

Auditors' Report and Consolidated Financial Statements of

ASIA GOLD CORP.

*December 31, 2004 and 2003
(Stated in U.S. dollars)*

Deloitte & Touche LLP
P.O. Box 49279
Four Bentall Centre
2800 - 1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1P4

Tel: (604) 669 4466
Fax: (604) 685 0395
www.deloitte.ca

**Deloitte
& Touche**

Auditors' Report

To the Shareholders of
Asia Gold Corp.

We have audited the consolidated balance sheets of Asia Gold Corp. as at December 31, 2004 and 2003 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Vancouver, British Columbia
March 10, 2005

ASIA GOLD CORP.
Consolidated Balance Sheets
(Stated in U.S. dollars)

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 8,222,182	\$ 11,869,149
Accounts receivable	79,737	342,596
Prepaid expenses	124,276	21,993
Inventory	-	248,083
	8,426,195	12,481,821
MINERAL PROPERTIES (Note 5)	158,384	333,982
PLANT AND EQUIPMENT (Note 6)	114,528	656,600
	\$ 8,699,107	\$ 13,472,403
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,035,404	\$ 1,195,390
Asset retirement obligation (Note 7)	-	387,766
	1,035,404	1,583,156
SHAREHOLDERS' EQUITY		
Share capital (Note 9)		
Authorized		
Unlimited common shares without par value		
Issued and outstanding		
14,622,349 common shares	14,183,003	14,183,003
Contributed surplus	518,096	240,177
Deficit	(7,037,396)	(2,533,933)
	7,663,703	11,889,247
	\$ 8,699,107	\$ 13,472,403

APPROVED BY THE BOARD:

Director

Director

ASIA GOLD CORP.
Consolidated Statements of Operations
(Stated in U.S. dollars)

	Year ended December 31, 2004	Year ended December 31, 2003
EXPENSES		
Depreciation	\$ 15,931	\$ 1,275
Exploration, net of incidental revenues (Schedule)	3,433,318	517,954
Investor relations	48,523	7,526
Legal	73,256	58,567
Office and administration	402,060	105,567
Professional fees	67,521	140,592
Salaries	501,724	163,961
Stock-based compensation	277,919	240,177
Travel	149,932	67,923
	4,970,185	1,303,542
OTHER (INCOME)/EXPENSES		
Interest income	(197,932)	(16,313)
Foreign exchange gain	(335,482)	(233,372)
Interest expense	-	3,657
Loss on disposal of subsidiary (Note 4)	49,274	-
Loss on disposal of capital assets	-	53,418
Write-down of mineral property	-	1,078,277
Write-down of capital assets	-	81,032
Other	17,418	43,682
	(466,722)	1,010,381
LOSS BEFORE INCOME TAXES	4,503,463	2,313,923
FUTURE INCOME TAX RECOVERY (Note 8)	-	(35,915)
NET LOSS	4,503,463	2,278,008
BASIC AND DILUTED LOSS PER SHARE	\$ (0.31)	\$ (0.43)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	14,622,349	5,336,340

ASIA GOLD CORP.
Consolidated Statement of Shareholders' Equity
(Stated in U.S. dollars)

	Share Capital		Contributed Surplus	Deficit	Total
	Number of Shares	Amount			
Balances, December 31, 2002	2,043,416	\$ 217,197	\$ -	\$ (255,925)	\$ (38,728)
Shares issued for:					
Acquisition of net assets from					
Ivanhoe Mines (Note 3)	6,130,246	2,217,593	-	-	2,217,593
Conversion of loans and debt (Note 9)	1,448,687	1,396,513	-	-	1,396,513
Cash	5,000,000	10,351,700	-	-	10,351,700
Stock compensation charged to operations	-	-	240,177	-	240,177
Net loss	-	-	-	(2,278,008)	(2,278,008)
Balances, December 31, 2003	14,622,349	14,183,003	240,177	(2,533,933)	11,889,247
Stock compensation charged to operations	-	-	277,919	-	277,919
Net loss	-	-	-	(4,503,463)	(4,503,463)
Balances, December 31, 2004	14,622,349	\$14,183,003	\$ 518,096	\$(7,037,396)	\$ 7,663,703

ASIA GOLD CORP.
Consolidated Statements of Cash Flows
(Stated in U.S. dollars)

	Year Ended December 31, 2004	Year Ended December 31, 2003
OPERATING ACTIVITIES		
Net loss	\$ (4,503,463)	\$ (2,278,008)
Items not requiring use of cash		
Depreciation	124,164	274,751
Stock-based compensation	277,919	240,177
Non-cash interest expense	-	3,049
Loss on disposal of subsidiary	49,274	-
Loss on disposal of capital assets	-	53,418
Unrealized foreign exchange gains	(174,215)	(276,858)
Write-down of mineral property	-	1,078,277
Write-down of plant and equipment	-	81,032
Future income tax recovery	-	(35,915)
Changes in non-cash working capital items (Note 11(a))	90,761	626,345
	(4,135,560)	(233,732)
INVESTING ACTIVITIES		
Proceeds from disposal of subsidiary (net of cash sold of \$434,978)	408,867	-
Plant and equipment	(114,566)	(106,732)
Mineral properties	-	(93,265)
Cash acquired on acquisition of net assets	-	376,888
	294,301	176,891
FINANCING ACTIVITIES		
Convertible loans	-	1,299,895
Share capital issued	-	10,351,700
Repayment of notes payable to related party	-	(6,331)
	-	11,645,264
(DECREASE) INCREASE IN CASH	(3,841,259)	11,588,423
EFFECT OF FOREIGN EXCHANGE RATE		
CHANGES ON CASH	194,292	276,858
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	11,869,149	3,868
CASH AND CASH EQUIVALENTS,		
END OF YEAR	\$ 8,222,182	\$ 11,869,149
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:		
Cash in bank	\$ 4,139,553	\$ 3,245,724
Short-term deposits	4,082,629	8,623,425
	\$ 8,222,182	\$ 11,869,149

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11(b))

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

1. NATURE OF OPERATIONS

Asia Gold Corp. (formerly MX Capital Corp.) (the “Company”) was incorporated on February 14, 2002 and commenced business activities after March 31, 2002. The Company changed its name to Asia Gold Corp. on August 26, 2003.

The company is a Canadian mineral exploration company currently focused on exploring, and developing precious and base metal properties located in Mongolia.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in these consolidated financial statements are as follows:

(a) *Principles of consolidation*

These consolidated financial statements include the accounts of the Company and its wholly-owned (except where noted) subsidiaries, Mongolia Holding Company Ltd, and Asia Gold Mongolia LLC, and its former subsidiaries, Korean Exploration Inc., Korea Exploration & Mining Ltd. (90% owned), and Sun Shin Gold Mines Co. Ltd. (90% owned), to March 31, 2004 (Note 4). All intercompany transactions and balances have been eliminated.

(b) *Accounting estimates*

Generally accepted accounting principles require management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties, plant and equipment, the anticipated costs of asset retirement obligations including the reclamation of mine sites and the computation of stock-based compensation.

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Foreign currencies*

The Company's functional currency is the U.S. dollar since it is the currency of the primary economic environment in which the Company and its subsidiaries operate. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. All exchange gains and losses are included in operations.

The Company anticipates that any dividends, to the extent declared, will be paid in Canadian dollars.

(d) *Mineral properties*

All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include related value-added taxes incurred in foreign jurisdictions when recoverability of these taxes is uncertain.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of a property is not recoverable and exceeds their fair value.

On the commencement of commercial production, depletion of each mining property is provided on a unit-of-production basis using estimated proven and probable recoverable reserves as the depletion base. In cases where there are no proven or probable reserves, depletion is provided on a straight-line basis over the expected economic life of the mine.

Certain of the Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's interests in such activities.

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation. Plant and equipment are depreciated over their expected economic lives using either the unit-of-production method or the straight-line method, as appropriate. Office equipment is depreciated on a straight-line basis over three to five years. The Company reviews the carrying values of its plant and equipment whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value is not recoverable and exceeds their fair value.

(f) *Asset retirement obligations*

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

(g) *Stock-based compensation*

The Company accounts for stock options granted using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(h) *Income taxes*

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed on a regular basis and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *Loss per share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2004 and 2003, all of the outstanding stock options and warrants were antidilutive.

3. ACQUISITION

Effective July 31, 2003, the Company acquired certain assets, including, amongst other things, mineral exploration licenses covering areas in the South Gobi region of Mongolia and mining interests in South Korea, including a gold and silver mine under development, and assumed certain liabilities relative thereto. These net assets were acquired by the acquisition of the subsidiaries referred to in Note 2 (a), in consideration for the issue of 6,130,246 common shares of the Company.

These net assets were acquired from Ivanhoe Mines Ltd. (“Ivanhoe Mines”), resulting in Ivanhoe Mines owning approximately 77% of the Company’s outstanding share capital at the date of acquisition. Accordingly, the common share consideration was measured at \$2,217,593, which was the carrying value of these net assets to Ivanhoe Mines immediately prior to the transfer to the Company. The assigned cost of the net assets acquired was as follows:

Current assets (including cash of \$376,888)	\$ 844,225
Mineral properties	866,109
Plant and equipment	957,099
	<hr/> 2,667,433
Current liabilities assumed	(413,925)
Future income tax liabilities assumed	(35,915)
	<hr/> (449,840)
Net assets acquired	<hr/> \$ 2,217,593

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

4. DISPOSAL OF SUBSIDIARY

Effective April 1, 2004, the Company sold its 90% interest in Korean Exploration and Mining Ltd. ('KEM'), a South Korean Company that holds the Eunsan gold-silver trial mine and related assets, to Hangum Co. Ltd., a South Korean company that owned the remaining 10% of KEM.

The Company incurred a loss on sale as follows:

Proceeds of the sale	\$	843,845
<hr/>		
Carrying value of net assets sold		
Cash		434,978
Accounts receivable		244,691
Inventory		248,083
Prepaid expenses		5,955
Mineral properties		175,598
Property, plant and equipment		532,474
Accounts payable and accrued liabilities		(360,894)
Asset retirement obligation		(387,766)
		<hr/>
		893,119
<hr/>		
Loss on sale	\$	49,274
<hr/>		

5. MINERAL PROPERTIES

(a) The following table summarizes the changes in carrying values of the Company's mineral property interests:

	South Korea	Mongolia	Total
Acquisition of exploration licenses and balance, December 31, 2002	\$ -	\$ 65,119	\$ 65,119
<hr/>			
South Korea property acquired from Ivanhoe Mines (Note 3)	866,109	-	866,109
Acquisition of exploration licenses (b)	-	93,265	93,265
Asset retirement costs (Note 2 (g))	387,766	-	387,766
Write-down (c)	(1,078,277)	-	(1,078,277)
	<hr/>	<hr/>	<hr/>
	175,598	93,265	268,863
<hr/>			
Balance, December 31, 2003	175,598	158,384	333,982
Disposal of subsidiary (Note 4)	(175,598)	-	(175,598)
<hr/>			
Balance, December 31, 2004	\$ -	\$ 158,384	\$ 158,384
<hr/>			

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

5. MINERAL PROPERTIES (Continued)

- (b) The Company has a 100% direct or indirect interest in 60 exploration licenses covering an area of approximately 4.8 million hectares located in the Gobi Desert of Mongolia. Eleven of these licenses were acquired directly by the Company at an aggregate cost of \$158,384. A further 29 licenses were acquired from Ivanhoe Mines (Note 3) and are carried in the accounts of the Company at \$Nil, which amount was equal to the carrying amount to Ivanhoe Mines immediately before the transfer to the Company. The remaining 20 licenses were granted to the Company during 2004. Under the terms of these exploration licenses, the Company must pay an annual license fee per hectare. These fees start at \$0.05 per hectare and increase to \$1.50 per hectare over a seven-year period.

