

This prospectus constitutes a public offering of securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended, ("1933 Act") and, except pursuant to an applicable exemption from registration under the 1933 Act, may not be offered, sold or delivered, directly or indirectly, in the United States of America. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the securities offered hereby within the United States.

PROSPECTUS



Initial Public Offering

Erdene Gold Inc. **(exploration company)**

March 4, 2004

10,000,000 to 12,500,000 Common Shares
(at \$0.85 per Common Share)

This prospectus qualifies for distribution a minimum of 10,000,000 and a maximum of 12,500,000 common shares ("Common Shares") of Erdene Gold Inc. (exploration company) ("Company") to be issued at a price of \$0.85 per Common Share ("Offering"). The offering price of the Common Shares offered for sale hereunder was established by negotiation between the Company and the Agents.

| | Price to Public | Agents' Commission⁽¹⁾⁽²⁾ | Net Proceeds to the Company⁽³⁾⁽⁴⁾ |
|------------------|------------------------|--|---|
| Per Common Share | \$0.85 | \$0.06 | \$0.79 |
| Minimum Offering | \$8,500,000 | \$595,000 | \$7,905,000 |
| Maximum Offering | \$10,625,000 | \$743,750 | \$9,881,250 |

- (1) In connection with the sale of the Common Shares, the Agents will be paid an aggregate fee of 7% of the gross proceeds.
- (2) As additional compensation, the Agents will be granted non-assignable compensation options ("Compensation Options") which entitle the Agents to subscribe for, in the aggregate, up to 7% of the number of Common Shares issued pursuant to the Offering ("Agents Shares") at an exercise price of \$0.85 per Agents' Share exercisable for a period of two years following the closing of the Offering. This prospectus qualifies the issuance of the Compensation Options and the distribution of the Common Shares issuable by the Company upon exercise of the Compensation Options. See "Plan of Distribution".
- (3) The Company has granted the Agents an option ("Greenshoe Option"), exercisable for a period of 60 days from the Closing of the Offering, to offer additional Common Shares equal to up to 15% of the number of Common Shares issued pursuant to the Offering on the same terms as set out above to cover over-allotments, if any, and for market stabilization purposes. If the Greenshoe Option is exercised in full, the total Price to Public, Agents' Commission and Net Proceeds to the Company will be \$12,218,750, \$855,313 and \$11,363,437, respectively. This prospectus qualifies the distribution of the Greenshoe Option and the distribution of the Common Shares issuable by the Company upon exercise of the Greenshoe Option. See "Plan of Distribution".
- (4) Before payment of expenses of the Offering, including the preparation and filing of this prospectus, estimated at \$575,000 (excluding commissions to be paid to the Agents), which shall be paid from the proceeds of the Offering.

National Bank Financial Inc., Haywood Securities Inc. and Toll Cross Securities Inc. (collectively the "Agents") conditionally offer the Common Shares on a commercially reasonable efforts agency basis, subject to prior sale, if, as and when issued by the Company and delivered and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution".

The Offering is subject to approval of certain legal matters by Patterson Palmer (Canada) and Lynch & Mahoney (Mongolia), on behalf of the Company and by Goodman and Carr LLP (Canada), on behalf of the Agents.

The Offering is subject to a minimum of 10,000,000 Common Shares being sold by the Company within 90 days of the date on which a receipt is issued for the final prospectus by all securities regulatory authorities having jurisdiction, unless the applicable securities regulatory authorities consent to an extension of the offering period. Funds received from subscriptions will be held by the Agents and, if the minimum is not met during the 90 day period or any extension thereof, the Offering will be discontinued and the Agents will return all amounts received without interest or deduction. Subscriptions for Common Shares offered hereunder will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will be on March 16, 2004, or such other date as may be agreed to by the Company and the Agents, but, in any event, not later than June 2, 2004. Certificates in definitive form representing the Common Shares issuable pursuant to the Offering will be available for delivery at closing.

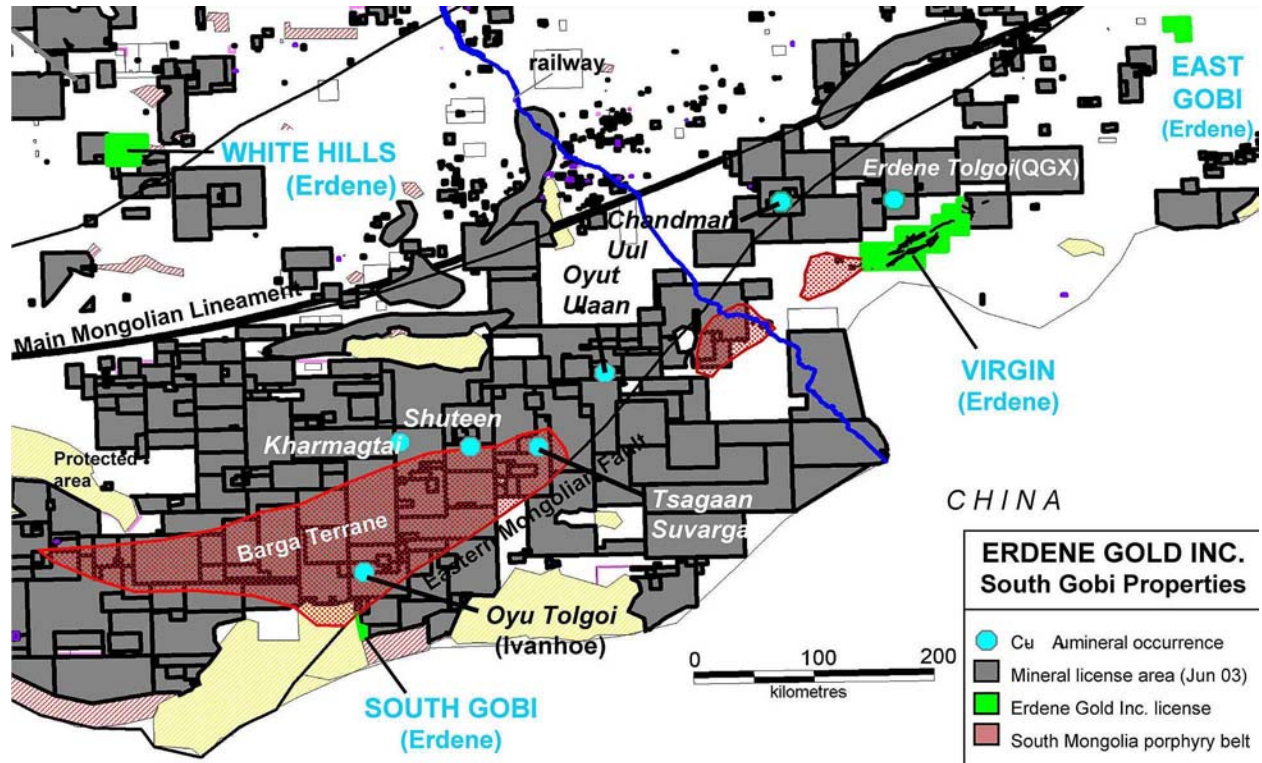
There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus. The TSX Venture Exchange ("Exchange") has conditionally approved the listing of the Common Shares of the Company, subject to the Company fulfilling all of the listing requirements of the Exchange, including distribution of Common Shares to a minimum number of public securityholders.

In connection with the Offering, the Agents may effect transactions that maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

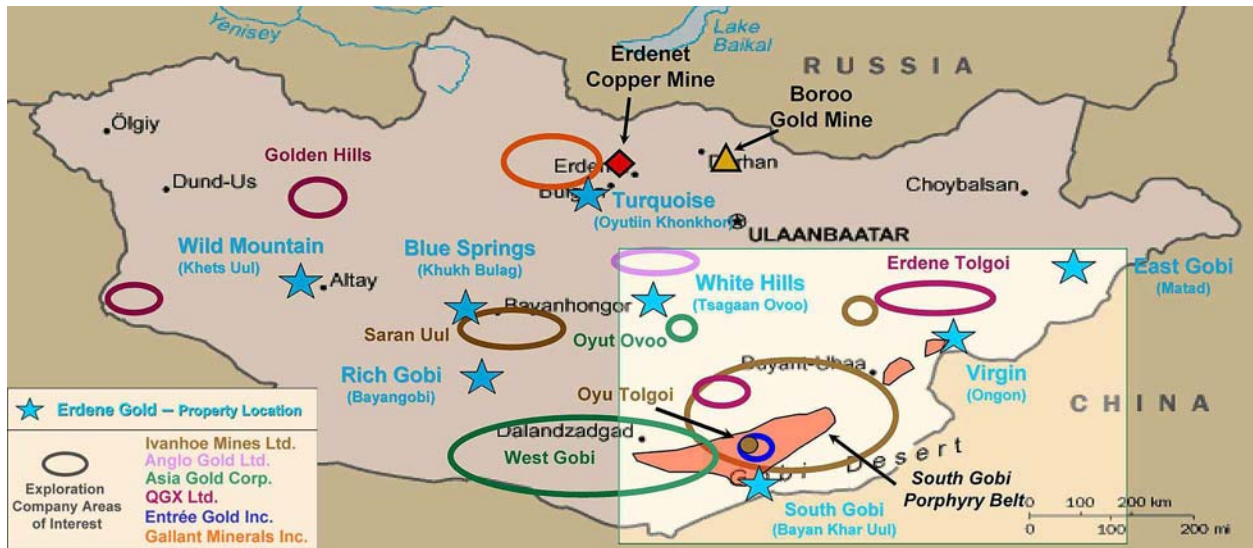
An investment in the Common Shares is speculative and involves a significant degree of risk. Investors should carefully review the risk factors outlined in this prospectus. See "Risk Factors".



Created by the Company using public information including from, Mineral Resource Authority of Mongolia and University of Texas. Locations of mineral occurrences are approximate. Not to scale.



Created by the Company using public information including from, Mineral Resource Authority of Mongolia. Locations of mineral occurrences are approximate. Not to scale.



Created by the Company using public information including from, Mineral Resource Authority of Mongolia and University of Texas. Locations of mineral occurrences are approximate. Company areas of interest are approximate only and may not represent all areas of interest. Not to scale.

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Unless otherwise indicated, all of the information contained in this prospectus gives effect to the two-for-one share split which became effective on December 5, 2003.

SUMMARY OF PROSPECTUS

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

The Company: Erdene Gold Inc. (exploration company) ("Company") was incorporated under the *Canada Business Corporations Act* on June 27, 2000.

The principal business of the Company is exploration for mineral deposits, with emphasis on gold and copper in Mongolia. In particular, the Company is focused on discovery of large tonnage, low cost gold and gold-copper deposits. At the present time, the Company holds 19 mineral exploration licenses in Mongolia covering approximately 378,000 hectares divided into eight project areas.

After a period of little exploration activity in Mongolia between 1998 and 2000, the level of interest in Mongolia increased significantly following Ivanhoe Mines Ltd.'s success on their Oyu Tolgoi (Turquoise Hill) property, which began in 2001 and is continuing. Other reasons for the increased level of interest include recent political reform, proximity to China's metals markets and the relative absence of modern exploration.

Management of the Company has extensive experience in Mongolia. Peter Akerley, the President and Chief Executive Officer of the Company, as well as Chris Cowan, a director of the Company, designed and led a major exploration program in Mongolia in the mid to late 1990s on behalf of two exploration companies.

The Company's principal business strategy is to utilize management's experience in Mongolia to explore for, evaluate and develop mineral deposits. The Company's principal properties have been the subject of review by Snowden Mining Industry Consultants of Australia and their recommendations for a two-year exploration program are contained in their report of December 15, 2003 as amended and restated as of February 19, 2004. The Company's 2004 exploration program is designed to advance the Company's five principal properties to the pre-drilling stage and to complete a preliminary drilling program on at least three of the five principal properties in the summer of 2004. The Temuujin district of the Company's Virgin property will be the immediate focus of the exploration program as it possesses the characteristics for hosting large epithermal and porphyry-related gold-silver-copper mineralized systems.

Minimum Offering: \$8,500,000 (10,000,000 Common Shares)

Maximum Offering: \$10,625,000 (12,500,000 Common Shares)

Offering Price: \$0.85 per Common Share

Use of Net Proceeds:

The working capital of the Company as at February 29, 2004 was approximately \$3,339,000. The Company intends to use its available funds, namely the net proceeds of the Offering and its current working capital, as follows:

| | Minimum Offering | Maximum Offering |
|--|---------------------|---------------------|
| Available Funds | <u>\$10,669,000</u> | <u>\$12,645,250</u> |
| • Recommended exploration on principal properties in Year 1 (2004) | \$2,667,500 | \$ 2,667,500 |
| • Proposed exploration on other properties in Year 1 (2004) | 334,000 | 334,000 |
| • Recommended exploration on principal properties in Year 2 (2005) | 3,822,500 | 3,822,500 |
| • Proposed exploration on other properties in Year 2 (2005) | 797,000 | 797,000 |
| • Estimated general and administrative expenses for 12 months | 648,000 | 648,000 |
| • Working capital | <u>2,400,000</u> | <u>4,376,250</u> |
| Total | <u>\$10,669,000</u> | <u>\$12,645,250</u> |

See "Use of Proceeds".

