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

**March 31, 2005**

(Stated in U.S. Dollars)
(Unaudited)

**ASIA GOLD CORP.**
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## 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 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 has adopted this standard in its fiscal year ending December 31, 2005.

At present, the Company's most significant financial instruments are cash and cash equivalents, 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. Financial 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 financial assets.

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 has adopted 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 May 19, 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.

## Exploration Programs

### Oyut Ovoo Property

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; 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 was completed in April 2005. Interpretation of the results of this program will be completed in May, 2005.

### Western Gobi Properties

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 during 2004. This program resulted in the identification of 6 targets with anomalous copper and/or gold geochemistry that warrant additional mapping and sampling. Follow-up mapping on three of these targets during 2005 has resulted in two of the targets being downgraded; on the third target, significant areas of alteration quartz veining has been identified and further mapping is ongoing.

The targeting work on the eastern half of the Western Gobi properties has identified 49 new targets. A helicopter reconnaissance program was undertaken in April, 2005 which covered approximately 18,000 square km's. Thirty-five targets were visited on the ground resulting in the identification of 2 high and 3 moderate priority prospects which require follow-up mapping and sampling. A further 10 targets of lesser priority were also identified with further work on these prospects dependent on results of geochemistry.

Seven 2005 targets and fifteen 2004 targets have yet to be visited; a third reconnaissance program is planned for 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 April 2005, the Company had 11 granted licences and another 17 under application for a total of 8,300 square km. A 2005 exploration program will be proposed when the land package has been consolidated and finalized.

### Khuvsgul Properties

The Company has compiled existing published data on these areas for interpretation and has identified 6 exploration targets. A regional stream sediment survey is planned to commence in June, 2005.

### Khovd Property

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

### Exploration Budget

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. It is the Company's intention to relinquish 10 exploration licenses from the Western Gobi properties which are entering their fourth year in June, 2005. This relinquishment will reduce the cost of license fees in 2005 by approximately $750,000. As further results of the 2004 and 2005 exploration field seasons are analyzed, it is likely that further relinquishments of licenses will occur.

## RESULTS OF OPERATIONS

### Overview

The Company is in the exploration stage, and 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 quarterly comparisons, the current quarter's operating results will be compared to those of the immediately preceding quarter.

## SELECTED QUARTERLY DATA

($ in thousands, except per share information)

| | 2005 | 2004 | | | | 2003 | |
|---|---|---|---|---|---|---|---|
| QUARTER ENDED | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
| Exploration expenses | $ 485 | $1,260 | $1,193 | $962 | $18 | ($822) | $1,319 |
| Net loss | $ 944 | $1,451 | $1,022 | $1,546 | $484 | $728 | $1,550 |
| Net loss per share | $ (0.06) | ($0.10) | ($0.07) | ($0.11) | ($0.03) | ($0.21) | ($0.22) |

Historical quarterly data has been provided from September, 2003 onward 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, primarily all exploration expenditures recorded for the last nine months of 2004 and first three months of 2005 represent costs incurred on the Mongolian projects. There was a slight rise in the Mongolian expenditures throughout the 2004 year as the majority of the work was performed in the 3$^{rd}$ and 4$^{th}$ quarters of 2004 coincident with favourable weather patterns. For the March, 2005 quarter, exploration expenditures decreased as the winter season in Mongolia is restrictive to exploration field activities.

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, the September quarter of 2003 and the March quarter of 2005.

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 | | |
|---|---|---|---|
| | **March 31, 2005** | December 31, 2004 | March 31, 2004 |
| | **(Unaudited)** | (Unaudited) | (Unaudited) |
| **EXPENSES** | | | |
| Depreciation | **$ 6,457** | $ 6,267 | $ 920 |
| Exploration | **484,768** | 1,260,145 | 17,930 |
| Investor relations | **1,932** | 7,274 | 14,628 |
| Legal | **11,040** | 10,947 | 28,782 |
| Office and administration | **94,155** | 101,091 | 80,304 |
| Professional fees | **4,957** | 37,117 | 11,071 |
| Salaries and benefits | **117,926** | 134,364 | 117,248 |
| Stock-based compensation | **188,513** | 73,249 | 73,874 |
| Travel | **37,000** | 33,679 | 35,382 |
| | **946,748** | 1,664,133 | 380,139 |
| **OTHER (INCOME)/EXPENSES** | | | |
| Interest income | **(36,102)** | (39,771) | (23,955) |
| Foreign exchange loss/(gain) | **33,518** | (173,056) | 110,438 |
| Other | **-** | - | 17,416 |
| | **(2,584)** | (212,827) | 103,899 |
| **NET LOSS** | **$ 944,164** | $ 1,451,306 | $ 484,038 |

### Three Months Ended March 31, 2005 and 2004

The Company incurred a net loss for the three-months ended March 31, 2005 of $944,000 as compared to a net loss of $484,000 for the same period in 2004. This change is due primarily to an increase in exploration costs during the 2005 period.

Exploration expenses during the 2005 period were $485,000 as compared to exploration costs of $18,000 in the 2004 quarter. In the 2005 period, $343,000 was spent on field work on the Company's Mongolian exploration licenses and a further $142,000 was spent on exploration reconnaissance activities in Indonesia and Siberia. The 2004 expenditures included $220,000 on the Mongolian properties and $1.2 million on exploration and operations at the Eunsan mine in Korea. However, these expenses were offset by the sale of concentrate at Eunsan in the amount of $1.4 million resulting in the net exploration cost recovery of $202,000 for this period. The increase in expenditures on the Mongolian properties in the March, 2005 quarter reflects the field reconnaissance activities as detailed above as compared to a period consisting of data interpretation and planning during the quarter ended March 31, 2004.

