

## **GobiMin Inc.**

Consolidated Financial Statements

December 31, 2008 and 2007

(Expressed in United States Dollars except where otherwise noted)



Ernst & Young LLP  
Pacific Centre  
700 W. Georgia St., P.O. Box 10101  
Vancouver, BC V7Y 1C7

Tel: (604) 891-8200  
Fax: (604) 643-5422  
[www.ey.com](http://www.ey.com)

## AUDITORS' REPORT

To the Shareholders of  
**GobiMin Inc.**

We have audited the consolidated balance sheets of **GobiMin Inc.** as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Vancouver, Canada,  
March 30, 2009,  
except as to Note 28.3, which is as of April 16, 2009.

Chartered Accountants

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

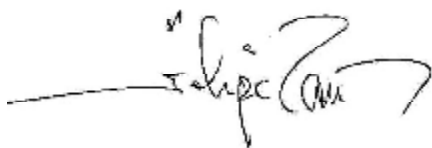
As at December 31, 2008 and 2007

(Expressed in United States Dollars)

	December 31, 2008	December 31, 2007
<b>ASSETS</b>	\$	\$
<b>Current</b>		
Cash and cash equivalents (Note 5)	53,617,073	22,323,438
Restricted cash (Note 6)	489,960	-
Prepayments and other receivables	671,055	409,659
Assets of discontinuing operations (Note 4)	63,759,808	63,507,622
Total current assets	118,537,896	86,240,719
Mineral properties (Note 7)	278,258	1,535,434
Equity investments (Note 8)	2,609,494	1,704,164
Due from related parties (Note 10)	460,414	1,271,055
Total assets	121,886,062	90,751,372
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	-	11,944
Due to related parties	-	36,478
Other payables and accrued liabilities	452,052	724,702
Deposits received (Note 16)	36,082,093	-
Derivative financial instrument liabilities (Note 15)	94,015	-
Liabilities of discontinuing operations (Note 4)	16,690,101	18,493,859
Total current liabilities	53,318,261	19,266,983
Total liabilities	53,318,261	19,266,983
Non-controlling interests (Note 11)	1,199,154	1,677,393
Commitments (Note 21)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 19a)	29,918,738	31,195,252
Contributed surplus (Note 19b)	5,398,535	4,029,197
Reserves (Note 20)	-	6,144,537
Retained earnings	26,631,480	24,024,559
Accumulated other comprehensive income (Note 24)	5,419,894	4,413,451
Total shareholders' equity	67,368,647	69,806,996
Total liabilities and shareholders' equity	121,886,062	90,751,372

*See accompanying notes to the Consolidated Financial Statements*

APPROVED BY THE BOARD


Felipe Tan  
Director

Hubert Marleau  
Director

**GobiMin Inc.****Consolidated Statements of Income**

Years Ended December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	2007
	\$	\$
Revenue	21,447,854	38,539,884
Cost of sales	(9,435,294)	(8,933,764)
Depreciation	(1,695,248)	(2,037,189)
Selling and distribution cost	(744,445)	(669,990)
Gross Profit	9,572,867	26,898,941
Other revenue (Note 12)	1,405,407	2,219,118
General and administrative expenses	(5,508,060)	(4,686,560)
Stock based compensation (Note 19c)	(1,502,495)	(1,098,217)
Equity loss in investment (Note 8)	(6,116)	(446,291)
Write-off of assets (Note 13)	(1,443,521)	(44,340)
Write-down of inventory (Note 14)	(575,861)	-
Other operating expenses	(148,116)	(348,727)
Operating Profit	1,794,105	22,493,924
Dilution gain	-	727,757
Interest expense	(585,780)	(16,699)
Loss on change in fair value of financial instruments (Note 15)	(94,015)	-
Exchange loss	(299,575)	-
Earnings before tax and non-controlling interests	814,735	23,204,982
Income tax (Note 18)	(903,791)	(1,873,592)
Earnings (Losses) before non-controlling interests	(89,056)	21,331,390
Non-controlling interests (Note 11)	121,323	(937,479)
Net earnings for the year	32,267	20,393,911
Basic earnings per share (Note 19e)	0.00	0.29
Diluted earnings per share (Note 19e)	0.00	0.28
Weighted average number of shares outstanding (Note 19e)	72,366,206	70,818,860
Diluted weighted average number of shares outstanding (Note 19e)	73,342,831	72,283,646

*See accompanying notes to the Consolidated Financial Statements*

**GobiMin Inc.**  
**Consolidated Statements of Comprehensive Income**  
Years Ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