Summary of Financial Information:

The following table sets forth selected information for and as of the end of the periods indicated. This financial information is derived from the financial statements of the Company which are included in this prospectus. See "Financial Statements".

| | Nine Months Ended September 30, 2003 | Year Ended December 31, 2002 | Year Ended December 31, 2001 |
|---|---|------------------------------------|------------------------------------|
| | (unaudited) | (audited) | (audited) |
| Revenue | | | |
| Interest revenue | \$ 2,732 | \$ 169 | \$ 1,380 |
| Loss before income tax and non-controlling interest | \$ 393,440 | \$ 91,201 | \$ 303,515 |
| Basic and diluted loss per share | \$ 0.11 | \$ 0.05 | \$ 0.11 |
| Assets | \$ 751,579 | \$ 445,184 | \$ 101,722 |
| Total long term debt | Nil | Nil | Nil |
| Shareholders' equity | \$ 582,354 | \$ 403,170 | \$ 67,257 |
| • Share Capital | \$1,232,065 | \$ 296,215 | \$ 262,195 |
| • Contributed Surplus | \$ 49,920 | Nil | Nil |
| • Convertible Promissory Notes | Nil | \$ 390,150 | Nil |
| • Deficit | \$ (699,631) | \$ (283,195) | \$ (194,938) |
| Cash dividends declared per share | Nil | Nil | Nil |

Between October 2003 and December 5, 2003, the Company completed a number of private placement offerings and issued 9,269,782 Common Shares for an aggregate of \$3,939,657 (\$0.425 per share).

Risk Factors:

An investment in these securities should be considered highly speculative.

- Investments in mineral resource companies involve a significant degree of risk. The degree of risk increases substantially when an issuer's properties are in the exploration stage as opposed to the development stage. All of the properties of the Company upon which the net proceeds of the Offering are expected to be spent are in the exploration stage and without a known body of commercial ore.
- Mineral exploration and development involves a high degree of risk and there can be no assurance that such activity will result in commercial production of mineral deposits.
- The Company has limited financial resources and there is no assurance that sufficient additional funding will be available to the Company to carry out its exploration objectives.
- The Company's activities in foreign countries are subject to foreign laws and regulations and to risks common to foreign operations in the mining industry.
- The Company or its subsidiaries may become subject to liability against which it cannot insure or has not insured. Any liability against any aspect of the Company's operations that is not insured may have a material adverse effect on the Company.
- Insofar as certain directors of the Company hold similar positions with other mineral resource companies, conflicts may arise between the obligations of these directors of the Company and such other mineral resource companies.
- The Company faces competition from entities having superior financial and technical resources, which may hinder the Company's ability to acquire additional mineral resource properties.
- The price of precious and base metals is subject to fluctuations and is affected by factors beyond the control of the Company.
- The Company is subject to exchange rate risks in that it is raising funds in Canadian dollars while most of its expenditures are paid in U.S. dollars and the Mongolian Togrog.

The above-noted risks represent an extract of some of the risks applicable to the Company. See "Risk Factors".

ELIGIBILITY FOR INVESTMENT

In the opinion of Patterson Palmer, counsel to the Company, and Goodman and Carr LLP, counsel to the Agents, as and when the Common Shares are listed on a prescribed stock exchange, the Common Shares will be qualified investments under the *Income Tax Act* (Canada) ("Tax Act") for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans (collectively, "Plans") and registered education savings plans within the meaning of the Tax Act. Also, in the opinion of such counsel, based upon a certificate of an officer of the Company that the Company satisfies the conditions set forth in subsection 206(1.1) of the Tax Act with respect to maintaining a substantial Canadian presence at the date hereof, the Common Shares do not constitute "foreign property" for the purposes of Part XI of the Tax Act for Plans and other persons subject to tax under Part XI of the Tax Act as at the date hereof.

CURRENCY AND EXCHANGE RATES

In this prospectus, unless otherwise specified, all references to "dollars" and to "\$" are to Canadian dollars, and references to "U.S. dollars" and to "US\$" are to United States dollars.

The high, low and average exchange rates reported by the Bank of Canada for the conversion of U.S. dollars to Canadian dollars, each based on the noon rate of exchange, for the periods indicated are set forth below.

| | 2003 \$ | 2002 \$ | 2001 \$ |
|--------------|------------|------------|------------|
| High..... | 1.5747 | 1.6132 | 1.6021 |
| Low..... | 1.2924 | 1.5110 | 1.4936 |
| Average..... | 1.4015 | 1.5704 | 1.5484 |

The Bank of Canada noon buying rate on March 3, 2004, for the purchase of one U.S. dollar using Canadian dollars, was \$1.3475 (one Canadian dollar equalled US\$0.7421).

FORWARD LOOKING STATEMENTS

Certain statements included in this prospectus constitute forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to us or our management. The forward-looking statements are not historical facts but reflect our current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under "Risk Factors" and in other sections of this prospectus.

CONVERSION FACTORS

| To Convert From | To | Multiply By |
|---------------------------|---------------------------|-------------|
| Feet | Metres ("m") | 0.305 |
| Metres | Feet | 3.281 |
| Miles | Kilometres ("km") | 1.609 |
| Kilometres | Miles | 0.6214 |
| Acres | Hectares ("ha") | 0.405 |
| Hectares | Acres | 2.471 |
| Grams | Ounces (Troy) | 0.03215 |
| Grams/Tonne ("g/t") | Ounces (Troy)/Short Ton | 0.02917 |
| Tonnes (metric) | Pounds | 2,205 |
| Tonnes (metric) | Short Tons | 1.1023 |
| Parts per million ("ppm") | Percent (%) | 0.0001 |
| Percentage | Parts per million | 10,000 |
| Grams/Tonne | Parts per billion ("ppb") | 1,000 |
| Parts per billion | Grams/Tonne | 0.001 |
| Parts per million | Grams/Tonne | 1.0 |

CORPORATE STRUCTURE

Erdene Gold Inc. (exploration company) was incorporated under the *Canada Business Corporations Act* on June 27, 2000 under the name "3779751 Canada Inc." On February 18, 2003, the Company filed articles of amendment to change its name to "Erdene Gold Inc."

Effective at the close of business on December 5, 2003, the Company amended its articles to increase its outstanding share capital by way of a share subdivision whereby the share capital was subdivided on a 2 to 1 basis so that

shareholders of record at the close of business on December 5, 2003, received an additional Common Share for each Common Share owned. All rights to acquire Common Shares of the Company upon the exercise of outstanding options and warrants were adjusted to reflect the stock split.

The Company's head office is located at 36 Toronto Street, Suite 1000, Toronto, Ontario. Its registered office is located at 1600-5151 George Street, Halifax, Nova Scotia, B3J 1M5. It also has a corporate office located at 1583 Hollis Street, Suite 505, Halifax, Nova Scotia, B3J 2L4.

The Company has a wholly-owned subsidiary, Erdene Mongol XXX ("Subsidiary"), incorporated under the laws of Mongolia on August 27, 2002. The registered and records office of the Subsidiary is located at Room 301, Delta Tuv Building, Juulchin Street, Chingeltei District, Ulaanbaatar, Mongolia.

Erdene Gold Inc. (exploration company) and its wholly-owned subsidiary, Erdene Mongol XXX, are collectively referred to as the "Company" in this prospectus, unless the context indicates otherwise.

GENERAL DEVELOPMENT OF THE BUSINESS

Background to the Company

The Company acquired its first mineral exploration licenses in Mongolia in 2002 pursuant to an agreement ("Mongolia Acquisition Agreement") with a group of five individuals, including Peter Akerley, President and Chief Executive Officer of the Company, and Chris Cowan, a director of the Company ("Mongolian Group") for the acquisition by the Company of mineral exploration licenses in Mongolia.

Since 2002, the Company has been involved in the process of evaluating the acquired mineral exploration properties as well as acquiring additional mineral exploration licenses through a further acquisition and additional claim staking. The Company now holds a 100% interest in 19 mineral exploration licenses in Mongolia located within eight distinct geologic target areas covering approximately 378,000 hectares.

In the late 1990s, Peter Akerley, BSc, and Chris Cowan, PEng, were involved in the management of a large regional exploration program in Mongolia. During the period from 1996 to 1998, International Pursuit Corporation ("IPC") and Java Gold Corp. ("Java") carried out a program that included the exploration of 10 licenses covering four million hectares located in diverse geographic and geologic terrains in Mongolia. These projects, involving expenditures in excess of US\$3 million, were managed by Messrs. Akerley and Cowan who worked with some of Mongolia's leading academic and industry geologists and a support team of 150 Mongolian technical and support staff. The 1997 programs resulted in the identification of multiple targets recommended for follow-up exploration including drilling.

In 1998, the mineral exploration industry was impacted by the negative sentiment generated by the financial collapse of Bre-X Minerals Ltd. and plummeting commodity prices, which made it difficult to raise equity for exploration. This led to the subsequent departure of many western-based exploration companies from Mongolia, including IPC and Java who allowed their claims to lapse.

The level of interest in Mongolia increased significantly following a major copper-gold discovery in Mongolia's Gobi desert in the summer of 2001 by Ivanhoe Mines Ltd. and the announcement that a Canadian based company (Cameco Corporation) was proceeding with development of a gold deposit in northern Mongolia. The Mongolia Group, recognizing the potential of the country, developed a plan to seek financing for a mineral exploration company to evaluate several known prospects and regional exploration targets. When the gold and financial markets began to strengthen in early 2002, the Mongolia Group commenced discussions with the Company. The experience and the relationships developed by the Mongolia Group enabled the Company to acquire what management believes are some of the most prospective areas in the country. Management continues to seek out other targets to add to the Company's land position.

Peter Akerley and Chris Cowan joined the Company as directors in February 2003. Mr. Cowan and Mr. Akerley were joined on the board by William Burton, BSc and Kenneth MacDonald, CA who bring extensive experience to the Company in gold exploration internationally, including Mongolia, as well as public equity finance and corporate

management experience. In November 2003, Wayne Beach, LLB and David Carnell joined the board adding additional experience and expertise in junior resource companies as well as in public equity financing activities.

Prior to its involvement in the exploration and development of mineral properties in Mongolia, the Company was involved in the exploration of the Tangier gold property in Nova Scotia. The Tangier property is a former gold producer. Between June 2000 and June 2002, the Company carried out exploration work on the property, including a compilation of previous work, diamond drilling and drill core assaying, to evaluate the property's gold mineralization. The mineral claims are currently in good standing with sufficient work credits to renew the claims to June 2007. In January 2004, the Company entered into an agreement to sell its interests in the Tangier property in consideration for 500,000 shares and 100,000 warrants of the purchaser, Acadian Gold Corporation ("Acadian"). Completion of the sale is subject to regulatory approval, satisfactory completion of due diligence by Acadian on the Tangier property and receipt of board approval by Acadian. In any event, none of the proceeds of this Offering will be used to fund further work on the Tangier property.

All of the Company's activities since its incorporation, including the acquisition of its properties in Mongolia and their evaluation, were financed through the issuance and sale of Common Shares of the Company by way of private placement.

Mineral Exploration in Mongolia

Although Eastern European and Mongolian geologists have examined much of Mongolia, resulting in an extensive geologic and geochemical base, little of this work was oriented towards outlining economic mineral deposits. The first focused exploration using modern exploration methods was carried out in 1996 - 1998 by a variety of companies including BHP Minerals International Exploration, RTZ Mining and Exploration Ltd., IPC, Java, Cascadia Mining Corporation, QGX Ltd. (formerly Quincunx Gold Exploration Ltd.) and Gallant Minerals Inc. (formerly Harrods Mining). In spite of success in outlining some significant prospects, the industry downturn experienced in 1998 led most of these companies to either scale back their activities or withdraw from the country.

Following four years of relative inactivity, Mongolia is now experiencing a boom in mining exploration spurred by the announcements in 2002/2003 of exploration results by Ivanhoe Mines Ltd. on their copper/gold Oyu Tolgoi property, QGX's Golden Hills discovery and their relationship with Barrick Gold Corporation, and the start-up of production by Cameco Corporation at their Boroo Mine. Applications for exploration licenses are at an all time high in Mongolia.