Salary costs and office and administration fees increased by an aggregate of $15,000 in the 2005 quarter versus those incurred in the same period in 2004. Of this amount, $5,000 was an increase in the directors and officer's insurance premium for 2005 and the balance is due to increased office allocations during the 2005 quarter. 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.

Stock-based compensation expense recorded for the 2005 quarter was $189,000 as opposed to an amount of $74,000 in 2004. This difference reflects the vesting pattern of the underlying stock options that gave rise to the compensation expense.

Investor relations costs were lower in the 2005 period as certain costs incurred in the 2004 quarter in respect of conference registrations and printed materials were not duplicated in 2005.

Legal fees decreased in the 2005 period as certain costs incurred during the 2004 quarter associated with the Company's December, 2003 initial public offering were not duplicated in 2005. Otherwise, legal fees were incurred on a relatively consistent basis throughout the March 2005 and 2004 periods. The majority of these charges were for costs associated with the Company's regulatory affairs including issues associated with corporate governance, filing, registration and disclosure.

Professional fees decreased for the March, 2005 quarter due to the reversal of an over accrual of audit fees from the fourth quarter of 2004. Professional fees include the cost of the Company's annual audit and quarterly reviews.

A foreign exchange loss of $34,000 was recorded in the 2005 quarter versus a loss of $110,000 for 2004. These losses are primarily the result of changes to the U.S. to Canadian dollar exchange rates during these periods and the resultant decrease in the U.S. dollar equivalent of Canadian dollar denominated cash deposits.

**Three Months Ended March 31, 2005 and December 31, 2004**

The Company incurred a net loss for the three-months ended March 31, 2005 of $944,000 as compared to a net loss of $1.5 million for the preceding three month period. This change is primarily due to a decrease in exploration expenditures from the December quarter to the March quarter.

Exploration expenses during the December period were $1.3 million as compared to $485,000 in the March period, most of which were spent on the Company's Mongolian properties. The majority of expenditures incurred in the December 2004 quarter include costs for geological and geophysical consultants, drilling, assaying, camp costs and property license fees whereas the March, 2005 expenditures include primarily geological consultants, property license fees and salary costs. The reduction in exploration expenditures on the Mongolian properties reflects a seasonal downturn in exploration field activities during the winter months in Mongolia.

Salary costs and office and administration fees decreased by an aggregate of $23,000 in the 2005 quarter versus those incurred in the December, 2004 period. This decrease is due to reduced salary and office expense allocations owing to seasonal fluctuations in GMM staffing levels.

Professional fees were $37,000 in the December quarter versus $5,000 in the March quarter owing to the accrual of the 2004 audit fees during the former period.

The balance of administration costs remained virtually unchanged on a quarter over quarter basis.

A foreign exchange gain of $173,000 was recognized in the December 2004 quarter as opposed to a foreign exchange loss of $34,000 in the first three months of 2005. This change is reflective of a relative strengthening of the Canadian dollar versus its U.S. counterpart during the 2004 period whereas the opposite held true for the March, 2005 quarter.

## LIQUIDITY AND CAPITAL RESOURCES

The balance sheets as at March 31, 2005 and December 31, 2004 are shown in the following table for ease of reference.

| | **March 31, 2005** | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash and cash equivalents | **$ 6,609,893** | $ 8,222,182 |
| Accounts receivable | **15,916** | 79,737 |
| Prepaid expenses | **182,249** | 124,276 |
| | **6,808,058** | 8,426,195 |
| MINERAL PROPERTIES | **158,384** | 158,384 |
| PLANT AND EQUIPMENT | **128,038** | 114,528 |
| | **$ 7,094,480** | $ 8,699,107 |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | **$ 186,428** | $ 1,035,404 |
| **SHAREHOLDERS' EQUITY** | | |
| Common shares | **14,183,003** | 14,183,003 |
| Contributed surplus | **706,609** | 518,096 |
| Deficit | **(7,981,560)** | (7,037,396) |
| | **6,908,052** | 7,663,703 |
| | **$ 7,094,480** | $ 8,699,107 |

At March 31, 2005, the Company had a working capital balance of $6.6 million and cash resources of $6.6 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 three months ended March 31, 2005, the Company spent $1.6 million on operations and made expenditures on equipment in the amount of $24,000.

At March 31, 2005, the Company had approximately $4.2 million in Canadian funds which amount exposes the Company to risks associated with foreign exchange fluctuations. Due to a weakening in value of the Canadian dollar versus its U.S. counterpart during the first quarter of 2005, foreign exchange losses in the amount of $36,000 in the Company's Canadian dollar denominated cash holdings were recorded during this period all of which were unrealized at March 31, 2005.

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 $177,000 and $159,000 for the three-month periods ended March 31, 2005 and 2004, respectively.

In connection with the acquisition of the exploration licenses from Ivanhoe Mines Ltd., the Company and Ivanhoe Mines entered into a technical consulting agreement. Under the terms of this agreement, the Company retained Ivanhoe Mines to conduct exploration activities using Ivanhoe Mines' infrastructure on a cost recovery basis from time to time. The Company reimbursed Ivanhoe Mines $207,000 during 2004 and has incurred no costs during the three-month period ended March 31, 2005 in respect of these agreements.

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 May 19, 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' 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 may be 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.

May 19, 2005