	2008	2007
	\$	\$
<b>Net income</b>	<b>32,267</b>	20,393,911
Unrealized exchange gain on translation of self-sustaining foreign operations	<b>1,006,443</b>	4,158,816
<b>Comprehensive income</b>	<b>1,038,710</b>	24,552,727

**Consolidated Statements of Changes in Shareholders' Equity**  
Years Ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

	2008	2007
	\$	\$
<b>Share Capital</b>		
Balance at beginning of year	31,195,252	16,053,320
Share buy back	(1,374,980)	-
Issued for option exercise	98,466	1,608,174
Issued for warrant exercise	-	2,629,122
Issued for private placement	-	10,904,636
Balance at end of year	<b>29,918,738</b>	31,195,252
<b>Contributed Surplus</b>		
Balance at beginning of year	4,029,197	3,645,606
Options & warrants exercised	(37,577)	(714,626)
Share buy back	(95,580)	-
Stock based compensation	1,502,495	1,098,217
Balance at end of year	<b>5,398,535</b>	4,029,197
<b>Reserves</b>		
Balance at beginning of year	6,144,537	2,765,919
Transfer to Retained Earnings	(6,144,537)	-
Current year reserves (Note 20)	-	3,378,618
Balance at end of year	-	6,144,537
<b>Retained Earnings</b>		
Balance at beginning of year	24,024,559	7,789,146
Net income	32,267	20,393,911
Tax refund on capital transactions (Note 22)	681,444	-
Charge from share buy back	(2,077,130)	-
Transfer from (to) general reserve (Note 20)	6,144,537	(3,378,618)
Dividend paid (Note 17)	(2,174,197)	(779,880)
Balance at end of year	<b>26,631,480</b>	24,024,559
<b>Accumulated other comprehensive income</b>		
Balance at beginning of year	4,413,451	254,635
Other comprehensive income (Note 23)	1,006,443	4,158,816
Balance at end of year	<b>5,419,894</b>	4,413,451

See accompanying notes to the Consolidated Financial Statements

**GobiMin Inc.****Consolidated Statements of Cash Flows**

Years Ended December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	2007
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Net earnings for the year	32,267	20,393,911
Adjustments for items not involving cash:		
- Depreciation	1,695,248	2,037,189
- Amortization in general and administrative expenses	415,478	326,510
- Stock based compensation	1,502,495	1,098,217
- Loss on change in fair value of financial instruments	94,015	-
- Exchange loss	299,575	-
- Write-off of assets	1,443,521	44,340
- Write-down of inventory	575,861	-
- Equity loss in investment	6,116	446,291
- Dilution gain on issuing subsidiary's shares	-	(727,757)
- Gain on subsidiary's equity disposition	-	(992,734)
- Non-controlling interests	(121,323)	937,479
	5,943,253	23,563,446
Change in non-cash working capital items:		
- Accounts receivable	631,184	77,457
- Prepayments, deposits and other receivables	345,753	(1,354,635)
- Inventories	(1,090,641)	285,729
- Accounts payable	1,538,009	34,356
- Due from related parties	648,206	-
- Due to related parties	(126,423)	81,336
- Other payables and accrued liabilities	7,660,119	1,746,294
- Tax payable	(186,843)	(779,447)
<b>Net cash from operating activities</b>	<b>15,362,617</b>	<b>23,654,536</b>
<b>Cash flows from (used in) financing activities:</b>		
Shares issued for cash from warrant and option exercise	57,636	3,734,707
Shares issued for cash from private placement	-	11,797,706
Shares buy-back	(3,460,255)	-
Share issue cash costs	-	(893,070)
Cash contributed by minority shareholders	-	1,459,991
Bank loan	(11,517,222)	10,519,579
Loan to investee company	-	(656,894)
Dividend paid	(2,174,197)	(779,880)
<b>Net cash from (used in) financing activities</b>	<b>(17,094,038)</b>	<b>25,182,139</b>
<b>Cash flows from (used in) investing activities</b>		
Deposit received on disposal of interests in subsidiaries	35,913,420	-
Mineral properties	(18,498,571)	(12,083,970)
Change on construction payables	(909,116)	(543,919)
Due from related parties	-	(1,229,076)
Acquisition of equity interest from minority shareholder	-	(950,312)
Proceeds from disposition of equity interest of subsidiary	-	1,601,786
Tax refund on capital transaction	681,444	-
Short term bank deposit	-	1,051,958
Margin deposit for futures trading	-	243,330
Equity investments in joint ventures	(771,020)	(1,711,378)
Financing for employee benefits	-	29,020
Restricted cash	(487,670)	-
Long term prepaids	(2,532,583)	(6,993,901)
<b>Net cash from (used in) investing activities</b>	<b>13,395,904</b>	<b>(20,586,462)</b>