Mongolia also has good exploration support infrastructure in place including a large pool of trained local geologists, several service/logistics companies (including Monrud XXK, Geomandal XXK and Mine-Info XXK) able to supply camp equipment and personnel, a reliable Australian assay laboratory (Analabs) and several foreign diamond drill contractors (Can-Asia Drilling Services Ltd., Gobi Drilling Ltd. and Major Drilling Group International Inc.). Exploration costs are significantly less than those in Canada as wages are generally quite low by North American standards. In addition, competent foreign and local legal and accounting firms have offices in Ulaanbaatar, the capital of Mongolia.

The Company's Objectives and Strategy

The objective of the Company is to maximize shareholder value through successful exploration initiatives in Asia, primarily Mongolia. Significant mineral discoveries, highly prospective geology, the relative absence of modern exploration, recent economic and political reforms, and proximity to the China metals markets have all combined to create an environment in Mongolia that encourages new investment. In management's opinion, this places Mongolia as one of the most favourable areas internationally for the discovery and development of "world class" copper and gold deposits. Management believes the Company possesses all of the ingredients necessary for a successful exploration and development program including a management team experienced in Mongolia and high quality exploration properties.

The Company is focused on the discovery of large tonnage, low cost gold and gold-copper deposits and has built a portfolio of interests in eight exploration properties in Mongolia that will form the basis of its initial exploration activity. Each property will be subjected to a series of staged evaluation and project indicators that will be addressed during exploration to determine the relative merit of each property. Meeting defined thresholds will

determine whether a property will warrant continued exploration. An evaluation of results at each stage will include a determination of the most beneficial course for the Company and its shareholders, including continued exploration, joint ventures or sale.

In management's opinion, the early entrants, including the Company, effectively control some of the most prospective areas in Mongolia. Management's previous Mongolian experience, both generally and specifically with respect to many of the Company's more advanced exploration targets, will facilitate the evaluation process and provide the ability to quickly evaluate multiple targets through drilling. In addition, the Company expects to maintain a disciplined program of new property evaluation and acquisition with a focus on regional exploration within known mineralized trends.

Acquisitions

The Company now holds a 100% interest in 19 exploration licenses in Mongolia that it acquired through acquisitions and claim staking. All of these licenses are registered in the name of the Subsidiary. There are no minimum work requirements to keep the Company's licenses in good standing, although annual renewal fees must be paid. See "Mineral Regulations – Regulation of the Mining Industry in Mongolia".

Mongolia Acquisition Agreement

The Company acquired nine of its exploration licenses pursuant to an agreement dated July 26, 2002, as amended ("Mongolia Acquisition Agreement"). Four of these exploration licenses are within areas previously explored by IPC and/or Java. In accordance with the Mongolia Acquisition Agreement, the Company incorporated the Subsidiary, which was originally owned as to 60% by the Company and as to 40% by the Mongolia Group (a group of five individuals, including two of the present directors of the Company). The Mongolia Group transferred to the Subsidiary their rights to acquire the mineral exploration licenses and, in January 2003, the Mongolia Group transferred their shares in the Subsidiary to the Company for an aggregate of 800,000 Common Shares issued at a price of \$0.425 per share and 1,200,000 warrants of the Company. The Company (through the Subsidiary) acquired the licenses for cash payments of an aggregate of \$113,386 paid to the license holders and the Mineral Resources Authority of Mongolia. The warrants issued to the Mongolia Group are non-assignable and non-transferable and entitle the holder to purchase an aggregate of 1,200,000 Common Shares of the Company at a price of \$0.425 per share at any time prior to January 24, 2008. The interests acquired by the Company pursuant to the Mongolia Acquisition Agreement were a 100% interest in mineral exploration licenses for:

1. Blue Springs property (one license);
2. Rich Gobi (Central) property (one license);
3. Turquoise property (one license);
4. Virgin property (four licenses);
5. White Hills 1 property (one license); and
6. Wild Mountain property (one license).

See "Mineral Projects – Exploration Licenses – Mongolia".

Five of these properties, Blue Springs, Rich Gobi, Turquoise, Virgin (Ongon) and White Hills, are the principal properties of the Company, which are described in greater detail under "Mineral Projects – Mongolia Properties – Principal Properties".

Other Acquisitions in Mongolia

Pursuant to an agreement of purchase and sale dated March 12, 2003, the Company acquired a 100% interest in the mineral exploration license for the South Gobi property (10,135 hectares) for a purchase price of US\$5,000. In addition, between May 19, 2003 and December 4, 2003, the Company staked an additional nine mineral exploration licenses (including four of the eight mineral exploration licenses comprising the Company's Virgin property) for a total of 205,950 hectares for aggregate consideration of US\$10,297.

MONGOLIA

The following information has been derived primarily from information publicly distributed by Mongolian authorities (including the Bank of Mongolia and the Mineral Resource Authority of Mongolia) and various other public sources.

Introduction

Mongolia has undergone significant change since the difficult transition years of the early 1990's when the state-controlled economy was transformed into a free market economy. Events within the past year, including the implementation of the new law on private land ownership, the extension of a fibre optic cable network to all provinces providing country wide Internet and cellular telephone service, an agreement on Mongolia's debt to the Russian Federation, and advances in the development of Ivanhoe Mines Ltd.'s Oyu Tolgoi copper/gold discovery, all reflect the significant advances in Mongolia's efforts to develop a modern democratic country with a free market economy.

People

The population of Mongolia is approximately 2.3 million and the population density is one of the lowest in the world. The majority of Mongolians (approximately 60%) live in cities or towns and the balance live in rural areas. There is a steadily increasing population in the capital city of Ulaanbaatar, which currently stands at approximately 700,000. The people are predominantly of Buddhist faith. The literacy rate is 90%. All speak Mongolian and many speak Russian. English is not widely spoken but is increasingly used in Ulaanbaatar due to more exposure to western business people.

Location

Mongolia is landlocked, located between Russia to the north and China in the south. It is the 6th largest country in Asia and the 18th largest by area in the world, approximately the size of Alaska at 1.57 million square kilometres. Most of Mongolia is open grasslands or steppes. It is one of the highest countries in the world with an average altitude of 1,580 metres above sea level.

Climate

The climate of Mongolia is characterized by extreme seasonal variations in temperature (-40° to +40°C) and an average of 250 sunny days a year. The country is subject to high wind conditions that alleviate the effects of the summer's heat but can result in a severe wind chill during the winter months.

Political

During the latter half of the 20th century, through to 1989, Mongolia was closely aligned with the Soviet Union, and developed political and economic systems following the Soviet models. In 1989, mirroring similar events in other former communist countries, protests for greater democracy began in Ulaanbaatar. These protests led to a fully democratic, multi-party election in 1990. In 1992, a new constitution guaranteeing human rights and private ownership of property was finalized. Elections in 1992 resulted in the former communist ruling party, the Mongolian People's Revolutionary Party (MPRP), coming to power, followed by the Democratic Union, a coalition of democratic parties, in 1996. The MPRP was returned to power in July of 2000. The country has an elected President, Prime Minister and 76 members of the legislature, elected every four years. The country has 18 provinces with local governors.

Economy

According to a 2003 International Monetary Fund review, "Mongolia has made great strides during the last decade in fostering a market economy and promoting macroeconomic stability". Mongolia has been a member of the World Trade Association since 1997 and the World Bank since 1991, and has developed regular relations with international financial institutions. The Mongolian currency, the Togrog (MNT), with an exchange rate of ~1172 MNT (December 31, 2003) to the U.S. dollar, is a free-floating currency. In 1991, a two-level banking system was established in Mongolia: a state bank of Mongolia (the Bank of Mongolia), and commercial banks. Since its establishment, the Bank of Mongolia has been influencing and contributing real efforts to the economy of the country, such as maintaining a tight monetary policy aimed at the stabilization of the value of the currency and reduction of inflation. During the past few years, the government embarked on an aggressive privatization program with the biggest bank, the Trade and Development Bank, sold to a Swiss-American consortium and the Agriculture Bank sold to a Japanese group. Other notable candidates for privatization include the largest cashmere garment company and MIAT, the state airline.

In the period between 1989 and 1993 Mongolia was in a transitional economy, which was severely impacted by the break-up and simultaneous transition of its main trading partner, the Soviet Union. Gross domestic product declined sharply in this period marked by food vouchers and limited supplies. Beginning in 1994 Mongolia's economy responded remarkably well to a free market system with gross domestic product growth of 1% to 6% annually. In 2003, Mongolia's gross domestic product grew approximately 3.4%. Mongolia's economy is driven by cashmere, copper, livestock and gold. Mongolia produces approximately 1% of the world's copper and more than 25% of the world output of cashmere. The agricultural industry, dominated by 31 million head of livestock, is an important component of the Mongolian economy, and influences all aspects of society, particularly in the rural areas. Gold mining has also become a major contributor to the Mongolian economy with Bank of Mongolia gold purchases from 122 gold mining units and individuals reaching US\$113 million in 2003.

The Mongolian Stock Exchange was established in January 1991 to facilitate the first round of privatization in Mongolia. Public trading of shares began in August of 1995 following the adoption of the 1994 Securities Law and the establishment of the Securities Exchange Commission. Shares now trade on a cash basis through the Mongolian Stock Exchange, and there are no restrictions on foreign persons or entities buying shares listed on the exchange.

Mining

Recently, the mining sector constituted 58.5% of export revenue of Mongolia and 8.5% of the gross domestic product, employing directly some 16,500 people. In 2002, 11.4 tons of gold and 487,900 tons of 35% content copper concentrate were produced as well as significant quantities of molybdenum concentrate, fluorspar concentrate, cathode copper, tungsten concentrate and coal. Gold production has grown ten-fold since 1993 and in late 2003, production began at the Boroo Gold Mine with a projected production of 210,000 ounces of gold in 2004 at an average cash cost of approximately US\$170 per ounce.

Copper plays a dominant role in the Mongolian economy, accounting for more than one-third of Mongolia's total merchandise exports and nearly one-fifth of the total government fiscal revenue. All copper production is derived from the Erdenet deposit in northern Mongolia, which was discovered in the mid 1960's and produces the equivalent of about 130,000 tons of refined copper per annum. China is now the world's largest copper consumer, replacing the

United States. Suffering from scarce domestic copper resources, China's largest copper producers have allied to build a new company to tap overseas mines and feed their smelters.

Minerals Law

In order to ensure its competitiveness for international investment in the minerals sector, Mongolia adopted a new minerals law ("Minerals Law") that became effective on July 1, 1997. Under the Minerals Law, the Mineral Resources Authority of Mongolia is designated as the implementing agency regulating mineral and mining activities in Mongolia. See "Mineral Regulations".

Foreign Investment

In general, foreign investors in Mongolia are treated no less favourably than local investors and, in some instances, are even afforded more favourable treatment. For example, under the Minerals Law, the Minister of Finance is authorized to enter into a stability agreement with a foreign investor mining license holder that agrees to invest certain specified minimum amounts in its mining project. A stability agreement guarantees to the foreign investor (for a period of up to 15 years - depending on the amount agreed to be invested) a no less favourable rate of taxation than that in effect as of the date that the agreement is signed.

The Foreign Investment Law (1993) was amended in 2002 to authorize the Minister of Finance to enter into a stability agreement with a foreign investor that agrees to invest certain specified minimum amounts in any sector of the economy, thus expanding the availability of stability agreement protections to foreign investors investing in sectors other than the minerals sector.

The Business Entity and Organization Income Tax Law provides for tax holidays for foreign investors that invest in specified sectors of the economy, including the minerals sector, and the Value Added Tax Law and Customs Tariff Law provide that foreign investors engaged in activities in the minerals sector can import specified mining-related equipment (as determined by the Minister of Industry and Trade and the Minister of Finance) free of import duties as well as the value-added tax.

Effective as of January 1, 2004 the top-tier (income over approximately US\$85,000) business entity income tax rate was reduced from 40% to 30%. In 2002, Canada and Mongolia signed a treaty for the avoidance of double taxation.

Under the Mongolian Constitution, private property may not be expropriated by the state except in cases of public need, and then only after fair compensation to the property owner. Foreign investors may freely remit from Mongolia profits derived from their activities and proceeds from the sale of their Mongolian investments, after payment of relevant taxes.

Infrastructure

Mongolia's three largest cities are supplied with electricity and heat through four coal-fired power plants that power the central electrical grid, which has a combined domestic production capacity of 690 megawatts. At peak demand times, additional power is imported from Russia. Power for cities and towns in remote areas is usually provided by diesel powered generators or small coal-fired plants.

