAP measurement, which is the difference between current assets and current liabilities.

**(a) Operating activities**

In 2010, net cash used in operating activities was \$5,478,669 compared to \$9,391,756 in 2009 which was mainly the combined effect of fair value gain of \$1.6 million on the convertible bonds received from disposal of Yanxi Copper Property; increase in net receivables of \$1.1 million from the disposal of Yanxi Copper Property; \$2.2 million deposit paid for acquiring the exploration and mining license of the Sawayaerdun Gold Property; and \$1.2 million increase in receivables for the Company's joint venture, Tongyuan, for Chinese exploration services on its current exploration projects.

**(b) Financing activities**

Financing activities used cash flow of \$1,819,457 in 2010 (2009: \$2,954,305). The Company received \$0.7 million for the exercise of options during the year. \$1.1 million (RMB7,500,000) was received from the minority shareholders of Tongyuan for its registered capital. \$0.8 million cash was used in paying annual dividend and \$2.8 million was used in repurchasing 3,412,865 common shares.

**(c) Investing activities**

Investing activities used cash flow of \$29,070,195 in 2010 compared to the cash inflow of \$31,424,610 in 2009. The significant increase in the cash outflow from investing activities is mainly attributed to the \$6.9 million deposit paid to acquire an indirect equity interest of 24.49% in the Balikun Coal Project; loan to an investee company, Faithful Million Limited, of \$2.0 million (RMB13.1 million) and loan to the minority shareholder of the Company's investee company, Hami Coal Corporation (formerly known as Fortune Aspect Limited), of \$15.2 million (RMB100 million) pursuant to the agreement signed on February 9, 2010 for the investment in



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the Balikpapan Coal Project. The balance of the cash outflow is the amount due from an investee company, China Precision, of \$13.1 million for its silver stocking and processing; acquisition of plant and equipment of \$3.8 million and purchase of listed debentures of \$0.8 million, netting off the cash consideration received of \$7.7 million from the disposal of a 32% equity interest in Yanxi Copper Property and the maturity of \$5 million deposit.

## **10. Balance Sheet**

### (a) Cash

The Company had \$38.0 million in cash and cash equivalents and time deposit as at December 31, 2010 compared to \$78.4 million as at December 31, 2009. In general, the decrease of \$40.4 million was mainly the net effect of cash outflow for investment in the Sawayaerdun Gold Project of \$3.5 million and the Balikpapan Coal Project of \$23.9 million, silver bullion and inventory of the silver operation of \$13.1 million, share buy-back of \$2.6 million and purchase of listed debenture of \$0.8 million together with the cash inflow from the disposal of Yanxi Copper Property of \$6.7 million and the cash outflow for the office expenses of \$3.5 million.

### (b) Deferred gain on disposal of equity investments

Pursuant to the share transfer agreement dated July 14, 2010 and supplemental agreement dated December 30, 2010, GobiMin disposed of a 32% equity interest in the Yanxi Copper Property on July 22, 2010 while retains an 8% indirect unlisted equity interest. The Company has received all the cash consideration and the first lot of convertible bonds. The application for mining license of Yanxi Copper Property is in the process. After the mining license of the Yanxi Copper Property is granted, the Company shall receive the final lot of convertible bonds. Pursuant to the said agreements, should the mining license not be granted by August 31, 2011, the Company guarantees to refund to the buyer all the consideration received and in return, the buyer shall transfer the interest in Yanxi Copper Property back to the Company.

The deferred gain on disposal of the 32% equity interest in the Yanxi Copper Property of \$5.7 million represents the cash received of \$7.7 million, convertible bonds received of \$14.2 million (which was classified as other financial assets), convertible bonds receivable of \$11.5 million (which was classified under prepayment, deposits and other receivables), netting off the share of assets as at June 21, 2010 of \$0.9 million and other payables and accrued liabilities for mining license fee, tax, stamp duty and related payments of \$26.8 million.