In connection with the acquisition of the exploration licenses from Ivanhoe Mines, the Company and Ivanhoe Mines entered into a mineral exploration services agreement. Under the terms of this agreement, the Company contracted Ivanhoe Mines to conduct exploration activities on the Company's behalf on a cost recovery basis. This services agreement was terminated in October 2003, and replaced with a technical consulting agreement. Under the new agreement, the Company assumed responsibility for its own exploration activities after November 30, 2003, while retaining Ivanhoe Mines to conduct exploration activities and using Ivanhoe Mines' infrastructure on a cost recovery basis from time to time.

In addition, the Company and Ivanhoe Mines have entered into a coal rights retention agreement ("CRRA") whereby Ivanhoe Mines will retain the rights to any coal and coal-related products situated in, on or under the geographical boundaries of any of the 40 exploration licenses acquired prior to 2004. The CRRA does not apply to the 20 licenses granted in 2004.

- (c) The Company owned a 90% indirect interest in the Eunsan gold-silver exploration project located in the Chollom-Do Province of South Korea. This asset was acquired from Ivanhoe Mines (Note 3) at a cost of \$866,109, which was equal to the carrying amount to Ivanhoe Mines immediately before the transfer to the Company. Ivanhoe Mines constructed mine facilities on this property in 2002. The Company also acquired the exploration rights to certain other mineral prospects in the surrounding area of the Eunsan property.

In view of the unsuccessful exploration results of the Eunsan gold-silver project in the latter half of 2003 and the anticipated limited mineral resources and project life in 2004, the Company reviewed the carrying values of this mineral property with the result that an impairment provision of \$1,078,277 was made in the fourth quarter of 2003.

Effective April 1, 2004, the Company sold its 90% interest in the Eunsan gold-silver project (Note 4).

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

6. PLANT AND EQUIPMENT

	December 31, 2004			December 31, 2003
	Cost	Accumulated Depreciation and Write-Down	Net Book Value	Net Book Value
Plant and equipment	\$ 25,513	\$ 2,390	\$ 23,123	\$ 646,516
Office equipment	116,596	25,191	91,405	10,084
	\$ 142,109	\$ 27,581	\$ 114,528	\$ 656,600

7. ASSET RETIREMENT OBLIGATION

The total undiscounted and discounted amount of estimated cash flows required to settle the obligations is \$Nil (2003 - \$387,766). Reclamation obligations at December 31, 2003 related to operations at the Eunsan mine which was sold during 2004 (Note 4). At the present time, the Company has concluded that there are no asset retirement obligations associated with the mineral properties in Mongolia.

8. INCOME TAXES

A reconciliation of the recovery of income taxes is as follows:

	Year ended December 31, 2004	Year ended December 31, 2003
Net loss for the year	\$ 4,503,463	\$ 2,278,008
Statutory tax rate	35.6%	37.6%
Recovery of income taxes based on combined Canadian and provincial statutory rates	\$ 1,603,233	\$ 870,035
Deduct:		
Lower effective tax rate on losses in foreign jurisdictions	(122,501)	(102,108)
Tax effect of losses not recognized	(1,443,813)	(756,926)
Non-taxable income	62,021	104,099
Non-deductible expenses	(98,940)	(79,184)
Future income tax recovery	\$ -	\$ 35,916

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

8. INCOME TAXES (Continued)

The Company's future income tax assets and liabilities are as follows:

	<u>December 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
Future income tax assets		
Tax loss carryforwards	\$ 1,886,600	\$ 2,992,415
Capital assets	9,238	362,660
Share issue costs	341,033	288,150
Total future income tax assets	<u>2,236,871</u>	<u>3,643,225</u>
Valuation allowance	<u>(2,236,871)</u>	<u>(3,643,225)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2004, the Company and its subsidiaries have unrecognized non-capital losses for income tax purposes of approximately \$5,775,000 that may be used to offset future taxable income as follows:

	<u>Local</u> <u>Currency</u>	<u>U.S. Dollar</u> <u>Equivalent</u>	<u>Expiry</u> <u>Dates</u>
Canadian	\$ 3,722,000	\$ 2,752,000	2009 - 2011
Mongolia Tugrik	MNT 4,118,397,000	3,023,000	(a)
		<u>\$ 5,775,000</u>	

- (a) These losses are carried forward indefinitely until such time as production from a mine commences; thereafter, they can be amortized on a straight-line basis over a period of five years.
-

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

9. SHARE CAPITAL

Shares issued on conversion of loans and debt

- (a) In 2003, in connection with the acquisition discussed in Note 3, Ivanhoe Mines provided a short-term loan in the amount of \$721,101 (Cdn.\$1,000,000) to the Company that was converted into units of the Company consisting of 833,333 common shares and 833,333 warrants to purchase 833,333 common shares at an exercise price of Cdn.\$1.32 per share. The warrants original expiration date of July 31, 2004 has been extended to July 31, 2005.
- (b) In September 2003, an amount of \$93,569 (Cdn.\$131,680) owing to the president of the Company was settled by the issue of 109,732 common shares of the Company at Cdn.\$1.20 per common share.
- (c) In November 2003, the Company converted a short-term loan owing to Ivanhoe Mines in the amount of \$581,843 (Cdn.\$758,433) into 505,622 common shares at a rate of Cdn.\$1.50 per common share.

Stock options

In October 2003, the Company established an Employees and Directors Equity Incentive Plan which authorizes the Board of Directors of the Company to grant options, which vest over a period of years, to directors and employees of the Company at an exercise price equal to the last closing price of the Company's common shares before the date of the grant. The Company is authorized to issue a maximum of 2,600,000 shares pursuant to the Plan. At December 31, 2004, an aggregate of 1,322,000 common shares were available for future grants under the Plan.

The following is a summary of option transactions under the Company's stock option plan:

	2004		2003	
	Number of Options	Weighted- average Exercise Price (Expressed in CDN \$)	Number of Options	Weighted- average Exercise Price (Expressed in CDN \$)
Balance, beginning of year	1,286,000	\$ 3.00	-	\$ -
Options granted	320,000	1.90	1,286,000	3.00
Options exercised	-	-	-	-
Options forfeited	(328,000)	3.00	-	-
Balance, end of year	1,278,000	\$ 2.73	1,286,000	\$ 3.00

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

9. SHARE CAPITAL (Continued)

Stock options(Continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

Options Outstanding			Options Exercisable		
Number Outstanding at December 31, 2004	Weighted-average Remaining Contractual Life (years)	Exercise Price (Expressed in CDN \$)	Number Exercisable at December 31, 2004	Exercise Price (Expressed in CDN \$)	
958,000	3.91	\$ 3.00	638,666	\$ 3.00	
100,000	4.06	3.00	33,333	3.00	
5,000	4.19	2.14	1,667	2.14	
30,000	4.24	2.00	10,000	2.00	
30,000	4.32	2.07	10,000	2.07	
20,000	4.40	1.65	6,667	1.65	
135,000	4.65	1.06	45,000	1.06	
1,278,000	4.03	\$ 2.73	745,333	\$ 2.84	

The weighted average fair value of the stock options granted during 2004 and 2003 was Cdn.\$0.62 and Cdn. \$0.67, respectively. The fair value of these options was determined using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following assumptions:

	2004	2003
Risk free interest rate	3.98%	4.13%
Expected life	5.0 years	5.0 years
Expected volatility	43%	12%
Expected dividend per share	\$Nil	\$Nil

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of grant or thereafter.

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

9. SHARE CAPITAL (Continued)

Share purchase warrants

Share purchase warrants held by Ivanhoe Mines and outstanding at December 31, 2004 are discussed in Note 9 (a).

During the year ended December 31, 2003, and in connection with a public offering, the Company issued 500,000 non-transferable share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of Cdn.\$3.00 per share at any time on or before December 11, 2005.

10. OTHER RELATED PARTY TRANSACTIONS

(a) The Company incurred the following expenses, primarily on a cost recovery basis, with companies related by way of directors or shareholders in common:

	Year ended December 31, 2004	Year ended December 31, 2003
Exploration expenses (Note 5 (b))	\$ 207,129	\$ 572,090
Office and administrative expenses	236,281	79,311
Salaries and benefits expenses	487,469	139,666
Interest expense	-	3,049
	\$ 930,879	\$ 794,116

(b) Accounts payable and accrued liabilities include the following amounts:

	December 31, 2004	December 31, 2003
Amounts due for administration to Global Mining Management, a company related by way of directors and officers in common	\$ 77,570	\$ 46,276
Amount due to Ivanhoe Mines	523,388	388,085

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

11. CASH FLOW INFORMATION

(a) Net change in non-cash working capital items:

	Year ended December 31, 2004	Year ended December 31, 2003
Net (increase) decrease in:		
Accounts receivable	\$ 22,023	\$ (306,454)
Prepaid expenses	(103,226)	162,360
Inventory	-	6,361
Net increase (decrease) in:		
Accounts payable and accrued liabilities	171,964	376,312
Asset retirement obligation	-	387,766
	\$ 90,761	\$ 626,345

(b) Supplementary information regarding other non-cash transactions:

	Year ended December 31, 2004	Year ended December 31, 2003
Investing and financing activities:		
Share capital issued on settlement of accounts payable to related party	\$ -	\$ 93,569
Share capital issued as consideration for acquisition of net assets, net of cash acquired (Note 3)	-	1,840,705
Share capital issued on conversion of loans	-	1,302,944

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

12. SEGMENT DISCLOSURES

(a) The Company operates in one industry segment (Note 1).

(b) Mineral properties at the end of the period:

	Year ended December 31, 2004	Year ended December 31, 2003
Mongolia	\$ 158,384	\$ 158,384
South Korea	-	175,598
	\$ 158,384	\$ 333,982

(c) Plant and equipment at the end of the period:

	December 31, 2004	December 31, 2003
Mongolia	\$ 88,170	\$ 20,089
Canada	26,358	6,374
South Korea	-	630,137
	\$ 114,528	\$ 656,600

13. FINANCIAL INSTRUMENTS

(a) *Fair value of financial instruments*

The Company's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable, for which the carrying values approximate fair values.

