ENTRÉE GOLD INC.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars)

DECEMBER 31, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Entrée Gold Inc.

We have audited the accompanying consolidated balance sheets of Entrée Gold Inc. as at December 31, 2005 and 2004 and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years then ended and the cumulative period from inception (July 19, 1995) to December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended and the cumulative period from inception (July 19, 1995) to December 31, 2005 in conformity with generally accepted accounting principles in the United States of America.

/s/ "Davidson and Company"
Davidson and Company

Vancouver, Canada Chartered Accountants

March 3, 2006

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

ENTRÉE GOLD INC.

(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)

	December 31, 2005	December 31, 2004
ASSETS		
Current		
Cash and cash equivalents	$ 21,687,487	$ 6,060,371
Receivables	310,888	100,410
Prepaid expenses	169,133	62,514
Total current assets	22,167,508	6,223,295
Equipment (Note 3)	742,560	139,120
Total assets	$ 22,910,068	$ 6,362,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 502,449	$ 198,763
Commitments (Note 11)		
Stockholders' equity		
Common stock, no par value, unlimited number authorized, (Note 5) 69,638,926 (December 31, 2004 - 50,868,066) issued and outstanding	45,423,077	20,692,906
Additional paid-in capital	9,003,859	4,898,250
Accumulated other comprehensive income:		
Foreign currency cumulative translation adjustment	1,280,436	180,482
Accumulated deficit during the exploration stage	(33,299,753)	(19,607,986)
Total stockholders' equity	22,407,619	6,163,652
Total liabilities and stockholders' equity	$ 22,910,068	$ 6,362,415

Nature of operations (Note 1)

The accompanying notes are an integral part of these consolidated financial statements.

ENTRÉE GOLD INC.

(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)

	Year Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Period from Inception (July 19, 1995) to December 31, 2005
EXPENSES			
Audit and accounting	$ 65,117	$ 60,974	$ 171,600
Consulting fees (Note 5)	1,158,316	160,386	1,412,558
Depreciation	126,375	24,090	160,910
Escrow shares compensation (recovery) (Notes 5 and 6)	(435,583)	507,440	1,790,959
Foreign exchange (gain) loss	(1,597)	3,421	16,913
Legal (Note 5)	396,517	286,276	1,071,867
Loss on settlement of debt	-	-	5,252
Management fees (Notes 5 and 6)	1,896,604	581,992	2,815,549
Mineral property interests (Note 4 and 5)	8,333,650	2,700,265	22,016,507
Office and administration (Note 5)	1,563,688	593,760	2,342,911
Regulatory and transfer agent fees	84,937	30,027	169,539
Shareholder communications and investor relations (Note 5)	610,895	565,489	1,426,953
Travel	206,793	112,036	360,623
Loss from operations	(14,005,712)	(5,626,156)	(33,762,141)
Interest income	313,945	98,042	462,388
Net loss	$ (13,691,767)	$ (5,528,114)	$ (33,299,753)
Comprehensive loss:			
Net loss	$ (13,691,767)	$ (5,528,114)	$ (33,299,753)
Foreign currency translation adjustment	1,099,954	132,501	1,280,436
Comprehensive loss	$ (12,591,813)	$ (5,395,613)	$ (32,019,317)
Basic and diluted loss per share	$ (0.23)	$ (0.13)	
Weighted average number of shares outstanding	60,281,810	43,251,687	

The accompanying notes are an integral part of these consolidated financial statements.

ENTRÉE GOLD INC.

(An Exploration Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in United States dollars)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit During the Exploration Stage	Total Stockholders' Equity
Balance, July 19, 1995 (date of inception)	-	$ -	$ -	$ -	$ -	$ -
Shares issued:						
Private placements	4,200,000	60,852	-	-	-	60,852
Acquisition of mineral property interests	3,200,000	147,520	-	-	-	147,520
Foreign currency translation adjustment	-	-	-	(756)	-	(756)
Net loss	-	-	-	-	(175,714)	(175,714)
Balance, April 30, 1996	7,400,000	208,372	-	(756)	(175,714)	31,902
Shares issued:						
Private placements	3,880,000	274,718	-	-	-	274,718
Foreign currency translation adjustment	-	-	-	(8,568)	-	(8,568)
Net loss	-	-	-	-	(56,250)	(56,250)
Balance, April 30, 1997	11,280,000	483,090	-	(9,324)	(231,964)	241,802
Foreign currency translation adjustment	-	-	-	(5,216)	-	(5,216)
Net loss	-	-	-	-	(33,381)	(33,381)
Balance, April 30, 1998	11,280,000	483,090	-	(14,540)	(265,345)	203,205
Foreign currency translation adjustment	-	-	-	(3,425)	-	(3,425)
Net loss	-	-	-		(40,341)	(40,341)
Balance, April 30, 1999	11,280,000	483,090	-	(17,965)	(305,686)	159,439
Escrow shares compensation	-	-	41,593	-	-	41,593
Exercise of stock options	1,128,000	113,922	-	-	-	113,922
Foreign currency translation adjustment	-	-	-	(896)	-	(896)
Net loss	-	-	-	-	(154,218)	(154,218)
Balance, April 30, 2000	12,408,000	597,012	41,593	(18,861)	(459,904)	159,840
Foreign currency translation adjustment	-	-	-	(5,627)	-	(5,627)
Net loss	-	-	-	-	(18,399)	(18,399)
Balance, April 30, 2001	12,408,000	597,012	41,593	(24,488)	(478,303)	135,814
Foreign currency translation adjustment	-	-	-	(2,561)	-	(2,561)
Net loss	-	-	-	-	(22,490)	(22,490)
Balance, April 30, 2002	12,408,000	$ 597,012	$ 41,593	$ (27,049)	$ (500,793)	$ 110,763

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ENTRÉE GOLD INC.

