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

June 30, 2006

(Stated in U.S. Dollars)

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, 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 or IVN") reached an agreement for the Company to acquire Ivanhoe's coal division ("coal transaction") in exchange for 82,576,383 common shares and preferred 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. The Company and Ivanhoe signed the definitive agreement for the coal transaction on July 7, 2006.

The coal transaction would result in Ivanhoe owning approximately 91.4% of the issued and outstanding shares of Asia Gold and 88.8% on a fully diluted basis. As part of the transaction, Ivanhoe has agreed to extend a line of credit to the Company of $10 million, up to a maximum of $ 15 million. If the coal transaction is completed, certain coal division expenditures made by Ivanhoe prior to the closing of the transaction will be added to the line of credit. Subject to regulatory and shareholder approval, the Company's indebtedness to Ivanhoe under the line of credit can be converted, in whole or in part, into common shares of the Company at the election of either the Company or Ivanhoe.

On August 8, 2006 the acquisition of the IVN coal division and the conversion rights under the line of credit facility were approved by the majority of the minority shareholders at a special meeting of the shareholders. The closing of the coal transaction is subject to final regulatory authorities approval and the fulfillment of certain conditions precedent, including the completion of the transfer of certain mineral exploration licenses in Mongolia, applications for which have been submitted to the relevant Mongolian governmental authorities and are pending approval.

Upon closing of the coal transaction the Company will change its name to Ivanhoe Coal Ltd and will have a new trading symbol, "IVC".

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 geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties related to completion of the coal transaction and 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 July 26, 2006 the Company held 103 exploration licenses in Mongolia covering an aggregate area of approximately 2.8 million hectares ("ha"). Sixty-six of these licenses comprising an area of approximately 1.5 million ha, the West 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.

Prior to June 30, 2006 exploration licenses in Mongolia were 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.

In early July 2006, the Government of Mongolia approved new mining legislation. The term for an exploration license has increased from seven to nine years. The maximum mining license term is 70 years reduced from 100 years under the previous 1997 Minerals Law.

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 copper-gold and the Naran Bulag gold projects in 2005 (see below).

Also, the Company entered into an agreement with Gobi Gold Inc ("Gobi") on February 13, 2006 whereby the Company granted Gobi the right to earn up to an 80% interest in seven mineral licenses covering 21,010 ha in the Gobi region of Mongolia. The option to earn an 80% interest in these properties can be exercised in two stages. To earn an initial 55% interest, Gobi must make a payment of $20,000 to the Company; issue to the Company common shares of Gobi valued at $190,000 in four tranches over three years and incur $360,000 in exploration expenditures on the licenses over three years. To earn an additional 25% interest in the licenses, Gobi must incur $1 million of further exploration expenditures on the licenses during an additional two-year period.

The initial $20,000 option payment and the first tranche of shares valued at approximately $10,000 have been received. Gobi has been developing its exploration plan and will provide updates through Q3.

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 (Khongor North) is located within the West Falcon Gobi Property, a joint-venture property with BHP Billiton. The balance is located on the Tsakhir license optioned by the Company from Solomon Resources Limited and Gallant Minerals Ltd (Khongor South).

Pursuant to an Option Agreement with BHP Billiton dated June 30, 2005, BHP Billiton can earn a 50% interest in the West Falcon Gobi Property by spending $2 million on exploration prior to December 31, 2007, and an additional 20% interest by funding a feasibility study up to a maximum value of $45 million. BHP Billiton conducted a Falcon™ airborne gravity gradiometer survey over the joint venture property in May 2006. Ground follow up is in progress and drilling will likely begin in mid-July (see News Release dated June 29, 2006 for results).

The Company and BHP Billiton have signed an amended option agreement dated March 1, 2006 that expands the area and scope of the original option agreement signed on June 1, 2005. The area covered under this amended agreement (the 'West Falcon Gobi Property') has been increased by 4,019 square kilometres ('km^2') to 7,648 km^2 and the scope has been amended to include coal targets in addition to the copper-gold targets contemplated in the original option agreement. The amended agreement requires BHP Billiton to increase exploration expenditures to $3.5 million (from the original agreed amount of $2 million) during the earn-in period which terminates on December 31, 2007.