Because of vast distances and poor roads, Mongolia's domestic and international air transport system is well developed. The national airline, MIAT, has regular flights to approximately 20 domestic locations, and flies internationally to Russia, China, Japan, Germany, Kazakhstan, South Korea and Turkey.

Mongolia's ground transportation is generally not well developed, although the central region of the country is relatively well served by both rail and roads. The Mongolian railway line passes through Ulaanbaatar, and connects the Chinese rail system in the south with the Russian Trans-Siberian line in the north, a distance of approximately 1,400 kilometres. An important branch line of the railroad connects major coal mines with the power plant used to operate the Erdenet copper mine.

MINERAL REGULATIONS

Regulation of the Mining Industry in Mongolia

The exploration for and development of mineral resources in Mongolia is governed by the *Minerals Law of Mongolia*, that became effective on July 1, 1997, as amended. An exploration license grants to the holder the exclusive right to conduct exploration within the boundaries of the license, the right to transfer, pledge or sell to others all or part of the license, the right to have access to and transit through the exploration license area and adjacent lands, and the exclusive right to apply for a mining license for all or part of the exploration license area during the term of the exploration license. Effective as of January 1, 2002, the Permit Law of Mongolia requires provincial (aimag) governor approval as a prerequisite to the grant of both mineral exploration licenses and mining licenses.

An exploration license is granted for an initial term of three years, and the license holder has the right to apply for two extensions of the term of the license for two years each. Fees for exploration licenses are as follows: US\$0.05/hectare for the first year; US\$0.10/hectare for each of the second and third years; US\$1.00/ hectare for each of the fourth and fifth years and US\$1.50/hectare for each of the sixth and seventh years. There are no minimum work requirements, however a report on work performed and expenditures incurred is required to be submitted annually to the Office of Geological and Mining Cadaster.

The holder of an exploration license may exercise its exclusive right to apply for a mining license at any time during the term of the license. The holder of a mining license has the exclusive right to engage in mining of minerals within the area covered by the mining license, the right to manage its operations and market its products, the right to sell minerals from the area covered by the mining license at market prices on domestic and foreign markets, the exclusive right to conduct mineral exploration within the area covered by the mining license, the right to transfer and pledge all or part of the mining license, and the right to use water derived from sources within the license area, subject to compliance with applicable laws.

A mining license is granted for an initial term of 60 years and the holder has the right to extend the term of the license once for an additional 40 years. Fees for a mining license are as follows: US\$5.00/hectare for each of the first three years; US\$7.50/hectare for each of the fourth and fifth years; and US\$10.00/hectare for each year commencing from the sixth year. The government royalty rate for all minerals is 2.5% of the sales value with the exception of a 7.5% royalty on sales of gold extracted from alluvial (placer) deposits.

Environmental Regulations

License holders are obliged to comply with environmental laws in effect and with the following environmental protection provisions of the *Minerals Law of Mongolia*. Written approval from relevant environmental protection authorities must be obtained prior to starting exploration or mining operations. In the case of an exploration license, an environmental protection and reclamation plan must be submitted to the governor of the district in which the license area is located. Upon approval of the environmental protection and reclamation plan, a copy is provided to both the local and central government environmental inspection organizations. The license holder must make a cash deposit in a special account at a bank located in the relevant district in an amount equal to 50% of its environmental protection and reclamation budget. The environmental protection plan and reclamation budget must be approved by the district governor. This money is fully refundable upon full implementation of the plan. The environmental protection plan must be updated and approved by the governor of the district in which the exploration license is located before an extension of the license will be granted.

MINERAL PROJECTS

Overview

The Company has acquired 19 mineral exploration licenses in Mongolia through purchase agreements and claim staking. These licenses are located within eight project areas concentrated in south-central and eastern Mongolia. Five of the project areas are considered as the principal properties of the Company: Virgin (Ongon); Blue Springs (Khukh Bulgiin Khundii); Rich Gobi (Bayangobi); White Hills (Tsagaan-Ovoo); and Turquoise (Oyutiin Khonkhor). The remaining three project areas are considered grass-roots prospects and will be the subject of regional reconnaissance work: they are, Wild Mountain (Khets Uul); South Gobi (Bayan Khar Uul) and East Gobi (Matad Uul). All of the properties were selected based on their potential to host significant gold and/or copper deposits.

Qualifying Report

An independent qualifying report ("Qualifying Report") on the principal properties of the Company and the Wild Mountain property was co-authored by Michael C. Corey PGeo ("Qualified Person" under National Instrument 43-101) and Andre Talaska BSc (Hons), MSc, DIC, MAusIMM - Associate Consultant, Snowden Mining Industry Consultants ("Snowden") (collectively, the "Qualifying Report Authors"). The objective of the report was to provide for the principal properties and Wild Mountain: (i) a geological description, (ii) an outline of previous exploration work, (iii) the results from verification sampling programs; and (iv) an opinion of the exploration potential and on the proposed exploration program for the next two years. The report was reviewed by Philip Retter, BAppSc (Hons), MAIG - Manager Corporate Services at Snowden and Dr. Philip Snowden BSc (Hons), D Phil, FAusIMM, CPGeo, MAIG, Managing Director and Principal Geologist at Snowden and dated December 15, 2003, as amended and restated as of February 19, 2004. Messrs. Talaska and Retter visited the principal properties for the purpose of confirming the documented mineral occurrences and historical analytical assay results through a program of verification sampling. Messrs. Talaska and Retter are independent consulting geologists and are qualified persons according to National Instrument 43-101.

The Qualifying Report has been filed with the securities regulatory authorities pursuant to National Instrument 43-101 - Standards of Disclosure for Mineral Projects, and is available for review on the SEDAR database on the Internet at www.sedar.com. A copy of the Qualifying Report may be inspected during distribution of the securities being offered under this prospectus and for 30 days thereafter during normal business hours at the Company's head office at 36 Toronto Street, Suite 1000, Toronto, Ontario, and at its corporate office, 1583 Hollis Street, Suite 505, Halifax, Nova Scotia.

The following disclosure relating to the principal properties and the Wild Mountain Property has been summarized from the Qualifying Report. Management has provided information pertaining to the remaining properties.

Ownership of Mineral Rights

All of the exploration licenses for the Company's mineral exploration properties in Mongolia are registered in the name of the Subsidiary. The Company holds a 100% interest in all of its exploration licenses. Mongolian legal counsel, Lynch & Mahoney, has reviewed all legal and regulatory documents related to the licenses and it is their opinion that all of the Company's exploration licenses are in good standing with no legal or regulatory encumbrances and with no free carried or royalty interests other than those statutory requirements stipulated under the Minerals Law of Mongolia. See "Mineral Regulations - Regulation of the Mining Industry Mongolia".

Exploration Licenses - Mongolia

| Property | License No. | Date of Original Issue | License Name | Province | Sub-Province | Hectare |
|-----------------------|-------------|------------------------|-----------------------|-----------------------|--------------------------------|---------|
| Virgin 1 | 4937 X | Oct. 1, 2002 | Burkhtei Uul | Sukhbaatar | Bayandelger, Ongon | 72,622 |
| Virgin 2 | 4938 X | Oct. 1, 2002 | Urt Bor | Sukhbaatar | Bayandelger, Ongon | 13,565 |
| Virgin 3 | 4939 X | Oct. 1, 2002 | Sain Us | Sukhbaatar | Bayandelger, Ongon | 18,118 |
| Virgin 4 | 5168 X | Dec. 2, 2002 | Bayan-Ovoo | Sukhbaatar, Dornogobi | Bayandelger, Urgun | 46,404 |
| Virgin 5 | 5776 X | May 19, 2003 | Tsant Tolgoi | Sukhbaatar | Bayandelger | 9,250 |
| Virgin 6 | 5777 X | May 19, 2003 | Teeg Uul | Sukhbaatar | Ongon, Bayandelger | 13,845 |
| Virgin 7 | 6212 X | Aug. 21, 2003 | Ovoo Uul | Sukhbaatar, Dornogobi | Bayandelger, Urgun | 35,820 |
| Virgin 8 | 6614 X | Dec. 4, 2003 | Ongon Els | Sukhbaatar | Bayandelger | 6,747 |
| Blue Springs | 1973 X | Dec. 5, 1999 | Khukh Bulgiin Khundii | Bayankhongor | Bombogor | 792 |
| Rich Gobi (Central) | 4762 X | Aug. 17, 2002 | Bayangobi | Bayankhongor | Bayangobi | 8,069 |
| Rich Gobi (Southwest) | 5502 X | Mar. 14, 2003 | Ikh Bogd-2 | Bayankhongor | Bayangobi | 25,498 |
| Rich Gobi (Southeast) | 5503 X | Mar. 14, 2003 | Ikh Bogd-3 | Bayankhongor | Bayanbilig, Bayangobi | 24,196 |
| White Hills 1 | 1968 X | Dec. 6, 1999 | Tsagaan-Ovoo | Dundgobi | Erdenedalai | 398 |
| White Hills 2 | 5504 X | Mar. 14, 2003 | Erdenedalai-1 | Dundgobi, Ovorkhangai | Erdenedalai, Sant, Bayan-Undur | 61,483 |
| Turquoise | 3250 X | May 2, 2001 | Oyutiin Khonkhor | Bulgan | Mogod | 189 |
| Wild Mountain | 3453 X | June 28, 2001 | Khets Uul | Gobi-Altai | Taishir | 2,143 |
| Wild Mountain (North) | 6304 X | Sep. 11, 2003 | Tsekh Uul | Gobi-Altai | Taishir | 1,242 |
| South Gobi | 5236 X | Dec. 23, 2002 | Bayan Khar Uul | Omnogovi | Khanbogd | 10,135 |
| East Gobi | 6285 X | Sep. 5, 2003 | Matad Uul | Dornod | Matad | 27,869 |
| Total | | | | | | 378,385 |

Physiography and Climate

Mongolia is the 6th largest country in Asia and the 18th largest by area in the world. It is completely landlocked, located between Russia to the north and China in the south. Most of Mongolia is open grasslands or steppes. It is one of the highest countries in the world with an average altitude of 1,580 metres above sea level. The population of Mongolia is about 2.3 million and the density is one of the lowest in the world.

The Company's mineral properties are situated either in generally open, treeless grasslands (steppes) or in mountainous terrain with little or no vegetation cover. Elevations (above sea level) range from 1,100 metres at Virgin to 2,334 metres at Blue Springs. The Blue Springs property in western Mongolia is topographically the most rugged with thrust-fault ridges rising steeply from the surrounding steppes. The Rich Gobi and Virgin properties in

southern Mongolia lie within northern extensions of the Gobi Desert, an arid land occupying almost one third of southern Mongolia. All visited properties are accessible by four-wheel drive vehicle from nearby villages, which are at most 30 kilometres from a prospect area. Local villages can supply able labourers and limited goods and services. Outside of the villages, there are very few permanent dwellings with most people living as semi-nomadic herders of sheep, goats, horses, cattle and camels. Traditional Mongolian camps provide efficient and comfortable accommodation for conducting mineral exploration.

The climate is characterized by extreme seasonal variations in temperature (-40° to +40°C) and an average of 250 sunny days a year. The country is subject to high wind conditions that alleviate the effects of the summer's heat but can result in a severe wind chill during the winter months. Average annual precipitation is under 100 millimetres, with most rain recorded during the months of July and August.

Exploration and mining activities would be affected by climate to the same extent they are in most of Canada and therefore proper preparation with respect to working in remote locations during extreme cold weather will be required. In most areas, normal field exploration activities are conducted from May to October. The development of mineral resources from within any of the Company's property areas will require substantial upgrading of local power, water supply and transportation infrastructure which currently are very rudimentary.

Mongolia Properties - Principal Properties

(i) *Virgin Property*

Location

The Virgin property is located approximately 550 kilometres southeast of Ulaanbaatar in Sukhbaatar Province and is comprised of eight contiguous exploration licenses totalling 216,371 hectares. As of October 1, 2003, three of the licenses, totalling 104,305 hectares, are in their second year of issue. One license, of 46,404 hectares, is in its second year of issue as of December 2, 2003. The remaining four licenses, totalling 65,662 hectares, are in their first year of issue. Two have an issue date of May 19, 2003, one was issued on August 21, 2003, and the fourth was issued on December 4, 2003. All of the Virgin exploration licenses were acquired through claim staking, including those acquired pursuant to the Mongolia Acquisition Agreement.