(b) *Foreign exchange risk*

The Company incurs certain of its expenses and holds certain assets in currencies other than the U.S. dollar. As such, the Company is subject to foreign exchange risk as a result of fluctuations in exchange rates.

ASIA GOLD CORP.

Notes to the Consolidated Financial Statements

(Stated in U.S. dollars)

13. SUBSEQUENT EVENT

Subsequent to December 31, 2004, the Company granted 737,000 options to purchase common shares at an exercise price of Cdn. \$0.86 per share with an expiry date of March 21, 2010.

ASIA GOLD CORP.
Consolidated Schedule of Exploration Expenses
(Stated in U.S. dollars)

	Year ended December 31, 2004			Year ended December 31, 2003		
	Mongolia	South Korea	Total	Mongolia	South Korea	Total
Assaying	\$ 250,754	\$ -	\$ 250,754	\$ 7,296	13,551	\$ 20,847
Camp costs	414,717	24,096	438,813	60,677	40,144	100,821
Consulting - geophysics	432,662	-	432,662	92,409	-	92,409
Consulting - geological	386,720	544,747	931,467	286,632	794,037	1,080,669
Depreciation	10,375	97,857	108,233	-	273,476	273,476
Drilling	728,566	-	728,566	35,028	244,026	279,054
License fees	401,597	59,526	461,123	160,628	164,479	325,107
Fuel	8,470	19,959	28,430	-	24,704	24,704
Legal	5,135	872	6,007	-	-	-
Maps, photos and reproduction	29,596	185	29,781	25	340	365
Office	341,332	49,681	391,013	16,006	218,858	234,864
Rental, lease and charter costs	145,949	2,599	148,549	59,790	24,090	83,880
Salaries	283,561	347,252	630,813	48,109	660,210	708,319
Supplies	4,341	3,358	7,698	-	44,948	44,948
Travel	191,910	11,876	203,786	60,486	40,650	101,136
	3,635,685	1,162,009	4,797,694	827,086	2,543,513	3,370,599
Incidental revenues from the sale of gold-silver	-	(1,364,376)	(1,364,376)	-	(2,852,645)	(2,852,645)
	\$ 3,635,685	\$ (202,367)	\$ 3,433,318	\$ 827,086	\$ (309,132)	\$ 517,954

ASIA GOLD CORP.
Schedule B – Supplementary Information
December 31, 2004
(Stated in U.S. dollars)

1. Securities Issued

For the year ended December 31, 2004, there were no common shares issued.

For the year ended December 31, 2004, the following share purchase options were granted:

Date	Number	Optionee	Price Cdn\$	Expiry Date
1/22/2004	100,000	Richard Gosse, V.P. Exploration	\$ 3.00	1/22/2009
3/15/2004	5,000	Employee	2.14	3/11/2009
3/29/2004	30,000	Employee	2.00	3/29/2009
4/26/2004	30,000	Employee	2.07	4/26/2009
5/25/2004	5,000	Doug Kirwin, Director	1.65	5/25/2009
5/25/2004	15,000	Employee	1.65	5/25/2009
8/24/2004	135,000	Employees	1.06	8/24/2009

2. Securities Outstanding

As at December 31, 2004, the following securities were outstanding:

- (a) The Company is authorized to issue an unlimited number of common shares without par value.
- (b) There are 14,622,349 common shares outstanding with a recorded value of \$14,183,003.
- (c) There are 1,278,000 share purchase options outstanding with exercise prices and expiry dates ranging from Cdn. \$1.06 to Cdn.\$3.00 and November 8, 2008 to August 24, 2009.
- (d) There are 833,333 warrants outstanding exercisable into 833,333 common shares at an exercise price of Cdn. \$1.32 per share which expire July 31, 2005
- (e) There are 500,000 warrants outstanding exercisable into 500,000 common shares at an exercise price of Cdn. \$3.00 which expire on December 11, 2005.
- (f) There are currently an aggregate of 5,012,360 common shares and 833,333 share purchase warrants subject to escrow or pooling arrangements.

3. Directors and Officers

David Owens, President & Director

Pierre Lebel, Chairman & Director

Peter Meredith, Director

Edward Flood, Director

Andre Deepwell, Director

Doug Kirwin, Director

Richard Gosse, VP Exploration

Greg Shenton, Chief Financial Officer

Beverly Bartlett, Secretary

Allison Snetsinger, Assistant Secretary



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

December 31, 2004

(Stated in U.S. Dollars)

ASIA GOLD CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 2004

(Stated in U.S. Dollars)

OVERVIEW

Asia Gold Corp. (which, together with its subsidiaries, is collectively referred to the "Company") is a mining exploration and development company with a focus on precious and base metal exploration and development in Mongolia. Asia Gold Corp. trades on the TSX Venture exchange under the symbol ASG.

CRITICAL ACCOUNTING ESTIMATES

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the annual Consolidated Financial Statements for the year ended December 31, 2004.

All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The Company accounts for stock options granted to directors, officers and employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model, as required by generally accepted accounting principles, and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 27, 2005, the CICA issued Section 3855 of the Handbook entitled Financial Instruments - Recognition and Measurement. It expands Handbook Section 3860, Financial Instruments - Disclosure and Presentation, by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how gains and losses on financial instrument are to be presented.

All financial instruments will be required to be classified into various categories. Held to maturity investments, loans and receivables will be measured at amortized cost, with amortization of premium or discounts, losses and impairment included in current period interest income or expense. Held for trading financial assets and liabilities will be measured at fair market value with all gains and losses included in net income in the period in which they arise. All available for sale financial assets will be measured at fair market value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet, and losses due to impairment will be included in net income. All other financial liabilities are to be carried at amortized cost.

The mandatory effective date of Section 3855 is for fiscal years beginning on or after October 1, 2006, with optional early recognition for fiscal years beginning on or after December 31, 2004. The Company intends to adopt this standard in its fiscal year ending December 31, 2005.

At present, the Company's most significant financial instruments are cash, accounts receivable and accounts payable. This new section will require little difference in accounting for these financial instruments from current standards.

The new Handbook Section 1530 - Comprehensive Income introduces a new requirement to temporarily present certain gains and losses outside of net income. Section 1530 defines comprehensive income as a change in value of net assets that is no longer due to owner activities. Assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

At present, the Company does not have any available for sale investments.

The effective date of this new Section is for fiscal years beginning on or after October 1, 2006, with optional early recognition for fiscal years beginning on or after December 31, 2004. The Company intends to adopt this new standard in its fiscal year ending December 31, 2005.

FORWARD LOOKING STATEMENTS

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other ecological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties related to the availability of and costs of financing needed in the future and other factors described in this discussion under the heading “Outlook”. The Company undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

MINING AND EXPLORATION PROPERTIES

Technical Reports

Disclosure of information of a technical or scientific nature relating to the Company’s exploration activities has been disclosed in certain filings on the System for Electronic Document Analysis and Retrieval (“SEDAR”) and can be accessed at www.sedar.com or on the Company’s website at www.asiagold.com. Disclosure of information of a technical or scientific nature has been disclosed in part in Technical Reports for the Mongolian properties dated September 17, 2003, prepared by Robert Weicker, P.Geo.B.C., a consultant to the Company and a qualified person for National Instrument 43-101 (“NI 43-101”), which have been filed on SEDAR. All other disclosure of a scientific or technical nature which has been filed on SEDAR or on the Company’s website was prepared by, or under the supervision of, Mr. David C. Owens, P.Geo., the President of the Company, Richard R. Gosse, P.Geo, the Vice President Exploration of the Company and A.W. Gourlay, P.Geol., the Senior Geologist of the Company, all “qualified persons” for the purposes of NI 43-101.

Mongolia Exploration Licenses

The Company holds 60 exploration licenses in Mongolia covering an aggregate area of approximately 4.8 million hectares (“ha”). Forty-two of these licenses, the Western Gobi Property, are located in the west-central portion of the Omnogovi Aimag (province) approximately 510 kilometers (“km”) southwest of Ulaan Baatar, Mongolia. Six of the remaining licenses are known as the Oyut Ovoo property and are located approximately 270 km southwest of Ulaan Baatar. In addition, eight licenses are held in Dornod Aimag which is located approximately 300 km northeast of Ulaan Baatar, three licenses are held in Khuvsgul Aimag in northern Mongolia and a single license is held in Khovd Aimag in western Mongolia.

Exploration licenses in Mongolia are granted for a period of three years followed by two two-year extensions (for a total of seven years) and require escalating rent payments which are due annually. Accordingly, the longer an exploration license is held, the higher the annual cost becomes. For this reason, certain of the Company's exploration targets have been prioritized on the basis of the age of the exploration license with the advanced or greater-cost licenses receiving priority for current exploration programs. As certain of these licenses are identified as having limited mineral potential, they may be surrendered in order to minimize rental fees. The number of licenses held will therefore fluctuate on a period to period basis as new properties are acquired and older ones surrendered. If all licenses currently held were maintained through 2005, license fees would aggregate approximately \$2.3 million.

Exploration Programs

Oyut Ovoo Property

Detailed fieldwork on the main zone of potential mineralization at Oyut Ovoo started in August 2003. The work program included detailed mapping, outcrop sampling and a ground magnetic geophysical survey. The Company also conducted reconnaissance work on the surrounding Oyut Ovoo licenses. An IP geophysical survey was completed in December 2003. Structural interpretation of high-resolution satellite images was completed in conjunction with the field exploration. This work has identified a skarn intrusive complex, with coincident high chargeability and magnetic anomalies.

The Company completed an initial diamond drilling program in April, 2004 on the Oyut Ovoo property consisting of 1,715 metres in six drill holes. Five of the six holes were drilled to test the skarn intrusive complex, and only intersected minor amounts of copper mineralization. The sixth hole was drilled to test a large IP anomaly on a second target located about one km southeast of the skarn. This hole intersected anomalous copper mineralization in weakly altered granite between downhole depths of 120 and 243 metres. A further program of trenching on the second target was completed in November 2004, with encouraging results from three of the six trenches excavated. Assay results for the drill hole and trenching program is available on the Company's website www.asiagold.com.

An additional ground magnetics and IP geophysical survey commenced in March 2005. Further work at Oyut Ovoo in 2005 is conditional on the results of this survey.

Western Gobi Properties

Yagaan

A program consisting of detailed and regional geologic mapping, geochemical sampling, trenching and induced polarization ("IP") commenced on the Yagaan project in May, 2004. Approximately 7,500 metres of trenching has been completed and 416 samples were collected over key areas. A drill program consisting of 1,285 metres in 8 holes was completed in October, 2004 with disappointing assay results that indicated only weakly anomalous gold values. No work is planned at Yagaan in 2005.

Maikhan

Geologic mapping using satellite and IP data has been completed. A drill program consisting of a single hole 197 metres deep was completed in October, 2004. Assay results from this hole were negative and no further work is planned on this prospect at this time.