(An Exploration Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in United States dollars)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit During the Exploration Stage	Total Stockholders' Equity
- continued -						
Balance, April 30, 2002	12,408,000	$ 597,012	$ 41,593	$ (27,049)	$ (500,793)	$ 110,763
Shares issued:						
Private placements	7,500,000	1,351,055	-	-	-	1,351,055
Exercise of warrants	12,500	3,288	-	-	-	3,288
Agent’s finder fee	310,000	39,178	-	-	-	39,178
Finder’s fee for mineral property interests	100,000	35,827	-	-	-	35,827
Debt settlement	135,416	45,839	5,252	-	-	51,091
Agent’s warrants	-	-	16,877	-	-	16,877
Escrow shares compensation	-	-	40,205	-	-	40,205
Stock-based compensation	-	-	16,660	-	-	16,660
Share issue costs	-	(211,207)	-	-	-	(211,207)
Foreign currency translation adjustment	-	-	-	73,080	-	73,080
Net loss	-	-	-	-	(1,073,320)	(1,073,320)
Balance, April 30, 2003	20,465,916	1,860,992	120,587	46,031	(1,574,113)	453,497
Shares issued:						
Private placements and offerings	16,352,942	10,891,160	-	-	-	10,891,160
Exercise of warrants	3,730,372	1,316,664	(6,443)	-	-	1,310,221
Exercise of stock options	35,000	18,730	(4,026)	-	-	14,704
Agent’s corporate finance fee	100,000	64,192	8,384	-	-	72,576
Acquisition of mineral property interests (Note 4)	5,000,000	3,806,000	-	-	-	3,806,000
Agent’s warrants	-	-	370,741	-	-	370,741
Escrow shares compensation	-	-	1,949,878	-	-	1,949,878
Stock-based compensation	-	-	414,847	-	-	414,847
Share issue costs	-	(1,302,715)	-	-	-	(1,302,715)
Foreign currency translation adjustment	-	-	-	1,950	-	1,950
Net loss	-	-	-	-	(12,505,759)	(12,505,759)
Balance, December 31, 2003	45,684,230	$ 16,655,023	$ 2,853,968	$ 47,981	$ (14,079,872)	$ 5,477,100

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ENTRÉE GOLD INC.

(An Exploration Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Expressed in United States dollars)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit During the Exploration Stage	Total Stockholders' Equity
- continued -						
Balance, December 31, 2003	45,684,230	$ 16,655,023	$ 2,853,968	$ 47,981	$ (14,079,872)	$ 5,477,100
Shares issued:						
Private placement	4,600,000	3,846,521	-	-	-	3,846,521
Exercise of warrants	533,836	186,208	(13,197)	-	-	173,011
Exercise of stock options	50,000	26,180	(8,238)	-	-	17,942
Warrants issued for cancellation	-	-	-	-	-	-
of price guarantee (Note 4)	-	-	129,266	-	-	129,266
Escrow shares compensation	-	-	405,739	-	-	405,739
Share issue costs	-	(21,026)	-	-	-	(21,026)
Stock-based compensation	-	-	1,530,712	-	-	1,530,712
Foreign currency translation adjustment	-	-	-	132,501	-	132,501
Net loss	-	-	-	-	(5,528,114)	(5,528,114)
Balance, December 31, 2004	50,868,066	20,692,906	4,898,250	180,482	(19,607,986)	6,163,652
Shares issued:						
Private placements	7,542,410	13,538,097	-	-	-	13,538,097
Exercise of warrants	10,456,450	10,475,291	-	-	-	10,475,291
Exercise of stock options	772,000	1,238,581	(532,908)	-	-	705,673
Escrow shares compensation	-	-	(435,583)	-	-	(435,583)
Share issue costs	-	(521,798)	-	-	-	(521,798)
Stock-based compensation	-	-	5,074,100	-	-	5,074,100
Foreign currency translation adjustment	-	-	-	1,099,954	-	1,099,954
Net loss	-	-	-	-	(13,691,767)	(13,691,767)
Balance, December 31, 2005	69,638,926	$ 45,423,077	$ 9,003,859	$ 1,280,436	$ (33,299,753)	$ 22,407,619

The accompanying notes are an integral part of these consolidated financial statements.

ENTRÉE GOLD INC.

(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)

	Year Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Period from Inception (July 19, 1995) to December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (13,691,767)	$ (5,528,114)	$ (33,299,753)
Items not affecting cash:			
Depreciation	126,375	24,090	160,910
Stock-based compensation	5,074,100	1,530,712	7,036,319
Escrow shares compensation (recovery)	(435,583)	405,739	2,001,832
Loss on settlment of debt	-	-	5,252
Warrants issued for cancellation of price guarantee	-	129,266	129,266
Finder's fee paid in stock	-	-	35,827
Mineral propety interests paid in stock	-	-	3,806,000
Changes in assets and liabilities:			
Receivables	(199,593)	(21,208)	(300,003)
Prepaid expenses	(100,743)	(27,534)	(163,257)
Accounts payable and accrued liabilities	286,302	69,315	530,904
Net cash used in operating activities	(8,940,909)	(3,417,734)	(20,056,703)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	24,719,061	4,037,474	42,923,975
Share issue costs	(521,798)	(21,026)	(1,557,374)
Net cash provided by finacing activities	24,197,263	4,016,448	41,366,601
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	(729,815)	(126,339)	(903,470)
Net cash used in investing activities	(729,815)	(126,339)	(903,470)
Effect of foreign currency translation on cash and cash equivalents	1,100,577	132,501	1,281,059
Change in cash and cash equivalents during the period	15,627,116	604,876	21,687,487
Cash and cash equivalents, beginning of period	6,060,371	5,455,495	-
Cash and cash equivalents, end of period	$ 21,687,487	$ 6,060,371	$ 21,687,487
Cash paid for interest during the period	$ -	$ -	$ -
Cash paid for income taxes during the period	$ -	$ -	$ -

Supplemental disclosure with respect to cashflows (Note 10)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

The Company was incorporated under the laws of the Province of British Columbia and continued under the laws of the Yukon Territory. On May 27, 2005, the Company changed the governing jurisdiction from the Yukon Territory to British Columbia by continuing into British Columbia under the British Columbia *Business Corporation Act.* The Company's principal business activity is the exploration of mineral property interests. Effective October 10, 2002, pursuant to a special resolution passed by the shareholders of the Company, the Company changed its name from Entrée Resources Inc. to Entrée Gold Inc. and consolidated its share capital on a 2:1 basis (Note 5). In December 2003, the Company changed its fiscal year end from April 30 to December 31. To date, the Company has not generated significant revenues from its operations and is considered to be in the exploration stage.

All amounts are expressed in United States dollars, except for certain per share amounts denoted in Canadian dollars ("C$").

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America and include the accounts of the Company and its wholly-owned Mongolian subsidiary, Entrée LLC. All significant inter-company transactions and balances have been eliminated upon consolidation. These consolidated financial statements conform in all material respects with Canadian generally accepted accounting principles ("Canadian GAAP") except as described in Note 13.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. To limit its credit risk exposure for amounts in excess of federally insured limits, the Company places its deposits with financial institutions of high credit standing.

Equipment

Equipment, consisting of office, computer, field equipment and buildings, is recorded at cost less accumulated depreciation. Depreciation is recorded on a declining balance basis at rates ranging from 20% to 30% per annum.

Mineral property interests

Costs of acquisition, exploration, carrying and retaining unproven properties are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Asset retirement obligation

The Company records the fair value of the liability for closure and removal costs associated with the legal obligations upon retirement or removal of any tangible long-lived assets in accordance with Statements of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". The initial recognition of any liability will be capitalized as part of the asset cost and depreciated over its estimated useful life. To date, the Company has not incurred any asset retirement obligations.

