

**GobiMin Inc.**

(Incorporated in Canada under the Canada Business Corporations Act)

Interim Consolidated Financial Statements (Unaudited)

September 30, 2010

(Expressed in United States Dollars except where otherwise noted)

Notice to readers:

The financial statements for the quarter ended September 30, 2010 and the accompanying notes thereto contained in this report have been prepared by the management and have not been reviewed or audited by the Company's external auditor.

**GobiMin Inc.**  
**Consolidated Balance Sheets (Unaudited)**  
(Expressed in United States Dollars)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Cash and cash equivalents (Note 5)	46,581,299	73,350,405
Time deposit (Note 5)	-	5,000,000
Prepayments and other receivables (Note 13)	23,476,238	6,638,779
Amount due from an investee company (Note 6)	600,261	-
Dividend receivable from an investee company (Note 7)	-	39,200
Total current assets	70,657,798	85,028,384
<b>Non-current</b>		
Mineral properties and equipment (Note 8)	2,198,776	1,127,567
Equity investments (Note 9)	8,810,734	2,675,844
Financial assets (Note 10)	21,603,484	-
Loan to an investee company (Note 12)	1,914,294	-
Amount due from related parties (Note 14)	2,877,956	1,572,148
Loan to a related party (Note 14 (e))	14,657,686	-
Total non-current assets	52,062,930	5,375,559
Total assets	122,720,728	90,403,943
<b>LIABILITIES</b>		
<b>Current</b>		
Other payables and accrued liabilities (Note 13)	29,149,977	968,798
Total current liabilities	29,149,977	968,798
<b>Non-current</b>		
Deferred gain on disposal of equity investments (Note 13)	6,249,882	-
Total non-current liabilities	6,249,882	-
Total liabilities	35,399,859	968,798
Non-controlling interests (Note 15)	2,361,502	1,262,175
Commitments (Note 16)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 17 (a))	28,841,786	29,267,506
Contributed surplus (Note 17 (c))	3,646,466	5,604,073
Reserves (Note 18)	7,666	7,666
Retained earnings	49,540,245	50,638,277
Accumulated other comprehensive income (Note 21)	2,923,204	2,655,448
Total shareholders' equity	84,959,367	88,172,970
Total liabilities and shareholders' equity	122,720,728	90,403,943

See accompanying notes to the Consolidated Financial Statements

APPROVED BY THE BOARD

(Signed)  
**Felipe Tan**  
Director

(Signed)  
**Hubert Marleau**  
Director

**GobiMin Inc.**  
**Consolidated Statements of Income (Unaudited)**  
(Expressed in United States Dollars)

	<b>Three Months Ended September 30, 2010</b>	Three Months Ended September 30, 2009	<b>Nine Months Ended September 30, 2010</b>	Nine Months Ended September 30, 2009
	\$	\$	\$	\$
Revenue	-	-	-	939,923
Cost of sales	-	-	-	(609,195)
Depreciation	-	-	-	(290,229)
Selling and distribution cost	-	-	-	(122,426)
Gross loss	-	-	-	(81,927)
Other revenue and gains (Note 20)	<b>130,345</b>	84,339	<b>259,304</b>	334,533
General and administrative expenses	<b>(592,269)</b>	(622,265)	<b>(1,979,943)</b>	(2,053,429)
Stock based compensation (Note 17 (c))	<b>1,714,042</b>	(188,998)	<b>1,561,748</b>	(477,015)
Equity gain/(loss) in investments (Note 9)	<b>96,341</b>	(42,971)	<b>116,900</b>	126,213
Other operating expenses	-	-	-	(36,913)
Operating loss	<b>1,348,459</b>	(769,895)	<b>(41,991)</b>	(2,188,538)
Interest expense	-	-	-	(84)
Loss on financial instruments	-	-	-	(58,865)
Fair value gain on financial assets	<b>52,655</b>	-	<b>52,655</b>	-
Exchange (loss)/gain	<b>(326,760)</b>	(21,432)	<b>(275,067)</b>	5,506,677
Gain on disposal of subsidiaries (Note 4)	-	-	-	33,603,540
Earnings/(Losses) before tax and non-controlling interests	<b>1,074,354</b>	(791,327)	<b>(264,403)</b>	36,862,730
Income tax	-	-	-	-
Earnings/(Losses) before non-controlling interests	<b>1,074,354</b>	(791,327)	<b>(264,403)</b>	36,862,730
Non-controlling interests (Note 15)	-	403	-	21,955
Net earnings/(losses) for the period	<b>1,074,354</b>	(790,924)	<b>(264,403)</b>	36,884,685
Earnings/(Losses) per share (Note 17 (f))				
Basic	<b>0.016</b>	(0.012)	(0.004)	0.532
Diluted	<b>0.016</b>	(0.011)	(0.004)	0.530
Weighted average number of shares outstanding (Note 17 (f))	<b>Share</b>	Share	<b>Share</b>	Share
Basic	<b>67,286,560</b>	68,751,762	67,802,970	69,272,796
Diluted	<b>67,286,560</b>	69,140,687	67,802,970	69,647,076

See accompanying notes to the Consolidated Financial Statements

**GobiMin Inc.****Consolidated Statements of Comprehensive Income (Unaudited)**

(Expressed in United States Dollars)

	<b>Three Months Ended September 30, 2010</b>	Three Months Ended September 30, 2009	<b>Nine Months Ended September 30, 2010</b>	Nine Months Ended September 30, 2009
	\$	\$	\$	\$
<b>Net income/(loss)</b>	<b>1,074,354</b>	(790,924)	<b>(264,403)</b>	36,884,685
Unrealized exchange gain/(loss) on translation of self-sustaining foreign operations	<b>354,179</b>	(44,539)	<b>267,756</b>	(7,157,264)
<b>Comprehensive income/(loss)</b>	<b>1,428,533</b>	(835,463)	<b>3,353</b>	29,727,421

**Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**

(Expressed in United States Dollars)