Har Temmee

Detailed geologic mapping at Har Temmee was completed in October, 2004. A 3-hole drill program of 394 metres was completed in November, 2004 with negative results. No further work is planned at Har Temme.

In addition to the foregoing, a total of 83 additional potential gold and copper exploration targets in the Western Gobi properties were identified using Aster remote sensing data. Of these, 39 sites in the western half of the project area were visited with reconnaissance geology and geochemical sampling. This program resulted in the identification of 6 targets with anomalous copper and/or gold geochemistry that warrant additional mapping and sampling. Exploration programs for these targets will be developed for the 2005 field season.

The targeting work on the eastern half of the Western Gobi properties has identified 44 new targets, including 8 ranked as high priority and 20 as medium priority. All of the targets in the eastern half of the project will be evaluated in the field during helicopter reconnaissance programs in April and June 2005. These programs will also include 14 targets in the west half of the property that were not visited in 2004. In total there are 58 new targets to visit before the end of June 2005. After the completion of the reconnaissance work the targets will be ranked for detailed follow-up and potential drilling.

Dornod Properties

Interpretation of satellite images identified 4 areas of interest from which a total of 25 samples were taken during reconnaissance exploration in the second quarter of 2004. Several of these samples included anomalous arsenic and one sample contained elevated gold. As at the end of February, 2005, the Company had 9 granted licences and another 14 under application for a total of 7,800 square km. A 2005 exploration program will be proposed when the land package has been consolidated and finalized.

Khuvs gul Properties

No exploration activities have commenced on these license areas. The Company has compiled existing published data on these areas for interpretation and has identified 5 exploration targets. A regional stream sediment survey is proposed for the 2005 field season.

Khovd Property

No exploration activities have commenced on this license area. The Company is currently compiling existing published data on the area for interpretation.

The Company adopted a revised exploration budget for the second half of 2004 in the amount of \$2.4 million. For the six months ended December 31, 2004, actual exploration expenses in respect of these budgeted amounts totaled \$2.2 million. This amount is approximately \$200,000 under budget, resulting from the delay of certain planned exploration programs on the Dornod property as well as lower than expected costs at the Company's exploration office in Ulaan Bataar, Mongolia. Exploration expenses as presented in the accounts of the Company for the six months ended December 31, 2004 were \$2.5 million and include certain exploration costs related to previous periods that were not included in the foregoing budgeted amounts.

The Company has adopted a base case committed exploration budget for 2005 in the amount of \$1.4 million with an additional contingent budget amount of \$1.2 million for total planned exploration expenditures of \$2.6 million. In addition, exploration license rental fees aggregating \$2.3 million would be payable during 2005 if all existing licenses were maintained. An analysis of the results of the 2004 exploration program will likely result in certain of these licenses being relinquished during 2005 before their annual rental fees are due.

Sale of Assets in South Korea

Effective April 1, 2004, Asia Gold Corp. has sold its 90% interest in its South Korean properties to Hanguem Co. Ltd., a South Korean company that owned the remaining 10% of these assets. In consideration for the sale of these assets, Asia Gold Corp. received \$422,000 plus proceeds of \$421,845 from the sale of concentrate produced from the Eunsan Mine up to March 31, 2004 and held in inventory at that time. This transaction resulted in a net loss of \$49,274.

Asia Gold Corp. received an aggregate of \$1.4 million in net cash flow from the Eunsan project during the period from acquisition in 2003 to July, 2004 when the balance of sale proceeds were received. This amount includes the net costs recovered by the Eunsan project from the sale of concentrate in excess of expenditures used for exploration and operational activities, as well as the sale proceeds noted above.

SELECTED ANNUAL INFORMATION

(\$ in thousands, except per share information)

	Year ended December 31,		
	2004	2003	2002
Exploration expenses	\$ 3,433	\$ 518	\$ 72
Net loss	\$ 4,503	\$ 2,278	\$ 256
Net loss per share	\$ 0.31	\$ 0.43	\$ 0.16
Cash and cash equivalents	\$ 8,222	\$ 11,869	\$ 4
Total assets	\$ 8,699	\$ 13,472	\$ 79

For each of the years ended December 31, 2004, 2003 and 2002, the Company had no net sales or other operating revenues, no long-term liabilities and no dividends were declared.

The Company was incorporated in February, 2002 and commenced operations that year with limited available funds. Current operations commenced in July, 2003 with the completion of the acquisition agreement with Ivanhoe Mines Ltd. and the Company's initial public offering later that year which raised \$10.4 million. Exploration expenditures and the Company's net loss for 2004 was higher than that experienced in previous years as the exploration programs did not commence in earnest until 2004 concurrent with the newly available funding. Total assets consist primarily of cash, which will decline on a year to year basis as these funds are utilized for operations.

RESULTS OF OPERATIONS

	Year ended December 31, 2004	Year ended December 31, 2003
EXPENSES		
Depreciation	\$ 15,931	\$ 1,275
Exploration, net of incidental revenues	3,433,318	517,954
Investor relations	48,523	7,526
Legal	73,256	58,567
Office and administration	402,060	105,567
Professional fees	67,521	140,592
Salaries	501,724	163,961
Stock-based compensation	277,919	240,177
Travel	149,932	67,923
	4,970,185	1,303,542
OTHER (INCOME)/EXPENSES		
Interest income	(197,932)	(16,313)
Foreign exchange gain	(335,482)	(233,372)
Loss on disposal of subsidiary	49,274	-
Interest expense	-	3,657
Loss on disposal of capital assets	-	53,418
Write-down of mineral property	-	1,078,277
Write-down of capital assets	-	81,032
Other	17,418	43,682
	(466,722)	1,010,381
LOSS BEFORE INCOME TAXES	4,503,463	2,313,923
FUTURE INCOME TAX RECOVERY	-	(35,915)
NET LOSS	\$ 4,503,463	\$ 2,278,008

Overview

Current operations commenced with the completion of the acquisition agreement with Ivanhoe Mines on July 31, 2003 and from financing provided by the Company's initial public offering in December, 2003. For these reasons, the aggregate net loss for the year ended December 31, 2003 does not represent results, both in scope and magnitude, which are comparative to the results for the year ended December 31 2004. This discrepancy should be considered when drawing comparative conclusions. In addition, as the Company is in the exploration stage, financial results are generally not fully comparable to those of the corresponding periods in the prior year due to potential significant changes to the nature of the Company's operations. Accordingly, in addition to annual and quarterly comparisons, the current quarter's operating results will be compared to those of the immediately preceding quarter.

Year Ended December 31, 2004 and 2003

The Company incurred a net loss of \$4.5 million for the year ended December 31, 2004 as compared to a net loss of \$2.3 million for the preceding year. The loss in 2004 is primarily attributable to the cost of exploration activities whereas the majority of the 2003 loss resulted from the write-down of the Korean mineral properties, plant and equipment. Administration costs for both years were roughly the same on a pro-rated monthly basis.

Exploration expenses during 2004 were \$3.4 million as compared to \$518,000 in the 2003 period. The 2003 amount includes expenditures of \$827,000 on the Mongolian properties and a net credit of \$309,000 on the Korean project; total expenditures in Korea in 2003 were \$2.5 million which was offset by incidental revenues from the sale of gold-silver concentrate in the amount of \$2.9 million. The 2004 exploration amount represents expenditures of \$3.6 million on the Mongolian properties and a net credit of \$202,000 from the Korean project; total expenditures in Korea in 2004 were \$1.2 million which was offset by incidental revenues of \$1.4 million. The increase in expenditures on the Mongolian properties is reflective of a full year's exploration field program during 2004 versus start-up operations in 2003 which is representative of only five-months of activity. In addition, exploration programs undertaken during 2003 focused primarily on reconnaissance activities whereas the 2004 program, building on the work carried out in 2003, included geophysical, drilling and assay programs and the requisite field staff and infrastructure to support them.

Investor relations costs increased in 2004 which is reflective of the fact that Asia Gold Corp. became a public company in December, 2003. Accordingly, certain costs associated with news releases, trade shows and printed promotional materials were not incurred in the 2003 period.

Similarly, office and administration costs and salaries increased in 2004 commensurate with the increased administrative work load of a public versus private company. Certain of the Company's administrative staff and office facilities are employed/provided by Global Mining Management ("GMM")(see 'Related party transactions' below) whose costs are allocated on an as-used basis. Accordingly, quarterly fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in quarterly corporate activity and the level of personnel employed.

Legal fees of \$73,000 incurred in the 2004 year increased by \$15,000 over those from 2003. The majority of the legal costs of \$59,000 in 2003 were associated with the issuance of the Company's prospectus whereas most of the 2004 costs were in respect of the closing of the sale of the Company's Korean assets in July, 2004. Legal costs for 2004 also include costs associated with the Company's Annual General Meeting as well as costs in respect of the Company's regulatory affairs, including issues associated with corporate governance, filings, registration and disclosure.

Professional fees decreased in 2004 as costs incurred during 2003 associated with the agreement with Ivanhoe Mines were not duplicated during the current period. Professional fees of \$68,000 incurred during 2004 include primarily the estimated cost of the Company's annual audit as well as costs for the review of quarterly financial statements. Professional fees of \$141,00 for the year ended December 31, 2003 include accrued annual audit fees, the cost of a review of the Company's September 2003 quarterly financial statements, costs associated with the agreement with Ivanhoe Mines, and other consulting fees.

Stock based compensation in the amount of \$278,000 was recognized in 2004 and \$240,000 in 2003. Stock-based compensation is recognized over the vesting periods of the stock options to which it relates, which can result in fluctuations in the level of costs recorded on a period over period basis.

Travel expenses more than doubled from 2003 to 2004 which is reflective of twelve-months of activity in the current year versus the five-month operating period in 2003. Travel costs include airfares and accommodation for the Company's management personnel who travel to operational locations in Mongolia and other prospective locations throughout Asia.

A foreign exchange gain of \$335,000 was recorded in 2004 versus a gain of \$233,000 for 2003. These gains are primarily the result of changes to the U.S. to Canadian dollar exchange rates during this two-year period and the resultant increase in the U.S. dollar equivalent of Canadian dollar denominated cash deposits. An amount of \$174,000 of the gain recorded in 2004 is unrealized.

Interest income increased significantly from 2003 to 2004, which is reflective of much larger average cash balances held during 2004 resulting from funds received from the Company's initial public offering in December, 2003.

SELECTED QUARTERLY DATA

(\$ in thousands, except per share information)

QUARTER ENDED	2004				2003	
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Exploration expenses	\$ 1,260	\$ 1,193	\$ 962	\$ 18	\$ (822)	\$ 1,319
Net loss	\$ 1,451	\$ 1,022	\$ 1,546	\$ 484	\$ 728	\$ 1,550
Net loss per share	\$ 0.10	\$ 0.07	\$ 0.11	\$ 0.03	\$ 0.21	\$ 0.22

Historic quarterly data has been provided only to September, 2003 as this is the first quarter for which the Company became a reporting issuer.