**GobiMin Inc.****Consolidated Statements of Cash Flows - continued**

Years Ended December 31, 2008 and 2007

(Expressed in United States Dollars)

	2008	2007
	\$	\$
<b>Increase in cash and cash equivalents</b>	11,664,483	28,250,213
<b>Effect on foreign exchange rate changes on cash</b>	(1,355,121)	2,233,389
<b>Cash in the discontinuing operations at end of year</b>	(2,317,225)	(23,301,498)
<b>Cash and cash equivalents at beginning of year</b>	45,624,936	15,141,334
<b>Cash and cash equivalents at end of year</b>	53,617,073	22,323,438
<b>Supplementary cash flow information:</b>		
Interest received	758,528	763,928
Interest paid	(655,563)	(16,699)
Income tax paid	(758,605)	(2,728,957)

*See accompanying notes to the Consolidated Financial Statements*

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

**1. NATURE OF OPERATIONS**

GobiMin Inc. together with its subsidiaries, collectively referred to herein as the “Company” or “GobiMin”, is engaged in the exploration, development and exploitation of mineral properties in Hami of the Xinjiang Uygur Autonomous Region of the People’s Republic of China (“China”) through its operating Chinese subsidiaries, Xinjiang Yakesi Resources Co. Ltd (“Yakesi”) and Hami Jubao Resources Co. Ltd (“Jubao”). The Company owns 93.55% (2007: 93.55%) of Yakesi and 95.16% (2007: 95.16%) of Jubao.

The ore being mined by Yakesi and Jubao is predominately nickel and copper. It then processes the ore through their processing plants to produce nickel and copper concentrates. The concentrates are sold in China. In November 2008, GobiMin entered into sales and purchase agreements to sell all its equity interest in Yakesi and Jubao. Operations of Yakesi and Jubao were therefore under disposal. The disposal was completed in February 2009 (see note 28.2).

In 2006, GobiMin formed a joint venture, Xinjiang Xinya Minerals Ltd. (“Xinya”). The Company owns 50% equity interest in Xinya. The joint venture is engaged in exploration of zinc and copper projects in Xinjiang region. GobiMin also owns, through Yakesi, 30% equity interest in Dazi PuXiong Copper Company Limited (“PuXiong”), which is engaged in exploration, mining and milling of copper and zinc resources in Tibet, China.

In 2007, GobiMin formed four joint ventures, Xinjiang Tongde Minerals Ltd (“Tongde”), Xinjiang Tongxing Minerals Ltd (“Tongxing”), Xinjiang Tongan Minerals Ltd (“Tongan”) and Xinjiang Tianhong Minerals Ltd (“Tianhong”), to engage in exploration of nickel, copper, lead and zinc projects in Xinjiang region. GobiMin owns 40% in each of those four joint ventures. GobiMin holds 65% controlling interest in PT. Gobi Sulawesi Resources (“PT Gobi”), to engage in exploration projects in Indonesia.

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

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

a) Principles of Consolidation:

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

b) Foreign currency translation:

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

c) Cash and cash-equivalents:

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

d) Mineral properties:

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

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

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

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

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

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

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

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

e) Inventories:

Raw materials are valued at the lower of cost, determined on first-in, first-out basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

f) Income taxes:

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

g) Stock based compensation expense:

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

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

h) Revenue recognition:

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

i) Earnings per share:

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

j) Use of estimates:

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

k) Seasonality of operations:

The winter conditions in which the Company's subsidiaries operate, coupled with Chinese Spring Festival holidays, temporarily slow down the mineral ore concentration process. The quantities of finished goods produced for sale in winter are significantly lower than the capacity of the Company's facilities. The slow-down season is generally from January to early March of the following calendar year.

l) Asset retirement obligation:

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

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

m) Financial Instruments:

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity on loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classifications:

**GobiMin Inc.**

**Notes to Consolidated Financial Statements**

Years ended December 31, 2008 and 2007

(Expressed in United States Dollars)

---

- Cash and cash equivalents, restricted cash and short-term deposits are classified as “assets held for trading” and are measured at fair value.
- Other receivables and due from related parties are classified as “loans and receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable, other payables and accrued liabilities, and due to related parties are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred.

n) 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 banks 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 banks for the forward contract are separately disclosed as restricted cash in the Consolidated Balance Sheets.

o) Proportionate Consolidation:

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

p) Equity Investment:

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

q) Comparative Figures:

Certain comparative figures have been reclassified to conform to the presentation as at and for the year ended December 31, 2008.