	<b>Three Months Ended September 30, 2010</b>	Three Months Ended September 30, 2009	<b>Nine Months Ended September 30, 2010</b>	Nine Months Ended September 30, 2009
	\$	\$	\$	\$
<b>Share Capital</b>				
Balance at beginning of period	<b>28,931,562</b>	29,008,334	<b>29,267,506</b>	29,918,738
Issued for option exercise	<b>1,018,283</b>	-	<b>1,047,944</b>	412,376
Share buy back	<b>(1,108,059)</b>	(265,906)	<b>(1,473,664)</b>	(1,588,686)
Balance at end of period	<b>28,841,786</b>	28,742,428	<b>28,841,786</b>	28,742,428
<b>Contributed Surplus</b>				
Balance at beginning of period	<b>5,747,909</b>	5,529,665	<b>5,604,073</b>	5,398,535
Options exercised	<b>(387,401)</b>	-	<b>(395,859)</b>	(156,887)
Stock based compensation	<b>(1,714,042)</b>	188,998	<b>(1,561,748)</b>	477,015
Balance at end of period	<b>3,646,466</b>	5,718,663	<b>3,646,466</b>	5,718,663
<b>Reserves</b>				
Balance at beginning of period	<b>7,666</b>	7,653	<b>7,666</b>	-
Current period reserves	-	-	-	7,653
Balance at end of period	<b>7,666</b>	7,653	<b>7,666</b>	7,653
<b>Retained Earnings</b>				
Balance at beginning of period	<b>48,465,891</b>	57,716,080	<b>50,638,277</b>	26,631,480
Net income/(loss)	<b>1,074,354</b>	(790,924)	<b>(264,403)</b>	36,884,685
Transfer to general reserve	-	-	-	(7,653)
Change in fair value of discontinued operation	-	-	-	(1,761,017)
Dividend paid	-	-	<b>(833,629)</b>	(4,822,339)
Balance at end of period	<b>49,540,245</b>	56,925,156	<b>49,540,245</b>	56,925,156
<b>Accumulated other comprehensive income/(loss)</b>				
Balance at beginning of period	<b>2,569,025</b>	(1,692,831)	<b>2,655,448</b>	5,419,894
Other comprehensive income/(loss)	<b>354,179</b>	(44,539)	<b>267,756</b>	(7,157,264)
Balance at end of period	<b>2,923,204</b>	(1,737,370)	<b>2,923,204</b>	(1,737,370)

*See accompanying notes to the Consolidated Financial Statements*

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

	<b>Three Months Ended September 30, 2010</b>	Three Months Ended September 30, 2009	<b>Nine Months Ended September 30, 2010</b>	Nine Months Ended September 30, 2009
<b>Cash flows from (used in) operating activities</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net (losses)/earnings for the period	<b>1,074,354</b>	(790,924)	<b>(264,403)</b>	36,884,685
Adjustments for items not involving cash:				
- Depreciation	-	-	-	257,096
- Amortization in general and administrative expenses	<b>23,191</b>	48,012	<b>136,367</b>	107,455
- Stock based compensation	<b>(1,714,042)</b>	188,998	<b>(1,561,748)</b>	477,015
- Exchange loss/(gain)	<b>326,760</b>	21,432	<b>275,067</b>	(5,506,677)
- Equity (gain)/loss in investments (Note 9)	<b>(96,341)</b>	42,971	<b>(116,900)</b>	(126,213)
- Gain on disposal of subsidiaries (Note 4)	-	-	-	(33,603,540)
- Non-controlling interests	-	(403)	-	(21,955)
	<b>(386,078)</b>	(489,914)	<b>(1,531,617)</b>	(1,532,134)
Change in non-cash working capital items:				
- Prepayments, deposits and other receivables	<b>(16,624,552)</b>	(4,031,848)	<b>(16,826,389)</b>	(5,675,841)
- Amount due from a related party	<b>(1,187,026)</b>	-	<b>(1,304,287)</b>	-
- Financial assets (Note 10)	<b>(21,603,484)</b>	-	<b>(21,603,484)</b>	-
- Other payables and accrued liabilities	<b>27,773,181</b>	18,217	<b>28,164,827</b>	(215,672)
- Derivative financial instrument liabilities	-	-	-	(94,015)
<b>Net cash used in operating activities</b>	<b>(12,027,959)</b>	(4,503,545)	<b>(13,100,950)</b>	(7,517,662)
<b>Cash flows from (used in) financing activities</b>				
Shares issued for cash from option exercise	<b>630,882</b>	-	<b>652,086</b>	255,490
Shares buy back	<b>(1,108,059)</b>	(265,906)	<b>(1,473,664)</b>	(1,588,686)
Capital contribution to subsidiary by non-controlling interests	<b>1,099,326</b>	-	<b>1,099,326</b>	-
Loan to an investee company (Note 12)	-	-	<b>(1,914,294)</b>	-
Loan to a related party (Note 14 (e))	-	-	<b>(14,657,686)</b>	-
Repayment of shareholder's loan	-	-	-	2,300,119
Amount due from an investee company (Note 6)	<b>3,052,301</b>	(46,087)	<b>(600,261)</b>	(3,751,435)
Dividend paid	-	-	<b>(833,629)</b>	(4,822,339)
<b>Net cash from (used in) financing activities</b>	<b>3,674,450</b>	(311,993)	<b>(17,728,122)</b>	(7,606,851)
<b>Cash flows from (used in) investing activities</b>				
Mineral properties and equipment	<b>(183,967)</b>	(170,829)	<b>(1,207,575)</b>	(618,769)
Disposition of equity interest in subsidiaries	-	-	-	36,942,051
Dividend received from an investee company (Note 7)	-	-	<b>39,200</b>	-
Equity investments in joint ventures/investee company	<b>862,328</b>	-	<b>(6,017,990)</b>	7,432
Deferred gain on disposal of equity investments (Note 13)	<b>6,250,882</b>	-	<b>6,250,882</b>	-
Maturity of time deposit (Note 5)	-	-	<b>5,000,000</b>	-
Release of restricted cash	-	-	-	489,960
<b>Net cash from (used in) from investing activities</b>	<b>6,929,243</b>	(170,829)	<b>4,064,517</b>	36,820,674
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(1,424,266)</b>	(4,986,367)	<b>(26,764,555)</b>	21,696,161
<b>Effect on foreign exchange rate changes on cash</b>	<b>12,166</b>	63,042	<b>(4,551)</b>	363,112
<b>Cash and cash equivalents at beginning of period</b>	<b>47,993,399</b>	80,599,671	<b>73,350,405</b>	53,617,073
<b>Cash and cash equivalents at end of period</b>	<b>46,581,299</b>	75,676,346	<b>46,581,299</b>	75,676,346
<b>Supplementary cash flow information:</b>				
Interest received	<b>77,731</b>	84,406	<b>196,335</b>	331,799
Fair value gain on financial assets	<b>52,655</b>	-	<b>52,655</b>	-
Realized forward contract loss	-	-	-	58,865

See accompanying notes to the Consolidated Financial Statements

## **1. NATURE OF OPERATIONS**

GobiMin Inc., together with its subsidiaries (collectively referred to herein as the “Company” or “GobiMin”), is engaged in the exploration and development 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 an equity interest of 49% in China Precision Material Limited (“China Precision”) which is principally engaged in metal trading, predominantly silver.