Impairment of long-lived assets

Long-lived assets are continually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Escrow shares

Shares placed in escrow in connection with an initial public offering which are to be released upon achievement of certain performance criteria are considered to be contingently issueable and compensatory in nature. Accordingly, the difference between the fair value of these shares, being the trading price of the Company's publicly traded common shares, at the time they are released from escrow and their original issue price is accounted for as compensation expense in the period of release.

As described in Note 5, certain of the Company's escrow shares were transferred to a Trustee for the benefit of future employees, officers and directors of the Company. As these performance escrow shares are considered compensatory in nature, the Company records a compensation benefit at fair value, being the trading price of the Company's publicly traded common shares, when a portion or all of the these performance escrow shares are allocated to specific individuals and adjusts this compensation benefit to fair value at the end of each respective reporting period until the performance escrow shares are released from escrow.

Stock-based compensation

The Company accounts for stock-based employee compensation in accordance with Statements of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" whereby the Company uses the fair value based method of accounting for stock-based employee compensation.

The Company accounts for stock-based compensation issued to non-employees in accordance with the provisions of SFAS 123 and the consensus in Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services" ("EITF 96-18").

Income taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statements of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency translation

The functional currency of the Company and its wholly-owned subsidiary is the Canadian dollar. Accordingly, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet date while non-monetary assets and liabilities denominated in a foreign currency are translated at historical rates. Revenue and expense items denominated in a foreign currency are translated at exchange rates prevailing when such items are recognized in the statement of operations. Exchange gains or losses arising on translation of foreign currency items are included in the statement of operations.

The Company follows the current rate method of translation with respect to its presentation of these consolidated financial statements in the reporting currency, being the United States dollar. Accordingly, assets and liabilities are translated into U.S. dollars at the period-end exchange rates while revenue and expenses are translated at the prevailing exchange rates during the period. Related exchange gains and losses are included in a separate component of stockholder's equity as accumulated other comprehensive income.

Net loss per share

Basic net loss per share is computed by dividing the net loss for the period attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share takes into consideration shares of common stock outstanding (computed under basic loss per share) and potentially dilutive shares of common stock. Diluted net loss per share is not presented separately from basic net loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive. At December 31, 2005, the total number of potentially dilutive shares of common stock excluded from basic net loss per share was 16,275,410 (December 31, 2004 - 22,340,170).

Shares that remain in escrow are excluded from the weighted average number of shares of common stock. The number of shares held in escrow excluded from the weighted average number of shares of common stock was nil (December 31, 2004 - 3,510,900).

Recent accounting pronouncements

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123R, “Share Based Payment” (‘SFAS 123R”). SFAS 123R supersedes APB 25 and its related implementation guidance by requiring entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions) and revises SFAS 123 as follows:

i. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and non-public entities may elect to measure their liabilities to employees incurred in share-based payment transactions at their intrinsic value, whereas under SFAS 123 all share based payment liabilities were measured at their intrinsic value.
ii. Non-public entities are required to calculate fair value using an appropriate industry sector index for the expected volatility of its share price, if it is not practicable to estimate the expected volatility of the entity’s share price.

(Expressed in United States dollars)

iii. Entities are required to estimate the number of instruments for which the requisite service is expected to be rendered as opposed to accounting for forfeitures as they occur.
iv. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification, whereas SFAS 123 required that the effect of a modification be measured as the difference between the fair value of the modified award at the date it is granted and the award's value immediately before the modification, determined based on the shorter of (1) its remaining initially estimated expected life or (2) the expected life of the modified award.

SFAS 123R also clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or a liability and attributing compensation cost to reporting periods. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in EITF 96-18. SFAS 123R also does not address the accounting for employee share ownership plans which are subject to Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first annual reporting period that begins after December 15, 2005. For non-public entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005.

In May 2005, FASB issued Statement of Financial Accounting Standards No. 154 Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and FASB Statement No. 3 ("SFAS 154"), which is effective for fiscal years ending after December 15, 2005. SFAS 154 requires that changes in accounting policy be accounted for on a retroactive basis.

The adoption of these new pronouncements are not expected to have a material effect on the Company's consolidated financial position or results of operations.

Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation in the current year.

3. EQUIPMENT

	December 31, 2005			December 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Office equipment	$ 57,453	$ 10,836	$ 46,617	$ 17,803	$ 3,964	$ 13,839
Computer equipment	214,621	92,297	122,324	38,422	20,215	18,207
Field equipment	309,133	17,238	291,895	117,431	10,357	107,074
Buildings	322,264	40,540	281,724	-	-	-
	$ 903,471	$ 160,911	$ 742,560	$ 173,656	$ 34,536	$ 139,120

4. MINERAL PROPERTY INTERESTS

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral property interests. The Company has investigated title to its mineral property interests and, to the best of its knowledge, title to the mineral property interests are in good standing.

Each of our exploration licenses was granted by the Mineral Resources and Petroleum Authority of Mongolia for an initial term of three years, subject to a right to renew for two successive 2-year renewals (for a cumulative total of seven years). Mongolian exploration licenses are maintained in good standing by payment to the Mineral Resources and Petroleum Authority of Mongolia of set annual fees escalating from $0.05 to $1.50 per hectare over the course of the potential seven year tenure.

Two of the three licenses that comprise Lookout Hill were issued April 3, 2001 and were renewed for the second of their two year renewals in March, 2006. The third Lookout Hill license was issued March 30, 2001 and was renewed for the second of its two-year renewals in March, 2006. The Manlai license was issued March 9, 2001 and renewed for the second of its two-year renewals in March, 2006. The Khatsavch license was issued to the original owner on October 31, 2003 and transferred to the company in August, 2004.

Under the terms of an option agreement completed in July, 2002, the Company had the right to acquire up to a 60% interest in three mineral concessions (collectively, the "Lookout Hill Property"), located in southern Mongolia, from Mongol Gazar Co., Ltd. ("Mongol Gazar"), the Mongolian owner. In November 2003, pursuant to an amended purchase agreement which replaced the previous option agreement and all obligations thereunder, the Company acquired from Mongol Gazar a 100% interest in the Lookout Hill Property. As consideration, the Company paid $5,500,000, issued 5,000,000 common shares at a value of $3,806,000 and agreed to pay Mongol Gazar the amount, if any, by which the net proceeds from the sale of the 5,000,000 shares issued to Mongol Gazar in this transaction, is less than $5,000,000 (the "Minimum Price Guarantee"). For the above purchase price, the Company also acquired a 100% interest in a fourth mineral concession (the "Manlai" Property") located in southern Mongolia.

