ENTRÉE GOLD INC.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars)

MARCH 31, 2005

ENTRÉE GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)

	March 31, 2005 (unaudited)	December 31, 2004
ASSETS		
Current		
Cash and cash equivalents	$ 4,458,946	$ 6,060,371
Receivables	153,064	100,410
Prepaid expenses	273,923	62,514
Total current assets	4,885,933	6,223,295
Equipment (Note 4)	385,999	139,120
	$ 5,271,932	$ 6,362,415
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 275,278	$ 198,763
Stockholders' equity		
Common stock, no par value, unlimited number authorized, (Note 6) 50,883,066 (December 31, 2004 - 50,868,066) issued and outstanding	20,706,116	20,692,906
Additional paid-in capital	6,941,248	4,898,250
Accumulated other comprehensive income: Foreign currency cummulative translation adjustment	154,299	180,482
Accumulated deficit during exploration stage	(22,805,009)	(19,607,986)
Total stockholders' equity	4,996,654	6,163,652
Total liabilities and stockholders' equity	$ 5,271,932	$ 6,362,415

Nature of operations (Note 2)

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
(Unaudited)
(Expressed in United States dollars)

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004	Cumulative Period from Inception (July 19, 1995) to March 31, 2005
EXPENSES			
Audit and accounting	$ 8,288	$ 4,611	$ 114,771
Consulting fees (Note 6)	833,568	43,020	1,087,810
Depreciation	16,892	6,827	51,427
Escrow shares compensation (Notes 6 and 7)	(475,056)	(457,923)	1,751,486
Foreign exchange loss	3,638	1,237	22,148
Legal (Note 6)	111,343	54,652	786,693
Loss on settlement of debt (Note 6)	-	-	5,252
Management fees (Notes 6 and 7)	849,726	118,105	1,768,671
Mineral property interests (Note 5 and 6)	1,171,014	156,688	14,853,871
Office and administration (Note 6)	481,484	134,969	1,260,707
Regulatory and transfer agent fees	22,965	7,978	107,567
Shareholder communications and investor relations (Note 6)	169,885	128,565	985,943
Travel	32,868	48,478	186,698
Loss from operations	(3,226,615)	(247,207)	(22,983,044)
Interest income	29,592	29,279	178,035
Net loss	$ (3,197,023)	$ (217,928)	$ (22,805,009)
Comprehensive loss:			
Net loss	$ (3,197,023)	$ (217,928)	$ (22,805,009)
Foreign currency tranlation adjustment	(26,183)	(74,557)	154,299
Comprehensive loss	$ (3,223,206)	$ (292,485)	$ (22,650,710)
Basic and diluted loss per share	$ (0.06)	$ (0.01)	
Weighted average number of shares outstanding	49,645,566	40,393,634	

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 5)	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 5)	-		-		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)	$	6,163,653
Shares issued:											
Exercise of warrants	15,000		13,210		-		-		-		13,210
Escrow shares compensation	-		-		(475,056)		-		-		(475,056)
Stock-based compensation	-		-		2,518,054		-		-		2,518,054
Foreign currency translation adjustment	-		-		-		(26,183)		-		(26,183)
Net loss	-		-		-		-		(3,197,023)		(3,197,023)
Balance, March 31, 2005	50,883,066	$	20,706,116	$	6,941,248	$	154,299	$	(22,805,009)	$	4,996,655

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

ENTRÉE GOLD INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in United States dollars)