On February 9, 2010, through the acquisition of 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, lead, zinc and copper projects in Xinjiang, China.

GobiMin owned a 40% indirect equity interest in another joint venture 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 equity interest.

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

The unaudited interim consolidated financial statements of GobiMin have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of application as those disclosed in note 2 of GobiMin’s audited consolidated financial statements for the year ended December 31, 2009, except for the change referred to in note 3 below. Generally accepted accounting principles for interim consolidated financial statements do not conform in all respects to the disclosures required for annual consolidated financial statements and, accordingly, these unaudited interim consolidated financial statements should be read in conjunction with GobiMin’s annual consolidated financial statements and accompanying notes for the year ended December 31, 2009. In the opinion of management, all adjustments considered necessary for the fair presentation of results for the periods presented have been reflected in these unaudited interim consolidated financial statements. These adjustments consist only of normal recurring adjustments. Operating results for these interim periods are not necessarily indicative of the results that may be expected for the full financial year ending December 31, 2010.

## **3. CHANGE IN ACCOUNTING POLICIES**

### **Future Accounting Changes**

- (i) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling

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interests”. These new standards will be effective for financial years beginning on or after January 1, 2011.

Section 1582 “Business Combinations” replaces section 1581 “Business Combinations”, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 “Consolidated Financial Statements”, and Section 1602 “Non-Controlling interests”, together replace section 1600 “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to financial years beginning on or after January 1, 2011.

(ii) Transition to International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (AcSB) requires all Canadian Publicly Accountable Enterprises (PAEs) to adopt IFRS for years beginning on or after January 1, 2011. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011 including comparative IFRS financial results and an opening balance sheet as at January 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended December 31, 2011 with restated comparatives for the year ended December 31, 2010.

**4. GAIN AND PROCEEDS FROM DISPOSITION OF EQUITY INTEREST IN SUBSIDIARIES**

In November 2008, the Board of Directors of the Company approved the agreements on disposal of the Company’s equity interests in Yakesi and Jubao, which represented substantial continuing operation of the Company. Since there is no other material operation after the disposal, the operating results do not show the segregation of the operation results of Yakesi and Jubao. By February 11, 2009, the agreements on 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 RMB492 million (approximately \$72.1 million). The Company also received dividends of RMB43.89 million (approximately \$6.4 million) paid out by Yakesi and Jubao in 2009.

	<b>Three months ended September 30, 2010</b>	Three months ended March 31, 2009
	\$	\$
Net assets disposed of as at 11 February, 2009	-	38,521,707
Gain on disposal of subsidiaries	-	33,603,540
<b>Consideration from disposition</b>	<b>-</b>	<b>72,125,247</b>
<b>Proceeds from disposition of equity interest in subsidiaries:</b>		
Consideration from disposition	-	72,125,247
Deposits received in 2008	-	(36,062,624)
Final instalments received	-	36,062,623
Dividends received from discontinued operations	-	6,429,449
Withholding tax paid to local tax bureau	-	(5,550,021)
	-	36,942,051

Pursuant to the sale and purchase agreements dated November 23, 2008, the Company agreed to dispose of its 93.55% and 95.16% equity interests in Yakesi and Jubao respectively. According to the aforesaid

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agreements, the deposits with aggregate sum of RMB246 million (approximately \$36.0 million) were received by the Company during the year ended December 31, 2008.

The final installments and dividends, net of tax payment, of RMB254 million (approximately \$36.9 million) were received by the Company during the quarter ended March 31, 2009.

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

Cash and cash equivalents at September 30, 2010 include cash in different locations as follows:

Bank location	Reporting Currency	Amount	US\$ Equivalent
<b>Cash and cash equivalents:</b>			
Canada	CAD	532,042	<b>517,624</b>
Hong Kong	HKD	334,996,113	<b>43,224,189</b>
China	RMB	19,371,405	<b>2,839,400</b>
Indonesia	IDR	815,444	<b>86</b>
			<b>46,581,299</b>

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

Bank location	Reporting Currency	Amount	US\$ Equivalent
<b>Cash and cash equivalents:</b>			
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
			73,350,405
<b>Time deposit:</b>			
Hong Kong	HKD	38,751,003	5,000,000
<b>Total</b>			<b>78,350,405</b>

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

The fair market values of cash and cash equivalents approximate their carrying values at September 30, 2010.

As at December 31, 2009, the time deposit of \$5,000,000 placed with a bank in Hong Kong carrying interest at 1.41438% per annum matured in May 2010.

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

The amount due from an investee company of \$600,261 (December 31, 2009: \$ nil) represents margin deposit with China Precision for hedging on its financial assets as mentioned in note 10.

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**7. DIVIDEND RECEIVABLE FROM AN INVESTEE COMPANY**

The balance in 2009 represents a dividend receivable of \$39,200 from the Company's 49% owned investee company, China Precision. The balance was received during the quarter ended 31 March, 2010.

**8. MINERAL PROPERTIES AND EQUIPMENT**

	Cost	Accumulated Amortization / Written off	Net Book Value
<b>September 30, 2010</b>	\$	\$	\$
Buildings	121,445	(94,457)	26,988
Furniture, equipment and motor vehicles	1,156,995	(395,830)	761,165
Mineral exploration rights	1,410,623	-	1,410,623
	<b>2,689,063</b>	<b>(490,287)</b>	<b>2,198,776</b>
<b>December 31, 2009</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

**9. 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, lead and zinc projects in Xinjiang, China; (2) 8% in Xinjiang Tongxing Minerals Limited ("Tongxing") for exploration of copper projects in Xinjiang, China; (3) 49% in China Precision which is engaged in metal trading, predominately silver; and (4) 49% in Hami Coal for the development of the Balikun Coal Project in Xinjiang, China. Please see also note 14(e) for the second installment of consideration of \$14,657,686 (RMB100,000,000) payable for the Balikun Coal Project.

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 three months ended September 30, 2010, the Company recorded \$96,341 as equity gain (2009: \$42,971 equity loss) in investments.

**10. FINANCIAL ASSETS**

Part of the balance represents the \$14.19 million (HKD110,000,000) convertible notes issued by China Daye Non-Ferrous Metals Mining Limited (HKEx Stock Code: 661) 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 remaining balance of \$7.41 million represents the holding of silver stock for the silver processing operation of China Precision. The silver processing would add value to the silver stocking by transforming the silver into more variety of product forms. The silver price is hedged with a forward contract as mentioned in note 6 above.