Property Geology

The Virgin property is situated within the Govi Khyangan Terrane of the South Mongolian Super-terrane. The Govi Khyangan Terrane is interpreted as a Devonian-Carboniferous island arc system that evolved into an active continental margin arc in the Permian. The regional geology is characterized by sequences of Siluro-Carboniferous sedimentary and volcanic rocks dominated by terrigenous sedimentary and intermediate to felsic volcanic rocks of the Barga Terrane. The sequences are intruded by Devonian syenite and granite and Carboniferous and Permian syenite, diorite, granite and granodiorite. The property is located within the northeast-trending South-Govi metallogenic belt. Structurally, the property is dominated by northeast and northwest-trending strike-slip faults. Pervasive deformation manifests as a locally intense northeast-trending shear fabric apparent in most intrusives observed. The northeast Virgin property area has been affected by extensive silica and iron-oxide (hematite-limonite) alteration that possibly reflects repeated fault-related hydrothermal activity.

Mineralization

Three previously documented mineral occurrences lie within the area of the Virgin property. All reportedly contain anomalous copper and silver or copper, silver and gold values associated with quartz veins. These mineral occurrences include the copper-occurrence No. 23, the Khokh Khad Occurrence, and the Togrog Uul Occurrence.

Recent property evaluation work by the Qualified Person within the Virgin property defined an additional six areas of interest not previously noted in available publications. The most significant occurrence is an area of approximately 72 square kilometres hosting zones of locally intense silicification, iron-oxide alteration and hydrothermal brecciation referred to as the Temuujin district. The district is located in the northeastern part of the Virgin property along the inferred strike extent of the South Mongolian Super Terrane which hosts several porphyry

and porphyry-related copper-gold deposits to the southwest, the most prominent of which is Oyu Tolgoi, currently being evaluated by Ivanhoe Mines.

To date, three significant zones of hydrothermal alteration and potential oxidized sulphide mineralization have been identified within the Temuujin District. Referred to as the Temuujin I, II, and III prospects they are characterized by quartz breccias, limonite/hematite-cemented breccias and massive iron-oxide occurrences hosted in andesitic volcanic rocks and hornblende-feldspar porphyry. Of particular significance is the Temuujin II prospect where secondary copper mineralization (malachite and azurite) has been observed. Structurally, the prospects are interpreted by the Qualified Person to be hosted along near east-west trending dilation zones related to northeast-trending strike slip faults. Although generally intensely oxidized, evidence for copper-gold-silver mineralization at the Temuujin I and II prospects is reflected by the strongly anomalous elemental concentrations in the altered and brecciated host rocks.

Descriptions of the Temuujin prospects are as follows:

Temuujin I

The Temuujin I prospect was discovered through a program of ground follow-up work of interpreted LandSat TM anomalies. Due to the presence of a large, massive to brecciated quartz outcrop, the occurrence forms a prominent landmark in an otherwise rolling, nondescript topography.

This prospect area is characterized by limonite and hematite-rich matrix, vuggy, quartz breccia as well as zones of massive limonite and near massive hematite (which are interpreted to represent oxidized sulphides) and massive quartz to vuggy quartz breccia.

Preliminary mapping by the Qualified Person along 200 metres spaced survey lines outlined an east-west trending area of brecciation and massive silicification of approximately 600 metres in length and 300 metres in width. Assays from eight surface grab samples collected by the Qualified Person returned from 85 to 535 ppm copper, 41 to 505 ppm lead, 64 to 568 ppm zinc, 75 to 1530 ppm arsenic, 1 to 7 ppm silver, and 0.001 to 0.016g/t gold.

Temuujin II

The Temuujin II prospect is located about 10 kilometres northeast of Temuujin I. The prospect area is characterized by pervasively hematized, andesitic volcanic rocks and hornblende-feldspar porphyry hosting zones of iron oxide-matrix, vuggy quartz breccia and limonitic, vuggy siliceous breccia. Surface rubble of near-massive hematite hosts secondary copper-minerals (malachite and azurite). A grab sample of malachite-bearing, massive hematitic rubble collected by the Qualified Person assayed 4.04% copper, 198 ppb gold, 13 ppm silver, 530 ppm arsenic, 495 ppm zinc, and 130 ppm lead.

The Temuujin II prospect encompasses a near east-west trending zone of about two kilometres in length, with a surface expression that ranges in width from about 150 metres in the west to approximately 600 metres over an area of siliceous breccia in the east. Secondary copper-minerals (azurite, malachite, chrysocolla) have been recorded at 15 locations along the extent of the prospect area but are mostly concentrated within a 200 metre x 200 metre area of pervasively iron-altered andesite in the central part of the prospect.

Temuujin III

The Temuujin III prospect is located about 1.2 kilometres northeast of Temuujin II. No work beyond the collection of six grab samples and general mapping has been completed over the area. A 250 metre x 200 metre area of hematite and limonite-bearing quartz breccia, ferruginous andesite porphyry and near-massive iron oxide occurrences defines the prospect. It is similar to Temuujin I and Temuujin II with respect to the propylitic-altered andesite host rock, predominance of iron oxide alteration and presence of limonitic, vuggy quartz breccia. However, one notable difference is the occurrence of a bright-red hematitic quartz (jasper) vein/pod containing magnetite.

Description of the other Virgin prospects are as follows:

In addition to the Temuujin district, several other potentially mineralized areas have been identified by the Qualified Person as a result of reconnaissance mapping conducted to follow-up anomalies identified by Landsat TM imagery. The areas of mineralization identified to date include the Tsagrig Hoit, Tsagrig Zuun and Burkhtei Uul prospect in the southwestern area of the property.

Tsagrig Hoit Prospect

This prospect area is hosted along the inferred northeast trend of a regional dextral fault zone and approximately 500 metres from the northern contact of an apparent circular feature defined by the Landsat TM imagery. The prospect is characterized by a rhyolitic quartz porphyry which is locally argillic-altered and hosts quartz stockwork veinlets. Spatially associated with the porphyry is an extensive zone of massive quartz breccia with an iron-oxide matrix, which is in part hematitic. A grab sample of argillic altered and stockwork-veined rhyolite porphyry assayed 797 ppb gold, 8 ppm silver, 1520 ppm arsenic and 199 ppm molybdenum.

The altered rhyolite porphyry and quartz breccia has been traced along the fault zone for approximately 1.6 kilometres at which point an approximately 200 metre x 100 metre wide zone of massive chalcedonic quartz (agate) is encountered. A series of en echelon, massive quartz breccia zones extend from the agate occurrence along an interpreted fault structure for approximately 4.5 kilometres to the east. The fault system terminates to the east at what appears to be an epithermal vein/breccia system (Tsagrig Zuun prospect).

A zone of massive silica flooding and brecciation also occurs along the southeastern contact of the circular structure and indicates that extensive hydrothermal fluid flow was focused along this zone. The structural characteristics of these occurrences suggest a dilatational setting related to regional strike slip faulting. Observed geological characteristics of this prospect area suggest it to be favourable for hosting porphyry-type copper-gold mineralization.

Tsagrig Zuun Prospect

This prospect area is manifest as a series of en echelon, intensely limonitic to hematitic, vuggy to massive quartz vein and breccia zones within an argillic altered tuff. A chalcedonic quartz matrix is common within the breccia zones. The vein/breccia zone has a near northeast trend and was traced for approximately 3.0 kilometres along strike and collectively has an apparent width of about 400 metres. The vein/breccia zone exhibits characteristics of an epithermal vein system. Ten grab samples collected along the extent of the vein zone have assayed from 2 to 144 ppb gold, 1 to 17 ppm silver and 125 to 1040 ppm arsenic.

Burkhtei Uul Prospect

This prospect area is characterized by a vuggy, hematitic syenite, hosting sporadic occurrences of quartz+hematite stockwork veining and brecciation within an approximately 100 metre wide zone. The quartz vein and breccia occurrences (1-2 metres wide) also extend into an adjoining silicified and locally argillic-altered volcanic tuff. The vein/breccia zones have been traced for approximately 300 metres along strike (east-west). Five grab samples collected of the tuff-hosted, quartz vein/breccia assayed from 7 to 669 ppb gold, 1 to 12 ppm silver, 13 to 889 ppm copper, 175 to 2580 ppm arsenic and <5 to 686 ppm molybdenum. The prospect has characteristics of an epithermal vein-type target.

Previous Exploration Work

The Virgin property has previously been the subject of very limited exploration work. In 1998, Java conducted a limited reconnaissance geological mapping and sampling program over the area of the Virgin property. No significant assays were noted.

Previous Government evaluation work over the property consisted of regional (1:200,000 scale) geological mapping of the southwestern area in 1953 and over the entire property area between 1993 and 1995. The latter survey included soil/stream/pan concentrate geochemical sampling which outlined several polymetallic soil anomalies and gold and silver pan concentrate anomalies. The most significant of these was a large area (approximately 56 square

kilometres) of reportedly anomalous silver-copper-lead-zinc geochemistry in the northeastern area of the Virgin property.

Erdene Gold Exploration Work

In addition to the review and interpretation of previous exploration data and site verification of the reported mineral occurrences, the Qualified Person spent considerable time evaluating the potential of the Company's Virgin property. The Virgin property was initially inspected between May 14 and May 17, 2003, followed by a more detailed evaluation between August 5 and September 5, 2003, and also from October 18 to November 5, 2003. During the May 2003 visit, the Temuujin I and Tsagrig prospects were discovered. Further regional prospecting work throughout the Virgin property was carried out during the August 2003 program focusing on areas of interest identified from the previous visit. This work resulted in the discovery of the Temuujin II and III prospects and the recognition of the exploration potential of the Temuujin district in general. The August 2003 and October 2003 programs also included ground magnetic and induced polarization (IP) geophysical surveys over the Temuujin I and II prospects.

The field evaluation work carried out by the Qualified Person within the Virgin property during 2003 outlined several areas of potential epithermal-type silver-gold mineralization and porphyry and porphyry-related copper-gold mineralization. Results from work completed within the Virgin property are summarized below.

Temuujin District

Exploration work identified three separate areas of potential copper-gold-silver mineralization within the Temuujin district. The geological characteristics of each prospect area are similar and are dominated by iron-altered andesitic rocks hosting zones of possible oxidized sulphide mineralization, iron-oxide rich vuggy quartz/siliceous breccia and propylitic altered intrusive breccia.

Rock Geochemistry

A total of 35 grab samples of surface rubble were systematically collected at 50 metre intervals along five lines, 500 metres in length and 200 metres apart. The primary goal of this program was to determine the distribution of copper and gold mineralization within a portion of the Temuujin II prospect area. The results from this work suggest that copper enrichment is mostly related to the iron-altered andesite, whereas gold, arsenic and zinc enrichment is prevalent within the quartz breccia.

Ground Geophysics

A gradient array chargeability and resistivity IP survey and ground magnetics survey was completed over portions of the Temuujin I and II prospects. Readings were collected at 25 metre intervals in the magnetic survey and at 50 metre intervals in the gradient array survey. In addition, dipole-dipole IP was completed over two survey lines at Temuujin I and three survey lines at the Temuujin II prospect.

Temuujin I Results

Ground magnetic and gradient array IP surveys (chargeability and resistivity) were completed over the prospect along twelve, 100 metre spaced, one kilometre long, north-south oriented survey lines. A near east-west trending, approximately 250 metres wide by 600 metres long zone of generally coincident low resistivity, high chargeability and high magnetics with an inferred en echelon-type geometry was outlined from the survey. This signature is consistent with the mapped distribution of the limonitic, siliceous breccia and possible oxidized sulphide mineralization within the prospect area.

A dipole-dipole IP survey was completed along two, 600 metre long lines across the zone of highest chargeability. This work was reviewed by Steven King, a registered geophysical consultant, and the results were interpreted to represent a near vertical, high chargeability zone which extends to depth beyond the 150 metre depth limit of the survey.

Temuujin II Results

Ground magnetic and gradient array IP surveys were completed over seventeen, 100 metre spaced, one kilometre long, N-S oriented survey lines covering a total strike length of 2.6 kilometres of the Temuujin II prospect. The geophysical signature of this prospect is similar to that of Temuujin I with a main, near east-west-trending anomalous zone characterized by a broad zone of high magnetics extending nearly two kilometres in length. The zone varies in apparent width from about 200 metres in the west to about 600 metres in the main part of the anomaly. Contained within the zone of high magnetics are several generally coincident anomalies of low resistivity and high chargeability. The geophysical survey appears to support the interpreted geology and highlights the coincidence of the zone of high magnetic intensity with the main area of secondary copper mineralization. Also apparent from the survey was the tourmaline-bearing intrusive located along the northern margin of the Temuujin II prospect area which is characterized by coincident high chargeability and low resistivity, suggesting that it is sulphide bearing.

