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

March 31, 2006

(Stated in U.S. Dollars)

ASIA GOLD CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
March 31, 2006
(Unaudited)
(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, Bulgaria and Indonesia. Asia Gold Corp. trades on the TSX Venture exchange under the symbol ASG.

Recent Developments

The Company and Ivanhoe Mines Ltd. ("Ivanhoe") reached an agreement in principle for the Company to acquire Ivanhoe's Coal Division in exchange for 82,576,383 common shares of the Company. The proposed transaction would result in the Company becoming a majority-owned, publicly-traded subsidiary of Ivanhoe, and operating a coal division and a mineral exploration division.

This transaction would result in Ivanhoe owning approximately 91.4% of the issued and outstanding common shares of Asia Gold and 88.8% on a fully diluted basis. As part of the transaction, Ivanhoe has agreed to extend an interim working line of credit to the Company of $10 million.

This transaction is subject to the signing of a definitive agreement, approval from the TSX Venture Exchange and fulfillment of all other applicable regulatory and stock exchange requirements. The transaction will constitute a "Related Party Transaction" and, as such, the Company's participation in the transaction will be subject to the prior approval of its minority shareholders at a special meeting to be convened for that purpose.

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.

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, 2005.

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.

MINERAL 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") and an update to this report dated August 31, 2005 prepared by A.W. Gourlay, P.Geo, a senior geologist employed at that time by the Company and a qualified person for NI 43-101; both of these reports 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 or has been disclosed herein was prepared by, or under the supervision of, Mr. David C. Owens, P.Geo., the President of the Company and Richard R. Gosse, P.Geo, the Vice President Exploration of the Company, both "qualified persons" for the purposes of NI 43-101.

Mongolia Exploration Licenses

As of May 16, 2006 the Company held 102 exploration licenses in Mongolia covering an aggregate area of approximately 2.9 million hectares ("ha"). Sixty-five of these licenses comprising an area of approximately 1.6 million ha, the Western Gobi Properties, are located in the west-central portion of the Omnogovi Aimag (province) approximately 510 kilometers ("km") southwest of Ulaan Baatar, Mongolia. Seven of the remaining licenses are known as the Oyut Ovoo property and are located approximately 270 km southwest of Ulaan Baatar. In addition, twenty licenses are held in Dornod Aimag which is located approximately 300 km northeast of Ulaan Baatar, five licenses are held in Khuvsgul Aimag in northern Mongolia and a further five licenses are held in other areas of 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

West Gobi Property

Exploration on these licences is directed towards discovering epithermal gold deposits and porphyry copper deposits. In 2003 a total of 40 Landsat anomalies were identified of which 23 received reconnaissance site visits during the same year. A new round of target generation using Aster satellite data was initiated in late 2004. A total of 138 Aster anomalies were identified of which 33 were visited in 2004 and 35 in the first half of 2005. Regional stream sediment sampling is also being used to screen large areas within the licenses for significant copper or gold mineralization. More than a 1,000 stream sediment samples were collected in 2004 and 2005 and numerous anomalies have been followed up. This work led to the discovery of both the Khongor porphyry system and the Naran Bulag project in 2005 (see below).

Khongor Project

Exploration results from the Khongor porphyry copper-gold project in southern Mongolia confirm a mineralized strike length of 2 km. About half of this strike length is located on the Tsakhir license optioned by Asia Gold from Solomon Resources Ltd. and Gallant Minerals Ltd. The balance is located within the West Falcon Gobi Property, a joint-venture property with BHP.

In the second half of 2005 geological mapping, a detailed ground magnetometer survey and rock-chip sampling of all outcropping mineralization and rock alteration was carried out. Five holes totaling 935 metres were drilled before the year ended. All five holes encountered mineralization including a 70 metre interval grading 0.67 % copper and 0.16 g/t gold in hole KPDH-03.