On April 20, 2004, subject to TSX Venture Exchange ("TSX-V") regulatory approval which was received on June 14, 2004, the Company agreed to issue non-transferable warrants to purchase up to 250,000 shares of the Company (issued) at a price of C$1.05 per share for two years to Mongol Gazar, in satisfaction of the Minimum Price Guarantee previously provided to Mongol Gazar. The fair value of the warrants was estimated to be $129,266. In addition, Mongol Gazar agreed to transfer to the Company's subsidiary, Entrée LLC, its 100% interest in an exploration licence located in Khanbogd, Omnogovi, Mongolia (the "Khatsavch" property).

In October, 2004, the Company granted to Ivanhoe Mines Ltd. ("Ivanhoe") the right to earn, over an eight year period, a participating interest in a certain portion of its Lookout Hill Property (the "Project Property"). Under the agreement, Ivanhoe must spend a minimum of $3 million in order to earn surface rights in the Project Property and a minimum of $20 million in order to earn any mineral rights interest in the Project Property and may acquire up to an 80% interest in mineralization below a depth of 560 metres and a 70% interest in mineralization above a depth of 560 metres by spending $35 million. Thereafter, the Company has the right to require Ivanhoe to fund its share of subsequent project costs through to production, to be recovered from production cash flow. The agreement with Ivanhoe also provided for Ivanhoe to subscribe for 4,600,000 units of the Company at a price of C$1.00 per unit (completed in November 2004).

The Company's exploration licenses begin to expire in March 2008 through to October 2010. The total estimated annual fees in order to maintain these licenses in good standing is approximately $240,000.

(Expressed in United States dollars)

4. MINERAL PROPERTY INTERESTS (cont'd…)

Mineral property interest costs incurred are summarized as follows:

	Yearly Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Year Ended December 31, 2005
Lookout Hill:			
Acquisition	$ 186,713	$ 273,126	$ 10,047,695
Assaying, testing and analysis	415,991	299,902	780,444
Camp and field supplies	1,317,017	534,972	2,199,184
Drilling	2,052,921	550,714	2,603,635
Geological and geophysical	2,452,632	812,166	3,903,254
Travel and accommodation	214,319	141,128	467,649
	6,639,593	2,612,008	20,001,861
Manlai:			
Acquisition	7,057	5,284	12,341
Assaying, testing and analysis	84,166	36,595	119,761
Camp and field supplies	533,605	13,096	546,701
Drilling	416,037	-	416,037
Geological and geophysical	623,153	-	623,153
Travel and accommodation	30,022	3,073	34,095
	1,694,040	58,048	1,752,088
Khatsavch:			
Acquisition	17	49	66
	17	49	66
Other			
Geological and geophysical	-	30,160	262,492
	-	30,160	262,492
	$ 8,333,650	$ 2,700,265	$ 22,016,507

5. COMMON STOCK

In October 2002, the Company consolidated its issued share capital on a two old shares for one new share basis. Authorized share capital remained unchanged. All references to share and per share amounts in these consolidated financial statements have been adjusted accordingly.

In May 2004, the Company received shareholder approval to amend its Articles to increase the authorized share capital of the Company from 100,000,000 common shares without par value to an unlimited number of common shares without par value.

Share issuances

In July 1995, the Company completed a private placement consisting of 4,200,000 common shares issued at a price of C$0.02 per share for gross proceeds of $60,852.

In July 1995, the Company issued 3,200,000 shares at a value of $147,520 for the acquisition of a mineral property interest in Costa Rica. This mineral property was abandoned in 2001.

In January 1997, the Company completed a private placement consisting of 1,680,000 common shares issued at a price of C$0.06 per share for gross proceeds of $77,553.

In April 1997, the Company completed a private placement consisting of 2,200,000 common shares issued at a price of C$0.12 per share for gross proceeds of $197,165.

In February 2000, the Company issued 1,128,000 common shares for cash proceeds of $113,922 on the exercise of stock options.

In September 2002, the Company completed a brokered private placement consisting of 4,000,000 units issued at a price of C$0.20 per unit for gross proceeds of $505,520. Each unit consisted of one common share and one-half non-transferable share purchase warrant. Each whole share purchase warrant entitled the holder to acquire one additional common share at a price of C$0.40 per share for a period of one year. As part of this private placement, the Company issued 310,000 units as a finder's fee to the agent. Each agent's unit consisted of one common share and one-half non-transferable share purchase warrant whereby each whole share purchase warrant entitled the agent to acquire one additional common share at a price of C$0.40 per share for a period of one year. Related share issue costs of $112,338 were comprised of cash costs totalling $72,556 and the fair value of 310,000 units estimated at $39,782, of which $39,178 was assigned to the common shares and $604 was assigned to the warrants.

In January 2003, the Company completed a combination brokered and non-brokered private placement consisting of 2,500,000 units issued at a price of C$0.35 per unit for gross proceeds of $569,975. Each unit consisted of one common share and one-half non-transferable share purchase warrant. Each whole share purchase warrant entitled the holder to acquire one additional common share at a price of C$0.40 per share for a period of one year. As part of this private placement, the Company issued 329,723 agent's warrants whereby each warrant entitled the agent to acquire one additional common share at a price of C$0.40 per share for a period of one year. Related share issue costs of $94,461 were comprised of cash costs totalling $78,188 and the fair value of the agents warrants estimated at $16,273.

In January 2003, the Company issued 100,000 common shares at a value of $35,827 as a finder's fee towards the acquisition of mineral property interests (Note 4).

In February 2003, the Company issued 12,500 common shares for proceeds of $3,288 on the exercise of warrants.

5. COMMON STOCK (cont'd…)

Share issuances (cont'd…)

In March 2003, the Company issued 135,416 common shares at a value of $45,839 and 67,708 non-transferable share purchase warrants with a value of $5,252 to settle accounts payable totalling $45,839 resulting in a loss on settlement of $5,252. Each share purchase warrant entitled the holder to acquire one additional common share at a price of C$0.60 per share for a period of one year.

In April 2003, the Company completed a non-brokered private placement consisting of 1,000,000 units issued at a price of C$0.40 per unit for proceeds of $275,560. Each unit consisted of one common share and one non-transferable share purchase warrant. Each share purchase warrant entitled the holder to acquire one additional common share at a price of C$0.50 per share for the first year and at C$0.60 per share for the second year. The Company incurred costs of $4,408 with respect to this private placement.

In August 2003, the Company completed a non-brokered private placement consisting of 2,000,000 common shares issued at a price of C$0.20 per share for gross proceeds of $288,360. Related share issue costs of $15,270 were charged as a reduction to the gross proceeds raised on the non-brokered private placement.