Under the terms of an Amended Agreement announced on March 1, 2006, the parties agreed that Asia Gold can continue the exploration of Khongor North at its own expense subject to a back-in right in favour of BHP Billiton. This back-in right allows BHP Billiton to include Khongor North in the joint venture company to be established after BHP Billiton has exercised the first option and fully vested a 50% interest in the West Falcon Gobi Property. In addition, BHP Billiton must also pay Asia Gold an amount equal to the Khongor exploration costs incurred by Asia Gold.

Pursuant to an Option Agreement with Solomon Resources and Gallant Minerals, Asia Gold has an option to earn up to a 70% interest in Khongor South from Solomon Resources. (see News Releases dated August 19, 2005 and September 29, 2005). On or before the first anniversary of the agreement (September 28, 2006), the Company must complete exploration expenditures of not less than $400,000. The agreed upon expenditures have now been met.

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. A Phase 1 drilling program totaling 935 metre(s) ("m") in 5 holes (KDPH-01-05) was completed in December 2005. All five holes encountered mineralization including a 70 m interval grading 0.67 % copper and 0.16 grams per tonne (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 m by 380 m) 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 m and drill hole KPDH-03, lies at the western end of the chargeability anomaly.

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

A Phase 2 drilling program comprising 3,167m in 18 diamond drill holes (KDPH-6-24) was completed on July 1, 2006. Drill holes KPDH-6 to KDPH-15 targeted the Stockwork Gulch area at Khongor North. During the 2005 Phase I Khongor drilling at Stockwork Gulch, KPDH-3 intersected strong hypogene quartz stockwork mineralization from surface to a down-hole depth of 70.3 m with a grade of 0.67% copper and 0.16 g/t gold, including 21.9 m that graded 1.77% copper and 0.45 g/t gold (see News Release dated January 9, 2006). Phase 2 follow-up holes KPDH-6 to KPDH-15 were drilled on 50 m spaced sections progressively stepping out to the southwest from Stockwork Gulch and KPDH-3 to test the extent of mineralization beneath an overlying thrust-faulted block of unmineralized sedimentary rocks. All ten holes intersected porphyry style mineralization and six holes (KPDH–6, 7, 8, 9, 13 & 14) intersected high grade hypogene porphyry copper mineralization including a 50.0 m interval grading 1.0% copper and 0.3 g/t gold in hole KPDH-9. The results of holes KDPH 16-24 are expected in late August 2006.

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 g/t gold (0.96 ounces per ton) and 165 g/t gold (5.30 ounces per ton) in seven of the veins. A 7,000 m 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.

An approximate 3,500 m 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 84-hole RC drilling program included 20 holes on the B vein, 35 on the D vein and 29 on the AC vein system. The RC holes (diameter 13.1 cm) were collared on 10 m centers on drill hole fence-lines with a 25 m line separation for the B and D veins and a 50 m line separation for the AC veins. Drill fences were located both perpendicular to the general strike of the veins and down dip of the highest grade gold mineralization found in the trenches. The B and D veins were tested with short vertical holes due to the 5-20 degree dip of the veins. Holes on the AC veins were drilled at -55 to -60 degrees towards the veins. RC chip samples were collected at 1 m intervals.

The results of the first RC drilling program indicate that the best gold mineralization is in four shallow dipping, south plunging shoots within the quartz veins. The shoots are defined by a coherent envelope of combined anomalous gold and base metals which encloses all the better gold intersections. The estimated dimensions of the shoots are 30 to 60 m in width, 1 to 4 m in thickness and 90 to 130 m down plunge. All four shoots are open at depth. (see Asia Gold's website for a plan view of the interpreted shoots)

Oyut Ovoo Property

The Company completed an initial diamond drilling program in April 2004 on the Oyut Ovoo property consisting of 1,715 m 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 m. 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 June 2006, the Company had 20 granted licences for a total of 4,974 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.