**3. CHANGE IN ACCOUNTING POLICIES**

Effective January 1, 2008, GobiMin adopted the new and amended Canadian Institute of Chartered Accountants (“CICA”) accounting standards related to Financial Instruments - Disclosure (section 3862), Financial Instruments - Presentation (section 3863), Inventory (section 3031), Capital Disclosure (section 1535), and General Standards of Financial Statement Presentation (section 1400). As required by the standards prior periods have not been restated except to reclassify the foreign currency translation adjustment as described under Comprehensive Income and Equity.

**Financial Instruments**

Section 3862 “Financial Instruments - Disclosure” and Section 3863 “Financial Instruments - Presentation”, replace Section 3861 “Financial Instruments - Disclosure and Presentation”. Section 3862 “Financial Instruments – Disclosure”, describes the required disclosures related to the significance of the financial instruments on the

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 "Financial Instruments – Presentation", describes the standards for presentation of financial instruments and non-financial derivatives and carries forward the presentation requirements of Section 3861 "Financial Instruments - Disclosure and Presentation".

**Inventories**

Section 3031 "Inventories", which replaces Section 3030 "Inventories", requires inventories to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". It also provides guidance on the determination of cost and requires the reversal of any write-downs previously recognized when the net realizable value increases subsequently. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, amount recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The adoption of these new standards did not have any impact on the Company's consolidated financial statements.

**Capital Disclosure**

Section 1535 "Capital Disclosure", establishes standards for disclosing information about an entity's capital and how it is managed. These standards require a company to disclose their objectives, policies, and processes for managing capital along with summary quantitative data about what it manages as capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements and when a company has not complied with capital requirements, the consequences of such non-compliance.

**General Standards of Financial Statement Presentation**

Section 1400 "General Standards of Financial Statement Presentation", describes the requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The above noted new and amended standards have no material impact on the classification and measurement in the consolidated financial statements.

**New Canadian Accounting Pronouncements**

a) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new Section will be applicable to the Company's consolidated financial statements for its fiscal year beginning January 1, 2009. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements and the management does not expect any impact.

b) Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to the Company's 2009 fiscal year with retrospective application without restatement of prior periods. The Company is in the process of evaluating the impact of this new guidance.

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

Years ended December 31, 2008 and 2007

(Expressed in United States Dollars)

## c) Consolidations and Non-controlling Interests

In January 2009, the CICA issued Section 1601 “Consolidations” and Section 1602 “Non-controlling Interests”. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

## d) Business Combinations

In January 2009, the CICA issued Section 1582 “Business Combinations” replacing Section 1581 “Business Combinations”. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

**4. DISCONTINUING OPERATIONS**

During November 2008, the Board of directors approved the agreements on disposal of the Company’s equity interests in Yakesi and Jubao, which represent substantial continuing operation of the Company. The assets and liabilities of Yakesi and Jubao are therefore classified as discontinuing operations in the Consolidated Balance Sheets. 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.

The major classes of assets and liabilities of the discontinuing operations are as follows:

	December 31, 2008	December 31, 2007
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	2,317,225	23,301,498
Account receivable	-	548,978
Loan receivable	1,026,038	958,372
Prepayments and other receivables	11,465,473	8,924,433
Inventory	2,499,419	1,845,032
Mineral properties	44,931,909	26,493,405
Equity investments	1,439,498	1,330,610
Due from related parties	80,246	105,294
Assets of discontinuing operations	63,759,808	63,507,622
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	2,511,104	870,917
Due to related parties	20,378	103,585
Other payables and accrued liabilities	13,900,977	6,148,199
Bank loan	-	10,952,821
Income tax payable	174,080	340,286
Future income tax liabilities	83,562	78,051
Liabilities of discontinuing operations	16,690,101	18,493,859

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

**5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31, 2008 include cash in different locations as follows:

Bank location	Reporting Currency	Amount	US\$ Equivalent
Canada	CAD	251,223	205,147
Hong Kong	HKD	99,708,820	12,865,322
China	RMB	276,619,220	40,545,981
Indonesia	IDR	6,861,969	623
Total			53,617,073

Cash and cash equivalents at December 31, 2007 include cash in different locations as follows:

Bank location	Reporting Currency	Amount	US\$ Equivalent
Canada	CAD	797,831	807,405
Hong Kong	HKD	158,757,839	20,353,639
China	RMB	178,525,773	1,140,511
Indonesia	IDR	206,023,222	21,883
Total			22,323,438

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 December 31, 2008.

