

# **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, 2021**

*(Expressed in United States Dollars except where otherwise noted)*

**GobiMin Inc.**  
**Management’s Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

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The following discussion and analysis of the consolidated operating results and financial condition of GobiMin Inc. (the “Company” or “GobiMin”) for the year ended December 31, 2021 was prepared on April 21, 2022 and should be read in conjunction with its audited consolidated financial statements for the year ended December 31, 2021 which was prepared in accordance with International Financial Reporting Standards (“IFRS”). Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company’s website at [www.gobimin.com](http://www.gobimin.com).

*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.*

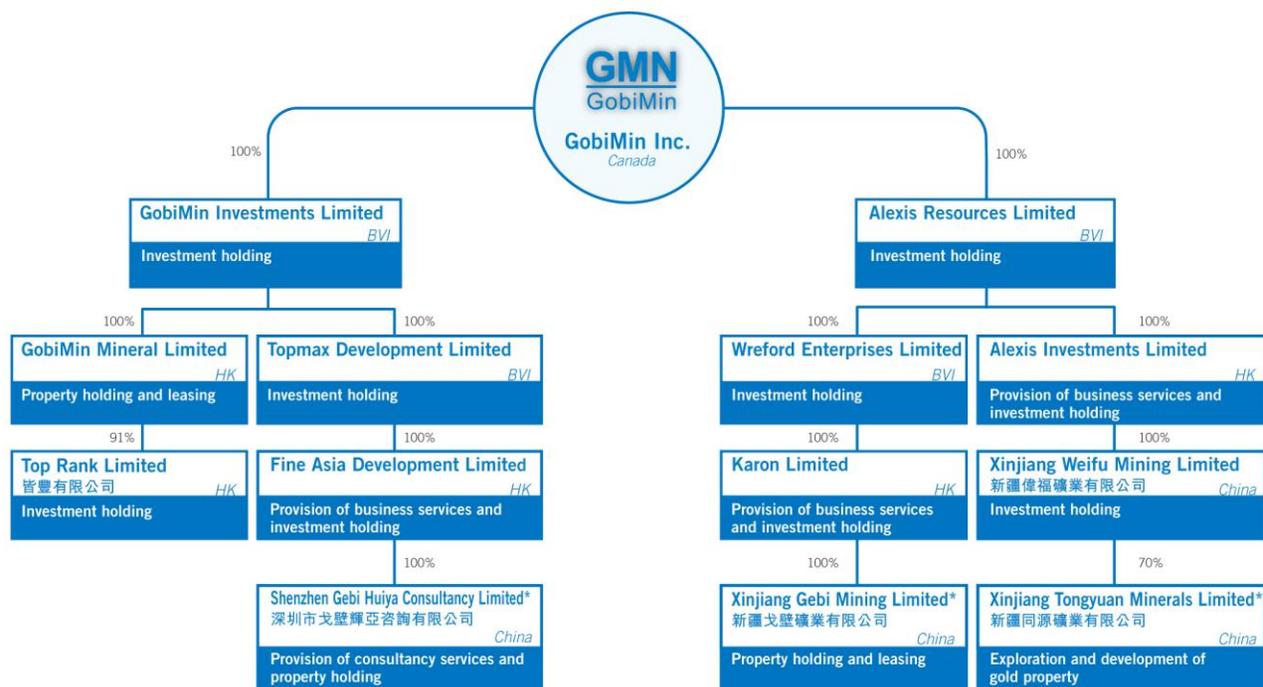
**1. Corporate Overview**

GobiMin, the shares of which are traded on the TSX Venture Exchange under the symbol GMN, is an investment issuer under the rules of the TSX Venture Exchange. The Company, together with its subsidiaries (collectively the “Group”), is principally engaged in the investment in properties, equity, debt or other securities as well as direct ownership stakes in projects, including the development of mineral properties, mainly in the Xinjiang Uygur Autonomous Region (“Xinjiang”) of the People’s Republic of China (“China”).

Currently, GobiMin holds an equity interest of 70% in a company incorporated in China to explore, develop and operate the Sawayaerdun Gold Project (the “Gold Project”) located in Xinjiang and equity investments and debentures for reasonable return and potential capital gains.