The changes in comparative results of operations on a quarter over quarter basis are due primarily to significant fluctuations in three areas: exploration expenses; foreign exchange gains and losses; and asset and property write-downs.

Exploration expenses were offset during the 2003 December quarter and the 2004 March quarter, as incidental revenues were realized from the sale of ore concentrate at the Eunsan project in South Korea during these periods. As the Eunsan project was sold at the end of March, 2004, all exploration expenditures recorded for the last nine months of 2004 represent costs incurred on the Mongolian projects. There was a slight rise in the Mongolian expenditures throughout the year as the majority of the work was performed in the 3rd and 4th quarters of 2004 coincident with favourable weather patterns.

Foreign exchange gains and losses arise primarily from cash balances which are maintained in Canadian funds whereas the reporting currency of the Company is in U.S. dollars. Accordingly, fluctuations in the Canadian versus U.S. exchange rate results in the recording of gains or losses on a quarterly basis. Gains were recorded in the September and December quarters of 2004 and in the December quarter of 2003 whereas losses were recorded in the first six months of 2004 and the September quarter, 2003.

In December, 2003, a \$1.2 million write-down of the Eunsan mineral property, plant and equipment costs was made. This write-down was the result of unsuccessful exploration results at the Eunsan gold-silver project in the latter half of 2003 and the anticipated limited mineral resources and project life in 2004.

	Three Months Ended		
	December 31, 2004	September 30, 2004	December 31, 2003
	(Unaudited)	(Unaudited)	(Unaudited)
EXPENSES			
Depreciation	\$ 6,267	\$ 4,091	\$ (1,062)
Exploration	1,260,145	1,193,171	(821,619)
Investor relations	7,274	14,723	5,580
Legal	10,947	23,051	27,515
Office and administration	101,091	101,426	55,375
Professional fees	37,117	9,309	39,455
Salaries	134,364	130,102	110,973
Stock-based compensation	73,249	68,583	240,177
Travel	33,679	34,223	26,702
	1,664,133	1,578,679	(316,904)
OTHER (INCOME)/EXPENSES			
Interest income	(39,771)	(48,956)	(16,085)
Foreign exchange gains	(173,056)	(507,760)	(263,795)
Interest expense	-	-	2,833
Loss on disposal of equipment	-	-	53,418
Write down of mineral property	-	-	1,078,277
Write down of plant and equipment	-	-	81,032
Other	-	-	56,879
	(212,827)	(556,716)	992,559
LOSS BEFORE TAXES	1,451,306	1,021,963	675,655
FUTURE INCOME TAX RECOVERY	-	-	(35,915)
NET LOSS	\$ 1,451,306	\$ 1,021,963	\$ 639,740

Three Months Ended December 31, 2004 and 2003

The Company incurred a net loss for the three-months ended December 31, 2004 of \$1.5 million as compared to a net loss of \$640,000 for the same period in 2003. This change is due primarily to two factors, an increase in exploration costs during the 2004 period partially offset by the absence of the write-down of the Eunsan mine recorded in the fourth quarter of 2003.

Exploration expenses during the 2004 period were \$1.3 million as compared to a net exploration cost recovery of \$822,000 in the 2003 quarter. The 2004 expenditures were spent entirely on field work on the Company's Mongolian exploration licenses. The 2003 expenditures included \$416,000 on the Mongolian properties and \$1,615,000 on exploration and operations at the Eunsan mine. However, these expenses were offset by the sale of concentrate at Eunsan in the amount of \$2,853,000 resulting in the net exploration cost recovery for this period. The increase in expenditures on the Mongolian properties is reflective of a full exploration field program during 2004 versus reconnaissance exploration activities in the 2003 quarter.

The net loss in the December, 2003 quarter was largely the result of a \$1.2 million write-down of the Eunsan mineral property, plant and equipment costs. This write-down was the result of unsuccessful exploration results at the Eunsan gold-silver project in the latter half of 2003 and the anticipated limited mineral resources and project life in 2004.

Salary costs and office and administration fees increased by an aggregate of \$69,000 in the 2004 quarter versus those incurred in the same period in 2003. Of this increase, \$25,000 was for the 2004 directors and officer's insurance premium; there was no directors and officer's insurance policy in place in 2003. Salary and office costs increased by \$46,000 due to increases in staffing levels and GMM staff and office allocations during the 2004 quarter. This increase in 2004 is reflective of the hiring of a Vice-President, Exploration in early 2004 as well as the additional resources required to administer a publicly listed company.

Stock-based compensation expense recorded for the 2003 quarter was \$240,000 as opposed to an amount of \$73,000 in 2004. This difference reflects the vesting pattern of the underlying stock options that gave rise to the compensation expense.

The balance of administrative costs, investor relations, legal, professional fees and travel were roughly the same for the 2003 and 2004 quarters.

Interest income in the 2003 quarter was about half of that recorded in 2004. The income earned during 2004 resulted primarily from cash balances from the Company's initial public offering in December, 2003. Prior to this time, the Company's cash balances were minimal.

A foreign exchange gain of \$173,000 was recorded in the 2004 quarter versus a gain of \$264,000 for 2003. These gains are primarily the result of changes to the U.S. to Canadian dollar exchange rates during these periods and the resultant increase in the U.S. dollar equivalent of Canadian dollar denominated cash deposits.

Three Months Ended December 31, 2004 and September 30, 2004

The Company incurred a net loss for the three-months ended December 31, 2004 of \$1.5 million as compared to a net loss of \$1.0 million for the preceding three month period. This change is primarily due to a decrease in the foreign exchange gain from \$508,000 in the September quarter to \$173,000 in the December quarter. The September gain is reflective of a period of relatively large increases in the value of Canadian dollar as compared to its U.S counterpart and the effect that increase had on Canadian dollar denominated cash deposits.

Exploration expenses during the December period were \$1.3 million as compared to \$1.2 million in the September period, all of which were spent on the Company's Mongolian properties. The majority of these expenditures include costs for geological and geophysical consultants, drilling, assaying, camp costs and property license fees.

Administration costs, with the exception of professional fees, remained virtually unchanged on a quarter over quarter basis reflecting a period of relative administrative operating stability during the second half of 2004.

Professional fees increased by \$28,000 in the December quarter due to the accrual of the 2004 audit fees during this period.

Interest income was \$9,000 higher in the three months ended September 30, 2004 versus the amount received in the December quarter due to higher average cash balances during the former period.

LIQUIDITY AND CAPITAL RESOURCES

The balance sheets as at December 31, 2004 and 2003 are shown in the following table for ease of reference.

	December 31, 2004	December 31, 2003
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 8,222,182	\$ 11,869,149
Accounts receivable	79,737	342,596
Prepaid expenses	124,276	21,993
Inventory	-	248,083
	8,426,195	12,481,821
MINERAL PROPERTIES	158,384	333,982
PLANT AND EQUIPMENT	114,528	656,600
	\$ 8,699,107	\$ 13,472,403
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,035,404	\$ 1,195,390
Asset retirement obligation	-	387,766
	1,035,404	1,583,156
SHAREHOLDERS' EQUITY		
Common shares	14,183,003	14,183,003
Contributed surplus	518,096	240,177
Deficit	(7,037,396)	(2,533,933)
	7,663,703	11,889,247
	\$ 8,699,107	\$ 13,472,403

At December 31, 2004, the Company had a working capital balance of \$7.4 million and cash resources of \$8.2 million. Budgeted expenditures for 2005 are \$3.9 million, consisting of exploration and administrative expenditures in Mongolia of \$2.6 million and corporate administrative costs of \$1.3 million. In addition, Mongolian exploration license rental fees aggregating \$2.3 million would be payable during 2005 if all existing licenses were maintained. The Company is actively pursuing exploration opportunities outside the scope of its existing properties; should any of these opportunities come to fruition, the remaining exploration budget would require revision to encompass the additional expenditures. The Company expects to fund its 2005 exploration programs and ongoing administrative costs from the balance of working capital on hand.

During the year ended December 31, 2004, the Company spent \$4.1 million on operations, made expenditures on equipment in the amount of \$115,000 and received cash inflows of \$844,000 on the sale of the Eunsan Mine.

At December 31, 2004, the Company had approximately \$4.6 million in Canadian funds which amount exposes the Company to risks associated with foreign exchange fluctuations. Due to a strengthening in value of the Canadian dollar versus its U.S. counterpart during 2004, foreign exchange gains in the amount of \$294,000 in the Company's Canadian dollar denominated cash holdings were recorded during 2004. Of this amount, \$194,000 was unrealized at December 31, 2004. For the year ended December 31, 2004, the Company converted a total of \$4.6 million Canadian dollars into U.S. dollars. It is the Company's intention to convert the bulk of its Canadian dollar holdings into U.S. dollars while current exchange rates remain favorable.

Despite the foregoing, the Company does not have sufficient funds or the ability to generate additional funds necessary to complete all planned exploration activities or maintain operations for the long term. Additional funding will be required in future periods, and this funding will likely be in the form of additional equity financings. There can be no assurance given, however, that such funding will be available when required or on terms which are acceptable to the Company.

RELATED PARTY TRANSACTIONS

Certain administrative costs are paid to GMM for corporate secretarial, accounting, investor relations and administrative services performed on behalf of the Company. GMM is related to Asia Gold Corp. as certain officers and directors are common to each company. GMM provides these services to a group of companies, some of which are related to Asia Gold Corp. The services provided by GMM are incurred on an as-used basis at cost. The Company has utilized the services of the GMM staff and office since June 1, 2003 and has incurred costs of \$724,000 for the year ended December 31, 2004 and \$219,000 for the six-month period ended December 31, 2003.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at April 7, 2005: 14,622,349 common shares were issued and outstanding; 2,090,000 share purchase options had been granted and were outstanding; and 1,333,333 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 18,045,682 common shares were outstanding.

RISK FACTORS

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. At present, none of the Company's properties has a known body of commercial ore. Material risks and uncertainties affecting the Company, their potential impact, and the Company's principal risk management strategies, are as follows:

- *Additional Funding Requirements* - The further development and exploration of the various mineral properties in which it holds interests depends upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There can be no assurance that the Company will be successful in obtaining any required financing as and when needed. Depressed markets for precious and base metals may make it difficult, or impossible, for the Company to obtain debt financing or equity financing on favorable terms, or at all. The Company operates in a region of the world that is prone to economic and political upheaval and mineral properties held by the Company are located in politically and economically unstable countries, which may make it more difficult for the Company to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.
- *Risks pertaining to Mongolia* - Mongolia is, and for the foreseeable future is expected to remain, the country in which the Company concentrates most of its business activities and financial resources. Since 1990, Mongolia has been in transition from state socialism and a planned economy to a political democracy and a free market economy. Much progress has been made in this transition, but much more progress remains to be made, particularly with respect to the rule of law. Many laws have been enacted, but in many instances they are neither understood nor enforced. For decades, Mongolians have looked to politicians and bureaucrats as the sources of the "law". This has changed in theory, but often not in practice. With respect to most day-to-day activities in Mongolia, government civil servants interpret, and often effectively make, the law. This situation is gradually changing, but at a relatively slow pace. Laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable.
- *Uncertainties related to mineral resource estimates* – There is a degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity and value of reserves or resources may vary, depending on metals prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company's properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production.
- *Metal price volatility* – Metal prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectations of inflation, global and regional demand, currency-exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods.