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004	Cumulative Period from Inception (July 19, 1995) to March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (3,197,023)	$ (217,928)	$ (22,805,009)
Items not affecting cash:			
Depreciation	16,892	6,827	51,427
Stock-based compensation	2,518,054	313,813	4,480,273
Escrow shares compensation	(475,056)	(529,874)	1,962,359
Loss on settlment of debt	-	-	5,252
Warrants issued for cancellation of price guarantee	-	-	129,266
Finder's fee paid in stock	-	-	35,827
Mineral propety interest paid in stock	-	-	3,806,000
Changes in assets and liabilities:			
Receivables	(52,654)	(32,323)	(153,064)
Prepaid expenses	(211,409)	(188,245)	(273,923)
Accounts payable and accrued liabilities	76,515	35,197	321,117
Net cash used in operating activities	(1,324,681)	(612,533)	(12,440,475)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	13,210	182,332	18,218,124
Share issue costs	-	-	(1,035,576)
Net cash provided by finacing activities	13,210	182,332	17,182,548
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment	(263,771)	(77,793)	(437,426)
Net cash used in investing activities	(263,771)	(77,793)	(437,426)
Effect of foreign currency translation on cash and cash equivalents	(26,183)	(74,555)	154,299
Change in cash and cash equivalents during the period	(1,601,425)	(582,549)	4,458,946
Cash and cash equivalents, beginning of period	6,060,371	5,455,495	-
Cash and cash equivalents, end of period	$ 4,458,946	$ 4,872,946	$ 4,458,946
Cash paid for interest during the period	$ -	$ -	$ -
Cash paid for income taxes during the period	$ -	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 10)

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

1. BASIS OF PRESENTATION

The interim period financial statements have been prepared by the Company in conformity with generally accepted accounting principles in the United States of America. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements, and in the opinion of management these financial statements contain all adjustments necessary (consisting of normally recurring adjustments) to present fairly the financial information contained therein. Certain information and footnote disclosure normally included in the financial statements prepared in conformity with generally accepted accounting principles in the United States of America have been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's Form 10-KSB for the year ended December 31, 2004. The results of operation for the three month period ended March 31, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

2. 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. 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 6). 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$").

3. 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 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 12.

Asset retirement obligations

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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 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

Statements of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. Prior to May 1, 2003, the Company chose to account for stock-based compensation, excluding escrow shares, using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock. Effective for the eight month period ended December 31, 2003, the Company adopted Statements of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" whereby the Company voluntary changed to the fair value based method of accounting for stock-based employee compensation on a prospective basis.

The Company accounts are 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" ("EIFT 96-18").

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency translation (cont'd)

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 March 31, 2005, the total number of potentially dilutive shares of common stock excluded from basic net loss per share was 20,619,270 (March 31, 2004 – 18,010,914).

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 1,230,000 (March 31, 2004 – 6,151,350).

Recent accounting pronouncements

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29" ("SFAS 153") which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

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 Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") as follows:

i. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and nonpublic 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. Nonpublic 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)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd)

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 effects 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 as 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 and 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 nonpublic entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005.

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.

4. EQUIPMENT

	March 31, 2005			December 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Office equipment	$ 19,325	$ 5,017	$ 14,308	$ 17,803	$ 3,964	$ 13,839
Computer equipment	81,708	19,322	62,386	38,422	20,215	18,207
Field equipment	170,652	27,089	143,563	117,431	10,357	107,074
Buildings	165,742	-	165,742	-	-	-
	$ 437,427	$ 51,428	$ 385,999	$ 173,656	$ 34,536	$ 139,120

5. 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.

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, free of all royalties. 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 "Ulziit Uul 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 has 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 $188,000.

(Expressed in United States dollars)

5. MINERAL PROPERTY INTERESTS (cont'd)

Mineral property interest costs incurred are summarized as follows:

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004
Lookout Hill:		
Acquisition	$ 49,210	$ 3,687
Assaying, testing and analysis	9,077	6,657
Camp and field supplies	-	5,600
Drilling	232,404	55,925
Geological and geophysical	841,358	65,827
Travel and accommodation	35,741	18,992
	1,167,790	156,688
Ulziit Uul:		
Acquisition	1,846	-
Camp and field supplies	187	-
Drilling	1,174	-
	3,207	-
Khatsavch:		
Acquisition	17	-
	17	-
	$ 1,171,014	$ 156,688

6. 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.