**6. RESTRICTED CASH**

Restricted cash comprises bank deposit to secure a currency forward contract (see note 15).

**7. MINERAL PROPERTIES**

	Cost	Accumulated Amortization/ Written off	Net Book Value
<b><u>December 31, 2008</u></b>			
Buildings	121,445	(23,614)	97,831
Furniture, equipment and motor vehicles	290,458	(199,402)	91,056
Mineral exploration rights	89,371	-	89,371
	501,274	(223,016)	278,258
<b><u>December 31, 2007</u></b>			
Buildings	1,859	(188)	1,671
Plant and machinery	14,414	(462)	13,952
Furniture, equipment and motor vehicles	275,309	(99,542)	175,767
Mineral exploration rights	1,344,044	-	1,344,044
	1,635,626	(100,192)	1,535,434

During 2008, a carrying value of \$1,233,160 for the Company's exploration rights and related machinery in Indonesia were written off, as the management believes there is no economic value for the exploration assets under the current market condition. There are no significant commitments or payment requirements for any of the mineral properties except for those related to the discontinuing operations (see note 21).

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

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

**8. EQUITY INVESTMENTS**

Equity investments represent the Company's equity interests in four joint ventures established in 2007.

During 2008, GobiMin, through its 100% owned subsidiary, Xinjiang Weifu Mining Limited ("Weifu"), increased RMB5,500,000 (\$806,173) its equity investment in two of the four joint ventures, Tongde and Tongxing, to explore nickel, copper, lead and zinc projects in Xinjiang region. The Company's equity interest in each of the four joint ventures continues to be 40%.

The Company accounts for its investments on the equity basis, which is carried at cost, adjusted for the Company's proportionate share of the undistributed earnings and losses of all the above joint ventures. During the year ended December 31, 2008, the Company recorded \$6,116 as equity loss (2007: \$446,291) on the investments.

There are no commitments in the four joint ventures.

**9. 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 this joint venture as paid-in 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 each 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 year ended December 31, 2008 are as follows:

	December 31, 2008	December 31, 2007
Cash and cash equivalents	\$ 560,549	\$ 1,098,987
Intangible assets – exploration right	89,372	46,611
Fixed assets	820	-
Other receivables	73,288	51,136
Other payables	(585)	-
Due to related parties	-	(1,061,054)
	<u>723,444</u>	<u>135,680</u>
	2008	2007
General and administration expenses	(7,980)	(765)
Net cash from (used in) operating activities	(17,637)	24,106
Net cash from (used in) financing activities	(539,870)	1,019,125
Net cash used in investing activities	(39,571)	(8,173)
Effect on foreign exchange rate changes on cash	66,620	7,959

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

- a) \$71,347 (2007: nil) of due from related parties pertains to receivables from the Company's joint venture, Tongxing, for Canadian consulting services of its current exploration projects.
- b) \$389,067 (2007: nil) of due from related parties pertains to receivables from the Company's joint venture, Tongxing, for Chinese exploration services of its current exploration projects.

The transactions with related parties during the year are measured at the exchange amount, which is the amount of consideration established and agreed by the parties. The balances with related parties are unsecured, non-interest bearing, and due on demand.

**11. NON-CONTROLLING INTERESTS**

Non-controlling interests represent the 6.45% (2007: 6.45%) equity interests in Yakesi, 4.84% (2007: 4.84%) equity interests in Jubao and 35% (2007: 35%) equity interest in PT Gobi held by minority shareholders. During 2008, Yakesi and Jubao declared approximately \$5.8 million dividend, of which \$368,615 (2007: \$145,900) was payable to minority shareholders.

**12. OTHER REVENUE**

The Company recognized \$1,405,407 (2007: \$2,219,118) other revenue this year, of which \$758,528 (2007: \$708,190) represents interest income. The remaining portion of other revenue is generated from sales of oil and materials to contractors for mining operation and subsidies from government.