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

Group Chart with major subsidiaries as at April 21, 2022 is as follows:



HK: Hong Kong  
BVI: British Virgin Islands  
\*unofficial English name translated from Chinese registered name of the company

## 2. Financial Highlights

| As at / For the year ended December 31,                        | 2021    | 2020    | 2019    |
|--|---------|---------|---------|
|  | \$'000  | \$'000  | \$'000  |
| Revenue  | 937     | 891     | 1,300   |
| (Loss)/gain on disposal of financial assets                    | (250)   | 266     | 565     |
| Fair value (loss)/gain on financial assets                     | (168)   | (106)   | 897     |
| Net loss for the year  | (2,363) | (3,349) | (479)   |
| Loss attributable to shareholders of the Company               | (2,085) | (3,057) | (344)   |
| LBITDA <sup>(1)</sup>  | (2,109) | (3,001) | (624)   |
| Basic and diluted loss per share (in dollar)                   | (0.042) | (0.062) | (0.007) |
| LBITDA per share <sup>(1)</sup> (in dollar)                    | (0.043) | (0.061) | (0.013) |
| Cash and cash equivalents                                      | 15,456  | 19,471  | 17,778  |
| Cash and cash equivalents per share <sup>(1)</sup> (in dollar) | 0.31    | 0.40    | 0.36    |
| Working capital  | 17,215  | 21,306  | 21,313  |
| Total current liabilities                                      | 2,659   | 2,536   | 2,467   |
| Total non-current financial liabilities                        | -       | -       | 354     |
| Total assets   | 73,725  | 74,985  | 76,020  |

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

---

Note:

- (1) As non-IFRS measurements, **LBITDA** (loss before interest income and expense, income taxes, depreciation and amortization), **LBITDA per share** and **Cash and cash equivalents per share** are not mandatorily required by IFRS 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 IFRS.

### **3. Business Summary and Development**

The objective of the Company is to seek superior returns by making investments in properties, equity, debt or other securities of publicly traded or private companies or other entities as well as direct ownership stakes in projects. New investments will be directed by an Investment Committee and guided by the Company's Investment Policy which governs its investment activities and investment strategy.

#### **3.1 Gold Project**

The Company owns a 70% equity interest in Xinjiang Tongyuan Minerals Limited which holds the Gold Project in Xinjiang. Its exploration licence had been renewed with expiry date on June 15, 2023. The mining licence had been renewed with expiry date on March 22, 2023.

Impacted by the logistical blockage and delayed delivery of supplies to the trial site resulting from the COVID-19 pandemic, the on-site industrial test on applying bio-leaching methodology on extraction of metals from large-scale samples of gold ores was delayed during the year under review. The bioleach operation was interrupted and the originally planned extraction of gold was delayed due to the alkaline situation of active carbon filters. According to the analysis results on the ore sample and the immersion gold tests conducted by the Research Institute, arsenic and iron in the ore samples have been successfully removed by oxidation. It is targeted to complete the trial run gold immersion in the mid 2022.

For the year ended December 31, 2021, there were addition of \$1,538,000 in the exploration and evaluation assets. As at December 31, 2021, the Group had a contractual commitment of \$1,647,000 for the future development of the Gold Project.

#### **3.2 Financial Assets**

##### **(i) Listed Securities**

As at December 31, 2021, the fair value of listed securities held by the Group amounted to \$758,000 (2020: \$247,000) which mainly included \$458,000 (2020: \$127,000) investment in listed stock, futures and options trading through registered brokerage firm in Hong Kong and \$300,000 (2020: \$120,000) for stocks listed in Canada. For the year ended December 31, 2021, the loss on disposal of listed securities amounted to \$249,000 (2020: \$262,000) and fair value loss was \$88,000 (2020: fair value gain of \$16,000).

##### **(ii) Unlisted Investments**

The Group holds 670,000 shares of Dragon Silver Holdings Limited ("Dragon Silver"), representing 9.90% of its total issued capital at an investment cost of \$1,121,000 (equivalent to HK\$8,710,000). Dragon Silver is a Hong Kong based company mainly engaged in trading, production, processing and investment in precious metals and non-ferrous metals and related products.

**GobiMin Inc.**  
**Management’s Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

---

Pursuant to the subscription agreement dated December 29, 2017, the guarantor of the agreement irrevocably guaranteed to the Group that (i) the audited net profit after tax of Dragon Silver shall not be less than \$1,926,233 (equivalent to HK\$15,000,000) for each of the financial years ending from June 30, 2018 to 2022 (“Profit Guarantee”); and (ii) the amount of dividends declared and paid by Dragon Silver during each of the financial years ending from June 30, 2018 to 2022 (the “Relevant Years”) shall not be less than \$0.16 (equivalent to HK\$1.25) per share (“Dividend Guarantee”). Pursuant to the put option deed dated December 29, 2017, the Group has the right to sell all the shares held by the Group to the guarantor at the investment cost within the period from December 29, 2021 to December 29, 2022 (the “Put Option”).