6. COMMON STOCK (cont'd…)

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 totaling $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 totaling $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 5).

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

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.

6. COMMON STOCK (cont'd…)

Share issuances (cont'd…)

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 entitles 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 allows 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 allow 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 consists of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allows 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 totaling $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 allows 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 allow 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 totaling $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 5).

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.

6. COMMON STOCK (cont'd…)

Share issuances (cont'd…)

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 place, 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.

During the three month period ended March 31, 2005, the Company issued 15,000 common shares for cash proceeds of $13,210 on the exercise of warrants.

Escrow shares

Included in issued capital stock at December 31, 2004 were 3,510,900 common shares which were subject to escrow agreements and may 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.

Included in issued capital stock at March 31, 2005 are the remaining 1,230,000 common shares that are subject to escrow agreement and may not be released, transferred or assigned without the consent of the regulatory authorities at the TSX-V. The 1,230,000 common shares will be released subject to 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.

6. COMMON STOCK (cont'd …)

Escrow shares (cont'd…)

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.

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.

At March 31, 2005, there were 1,230,000 performance escrow shares that, although allocated, had not been released from escrow of which 4,122 performance escrow shares (December 31, 2004 – 4,122) allocated to the president under the employment agreement had a value of $3,313 (December 31, 2004 - $4,902) and 1,225,878 performance escrow shares (December 31, 2004 – 1,225,878) allocated to directors and employees had a value of $985,215 (December 31, 2004 - $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:

(Expressed in United States dollars)

6. COMMON STOCK (cont'd …)

Escrow shares (cont'd…)

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004
Escrow shares allocated to president pursuant to employment agreement:		
Mineral property interests expense (recovery)	$ -	$ (71,951)
Escrow shares compensation expense (recovery)	(1,589)	(144,301)
	(1,589)	(216,252)
Escrow shares allocated to directors, officers, and employees:		
Escrow shares compensation expense (recovery)	(473,467)	(313,622)
	$ (475,056)	$ (529,874)

Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price (C$)
Balance as at December 31, 2004	12,914,270	$ 1.22
Exercised	(15,000)	1.06
Balance as at March 31, 2005	12,899,270	$ 1.22

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

Number of Shares	Exercise Price (C$)	Expiry Date
250,000	0.60	April 23, 2005
920,000	1.35	April 31, 2005
879,270	1.06	October 22, 2005
6,000,000	1.35	October 31, 2005
250,000	1.05	April 20, 2006
4,600,000	1.10	November 9, 200
12,899,270		

(Expressed in United States dollars)

6. COMMON STOCK (cont'd …)

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 2004, the Company may grant options to acquire up to 9,251,613 common shares of the Company. Options granted can have a term up to five years and an exercise price typically not less than the Company's closing stock price at the date of grant. The options shall vest as to 25% at issuance and 1/8 every three months thereafter for a total of 18 months.

Stock option transactions are summarized as follows:

	Number of Shares		Weighted Average Exercise Price (C$)
Balance as at December 31, 2004	5,915,000	$	1.03
Granted	575,000		1.25
Balance as at March 31, 2005	6,490,000	$	1.05

The weighted average fair value of stock options granted during the three months ended March 31, 2005 was C$0.91 (March 31, 2004 - C$1.09). The number of stock options exercisable at March 31, 2005 was 6,415,000 (December 31, 2004 – 3,708,750).

On March 3, 2005, the Company became a Tier 1 Issuer on the TSX-V and, as a result, all stock options became fully vested except those issued to investor relations consultants.