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 1,441 m diamond drilling program in 9 holes to test the Tashlaka Hill gold system was completed on July 22, 2006. Results are expected in late August 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 m and a width of up to 50 m. 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 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 km and widths measuring up to 30 m. 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 m 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.

Kaputusan Project, Indonesia

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 m of trenching and 1,575 m of NQ/BQ drilling in ten holes during 1983 to1984.

The best drill intercepts recorded are 48 m at 0.37% Copper (‘Cu’) and 0.65 g/t gold (‘Au’) (hole 3; 6-54 m) and 153 m at 0.33% Cu and 0.28 g/t Au (hole 7; 51-204 m). The best trench interval is 80 m at 0.50% Cu and 0.39% Au including 44 m 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.

The Company signed a memorandum of understanding with Harita Minerals (HMKM) on January 19, 2006 to develop a joint venture to explore the Kaputusan prospect, a 25,775 ha exploration lease located in Indonesia. Under the terms of this agreement, the Company can earn up to an 85% interest in the Kaputusan prospect by spending $300,000 on exploration during the first year of the joint venture. Thereafter, the Company will be responsible for funding 100% of any project costs through to potential commercial mine production.

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	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Exploration expenses	$ 2,580	$ 488	$ 1,705	$ 1,457	$ 1,008	$ 485	$ 1,260	$ 1,193
Net loss	3,634	997	2,174	1,724	1,372	944	1,451	1,022
Net loss per share	(0.23)	(0.06)	(0.15)	(0.11)	(0.09)	(0.06)	(0.10)	(0.07)

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 will vary from quarter to quarter depending on the number of projects and the related seasonality of the exploration programs. Most of the exploration expenditures recorded for eight quarters ended June 30, 2006 were incurred on the Mongolian projects. Exploration expenses for the first and second quarters of 2006 also include costs incurred on the Bulgarian properties. As well, costs are now being incurred on the Kapustusan project in Indonesia.

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 significant 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. The Company also has transactions related to the Mongolian Tugrik, the Indonesian Rupiah, the Bulgarian Lev and the Euro, which will affect the foreign exchange gains or losses recorded in the financial statements.

RESULTS OF OPERATIONS

	Three Months Ended		
	June 30, 2006	March 31, 2006	June 30, 2005
EXPENSES			
Depreciation	**$ 5,159**	$ 4,109	$ 5,322
Exploration	**2,580,344**	487,542	1,007,519
Investor relations	**22,730**	11,324	5,108
Legal	**12,661**	19,823	22,927
Office and administration	**158,672**	127,287	92,501
Professional fees	**23,337**	8,591	6,959
Salaries and benefits	**165,041**	176,823	106,183
Stock-based compensation	**512,308**	94,074	87,446
Travel	**53,692**	59,998	24,059
	3,533,944	989,571	1,358,024
OTHER (INCOME)/EXPENSES			
Coal transaction costs	**104,000**	-	-
Interest income	**(16,328)**	(14,957)	(32,677)
Foreign exchange (gain) loss	**(9,332)**	22,213	46,451
Interest expense	**22,179**	-	-
	100,519	7,256	13,774
NET LOSS	**$ 3,634,463**	$ 996,827	$ 1,371,798

Three Months Ended June 30, 2006 and 2005

The Company incurred a net loss for the three-months ended June 30, 2006 of $3.6 million as compared to a net loss of $1.4 million for the same period in 2005. This change is due primarily to higher exploration and stock based compensation expense for the three-months ended June 30, 2006.

The Company continues to actively explore on the West Gobi, Bulgarian and Indonesian properties and has expended a large amount on exploration expenses during the three-months ended June 30 2006. During the three-month period ended June 30, 2006 exploration expenses were $2.6 million as compared to exploration expenses of $1.0 million in the same period in 2005. In the 2005 period, $910,000 was spent on field work on the Company's Mongolian exploration licenses and a further $97,000 was spent on exploration reconnaissance activities in Indonesia and Siberia. In the 2006 period, the Company spent $2.0 million on Mongolian exploration and related costs.

