

**ENTRÉE GOLD INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2005**

Prepared in accordance with  
Item 303 of Regulation S-B  
Under the  
Securities Exchange Act of 1934

Extracted from the Company's Form 10-QSB  
Dated August 11, 2005  
As filed with  
the Securities and Exchange Commission  
of the United States of America

## **INTRODUCTION**

This discussion and analysis of financial position and results of operations (“MD&A”) of Entrée Gold Inc. should be read in conjunction with the unaudited consolidated financial statements of Entrée Gold Inc. and the notes thereto for the three and six months ended June 30, 2005 and with the audited consolidated financial statements of Entrée Gold Inc. and the notes thereto for the year ended December 31, 2004.

## **FORWARD-LOOKING STATEMENTS**

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

## **EXPLANATORY NOTE**

Unless otherwise specified, all monetary amounts in this Form 10-QSB are expressed in the United States dollars (“US\$” or “\$”). Amounts in Canadian dollars are specifically expressed with “Cdn \$” or “C\$”. All references to “common shares” refer to the common shares in our capital stock.

As used in this quarterly report, the terms “we”, “us”, “our”, the “Company” and “Entrée” mean Entrée Gold Inc. and our wholly-owned Mongolian subsidiary Entrée LLC, unless otherwise indicated.

### **General**

We are an exploration stage company engaged in the exploration of natural resource properties located in Mongolia. Our principal executive office is located at Suite 1201, 1166 Alberni Street, Vancouver, British Columbia, Canada V6E 3Z3. The telephone number for our principal executive office is (604) 687-4777 and our web site is located at [www.entreegold.com](http://www.entreegold.com). Information contained on our website does not form part of this quarterly report. Our registered and records office is at Suite 950 — 1055 West Georgia Street, Vancouver, British Columbia, V6E 3P3 and our agent for service of process in the United States of America is National Registered Agents, Inc., 1090 Vermont Avenue NW, Suite 910, Washington, DC 20005.

We also maintain an administrative office in Ulaan Bataar, the capital of Mongolia, from which we support our Mongolian operations. The address of our Mongolian office is Jamyan Gun Street-5, Ar Mongol Travel Building, Suite #201, #202, Sukhbaatar district, 1st county, Ulaanbaatar, Mongolia. The telephone number for our Mongolian office is 976.11.318562.

### **Our Current Business**

We are an exploration stage resource company engaged in exploring mineral resource properties. Our current mineral properties consist of five mineral exploration licenses granted by the Mineral Resources

Authority of Mongolia, a division of the government of Mongolia. All of these mineral exploration licenses have been registered in the name of our Mongolian subsidiary Entrée LLC.

There is no assurance that a commercially viable mineral deposit exists on any of our properties, and further exploration is required before we can evaluate whether any exist and, if so, whether it would be economically and legally feasible to develop or exploit those resources. Even if we complete our current exploration program and we are successful in identifying a mineral deposit, we would be required to spend substantial funds on further drilling and engineering studies before we could know whether that mineral deposit will constitute a reserve (a reserve is a commercially viable mineral deposit). Please refer to the section of this quarterly report entitled 'Risk Factors', beginning at page 43, for additional information about the risks of mineral exploration.

We acquired our first mineral resource property in 1995 from Tierra Colorada SA, a Costa Rican corporation controlled by one of our then directors, for a purchase price of 800,000 common shares of our company issued at a value of \$147,250, or \$0.25 per share. This mineral property consisted of a Costa Rican exploration permit for the exploration of certain land located in Santa Rosa, Costa Rica. We engaged in active exploration of this Santa Rosa property through calendar year 1999, but the results were disappointing. Shortly thereafter, an ore processing mill located near the Santa Rosa property to which we would have sent minerals, had we found them, closed down. For these reasons, our Board of Directors decided to abandon the Santa Rosa property on April 30, 2001, and to write off all deferred costs to operations. The total amount that we lost on the Santa Rosa property, including our acquisition cost, was \$232,332.

From April 30, 2001 until July 25, 2002 our management considered other business opportunities. Towards the end of this period our management changed to our current management.

#### *Purchase of Lookout Hill Property*

Pursuant to an 'arms length' option agreement dated July 25, 2002, we purchased from Mongol Gazar Co., Ltd., an unrelated privately held Mongolian company, an option to acquire up to a 60% interest in three mineral licenses granted by the Mineral Resources Authority of Mongolia granting exploration rights, respectively, over three contiguous parcels of land known as Togoot (License No. 3136X), comprised of 104,484 hectares, Shivee Tolgoi (License No. 3148X), comprised of 54,760 hectares and Javhlant (License No. 3150X), comprised of 20,346 hectares. "Shivee Tolgoi" translates into English as "Lookout Hill" and we refer to all three of these parcels, collectively, as Lookout Hill.