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

Number of Shares		Exercise Price (C$)	Expiry Date
210,000	$	1.15	November 1, 2006
765,000		0.46	August 26, 2007
50,000		0.34	December 3, 2007
510,000		0.60	January 30, 2008
100,000		0.60	February 19, 2008
925,000		1.00	September 18, 2008
175,000		2.32	November 13, 2008
715,000		1.24	February 11, 2009
1,665,000		1.15	November 12, 2009
200,000		1.20	November 24, 2009
600,000		1.25	December 17, 2009
400,000		1.28	January 7, 2010
175,000		1.19	March 3, 2010
6,490,000			

(Expressed in United States dollars)

6. COMMON STOCK (cont'd …)

Stock-based compensation

The fair value of stock options granted during the year ended March 31, 2005 was $434,304 (March 31, 2004 - $590,448). Total stock-based compensation recognized during the three months ended March 31, 2005 was $2,518,054 (March 31, 2004 - $313,813) which has been recorded in the consolidated statements of operations as follows with corresponding additional paid-in capital recorded in stockholders' equity:

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004
Consulting fees	$ 822,076	$ 109,611
Legal	61,952	64,976
Management fees	817,387	43,020
Mineral property interets	354,697	10,858
Office and administration	340,666	47,436
Stockholder communications and investor relations	121,276	37,912
	$ 2,518,054	$ 313,813

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

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004
Risk-free interest rate	3.07%	3.48%
Expected life of warrants	5	5
Annualized volatility	93%	134%
Dividend rate	0.00%	0.00%

(Expressed in United States dollars)

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended March 31, 2005:

a) Paid or accrued management fees of $11,934 (March 31, 2004 - $8,592) to two directors and officers of the Company.

b) Recognized an expense (recovery) of ($1,589) (March 31, 2004 - $216,252) from certain performance escrow shares allocated to the president and CEO of the Company (Note 6) which have been recorded as escrow shares compensation (recovery) of ($1,589) (March 31, 2004 - $144,301) and mineral property interest costs (recovery) of $Nil (March 31, 2004 - $71,951). In addition, compensation expense (recovery) of ($473,467) was recognized from certain performance escrow shares transferred to directors of the Company (Note 6) which has been recorded as escrow shares compensation (recovery) of ($473,467) (March 31, 2004 – ($313,622)).

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.

8. SEGMENT INFORMATION

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

Geographic information is as follows:

	March 31, 2005	December 31, 2004
Identifiable assets		
Canada	4,839,505	6,233,005
Mongolia	432,427	129,410
	5,271,932	6,362,415

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004
Loss for the period		
Canada	(1,749,823)	(44,472)
Mongolia	(1,447,200)	(173,456)
	$ (3,197,023)	$ (217,928)

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.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the three month period ended March 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 ($1,589).

b) The recognition of compensation expense (recovery) from the allocation of certain performance escrow shares to directors of the Company which has been recorded as escrow shares compensation (recovery) of ($473,467).

Significant non-cash transactions for the three month period ended March 31, 2004 consisted of:

a) The recognition of compensation expense (recovery) from the allocation of certain performance escrow shares to the president and CEO of the Company which has been recorded as escrow shares compensation (recovery) of ($144,301) and mineral property interest costs (recovery) of ($71,951) (Note 6).

b) The recognition of compensation expense (recovery) from the allocation of certain performance escrow shares to directors of the Company which has been recorded as escrow shares compensation (recovery) of ($313,622).

11. SUBSEQUENT EVENTS

Subsequent to March 31, 2005:

a) 1,175,000 share purchase warrants expired without exercise.

b) 1,230,000 escrow shares were released from escrow.