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**11. INTEREST IN JOINT VENTURE**

During 2006, GobiMin formed a joint venture, Xinya, with Xinjiang Huaxin Minerals Ltd (“Huaxin”). GobiMin and Huaxin each acquired a 50% interest in Xinya by injecting RMB 1 million (\$136,910) cash into the new joint venture as share capital. The joint venture is formed for mining exploration and development in northwest China.

During 2008, the Company and Huaxin increased the paid-in capital in Xinya by injecting RMB 4 million (\$598,694) 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 three and nine months ended September 30, 2010 are as follows:

	<b>September 30, 2010</b>	December 31, 2009
Cash and cash equivalents	\$ 495,432	\$ 498,503
Intangible assets – exploration right	199,205	205,792
Fixed assets	530	654
Other receivables	-	192
Other payables	(185)	(4,648)
	<b>694,982</b>	<b>700,493</b>

	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2010</b>
General and administration expenses	\$ (41)	\$ (5,510)
Net cash used in operating activities	41	2,439
Net cash used in financing activities	-	-
Net cash used in investing activities	-	-
Effect on foreign exchange rate changes on cash	-	-

**12. LOAN TO AN INVESTEE COMPANY**

The Company made an unsecured, non-interest bearing shareholder loan totaling \$1,914,294 (RMB13,060,000) 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.

**13. DEFERRED GAIN ON DISPOSAL OF EQUITY INVESTMENTS**

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 retains an 8% indirect equity interest. The Company has received all the cash consideration and the first lot of convertible notes. 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 notes. GobiMin expects to receive the net proceeds of about HKD60.48 million (CAD8.16 million). Pursuant to the Share Transfer Agreement on July 14, 2010, should the mining license not be granted by December 31, 2010, 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 \$6.2 million represents the net cash received of \$7.1 million, convertible bonds received of \$14.2 million,

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convertible bonds receivable of \$14.2 million, netting off the share of assets as at June 21, 2010 of \$0.9 million and payables and accrued liabilities for mining license fee, tax, stamp duty and related payments of \$28.4 million.

**14. RELATED PARTY TRANSACTIONS AND BALANCES**

- a) Amount due from related parties of \$85,004 (December 31, 2009: \$83,484) pertains to receivables from Tongxing, for Canadian consulting services on its current exploration projects.
- b) Amount due from related parties of \$389,338 (December 31, 2009: \$389,338) pertains to receivables from Tongxing for Chinese exploration services on its current exploration projects.
- c) Amount due from related parties of \$2,198,653 (December 31, 2009: \$1,099,326) pertains to receivables from minority shareholders of the Company's joint venture, Tongyuan, for Chinese exploration services on its current exploration projects.
- d) Tongyuan has paid a deposit of \$204,961 (December 31, 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 \$14,657,686 (RMB100,000,000) to a minority shareholder of the Company's investee companies, Ruide and Balikun Yinxin, pursuant to the agreement 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 agreement, a second installment of the acquisition consideration of \$14,657,686 (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 January 31, 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 (e), the balances with related parties are unsecured, non-interest bearing, and without fixed repayment term.

**15. NON-CONTROLLING INTERESTS**

Non-controlling interests represent the 30% (2009: 30%) equity interest in Tongyuan and 35% (2009: 35%) equity interest in PT Gobi Sulawesi Resources held by minority shareholders.

**16. COMMITMENTS**

As at September 30, 2010, there are approximately \$1,363,164 (December 31, 2009: \$3,264,266) 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 ("Weifu"), 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 RMB50,000,000 (\$7,328,844) in cash to Tongyuan for its 70% equity interest. The consideration for acquiring the exploration and mining license of the Sawayaerdun Gold Property is RMB45,500,000 (\$6,669,247) and Tongyuan has paid a deposit of RMB40,000,000 (\$5,863,075) as at

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September 30, 2010. The remaining commitment is RMB5,500,000 (\$806,172) to be payable subject to the progress on the transfer of the exploration and mining licenses to Tongyuan.

On April 7, 2010, Tongyuan has entered into an agreement for exploration service to the Sawayaerdun Gold Project. The contracted amount is RMB4,600,000 (\$674,254) and Tongyuan has paid a deposit of RMB800,000 (\$117,261) as at September 30, 2010. The remaining commitment is RMB3,800,000 (\$556,992).

The Company has approximately \$23,118 (December 31, 2009: \$23,868) monthly office rental expense in its Hong Kong and Canada offices.

**17. SHARE CAPITAL, STOCK OPTIONS AND (LOSSES)/EARNINGS PER SHARE**

**a) Common Shares**

	Number	Amount
Authorized:		\$
Unlimited number of common shares		
Issued and outstanding:		
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>(1,860,500)</b>	<b>(1,473,664)</b>
Balance, September 30, 2010	<b>67,443,202</b>	<b>28,841,786</b>

**b) Preferred Shares**

GobiMin did not issue or authorize any preferred share.

**c) Contributed Surplus**

	Amount
	\$
Balance, December 31, 2009	5,604,073
Option exercised	<b>(395,859)</b>
Stock based compensation expense	<b>(1,561,748)</b>
Balance, September 30, 2010	<b>3,646,466</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 September 30, 2010, a total of 1,860,500 common shares were repurchased for an aggregate cost of CAD1,522,455 (\$1,473,664). All shares repurchased were 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 then 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.

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 employees (See the Company's news release on July 12, 2010).

A summary of the status of the Company's stock option plan as of September 30, 2010 and changes during the period is presented below:

	Nine months ended September 30, 2010		Nine months ended September 30, 2009	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	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	(982,000)	3.34	(571,400)	2.24
Exercised	(1,046,400)	0.55	(465,000)	0.55
Outstanding, end of period	2,537,000	1.13	3,411,600	1.76

The following table summarizes the employee stock options outstanding and exercisable at September 30, 2010:

Exercise Price	Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$
CAD	\$						
1.10	0.95	10,000	0.18	0.95	10,000	0.18	0.95
1.85	1.66	150,000	0.74	1.66	150,000	0.74	1.66
3.60	3.61	196,000	1.84	3.61	156,800	1.84	3.61
1.10	1.06	770,000	0.92	1.06	770,000	0.92	1.06
1.10	1.06	102,000	2.92	1.06	61,200	2.92	1.06
0.79	0.76	1,000,000	2.75	0.76	-	2.75	0.76
0.79	0.76	309,000	4.75	0.76	-	4.75	0.76
		2,537,000	2.24	1.13	1,148,000	1.12	1.48

Stock Based Compensation

The Company determines fair value of the employee stock options using the Black-Scholes option pricing model.