An induced polarization ("IP") survey which was carried out in April 2006 indicates a large chargeability anomaly (1600 metres by 380 metres) that is broadly coincident with mapped copper mineralization, porphyry style alteration and porphyry dykes (see Asia Gold's website, www.asiagold.com for plans of conductivity and resistivity). The depth extent of the anomaly is 200-500 metres and drill hole KPDH-03, lies at the western end of the chargeability anomaly. A 3,000 metre drill program on targets identified in this survey is scheduled to commence in late May.

The IP survey also identified two smaller parallel zones of high chargeability and low resistivity located 800 metres to the southwest and about two km along strike to the northwest. These two new targets require more detailed evaluation.

Another new target area is located two km south of Khongor on the Tsakhir license. The target is defined by outcropping porphyry-style quartz stockwork with associated unidirectional solidification textures within a large zone of advanced argillic alteration. Detailed mapping and sampling of this target is in progress.

Naran Bulag Project

The Company announced the discovery of 13 quartz veins containing visible gold at Naran Bulag on a 100% owned exploration license in southern Mongolia in 2005. The veins occur over a distance of 2.5 km and initial fire assay results indicate gold grades averaging between 30 grams per tonne gold (0.96 ounces per ton) and 165 grams per tonne gold (5.30 ounces per ton) in seven of the veins. A 7,000 metre trenching program that commenced in October, 2005 confirmed the high grade gold in five main veins and revealed two new veins which were found within 2 km of the main vein system.

A 3,500-metre combined diamond and Reverse Circulation (RC) drilling program commenced on April 23, 2006. Three blocks have been defined for RC grid drilling on the down-dip extensions of the B, A-C and D veins that host high grade gold mineralization (see Asia Gold's website for news releases dated January 23, 2006, and February 16, 2006). The drill program is expected to be completed by mid-May and results are expected in June.

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. No work was carried out in 2005; site visits to several copper occurrences are planned for 2006.

Dornod Property

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 of March 2006, the Company had 20 granted licences for a total of 4,974 square kilometres ("km^2"). The Company continues to seek the approval of two other licences which would provide a consolidated land package suitable for an airborne geophysical survey.

Khuvsgul Property

As of May 2006, five contiguous exploration licenses totaling 4,516 km^2 were owned by the Company. The Company has compiled and interpreted existing published data on these areas and has identified 6 exploration target areas for black shale hosted gold deposits. Between June and July 2005 a total of 304 regional geochemical samples were collected over the two largest target areas that cover a combined area of 566 km^2. A number of anomalies were identified including three adjacent catchments with anomalous gold-arsenic-tellurium. Results will be followed up by additional high density stream sediments sampling, prospecting and mapping. This follow up program is planned to commence in June 2006.

Khovd and Other Properties

The Company currently holds five other licenses totaling 2778 km^2 elsewhere in Mongolia. On the Khovd property the Company has compiled existing published data on the area and reconnaissance mapping and sampling was conducted in July 2005. The results of a total of 50 rock samples collected in July 2005 are not encouraging. No work has been conducted on any of the five properties since that time.

Bulgarian Properties

The Rozino license (161.7 km^2) is located in southern Bulgaria within the Tertiary Rhodope Metallogenic Belt. The license includes the Tashlaka Hill low-sulphidation epithermal gold system. Previous work by the Bulgarian government and the Company's joint venture partner, Hereward Ventures Bulgaria AD ('Hereward'), which includes 118 drill holes, has outlined a broad zone of structurally controlled low grade gold mineralization. Diamond drilling has also identified discrete high-grade shoots within the broad mineralized zone. The structural control to the higher-grade mineralization is poorly understood and further technical work and drilling is required to test the potential for high-grade mineralization at Tashlaka Hill. A 1,200 metre drilling program to test the Tashlaka Hill gold system is scheduled to begin in May 2006.

An epithermal breccia system has recently been recognized about 1.0 km. southwest of the Tashlaka Hill gold system. The breccia has a strike length of 500 metres and a width of up to 50 metres. A five-hole diamond drilling program to test the new breccia zone was completed in early September 2005. Three of the five drill holes intersected low-grade gold mineralization.