### (c) Other Financial Assets

Part of these financial assets represents the convertible bonds of \$14.2 million (HKD110,000,000) issued by China Daye Non-Ferrous Metals Mining Limited ("China Daye") as partial payment of the consideration for the disposal of the 32% equity interest in the Yanxi Copper Property as mentioned in note 13. The convertible bonds are stated at \$15,721,494 (HKD122,156,012) as at year end based on the fair value as determined by an independent professional valuer.

The remaining balance of \$0.8 million represents the held-to-maturity listed debenture held by the Company at year end.

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#### (d) Other Payables and Accrued Liabilities

As at December 31, 2010, the balance of other payables and accrued liabilities are mainly contributed by the payable for the mining license fee, tax, stamp duty and related payments of \$26.8 million arising on the disposal of the Yanxi Copper Property.

#### (e) Share Capital

As at December 31, 2010, the Company had 65,890,837 common shares issued and outstanding. During this year, 3,412,865 common shares were bought back and cancelled and 1,046,400 common shares were issued for the exercise of options by directors and employees. On July 7, 2010, GobiMin granted 1,309,000 options at an exercise price of \$0.76 (CAD0.79), among which 1,000,000 options exercisable until July 6, 2013 were granted to directors and 309,000 options exercisable until July 6, 2015 were granted to the staff and management of the Company, its subsidiaries and associates (See the Company's news release on July 12, 2010).

### **11. Contractual obligations and commitment**

As at December 31, 2010, there are approximately \$1,284,997 (2009: \$3,592,097) in capital commitments that the Company's subsidiaries had contracted, but not provided for. The commitments are for acquisition of the exploration assets.

On September 10, 2009, the wholly owned subsidiary of GobiMin, Xinjiang Weifu Mining Limited, entered into an agreement with Baodi and Brigade No. 2 to form a joint venture company, Tongyuan, for the development of the Sawayaerdun Gold Project in Xinjiang, China. GobiMin agreed to invest \$7,328,844 (RMB50,000,000) in cash to Tongyuan for its 70% equity interest. The consideration for acquiring the exploration and mining license of the Sawayaerdun Gold Property is \$6,669,247 (RMB45,500,000) and Tongyuan has paid a deposit of \$6,069,498 (RMB40,000,000) as at December 31, 2010. The remaining commitment of \$834,556 (RMB5,500,000) will be paid based on the progress on the transfer of the exploration and mining licenses to Tongyuan.

On April 7, 2010, Tongyuan entered into an agreement for exploration service relating to the Sawayaerdun Gold Project. The contracted amount is \$674,254 (RMB4,600,000) and Tongyuan has paid a deposit of \$319,559 (RMB2,106,000) as at December 31, 2010. The remaining commitment is \$378,433 (RMB2,494,000).

The Company has approximately \$72,008 (2009: \$327,831) remaining commitment in the operating lease of its Hong Kong and Canada offices.

### **12. Off-balance sheet arrangements**

The Company does not have any off-balance sheet arrangements.

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### **13. Proposed Transaction**

On July 14, 2010, GobiMin has entered into a share transfer agreement with China Daye to dispose of a 32% equity interests in the Yanxi Copper Property. GobiMin shall own a remaining 8% indirect unlisted equity interest in the Property. The Company has entered into a supplemental agreement with the buyer on December 30, 2010 to extend the deadline for obtaining the mining license from December 31, 2010 to August 31, 2011.

According to the supplemental agreement, the consideration for the 80% indirect equity interest in Tongxing to be received upon obtaining the Yanxi Mining Licence is reduced by HK\$21,000,000 to HK\$259,000,000. The amount of HK\$21,000,000 will be deducted from the Non-delivered CB. In addition to applying for Yanxi Mining Licence, the Company will also be responsible for applying for a mining licence (the "New Mining Licence") for an area which is adjacent to the Property (the "New Area"). The New Mining Licence should be obtained on or before June 30, 2014. The Company will be entitled to the Non-delivered CB and an additional consideration in cash based on the resource estimate of the New Area, in total with a cap of HK\$106,000,000, of which 50% will be paid upon the Company providing the resources estimate report and the remaining 50% will be used to settle the licensing fee of the New Area with the balance paid to the Company upon obtaining the New Mining Licence. The final and total consideration for the 80% indirect equity interest in Tongxing will accordingly be capped to HK\$365,000,000. Based on the reduced consideration of \$33.4 million (HK\$259,000,000), the Company shall have an estimated deferred gain of \$5.7 million for the disposal of its 32% equity interest in Tongxing, netting off the amount payable for the mining license fee, tax, stamp duty and related payments of \$26.8 million.