The option agreement provided that we could purchase up to a 60% interest in the Lookout Hill property in stages by: incurring \$490,000 in exploration expenditures on the Lookout Hill property prior to the first anniversary of the date of the agreement and reimbursing Mongol Gazar for up to \$200,000 for exploration expenditures incurred by it on the Lookout Hill property during this period incurring \$1,490,000 in cumulative exploration expenditures on the Lookout Hill property prior to the second anniversary of the date of the agreement and issuing 1,000,000 common shares to Mongol Gazar; incurring \$3,490,000 in cumulative exploration expenditures on the Lookout Hill property prior to the third anniversary of the date of the agreement and issuing an additional 1,000,000 common shares to Mongol Gazar incurring \$7,490,000 in cumulative exploration expenditures on the Lookout Hill property prior to the fourth anniversary of the date of the agreement and issue an additional 1,000,000 common shares to Mongol Gazar; incurring \$12,490,000 in cumulative exploration expenditures on the Lookout Hill property prior to the fifth anniversary of the date of the agreement and either (a) issuing a final 1,000,000 of our common shares to Mongol Gazar or (b) completing a feasibility study on the Lookout Hill property

In return, Mongol Gazar agreed to transfer to us a 15% interest in the Lookout Hill property after the second anniversary of the date of the option agreement, and an additional 15% interest after each of the third, fourth and fifth anniversaries for an aggregate total of a 60% interest. Thereafter, we intended to form a joint venture with Mongol Gazar for further development of the Lookout Hill property, if warranted by

the results of our exploration. We agreed to pay a net smelter return royalty to Mongol Gazar and Mongol Gazar agreed that we could purchase half of this net smelter return royalty for \$10,000,000. We paid a finder's fee for this transaction to Canaccord Capital Corporation, consisting of 200,000 of our common shares. By an assignment effective July 25, 2002, we assigned our interest in the option agreement to our wholly-owned subsidiary Entrée LLC, which we formed specifically for the purpose of holding and operating our mining properties in Mongolia.

Pursuant to a purchase agreement dated September 13, 2003 between our company and our subsidiary Entrée LLC on the one hand, and Mongol Gazar and its Mongolian affiliate MGP LLC, on the other hand, we agreed to purchase a 100% interest in the Lookout Hill property, free of any net smelter return royalty, together with an additional mineral license (License No. 3045X) pertaining to a parcel of property known as the Ikh Ulziit Uul property, located in the Kharmagtai area of Mongolia in the Manlai and Tsogt-tsetsii Soums, Omnogovi (also spelled Umnogobi) Aimag (an 'Aimag' is the local equivalent of a state or province; a 'Soum' is the local Mongolian term for a township or district), approximately 120 kilometers north of the Lookout Hill property. In consideration for these properties we agreed to pay \$5,500,000 in cash and to issue 5,000,000 common shares of our company to Mongol Gazar. We also agreed that if Mongol Gazar sold these 5,000,000 shares at any time prior to November 30, 2004 for net proceeds of less than \$5,000,000, we would pay them an amount equal to the difference between \$5,000,000 and the net proceeds they actually received. Although this purchase agreement superseded the option agreement dated July 25, 2002, we agreed that we would reinstate the option agreement if the transactions described in the purchase agreement did not close.

The purchase agreement provided that we could use the cash portion of the purchase price to clear any encumbrance on the Lookout Hill property, and that we were to pay the balance of the cash portion of the purchase price, and issue the 5,000,000 shares, fifteen days after we received notice from our Mongolian lawyers that satisfactory title to the Lookout Hill and Ikh Ulziit Uul properties had been transferred into the name of our Mongolian subsidiary, Entrée LLC, free of all liens, charges and encumbrances.

Because Mongol Gazar was still in the process of clearing title to the Ikh Ulziit Uul property at the time we were preparing to complete our acquisition of the Lookout Hill property, we entered into an Amending Agreement dated November 6, 2003 severing the Ikh Ulziit Uul property from the September 13, 2003 purchase agreement. We entered into a separate purchase agreement with respect to the Ikh Ulziit Uul property, pursuant to which we would acquire title to it for no additional consideration at such time as Mongol Gazar was able to transfer clear title. Title to this parcel was transferred to our subsidiary Entrée LLC on February 9, 2004.

Title to the Javhlant and Togoot parcels was transferred to our subsidiary, Entrée LLC, on September 30, 2003 and title to the third parcel comprising the Lookout Hill property, Shivee Tolgoi, was transferred to Entrée LLC on October 28, 2003. We paid the first part of the cash portion of the purchase price of \$5,500,000, in the amount of \$500,000, on September 19, 2003 and the balance of the cash portion of the purchase price on November 13, 2003.

In a subsequent agreement dated as of April 20, 2004, we agreed to issue to Mongol Gazar non-transferable share purchase warrants for the purchase of up to 250,000 of our common shares at a purchase price of \$1.05 per share until expiration of the warrants on April 20, 2006 in consideration of (i) the waiver by Mongol Gazar of our obligation to pay to it the shortfall, if any, between \$5,000,000 and the net proceeds realized upon a sale of the 5,000,000 shares issued to them as part of the purchase price for the Lookout Hill property and (ii) a 100% interest in the Khatsavch Property (Licence #6500X, consisting of 632 hectares) located in Khanbogd and Bayan Ovoo, Omnogovi, Mongolia. The share purchase warrants were issued on June 14, 2004, and title to the Khatsavch property has been registered in the name of Entrée LLC.