(Expressed in United States dollars)

12. 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:

	March 31, 2005			December 31, 2004		
	Balance, United States GAAP	Adjustments	Balance, Canadian GAAP	Balance, United States GAAP	Adjustments	Balance, Canadian GAAP
Current assets	$ 4,885,933	$ -	$ 4,885,933	$ 6,223,295	$ -	$ 6,223,295
Mineral property interests	-	14,476,824	14,476,824	-	13,305,810	13,305,810
Equipment	385,999	-	385,999	139,120	-	139,120
	$ 5,271,932	$ 14,476,824	$ 19,748,756	$ 6,362,415	$ 13,305,810	$ 19,668,225
Current liabilities	$ 275,278	$ -	$ 275,278	$ 198,763	$ -	$ 198,763
Stockholders' equity	4,996,654	14,476,824	19,473,478	6,163,652	13,305,810	19,469,462
	$ 5,271,932	$ 14,476,824	$ 19,748,756	$ 6,362,415	$ 13,305,810	$ 19,668,225

(Expressed in United States dollars)

12. 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:

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004	Cumulative Period from Inception (July 19, 1995) to March 31, 2005
Net loss for the period, United States GAAP	$ (3,197,023)	$ (217,928)	$ (22,805,009)
Adjustments:			
Mineral property interests	1,171,014	156,688	14,591,379
Escrow shares compensation	(475,056)	(457,923)	(91,795)
Net loss for the period, Canadian GAAP	$ (2,501,065)	$ (519,163)	$ (8,305,425)
Basic and diluted net loss per common share, Canadian GAAP	$ (0.05)	$ (0.01)	
Weighted average number of common shares outstanding, Canadian GAAP	50,875,566	46,577,984	

(Expressed in United States dollars)

12. 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:

	Three Month Period Ended March 31, 2005	Three Month Period Ended March 31, 2004	Cumulative Period from Inception (July 19, 1995) to March 31, 2005
Net cash used in operating activities, United States GAAP	$ (1,324,681)	$ (612,533)	$ (12,440,475)
Mineral property interests	816,317	156,688	14,236,982
Stock-based compensation	-	37,912	(259,919)
Escrow shares compensation	-	(72,151)	(169,280)
Warrants issued for cancellation of price guarantee	-	-	(129,266)
Finders fee	-	-	(35,827)
Mineral property interests paid in stock	-	-	(3,806,000)
Net cash used in operating activities, Canadian GAAP	(508,364)	(490,084)	(2,603,785)
Net cash provided by investing activities, United States and Canadian GAAP	13,210	182,332	17,182,548
Net cash used in operating activities United States GAAP	(263,771)	(77,793)	(437,426)
Mineral property interests	(816,317)	(122,449)	(9,836,690)
Net cash used in investing activities, Canadian GAAP	(1,080,088)	(200,242)	(10,274,116)
Effect of foreign currency translation on cash and cash equivalents	(26,183)	(74,555)	154,299
Change in cash an cash equivalents during the period	(1,601,425)	(582,549)	4,458,946
Cash and cash equivalents, beginning of period	6,060,371	5,455,495	-
Cash and cash equivalents, end of period	$ 4,458,946	$ 4,872,946	$ 4,458,946

12. 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 March 31, 2005.

Asset retirement obligation

Under United States GAAP, 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. Under Canadian GAAP, asset retirement obligations are required to be recorded beginning January 1, 2004.

As of March 31, 2005, the Company has not incurred any asset retirement obligations under United States GAAP that would generate a difference.

Escrow shares

Under United States GAAP, the Company accounts for escrow shares as described in Note 3.

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 6, 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 the these performance escrow shares are allocated to specific individuals.

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

Escrow shares (cont'd…)

Thus, there is s difference between United States GAAP and Canadian GAAP on the accounting for escrow shares for the year three month periods ended March 31, 2005 and 2004 in the amount of $(475,056) and $(457,923) respectively.

Stock-based compensation

Under United States GAAP, the Company accounts for stock-based compensation as described in Note 3.

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 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 three month periods ended March 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 three month periods ended March 31, 2005 and 2004 were 50,875,566 and 46,577,984 respectively.

New accounting pronouncements

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which will be effective for annual and interim periods beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. Management is assessing the impact, if any, of the adoption of this guideline on the Company's consolidated financial statements.

The adoption of this new pronouncement is not expected to have a material effect on the Company's consolidated financial position or results of operations.