### **14. Outstanding Share Data**

The following table provides information concerning the Company's share capital and convertible securities:

	<b>December 31, 2009</b>	<b>December 31, 2010</b>	<b>April 19, 2011</b>
Number of Common Shares Outstanding	68,257,302	<b>65,890,837</b>	64,190,837
Options	3,256,400	<b>2,519,400</b>	2,516,000
Total Number of Common Shares Fully Diluted	71,513,702	<b>68,410,237</b>	66,706,837

### **15. Fourth Quarter 2010 Review**

For the three months ended December 31, 2010, the Company reported net losses of \$2,018,660 (Q4 2009: \$7,378,103) which mainly comprised the general and administrative expenses of \$1,460,974 (Q4 2009: \$1,767,952). In this quarter, the Company recorded net cash outflow of \$8.6 million (Q4 2009: cash inflow of \$2.7 million). It was mainly the net effect of increase in deposit paid for the Sawayaerdun Gold Project of \$0.7 million, \$5.2 million advance to an investee company, China Precision for the silver operation, share buy-back of \$1.1 million

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and purchase of listed debentures of \$0.8 million together with the cash outflow for the office expenses of \$0.8 million.

#### **16. Risk factors**

The mining business conducted by the Company is subject to a number of risks, including those outlined below. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in the forward-looking statements relating to the Company. Readers should also be aware that there are particular risks of doing business in China, some of which are outlined below.

##### (a) Metal prices

The profitability of the Company may be significantly affected by changes in the market price of metals. Metal prices fluctuate on a daily basis and are affected by numerous factors beyond the control of the Company. Interest rates, inflation, exchange rates and world supply of mineral commodities can all cause fluctuations in the market prices for these metals. Such external economic factors are in turn influenced by changes in international economic growth patterns and political developments.

The Company may apply its free cash balances to metal trading operations. These transactions are by their very nature speculative and could result in GobiMin suffering financial losses.

##### (b) Currency risks

The Company's operating expenses and revenues from operations are in RMB, the main currency used by the Company. Currently, the RMB is linked to the US dollar by exchange rates managed through China's central bank. Accordingly, exchange rate fluctuations with the RMB may adversely affect the Company's financial position and operating results. The Company does not currently engage in foreign currency hedging activities.

Under current regulations, there is no restriction on foreign exchange conversion of the RMB on the current account, although any foreign exchange transaction on the capital account is subject to prior approval from the State Administration of Foreign Exchange ("SAFE") or review by the payment bank in accordance with regulations issued by SAFE. However, even on the current account the RMB is not a freely convertible currency. Foreign invested enterprises in China are allowed to repatriate profit to their foreign parents or pay outstanding current account obligations in foreign exchange but must present the proper documentation to a designated foreign exchange bank in order to do so. There is no guarantee that foreign exchange control policies will not be changed so as to require government approval to convert RMB into foreign currency on the current account. These limitations could affect the ability of the Company to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

##### (c) Exploration, development and operating risks

The exploration and development of mineral deposits involves significant risks over a significant period of time, which even with a combination of careful evaluation, experience and knowledge may not be eliminated. Few properties that are explored are ultimately developed into producing

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mines. Major expenditures may be required to establish mineral reserves through drilling, to develop metallurgical processes and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economic viability of a mineral deposit depends on many factors, including size, grade, cost of operations, metal prices, cost of processing equipment, continuing access to smelter facilities on acceptable terms, government regulations, land tenure, and environmental protection. The exact effect of these factors cannot be measured but the combinations of these factors may impact the success of the Company's mineral exploration, development and acquisition activities. Even after the commencement of mining operations, such operations may be subject to risks and hazards such as environmental hazards, industrial accidents, cave-ins, rock bursts, unusual or unexpected geological formations, ground control problems and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruptions of production, increases in production costs, monetary losses, legal liability and adverse government action.