**13. WRITE OFF OF ASSETS**

During 2008, GobiMin wrote off \$1,233,160 (2007: \$44,340) exploration assets, which relates to PT Gobi's exploration project, as the management believes there is no economic value for the exploration assets under the current market condition. In addition, GobiMin wrote off \$210,361 (2007: nil) due from related parties on December 31, 2008 pertaining to loans to the minority shareholders of PT Gobi, as the management believed the amount not collectible.

**14. WRITE-DOWN OF INVENTORY**

As at December 31, 2008, GobiMin wrote down the inventory by \$575,861 (2007: nil), reflecting the decreased metal price at the year end.

**15. DERIVATIVE FINANCIAL INSTRUMENTS**

At December 31 2008, GobiMin had an open position on a non-delivery forward contract with a bank of short selling RMB at exchange rate of 6.986 for \$7,000,000. The forward contract matured on March 10, 2009. For the year ended December 31, 2008, the unrealized loss is \$94,015.

**16. DEPOSIT RECEIVED**

At December 31, 2008, GobiMin received \$36,082,093 deposit regarding the sale of interest in Yakesi and Jubao (see note 4).

**17. DIVIDENDS PAID**

In May 2008, GobiMin paid its annual dividend of \$2,174,197 (2007: \$779,880) according to the Company's dividend policy and 2007 annual financial performance.

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

**18. INCOME TAX**

No provision for Canada and Hong Kong Income tax has been made as the Company has no assessable profits in either Canada or Hong Kong during the year. There is no related future tax asset recognized either, as management believes that the operating loss in Canada and Hong Kong cannot be recovered in future years.

Yakesi, a subsidiary of the Company established in China, was subject to a corporate income tax rate of 15%. Yakesi is eligible for an exemption from a 3% regional tax rate and a 50% relief from the 30% state tax rate in China. Jubao, a subsidiary of the Company established in China, was subject to two year tax holiday starting from 2007. After the two year tax holiday, Jubao is subject to a corporate income tax of 15%.

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

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

	2008	2007
Profit before tax	\$814,735	\$23,204,982
Statutory tax rates	33.5%	36.12%
Tax charged at statutory tax rates	\$ 272,936	\$ 8,381,639
Tax rate difference	(1,132,861)	(7,013,052)
Permanent difference	706,455	539,964
Loss expiry	72,383	75,524
Change in valuation allowance	530,930	-
Tax rate change	-	110,948
Other	123,636	(221,431)
Withholding tax	330,312	-
Tax expense	\$ 903,791	\$ 1,873,592

In November 2008, GobiMin's two Chinese subsidiaries, Yakesi and Jubao, declared special dividend amounting to RMB43.89 million (approximately \$6.3 million). The Company recorded \$330,312 withholding tax expenses according to China's new tax regulation on paying dividend to foreign shareholders.

Loss carryforwards and other temporary differences that give rise to future income tax assets (liabilities) as at December 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets		
Canadian tax loss carryforwards	\$979,502	\$727,671
Unclaimed share issue costs	312,345	479,227
	1,291,847	1,206,898
Valuation allowance	(1,291,847)	(1,206,898)
Excess of accounting base over tax base relating mineral rights and properties	83,562	78,051
Future income tax liabilities	\$83,562	\$ 78,051

At December 31, 2008, the Company had accumulated non-capital losses for Canadian income tax purpose of approximately \$3,377,592 which will expire between 2009 and 2028.

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

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

**a) Common Shares**

	Number	Amount
		\$
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2006	64,036,002	16,053,320
Shares issued for cash from private placement	3,450,000	10,904,636
Shares issued for option exercise	1,036,000	1,608,174
Shares issued for warrant exercise	4,942,500	2,629,122
Balance, December 31, 2007	73,464,502	31,195,252
Shares buy-back and cancelled	(3,236,100)	(1,374,980)
Shares issued for option exercise	96,000	98,466
Balance, December 31, 2008	70,324,402	29,918,738

GobiMin did not issue or authorize any preferred shares.

**b) Contributed Surplus**

	Amount
	\$
Balance, December 31, 2006	3,645,606
Options & warrants exercised	(714,626)
Stock-based compensation expense	1,098,217
Balance, December 31, 2007	4,029,197
Charge from share buy back	(95,580)
Options & warrants exercised	(37,577)
Stock-based compensation expense	1,502,495
Balance, December 31, 2008	5,398,535

Normal course issuer bid

On February 6, 2008, GobiMin announced that it intended to begin a normal course issuer bid to repurchase some of its common shares on the TSX Venture Exchange. The Company intends to repurchase up to 3,673,225 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 ending January 31, 2009. During 2008, a total of 3,236,100 common shares were repurchased for an aggregate gross proceeds of CAD\$3,688,637 (\$3,460,255). All shares purchased are returned to treasury for cancellation (see also note 28).