Salary costs and office and administration fees increased in the three- months ended June 30, 2006 as compared to the same period in 2005. The increases relate to the development of the exploration projects, added personnel and office and administration support costs. 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.

Costs to effect the coal transaction are for legal and professional fees. The fees relate to the preparation of the documentation for the special shareholders meeting regarding the acquisition by the Company of Ivanhoe's coal division.

Legal fees were incurred on a relatively consistent basis throughout the June 2006 and 2005 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 for both the June 2006 and 2005 quarters include the cost of quarterly reviews of the Company's financial statements.

Stock-based compensation expense recorded for the three-months ended June 30, 2006 was $512,000 as compared to $87,000 in the same period in 2005. The increase reflects additional option grants in the quarter and the related vesting and volatility pattern of the underlying stock options that gave rise to the compensation expense.

Investor relations costs have increased to $23,000 for the three months ended June 30, 2006 as compared to $5,000 for the same period in 2005. The costs relate to additional public relations initiatives, conference registrations and printed materials.

Travel costs were higher by approximately $30,000 for the three-months ended June 30, 2006 as compared to same period in 2005. This is due primarily due to the increased activity at the Company's project locations in Mongolia, Bulgaria and Indonesia.

Interest income has decreased, which relates directly to the Company's reduced cash position. Interest expense of $22,000 for the three- months ended June 30, 2006 relates to the credit facility agreement with Ivanhoe. The line of credit bears interest at an annual rate equal to the three month London Interbank Offered Rate (LIBOR) plus two percent per annum.

Three Months Ended June 30, 2006 and March 31, 2006

The Company incurred a net loss for the three-months ended June 30, 2006 of $3.6 million as compared to a net loss of $997,000 for the preceding three month period ending March 31, 2006. This change is primarily due to an increase in exploration expenditures and stock based compensation expense for the June quarter.

Exploration expenses during the March period were $488,000 as compared to $2.6 million in the June period, most of which were spent on the Company's Mongolian properties. For the three months ended June 30, 2006, $271,000 was incurred on the Bulgarian property as compared to $162,000 for the three months ended March 31, 2006. The Indonesian property was funded in the June quarter; a total of $308,000 was spent on the project. The majority of expenditures incurred in the June quarter included costs for geological and geophysical consultants, drilling, assaying, camp costs, property license fees and salaries. Property license fees increased by $508,000 in the June quarter over the March quarter as a greater number of annual license payments became due in the current period. The balance of the increase in exploration expenditures on the Mongolian properties reflects a seasonal increase in exploration field activities during the spring months in Mongolia.

Stock-based compensation expense recorded for the June quarter was $512,000 as compared to $94,000 for the three months ended March 31, 2006. The increase reflects additional option grants in the quarter and the related vesting and volatility pattern of the underlying stock options that gave rise to the compensation expense.

Office, administration and salary and travel expenses remained basically unchanged on a quarter over quarter basis.

A foreign exchange gain of $ 9,000 was recorded in the June quarter as compared to a loss of $22,000 for the three months ended March 31, 2006. These amounts are primarily reflective of the changes in the value of the Canadian dollar versus its U.S. counterpart during these periods and to a lesser extent the effect of the Mongolian Tugrik, the Indonesian Rupiah, the Bulgarian Lev and the Euro.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	2005	**2006**	2005
EXPENSES				
Depreciation	**$ 5,159**	$ 5,322	**$ 9,268**	$ 11,779
Exploration	**2,580,344**	1,007,519	**3,067,885**	1,492,287
Investor relations	**22,730**	5,108	**34,053**	7,040
Legal	**12,661**	22,927	**32,484**	33,967
Office and administration	**158,672**	92,501	**285,960**	186,656
Professional fees	**23,337**	6,959	**31,928**	11,916
Salaries and benefits	**165,041**	106,183	**341,865**	224,109
Stock-based compensation	**512,308**	87,446	**606,382**	275,959
Travel	**53,692**	24,059	**113,690**	61,059
	3,533,944	1,358,024	**4,523,515**	2,304,772
OTHER (INCOME)/EXPENSES				
Coal transaction costs	**104,000**	-	**104,000**	-
Interest income	**(16,328)**	(32,677)	**(31,285)**	(68,779)
Interest expense	**22,179**	-	**22,179**	-
Foreign exchange (gain) loss	**(9,332)**	46,451	**12,881**	79,968
	100,519	13,774	**107,775**	11,189
NET LOSS	**$ 3,634,463**	$ 1,371,798	**$ 4,631,290**	2,315,961