Dipole-dipole IP surveys were completed along three, 600 metre long N-S lines. Two lines were centred over the quartz breccia in the eastern part of the prospect and one line over secondary copper bearing ferruginous andesite in the central part of the prospect. The survey outlines high chargeability zones coincident with areas of mineralization in both areas that extended below the 150 metre survey depth limit.

Verification Work

The objective of the site visit by Snowden was to confirm the local geological characteristics and exploration potential of identified prospect areas within the Virgin property and the Temuujin district in particular. Snowden spent two days inspecting the prospect areas and collected eight grab samples. Site visits included Temuujin I, II and III, Togrug Uul, and the Tsagrig and Burkhtei Uul prospects. Snowden's sample assay results, which are listed in Table 1, effectively confirmed the assay results obtained from these areas by the Qualified Person. The Snowden site visit also substantiated the geology and styles of mineralization at each of the prospect areas as interpreted by the Qualified Person; specifically, (i) the presence of epithermal and porphyry-related, copper-gold-silver-arsenic enrichment within siliceous and iron-oxide-rich breccia and altered andesite within the Temuujin district; and (ii) the occurrence of epithermal-type gold-silver-arsenic enrichment associated with an argillic-altered quartz porphyry and chalcedonic quartz veins at the Tsagrig prospect areas.

| Sample No | Sample location and description | Au ppm | Cu ppm | Ag ppm | Pb ppm | Zn ppm | Mo ppm | As ppm |
|------------------|---|---------------|----------------|---------------|---------------|---------------|---------------|---------------|
| ER001 | Temuujin II prospect: gossanous, iron-rich and siliceous altered andesite | 0.35 | 436 | 1 | 35 | 693 | <5 | 210 |
| ER002 | Temuujin II prospect: propylitic altered andesite to immediate east of Temuujin II hosting quartz veinlets with epidote, malachite and specularite. | 0.01 | 665 | 1 | 33 | 372 | <5 | 275 |
| ER003 | Temuujin II prospect: massive ironstone float with abundant malachite/azurite staining | 0.02 | 11,700 (1.17%) | 3 | 85 | 176 | <5 | 220 |
| ER004 | Burkhtei Uul prospect: partly gossanous quartz vein/breccia | 0.09 | 660 | 4 | 114 | 492 | 329 | 1650 |
| ER005 | Tsagrig Hoit prospect: altered quartz porphyry with quartz vein fragments | 0.11 | 29 | 6 | 7 | 69 | 9 | 370 |
| ER006 | Tsagrig Hoit prospect: strongly limonitic and argillic altered quartz porphyry with quartz vein fragments | 0.10 | 34 | 16 | 10 | 46 | 8 | 2110 |
| ER007 | Tsagrig Hoit prospect: as above with fine quartz stringers | 0.18 | 10 | 7 | 15 | 9 | <5 | 260 |
| ER008 | Tsagrig Zuun prospect: limonitic and partially brecciated chalcedonic vein outcrop | 0.01 | 21 | 1 | 9 | 57 | <5 | 1490 |

Also indicated by the verification sampling were anomalous levels of molybdenum and copper associated with the quartz vein breccia zone sampled at the Burkhtei Uul prospect. Enrichment of these elements may indicate potential porphyry-related mineralization. Snowden concluded from its verification program of the Virgin property that the geological and mineralization characteristics of the main prospect areas are consistent with those documented by the Qualified Person. Furthermore, Snowden is satisfied that the Virgin property contains exploration targets of merit that warrant further detailed exploration.

Exploration Target

It is the opinion of the Qualifying Report Authors that, based on the Company's exploration results, the prospect areas contained within the Virgin property currently represent high priority targets. In this regard, Snowden considers that the Temuujin district in particular should form the immediate exploration focus for the Company. Snowden supports the Qualified Person's view that the Temuujin district possesses characteristics for hosting large epithermal and porphyry-related gold-silver-copper mineralized systems.

The regional northeast-trending strike-slip structural setting within the Temuujin district and throughout the entire Virgin property suggests that the main identified prospect areas are most likely related to hydrothermal activity focused along zones of dilation associated with faulting. Favourable exploration targets would therefore include fault splays and dilation zones developed in structural jogs and at the intersection of regional faults. Accordingly, the near east-west trend of the Temuujin prospects and presence of crosscutting northwest-trending faults are considered to reflect such structural settings.

Snowden concurs with the Qualified Person that the entire Temuujin district warrants detailed surface exploration. Good outcrop exposure along with enhanced remote sensing data should rapidly assist in identifying additional target areas for detailed surface exploration. The Qualifying Report Authors have also suggested that the Company consider completing an airborne geophysical survey over the entire Virgin property.

(ii) Blue Springs Property

Location

The Blue Springs property is located approximately 582 kilometres southwest of Ulaanbaatar and about 14 kilometres north of the village of Bomburgor in Bayankhongor Province. The Blue Springs property consists of a single exploration license covering an area of 792 hectares. As of December 5, 2003, the license is in its fifth year of issue. A 100% interest in the Blue Springs exploration license was acquired by the Company pursuant to the Mongolia Acquisition Agreement.

Property Geology

The Blue Springs property is situated within the Bayankhongor Gold Belt in south-central Mongolia. This Belt is approximately 200 kilometres long and is situated within a northwest-trending island-arc terrane containing Proterozoic - Palaeozoic metamorphic, volcanoclastic, and terrigenous sedimentary rocks that have been intruded by a suite of granitic intrusions. Within and in close proximity to the Blue Springs property, numerous granodiorite, diorite and syenite intrusions of Permian age occur within Precambrian sedimentary units. A review of Mongolian mineral prospects indicates that 16 hardrock gold prospects and several placer gold occurrences have been documented within the Bayankhongor Gold Belt.

Copper-gold mineralization within the Blue Springs property is associated with garnet+pyroxene skarn exposed in the hinge (North Zone) and limb (South Zone) of a synclinal fold structure approximately 900 metres apart. The syncline is formed within a sequence of interbedded schists, limestone, sandstone and shale. The skarn is developed within a steeply dipping (70-90°), generally silicified and often banded limestone/marble adjacent to a conformable diabase intrusion. The Qualified Person suggests that the relatively unaltered appearance of the diabase adjacent to the limestone contact would indicate that skarn formation was not related to the diabase intrusion as has been suggested previously. The mineralization is believed to be the result of the interaction of fluids derived from later granitic intrusions which permeated the folded contact.

Mineralization

Copper present as malachite, chrysocolla, azurite, chalcopyrite and bornite is the most obvious expressions of skarn-hosted copper-gold mineralization within the Blue Springs property. Snowden's verification sampling confirmed that gold and copper mineralization is confined to massive zones of copper-rich skarn and associated with adjacent fracture related zones within intensely altered limestone. Assays of one metre channel samples across mineralized skarn from Snowden's verification work reported <0.01 to 1.78% copper and 0.007 to 46.8 g/t gold. This work also indicated that copper enrichment is a reliable indicator of gold and silver content as indicated by a continuous seven metre trench section that assayed 14.5 g/t gold, 39.2 g/t silver and 1% copper.

Previous Exploration Work

The initial discovery of mineralized skarn within this property occurred in the late 1960's. Subsequent exploration resulted in the discovery of two areas of copper and gold-bearing skarn within limestone located at the nose and along the western limb of a synclinal fold.

In 1997, the Blue Springs prospect was part of a regional exploration program by IPC. Their exploration program at Blue Springs included geological mapping, soil geochemical and geophysical surveying and trenching. Geological mapping confirmed the occurrence of mineralized skarn within altered limestone adjacent to a conformable diabase contact. A soil geochemical survey was completed across two kilometres of the contact area and was successful in delineating zones of anomalous gold over a 1.2 kilometre strike length.

IPC also mapped and sampled previously dug trenches at Blue Springs and noted that the mineralized zone within the fold nose (North Zone) is present as multiple zones of garnet-rich skarn within altered limestone adjacent to the diabase contact. The mineralized zone was exposed in three trenches (KBT- 1, 2 and 3), each 20 metres apart and ranging in length from 16 metres to 31 metres. Trenching approximately 900 metres further south (South Zone; trenches KBT- 4 and 5) along the western limb of the fold also exposed similar skarn-hosted copper-gold

mineralization adjacent to the contact. IPC's sampling was done at one metre intervals and noted the following significant composite assay results:

| Trench | Assay | Interval | Included |
|--------|-------------|----------|---------------------|
| KBT-1 | 3.55 g/t Au | 10m | 6.25 g/t Au over 5m |
| KBT-2 | 4.47 g/t Au | 8m | 6.6 g/t Au over 4m |
| KBT-3 | 4.04 g/t Au | 10m | 9.4 g/t Au over 4m |
| KBT-4 | 7.8 g/t Au | 10m | 19.4 g/t Au over 3m |

Quantec, an Ontario-based geophysical company completed IP (chargeability and resistivity) and magnetic ground geophysical surveys over the Blue Springs area in 1997 on behalf of IPC. The gradient and dipole-dipole IP was completed along 16 of the soil sample lines in the areas of exposed mineralized skarn. These surveys appear to have reliably defined the diabase-limestone contact.

IPC's exploration work confirmed the presence of skarn-hosted, copper-gold mineralization noted by previous exploration groups and identified additional areas of potential mineralized skarn beyond the trenched areas. Drilling was planned by IPC to evaluate the skarn zones and other gold soil anomalies, however, this was not completed due to IPC's exit from Mongolia in 1998.

Verification Work

Snowden completed verification of previous mapping and collected samples for assay during a property visit on November 5 and 6, 2002. Snowden's principal objectives of this review were to verify the assay results obtained by IPC from mineralized skarn exposed in the trenches and evaluate IPC's soil sampling program.

Trenches were examined by Snowden to confirm the geology, identify the mineralized zones and determine the widths for re-sampling to ensure full coverage of the zones of interest. Samples were collected at one metre intervals to obtain a direct comparison with the IPC sample data. A total of 49 samples were collected in the North Zone from trenches KBT-1, 2 and 3.

The sampling by Snowden confirmed that the skarn mineralization within the North Zone consists of zones of massive garnet-rich skarn and fracture-fillings within silicified limestone. Mineralization observed included secondary copper minerals such as malachite and azurite, and sulphide minerals such as chalcopyrite, bornite and pyrite.

Snowden concluded that the verification samples accurately represent the mineralization exposed in the trenched areas. A comparison of composite assay results from IPC and Snowden samples over the same intervals from the North Zone trenches is shown below. All samples were collected at one metre intervals.

| Trench | IPC (1997) | | | Snowden (2002) | | |
|--------|----------------------|---------------------|------------------------|-----------------------|---------------------|------------------------|
| | Composite | Including | Maximum ⁽¹⁾ | Composite | Including | Maximum ⁽¹⁾ |
| KBT-1 | 3.55 g/t Au over 10m | 6.25 g/t Au over 5m | 15.59 g/t Au | 10.22 g/t Au over 10m | 14.5 g/t Au over 7m | 46.8 g/t Au |
| KBT-2 | 2.97 g/t Au over 13m | 6.6 g/t Au over 4m | 18.34 g/t Au | 1.37 g/t Au over 13m | 3.08 g/t Au over 4m | 6.1 g/t Au |
| KBT-3 | 4.04 g/t Au over 10m | 9.4 g/t Au over 4m | 28.14 g/t Au | 1.89 g/t Au over 10m | 4.1 g/t Au over 4m | 8.55 g/t Au |

Note:

(1) Maximum reported values are from one metre samples.

Snowden's verification work has confirmed the presence of significant silver and copper mineralization within the gold-enriched skarns. Silver values ranged from <1 to 71 ppm (71 g/t) and copper values <0.01 to 1.78% within individual samples. The seven metre section in KBT-1 that averaged 14.5 g/t gold also returned 39.2 ppm (39.2 g/t) silver and 1% copper.

Exploration Targets

Field observations by the Qualified Person along with Snowden's verification work indicate that garnet skarn and fracture-controlled mineralization within altered limestone adjacent to the garnet skarn are the primary gold-copper enriched lithologies at Blue Springs. However, gold bearing skarns of this type are commonly zoned, with sulphide-enriched, garnet/epidote skarn generally located proximal to the source (intrusive) and pyroxene-rich, sulphide-poor but gold-bearing skarn being distal to the source. It is therefore important that both sulphide-rich and sulphide-poor skarn be evaluated during exploration as the preferential sampling of copper-bearing skarn zones may result in gold-bearing skarns of economic significance being overlooked.

Previous exploration work by IPC defined extensive gold-in-soil anomalies adjacent to the limestone-diorite contact area along the exposed length of the fold structure (~1.2 kilometres). These anomalous zones should be systematically evaluated by trenching.