*Equity Participation and Earn-In Agreement With Ivanhoe Mines, Ltd.*

We entered into an ‘arms length’ Equity Participation and Earn-In Agreement dated as of October 15, 2004, with Ivanhoe Mines Ltd., an unrelated Yukon corporation which owns a mineral exploration property known as Oyu Tolgoi, or ‘Turquoise Hill’, which is located adjacent to our Lookout Hill property. This agreement provided that, upon satisfaction of certain conditions, Ivanhoe Mines Ltd. would subscribe for 4,600,000 units from our company for Cdn \$1.00 per unit, with each unit consisting of one common share of our company and one share purchase warrant entitling the holder to purchase one additional common share of our company for a purchase price of Cdn \$1.10 for two years from the date of purchase. have the right, during an earn-in period beginning on closing of the subscription for units and ending, at the latest, on the eighth anniversary of that closing date (subject to earlier expiration as specified in the agreement), to earn a participating interest in a mineral exploration and, if warranted, development and mining project to be conducted by Ivanhoe Mines Ltd. on a portion of our company’s Lookout Hill property consisting of approximately 40,000 hectares, or approximately 22% of the land area of our Lookout Hill property shown on the map below. The amount of the participating interest in the project will vary depending on the amount of money that Ivanhoe Mines Ltd. expends on the project during the earn-in period, but the agreement provides that Ivanhoe Mines Ltd. can earn a 51% interest by expending an aggregate of at least \$20,000,000 during the earn-in period, a 60% interest by expending an aggregate of at least \$27,500,000 during the earn-in period, or a sliding percentage interest, depending on the depth from which minerals are extracted from the project, of between 70% and 80% by expending an aggregate of at least \$35,000,000 during the earn-in period have the right to nominate one member of our Board of Directors until the earlier to occur of (a) the expiration of the earn-in period, or (b) the date upon which Ivanhoe ceases to own at least ten percent (10%) of our issued and outstanding common shares (assuming the exercise by Ivanhoe of all securities convertible into our common shares).

In addition, the Equity Participation and Earn-In Agreement gives to Ivanhoe Mines Ltd. a pre-emptive right to such percentage of any offering of securities of our company as will enable them to preserve their ownership percentage in our company which, after the acquisition of the 4,600,000 units, would be approximately 9% prior to exercise of any of their share purchase warrants and could, upon the exercise of the latter, go as high as 17% of our issued and outstanding common shares. During any period of time that Ivanhoe Mines Ltd. owns more than 10% of our issued and outstanding common shares (assuming the exercise by Ivanhoe of all securities convertible into our common shares), Ivanhoe Mines Ltd. is required to vote these shares as our board of directors direct on all matters pertaining to the appointment of directors, the appointment and remuneration of our auditors and all other matters to be submitted to our shareholders except for “extraordinary” matters. “Extraordinary” matters are defined in the Equity Participation and Earn-In Agreement to mean matters requiring a special majority (66.33%), the vote of a majority of disinterested shareholders and matters where Ivanhoe Mines Ltd. is precluded from voting.

The portion of our property subject to the Equity Participation and Earn-In Agreement, which is referred to in the agreement as the “Project Property”, is shown below:

**Entree Gold Inc./Ivanhoe Mines Ltd.  
Project Property Boundaries**



We closed the private placement described in the Equity Participation and Earn-In Agreement on November 9, 2004, at which time Ivanhoe Mines Ltd. purchased the 4,600,000 units described above. Ivanhoe Mines now owns approximately 16% of Entrée's issued and outstanding shares, with the potential to hold up to a total of 17% upon exercise of the warrants.

We believe that the Equity Participation and Earn-In Agreement represents a significant milestone in the development of our company. It has enabled us to raise money that we can use to pursue our exploration activities on the balance of our Lookout Hill property and elsewhere. It has the potential, depending on how much money Ivanhoe Mines Ltd. actually expends on the project during the earn-in period, to enable the exploration of that portion of our Lookout Hill property at little or no cost to our company. Finally, their commitment to explore our property demonstrates that Ivanhoe Mines Ltd., an internationally recognized mineral exploration and development company, has sufficient confidence in our company and our Lookout Hill property to invest significant time, money and effort in our future.

Our corporate headquarters are located in Vancouver, British Columbia, but we conduct all of our operations in Mongolia through our wholly-owned subsidiary, Entrée LLC. We maintain an office for this purpose in Ulaan Bataar, the capital of Mongolia. Our Mongolian office is staffed by our Exploration Manager, a Canadian geologist who works in Ulaan Baatar for 11 months of the year on a 7 weeks in/3 weeks out basis; a Mongolian office administrator employed full-time, and a Mongolian office assistant, on contract for 11 months per year.

## **Listing of Common Stock on the American Stock Exchange**

On July 7, 2005 the American Stock Exchange has approved the listing of 86,807,154 shares of our common stock. The trading of our shares of common stock commenced on the American Stock Exchange effective July 18, 2005, under the trading symbol “EGI”.

## **Other Developments**

On May 12, 2005 we entered into a Lease Agreement dated May 12, 2005 with Alberni Investments (1988) Inc. whereby we will lease approximately 2,250 square feet of office space in Vancouver, British Columbia for a 5 year term. We have agreed to pay base rent of C\$2,625 per month in years one to three and C\$2,812.50 per month in years four and five. We intend to use these leased premises for our day-to-day operations.

For certain other important developments, see Part II, Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds.” below.

## **Plan of Operations and Cash Requirements**

### *Overview*

We are an exploration stage resource company engaged in exploring mineral resource properties. Our current mineral properties consist of five mineral exploration licenses granted by the Mineral Resources Authority of Mongolia, a division of the government of Mongolia. All of these mineral exploration licenses have been registered in the name of our Mongolian subsidiary Entrée LLC.

There is no assurance that a commercially viable mineral deposit exists on any of our properties and further exploration is required before we can evaluate whether any exist and, if so, whether it would be economically and legally feasible to develop or exploit those resources. Even if we complete our current exploration program and we are successful in identifying a mineral deposit, we would be required to spend substantial funds on further drilling and engineering studies before we could know whether that mineral deposit will constitute a reserve (a reserve is a commercially viable mineral deposit).