Six Months Ended June 30, 2006 and 2005

The Company incurred a net loss for the six-months ended June 30, 2006 of $4.6 million as compared to a net loss of $2.3 million for the same period in 2005. This change is due primarily to higher exploration expenditures and stock compensation expense in the 2006 period.

Exploration expenditures for the six months ended June 30, 2006 were $3.1 million as compared to $1.5 million for the same period in the 2005. For the six-months ended June 30, 2006, $2.3 million was spent on the Company's Mongolian exploration licenses as compared to $1.3 million for the six months ended June 30, 2005. The two main projects in Mongolia for 2006 are Khongor and Naran Bulag. A further $432,000 and $317,000 was spent on exploration activities in Bulgaria and

Indonesia, respectively. Other exploration expenditures of $239,000 for the six months ended June 30, 2005 was for exploration reconnaissance activities in Indonesia and Siberia.

Salary and benefits expense was $342,000 for the six months ended June 30, 2006 as compared to $224,000 for the six months ended June 30, 2005. Office and administration costs increased in the period ended 2006 compared to the same period in 2005. The increases relate to the development of the exploration projects in Mongolia, Bulgaria and Indonesia, added personnel and related office and administration support costs.

Investor relations costs have increased for the six months ended June 30, 2006 as compared to the same period in 2005. The costs relate to additional public relation initiatives, conference registrations and printed materials.

Costs to effect the related party coal transaction are for legal and professional fees. The fees relate to the preparation of the documentation for the special shareholders meeting regarding the acquisition by the Company of Ivanhoe's coal division.

Legal fees were incurred on a relatively consistent basis throughout the June 2006 and 2005 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. Included in professional fees are costs related to the quarterly reviews of the Company's financial statements.

Travel costs were $114,000 for the six months ended June 30, 2006 compared to $61,000 for the six months ended June 30, 2005. This is due primarily due to the increased activity at the Company's project locations.

Stock-based compensation expense recorded for the six-months ended June 30, 2005 was $606,000 as compared to $276,000 in 2005. The increase reflects additional options grants, particularly in the June quarter, and the related vesting and volatility pattern of the underlying stock options that gave rise to the compensation expense.

Lower interest income during the 2006 period reflects lower average cash balances during this period. A foreign exchange loss of $13,000 was recorded in the 2006 period compared to a loss of $80,000 for 2005.

LIQUIDITY AND CAPITAL RESOURCES

		June 30 2006		December 31 2005
ASSETS				
CURRENT				
Cash	$	**1,960,957**	$	**3,125,000**
Accounts receivable		**127,458**		**123,370**
Prepaid expenses		**587,117**		**137,429**
		2,675,532		**3,385,799**
MINERAL PROPERTIES		**260,726**		**260,726**
PLANT AND EQUIPMENT		**181,172**		**128,428**
	$	**3,117,430**	$	**3,774,953**
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	**1,262,973**	$	**692,699**
Due under line of credit facility		**2,022,179**		**-**
		3,285,152		**692,699**
SHAREHOLDERS' EQUITY(DEFICIENCY)				
Share capital		**16,099,530**		**15,287,221**
Contributed surplus		**1,615,390**		**1,046,386**
Deficit		**(17,882,642)**		**(13,251,353)**
		(167,722)		**3,082,254**
	$	**3,117,430**	$	**3,774,953**

At June 30, 2006, the Company had cash resources of $2.0 million compared to $3.1 million as at December 31, 2005. 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. Further review of the exploration budget will be made during Q3 along with the requirements related to the coal properties to be acquired from Ivanhoe.