During the year ended December 31, 2021, due to continuous difficult market conditions and the impact of COVID-19, the Group agreed with the guarantor and Dragon Silver to waive the compensation for Profit Guarantee for the financial years ended up to June 30, 2022, and to extend (i) the Relevant Years for Dividend Guarantee to the financial years ending from June 30, 2022 to June 30, 2027; and (ii) the exercisable period of Put Option to December 28, 2027. As Dragon Silver has not paid any dividend to the Group for the financial year ended June 30, 2021, the guarantor paid to the Group the compensation for the Dividend Guarantee of \$108,000 in October 2021.

As at December 31, 2021, the fair value of the investment in Dragon Silver together with the Dividend Guarantee and the Put Option was \$1,226,000 (2020: \$1,286,000) and fair value loss was \$53,000 (2020: \$128,000). The fair value was estimated by management with reference to valuation conducted by independent professional valuers and it was measured using income approach with key inputs such as expected revenue growth rate, budgeted gross profit ratio, volatility and discount rates.

During the year under review, the Group acquired 40,153,000 shares, representing about 6.28% equity interest in Infinity Technology Limited (“Infinity Tech”) whose group provides in Hong Kong a one-stop solution cloud POS system integrating automated ordering and payment, menu digitalisation, logistics, marketing analysis, supply chains and inventory management at an investment cost of \$1,500,000.

As at December 31, 2021, the Group also held other unlisted investments amounting to \$268,000 (2020: \$257,000). During the year under review, the fair value gain on other unlisted investments was \$10,000 (2020: \$18,000).

**(iii) Debentures**

The Group would hold debentures bearing low risks and reasonable interest return from various industries through the open market. Debentures are held to receive coupon interest payments as well as to realize potential capital gains. The Group may dispose of debentures through the open market when the Group requires funds for operational or other investment needs.

As at December 31, 2021, the Group held debentures of \$1,803,000 (2020: \$2,741,000) with coupon rates ranged from 5.000% to 7.000% (2020: 4.250% to 7.375%) per annum and with perpetual maturities (2020: maturities ranging from May 31, 2021 to perpetual).

For the year ended December 31, 2021, interest income from debentures amounted to \$143,000 (2020: \$188,000), fair value loss on debentures was \$37,000 (2020: \$13,000) and loss on disposal of debentures was \$1,000 (2020: gain on disposal of \$3,000).

### **3.3 Investment Properties**

As at December 31, 2021, the Group held investment properties with carrying amount of \$4,795,000 (2020: \$5,003,000) in Shenzhen, Xinjiang and Hong Kong for rental income and/or capital appreciation. The estimated fair value of the investment properties was approximately \$7,685,000 as at December 31, 2021 (2020: \$7,705,000) as determined by management assessment with reference to recent market prices for similar properties in the same locations and similar conditions. Certain investment properties were leased to third parties and related parties while some remain vacant. For the year ended December 31, 2021, rental income from the leased properties was \$205,000 (2020: \$190,000).

### **3.4 Normal Course Issuer Bid (“NCIB”)**

On August 1, 2019, GobiMin was granted approval by the TSX Venture Exchange (“TSXV”) to renew its NCIB to repurchase up to an additional 2,491,074 common shares, representing approximately 5% of the then common shares outstanding. Purchases were made in accordance with applicable regulations over a maximum period of 12 months commenced on August 8, 2019 and ended on August 7, 2020 pursuant to the NCIB. GobiMin did not renew its NCIB afterwards.

On April 7, 2022, the Company applied for NCIB to repurchase up to an additional 2,459,749 common shares, representing 5% of the issued and outstanding common shares of the Company, and any such purchases will be at market prices. The NCIB will commence upon receipt of the approval from TSXV and will end on April 7, 2023 or on such earlier date as GobiMin may complete its purchases pursuant to the NCIB or as it may otherwise determine. A copy of the related Notice of Intention to Make a NCIB will be provided to shareholders upon receipt of written request to the Company at its registered office.

### **3.5 Liquidity and Capital Resources**

As at December 31, 2021, working capital of the Group amounted to about \$17,215,000 (2020: \$21,306,000), which was computed by netting off its current assets of \$19,875,000 (2020: \$23,842,000) with current liabilities of \$2,660,000 (2020: \$2,536,000).