- *Currency risks* – The bulk of the Company’s activities are denominated in U.S. currency. During the past year, the Company invested most of its surplus funds in cash instruments denominated in Canadian dollars. During most of this period, the Canadian dollar strengthened against the U.S. dollar, resulting in a foreign exchange gain to the Company. There is no guarantee that the Canadian dollar will continue on this trend in the future and a sudden weakening of the Canadian dollar vis-a-vis the U.S. dollar could generate a significant foreign exchange loss to the Company.
- *Limited production history* - The Company has paid no dividends on its common shares since incorporation and does not anticipate doing so in the foreseeable future. To date, the Company has not received any cash flow generated from operations. All exploration projects of the Company will need funding from the Company. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably. While the Company may in the future generate additional working capital through the operation, development, sale or possible joint venture of its properties, there is no assurance that the Company will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.
- *Uninsurable risks or self-insured risks* –Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

OUTLOOK

The Company will concentrate its efforts on identification and drilling of prospective copper-gold targets on its exploration licenses in Mongolia, and identification and acquisition of new mineral property exploration opportunities. The Company has sufficient working capital to complete its planned 2005 exploration programs and, should it be successful in discovering an economic ore body, due to its proximity to China, has access to a market which has a strong demand for raw materials and precious metals.

April 7, 2005



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

December 31, 2004

(Stated in U.S. Dollars)

ASIA GOLD CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 2004

(Stated in U.S. Dollars)

OVERVIEW

Asia Gold Corp. (which, together with its subsidiaries, is collectively referred to as the "Company") is a mineral exploration company with a focus on precious and base metal exploration and development in Mongolia. Asia Gold Corp. trades on the TSX Venture exchange under the symbol ASG.

CRITICAL ACCOUNTING ESTIMATES

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the annual Consolidated Financial Statements for the year ended December 31, 2004.

All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The Company accounts for stock options granted to directors, officers and employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model, as required by generally accepted accounting principles, and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 27, 2005, the CICA issued Section 3855 of the Handbook entitled Financial Instruments - Recognition and Measurement. It expands Handbook Section 3860, Financial Instruments - Disclosure and Presentation, by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how gains and losses on financial instruments are to be presented.

All financial instruments will be required to be classified into various categories. Held to maturity investments, loans and receivables will be measured at amortized cost, with amortization of premium or discounts, losses and impairment included in current period interest income or expense. Held for trading financial assets and liabilities will be measured at fair market value with all gains and losses included in net income in the period in which they arise. All available for sale financial assets will be measured at fair market value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet, and losses due to impairment will be included in net income. All other financial liabilities are to be carried at amortized cost.

The mandatory effective date of Section 3855 is for fiscal years beginning on or after October 1, 2006, with optional early recognition for fiscal years beginning on or after December 31, 2004. The Company intends to adopt this standard in its fiscal year ending December 31, 2005.

At present, the Company's most significant financial instruments are cash, accounts receivable and accounts payable. This new section will require little difference in accounting for these financial instruments from current standards.

The new Handbook Section 1530 - Comprehensive Income introduces a new requirement to temporarily present certain gains and losses outside of net income. Section 1530 defines comprehensive income as a change in value of net assets that is no longer due to owner activities. Assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

At present, the Company does not have any available for sale investments.

The effective date of this new Section is for fiscal years beginning on or after October 1, 2006, with optional early recognition for fiscal years beginning on or after December 31, 2004. The Company intends to adopt this new standard in its fiscal year ending December 31, 2005.

FORWARD LOOKING STATEMENTS

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other ecological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties related to the availability of and costs of financing needed in the future and other factors described in this discussion under the heading “Outlook”. The Company undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

MINING AND EXPLORATION PROPERTIES

Technical Reports

Disclosure of information of a technical or scientific nature relating to the Company’s exploration activities has been disclosed in certain filings on the System for Electronic Document Analysis and Retrieval (“SEDAR”) and can be accessed at www.sedar.com or on the Company’s website at www.asiagold.com. Disclosure of information of a technical or scientific nature has been disclosed in part in Technical Reports for the Mongolian properties dated September 17, 2003, prepared by Robert Weicker, P.Geo.B.C., a consultant to the Company and a qualified person for National Instrument 43-101 (“NI 43-101”), which have been filed on SEDAR. All other disclosure of a scientific or technical nature which has been filed on SEDAR or on the Company’s website was prepared by, or under the supervision of, Mr. David C. Owens, P.Geo., the President of the Company, Richard R. Gosse, P.Geo, the Vice President Exploration of the Company and A.W. Gourlay, P.Geol., the Senior Geologist of the Company, all “qualified persons” for the purposes of NI 43-101.

Mongolia Exploration Licenses

As of April 11, 2005, the Company held 67 exploration licenses in Mongolia covering an aggregate area of approximately 4.2 million hectares (“ha”). Forty-six of these licenses, the Western Gobi Property, are located in the west-central portion of the Omnogovi Aimag (province) approximately 510 kilometers (“km”) southwest of Ulaan Baatar, Mongolia. Six of the remaining licenses are known as the Oyut Ovoo property and are located approximately 270 km southwest of Ulaan Baatar. In addition, eleven licenses are held in Dornod Aimag which is located approximately 300 km northeast of Ulaan Baatar, three licenses are held in Khuvsgul Aimag in northern Mongolia and a single license is held in Khovd Aimag in western Mongolia.

Exploration licenses in Mongolia are granted for a period of three years followed by two two-year extensions (for a total of seven years) and require escalating rent payments which are due annually. Accordingly, the longer an exploration license is held, the higher the annual cost becomes. For this reason, certain of the Company's exploration targets have been prioritized on the basis of the age of the exploration license with the advanced or greater-cost licenses receiving priority for current exploration programs. As certain of these licenses are identified as having limited mineral potential, they may be surrendered in order to minimize rental fees. The number of licenses held will therefore fluctuate on a period to period basis as new properties are acquired and older ones surrendered. If all licenses currently held were maintained through 2005, license fees would aggregate approximately \$2.3 million.

Exploration Programs

Oyut Ovoo Property

Detailed fieldwork on the main zone of potential mineralization at Oyut Ovoo started in August 2003. The work program included detailed mapping, outcrop sampling and a ground magnetic geophysical survey. The Company also conducted reconnaissance work on the surrounding Oyut Ovoo licenses. An induced polarization ("IP") geophysical survey was completed in December 2003. Structural interpretation of high-resolution satellite images was completed in conjunction with the field exploration. This work has identified a skarn intrusive complex, with coincident high chargeability and magnetic anomalies.

The Company completed an initial diamond drilling program in April, 2004 on the Oyut Ovoo property consisting of 1,715 metres in six drill holes. Five of the six holes were drilled to test the skarn intrusive complex, and only intersected minor amounts of copper mineralization. The sixth hole was drilled to test a large IP anomaly on a second target located about one km southeast of the skarn. This hole intersected anomalous copper mineralization in weakly altered granite between downhole depths of 120 and 243 metres. A further program of trenching on the second target was completed in November 2004, with encouraging results from three of the six trenches excavated. Assay results for the drill hole and trenching program is available on the Company's website www.asiagold.com.

An additional ground magnetics and IP geophysical survey commenced in March 2005. Further work at Oyut Ovoo in 2005 is conditional on the results of this survey.

Western Gobi Properties

Yagaan

A program consisting of detailed and regional geologic mapping, geochemical sampling, trenching and an IP geophysical survey commenced on the Yagaan project in May, 2004. Approximately 7,500 metres of trenching was completed and 416 samples were collected over key areas. A drill program consisting of 1,285 metres in 8 holes was completed in October, 2004 with disappointing assay results that indicated only weakly anomalous gold values. No work is planned at Yagaan in 2005.

Maikhan

Geologic mapping using satellite and IP data has been completed. A drill program consisting of a single hole 197 metres deep was completed in October, 2004. Assay results from this hole were negative and no further work is planned on this prospect at this time.

Har Temmee

Detailed geologic mapping at Har Temmee was completed in October, 2004. A 3-hole drill program of 394 metres was completed in November, 2004 with negative results. No further work is planned at Har Temme.

In addition to the foregoing, a total of 83 additional potential gold and copper exploration targets in the Western Gobi properties were identified using Aster remote sensing data. Of these, 39 sites in the western half of the project area were visited with reconnaissance geology and geochemical sampling. This program resulted in the identification of 6 targets with anomalous copper and/or gold geochemistry that warrant additional mapping and sampling. Exploration programs for these targets will be developed for the 2005 field season.

The targeting work on the eastern half of the Western Gobi properties has identified 44 new targets, including 8 ranked as high priority and 20 as medium priority. All of the targets in the eastern half of the project will be evaluated in the field during helicopter reconnaissance programs in April and June 2005. These programs will also include 14 targets in the west half of the property that were not visited in 2004. In total there are 58 new targets to visit before the end of June 2005. After the completion of the reconnaissance work the targets will be ranked for detailed follow-up and potential drilling.

Dornod Properties

Interpretation of satellite images identified 4 areas of interest from which a total of 25 samples were taken during reconnaissance exploration in the second quarter of 2004. Several of these samples included anomalous arsenic and one sample contained elevated gold. As at the end of February 2005, the Company had 9 granted licences and another 14 under application for a total of 7,800 square km. A 2005 exploration program will be proposed when the land package has been consolidated and finalized.

Khuvs gul Properties

No exploration activities have commenced on these license areas. The Company has compiled existing published data on these areas for interpretation and has identified 5 exploration targets. A regional stream sediment survey is proposed for the 2005 field season.

Khovd Property

No exploration activities have commenced on this license area. The Company is currently compiling existing published data on the area for interpretation.

The Company adopted a revised exploration budget for the second half of 2004 in the amount of \$2.4 million. For the six months ended December 31, 2004, actual exploration expenses in respect of these budgeted amounts totaled \$2.2 million. This amount is approximately \$200,000 under budget, resulting from the delay of certain planned exploration programs on the Dornod property as well as lower than expected costs at the Company's exploration office in Ulaan Bataar, Mongolia. Exploration expenses as presented in the accounts of the Company for the six months ended December 31, 2004 were \$2.5 million and include certain exploration costs related to previous periods that were not included in the foregoing budgeted amounts.

The Company has adopted a base case committed exploration budget for 2005 in the amount of \$1.4 million with an additional contingent budget amount of \$1.2 million for total planned exploration expenditures of \$2.6 million. In addition, exploration license rental fees aggregating \$2.3 million would be payable during 2005 if all existing licenses were maintained. An analysis of the results of the 2004 exploration program will likely result in certain of these licenses being relinquished during 2005 before their annual rental fees are due.