Escrowed Shares

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

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

There was no share held in escrow at December 31, 2008.

**c) Stock options**

On May 26, 2005, the Company adopted a resolution canceling all of its outstanding stock option plans and creating a new stock option plan to grant options to its employees, directors and officers to purchase common shares. A number of 5,700,000 (2007: 5,700,000) common shares were reserved for issuance pursuant to the exercise of options to be granted under the plan.

A summary of the status of the Company's stock option plan as of December 31, 2008, and changes during the year is presented below:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding, beginning of year	3,330,400	1.88	2,810,000	0.60
Forfeited	(103,400)	1.28	(45,000)	1.82
Issued at January 31, 2008	50,000	2.89	-	-
Issued at March 10, 2008	15,000	3.44	-	-
Issued at August 25, 2008	1,202,000	1.06	-	-
Issued at February 12, 2007	-	-	55,000	1.79
Issued at August 2, 2007	-	-	1,397,000	3.61
Exercised	(96,000)	0.55	(886,600)	0.81
Outstanding, end of year	4,398,000	1.72	3,330,400	1.88

The following table summarizes the employee stock options outstanding and exercisable at December 31, 2008:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$		(Years)	\$		(Years)	\$
0.55	1,604,400	1.78	0.55	1,436,000	1.78	0.55
0.95	10,000	1.93	0.95	8,000	1.93	0.95
1.66	150,000	2.49	1.66	150,000	2.49	1.66
1.79	5,000	3.12	1.79	2,000	3.12	1.79
3.61	875,000	1.59	3.61	525,000	1.59	3.61
3.61	506,600	3.59	3.61	203,600	3.59	3.61
2.89	50,000	0.08	2.89	50,000	0.08	2.89
1.06	840,000	2.67	1.06	-	-	-
1.06	357,000	4.67	1.06	-	-	-
	4,398,000	2.36	1.72	2,374,600	1.90	1.61

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

In 2008, the weighted average fair value of options granted amounted to \$0.67 (2007: \$2.13) per option. The Company determines fair value of the employee stock options using the Black-Scholes option pricing model. In determining the fair value of these employee stock options, the following assumptions were used:

	<u>2008</u>	<u>2007</u>
Risk free interest rate:	3.22%	4.0%
Expected life:	1 - 5 years	1 – 5 years
Expected volatility:	90%	69.4% - 90%
Dividend yield:	0 - 1%	0 – 0.5%

**d) Warrants**

	2008		2007	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
		\$		\$
Outstanding, beginning of year	-	-	5,005,000	0.52
Expired	-	-	(62,500)	1.28
Exercised	-	-	(4,942,500)	0.51
Outstanding, end of year	-	-	-	-

**e) Basic and Diluted Earnings Per Share**

	Year ended	
	December 31, 2008	December 31, 2007
<b>Net earnings available to shareholders</b>		
Basic and diluted	\$32,267	\$20,393,911
<b>Weighted average shares outstanding</b>		
Basic	72,366,206	70,818,860
Effect of dilutive stock options and warrants	976,625	1,464,786
Diluted	73,342,831	72,283,646
<b>Earnings per share (basic)</b>	<b>\$0.00</b>	<b>\$0.29</b>
<b>Earnings per share (diluted)</b>	<b>\$0.00</b>	<b>\$0.28</b>

**20. RESERVES**

During 2008, there was no net earnings (2007: \$3,378,618) of the Company's subsidiaries in China was transferred to general reserve. As a result of the pending sale of its operating subsidiaries, the balance reserve of \$6,144,537 at December 31, 2007 was transferred to Retained Earnings.

**21. COMMITMENTS**

As at December 31, 2008, there is approximately \$24,152,667 (2007: \$24,969,599) capital commitments that the Company had contracted for, but not provided for. The commitments are for the sinking of the shafts, mine design, exploration, equipments and, water and electricity supply and other facilities. All the commitments belong to discontinuing operations and are no longer the Company's obligations following the sale of such subsidiaries in February 2009.

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

Years ended December 31, 2008 and 2007

(Expressed in United States Dollars)

The Company entered into a purchase agreement to buy lead ore in the amount of \$8,000,000 (2007: \$ nil) for trading purpose. A deposit of \$234,000 was paid as at December 31, 2008 with respect to this purchase commitment. During 2008, no lead ore was delivered by the seller and the seller did not deliver the lead ore when the purchase agreement expired on January 29, 2009. The purchase commitment no longer exists after the agreement expired in January 2009.