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In determining the fair value of these employee stock options, the following assumptions were used:

Risk free interest rate:	1.01%
Expected life:	1-5 years
Expected volatility:	48%
Dividend yield:	0-1%

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

	<b>Three months ended September 30, 2010</b>	Three months ended September 30, 2009
Net earnings/(losses) available to shareholders		
Basic and diluted	<b>\$1,074,354</b>	(\$790,924)
Weighted average shares outstanding		
Basic	<b>67,286,560</b>	68,751,762
Effect of dilutive stock options and warrants	-	388,925
Diluted	<b>67,286,560</b>	69,140,687
Earnings/(Losses) per share		
Basic	<b>\$0.016</b>	(\$0.012)
Diluted	<b>\$0.016</b>	(\$0.011)
	<b>Nine months ended September 30, 2010</b>	Nine months ended September 30, 2009
Net (losses)/earnings available to shareholders		
Basic and diluted	<b>(\$264,403)</b>	\$36,884,685
Weighted average shares outstanding		
Basic	<b>67,802,970</b>	69,272,796
Effect of dilutive stock options and warrants	-	374,280
Diluted	<b>67,802,970</b>	69,647,076
(Losses)/Earnings per share		
Basic	<b>(\$0.004)</b>	\$0.532
Diluted	<b>(\$0.004)</b>	\$0.530

**18. RESERVES**

There is no movement in reserves for the nine months ended September 30, 2010. During 2009, net earnings of \$7,666 of the Company's subsidiaries in China were transferred to general reserve.

**19. SEGMENTED INFORMATION**

The Company conducted its business as a single operating segment, being the development and exploitation of mineral properties. It has no material operation after the disposal of the 2 operating subsidiaries in February 2009. 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.

**20. OTHER REVENUE AND GAINS**

The Company realized \$130,345 (Q3 2009: \$84,339) other revenue and gains this quarter, which mainly includes interest income of \$77,731 (Q3 2009: \$84,406) and rental income from the office building in Xinjiang of \$44,340 (Q3 2009: nil).

**21. ACCUMULATED OTHER COMPREHENSIVE INCOME**

For the nine months ended September 30, 2010, accumulated other comprehensive income represents net unrealized exchange gain on translation of self-sustaining foreign operations.

**22. 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:

	<b>September 30, 2010</b>	December 31, 2009
	\$	\$
Held for trading (a)	<b>68,184,783</b>	78,350,405
Loans and receivables (b)	<b>20,050,197</b>	1,572,148
Other financial liabilities (c)	<b>29,149,977</b>	968,798

- (a) Cash and cash equivalents and time deposit and financial assets are measured at fair value.
- (b) Amount due from an investee company, amount due from related parties, loan to a related party and loan to an investee company are measured at amortized cost.
- (c) 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, interest rates, the prices of nickel and copper, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with the RMB proceeds that were to be received in 2009. The Company's policy is to only use derivatives for managing existing financial exposures and not for trading or speculative purposes.

### **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.

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 September 30, 2010 with other variable unchanged, a 1% strengthening (weakening) of the Chinese RMB against the Canadian dollar would have decreased (increased) net income and other comprehensive income by \$0.16 million and \$0.21 million, respectively.

### **Credit Risk**

The Company is exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure. The cash equivalents are mainly short-term bank deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalent 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 September 30, 2010, the Company was holding cash and cash equivalents of \$46,581,299. 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 \$29,149,977 financial liabilities are due within one year.

### **Interest Risk**

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents and short term investments primarily includes highly liquid investments that earn interests at market rates that are fixed to maturity. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of September 30, 2010.

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**23. 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 and exploration of its mineral properties, and support any expansionary plans. The capital of the Company 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. In response to the current economic and financial environment, the Company is adopting a more conservative capital management strategy in order to preserve cash and maintain a strong balance sheet.

The Company is not subject to externally imposed capital requirements.

**24. SUBSEQUENT EVENTS**

For the period from October 1, 2010 to November 18, 2010, a total of 716,500 common shares were repurchased at an aggregate cost of CAD603,609 (\$582,543). All shares purchased were returned to treasury for cancellation.

**GobiMin Inc.**

(Incorporated in Canada under the Canada Business Corporations Act)

Management's Discussion and Analysis of Financial Results

For the quarter ended September 30, 2010

(Expressed in United States Dollars except where otherwise noted)

**GobiMin Inc.**  
**Management's Discussion and Analysis of Financial Results**  
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November 18, 2010

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The following discussion and analysis of the consolidated operating results and financial condition of GobiMin Inc. for the quarter ended September 30, 2010 should be read in conjunction with its consolidated financial statements for the quarter ended September 30, 2010 and its audited consolidated financial statements for 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 November 18, 2010.

*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 exploration and development 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. The NI 43-101 technical report for the Sawayaerdun Gold Project is expected to be available early next year.

An indirect equity interest of 24.49% in 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. According to a NI 43-101 Mineral Resource estimate, the Project hosts 38 million tonnes of coal in Measured Resources and 50 million tonnes in Indicated Resources.

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 base metals exploration projects, including nickel, copper, lead and zinc projects, in Xinjiang.

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

With a cash balance of approximately US\$47 million as at September 30, 2010, GobiMin is actively reviewing potential and existing investments including high quality exploration and mining projects in China and overseas.

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**2. Highlights**

(a) Corporate Highlights

- ✧ The Company completed the sale of 32% interest in the Yanxi Copper Property in July 2010.
- ✧ Sawayaerdun Gold Project completed 6,800 m drilling in 2010.
- ✧ The Company is continuing the exploration of other mineral projects in Xinjiang, China.
- ✧ With a cash balance of \$47 million, GobiMin is actively searching for high quality exploration and mining projects in China and overseas.

(b) Financial Highlights

	<b>3 months ended September 30, 2010</b>	3 months ended September 30, 2009	Changes
Cash and cash equivalents	<b>\$47 million</b>	\$76 million	-38.45%
Cash and cash equivalents per share <sup>(1)</sup>	<b>\$0.69</b>	\$1.11	-37.52%
Revenue	<b>\$-</b>	\$-	-
Net earnings/(losses)	<b>\$1.1million</b>	(\$0.8 million)	>-100%
LBITDA <sup>(1)</sup>	<b>(\$0.7 million)</b>	(\$0.6 million)	16.93%
Basic earnings/(losses) per share	<b>\$0.016</b>	(\$0.012)	>-100%
Diluted earnings/(losses) per share	<b>\$0.016</b>	(\$0.011)	>-100%
LBITDA per share <sup>(1)</sup>	<b>(\$0.011)</b>	(\$0.009)	19.48%

(1) As non-GAAP measurements, LBITDA, LBITDA per share and Cash and cash equivalents 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. 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 and has also applied for an exploration license for the surrounding area of 20.27 km<sup>2</sup> for further exploration and development. 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.