Three of our five mineral properties, known as the Javhlant, Shivee Tolgoi and Togoot licenses, are contiguous and are referred to collectively as the Lookout Hill property. A map of the Lookout Hill property has been included in this quarterly report. We believe that reference to this map will be helpful to you during your review of our Plan of Operation, below. The Lookout Hill property is our principal focus at this time, though it is without a known body of commercial ore or improvements of any kind.

Over the next 12 months we propose to continue our exploration activities at the Lookout Hill property. As is discussed in greater detail in the Section of this quarterly report entitled “*Our Current Business*”, beginning at page 32 of this quarterly report, in November 2004, we entered into an Equity Participation and Earn-In Agreement with Ivanhoe Mines Ltd. pursuant to which we anticipate that Ivanhoe Mines Ltd. is required to pursue, at its expense, exploration for minerals on the portion of our Lookout Hill property that is identified as the “Project Property” on the map at page 36 of this quarterly report. Ivanhoe has been operating up to seven drills on that portion of the Lookout Hill property that is subject to the Equity Participation and Earn-In Agreement.

Drill results from hole EGD006, collared on Entrée’s property, 5 meters from the Entrée-Ivanhoe boundary, intersected the interpreted northwards extension of the Ivanhoe’s Hugo North deposit and returned 258m of 2.56% copper and 1.17 g/t gold or a copper equivalent grade of 3.31% copper (Copper equivalent grades have been calculated using assumed metal prices of US\$0.80/lb. for copper and US\$350/oz. for gold; %Cu equivalent = %Cu + [Au g/t x (11.25/17.64)]. Subsequently, hole EGD006A intersected 608m of high grade

copper mineralization that averaged 3.24% copper and 0.82 g/t gold or a copper equivalent grade of 3.77% copper. This intersection in hole EGD006A extended the mineralization 200-300m vertically below the intercept in hole EGD006. Hole EGD008 intercepted the same mineralized horizon approximately 450m along strike to the north-northeast of the intercepts in holes EGD006/6A and averaged 324m of 2.45% copper and 1.23 g/t gold or a copper equivalent grade of 3.25% copper. Ivanhoe is continuing its drill testing of the Hugo North extension. Hole EGD016, collared midway between EGD006/6A, and EGD008, confirmed the continuity of the Hugo North extension by intersecting a 193.1-metre downhole interval, with average grades of 3.06 % copper and 1.08 g/t gold or a copper equivalent grade of 3.75 % copper. Hole EGD020, collared approximately 450m north of EGD008 or approximately 900m north of EGD006/6A was lost due to drilling difficulties within the “hangingwall rock units”, estimated to be up to 200m above the targeted depth to the mineralized horizon. The mineralized system remains open to the north of EGD008 and to depth and continues to be aggressively evaluated by Ivanhoe.

In July 2005, Rio Tinto plc (one of the world’s largest mining and exploration companies), through its wholly owned subsidiary, Kennecott Canada Exploration Inc. (collectively, “Rio Tinto”) completed a private placement into Entrée, whereby they purchased 5,665,730, units at a price of C\$2.20 per unit, which consisted of one Entrée common share and two warrants (one “A” warrant and one “B” warrant). Two “A” warrants entitle Rio Tinto to purchase one Entrée common share for C\$2.75 within two years; two “B” warrants entitle Rio Tinto to purchase one Entrée common share for C\$3.00 within two years. Proceeds from Rio Tinto’s investment were \$10,170,207. Ivanhoe exercised its pre-emptive right to maintain proportional ownership of Entrée’s shares and thereby exercised its warrant for 4.6 million shares at C\$1.10, resulting in proceeds of \$4,069,214. In July 2005 Ivanhoe took part in the private placement, purchasing 1,235,489 units, resulting in further proceeds to Entrée of \$2,246,343. Rio Tinto purchased an additional 641,191 units of the private placement to maintain its proportional ownership, resulting in further proceeds of \$1,165,802. Total gross proceeds to Entrée for these transactions were \$17,651,368. See Part II. Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds.” below.

At the same time, we intend to continue our exploration activities on the balance of our Lookout Hill property, in addition to exploration activities on our other mineral properties in Mongolia.

#### *Cost Estimate, Lookout Hill*

In July 2002, Dr. Andrejs Panteleyev (an independent consulting geologist), recommended a two phase exploration program consisting of a mix of trenching, geophysical surveying, diamond drilling and geochemical analysis and assays. The components of Phase I of Dr. Panteleyev’s program are discussed in detail in our Annual Report on Form 10-KSB filed with the SEC on April 6, 2005, and we refer you to that document. We completed Phase I of Dr. Panteleyev’s program on July 31, 2003.

At December 31, 2004 we considered Phase II of the exploration program recommended by Dr. Panteleyev to be complete. The drilling program in the Zone III, Zones I and II and the X-Grid areas was completed in August 2004, with drill results released in September 2004. The surface geophysical surveys to the west and south of the Turquoise Hill property and in the Bayan Ovoo areas were completed in early November 2004. Trenching and sampling of selected targets, geological mapping, reconnaissance mapping and sampling over the entire 179,000 hectares of the Lookout Hill property was finished at the end of November.