Among the cash and cash equivalents of \$15,456,000, of which approximately \$493,000 was held by subsidiaries in China. The subsidiaries in China are allowed to transfer funds to other group companies outside China upon presentation of relevant documentation required by applicable regulations, subject to the risks outlined hereinafter under the section “Risk Factors”. The Group will take careful measures ahead to ensure that the available capitals match with its various payment obligations in China and elsewhere.

Taking into account of its financial position, the management of the Group considered that its cash and cash equivalents will be more than sufficient to finance its operation, including the contractual commitments of the Gold Project of approximately \$1,647,000 (2020: \$1,633,000) as at December 31, 2021.

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

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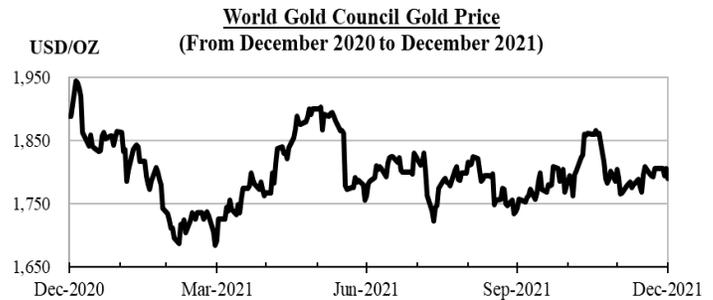
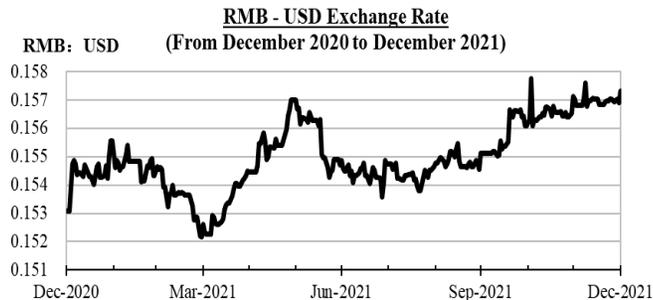
#### 4. Key Economic Trends

##### China Economy

On account of the large proportion of GobiMin's business operated in China, the condition of the Chinese economy plays a key role in the Group's exploration and development business. Currency fluctuations may also have an impact on the Group's cost structure as the Group reports in United States dollars. For the year ended December 31, 2021, the Chinese Renminbi ("RMB") appreciated by approximately 2.78% against the United States dollars comparing with the exchange rate on December 31, 2020.

##### Gold Market

The changes in gold price have a strong influence on the value of the Gold Project. For the year ended December 31, 2021, the gold price has decreased by around 5.20% against the price on December 31, 2020.



#### 5. Critical Accounting Judgement and Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements and estimates and assumptions that affect the reported results. Changes to these judgements and estimates could materially impact the financial statements. The judgements and estimates made by the Group that are considered to be most critical are as follows:

- Valuation of Exploration and Evaluation Assets
- Income Taxes
- Functional Currency
- Power to Exercise Control, Joint Control or Significant Influence
- Impairment of Non-Financial Assets (Other Than Goodwill)
- Fair Value Measurement of Investment Properties
- Fair Value of Unlisted investment

The details of the above significant judgement and estimate are further elaborated in note 5 to the consolidated financial statements.

**GobiMin Inc.****Management's Discussion and Analysis of Financial Results****For the year ended December 31, 2021**

(Expressed in United States Dollars)

April 21, 2022

**6. Future Changes in Significant Accounting Policies**

The Group has not early applied any of the IFRS that are issued but are not yet effective at the date where the Group's consolidated financial statements are approved and authorized for issue. The Group expects that these amendments will not have any significant impact on the Group's financial statements. Further details of which are disclosed in note 3 to the consolidated financial statements.

**7. Selected Quarterly Information**

| <b>As at / For the three months ended</b>                                       | <b>December 31,<br/>2021</b> | September 30,<br>2021 | June 30,<br>2021 | March 31,<br>2021 |
|---|------------------------------|-----------------------|------------------|-------------------|
|   | <b>\$'000</b>                | \$'000                | \$'000           | \$'000            |
| Revenue   | <b>200</b>                   | 311                   | 220              | 206               |
| Loss on disposal of financial assets  | -                            | (114)                 | (22)             | (114)             |
| Fair value (loss)/gain on financial assets at fair value through profit or loss | <b>(148)</b>                 | 54                    | (26)             | (48)              |
| Net loss for the period   | <b>(553)</b>                 | (612)                 | (479)            | (719)             |
| Loss attributable to shareholders of the Company                                | <b>(461)</b>                 | (549)                 | (402)            | (673)             |
| LBITDA <sup>(1)</sup>   | <b>(479)</b>                 | (538)                 | (414)            | (678)             |
| Basic and diluted loss per share (in dollar)                                    | <b>(0.009)</b>               | (0.011)               | (0.008)          | (0.014)           |
| LBITDA per share <sup>(1)</sup> (in dollar)                                     | <b>(0.010)</b>               | (0.011)               | (0.008)          | (0.014)           |
| Cash and cash equivalents   | <b>15,456</b>                | 15,403                | 18,636           | 18,392            |
| Total assets  | <b>73,725</b>                | 73,764                | 74,266           | 74,199            |