Of the 22 known areas of identified mineralization based on the exploration works carried out before GobiMin's acquisition of the Gold Project, Zones I, II, IV and XI have been recognized as relatively large scale mineralization and Zone IV has been intensively explored and recognized as the most substantial mineralization. Based on the previous findings, GobiMin extended the detailed exploration works in the northern part of Zone IV above the elevations of 3,200 m and conducted general exploration on the deep part of the Zone IV gold vein, Zones I, II and XI, so as to determine the extension of banded vein, comprising numerical vertical/inclined drilled holes, trenches, and horizontal shaft/tunneling.

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The main exploration works carried out this year include 35 drill holes with a total length of about 6,800 m and 33 trenches of approximately 1,350 m. The NI 43-101 technical report is expected to be available early next year and results of the drilling and sampling programs will be announced in due course. Currently, all exploration work on the Sawayaerdun Gold Project is being suspended in preparation for winter, and will resume next year.

#### (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 and boiler for heating supply have been installed and are in operation.

#### (c) Silver Operations

In 2009, GobiMin acquired a 49% equity interest 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 an upstream silver business by establishing a small processing workshop in Hong Kong for transforming the silver into more variety of product forms. To increase product variety and profit contribution, GobiMin will continue to source and explore new business opportunities with potential partners in this sector.

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

GobiMin currently owns equity interests in 4 base metals exploration projects in Xinjiang, China including nickel, copper, lead and zinc projects.

GobiMin owned a 40% indirect equity interest in another joint venture which is engaged in exploration and development of the Yanxi Copper Property. On April 13, 2010, GobiMin entered into a framework agreement to dispose of a 32% interest in the Yanxi Copper Property located about 115 km south of the city of Hami in Xinjiang, China. The Company has completed the reorganization to form a new holding company ("Holdco") to hold 80% equity interest in Xinjiang Tongxing Minerals Limited ("Tongxing") and entered into a Share Transfer Agreement on July 14, 2010 to dispose of the 100% equity interest in Holdco. The transaction was completed on July 22, 2010 and GobiMin has received all the cash consideration and the first lot of convertible notes. After the mining license of the Yanxi Copper Property is granted, the Company shall receive the final lot of convertible notes and the net proceeds receivable by GobiMin is about HKD60.48 million (CAD8.16 million). Pursuant to the Share Transfer Agreement on July 14, 2010, should the mining license not be granted by December 31, 2010, GobiMin guarantees to refund to the buyer all the consideration received and in return, the buyer shall transfer the interest in the Holdco back to GobiMin. The Company and the buyer are in the course of negotiation of a supplemental agreement to allow for more time to obtain the mining license. A press release shall be published once the terms of the supplemental agreement are finalised. The related gain on the disposal shall be recognised by the Company upon obtaining the mining license. GobiMin currently retains an 8% indirect equity interest in the Yanxi Copper Property.

For the remaining exploration projects, the Company will continue to conduct pre-survey and exploration to identify potential mineralization.

## **GobiMin Inc.**

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#### (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. With a cash balance of \$47 million, the Company will keep on searching for potential investment opportunities.

#### (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 for a further one year period. The normal course issuer bid will expire on January 31, 2011. Up to September 30, 2010, a total of 1,860,500 common shares were repurchased for an aggregate cost of CAD1,522,455 (\$1,473,664). For the period from October 1, 2010 to November 18, 2010, a total of 716,500 common shares were repurchased at an aggregate cost of CAD603,609 (\$582,543). All shares repurchased were returned to treasury for cancellation.

## **4. Key Economic Trends**

### China Economy

Since GobiMin's operations are mostly conducted in China, Chinese economy condition 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 12 months ended September 30, 2010, the Chinese currency Renminbi ("RMB") appreciated by 2.02% against the US dollar.

## **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, 2009. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported results. Changes to these estimates could materially impact the consolidated financial statements. The policies and estimates made by the Company that are considered to be most critical are described below.

#### (a) Revenue Recognition

Revenue from the sale of goods 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 was 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:

Buildings: 4.75% - 33.3%

Leasehold improvement: 33.3%

Production equipment: 9.5% - 19%

Transportation equipment: 11.88% - 25%

Other equipment: 11.88% - 19%

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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. Currently, the Company pays an annual environmental fee to the local government for the cost of operating a processing plant. This fee is fixed as per the government policy and is expensed as incurred.

**(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.

**(f) Derivative Financial Instruments**

The Company recognizes derivative financial instruments on a fair value basis upon initial recognition and each subsequent reporting date. The Company has classified its non-delivery forward contract with the bank held for trading and therefore carries it at fair value, which is equal to market value, with the unrealized gain or loss recorded in other revenue or expenses in the Consolidated Statements of Income. Cash deposits held by the bank for the forward contract are separately disclosed as restricted cash in the Consolidated Balance Sheets.

**6. New Accounting Standards****Future Accounting Changes****(i) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests**

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The CICA issued three new accounting standards in January 2009: Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling interests". These new standards will be effective for financial years beginning on or after January 1, 2011.

Section 1582 "Business Combinations" replaces section 1581 "Business Combinations", and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling interests" together replace section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to financial years beginning on or after January 1, 2011.

(ii) Transition to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) requires all Canadian Publicly Accountable Enterprises (PAEs) to adopt IFRS for years beginning on or after January 1, 2011. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011 including comparative IFRS financial results and an opening balance sheet as at January 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended December 31, 2011 with restated comparatives for the year ended December 31, 2010.

The Company has performed an assessment of comparison of the IFRS framework with Canadian GAAP. In general, IFRS uses a conceptual framework which is similar to Canadian GAAP, while there are significant differences in the areas of accounting policy choices and increased disclosure requirements, it is noted that the convergence of Canadian GAAP to IFRS would not induce material impact on the results of operations and financial position of the Company in 2009 and onwards as well as the Company's business.

The IFRS that have been identified as different to Canadian GAAP and significant to the Company are explained below. The list below is not a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas the Company believes to be most significant. The Company will also actively monitor if there is any modifications or recommendations made by the International Accounting Standards Board ("IASB") on the IFRS. As a result of possible changes to certain IFRS and the changing business environment, the Company cannot reasonably quantify the full impact that adopting IFRS will have on the Company's financial position and future results at this time.