In early 2005, our geologists assessed and compiled all available data and assays, discussed the results with the geophysical and geochemical consultants and provided input to Dr. Panteleyev. Dr. Panteleyev reviewed the data gathered during the 2004 exploration season and recommended a work program for the 2005 exploration season in a report dated February 4, 2005, prepared in accordance with Canadian securities instrument National Instrument 43-101.

Due to severe weather conditions during the winter months, all field exploration activities at Lookout Hill were suspended until mid-February 2005, when the 2005 exploration season began. We expect that the



2005 exploration program will include deep probing geophysical surveys over Zone I/III and Bayan Ovoo, follow-up drilling in previously drilled areas, drilling in new areas identified by previous ongoing surveys and continued reconnaissance mapping of the entire property as outlined in Dr. Panteleyev's latest report. Geophysical surveys for Zone I/III began in February 2005. As of July 2005, most of the deep probing IP geophysical investigations were completed. However, extensions to these surveys south of Zones I and III are being contemplated, along with the evaluation of additional targets. Drilling on Zones I and III commenced in May 2005. Drilling has been slow due to technical difficulties, but continues with numerous targets remaining to be tested. The following table sets out our projected budget for the 12 month period ending June 30, 2006:

	<b>June 30, 2006</b>
Exploration, Lookout Hill	
Drilling	\$2,350,000
Gradient IP (induced polarization)	675,000
Capital expenditures	108,900
Camp operating expenses	341,460
Communication	91,250
Assays	288,944
Transport	71,150
Travel	186,065
Salaries	515,961
Ulaan Baatar office	46,250
Contingency (10%)	467,498
	<hr/>
	5,142,479
	<hr/>

We are required to pay annual fees to the Mineral Resources Authority of Mongolia in order to maintain our five mineral exploration licenses. Over the 12 month period ending June 30, 2006, we will be required to pay an aggregate of \$269,250 for the Lookout Hill property.

*Cost Estimate — Ikh Ulziit Uul*

Although most of our exploration efforts have been focused on our Lookout Hill Property because it is the most advanced of our properties to date and it shows promising results, exploration on the Ikh Ulziit Uul property has increased. Programs including geological mapping and sampling, deep-probing geophysical (induced polarization and magnetometer) and geochemical surveys are nearing completion. Selected anomalies will be diamond drilled. The following table shows our projected budget for the 12 month period ending June 30, 2006 for the Ikh Ulziit Uul property:

	<b>June 30, 2006</b>
Exploration, Ikh Ulziit Uul	
Drilling	\$ 830,000
Gradient IP	390,000
Capital expenditures	54,300
Camp operating expenses	93,820
Communication	24,750
Assays	82,315
Transport	19,550
Travel	57,335
Salaries	161,654
Ulaan Baatar office	14,750
Contingency - 10%	172,849
	<hr/>
	\$1,901,343
	<hr/>

We are required to pay annual fees to the Mineral Resources Authority of Mongolia in order to maintain our five mineral exploration licenses. Over the next 12 months ending June 30, 2006, we will be required to pay \$10,500 for the Ikh Ulziit Uul property.

*Cost Estimate — Khatsavch*

We also intend to do some preliminary exploration work consisting mainly of reconnaissance mapping and sampling on the Khatsavch property during this period, which we estimate will cost approximately \$10,000.

We are required to pay annual fees to the Mineral Resources Authority of Mongolia in order to maintain our five mineral exploration licenses. Over the next 12 months ending June 30, 2006, we will be required to pay \$63 for the Khatsavch property.

*Cost Estimate -Overview*

The following table sets out our combined operating budget for the 12 month period ending June 30, 2006:

	<b>June 30, 2006</b>
Exploration, combined	
Lookout Hill	\$ 5,142,479
Ikh Ulziit Uul	1,901,343
Khatsavch	10,000
	<hr/> 7,053,821
Other expenditures	
Annual license fees	281,000
New project evaluation	250,000
Vancouver office	1,126,143
Investor relations	282,435
	<hr/> 8,993,399
	<hr/>
Working Capital, June 30, 2005	18,146,287
Private placement, July 6, 2005	3,412,145
Exercise of warrants, July 2005	669,647
	<hr/> 22,228,080
	<hr/>
Working capital, June 30, 2006, as adjusted	<hr/> \$13,234,681

Our average monthly corporate expenditures, which we have determined based on our experience over the previous 12 months, is estimated to be approximately \$94,000 per month or \$1,126,000 over the 12 month period ending June 30, 2006, including estimated legal fees of \$198,000.

Over the next 12 months, we anticipate that we will incur promotional and investor relations costs of approximately \$282,000 consisting of ongoing investor relations fees, investment conferences and advertising.

A provision for ongoing new project evaluations and acquisitions during the fall of 2005 has been made. Mongolia will remain our primary area of interest. A budget of \$250,000 has been allocated for this purpose.

As at June 30, 2005, we had working capital of approximately \$18,146,000. We estimate that our expenditures for the 12 month period ending June 30, 2006 will be approximately \$8,993,400. Based on the above assumptions we expect our working capital at June 30, 2006 to be approximately \$13,234,600. In July 2005, the Company issued 1,876,680 common shares for gross proceeds of \$3,412,145 in a private placement and 619,750 common shares for an aggregate of \$669,647 upon the exercise of warrants.

### **Product Research and Development**

Our business plan is focused on the exploration and development of our mineral resource properties.

We do not anticipate that we will expend any significant funds on research and development, apart from the evaluation of potential acquisitions, over the next twelve months ending June 30, 2006.