Field observations by the Qualified Person suggest that skarn development is likely related to a suite of structurally controlled, Permian-aged, granitic intrusives. The presence of numerous faults, favourable, permeable sedimentary host rocks, and the presence of numerous granite plutons/dykes make the Blue Springs region prospective for additional mineralized skarns. The possibility that the skarn occurrences and granite dykes (possible dyke swarm) are distal expressions of a buried porphyry copper-gold system should also be evaluated.

(iii) *Rich Gobi Property*

Location

The Rich Gobi property is located approximately 618 kilometres southwest of Ulaanbaatar and about four kilometres west from the village of Bayangobi in Bayankhongor Province. The Rich Gobi property consists of three exploration licenses covering an area of 57,763 hectares. The licenses are referred to as the Central, Southwest and Southeast licenses. The Central license covers an area of 8,069 hectares and is in its second year of issue as of August 17, 2003. This license partially covers the known Bayangobi gold occurrence. The Company acquired a 100% interest in the Central license pursuant to the Mongolia Acquisition Agreement. The Southwest and Southeast licenses cover an area of 25,498 hectares and 24,196 hectares, respectively, and both are in their first year of issue as of March 14, 2003. These two licenses were acquired by the Company through claim staking.

Property Geology

The Rich Gobi property is located along the inferred trend of the Main Mongolian Lineament (MML) that marks the boundary between the North Mongolian and South Mongolian tectonic super-terrane. Documented gold occurrences, including the Bayangobi occurrence, are hosted by the South Mongolian super-terrane south of the assumed MML.

The Rich Gobi and nearby gold prospects occur as shear zone-hosted en echelon quartz veins and stockwork zones. The veins occur primarily within deformed and altered Lower Devonian terrestrial sedimentary and volcanic rocks, in close spatial association with Middle Devonian to Carboniferous granitic intrusions. The elongation of granitic plutons and MML-parallel basalt dykes indicate a strong structural control during emplacement of these intrusives. The defined gold mineralized zones (veins/stockworks) within and adjacent to the Rich Gobi property are also oriented parallel to the MML structural trend.

Mineralization

Central License

Java, who carried out work on the property in 1997, reported gold mineralization, including visible gold, associated with pyrite-bearing quartz vein and stockwork zones of up to 400 metres in length and 30 metres in width, hosted within clastic sedimentary rocks. This showing is referred to as the Bayangobi gold occurrence and straddles the southeastern portion of the Central license.

The quartz veins form a series of en echelon arrays that conform to a pervasive, regional northwest-trending foliation within the sedimentary host rocks. The foliation is parallel to the general trend of numerous faults mapped within the region and is likely a superimposed structural fabric related to the MML. The stockwork zones are intensely silicified with localized zones of carbonate and pyrite alteration. Sedimentary rocks adjacent to quartz veins are pervasively chlorite and carbonate altered and can contain up to 5% disseminated pyrite. Verification assay results reported by Snowden suggest that the altered sedimentary wallrock can contain elevated gold concentrations (<1 g/t). This may have important implications for possible bulk mining operations.

The Bayangobi gold occurrence and the Oortsog gold occurrence, located five kilometres northwest of the Company's exploration license boundary, form part of an extensive regional vein system that is exposed intermittently for at least 21 kilometres along strike.

In addition to the mineral occurrences associated with the regionally extensive quartz vein systems, the southwestern part of the Central license contains carbonate-replacement/skarn-type copper-iron-zinc-silver mineralization focused in an area of sedimentary (limestone/dolomite) and volcanic rocks and mafic intrusives. This showing is referred to as the Shirt II mineral occurrence and is documented in government reports. This mineral occurrence is characterized by massive to interbedded magnetite within a predominately silicified carbonate rock. Channel samples reportedly returned up to 0.2% copper and 2.5% zinc.

Southwest License

This license also appears to host potential for vein-type gold deposits, particularly proximal to an intrusive/carbonate contact. Areas visited by the Qualified Person included a chalcopyrite, malachite, bornite-bearing quartz vein±breccia zone that varied in width from about 2.5 metres to up to 20 metres over approximately 400 metres of observed strike length. Three grab samples of mineralized vein material collected by the Qualified Person assayed ranges from < .001% to 0.77% copper < .001% to 0.22% lead, <1 ppm (1 g/t) to 18 ppm (18 g/t) silver and 0.001 g/t to 0.065 g/t gold.

This occurrence appears to form part of a more extensive en echelon quartz vein array and stockwork-type quartz vein system hosted along a regional southeast trending fault zone. The en echelon veins are manifest as E-W to NE-SW trending vein arrays that were traced along strike a distance of about two kilometres.

Previous Exploration Work

Gold mineralization within the Company's Rich Gobi property was first noted in 1966 by Russian Geological Survey geologists as a result of a regional mapping and prospecting program. Previous rock sampling by Russian geologists returned assays up to 32 g/t gold from a quartz stockwork zone up to 400 metres in length and 30 metres in width, hosted within altered (quartz-carbonate-pyrite) sediments (Bayangobi mineral occurrence). The Russian geologists also recognized that the occurrence was part of an extensive quartz vein/stockwork system related to a major NW-trending fault zone which extends through the Company's Rich Gobi property. The fault is now acknowledged as the MML and represents a major tectonic boundary.

In 1997, Java noted that 13 shallow (<1 metre) trenches were sampled across areas of exposed quartz stockwork veining that partly straddles the eastern portion of the Company's Rich Gobi (Central) license. Assay results indicate that four of the 13 trenches contained significant gold with the remaining nine lines containing anomalous gold values up to 550 ppb. The four trench lines of interest are:

| Trench | Assay | Interval |
|----------|-------------|----------|
| BR-IR-1 | 3.62 g/t Au | 11m |
| BG-IR-8 | 0.75 g/t Au | 6m |
| BG-IR-9 | 1.2 g/t Au | 5m |
| BG-IR-88 | 1.66 g/t Au | 9m |

The exact location of the trenches designated BR-IR-1, BG-IR-8 and BG-IR-9 by Java relative to the Company's license boundary could not be accurately determined by the Qualified Person as the specific trench locations were not noted on any maps referenced. However, these values serve to indicate the gold mineralization potential of the regionally extensive quartz vein and stockwork system that has been inferred by the Qualified Person to have a

strike length of approximately 12 kilometres within the Rich Gobi property. The Company intends to conduct a license boundary survey prior to the commencement of the 2004 work program.

Verification Work

Snowden completed verification of previous mapping and collected samples for assay during a property visit to the Central license on November 2 and 3, 2002. Snowden's objective at Rich Gobi was to confirm regional and local geology and verify the assay results obtained by Java from samples across exposed quartz vein/stockwork zones. Multiple northwest to southeast-trending quartz veins and stockwork zones exposed over a large area were observed by the Qualified Person over a distance of approximately six kilometres within the Company's Rich Gobi property.

The verification work was carried out in and around the Bayangobi gold occurrence that is partially located within the boundaries of the Company's exploration license area. The work consisted of thorough examination of all rock exposures to confirm the geology, and the collection of either channel or chip samples from exposed trenches and grab samples from exposed outcrops of quartz vein/stockwork zones to the north and south of the trench area. Snowden collected a total of 30 samples.

A comparison of composite gold assay results for trench samples collected by Snowden and Java across the same zones are summarized in the following table. All samples were collected at one metre intervals.

| Trench | JAVA (1997) | | | Snowden (2002) | | |
|----------|-------------------------|------------------------|------------------------|-------------------------|------------------------|------------------------|
| | Composite | Including | Maximum ⁽¹⁾ | Composite | Including | Maximum ⁽¹⁾ |
| BG-1R-7 | 0.72 g/t Au over 8m | 1.52 g/t Au over 3m | 2.13 g/t Au | 1.88 g/t Au over 8m | 4.25 g/t Au over 3m | 11.7 g/t Au |
| BG-1R-88 | 1.17 g/t Au over 11m | 4.27 g/t Au over 2m | 5.73 g/t Au | 0.91 g/t Au over 11m | 2.7 g/t Au over 2m | 4.4 g/t Au |

Note:

(1) Maximum reported values are from one metre samples

The two channel samples collected from the pits located at the southern end of trench BG-IR-88 returned assays of 3.35 and 4.25 g/t gold indicating an extension to the gold mineralized zone encountered in trench BG-1R-88.

This trench, in combination with the pit sampling, has confirmed the presence of an approximately 25 metres wide zone of multiple, narrow (< 0.50 metres), generally massive and locally pyritic and gold mineralized quartz veins. The veins appear to dip 40 to 60° to the south and are hosted by pyritic and chloritic sediments (siltstones and sandstones), which in outcrop are limonite-stained. Sediments immediately adjacent to the quartz veins and stockwork zones contain locally intense quartz-carbonate alteration and locally abundant (5%) pyrite. The assay results also indicate that gold enrichment is associated with the altered sedimentary rocks adjacent to the quartz veins. One channel sample consisting entirely of sediment assayed 1.01 g/t gold and the highest individual gold assay (11.7 g/t gold) was obtained from a channel sample that contained 10% quartz. This sample also contained the highest silver assay of 6 ppm (6 g/t).

Grab samples of quartz veins collected by Snowden within the Central license, approximately 100 metres southeast along strike from the veins exposed in the trenches, returned assays of 0.02 to 2.7 g/t gold. No significant assays (<0.02 g/t gold) were recorded from the other grab samples collected from veins exposed within the Rich Gobi property to the northeast of the trenches.

Snowden concluded from its verification program that the samples collected from within and immediately adjoining the Central license were of good quality and representative of the exposed mineralization. The assay results confirmed that the main quartz vein/stockwork system is gold bearing. The Qualifying Report Authors concluded that the variation in assay results between Java and Snowden is likely the result of a nugget effect. The presence of coarse-gold has not been determined but is a common occurrence within oxidized vein-type gold deposits.

Exploration Targets

The geological and structural setting and observed vein textures at the Bayangobi mineral occurrence, which straddles the western boundary of the southeastern part of the Company's Central license, appear characteristic of mesothermal quartz vein systems. Although not observed, the presence of gold-bearing, planar extension veins should also be expected within the main zone of shear-parallel quartz veining. Second and third-order structural features related to the MML should also be considered as potential exploration targets for gold mineralization.

The 12 kilometre inferred strike length of the vein systems within the Rich Gobi property provide opportunities for multiple exploration targets, given that gold deposits tend to cluster along regionally extensive fault structures. Quartz vein arrays and quartz-carbonate-pyrite alteration within the Rich Gobi property also appear to be part of a more regionally extensive gold mineralized system. This is demonstrated by the occurrence of similar vein and alteration types as far away as 60 kilometres along strike to the northwest of the Rich Gobi property.

The Shirt I occurrence, located adjacent to the Company's Rich Gobi Central license, is a gold and silver enriched siliceous breccia. The Qualified Person is of the opinion that the Shirt I occurrence may represent a hydrothermal breccia-type occurrence and not a typical skarn deposit as previously reported. It is recommended that the Company should explore for similar deposits within the apparent continuation of this trend, which extends through the Rich Gobi Central and Southeast licenses. It is also recommended that the potential for gold-bearing, quartz veins along the fault system located in the southern part of the Southwest license be assessed.

The Qualifying Report Authors concluded that, overall, the potential at the Rich Gobi property would be for medium to large tonnage, near-surface quartz vein-hosted gold deposits within altered sedimentary and intrusive rocks. The Rich Gobi property also has potential for contact metasomatic and skarn-hosted, sulphide deposits (copper-zinc-gold-silver) within carbonate lithologies adjacent to the intrusives.

(iv) *White Hills Property*

Location

The White Hills property is located approximately 274 kilometres southwest of Ulaanbaatar and 30 kilometres west from the village of Erdenedalai in Dundgovi Province. The White Hills property consists of two exploration licenses that cover an area of 61,881 hectares. The main White Hills license is 398 hectares and as of December 6, 2003 is in its fifth year of issue. The Company acquired a 100% interest in this license pursuant to the Mongolia Acquisition Agreement. An additional license was issued on March 14, 2003, which consists of 61,483 hectares and is located to the northeast of the main license. This license was acquired by the Company through claim staking.

Property Geology

The White Hills property is located within the Erdenedalai Metallogenic Belt. The geology of the license area and its immediate surrounds consist of Lower Permian syenite, granite and gabbro intrusives overlain by Upper Permian clastic sedimentary and volcanic rocks. The dominant structural fabric is east-west and is evident by the preferred orientation of quartz veins and stockworks and a pervasive schistosity developed in the sedimentary host rocks. The siliceous alteration zones and intrusive rocks in the area of the White Hills property also display a distinct elongation direction.