Intrusion related gold mineralization associated with Cretaceous granites is found at several locations on the Dobroselets license (92.9 km^2.) in southeastern Bulgaria. The most significant is the Chaira gold deposit which was discovered and drilled by the Bulgarian government in the 1980s. Gold mineralization occurs in a sub-vertical sheeted vein system within a broad zone of quartz-sercite-carbonate-sulphide alteration measuring 1.5 km. by 2.5 km. In 2006, the Company plans to conduct ground magnetics and induced polarization ('IP') surveys over this zone prior to a drilling program.

Gold mineralization has recently been discovered on the Polski Gradets license (82.4 km^2) in association with silicified Triassic carbonate rocks. Trenching and drilling by Hereward on the Vladimirovo prospect has outlined gold bearing carbonate rocks over a strike length of 1.6 kms and widths measuring up to 30 metres. Geological mapping, sampling and follow-up drilling is required to establish the style and control of the gold mineralization.

The Gornoseltsi license (154.9 km^2) in southern Bulgaria hosts several structurally controlled low sulphidation epithermal gold prospects. The most attractive of these prospects is the Dornoseltsi prospect where a two-metre wide vein exposed in a recent trench exhibits strong epithermal textures including bladed carbonate pseudomorphs, crustiform-colloform banded veins and massive chalcedony.

In May 2006, three expired mineral licenses in Bulgaria were granted extensions by the government of Bulgaria. With the approval of these license extensions, the Company has re-commenced its exploration activities in Bulgaria.

<u>Kapustusan Project, Indonesia</u>

Company geologists visited the Kaputusan porphyry copper/gold deposit on the western side of Bacan Island, Maluku, Indonesia in January 2005. The porphyry was discovered upstream of placer gold deposits during a joint Indonesian-German regional program carried out from 1977 to 1979. Subsequent exploration included 5,550 metres of trenching and 1,575 metres of NQ/BQ drilling in ten holes during 1983 to1984.

The best drill intercepts recorded are 48 metres at 0.37% Copper (‘Cu’) and 0.65 grams per tonne (‘g/t’) gold (‘Au’) (hole 3; 6-54 metres) and 153 metres at 0.33% Cu and 0.28 g/t Au (hole 7; 51-204 metres). The best trench interval is 80 metres at 0.50% Cu and 0.39% Au including 44 metres at 0.60% Cu and 0.50 g/t Au. However, the Company believes core analyses may underestimate the true grades; overall recovery in the ten holes was only 54% with an average 41% in mineralized intervals. Leaching and secondary enrichment has also occurred.

Camp construction, line cutting and logistical preparation is now underway on the Kaputusan porphyry copper-gold project. A first-stage exploration program comprising geological mapping, an IP geophysical survey and trenching began in March 2006. Conditional on results from the stage one program, the Company plans to drill test the copper-gold mineralization in the third quarter of 2006.

Exploration Budget

Subject to financing, the Company adopted an exploration budget for 2006 in the amount of $4.1 million and, subject to the results of this work and formal adoption, has planned an additional contingent budget amount of $4.0 million. This budget includes exploration license rental fees of $1.3 million that would be payable during 2006 on those existing licenses in Mongolia that the Company is planning to maintain. As further results of the 2005 and 2006 exploration field seasons are analyzed, it is likely that some relinquishments of licenses will occur during 2006.

SELECTED QUARTERLY DATA

($ in thousands, except per share information)

	2006	2005				2004		
QUARTER ENDED	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Exploration expenses	$ 488	$ 1,705	$ 1,457	$ 1,008	$ 485	$ 1,260	$ 1,193	$ 962
Net loss	997	2,174	1,724	1,372	944	1,451	1,022	1,546
Net loss per share	(0.06)	(0.15)	(0.11)	(0.09)	(0.06)	(0.10)	(0.07)	(0.11)

The changes in comparative results of operations on a quarter over quarter basis are due primarily to significant fluctuations in three areas: exploration expenses, stock-based compensation charges, and foreign exchange gains and losses.