Accounts receivable includes funds due from government taxation authorities. Prepaid balances have increased from $137,000 at December 31, 2005 to $587,000 at June 30, 2006. The increase relates to additional prepayments for Mongolian exploration licenses. Accounts payable have increased with the additional exploration activity and costs related to the coal transaction.

On April 25, 2006, in conjunction with the coal transaction, the Company entered into a line of credit facility with Ivanhoe Mines Ltd ("Ivanhoe or IVN") whereby IVN has agreed to make available to the Company an unsecured line of credit of up to $10 million. Under certain circumstances IVN may increase the amount to a maximum of $15 million. Coal expenditures from April 25, 2006 to closing are deemed advances under the line of credit facility. All amounts outstanding under the line of credit bear interest at three month LIBOR plus two percent. All advances pursuant to the line of credit will mature and be repayable in full on April 25, 2008. IVN has the ability to accelerate the Company's obligation to repay all advances pursuant to the line of credit and all accrued and unpaid interest thereon in the event of a default by the Company. The

Company has the right to prepay the outstanding advances and accrued and unpaid interest, in whole or in part, at any time without penalty. If the Company completes an equity financing in excess of $20 million then all amounts under the line of credit would be repayable in full from the proceeds of the financing.

Subject to regulatory and shareholder approval, the Company's indebtedness to Ivanhoe under the line of credit can be converted, in whole or in part, into common shares of the Company at the election of either the Company or Ivanhoe.

The Company had $1.8 million of cash at March 31, 2006, received $774,000 in stock option and warrant exercises, and had drawn $2 million on the line of credit. These amounts provided financing for the Company's operations during the three months ended June 30, 2006.

The Company is a development stage entity that has not achieved production on any of its mineral properties and, accordingly, does not have any revenues. The Company's ability to continue as a going concern, with negative working capital and a capital deficiency, is dependant upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permitting to develop properties and to establish future profitable production. The Company does not have sufficient cash to fund the exploration and development of its mineral properties to commercial production and, therefore, will require additional funding, which if not raised may result in the curtailment of operations. Management is of the opinion that additional financing is available to continue its planned activities in the normal course. To date, additional financing has been provided by Ivanhoe. There can, however, be no assurance the Company will be able to raise sufficient funds in the future.

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 $488,000 and $325,000 for the six months ended June 30, 2006 and 2005, respectively.

In connection with the acquisition of the exploration licenses from Ivanhoe in July 2003, 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 six months ended June 30, 2006 in respect of these agreements. The Company incurred costs of $40,000 from Ivanhoe during the six months ended June 30, 2006 in respect of certain information technology services provided to the Company at its exploration office in Mongolia.

In July 2003, the Company and Ivanhoe entered into a coal rights retention agreement ("CRRA") whereby Ivanhoe retained 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 acquired by the Company after July 2003. The CRRA will be terminated by operation of law if and when the coal transaction is completed. (see ‘Recent Developments’).

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at August 15, 2006: 16,567,144 common shares were issued and outstanding; and 3,082,768 share purchase options had been granted and were outstanding. On a fully diluted basis, 19,649,912 common shares were outstanding.

Effective June 26, 2006, 1,153,998 outstanding warrants were exercised into 576,999 common shares for total proceeds of $ 804,914 CDN or $715,797 USD.

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, include the following:

- *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.

See the Company's Management Information Circular dated July 10, 2006 in respect of the special meeting of the Company's shareholders held on August 8, 2006 for a description of certain material risks and uncertainties pertaining to the coal transaction with Ivanhoe. This document can be accessed at www.sedar.com

OUTLOOK

The Company will focus its current efforts on expanding and developing the coal assets it expects to acquire pursuant to the coal transaction by completing the transfer of the coal mineral exploration licenses in Mongolia which is pending approval by the Mongolian governmental authorities. This will provide the Company with property interests which have the potential for near term development and cash flows. The Company will also continue 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 developing the coal deposits or in discovering and developing 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.

August 15, 2006