In October 2003, the Company completed a short-form offering and issued 2,352,942 units at a price of C$0.85 per unit for gross proceeds of $1,510,400. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allowed the holder to purchase one additional common share at an exercise price of C$1.06 on or before October 22, 2005. The agent for the offering was paid a cash commission of 8.5% of the gross proceeds received, or $128,384, in respect of units sold and received agent's warrants to acquire common shares equal to 10% of the number of units sold, or 235,294 warrants. The agent's warrants allowed the agent to purchase one additional common share at an exercise price of C$0.95 per share on or before October 22, 2004. The agent was also issued 100,000 units as a corporate finance fee. Each agent's unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allowed the agent to purchase one additional common share at an exercise price of C$0.95 on or before October 22, 2004. Related share issue costs of $296,296 were comprised of cash costs totalling $164,004 and the fair value of 100,000 agents units estimated at $72,576 and the fair value of 235,294 agent's warrants estimated at $59,716. The fair value of the agent's units of $72,576 consisted of $64,192 assigned to the common shares and $8,384 assigned to the warrants.

In October 2003, the Company completed a brokered private placement consisting of 12,000,000 units at a price of C$1.00 per unit for gross proceeds of $9,092,400. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allowed the holder to purchase one additional common share at an exercise price of C$1.35 on or before October 31, 2005. The agent for the offering was paid a cash commission of 6.5% of the gross proceeds received in respect of units sold by the agent up to 11,500,000 units, or $566,381, and received 920,000 agent's warrants. The agent's warrants allowed the agent to purchase one additional common share at an exercise price of C$1.35 per share on or before April 30, 2005. Related share issue costs of $991,149 were comprised of cash costs totalling $680,124 and the fair value of the agents warrants estimated at $311,025.

In November 2003, the Company issued 5,000,000 shares at a value of $3,806,000 for the acquisition of a mineral property interest (Note 4).

5. COMMON STOCK (cont'd…)

Share issuances (cont'd…)

During the eight month period ended December 31, 2003 the Company issued 3,730,372 common shares for cash proceeds of $1,310,221 on the exercise of warrants. The warrants exercised had a corresponding fair value of $6,443 when issued which has been transferred from additional paid-in capital to common stock on the exercise of the warrants.

During the eight month period ended December 31, 2003, the Company issued 35,000 common shares for cash proceeds of $14,704 on the exercise of stock options. The fair value recorded when the options were granted of $4,026 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In January 2004, the Company issued 50,000 common shares for cash proceeds of $17,942 on the exercise of stock options. The fair value recorded when the options were granted of $8,238 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In November 2004, the Company completed a non-brokered private placement consisting of 4,600,000 units at a price of C$1.00 per unit for gross proceeds of $3,846,521. Each unit consisted of one common share and one non-transferable share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of C$1.10 on or before November 9, 2006. Pursuant to an agreement with the Company, the placee, being Ivanhoe, has a pre-emptive right to such percentage of any future offering of securities by the Company to enable them to preserve their pro-rata ownership interest in the Company after their acquisition of these 4,600,000 units. Related share issue costs were comprised of cash costs totalling $21,026.

During the year ended December 31, 2004, the Company issued 533,836 common shares for cash proceeds of $173,011 on the exercise of warrants. Certain of the warrants exercised had a corresponding fair value of $13,197 when issued which has been transferred from additional paid-in capital to common stock on the exercise of the warrants.

In June 2005, the Company completed a non-brokered private placement consisting of 5,665,730 units at a price of C$2.20 per unit for gross proceeds of $10,170,207. Each unit consisted of one common share, one non-transferable share purchase A warrant and one non-transferable share purchase B warrant. Two A warrants entitle the holder to purchase one common share of the Company at a price of C$2.75 for a period of 2 years. Two B warrants entitle the holder to purchase one common share of the Company at a price of C$3.00 for a period of two years. Pursuant to an agreement with the Company, the placee, Kennecott Canada Exploration Inc. (indirect wholly-owned subsidiary of Rio Tinto plc) has the right to acquire additional securities and participate in future financings by the Company so as to maintain its proportional equity in the Company. Related share issue costs were comprised of cash costs totalling $521,798.

In July 2005, the Company completed a non-brokered private placement consisting of 1,876,680 units at a price of C$2.20 per unit for gross proceeds of $3,367,890. Each unit consisted of one common share, one non-transferable share purchase A warrant and one non-transferable share purchase B warrant. Two A warrants entitle the holder to purchase one common share of the Company at a price of C$2.75 for a period of 2 years. Two B warrants entitle the holder to purchase one common share of the Company at a price of C$3.00 for a period of two years.

During the year ended December 31, 2005, the Company issued 10,456,450 common shares for cash proceeds of $10,475,291 on the exercise of warrants.

5. COMMON STOCK (cont'd…)

Share issuances (cont'd…)

During the year ended December 31, 2005, the Company issued 772,000 common shares for cash proceeds of $705,673 on the exercise of stock options. The fair value recorded when the options were granted of $532,908 has been transferred from additional paid–in capital to common stock on the exercise of the options.

Escrow shares

Included in issued capital stock at December 31, 2004 were 3,510,900 common shares which were subject to escrow agreements and would not be released, transferred or assigned without the consent of the regulatory authorities at the TSX-V. On March 3, 2005, the Company became a Tier 1 Issuer on the TSX-V and as a result 2,280,900 shares were released from escrow.

The remaining 1,230,000 common shares that were subject to escrow agreement were released in April, 2005 upon meeting additional performance requirements relating to exploration expenditures on the Company's mineral property interests.

Performance escrow shares

During the year ended April 30, 2000, 270,000 performance escrow shares of 3,000,000 shares originally placed in escrow in connection with an initial public offering with a value of $41,593 were released from escrow.

During the year ended April 30, 2003, the Company, a Trustee and the owner of the remaining 2,730,000 performance escrow shares entered into a Share Purchase Agreement and Trust Deed whereby these performance escrow shares were transferred to the Trustee, on behalf of the Company, for the purpose of making the performance escrow shares available to present and future principals of the Company. In November 2003, the Company, Trustee and owner entered into a Restated Share Purchase Agreement and Trust Deed that clarified and corrected the terms and intent of the original agreement. Pursuant to these agreements, the Company acquired and immediately transferred these performance escrow shares to the Trustee for the benefit of current and future employees, officers and directors of the Company (the "2,730,000 Trustee Shares").