Exploration expenses were lower during the 2006 and 2005 March quarters as winter conditions in Mongolia restrict exploration field activities. Most of the exploration expenditures recorded for eight quarters ended March 31, 2006 were incurred on the Mongolian projects. Exploration expenses for the fourth quarter 2005 and the first quarter of 2006 also include costs incurred on the Bulgarian properties. There was a slight escalation in the Mongolian expenditures throughout the 2004 and 2005 years as the majority of the work was performed in the 3rd and 4th quarters coincident with favourable weather conditions.

Stock-based compensation expense reflects both the number of options granted during a given period and the vesting pattern of the underlying stock options that gave rise to the compensation expense resulting in fluctuations in this expense on a quarterly basis.

Foreign exchange gains and losses arise primarily from cash balances which are maintained in Canadian funds whereas the reporting currency of the Company is U.S. dollars. Accordingly, fluctuations in the Canada:U.S. exchange rate results in the recording of gains or losses on a quarterly basis. Gains were recorded in the third and fourth quarters of both 2005 and 2004, whereas losses were recorded in the first quarter of 2006 and the first six months of both 2005 and 2004. Cumulative foreign exchange gains for the two-year period ended March 31, 2006 were $498,000.

RESULTS OF OPERATIONS

	Three Months Ended March 31, 2006 (Unaudited)	Three Months Ended March 31, 2005 (Unaudited)
EXPENSES		
Depreciation	**$ 4,109**	$ 6,457
Exploration, net of incidental revenues	**487,542**	484,768
Investor relations	**11,324**	1,932
Legal	**19,823**	11,040
Office and administration	**127,287**	94,155
Professional fees	**8,591**	4,957
Salaries and benefits	**176,823**	117,926
Stock-based compensation	**94,074**	188,513
Travel	**59,998**	37,000
	989,571	946,748
OTHER (INCOME)/EXPENSES		
Interest income	**(14,957)**	(36,102)
Foreign exchange	**22,213**	33,518
	7,256	(2,584)
NET LOSS	**$ 996,827**	$ 944,164

Three Months Ended March 31, 2006 and 2005

The Company incurred a net loss for the three-months ended March 31, 2006 of $997,000 as compared to a net loss of $944,000 million for the same period in 2005.

Exploration expenses during the 2006 period were $488,000 as compared to exploration costs of $485,000 in the 2005 quarter. In the 2006 period, $310,000 was spent on field work on the Company's Mongolian exploration licenses, $162,000 was spent on exploration activities in Bulgaria and the balance was spent on other generative exploration activities. For the 2005 period, expenditures of $343,000 were spent on exploration activities on the Mongolian exploration licenses and $142,000 on other generative exploration activities.

Salary and office and administration cost increases reflect increased administrative staff for the March 2006 quarter. Also, 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 2006 quarter was $94,000 as compared to an amount of $189,000 in 2005. This difference reflects the vesting pattern of the underlying stock options that gave rise to the compensation expense.

Legal fees increased slightly in the 2006 period; 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. Investor relations expenditures in the first quarter of 2006 increased by $9,000 over those in the 2005 period primarily as a result of the engagement of a corporate communications group during this period. Travel costs were higher in the 2006 quarter due to the addition of the Bulgaria and Indonesian projects and the resulting increased travel to the Company's project locations during this period by administrative personnel.