**Property, Plant & Equipment**

International Accounting Standard ("IAS") 16 "Property, Plant & Equipment" and Canadian GAAP contain the same basic principles, however there are some differences. IFRS require that significant parts of an asset be depreciated separately and that depreciation commences when the asset is available for use. Based on our latest analysis, this requirement should not have a material impact. IFRS also permit 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. The Company will continue to measure its property, plant and equipment at amortized cost.

**Impairment of Assets**

Impairments under IAS 36 "Impairment of Assets" are based on discounted cash flows. Under Canadian GAAP, if an asset's estimated undiscounted future cash flows are below its carrying amount, a write-down is required and is determined as the amount by which the carrying amount exceeds the discounted cash flows. There is no undiscounted test under IFRS. This may result in more frequent write-downs where carrying values of assets

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were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. In addition, under IAS 36 a favourable change in circumstance that resulted in impairment of an asset, other than goodwill, would trigger the need to recalculate the amount of impairment, with any reversal being recognized in income to the extent the asset had previously been impaired. Under Canadian GAAP, impairments are not reversed. The Company is currently assessing the impact of this difference on its financial results.

**Provisions**

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely" which is a higher threshold than "probable". However, the Company does not believe this will materially impact its financial results. Other differences exist in relation to the measurement of provisions. IFRS require that changes to timing, cash flow estimates and discount rates be applied prospectively. Under Canadian GAAP, changes to discount rates in the case of asset retirement obligations apply only to the additional increase to liability and not to the entire liability. The Company is currently assessing the impact of this difference to its asset retirement obligations.

**Share-Based Payments**

IFRS 2 "Share-based Payment" requires that stock options that may be sequentially acquired, be measured and recognized for each distinct installment of equity acquisition. The Company's policy consisted of determining a single value for all options granted, regardless of equity acquisitions, and of recognizing in a linear manner the entire grant, as permitted under GAAP. Moreover, IFRS 2 requires that expected forfeitures be accounted for in the recognition of compensation cost, whereas currently, forfeitures are recognized when they occur. The Company is currently assessing the impact of this difference on its financial results.

**Retrospective Application**

Most of the adjustments required upon conversion to IFRS will be made retrospectively, relative to the opening balance of retained earnings in the first comparative balance sheet. However, IFRS 1 "First-time adoption of International Financial Reporting Standards" provides a certain number of optional exemptions to general requirements for entities adopting IFRS for the first time.

**7. Selected Quarterly Information**

Selected quarterly information is provided as follows:

For the quarter ended	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
	\$	\$	\$	\$
Revenue	-	-	-	-
Net earnings/(losses)	<b>1,074,354</b>	(110,071)	(1,228,686)	(7,378,103)
Basic earnings/(losses) per share	<b>0.016</b>	(0.002)	(0.018)	(0.107)
Diluted earnings/(losses) per share	<b>0.016</b>	(0.002)	(0.018)	(0.107)
Cash and cash equivalents and time deposit	<b>46,581,299</b>	47,993,399	53,437,711	78,350,405
Total assets	<b>122,720,728</b>	88,373,241	89,502,338	90,403,943

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<b>For the quarter ended</b>	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
	\$	\$	\$	\$
Revenue	-	-	939,923	3,066,275
Net (losses)/earnings	(790,924)	(492,595)	38,168,204	(2,955,975)
Basic (losses)/earnings per share	(0.012)	(0.007)	0.543	(0.041)
Diluted (losses)/earnings per share	(0.011)	(0.007)	0.541	(0.040)
Cash and cash equivalents	75,676,346	80,599,671	92,026,901	53,617,073
Total assets	89,599,209	90,489,060	96,287,094	121,886,062

**8. Results of Operations**

(a) Revenue

No revenue (Q3 2009: nil) from operations has been recorded in this quarter due to the disposal of the operating subsidiaries on February 11, 2009.

Other revenue in this quarter mainly comes from interest income of \$77,731 (Q3 2009: \$84,406) and rental income from the office building in Xinjiang of \$44,340 (Q3 2009: nil).

(b) Other expenses

General and administrative expenses incurred in this quarter were \$592,269 compared to \$622,265 in Q3 2009. The expenses mainly include office rental, staff cost and consulting fees.

The amortized portion of total stock based compensation in Q3 2010 generated \$1,714,042 in income (Q3 2009: \$188,998 expenses) mainly due to accounting treatment of stock options which expired in the quarter without being exercised.

(c) Losses per share

The basic and diluted earnings per share for this quarter were \$0.016 (Q3 2009: basic and diluted losses per share were \$0.012 and \$0.011 respectively).

(d) LBITDA

In this quarter, 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 \$746,883 as compared to \$638,723 in Q3 2009.

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

	<b>3 months ended September 30, 2010</b>	3 months ended September 30, 2009
Net earnings/(losses)	<b>\$ 1,074,354</b>	\$ (790,924)
Interest income & expense	<b>(77,731)</b>	(84,406)
Income tax	-	-
Depreciation	-	-
Amortization in general and administration expenses	<b>23,191</b>	48,012
Stock based compensation	<b>(1,714,042)</b>	188,998
Fair value gain on financial assets	<b>(52,655)</b>	-
Non-controlling interest	-	(403)
LBITDA <sup>(1)</sup>	<b>(746,883)</b>	(638,723)
LBITDA per share <sup>(2)</sup>	<b>(0.011)</b>	(0.009)

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

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

## 9. Liquidity and Capital Resources

The following table summarizes the Company's consolidated cash flows and cash on hand for the quarter ended September 30, 2010:

	<b>September 30, 2010</b>	December 31, 2009
Cash and cash equivalents and time deposit	<b>\$46,581,299</b>	\$78,350,405
Working capital <sup>(1)</sup>	<b>\$41,507,821</b>	\$84,059,586

  

	<b>3 months ended September 30, 2010</b>	3 months ended September 30, 2009
Net Cash used in operating activities	<b>(\$12,027,959)</b>	(\$4,503,545)
Net Cash from (used in) financing activities	<b>\$3,674,450</b>	(\$311,993)
Net Cash from (used in) investing activities	<b>\$6,929,243</b>	(\$170,829)

  

	<b>9 months ended September 30, 2010</b>	9 months ended September 30, 2009
Net Cash used in operating activities	<b>(\$13,100,950)</b>	(\$7,517,662)
Net Cash used in financing activities	<b>(\$17,728,122)</b>	(\$7,606,851)
Net Cash from investing activities	<b>\$4,064,517</b>	\$36,820,674

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

### (a) Operating activities

In this quarter, net cash used in operating activities was \$12,027,959 (Q3 2009: \$4,503,545) which was mainly the combined effect of the increase in net receivables of \$1.1 million from the disposal of Yanxi Copper Project; \$7.5 million used in the silver stocking for the silver processing of China Precision; \$2.2 million deposit paid for acquiring the exploration and mining license of the Sawayaerdun Gold Property; and \$1.2 million increase in

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receivables from minority shareholders of the Company's joint venture, Tongyuan, for Chinese exploration services on its current exploration projects.