In July 2002, the Company entered into an agreement with the president of the Company for the receipt of certain escrow shares in exchange for services provided to the Company. The agreement was replaced with an employment agreement dated November 1, 2003. At December 31, 2004, under the terms of the agreements, a cumulative total of 625,000 performance escrow shares of the 2,730,000 Trustee Shares had been allocated to the president of the Company. In May 2004, 310,439 performance escrow shares allocated to the president of the Company were released from escrow and marked-to-market at the date of release at a final value of $252,246. In August 2004, an additional 310,439 performance escrow shares allocated to the president of the Company were released from escrow and marked-to-market at the date of release at a final value of $129,559.

During the eight month period ended December 31, 2003, the Trustee allocated an additional 905,000 performance escrow shares of the 2,730,000 Trustee Shares to directors of the Company. In May 2004, 109,891 performance escrow shares allocated to directors were released from escrow and marked-to-market at the date of release at a final value of $89,291. In August 2004, an additional 109,891 performance escrow shares allocated to the directors were released from escrow and marked-to-market at the date of release at a final value of $44,241.

(Expressed in United States dollars)

5. **COMMON STOCK** (cont'd …)

Escrow shares (cont'd…)

In October, 2004 the Company allocated the final 1,200,000 performance escrow shares of the 2,730,000 Trustee Shares to directors, officers and employees of the Company.

In April 2005, the remaining 1,230,000 performance escrow shares allocated to the president of the Company and to the directors and employees were released from escrow and marked-to-market at the date of release at a final total value of $1,028,001.

At December 31, 2005, all performance escrow shares had been released from escrow. At December 31, 2004, there were 1,230,000 performance escrow shares that, although allocated, had not been released from escrow of which 4,122 performance escrow shares allocated to the president under employment agreement had a value of $4,902 and 1,225,878 performance escrow shares allocated to directors and employees had a value of $1,458,682.

The total escrow compensation expense (recovery) has been recorded in the consolidated financial statements as follows with corresponding additional paid-in capital recorded in stockholders' equity:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Year Ended December 31, 2005
Escrow shares allocated to president pursuant to employment agreement:			
Mineral property interests expense (recovery)	$ -	$ (101,701)	$ 169,280
Escrow shares compensation expense (recovery)	(1,453)	(329,115)	211,394
	(1,453)	(430,816)	380,674
Escrow shares allocated to directors, officers, and employees:			
Escrow shares compensation expense (recovery)	(434,130)	836,555	1,579,565
	$ (435,583)	$ 405,739	$ 1,960,239

(Expressed in United States dollars)

5. COMMON STOCK (cont'd …)

Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price (C$)
Balance as at December 31, 2003	9,491,323	$ 1.18
Issued	4,850,000	1.10
Expired	(893,217)	0.61
Exercised	(533,836)	0.41
Balance as at December 31, 2004	12,914,270	1.22
Issued	7,542,410	2.88
Expired	(2,207,820)	1.26
Exercised	(10,456,450)	1.22
Balance as at December 31, 2005	7,792,410	2.82

As at December 31, 2005, the following share purchase warrants were outstanding and exercisable:

Number of Shares	Exercise Price (C$)	Expiry Date
250,000	$ 1.05	April 20, 2006
2,832,865	2.75	June 29, 2007
2,832,865	3.00	June 29, 2007
938,340	2.75	July 7, 2007
938,340	3.00	July 7, 2007
7,792,410		

In April, 2004, the Company issued non-transferable warrants to purchase up to 250,000 shares of the Company (issued) at a price of C$1.05 per share for two years to Mongol Gazar, in satisfaction of the Minimum Price Guarantee previously provided to Mongol Gazar. The fair value of the warrants was estimated to be $129,266.

(Expressed in United States dollars)

5. COMMON STOCK (cont'd …)

Share purchase warrants (cont'd…)

The following weighted-average assumptions were used for the Black-Scholes valuation of warrants issued in satisfaction of the Minimum Price Guarantee (Note 4) during the year ended December 31, 2004.

Risk-free interest rate	2.69%
Expected life of warrants	2.0 years
Annualized volatility	121%
Dividend rate	0.00%

Stock options

During the year ended April 30, 2003, the Company adopted a stock option plan (the "Plan") to grant options to directors, officers, employees and consultants. Under the Plan, as amended in May 2005, the Company may grant options to acquire up to 10,176,613 common shares of the Company. Options granted can have a term up to ten years and an exercise price typically not less than the Company's closing stock price at the date of grant.

On March 3, 2005, the Company became a Tier 1 Issuer on the TSX-V and, as a result, all previously issued stock options became fully vested except those granted to investor relations consultants, which included a twelve month vesting period. As a Tier 1 Issuer, future stock options granted may vest upon grant except those granted to investor relations consultants which must have a minimum 12 month vesting period.

Stock option transactions are summarized as follows:

	Number of Shares		Weighted Average Exercise Price (C$)
Balance as at December 31, 2003	2,785,000	$	0.92
Granted	3,180,000		1.09
Exercised	(50,000)		0.46
Repriced	(210,000)		2.21
	210,000		1.15
Balance as at December 31, 2004	5,915,000		1.03
Granted	3,340,000		1.83
Exercised	(772,000)		1.09
Balance as at December 31, 2005	8,483,000		1.28

The weighted average fair value per stock option granted during the year ended December 31, 2005 was C$0.95 (December 31, 2004 - C$1.10). The number of stock options exercisable at December 31, 2005 was 8,464,250 (December 31, 2004 - 3,708,750).

(Expressed in United States dollars)

5. COMMON STOCK (cont'd …)

Stock options (cont'd…)

In November 2004, the Company repriced 210,000 stock options previously granted from C$2.21 to C$1.15. The fair value of the 210,000 increased by $21,568 and the increased stock-based compensation will be recognized over the remaining vesting period for the options. The expiry date of the options remains November 1, 2006.

At December 31, 2005, the following stock options were outstanding:

Number of Shares	Exercise Price (C$)	Expiry Date
210,000	$ 1.15	November 1, 2006
715,000	0.46	August 26, 2007
50,000	0.34	December 3, 2007
510,000	0.60	January 30, 2008
100,000	1.19	March 3, 2008
775,000	1.00	September 18, 2008
175,000	2.32	November 13, 2008
595,000	1.24	February 11, 2009
1,525,000	1.15	November 12, 2009
75,000	1.20	November 24, 2009
600,000	1.25	December 17, 2009
400,000	1.28	January 7, 2010
75,000	1.19	March 3, 2010
63,000	1.48	May 24, 2010
2,470,000	1.75	June 9, 2010
100,000	2.00	August 15, 2010
25,000	1.66	August 25, 2010
20,000	1.85	September 28, 2010
8,483,000		

Stock-based compensation

The fair value of stock options granted during the year ended December 31, 2005 was $2,556,814 (December 31, 2004 - $3,490,336) which is being recognized over the options vesting periods. Total stock-based compensation recognized during the year ended December 31, 2005 was $5,074,100 (December 31, 2004 - $1,530,712) which has been recorded in the consolidated statements of operations as follows with corresponding additional paid-in capital recorded in stockholders' equity:

(Expressed in United States dollars)

5. COMMON STOCK (cont'd …)

Stock-based compensation (cont'd …)

	Year Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Year Ended December 31, 2005
Consulting fees	$ 1,056,854	$ 160,386	$ 1,257,544
Legal	158,292	60,789	250,756
Management fees	1,839,394	534,251	2,547,548
Mineral property interets	1,007,992	187,811	1,267,612
Office and administration	753,894	267,437	1,048,177
Stockholder communications and investor relations	257,674	320,038	664,681
	$ 5,074,100	$ 1,530,712	$ 7,036,318

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted:

	Year Ended December 31, 2005	Year Ended December 31, 2004
Risk-free interest rate	2.85%	3.66%
Expected life of options	5.0	4.8
Annualized volatility	80%	155%
Dividend rate	0.00%	0.00%

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Recognized an expense (recovery) of $(1,453) (December 31, 2004 – $(430,816)) from certain performance escrow shares allocated to the president of the Company (Note 5) which have been recorded as escrow shares compensation expense (recovery) of $(1,453) (December 31, 2004 - $(329,115)) and mineral property interest costs of $Nil (December 31, 2004 – $(101,701)). In addition, compensation expense (recovery) of $(434,130) (December 31, 2004 - $836,555) was recognized during the current year from certain performance escrow shares allocated to directors, officers and employees of the Company (Note 5) which has been recorded as escrow shares compensation expense (recovery) of $(434,130) (December 31, 2004 - $836,555).

b) Paid or accrued management fees of $53,080 (December 31, 2004 - $47,741) to directors and officers of the Company.

(Expressed in United States dollars)

6. RELATED PARTY TRANSACTIONS (cont'd…)

These transactions were in the normal course of operations and were measured at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

7. SEGMENT INFORMATION

The Company operates in one business segment being the exploration of mineral property interests.

Geographic information is as follows:

	December 31, 2005	December 31, 2004
Identifiable assets		
Canada	$ 22,167,229	$ 6,233,005
Mongolia	742,839	129,410
	$ 22,910,068	$ 6,362,415

	Year Ended December 31, 2005	Year Ended December 31, 2004
Loss for the period		
Canada	$ (5,080,565)	$ (2,760,493)
Mongolia	(8,611,202)	(2,767,621)
	$ (13,691,767)	$ (5,528,114)

(Expressed in United States dollars)

8. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004
Loss for the year	$ (13,691,767)	$ (5,528,114)
Statutory rate	35.6%	37.6%
Expected income tax recovery	$ 4,874,269	$ 1,968,009
Items not deductible for tax purposes	(4,304,235)	(1,630,372)
Tax deductible share issue costs	123,783	86,631
Difference in foreign tax rates	(39,202)	(11,742)
Unrecognized benefits of non-capital losses	(654,615)	(412,526)
Total income taxes	$ -	$ -

The significant components of the Company's future income tax assets are as follows:

	December 31, 2005	December 31, 2004
Future income tax assets:		
Non-capital loss carry forwards	$ 1,528,007	$ 907,124
Foreign resource expenditures	79,272	82,710
Mongolian resource expenditures	3,313,641	1,115,944
Capital assets	282,251	55,245
Share issue costs	305,429	243,453
	5,508,600	2,404,476
Valuation allowance	(5,508,600)	(2,404,476)
Net future income tax assets	$ -	$ -

The Company has available for deduction against future taxable income non-capital losses of approximately $3,300,000 in Canada and $1,300,000 in Mongolia. These losses, if not utilized, will expire commencing in 2006. Subject to certain restrictions, the Company also has foreign resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these losses, resource expenditures and share issue costs have been offset in these financial statements by a valuation allowance.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company does not use derivative instruments to reduce this currency risk.

(Expressed in United States dollars)

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2005 consisted of:

a) The recognition of compensation expense (recovery) from the allocation of certain performance escrow shares to the president of the Company which has been recorded as escrow shares compensation (recovery) of ($1,453).

b) The recognition of compensation expense (recovery) from the allocation of certain performance escrow shares to directors, officers and employees of the Company which has been recorded as escrow shares compensation expense (recovery) of $(434,130).

Significant non-cash transactions for the year ended December 31, 2004 consisted of:

a) The issuance of non-transferable warrants to purchase up to 250,000 shares of the Company at a price of C$1.05 per share on or before April 20, 2006 in return for the cancellation of a price guarantee in connection with shares previously issued for mineral property interests (Note 4). The fair value of the warrants was estimated to be $129,266.

b) The recognition of compensation expense (recovery) from the allocation of certain performance escrow shares to the president of the Company which has been recorded as escrow shares compensation (recovery) of ($329,115) and mineral property interest costs (recovery) of ($101,701) (Note 5).

c) The recognition of compensation expense from the allocation of certain performance escrow shares to directors, officers and employees of the Company which has been recorded as escrow shares compensation expense of $836,555.

11. COMMITMENTS

The Company is committed to make lease payments for the rental of office space as follows:

2006	$ 27,018
2007	27,018
2008	28,143
2009	28,948
2010	12,062
Total	$ 123,189

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2005, the Company as follows:

a) Issued 690,000 common shares for proceeds of $637,000 on the exercise of stock options.

b) Granted 125,000 stock options exercisable at a price of C$1.80 per share for a term of five years to an employee and a consultant.

c) Granted 100,000 stock options to a consultant to the Company. The options have an exercise price of C$2.20 and expire on February 8, 2011.

d) Acquired an option to purchase the Oyut Tolgoi copper property along with two other licenses (Asgat Uul and Onts Uul) in Western Mongolia. The terms of the option include an initial US$50,000 payment to the Mongolian Property Owner. After a due diligence period of 6 months, the Company will be required to pay an additional US$100,000 and issue 100,000 shares. The

(Expressed in United States dollars)

12. SUBSEQUENT EVENTS (cont'd…)

Company will then have one year from the end of the due diligence period to explore the property. A final payment of US$250,000 and the issuance of an additional 250,000 shares on or before the anniversary date will earn the Company a 100% interest in the three properties. A finder's fee of 5% plus 10,000 shares is payable.

13. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("United States GAAP"). These consolidated financial statements also comply, in all material respects, with Canadian generally accepted accounting principles ("Canadian GAAP") with respect to recognition, measurement and presentation as described and quantified below.