Foreign exchange losses of $22,000 and $34,000 were recorded in the March 2006 and 2005 quarters, respectively. 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. Canadian dollar cash deposits decreased to Cdn.$148,000 at March 31, 2006 from Cdn.$700,000 at December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2006 (Unaudited)	December 31 2005
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 1,849,037**	**$ 3,125,000**
Accounts receivable	**211,944**	**123,370**
Prepaid expenses	**375,399**	**137,429**
	2,436,380	**3,385,799**
MINERAL PROPERTIES	**260,726**	**260,726**
PLANT AND EQUIPMENT	**130,825**	**128,428**
	$ 2,827,931	**$ 3,774,953**
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 648,430**	**$ 692,699**
SHAREHOLDERS' EQUITY		
Common shares	**15,287,221**	**15,287,221**
Contributed surplus	**1,140,460**	**1,046,386**
Deficit	**(14,248,180)**	**(13,251,353)**
	2,179,501	**3,082,254**
	$ 2,827,931	**$ 3,774,953**

At March 31, 2006, the Company had a working capital balance of $1.8 million and cash resources of $1.8 million. Budgeted expenditures for 2006 are $5.5 million, consisting of exploration expenditures of $4.1 million which is contingent on financing, and corporate administrative costs of $1.4 million. The Company has also provided for an additional 2006 exploration budget amount of $4.0 million contingent on results of exploration activities from the initial 2006 exploration program.

During the three months ended March 31, 2006, the Company had a cash outflow from operations of $1.3 million and made expenditures on equipment in the amount of $11,000.

The Company does not have sufficient funds or the ability to generate additional funds necessary to perform its planned 2006 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. In the short term, the Company will rely on a $10 million line of credit which has been provided by Ivanhoe in conjunction with the agreement in principle regarding the acquisition of Ivanhoe's coal assets (see 'Recent Developments').

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 September 1, 2003 and has incurred costs of $247,000 and $177,000 for the three months ended March 31, 2006 and 2005, respectively.

In connection with the acquisition of the exploration licenses from Ivanhoe, the Company and Ivanhoe entered into a technical consulting agreement. Under the terms of this agreement, the Company retained Ivanhoe to conduct exploration activities using Ivanhoe's infrastructure on a cost recovery basis from time to time. The Company has incurred no costs during the three months ended March 31, 2006 in respect of these agreements. The Company incurred costs of $40,000 from Ivanhoe during the three months ended March 31, 2006 in respect of certain information technology services provided to the Company at its exploration office in Mongolia.

The Company and Ivanhoe have entered into a coal rights retention agreement ("CRRA") whereby Ivanhoe 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 (see 'Recent Developments').

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at May 16, 2006: 15,895,580 common shares were issued and outstanding; 2,299,000 share purchase options had been granted and were outstanding; and 1,153,998 warrants to purchase 576,999 common shares had been issued and were outstanding. On a fully diluted basis, 18,771,579 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 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.

- *Foreign countries and regulatory requirements* – Mineral exploration, development and mining activities may be affected in varying degrees by political stability, government regulations relating to the mining industry and foreign investments therein, and the policies of other nations in respect of these countries. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations, including those with respect to restrictions on production, price controls, export controls, income taxes, and expropriation of property, employment, land use, water use, environmental legislation and mine safety. In certain areas where the Company is active, the regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. Operations may be affected in varying degrees by political and economic instability, economic or other sanctions imposed by other nations, terrorism, military repression, crime, extreme fluctuations in currency exchange rates and high inflation. It may be more difficult for the Company to obtain any required project financing for projects located in certain countries as lending institutions may not be willing to finance projects in developing countries due to the possible investment risk.

- *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 some 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 focus it current efforts on finalization of the agreement to acquire Ivanhoe's coal assets. Completion of this acquisition would provide the Company with property interests which have the potential for near term development and cash flows. The Company will concentrate its exploration efforts on identification and drilling of prospective copper-gold targets on its exploration licenses in Mongolia, Bulgaria and Indonesia, and identification and acquisition of new mineral property exploration opportunities. Financing activities anticipated during 2006 will be key to carrying out these planned programs.

Should it be successful in acquiring and developing the Ivanhoe coal deposits or in discovering an economic ore body in Mongolia, the Company has access to a market which has a strong demand for coal, raw materials and precious metals due to its proximity to China.

May 16, 2006