Sale of Assets in South Korea

Effective April 1, 2004, Asia Gold Corp. has sold its 90% interest in its South Korean properties to Hanguk Co. Ltd., a South Korean company that owned the remaining 10% of these assets. In consideration for the sale of these assets, Asia Gold Corp. received \$422,000 plus proceeds of \$421,845 from the sale of concentrate produced from the Eunsan Mine up to March 31, 2004 and held in inventory at that time. This transaction resulted in a net loss of \$49,274.

Asia Gold Corp. received an aggregate of \$1.4 million in net cash flow from the Eunsan project during the period from acquisition in 2003 to July, 2004 when the balance of sale proceeds were received. This amount includes the net costs recovered by the Eunsan project from the sale of concentrate in excess of expenditures used for exploration and operational activities, as well as the sale proceeds noted above.

SELECTED ANNUAL INFORMATION

(\$ in thousands, except per share information)

	Year ended December 31,		
	2004	2003	2002
Exploration expenses	\$3,433	\$518	\$72
Net loss	\$4,503	\$2,278	\$256
Net loss per share	(\$0.31)	(\$0.43)	(\$0.16)
Cash and cash equivalents	\$8,222	\$11,869	\$4
Total assets	\$8,699	\$13,472	\$79

For each of the years ended December 31, 2004, 2003 and 2002, the Company had no net sales or other operating revenues, no long-term liabilities and no dividends were declared.

The Company was incorporated in February, 2002 and commenced operations that year with limited available funds. Current operations commenced in July, 2003 with the completion of the acquisition agreement with Ivanhoe Mines Ltd. (“Ivanhoe Mines”) and the Company’s initial public offering later that year which raised \$10.4 million. Exploration expenditures and the Company’s net loss for 2004 was higher than that experienced in previous years as the exploration programs did not commence in earnest until 2004 concurrent with the newly available funding. Total assets consist primarily of cash, which will decline on a year to year basis as these funds are utilized for operations.

RESULTS OF OPERATIONS

	Year ended December 31, 2004	Year ended December 31, 2003
EXPENSES		
Depreciation	\$ 15,931	\$ 1,275
Exploration, net of incidental revenues	3,433,318	517,954
Investor relations	48,523	7,526
Legal	73,256	58,567
Office and administration	402,060	105,567
Professional fees	67,521	140,592
Salaries and benefits	501,724	163,961
Stock-based compensation	277,919	240,177
Travel	149,932	67,923
	4,970,185	1,303,542
OTHER (INCOME)/EXPENSES		
Interest income	(197,932)	(16,313)
Foreign exchange gain	(335,482)	(233,372)
Loss on disposal of subsidiary	49,274	-
Interest expense	-	3,657
Loss on disposal of capital assets	-	53,418
Write-down of mineral property	-	1,078,277
Write-down of capital assets	-	81,032
Other	17,418	43,682
	(466,722)	1,010,381
LOSS BEFORE INCOME TAXES	4,503,463	2,313,923
FUTURE INCOME TAX RECOVERY	-	(35,915)
NET LOSS	\$ 4,503,463	\$ 2,278,008

Overview

Current operations commenced with the completion of the acquisition agreement with Ivanhoe Mines on July 31, 2003 and from financing provided by the Company's initial public offering in December, 2003. For these reasons, the aggregate net loss for the year ended December 31, 2003 does not represent results, both in scope and magnitude, which are comparative to the results for the year ended December 31 2004. This discrepancy should be considered when drawing comparative conclusions. In addition, as the Company is in the exploration stage, financial results are generally not fully comparable to those of the corresponding periods in the prior year due to potential significant changes to the nature of the Company's operations. Accordingly, in addition to annual and quarterly comparisons, the current quarter's operating results will be compared to those of the immediately preceding quarter.

Year Ended December 31, 2004 and 2003

The Company incurred a net loss of \$4.5 million for the year ended December 31, 2004 as compared to a net loss of \$2.3 million for the preceding year. The loss in 2004 is primarily attributable to the cost of exploration activities whereas the majority of the 2003 loss resulted from the write-down of the Korean mineral properties, plant and equipment. Administration costs for both years were roughly the same on a pro-rated monthly basis.

Exploration expenses during 2004 were \$3.4 million as compared to \$518,000 in the 2003 period. The 2003 amount includes expenditures of \$827,000 on the Mongolian properties and a net credit of \$309,000 on the Korean project; total expenditures in Korea in 2003 were \$2.5 million which was offset by incidental revenues from the sale of gold-silver concentrate in the amount of \$2.9 million. The 2004 exploration amount represents expenditures of \$3.6 million on the Mongolian properties and a net credit of \$202,000 from the Korean project; total expenditures in Korea in 2004 were \$1.2 million which was offset by incidental revenues of \$1.4 million. The increase in expenditures on the Mongolian properties is reflective of a full year's exploration field program during 2004 versus start-up operations in 2003 which is representative of only five-months of activity. In addition, exploration programs undertaken during 2003 focused primarily on reconnaissance activities whereas the 2004 program, building on the work carried out in 2003, included geophysical, drilling and assay programs and the requisite field staff and infrastructure to support them.

Investor relations costs increased in 2004 which is reflective of the fact that Asia Gold Corp. became a public company in December, 2003. Accordingly, certain costs associated with news releases, trade shows and printed promotional materials were not incurred in the 2003 period.

Similarly, office and administration costs and salaries increased in 2004 commensurate with the increased administrative work load of a public versus private company. Certain of the Company's administrative staff and office facilities are employed/provided by Global Mining Management ("GMM")(see 'Related party transactions' below) whose costs are allocated on an as-used basis. Accordingly, quarterly fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in quarterly corporate activity and the level of personnel employed.

Legal fees of \$73,000 incurred in the 2004 year increased by \$15,000 over those from 2003. The majority of the legal costs of \$59,000 in 2003 were associated with the issuance of the Company's prospectus whereas most of the 2004 costs were in respect of the closing of the sale of the Company's Korean assets in July, 2004. Legal costs for 2004 also include costs associated with the Company's Annual General Meeting as well as costs in respect of the Company's regulatory affairs, including issues associated with corporate governance, filings, registration and disclosure.

Professional fees decreased in 2004 as costs incurred during 2003 associated with the agreement with Ivanhoe Mines were not duplicated during the current period. Professional fees of \$68,000 incurred during 2004 include primarily the estimated cost of the Company's annual audit as well as costs for the review of quarterly financial statements. Professional fees of \$141,000 for the year ended December 31, 2003 include accrued annual audit fees, the cost of a review of the Company's September 2003 quarterly financial statements, costs associated with the agreement with Ivanhoe Mines, and other consulting fees.

Stock based compensation in the amount of \$278,000 was recognized in 2004 and \$240,000 in 2003. Stock-based compensation is recognized over the vesting periods of the stock options to which it relates, which can result in fluctuations in the level of costs recorded on a period over period basis.

Travel expenses more than doubled from 2003 to 2004 which is reflective of twelve-months of activity in the current year versus the five-month operating period in 2003. Travel costs include airfares and accommodation for the Company's management personnel who travel to operational locations in Mongolia and other prospective locations throughout Asia.

A foreign exchange gain of \$335,000 was recorded in 2004 versus a gain of \$233,000 for 2003. These gains are primarily the result of changes to the U.S. to Canadian dollar exchange rates during this two-year period and the resultant increase in the U.S. dollar equivalent of Canadian dollar denominated cash deposits. An amount of \$174,000 of the gain recorded in 2004 is unrealized.

Interest income increased significantly from 2003 to 2004, which is reflective of much larger average cash balances held during 2004 resulting from funds received from the Company's initial public offering in December, 2003.

SELECTED QUARTERLY DATA

(\$ in thousands, except per share information)

QUARTER ENDED	2004				2003	
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Exploration expenses	\$1,260	\$1,193	\$962	\$18	(\$822)	\$1,319
Net loss	\$1,451	\$1,022	\$1,546	\$484	\$728	\$1,550
Net loss per share	(\$0.10)	(\$0.07)	(\$0.11)	(\$0.03)	(\$0.21)	(\$0.22)

Historic quarterly data has been provided only to September, 2003 as this is the first quarter for which the Company became a reporting issuer.

The changes in comparative results of operations on a quarter over quarter basis are due primarily to significant fluctuations in three areas: exploration expenses; foreign exchange gains and losses; and asset and property write-downs.

Exploration expenses were offset during the 2003 December quarter and the 2004 March quarter, as incidental revenues were realized from the sale of ore concentrate at the Eunsan project in South Korea during these periods. As the Eunsan project was sold at the end of March, 2004, all exploration expenditures recorded for the last nine months of 2004 represent costs incurred on the Mongolian projects. There was a slight rise in the Mongolian expenditures throughout the year as the majority of the work was performed in the 3rd and 4th quarters of 2004 coincident with favourable weather patterns.

Foreign exchange gains and losses arise primarily from cash balances which are maintained in Canadian funds whereas the reporting currency of the Company is in U.S. dollars. Accordingly, fluctuations in the Canadian versus U.S. exchange rate results in the recording of gains or losses on a quarterly basis. Gains were recorded in the September and December quarters of 2004 and in the December quarter of 2003 whereas losses were recorded in the first six months of 2004 and the September quarter, 2003.

In December, 2003, a \$1.2 million write-down of the Eunsan mineral property, plant and equipment costs was made. This write-down was the result of unsuccessful exploration results at the Eunsan gold-silver project in the latter half of 2003 and the anticipated limited mineral resources and project life in 2004.

	Three Months Ended		
	December 31,	September 30,	December 31,
	2004	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)
EXPENSES			
Depreciation	\$ 6,267	\$ 4,091	\$ (1,062)
Exploration	1,260,145	1,193,171	(821,619)
Investor relations	7,274	14,723	5,580
Legal	10,947	23,051	27,515
Office and administration	101,091	101,426	55,375
Professional fees	37,117	9,309	39,455
Salaries and benefits	134,364	130,102	110,973
Stock-based compensation	73,249	68,583	240,177
Travel	33,679	34,223	26,702
	1,664,133	1,578,679	(316,904)
OTHER (INCOME)/EXPENSES			
Interest income	(39,771)	(48,956)	(16,085)
Foreign exchange gains	(173,056)	(507,760)	(263,795)
Interest expense	-	-	2,833
Loss on disposal of equipment	-	-	53,418
Write down of mineral property	-	-	1,078,277
Write down of plant and equipment	-	-	81,032
Other	-	-	56,879
	(212,827)	(556,716)	992,559
LOSS BEFORE TAXES	1,451,306	1,021,963	675,655
FUTURE INCOME TAX RECOVERY	-	-	(35,915)
NET LOSS	\$ 1,451,306	\$ 1,021,963	\$ 639,740

Three Months Ended December 31, 2004 and 2003

The Company incurred a net loss for the three-months ended December 31, 2004 of \$1.5 million as compared to a net loss of \$640,000 for the same period in 2003. This change is due primarily to two factors, an increase in exploration costs during the 2004 period partially offset by the absence of the write-down of the Eunsan mine recorded in the fourth quarter of 2003.