Consolidated balance sheets

The impact of the differences between United States GAAP and Canadian GAAP on the consolidated balance sheets would be as follows:

	December 31, 2005			December 31, 2004		
	Balance, United States GAAP	Adjustments	Balance, Canadian GAAP	Balance, United States GAAP	Adjustments	Balance, Canadian GAAP
Current assets	$ 22,167,508	$ (49,912)	$ 22,117,596	$ 6,223,295	$ -	$ 6,223,295
Mineral property interests	-	21,689,372	21,689,372	-	13,305,810	13,305,810
Equipment	742,560	-	742,560	139,120	-	139,120
	$ 22,910,068	$ 21,639,460	$ 44,549,528	$ 6,362,415	$ 13,305,810	$ 19,668,225
Current liabilities	$ 502,449	$ -	$ 502,449	$ 198,763	$ -	$ 198,763
Stockholders' equity	22,407,619	21,639,460	44,047,079	6,163,652	13,305,810	19,469,462
	$ 22,910,068	$ 21,639,460	$ 44,549,528	$ 6,362,415	$ 13,305,810	$ 19,668,225

(Expressed in United States dollars)

13. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd…)

Consolidated statements of operations

The impact of the differences between United States GAAP and Canadian GAAP on the consolidated statements of operations would be as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Period from Inception (July 19, 1995) to December 31, 2005
Net loss, United States GAAP	$ (13,691,767)	$ (5,528,114)	$ (33,299,753)
Adjustments:			
Mineral property interests	8,333,650	2,670,105	21,754,015
Escrow shares compensation	(435,583)	(167,552)	(52,322)
Net loss, Canadian GAAP	$ (5,793,700)	$ (3,025,561)	$ (11,598,060)
Basic and diluted net loss per common share, Canadian GAAP	$ (0.10)	$ (0.06)	
Weighted average number of common shares outstanding, Canadian GAAP	60,672,715	46,762,587	

(Expressed in United States dollars)

13. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd…)

Consolidated statements of cash flows

The impact of the differences between United States GAAP and Canadian GAAP on the consolidated statements of cash flows would be as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Cumulative Period from Inception (July 19, 1995) to December 31, 2005
Net cash used in operating activities, United States GAAP	$ (8,940,909)	$ (3,417,734)	$ (20,056,703)
Mineral property interests	8,333,650	2,670,105	21,754,315
Stock-based compensation	(1,007,992)	(187,811)	(1,267,911)
Escrow shares compensation	-	101,701	(169,280)
Warrants issued for cancellation of price guarantee	-	(129,266)	(129,266)
Finders fee	-	-	(35,827)
Mineral property interests paid in stock	-	-	(3,806,000)
Change in working capital items	(250,285)	-	(250,285)
Net cash used in operating activities, Canadian GAAP	(1,865,536)	(963,005)	(3,960,957)
Net cash provided by financing activities, United States and Canadian GAAP	24,197,263	4,016,448	41,366,601
Net cash used in investing activities, United States GAAP	(729,815)	(126,339)	(903,470)
Mineral property interests	(7,075,373)	(2,454,729)	(16,095,746)
Net cash used in investing activities, Canadian GAAP	(7,805,188)	(2,581,068)	(16,999,216)
Effect of foreign currency translation on cash and cash equivalents	1,100,577	132,501	1,281,059
Change in cash and cash equivalents during the period	15,627,116	604,876	21,687,487
Cash and cash equivalents, beginning of period	6,060,371	5,455,495	-
Cash and cash equivalents, end of period	$ 21,687,487	$ 6,060,371	$ 21,687,487

13. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd…)

Mineral property interests

Under United States GAAP, costs of acquisition, exploration, carrying and retaining unproven properties are expensed as incurred.

Under Canadian GAAP, mineral property interests, which consist of the right to explore for mineral deposits, are recorded at cost. Deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, are recorded at cost. All direct and indirect costs relating to the acquisition and exploration of mineral property interests are capitalized on the basis of specific claim blocks until the mineral property interests to which they relate are placed into production, the mineral property interests are disposed of through sale or where management has determined there to be an impairment. If a mineral property interest is abandoned, the mineral property interest and deferred exploration costs are written off to operations in the period of abandonment. On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject mineral property interest. Management's determination of impairment is based on: i) whether the Company's exploration programs on the mineral property interests have significantly changed, such that previously identified resource targets are no longer being pursued; ii) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future or iii) whether remaining lease terms are insufficient to conduct necessary studies or exploration work. Based on the foregoing criteria, management determined that no impairment to the Company's current mineral property interests had taken place at December 31, 2005

Escrow shares

Under United States GAAP, the Company accounts for escrow shares as described in Note 2.

Under Canadian GAAP, shares placed in escrow in connection with an initial public offering which are to be released upon achievement of certain performance criteria are not considered to be contingently issueable and are not compensatory in nature. Accordingly, the difference between the fair value of these shares, being the trading price of the Company's publicly traded common shares, at the time they are released from escrow and their original issue price is not recorded. Further, as described in Note 5, certain of the Company's escrow shares were transferred to a Trustee for the benefit of future employees, officers and directors of the Company. Under Canadian GAAP, as these performance escrow shares were transferred from a principal stockholder to a Trustee, these performance escrow shares are considered compensatory in nature. Accordingly, the Company records a compensation benefit at fair value, being the trading price of the Company's publicly traded common shares, when a portion or all of these performance escrow shares are allocated to specific individuals.

Thus, there is a difference between United States GAAP and Canadian GAAP on the accounting for escrow shares for the year ended December 31, 2005 and the year ended December 31, 2004 in the amount of $(435,583) and $(167,552), respectively.

Stock-based compensation

Under United States GAAP, the Company accounts for stock-based compensation as described in Note 2.

Under Canadian GAAP, effective May 1, 2002, the Company adopted CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870"), which recommends the fair value-based methodology for measuring compensation costs, excluding escrow shares. HB 3870 also

13. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd…)

permits, and the Company adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees and directors when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of loss and loss per share as if the fair value method had been adopted. The granting of stock options to non-employees and direct awards of stock to employees and non-employees is accounted for using the fair value method of accounting. Effective May 1, 2003, the Company adopted prospectively the fair value-based methodology for measuring compensation costs under HB 3870 which requires the Company to recognize fair value compensation costs for the granting of all stock options and direct awards of stock.

Accordingly, there is no difference between United States GAAP and Canadian GAAP on the accounting for stock-based compensation for the years ended December 31, 2005 and 2004.

Net loss per share

Under both United States GAAP and Canadian GAAP, basic net loss per share is calculated using the weighted average number of common shares outstanding during the year.

Under Canadian GAAP, the weighted average number of common shares outstanding includes any shares that remain in escrow. The weighted average number of shares outstanding under Canadian GAAP for the year ended December 31, 2005 and December 31, 2004 was 60,672,715 and 46,762,587, respectively.