(b) Financing activities

Financing activities resulted in a net cash inflow of \$3,674,450 (Q3 2009: \$311,993 cash outflow) in this quarter, which composes about \$1.1 million used for shares buy back, \$0.63 million from the exercise of options during this quarter, repayment of \$3.05 million from an investee company, and \$1.1 million received from the minority shareholders of Tongyuan for its registered capital.

(c) Investing activities

Investing activities resulted in a net cash inflow of \$6,929,243 in this quarter compared to a net cash outflow of \$170,829 in 2009. The cash inflow from investing activities in this quarter was mainly attributed from the deferred gain of \$6.25 million from the disposal 32% equity interest in Yanxi Copper Project.

**10. Balance Sheet**

(a) Cash

The Company had \$46,581,299 in cash and cash equivalents and time deposit as at September 30, 2010 compared to \$78,350,405 as at December 31, 2009.

(b) Deferred gain on disposal of equity investments

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 retaining an 8% indirect equity interest. The Company has received all the cash consideration and the first lot of convertible notes. 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 notes. GobiMin expects to receive the net proceeds of about HKD60.48 million (CAD8.16 million). Should the mining license not be granted by December 31, 2010, 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.

In this quarter, a deferred gain on the above disposal represents the net cash received of \$7.1 million, convertible bonds received of \$14.2 million, convertible bonds receivable of \$14.2 million, netting off the share of assets as at June 21, 2010 of \$0.9 million and payables and accrued liabilities for mining license fee, tax, stamp duty and related payments of \$28.4 million.

(c) Share Capital

As at September 30, 2010, the Company had 67,443,202 (December 31, 2009: 68,257,302) common shares issued and outstanding. During this quarter, 1,407,000 common shares were bought back and cancelled and 1,021,400 employee options were exercised. 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 employees (See the Company's news release on July 12, 2010).

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

As at September 30, 2010, capital commitments that the Company had contracted for, but not provided for amounted to \$1,363,164 (December 31, 2009: \$3,264,266).

On September 10, 2009, the wholly owned subsidiary of GobiMin, Xinjiang Weifu Mining Limited ("Weifu"), has entered into an agreement with Baodi and Brigade No. 2 to form a joint venture company, Tongyuan, in China for the development of the Sawayaerdun Gold Project in Xinjiang, China. GobiMin agreed to invest RMB50,000,000 (\$7,328,844) in cash to Tongyuan for its 70% equity interest. The consideration for acquiring the exploration and mining license of the Sawayaerdun Property is RMB45,500,000 (\$6,669,247) and Tongyuan has paid a deposit of RMB40,000,000 (\$5,863,075) as at September 30, 2010. The remaining commitment is RMB5,500,000 (\$806,172) to be payable subject to the progress on the transfer of the exploration and mining licenses to Tongyuan.

On April 7, 2010, Tongyuan has entered into an agreement for exploration service to the Sawayaerdun Gold Project. The contracted amount is RMB4,600,000 (\$674,254) and Tongyuan has paid a deposit of RMB800,000 (\$117,261) as at September 30, 2010. The remaining commitment is RMB3,800,000 (\$556,992).

The Company has approximately \$23,118 (December 31, 2009: \$23,868) monthly office rental expense in its Hong Kong and Canada offices.

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

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

#### **13. Proposed Transaction**

On April 13, 2010, GobiMin entered into a framework agreement to dispose of a 32% equity interest in the Yanxi Copper Property. After the Company has completed the reorganization to form a new holding company ("Holdco") to hold 80% equity interest in Tongxing, GobiMin entered into a share transfer agreement on July 14, 2010 to dispose of the 100% equity interest in Holdco (the "Transaction") while GobiMin retains an 8% indirect equity interest in the Yanxi Copper Property. The Transaction was completed on July 22, 2010 and GobiMin has received all the cash consideration and the first lot of convertible notes. 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 notes. GobiMin expects to receive the net proceeds of about HKD60.48 million (CAD8.16 million). Pursuant to the Share Transfer Agreement on July 14, 2010, should the mining license not be granted by December 31, 2010, 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 (See the Company's news release on April 13 and July 23, 2010). The Company and the buyer are in the course of negotiation of a supplemental agreement to allow for more time to obtain the mining license. A press release shall be published once the terms of the supplemental agreement are finalised.

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**14. Outstanding Share Data**

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

	December 31, 2009	<b>September 30, 2010</b>	November 18, 2010
Number of Common Shares Outstanding	68,257,302	<b>67,443,202</b>	66,726,702
Warrants	-	-	-
Options	3,256,400	<b>2,537,000</b>	2,537,000
Total Number of Common Shares Fully Diluted	71,513,702	<b>69,980,202</b>	69,263,702

**15. Risk factors**

The mining business conducted by the Company is subject to a number of risks, including but not limited to metal prices; currency risks; exploration, development and operating risks; uncertainty of ore reserve and resource estimates; capital requirements; risks relating to conducting business in China; dependence on key managerial employee; competition. The details of the Company's risk factors are discussed in the Management's Discussion and Analysis of Financial Results for the year ended December 31, 2009, which are available at [www.sedar.com](http://www.sedar.com) and at GobiMin's website ([www.gobimin.com](http://www.gobimin.com)). 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.

**16. Outlook**

The NI 43-101 technical report of Sawayaerdun Gold Project is expected to be available early next year and further drilling program will be carried out during 2011. Upon receipt of the NI 43-101 report, the Company plans to initiate the feasibility study and mine construction.

For the Balikun Coal Project in Xinjiang, both infrastructure and mining construction are progressing on schedule. Mine construction is expected to be completed in 3 years.

Under the 2010 buyback program, a total of 2,577,000 common shares were repurchased at an average price of CAD0.8175 up to November 18, 2010. The management believes that the extension of the normal course issuer bid this year have helped to enhance our shareholder value. The share buyback program makes desirable use of our cash reserves and will continue to positively impact the earnings per share.

GobiMin continues to assess new growth opportunities in China and overseas with the objectives of bringing significant value to its shareholders in the years ahead and becoming a highly profitable and diversified mining company.