| <b>As at / For the three months ended</b>                                       | December 31,<br>2020 | September 30,<br>2020 | June 30,<br>2020 | March 31,<br>2020 |
|---|----------------------|-----------------------|------------------|-------------------|
|   | \$'000               | \$'000                | \$'000           | \$'000            |
| Revenue   | 191                  | 305                   | 202              | 193               |
| Gain/(loss) on disposal of financial assets                                     | 36                   | 142                   | 124              | (36)              |
| Fair value gain/(loss) on financial assets at fair value through profit or loss | 47                   | 55                    | 194              | (402)             |
| Net loss for the period   | (1,665)              | (385)                 | (70)             | (1,229)           |
| Loss attributable to shareholders of the Company                                | (1,604)              | (222)                 | (30)             | (1,201)           |
| (LBITDA)/EBITDA <sup>(1)</sup>  | (1,586)              | (296)                 | 11               | (1,130)           |
| Basic and diluted loss per share (in dollar)                                    | (0.033)              | (0.005)               | (0.001)          | (0.024)           |
| (LBITDA)/EBITDA per share <sup>(1)</sup> (in dollar)                            | (0.032)              | (0.006)               | 0.0002           | (0.023)           |
| Cash and cash equivalents   | 19,471               | 18,342                | 17,886           | 16,495            |
| Total assets  | 74,985               | 74,466                | 73,296           | 73,677            |

Note:

(1) As non-IFRS measurements, (LBITDA)/EBITDA ((loss)/earnings before interest income and expense, income taxes, depreciation and amortization) and (LBITDA)/EBITDA per share are not mandatorily required by IFRS 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 IFRS.

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

---

The above financial information was extracted from the consolidated financial statements prepared in accordance with IFRS.

The functional currency of GobiMin is Canadian dollars. The functional currency of certain British Virgin Islands subsidiaries is United States dollars. The functional currency of Hong Kong and the remaining British Virgin Islands subsidiaries is Hong Kong dollars. The functional currency of the subsidiaries in China is Chinese Renminbi ("RMB"). The consolidated financial statements are presented in United States dollars.

For the three months ended December 31, 2021, the Group recorded a net loss of \$553,000 (three months ended December 31, 2020: \$1,665,000) which mainly consists of interest income, rental income and dividend income of \$200,000 (three months ended December 31, 2020: \$191,000), exchange gain of \$278,000 (three months ended December 31, 2020: \$538,000), netting off the administrative expenses of \$878,000 (three months ended December 31, 2020: \$1,229,000). For the three months ended December 31, 2020, the Group also recognised impairment loss on loan receivable of \$694,000 and impairment loss on investment properties of \$967,000. No impairment loss being recognised in respect of loan receivable and investment properties for the year ended December 31, 2021.

During this quarter, the Group recorded a net cash inflow of \$53,000 (three months ended December 31, 2020: \$1,129,000). It mainly represented proceed received on disposal and maturity of debentures of \$200,000 (three months ended December 31, 2020: \$401,000), which was offset by the cash flows used in operating activities of \$182,000 (three months ended December 31, 2020: \$463,000). For the three months ended December 31, 2020, the Group's cash and cash equivalents also increased by \$848,000 as a result of appreciation of RMB against United States dollars.

As at December 31, 2021, the total assets were \$73,725,000, representing a decrease by \$1,260,000 or 2% when comparing with that of \$74,985,000 as at December 31, 2020. Such decrease was attributable to cash flows used in operating activities of \$1,741,000 during the year.

## **8. Results of Operations**

### **8.1 Revenue**

Interest income, rental income and dividend income in 2021 were \$605,000 (2020: \$589,000), \$205,000 (2020: \$190,000) and \$127,000 (2020: \$112,000) respectively.