### **Purchase of Significant Equipment**

We do not intend to purchase any significant equipment over the next twelve months ending June 30, 2006.

### **Employees**

As at June 30, 2005, we had twelve full time employees (four in our Vancouver administrative office, five at the Lookout Hill project and three in our Ulaan Baatar administrative office). We currently employ 100 part time employees at our Lookout Hill and Ikh Ulziit Uul properties for the 2005 field exploration season. We do not anticipate making any significant changes to our full-time staff over the next 12 months.

## **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

Our financial statements and accompanying notes are prepared in conformity with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our balance sheet, the statements of operations and stockholders' equity, and the cash flows statements included elsewhere in this filing.

### **Principles of Consolidation**

The Company's 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. The consolidated financial statements conform in all material respects with Canadian generally accepted accounting principles ("Canadian GAAP") except as described in Note 12 of the consolidated financial statements.

### **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.

### **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 6 of the consolidated financial statements, 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 voluntarily 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" ("EITF 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. 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 June 30, 2005, the total number of potentially dilutive shares of common stock excluded from basic net loss per share was 20,014,200 (June 30, 2004 – 15,697,673).

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 (June 30, 2004, – 5,401,350).

### **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 places 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: . 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 . 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 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 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.

## **RISK FACTORS**

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other "forward-looking statements" involve various risks and uncertainties as outlined below. We caution readers of this quarterly report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward-looking statements". In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

### **RISKS ASSOCIATED WITH MINING**

*All five of our properties are in the exploration stage. There is no assurance that we can establish the existence of any mineral resource on any of our properties in commercially exploitable quantities. Until we can do so, we cannot earn any revenues from operations and if we do not do so we will lose all of the funds that we expend on exploration. If we do not discover any mineral resource in a commercially exploitable quantity, our business will fail.*

Despite exploration work on our mineral properties, we have not established that any of them contain any mineral reserve, nor can there be any assurance that we will be able to do so. If we do not, our business will fail.

A mineral reserve is defined by the Securities and Exchange Commission in its Industry Guide 7 (which can be viewed over the Internet at <http://www.sec.gov/divisions/corpfin/forms/industry.htm#secguide7>) as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The probability of an individual prospect ever having a "reserve" that meets the requirements of the Securities and Exchange Commission's Industry Guide 7 is extremely remote; in all probability our mineral resource property does not contain any 'reserve' and any funds that we spend on exploration will probably be lost.

Even if we do eventually discover a mineral reserve on one or more of our properties, there can be no assurance that we will be able to develop our properties into producing mines and extract those resources. Both mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines.

The commercial viability of an established mineral deposit will depend on a number of factors including, by way of example, the size, grade and other attributes of the mineral deposit, the proximity of the resource to infrastructure such as a smelter, roads and a point for shipping, government regulation and market prices. Most of these factors will be beyond our control, and any of them could increase costs and make extraction of any identified mineral resource unprofitable.

*Mineral operations are subject to applicable law and government regulation. Even if we discover a mineral resource in a commercially exploitable quantity, these laws and regulations could restrict or prohibit the exploitation of that mineral resource. If we cannot exploit any mineral resource that we might discover on our properties, our business may fail.*

Both mineral exploration and extraction require permits from various foreign, federal, state, provincial and local governmental authorities and are governed by laws and regulations, including those with respect to prospecting, mine development, mineral production, transport, export, taxation, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There can be no assurance that we will be able to obtain or maintain any of the permits required for the continued exploration of our mineral properties or for the construction and operation of a mine on our properties at economically viable costs. If we cannot accomplish these objectives, our business could fail.

We believe that we are in compliance with all material laws and regulations that currently apply to our activities but there can be no assurance that we can continue to do so. Current laws and regulations could be amended and we might not be able to comply with them, as amended. Further, there can be no assurance that we will be able to obtain or maintain all permits necessary for our future operations, or that we will be able to obtain them on reasonable terms. To the extent such approvals are required and are not obtained, we may be delayed or prohibited from proceeding with planned exploration or development of our mineral properties.

Environmental hazards unknown to us which have been caused by previous or existing owners or operators of the properties may exist on the properties in which we hold an interest. More specifically, we are required to deposit 50% of our proposed reclamation budget with the local Province Governors office which will be refunded only on acceptable completion of land rehabilitation after mining operations have concluded. Even if we relinquish our licenses, we will still remain responsible for any required reclamation.

*If we establish the existence of a mineral resource on any of our properties in a commercially exploitable quantity, we will require additional capital in order to develop the property into a producing mine. If we cannot raise this additional capital, we will not be able to exploit the resource, and our business could fail.*

If we do discover mineral resources in commercially exploitable quantities on any of our properties, we will be required to expend substantial sums of money to establish the extent of the resource, develop processes to extract it and develop extraction and processing facilities and infrastructure. Although we may derive substantial benefits from the discovery of a major deposit, there can be no assurance that such a resource will be large enough to justify commercial operations, nor can there be any assurance that we will be able to raise the funds required for development on a timely basis. If we cannot raise the necessary capital or complete the necessary facilities and infrastructure, our business may fail.