It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

The Company's properties are generally located in Hami region, a sector which has in the past experienced seismic activity of six to seven on the Richter scale. Therefore, planning for mines and infrastructures must consider seismicity in the design.

The development of mining properties has inherent risks. The Company may not have sufficient technical or financial resources to complete the projects. Costs over-runs are common in mining projects and may pose a risk for the Company.

(d) Uncertainty of ore reserve and resource estimates

For some of its properties, the Company may prepare its own mineral reserves and resources estimate only in accordance with the former China Ministry of Geological and Mineral Resources ("CMGMR") classification system. The CMGMR classification system is not compliant with the Canadian Securities Administrators National Instrument 43-101. These figures are only estimates and there cannot be any assurance given that the estimated mineral reserves and resources will be recovered or that they will be recovered at the rates estimated. Mineral reserve and resource estimates are determined based upon assumed commodity prices and operating costs. These factors may in the future render certain mineral reserves and resources unproductive and may ultimately result in a significant reduction in reserves and resources.

(e) Capital requirements

The Company does have limited financial resources. Although the Company believes it will be able to fund the development of its mineral properties through existing working capital, and a combination of debt and equity, there can be no assurance the Company will be able to raise

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additional funding if needed. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of some of the Company's properties.

(f) Risks relating to conducting business in China

The business operations of the Company are located in, and the revenues of the Company are derived from activities in, China. Accordingly, the business, financial condition and results of operations of the Company could be significantly and adversely affected by economic, political and social changes in China. Generally, China demonstrates favourable policies towards foreign investments. However, there is no guarantee that current policy trends and the existing economic policy of China will not be changed. A change in policies in China could adversely affect the Company.

(g) Dependence on Key Managerial Employees

The success of the Company is highly dependent upon the continued services of a small number of key managerial employees both in Canada and China, including Mr. Felipe Tan, the Chief Executive Officer of the Company and Mr. Zhang Ming, a Director of the Company and General Manager of the Chinese subsidiary. The Company does not currently maintain key-man life insurance policies on any member of management. Accordingly, the loss of any of these executives could have a material adverse effect on the Company.

(h) Competition

There is significant and increasing competition within the mining industry for the discovery and acquisition of properties considered having commercial potential. The Company competes with other mining companies, some of which have greater financial resources, and as a result, the Company may not be able to acquire mineral interests on terms it considers acceptable. As well, the Company competes for the recruitment and retention of qualified employees and other personnel. The current economic growth in China and the corresponding creation of a more liquid market for skilled employees may lead to future problems in retaining local Chinese management. As a result of this competition, the Company may not be able to acquire additional mineral interests and hire or retain qualified personnel for its projects.

## **17. Outlook**

GobiMin continues to move forward with a healthy cash position.

The mining license of Yanxi Copper Property is expected to be obtained in 2011. We plan to carry out the drilling work and the resource estimate of the New Area adjacent to the Yanxi Copper Property. As the Company will be entitled to an additional consideration based on the resource estimate of the New Area, we will make every possible effort to explore the New Area to ensure that the Company can increase the total amount of consideration to be received.

The recently announced NI 43-101 resource estimate of Sawayaerdun Gold Project delivered impressive results of Zone IV. GobiMin will carry out a more comprehensive survey of Zone IV based on the existing geological information. We believe that the areas surrounding Zone IV also

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have good resources potential and will bring good news to shareholders once exploration works unfolds.

During the coming year, GobiMin will seek to increase the vertical and horizontal diversity of its metals trading business. Besides transforming silver into a larger variety of product forms, our small processing workshop in Hong Kong will start refining silver. In addition to silver trading, the Company will also engage in trading other kinds of metals. GobiMin will continue to source and explore new potential business opportunities in China and overseas.