### **8.2 (Loss)/gain on Disposal of Financial Assets**

For the year ended December 31, 2021, loss on disposal of financial assets of \$250,000 (2020: gain on disposal of \$266,000) was recorded. It mainly represented loss on trading of listed stock, futures and options through a registered brokerage firm in Hong Kong.

### **8.3 Fair Value Loss on Financial Assets**

Fair value loss on financial assets at fair value through profit or loss was \$168,000 in 2021 (2020: \$106,000). It mainly represented fair value loss on listed securities, debentures and investment in Dragon Silver of \$88,000 (2020: fair value gain of \$16,000), \$37,000 (2020: \$13,000) and \$53,000 (2020: \$128,000), respectively. Save for the fair value of Dragon Silver that was determined with reference to the valuation report prepared by professional valuer, all fair value used in calculating fair value gain or loss are with reference to quoted market prices at the end of the reporting period.

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

---

**8.4 General and Administrative Expenses**

General and administrative expenses incurred in 2021 were \$3,355,000 (2020: \$3,465,000). They mainly represented office rental, staff costs and legal and professional fees.

**8.5 Loss Per Share**

The basic and diluted loss per share in 2021 was \$0.042 (2020: \$0.062).

**8.6 LBITDA**

In 2021, the loss before interest income and expense, income taxes, depreciation and amortization ("LBITDA"), a non-IFRS performance measure, was \$2,109,000 as compared to \$3,001,000 in 2020. The following table presents the calculation of LBITDA for the years:

| <b>For the year ended December 31,</b>      | <b>2021</b>    | <b>2020</b>   |
|---|----------------|---------------|
|   | <b>\$'000</b>  | <b>\$'000</b> |
| Net loss for the year                       | <b>(2,363)</b> | (3,349)       |
| Interest income                             | <b>(605)</b>   | (589)         |
| Depreciation                                | <b>859</b>     | 931           |
| Finance costs                               | <b>-</b>       | 6             |
| LBITDA <sup>(1)</sup>                       | <b>(2,109)</b> | (3,001)       |
| LBITDA per share <sup>(2)</sup> (in dollar) | <b>(0.043)</b> | (0.061)       |

*Note:*

(2) *As non-IFRS measurements, **LBITDA** and **LBITDA per share** are not mandatorily required by IFRS 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 IFRS.*

(3) *Based on weighted average number of shares outstanding.*

**8.7 Annual Dividend**

The Board does not recommend any payment of dividend for the year ended December 31, 2021 in accordance with its dividend policy and 2021 performance. (2020: nil).

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

---

**9. Statement of Cash Flows**

The following table summarizes the Group's cash flows and cash on hand:

| <b>As at December 31,</b>                          | <b>2021</b>    | <b>2020</b>   |
|--|----------------|---------------|
|  | <b>\$'000</b>  | <b>\$'000</b> |
| Cash and cash equivalents                          | <b>15,456</b>  | 19,471        |
| Working capital <sup>(1)</sup>                     | <b>17,215</b>  | 21,306        |
| <b>For the year ended December 31,</b>             | <b>2021</b>    | <b>2020</b>   |
|  | <b>\$'000</b>  | <b>\$'000</b> |
| Net cash flows used in operating activities        | <b>(1,741)</b> | (1,686)       |
| Net cash flows used in a financing activity        | -              | (78)          |
| Net cash flows (used in)/from investing activities | <b>(2,291)</b> | 2,579         |
| (Decrease)/increase in cash and cash equivalents   | <b>(4,032)</b> | 815           |

*Note:*

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

**9.1 Operating Activities**

For the year ended December 31, 2021, net cash outflow used in operating activities was \$1,741,000 (2020: \$1,686,000) which mainly represented net cash payment of office expenses of \$2,273,000 (2020: \$2,231,000).

**9.2 Financing Activities**

For the year ended December 31, 2021, there is no cash flow from financing activities while the cash outflow from a financing activity in the last corresponding period solely represented shares repurchased of \$78,000.

**9.3 Investing Activities**

The net cash outflow from investing activities was \$2,291,000 in 2021 (2020: inflow of \$2,579,000), which mainly represented the proceeds from maturity of debentures of \$900,000 (2020: \$1,887,000), netting off the cash outflow from investment in Infinity Tech of \$1,500,000 (2020: nil) and additions of exploration and evaluation assets of \$1,538,000 (2020: \$151,000).