*Mineral exploration and development is subject to extraordinary operating risks. We do not currently insure against these risks. In the event of a cave-in or similar occurrence, our liability may exceed our resources, which would have an adverse impact on our company.*

Mineral exploration, development and production involves many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our operations will be subject to all the hazards and risks inherent in the exploration, development and production of resources, including liability for pollution, cave-ins or similar hazards against which we cannot insure or against which we may elect not to insure. Any such event could result in work stoppages and damage to property, including damage to the environment. We do not currently maintain any insurance coverage against these operating hazards. The payment of any liabilities that arise from any such occurrence would have a material, adverse impact on our company.

*Mineral prices are subject to dramatic and unpredictable fluctuations.*

We expect to derive revenues, if any, from the extraction and sale of precious and base metals such as gold, silver and copper. The price of those commodities has fluctuated widely in recent years, and is affected by numerous factors beyond our control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. Mongolian law requires the sale or export of gold mined in Mongolia to be made through the Central Bank of Mongolia and/or other authorized entities at world market prices. The effect of these factors on the price of base and precious metals, and, therefore, the economic viability of any of our exploration projects, cannot accurately be predicted.

*The mining industry is highly competitive and there is no assurance that we will continue to be successful in acquiring mineral claims. If we cannot continue to acquire properties to explore for mineral resources, we may be required to reduce or cease operations.*

The mineral exploration, development, and production industry is largely unintegrated. We compete with other exploration companies looking for mineral resource properties and the resources that can be produced from them. While we compete with other exploration companies in the effort to locate and license mineral resource properties, we do not compete with them for the removal or sales of mineral products from our properties if we should eventually discover the presence of them in quantities sufficient to make production economically feasible. Readily available markets exist worldwide for the sale of gold and other mineral products. Therefore, we will likely be able to sell any gold or mineral products that we identify and produce.

We compete with many companies possessing greater financial resources and technical facilities. This competition could adversely affect our ability to acquire suitable prospects for exploration in the future. Accordingly, there can be no assurance that we will acquire any interest in additional mineral resource properties that might yield reserves or result in commercial mining operations.

*Our title to our resource properties may be challenged by third parties or the licenses that permit us to explore our properties may expire if we fail to timely renew them and pay the required fees.*

We have investigated the status of our title to the five mining licenses granting us the right to explore the Togoot (License 3136X), Shivee Tolgoi (License 3148X), Javhlant (License No. 3150X), Ikh Uulziit Uul (License No. 3045X) and Khatsavch (License 6500X) mineral resource properties and we are satisfied that the title to these five licenses is properly registered in the name of our Mongolian subsidiary, Entrée LLC and that these licenses are currently in good standing.

We cannot guarantee that the rights to explore our properties will not be revoked or altered to our detriment. The ownership and validity of mining claims and concessions are often uncertain and may be contested. Should such a challenge to the boundaries or registration of ownership arise, the Government of Mongolia may declare the property in question a special reserve for up to three years to allow resolution of disputes or to clarify the accuracy of our mining license register. We are not aware of challenges to the location or area of any of the mining concessions and mining claims. There is, however, no guarantee that



title to the claims and concessions will not be challenged or impugned in the future. Further, all of our licenses are exploration licenses, which are issued initially for a three-year term with a right of renewal for two more years, and a further right of renewal for two years, making a total of seven years. If we fail to pay the appropriate annual fees or if we fail to timely apply for renewal, then these licenses may expire or be forfeit.

## **RISKS RELATED TO OUR COMPANY**

*We have a limited operating history on which to base an evaluation of our business and prospects.*

Although we have been in the business of exploring mineral resource properties since 1995, we have not yet located any mineral reserve. As a result, we have never had any revenues from our operations. In addition, our operating history has been restricted to the acquisition and exploration of our mineral properties and this does not provide a meaningful basis for an evaluation of our prospects if we ever determine that we have a mineral reserve and commence the construction and operation of a mine. We have no way to evaluate the likelihood of whether our mineral properties contain any mineral reserve or, if they do that we will be able to build or operate a mine successfully. We anticipate that we will continue to incur operating costs without realizing any revenues during the period when we are exploring our properties. During the twelve months ending June 30, 2006, we expect to spend approximately \$8,993,000 on the maintenance and exploration of our mineral properties and the operation of our company. We therefore expect to continue to incur significant losses into the foreseeable future. We recognize that if we are unable to generate significant revenues from mining operations and any dispositions of our properties, we will not be able to earn profits or continue operations. At this early stage of our operation, we also expect to face the risks, uncertainties, expenses and difficulties frequently encountered by companies at the start up stage of their business development. We cannot be sure that we will be successful in addressing these risks and uncertainties and our failure to do so could have a materially adverse effect on our financial condition. There is no history upon which to base any assumption as to the likelihood that we will prove successful and we can provide investors with no assurance that we will generate any operating revenues or ever achieve profitable operations.

*The fact that we have not earned any operating revenues since our incorporation raises substantial doubt about our ability to continue to explore our mineral properties as a going concern.*

We have not generated any revenue from operations since our incorporation and we anticipate that we will continue to incur operating expenses without revenues unless and until we are able to identify a mineral resource in a commercially exploitable quantity on one or more of our mineral properties and we build and operate a mine. We had cash in the amount of \$18,580,558 as of June 30, 2005. In July 2005, the Company completed a series of transactions with Rio Tinto plc and Ivanhoe, raising \$3,412,145. In July 2005, the Company also raised \$669,647 upon the exercise of warrants. See Part II. Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds." below.