The Company has approximately \$23,620 (2007: \$25,905) monthly office rental expense in its Hong Kong and Canada offices.

**22. TAX REFUND ON CAPITAL TRANSACTION**

In 2008, the Company's subsidiary in China obtained an approval from the China tax authority regarding approximately RMB5 million (\$681,444) tax refund for the subsidiary's reinvestment of retained earnings as its share capital. This tax refund was made pursuant to China Foreign Investment Enterprises and Foreign Enterprises Income Tax Law.

**23. SEGMENTED INFORMATION**

The Company conducts its business as a single operating segment, being the development and exploitation of mineral properties. All mineral property interests and capital assets are located in China, except for a very limited number of office equipments acquired in Indonesia. All of the Company's revenues are derived from Chinese sources (see also note 4).

The Company has only three customers over the period covered by these consolidated financial statements. The Company is able to locate and secure other customers should the condition require.

**24. OTHER COMPREHENSIVE INCOME**

As at December 31, 2008, accumulated other comprehensive income was generated from unrealized gain on the translation to US dollars of assets and liabilities of the Company's self-sustaining subsidiaries, primarily due to the strengthening of RMB against US dollars.

**25. 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:

	December 31, 2008	December 31, 2007
Held for trading (a)	\$ 54,107,033	\$ 22,323,438
Due from related parties (b)	460,414	1,271,055
Other financial liabilities (c)	36,534,145	773,124
Derivatives (d)	94,015	-

(a) Cash and cash equivalents and restricted cash are measured at fair value.

(b) Due from related parties are measured at amortized cost.

(c) Accounts payable, other payables and accrued liabilities, deposit received and due to related parties are measured at amortized cost.

(d) Foreign exchange forward contract is measured at fair value.

**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

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

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.

**Foreign exchange forward contract**

The Company uses foreign exchange forward contract to manage risks associated with its foreign exchange risk. The Company has entered into a non-delivery forward contract with a bank of short selling RMB at exchange rate of 6.986 for \$7,000,000. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk. A 1% exchange rate appreciation (depreciation) of RMB against US dollar would have \$70,000 decreased (increased) net income.

**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 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 conducts its business primarily in RMB. All the sales were received in RMB. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. The majority of the Company's operating expenses are denominated in RMB, Hong Kong dollars and Canadian dollars. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

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. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As at December 31, 2008, with other variables unchanged, a 1% strengthening (weakening) of the Chinese RMB against the Canadian dollar would have increased (decreased) net income and other comprehensive income by \$0.05 million and \$0.3 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 December 31, 2008, the Company was holding cash and cash equivalents of \$53,617,073 million. The Company has determined that the cash and cash equivalents from previous financings will be more

**GobiMin Inc.**  
**Notes to Consolidated Financial Statements**  
Years ended December 31, 2008 and 2007  
(Expressed in United States Dollars)

---

than sufficient to fund its requirements for investments in working capital and capital assets. The total \$36,534,145 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 December 31, 2008.

**26. 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, and the significant decline in the prices of silver, lead and zinc, the Company is adopting a more conservative capital management strategy in order to preserve cash, continue to generate positive cash flow from operation, and maintain a strong balance sheet.

The Company is not subject to externally imposed capital requirements.

**27. ECONOMIC DEPENDENCE**

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

**28. SUBSEQUENT EVENTS**

1. On January 23, 2009, 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 3,516,220 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, 2010. Up to April 16, 2009, a total of 374,800 common shares were repurchased for an aggregate gross proceeds of CAD\$296,183 (\$240,800). All shares purchased are returned to treasury for cancellation.
2. By February 11, 2009, the agreements in respect of the sale of the Company's interest in Yakesi and Jubao were approved by the Chinese government. The total sales proceeds the Company received are RMB492 million (approximately \$72.0 million). The Company also received RMB43.89 million (approximately \$6.4 million) from dividend paid out by Yakesi and Jubao.
3. On April 16, 2009, GobiMin declared an annual dividend of CAD\$0.01 (\$0.01) per share for 2008 according to its dividend policy and a special dividend of CAD0.07 (\$0.06) per share following the disposal of its two Chinese operating subsidiaries. Both dividends are payable on June 5, 2009 to shareholders of record on May 15, 2009.