**10. Statements of Financial Position**

**10.1 Cash and Cash Equivalents**

The Group had approximately \$15,456,000 cash and cash equivalents as at December 31, 2021, compared to \$19,471,000 as at December 31, 2020. The decrease of \$4,015,000 was mainly the combined effect of cash outflow for investment in unlisted securities of \$1,500,000, additions of exploration and evaluation assets of \$1,538,000 and net cash flows used in operating activities of \$1,741,000, netting off cash inflow from maturity of debentures of \$900,000.

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

---

**10.2 Exploration and Evaluation Assets**

The exploration and evaluation assets are mainly related to the Gold Project, including mining rights, geological and geophysical costs, mine site and facilities construction, drilling and exploration expenses. For the year ended December 31, 2021, there were addition of \$1,538,000 to exploration and evaluation assets which related to payment of mining royalties.

**10.3 Financial Assets at Fair Value through Profit or Loss**

As at December 31, 2021, financial assets comprised:

Current Portion

(a) \$458,000 investment in listed shares, options and futures.

Non-current Portion

(b) \$1,803,000 debentures with coupon rates ranged from 5.000% to 7.000% per annum and with perpetual maturities.

(c) \$1,500,000 unlisted equity investment in Infinity Tech, whose subsidiary in Hong Kong providing a one-stop solution cloud POS system integrating automated ordering and payment, menu digitalisation, logistics, marketing analysis, supply chain and inventory management.

(d) \$1,226,000 unlisted equity investment in Dragon Silver, a Hong Kong based metal trading and processing company.

(e) \$300,000 investment in shares listed on TSX Venture Exchange.

(f) \$268,000 investment in an investment fund.

**10.4 Share Capital**

As at December 31, 2021, GobiMin had 49,194,982 common shares issued and outstanding. During the year, no common shares were issued, repurchased and cancelled.

**11. Related Party Transactions**

The Group had the following transactions with related parties during the year ended December 31, 2021:

(i) Fees and other remunerations to directors and key management personnel of \$483,000 (2020: \$475,000).

(ii) Rental income of \$88,000 (2020: \$86,000) and share of office common expenses of \$13,000 (2020: \$16,000) from companies in which a director of the Company has equity interest.

**12. Capital Commitment**

As at December 31, 2021, the Group had capital commitments of \$1,647,000 (2020: \$1,633,000) in relation to office building renovation, mine design and related facilities and research on gold processing method.

**13. Off-Balance Sheet Arrangements**

The Group has no off-balance sheet arrangements.

**14. Future Plans for Material Investments**

The Group intends to use its available funds to invest in equity, debt instruments and other investments as part of its focus as an investment issuer. As at the report date, the Company does not have any plan for material investment in the near future.

**15. Outstanding Share Data**

As at December 31, 2020, December 31, 2021 and April 21, 2022, the Group has 49,194,982 common shares outstanding and there is no options, convertibles or other potential ordinary shares in issue.

**16. Risk Factors**

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

**16.1 Metal Prices**

The profitability of the Group may be significantly affected by fluctuations of the market price of metals. Metal prices fluctuate on a daily basis and are affected by numerous factors beyond the control of the Group. 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.

**16.2 Currency Risks**

Part of the Group's operating expenses and revenues from operations are denominated in RMB, one of the main currencies used by the Group. 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 Group's financial position and operating results. The Group 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 currently 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 or repatriate profits. These limitations could affect the ability of the Group to pay dividends, obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

### **16.3 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 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, and 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 Group'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 loss, legal liability and adverse government action.

It is not always possible to obtain insurance against all such risks and the Group 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 Group. The Group does not maintain insurance against political or environmental risks.

The Group's properties are mainly located in the Xinjiang 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 and there exist a risk that seismic activities may cause significant damages to the Group's infrastructures and operations in the area.

The development of mining properties has inherent risks. The Group 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 Group.

### **16.4 Uncertainty of Ore Reserves and Resource Estimates**

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves. Such estimates are a subjective process, and the accuracy of any mineral resources and mineral reserves estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of recovery of minerals from such deposits may be different. Differences between management's assumptions, including economic assumptions such as mineral prices, market conditions and actual events could have a material adverse effect on the Company's mineral reserve and mineral resource estimates, financial position and results of operations.

For some of its properties, the Group 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

**GobiMin Inc.****Management's Discussion and Analysis of Financial Results****For the year ended December 31, 2021**

(Expressed in United States Dollars)

April 21, 2022

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Administrators NI 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.

**16.5 Capital Requirements**

The Group does have limited financial resources. Although the Group 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 Group will be able to raise 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 Group's properties.