As at June 30, 2005, we had working capital of \$18,146,287. We estimate our average monthly operating expenses to be approximately \$750,000 each month, including exploration, general and administrative expense and investor relations expenses. As a result, we believe that we will not have to raise additional funds to meet our currently budgeted operating requirements for the next 12 months. As we cannot assure a lender that we will be able to successfully explore and develop our mineral properties, we will probably find it difficult to raise debt financing in the future. We have traditionally raised our operating capital from sales of equity, but there can be no assurance that we will continue to be able to do so. If we cannot raise the money that we need to continue exploration of our mineral properties in the future, we may be forced to delay, scale back, or eliminate our exploration activities. If any of these actions were to occur, there is a substantial risk that our business would fail.

*Our by-laws and employment agreements between our company and some of our officers and directors indemnify our officers and directors against costs, charges and expenses incurred by them in the performance of their duties.*

Our by-laws contain provisions limiting the liability of our officers and directors for all acts, receipts, neglects or defaults of themselves and all of our other officers or directors or for any other loss, damage or expense incurred by our company which shall happen in the execution of the duties of such officers or directors, as do employment agreements between our company and some of our officers and directors. Such limitations on liability may reduce the likelihood of derivative litigation against our officers and directors and may discourage or deter our shareholders from suing our officers and directors based upon breaches of their duties to our company, though such an action, if successful, might otherwise benefit our company and our shareholders.

*Investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share if we issue employee/director/consultant options or if we issue additional shares to finance our operations.*

We have not ever generated revenue from operations. We are currently without a source of revenue and will most likely be required to issue additional shares to finance our operations and, depending on the outcome of our exploration programs, may issue additional shares to finance additional exploration programs of any or all of our projects or to acquire additional properties. We may also in the future grant to some or all of our directors, officers, insiders, and key employees options to purchase our common shares as non-cash incentives to those persons. Such options may be granted at exercise prices equal to market prices, or at prices as allowable under the policies of the TSX Venture Exchange, when the public market is depressed. The issuance of any equity securities could, and the issuance of any additional shares will, cause our existing shareholders to experience dilution of their ownership interests.

If we issue additional shares or decide to enter into joint ventures with other parties in order to raise financing through the sale of equity securities, investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. As at June 30, 2005, we also had outstanding common share purchase warrants and options exercisable into 20,014,200 common shares which, if exercised, would represent approximately 24% of our issued and outstanding shares. If all of these warrants and options are exercised and the underlying shares are issued, such issuance will cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the market price of our shares.

#### *Earnings and Dividend Record.*

We have no earnings or dividend record. We have not paid dividends on our common shares since incorporation and do not anticipate doing so in the foreseeable future. We do not generate any cash flow from operations and could not expect to do so in the foreseeable future.

#### *Conflicts of Interest.*

Certain of our officers and directors may be or become associated with other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. Our directors are required by law to act honestly and in good faith with a view to our best interests and to disclose any interest which they may have in any of our projects or opportunities. In general, if a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter or, if he does vote, his vote does not count. In determining whether or not we will participate in any project or opportunity, the director will primarily consider the degree of risk to which we may be exposed and our financial position at that time.

*Dependence on Key Management Employees.*

The nature of our business, our ability to continue our exploration and development activities and to develop a competitive edge in the marketplace depends, in large part, on our ability to attract and maintain qualified key management personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to attract and retain such personnel. Our development now and in the future will depend on the efforts of key management figures, such as Gregory Crowe and Robert Cann. The loss of any of these key people could have a material adverse effect on our business. We do not currently maintain key-man life insurance on any of our key employees.

*Climatic Conditions.*

Mongolia's weather normally varies to the extremes, from temperature highs in the summer of 40° Celsius to lows of minus 40° Celsius in the winter. Such adverse conditions often preclude normal work patterns and can severely limit mining operations, usually making work impossible from November through to March. Although good project planning can ameliorate these factors, unseasonable weather can upset programs with resultant additional costs and delays.

*Limited Ability to Hedge or Engage in Forward Sales.*

While Mongolian law allows a company, by various applications and processes, to export and sell our own gold production, in practice, this is a difficult matter, with the result that we will have limited ability to engage in forward sales of, or to hedge, any future gold production.

*Fluctuations in Currency Exchange Rates.*

Fluctuations in currency exchange rates, particularly operating costs denominated in currencies other than United States dollars, may significantly impact our financial position and results. We face risks associated with fluctuations in Canadian, U.S. and Mongolian currencies.

## **RISKS ASSOCIATED WITH OUR COMMON STOCK**

*We currently do not have an operating business and therefore, the market price for our common shares may be volatile.*

The market price for our common shares may be significantly affected by our current lack of an operating business and, if and after we commence operations, our financial and operations results from time-to-time. Further, equity markets in general can experience extreme volatility that can affect the market price of equity securities in ways that are often unrelated or disproportionate to the operating performance of the issuer companies. You should not invest in our company unless you are prepared to hold onto your securities for a significant period of time.

*Because we do not intend to pay any dividends on our common shares, investors seeking dividend income or liquidity should not purchase our shares.*

We do not currently anticipate declaring and paying dividends to our shareholders in the near future. It is our current intention to apply net earnings, if any, in the foreseeable future to increasing our working capital. Prospective investors seeking or needing dividend income or liquidity should, therefore, not purchase our common stock. We currently have no revenues and a history of losses, so there can be no assurance that we will ever have sufficient earnings to declare and pay dividends to the holders of our shares, and in any event, a decision to declare and pay dividends is at the sole discretion of our board of directors, who currently do not intend to pay any dividends on our common shares for the foreseeable future.