Exploration expenses during the 2004 period were \$1.3 million as compared to a net exploration cost recovery of \$822,000 in the 2003 quarter. The 2004 expenditures were spent entirely on field work on the Company's Mongolian exploration licenses. The 2003 expenditures included \$416,000 on the Mongolian properties and \$1,615,000 on exploration and operations at the Eunsan mine. However, these expenses were offset by the sale of concentrate at Eunsan in the amount of \$2,853,000 resulting in the net exploration cost recovery for this period. The increase in expenditures on the Mongolian properties is reflective of a full exploration field program during 2004 versus reconnaissance exploration activities in the 2003 quarter.

The net loss in the December, 2003 quarter was largely the result of a \$1.2 million write-down of the Eunsan mineral property, plant and equipment costs. This write-down was the result of unsuccessful exploration results at the Eunsan gold-silver project in the latter half of 2003 and the anticipated limited mineral resources and project life in 2004.

Salary costs and office and administration fees increased by an aggregate of \$69,000 in the 2004 quarter versus those incurred in the same period in 2003. Of this increase, \$25,000 was for the 2004 directors and officer's insurance premium; there was no directors and officer's insurance policy in place in 2003. Office and administration costs increased by \$46,000 due to increases in staffing levels and GMM staff and office allocations during the 2004 quarter. This increase in 2004 is reflective of the hiring of a Vice-President, Exploration in early 2004 as well as the additional resources required to administer a publicly listed company.

Stock-based compensation expense recorded for the 2003 quarter was \$240,000 as opposed to an amount of \$73,000 in 2004. This difference reflects the vesting pattern of the underlying stock options that gave rise to the compensation expense.

The balance of administrative costs, investor relations, legal, professional fees and travel were roughly the same for the 2003 and 2004 quarters.

Interest income in the 2003 quarter was about half of that recorded in 2004. The income earned during 2004 resulted primarily from cash balances from the Company's initial public offering in December, 2003. Prior to this time, the Company's cash balances were minimal.

A foreign exchange gain of \$173,000 was recorded in the 2004 quarter versus a gain of \$264,000 for 2003. These gains are primarily the result of changes to the U.S. to Canadian dollar exchange rates during these periods and the resultant increase in the U.S. dollar equivalent of Canadian dollar denominated cash deposits.

Three Months Ended December 31, 2004 and September 30, 2004

The Company incurred a net loss for the three-months ended December 31, 2004 of \$1.5 million as compared to a net loss of \$1.0 million for the preceding three month period. This change is primarily due to a decrease in the foreign exchange gain from \$508,000 in the September quarter to \$173,000 in the December quarter. The September gain is reflective of a period of relatively large increases in the value of Canadian dollar as compared to its U.S counterpart and the effect that increase had on Canadian dollar denominated cash deposits.

Exploration expenses during the December period were \$1.3 million as compared to \$1.2 million in the September period, all of which were spent on the Company's Mongolian properties. The majority of these expenditures include costs for geological and geophysical consultants, drilling, assaying, camp costs and property license fees.

Administration costs, with the exception of professional fees, remained virtually unchanged on a quarter over quarter basis reflecting a period of relative administrative operating stability during the second half of 2004.

Professional fees increased by \$28,000 in the December quarter due to the accrual of the 2004 audit fees during this period.

Interest income was \$9,000 higher in the three months ended September 30, 2004 versus the amount received in the December quarter due to higher average cash balances during the former period.

LIQUIDITY AND CAPITAL RESOURCES

The balance sheets as at December 31, 2004 and 2003 are shown in the following table for ease of reference.

	December 31, 2004	December 31, 2003
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 8,222,182	\$ 11,869,149
Accounts receivable	79,737	342,596
Prepaid expenses	124,276	21,993
Inventory	-	248,083
	8,426,195	12,481,821
MINERAL PROPERTIES	158,384	333,982
PLANT AND EQUIPMENT	114,528	656,600
	\$ 8,699,107	\$ 13,472,403
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,035,404	\$ 1,195,390
Asset retirement obligation	-	387,766
	1,035,404	1,583,156
SHAREHOLDERS' EQUITY		
Common shares	14,183,003	14,183,003
Contributed surplus	518,096	240,177
Deficit	(7,037,396)	(2,533,933)
	7,663,703	11,889,247
	\$ 8,699,107	\$ 13,472,403

At December 31, 2004, the Company had a working capital balance of \$7.4 million and cash resources of \$8.2 million. Budgeted expenditures for 2005 are \$3.9 million, consisting of exploration and administrative expenditures in Mongolia of \$2.6 million and corporate administrative costs of \$1.3 million. In addition, Mongolian exploration license rental fees aggregating \$2.3 million would be payable during 2005 if all existing licenses were maintained. The Company is actively pursuing exploration opportunities outside the scope of its existing properties; should any of these opportunities come to fruition, the remaining exploration budget would require revision to encompass the additional expenditures. The Company expects to fund its 2005 exploration programs and ongoing administrative costs from the balance of working capital on hand.

During the year ended December 31, 2004, the Company spent \$4.1 million on operations, made expenditures on equipment in the amount of \$115,000 and received cash inflows of \$844,000 on the sale of the Eunsan Mine.

At December 31, 2004, the Company had approximately \$4.6 million in Canadian funds which amount exposes the Company to risks associated with foreign exchange fluctuations. Due to a strengthening in value of the Canadian dollar versus its U.S. counterpart during 2004, foreign exchange gains in the amount of \$294,000 in the Company's Canadian dollar denominated cash holdings were recorded during 2004. Of this amount, \$194,000 was unrealized at December 31, 2004. For the year ended December 31, 2004, the Company converted a total of \$6.9 million Canadian dollars into U.S. dollars.

Despite the foregoing, the Company does not have sufficient funds or the ability to generate additional funds necessary to complete all planned exploration activities or maintain operations for the long term. Additional funding will be required in future periods, and this funding will likely be in the form of additional equity financings. There can be no assurance given, however, that such funding will be available when required or on terms which are acceptable to the Company.

RELATED PARTY TRANSACTIONS

Certain administrative costs are paid to GMM for corporate secretarial, accounting, investor relations and administrative services performed on behalf of the Company. GMM is related to Asia Gold Corp. as certain officers and directors are common to each company. GMM provides these services to a group of companies, some of which are related to Asia Gold Corp. The services provided by GMM are incurred on an as-used basis at cost. The Company has utilized the services of the GMM staff and office since June 1, 2003 and has incurred costs of \$724,000 for the year ended December 31, 2004 and \$219,000 for the six-month period ended December 31, 2003.

In connection with the acquisition of the exploration licenses from Ivanhoe Mines, the Company and Ivanhoe Mines entered into a mineral exploration services agreement. Under the terms of this agreement, the Company contracted Ivanhoe Mines to conduct exploration activities on the Company's behalf on a cost recovery basis. This services agreement was terminated in October 2003, and replaced with a technical consulting agreement. Under the new agreement, the Company assumed responsibility for its own exploration activities after November 30, 2003, while retaining Ivanhoe Mines to conduct exploration activities and using Ivanhoe Mines' infrastructure on a cost recovery basis from time to time. The Company reimbursed Ivanhoe Mines \$207,000 and \$572,000 in respect of these agreements during 2004 and 2003, respectively.

In addition, the Company and Ivanhoe Mines have entered into a coal rights retention agreement ("CRRA") whereby Ivanhoe Mines will retain the rights to any coal and coal-related products situated in, on or under the geographical boundaries of any of the 40 exploration licenses acquired prior to 2004. The CRRA does not apply to the licenses granted directly to the Company.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at April 11, 2005: 14,622,349 common shares were issued and outstanding; 2,015,000 share purchase options had been granted and were outstanding; and 1,333,333 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 17,970,682 common shares were outstanding.

RISK FACTORS

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. At present, none of the Company's properties has a known body of commercial ore. Material risks and uncertainties affecting the Company, their potential impact, and the Company's principal risk management strategies, are as follows:

- *Additional Funding Requirements* - The further development and exploration of the various mineral properties in which it holds interests depends upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There can be no assurance that the Company will be successful in obtaining any required financing as and when needed. Depressed markets for precious and base metals may make it difficult, or impossible, for the Company to obtain debt financing or equity financing on favorable terms, or at all. The Company operates in a region of the world that is prone to economic and political upheaval and mineral properties held by the Company are located in politically and economically unstable countries, which may make it more difficult for the Company to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.
- *Risks pertaining to Mongolia* - Mongolia is, and for the foreseeable future is expected to remain, the country in which the Company concentrates most of its business activities and financial resources. Since 1990, Mongolia has been in transition from state socialism and a planned economy to a political democracy and a free market economy. Much progress has been made in this transition, but much more progress remains to be made, particularly with respect to the rule of law. Many laws have been enacted, but in many instances they are neither understood nor enforced. For decades, Mongolians have looked to politicians and bureaucrats as the sources of the "law". This has changed in theory, but often not in practice. With respect to most day-to-day activities in Mongolia, government civil servants interpret, and often effectively make, the law. This situation is gradually changing, but at a relatively slow pace. Laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable.

- *Uncertainties related to mineral resource estimates* – There is a degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity and value of reserves or resources may vary, depending on metals prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company’s properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production.
- *Metal price volatility* – Metal prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectations of inflation, global and regional demand, currency-exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods.
- *Currency risks* – The bulk of the Company’s activities are denominated in U.S. currency. During the past year, the Company invested most of its surplus funds in cash instruments denominated in Canadian dollars. During most of this period, the Canadian dollar strengthened against the U.S. dollar, resulting in a foreign exchange gain to the Company. There is no guarantee that the Canadian dollar will continue on this trend in the future and a sudden weakening of the Canadian dollar vis-a-vis the U.S. dollar could generate a significant foreign exchange loss to the Company.
- *Limited production history* - The Company has paid no dividends on its common shares since incorporation and does not anticipate doing so in the foreseeable future. To date, the Company has not received any cash flow generated from operations. All exploration projects of the Company will need funding from the Company. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably. While the Company may in the future generate additional working capital through the operation, development, sale or possible joint venture of its properties, there is no assurance that the Company will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.
- *Uninsurable risks or self-insured risks* –Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

OUTLOOK

The Company will concentrate its efforts on identification and drilling of prospective copper-gold targets on its exploration licenses in Mongolia, and identification and acquisition of new mineral property exploration opportunities. The Company has sufficient working capital to complete its planned 2005 exploration programs and, should it be successful in discovering an economic ore body, due to its proximity to China, has access to a market which has a strong demand for raw materials and precious metals.

April 11, 2005