**16.6 Risks Relating to Conducting Business in China**

Part of the business operations of the Group are located in, and the revenues of the Group are derived from activities in, China. Accordingly, the business, financial condition and results of operations of the Group could be significantly and adversely affected by economic, legal, 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 Group.

China's local, provincial and central authorities exercise a substantial degree of control over the mining industry in China. The Group's operations are subject to Chinese laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, development, production, taxation, labor standards, occupational health and safety, waste treatment and environmental protection, and operation management. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or enforcement thereof may restrict the business operations of the Group or increase the Group's operating costs and thus adversely affect the Group's results.

**16.7 Permits and Licences**

The operations of exploration and mining require specific licences and permits e.g. exploration licence for exploration activities and exploitation licence for exploitation activities. Any changes in regulations imposed by the governments due to any reasons are beyond the control of the Group and may adversely affect its business and its ability to retain title to its property and obtain some of the necessary licences. The changes of regulations may include, but not limited to, varying degrees of those with respect to stricter restrictions on production, price controls, export controls, income taxes, and expropriation of property, employment, land use, water use, environmental legislation and mine safety.

GobiMin's exploration and exploitation licences are subject to annual audit by the Department of Land and Resources of Xinjiang, China. In their annual audit, the authorities may consider whether the Group's mining activities have been in compliance with the relevant laws and regulations. If the Group fails to meet the relevant requirements or materially breaches any laws or regulations, it may not pass such audit, in which case it may be subject to penalties in accordance with applicable laws, or be given a deadline to rectify deficiencies, or, in serious cases, have its permits and licences revoked. While the Group has never encountered such problems in the past, there can be no assurance that it will pass future audits. Should permits or licences be suspended or revoked, GobiMin's business and results of operations could be materially affected.

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
**For the year ended December 31, 2021**  
(Expressed in United States Dollars)  
April 21, 2022

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As at December 31, 2021, the exploration licence of GobiMin had been renewed with expiry date on June 15, 2023. After the settlement of the mining royalties in July 2021, the mining licence had been renewed with expiry date on March 22, 2023.

**16.8 Environmental Regulation**

The mining operations of the Group are subject to environmental regulations promulgated by relevant governments. The relevant environmental regulations impose restrictions and prohibitions on spills, or handling of various substances produced during mining or processing operations. In addition, approval of environmental impact assessment for certain types of the mining operations are required. In breach of such regulations or failure of the governmental approval may result in the imposition of fines and penalties. The costs of compliance with environmental regulations, such as advanced equipment which is environmental friendly, has the potential to reduce the profitability of future operations.

**16.9 Dependence on Key Managerial Employees**

The success of the Group 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. The Group 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 Group.

**16.10 Competition**

There is significant and increasing competition within the mining industry for the discovery and acquisition of properties considered having commercial potential. The Group competes with other mining companies, some of which have greater financial resources, and as a result, the Group may not be able to acquire mineral interests on terms it considers acceptable. As well, the Group 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 Group may not be able to acquire additional mineral interests and hire or retain qualified personnel for its projects.

**16.11 Dividend Policy**

GobiMin has been declaring and paying an annual dividend to its shareholders since 2005. In order to maintain liquidity to deal with the uncertainties created by COVID-19 outbreak, the Company has determined a suspension of its 14-consecutive-year annual dividend distribution. Our dividend policy may change from time to time at the discretion of our board of directors, subject to economic situation, earnings and capital availability, and we may or may not continue to declare dividend payments. A change in our dividend policy could have a negative effect on our stock price.

**16.12 Impact of COVID-19**

During the year under review, the global supply chains and financial market have experienced significant volatility in response to the COVID-19 pandemic. Although an effective mass-produced vaccine is in place in Hong Kong and the PRC, the COVID-19 pandemic is expected to continue to impact our ability to achieve our performance objectives. While we could never have predicted the extent of the pandemic crisis we currently face and the timing of the overall recovery, GobiMin has been

**GobiMin Inc.****Management's Discussion and Analysis of Financial Results****For the year ended December 31, 2021**

(Expressed in United States Dollars)

April 21, 2022

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making great effort in putting our cash position back on a sound footing to go through the crisis. We take years-long effort to build strong capital levels that gives us stability to continue our development plan.

Impacted by the logistical blockage and delayed delivery of supplies to the trial site resulting from the COVID-19 pandemic, the on-site industrial test on applying bio-leaching methodology on extraction of metals from large-scale samples of gold ores was delayed during the year under review. The bioleach operation was interrupted and the originally planned extraction of gold was delayed due to the alkaline situation of active carbon filters. It is targeted to complete the trial run in the early 2022.