Mineralization

Gold-bearing quartz veins in the White Hills property area occur within altered sediments (sandstone, conglomerates) proximal to quartz-sericite altered and sheared, granite plutons. Gold mineralization within the White Hills property is contained within a series of en echelon quartz veins and stockworks which form part of a quartz vein system which is exposed regionally over a six kilometre strike length and which has a width of at least three kilometres. The White Hills property contains approximately 2.5 kilometres of the vein system's strike length, which is hosted in a zone of about 1.5 kilometres in width.

At the main gold occurrence (Tsagaan Ovoo) within the White Hills property, individual veins vary in thickness from <1 metre to six metres and extend from five to 60 metres in length. Collectively they form an echelon vein

arrays parallel to and slightly oblique to the dominant shear fabric. The veins dip moderately (30 to 50°) and exhibit well developed laminated and brecciated textures. The sulphide (pyrite) content is generally less than one percent but could be higher due to the occurrence of limonite/jarosite filled vugs and hematite-rich quartz breccia zones. The reported presence of visible gold by IPC associated with the hematite breccia was confirmed by the Qualified Person and may be related to supergene enrichment. IPC also reported visible gold along laminated crack-seal textured veins at White Hills but this was not observed by the Qualified Person during the site visit.

Previous Exploration Work

The White Hills prospect area was previously explored by IPC in 1997. Reconnaissance rock chip sampling in combination with shallow (<1 metre) trenching was completed by IPC in the area of the White Hills property. A total of 34 sample lines (TOR-1 to 34) were completed across zones of exposed quartz veins over a six kilometre strike length. Sixteen sample lines (TOR-1 to 16) occur within the Company's exploration licenses. One-metre channel samples were taken along 31 of the sample lines. While most assays were less than 0.5 g/t gold, five of the sample lines returned assays of greater than 0.5 g/t gold. IPC (1997) noted the following composite assay results:

| Sample Line | Assay | Interval |
|-------------|-------------|----------|
| TOR-07 | 2.8 g/t Au | 8 m |
| TOR-08 | 3.2 g/t Au | 9 m |
| TOR-12 | 0.96 g/t Au | 3m |
| TOR-13 | 7.9 g/t Au | 4m |
| TOR-16 | 2.5 g/t Au | 2m |

Sample lines (TOR-6 to 16) averaged 10 metres in length and were spaced between 20 to 50 metres apart and together defined a vein array of about 300 metres in length and from <1 to 20 metres in width. Individual assays from these sample lines ranged from <0.01 to 22.96 g/t gold. Rock chip samples collected from lines (TOR-1 to 4) across quartz veins exposed to the northwest of the main quartz zone assayed less than 20 ppb gold and were assumed by IPC to represent faulted extensions of the main zone.

Verification Work

Snowden completed verification of previous mapping and collected samples for assay during a property visit on November 1, 2002. Snowden's objective for the White Hills property was to verify assay results reported by IPC from previous exploration of the Tsagaan Owoo gold occurrence. IPC trenches and sample lines were located using a combination of GPS and IPC mapping information.

All verification samples were collected from within the Company's White Hills property. Verification samples were either one metre channel samples collected along shallow (<1 metre depth) trenches or chip /grab samples collected across the strike of the exposed quartz vein/breccia zone. A total of 11 samples were collected from five sites. Seven, one metre channel samples collected from two shallow trenches (TOR-08 and a further trench to the west) excavated along the eastern end of the exposed quartz vein/breccia zone were to verify the high grade gold assays previously reported by IPC from trench TOR-08. Three, five metre composite chip samples were collected further to the northwest along three separate lines at 80 metre intervals across the same quartz vein system (TOR-05, TOR-06 and TOR-07).

A comparison of the composite gold assays for chip samples collected by Snowden and IPC across the same zones is presented in the following table.

| Site | IPC (1997) | | | Snowden (2002) | | |
|----------------|----------------------|---------------------|------------------------|---------------------------|-----------|------------------------|
| | Composite | Including | Maximum ⁽¹⁾ | Composite | Including | Maximum ⁽¹⁾ |
| TOR-08 | 3.2 g/t Au over 9m | 2.51 g/t Au over 4m | 6.22 g/t Au | 3.59 g/t Au over 4m chip | - | 8.5 g/t Au |
| West of TOR-08 | Not Sampled | | | 7.7 g/t Au over 3m chip | - | 21.6 g/t Au |
| TOR-05 | 0.15 g/t Au over 8m | - | 0.48 g/t Au | 0.06 g/t Au over 5m chip | - | - |
| TOR-06 | 0.18 g/t Au over 7m | - | 0.44 g/t Au | 0.012 g/t Au over 5m chip | - | - |
| TOR-07 | 2.19 g/t Au over 11m | 3.5 g/t Au over 5m | 5.88 g/t Au | 9.4 g/t Au over 5m chip | - | - |

Note:

(1) Maximum reported values are from one metre samples

The verification results generally confirmed the previous assay results reported by IPC. It is apparent from the results that the highest gold grades were obtained from samples of quartz-hematite breccia. The Qualified Person observed visible gold in one specimen collected of the hematite breccia rubble. Snowden, however, did not observe any visible gold during its site visit. The maximum silver assay was 13 ppm (13 g/t) from a sample of quartz-hematite breccia containing 9.4 g/t gold.

Snowden's verification program confirmed IPC's geological description of moderately (30-50°) dipping quartz veins hosted in pyritic and chlorite-altered sedimentary rocks. The quartz veins were often laminated and brecciated and contained minor pyrite. Limonite/jarosite filled vugs and laminae partings also indicated the presence of possible oxidized sulphide minerals. The occurrence of visible gold suggests that coarse-gold is present within the vein system. This is a characteristic common to mesothermal quartz vein deposits particularly within high-grade zones and is also a common occurrence within the oxidized zones of many gold deposits.

Exploration Target

It is the opinion of the Qualifying Report Authors that the geological and structural setting, and observed vein textures at the White Hills prospect appear characteristic of mesothermal quartz vein systems. Although not observed, the presence of gold-bearing, planar extension veins should also be expected within the main zone of shear-parallel quartz veining. Second and third-order structural features related to the MML should also be considered as potential exploration targets for gold mineralization.

The total strike length of the vein systems within the White Hills property (2.5 kilometres) provides opportunities for multiple exploration targets, given that gold deposits tend to cluster along regionally extensive fault structures.

(v) *Turquoise Property*

Location

The Turquoise property is located approximately 298 kilometres northwest of Ulaanbaatar and about 12 kilometres southwest of the village of Mogod in Bulgan Province. The Turquoise exploration license is approximately 189 hectares in size and as of May 2, 2003, the license is in its third year of issue. The Company acquired a 100% interest in this license pursuant to the Mongolia Acquisition Agreement.

Property Geology

This property is located within the North Mongolian magmatic arc which developed during the Permian to early Jurassic, and lies within the southwestern extension of the Orhon-Selenge metallogenic belt which contains the Erdenet copper-molybdenum deposit. The dominant rock types within the Turquoise property area are Triassic-Jurassic sediments and volcanic rocks of the Mogod Formation and a suite of Triassic granite, syenite and granodiorite intrusives. Regionally, copper mineralization and associated zones of advanced-argillic alteration are reported to be spatially related to the granitic intrusives. The occurrence of several distinct types of hydrothermal breccia was noted by the Qualified Person within and immediately adjacent to the northern boundary of the Turquoise property.

Mineralization

The presence of secondary copper mineralization together with advanced argillic alteration within the Turquoise property was noted by the Japanese International Cooperation Agency ("JICA") during their detailed evaluation of the property. Previous drilling by a Mongolian company reportedly intersected disseminated sulphides within a silicified and quartz veined porphyritic syenite. Analysis of the drill core by JICA failed to confirm any significant copper-gold concentrations. The Qualified Person confirmed the occurrence of extensive argillic (clay) alteration within surface trenches and the location of several of the previous drill sites were established.

Previous Exploration

JICA was active in the area in and around the Turquoise property from 1997 to 1999. The property was considered by JICA to have potential for epithermal gold mineralization. The JICA work on the Turquoise property included an evaluation of previous mineral exploration work carried out by various Russian and Mongolian groups between 1977 and 1987. According to JICA, previous exploration work at the Turquoise property included geological mapping, trenching, ground geophysics and limited diamond drilling (nine holes). JICA noted that trench and drill core samples returned a maximum of 0.01% copper, 4.4 g/t gold and 0.2 g/t silver and that the previous exploration groups concluded that further exploration was not warranted due to the low copper values. However, a further review by JICA recognized the occurrence of hydrothermal breccia and the presence of a shallow zone of argillic alteration characterized by kaolinization and silicification within trenches at the Turquoise property. This area was interpreted by JICA as near surface, advanced argillic alteration related to possible buried, porphyry-type mineralization.

Evaluation work by JICA included relogging and sampling of core from two of the drill holes. One of the holes (DDH-15) was said to contain minor copper-oxide mineralization in rubble material at the top of the drill hole followed by silicified rhyolite containing minor quartz veining and disseminated pyrite with assays of the drill core from this zone returning a maximum of 4.4 g/t gold. Although drill logs indicated the presence of intermittent disseminated chalcopyrite mineralization within syenite, copper assays by JICA of drill core from both holes returned a maximum of 700 ppm (0.07%) copper.

JICA also noted that a sample of brecciated rhyolite collected from the property by the Mongolian company in 1997 assayed 8.8 g/t gold. Follow up sampling by JICA failed to confirm this result, with all samples recording no significant gold assays.

JICA also noted an area of anomalous mercury-antimony-bismuth within soil samples from the northeast part of the Turquoise property coincident with a NE-trending fault zone. A maximum assay of 150ppm mercury was recorded from silicified volcanic rocks situated near this fault.

Verification Work

Snowden completed verification of previous mapping and collected samples for assay during a property visit on October 28, 2002. Snowden's objective at the Turquoise property was to verify the local geology and previous trench and drill hole locations as reported by JICA. Snowden's verification sampling was limited to outcrop and breccia rubble in an attempt to confirm reported anomalous gold values. No secondary copper mineralization was observed due to snow cover at the time of the property visit.

Snowden noted five different types of hydrothermal breccia from the vicinity of the reported gold-bearing breccia sample and elsewhere within the Turquoise property. Breccia types collected included: quartz-carbonate breccia; clay-altered, milled breccia; vuggy, limonitic breccia; vuggy, black, matrix supported siliceous breccia with cockscomb texture; and a black, clast supported, siliceous breccia. No significant gold assays (>1 g/t) were obtained from the hydrothermal breccia samples submitted by Snowden. However, a sample of limonitic and silicified, vuggy hydrothermal breccia rubble collected from the northwestern part of the property assayed 0.115 g/t gold and 5 ppm (5 g/t) silver which is considered by the Qualified Person to be anomalous.

Exploration Target

Based on a review of previous exploration work in the area by the JICA, the Qualified Person concluded that the property appears to contain geological, alteration and mineralization attributes similar to those associated with porphyry copper-gold mineralized systems.

Analytical results from drill core reported by JICA for previous Mongolian work indicate that although copper grades were generally low (< 0.01%), gold assays ranged up to 4.4 g/t. Possible lithocap development is suggested by the occurrence of kaolinite, alunite and silicified rocks exposed within trenches. Such alteration systems commonly form above or proximal to porphyry deposits and can be an indication of buried mineralization. The reported occurrence of fault-related, anomalous mercury-antimony-bismuth may be indicative of epithermal-type mineralization and should be further evaluated.

The assay results from samples collected by Snowden from this property indicated the presence of anomalous gold in one of the samples of hydrothermal breccia. The Qualifying Report Authors concluded that additional sampling and trenching is warranted before the gold-bearing potential of these breccia can be confidently established.

Mongolia Properties - Other Properties

(i) *Wild Mountain Property*

Location

The Wild Mountain property is located in western Mongolia approximately 650 kilometres southwest of Ulaanbataar, about five kilometres southwest from the village of Altai in Gov-Altai Province. The Wild Mountain property consists of two contiguous exploration licenses and covers an area of 3,385 hectares. One license is 2,143 hectares and is in its third year of issue as of June 28, 2003. The Company acquired a 100% interest in this license pursuant to the Mongolia Acquisition Agreement. The other license is 1,242 hectares and is in its first year of issue as of September 11, 2003. This license was acquired by the Company through claim staking.

Property Geology and Mineralization

The Wild Mountain property is located within the Khantaishir ophiolite suite, which is characterized by a melange of pillow lavas and mafic intrusives, related to an oceanic subduction zone and island-arc type tectonic setting. The reported volcanogenic-type massive sulphide occurrence within this property is consistent with this tectonic environment. In addition, recent mapping by the Qualified Person has identified an intermediate to felsic suite comprising andesite, granite and dacite within the Wild Mountain property which indicates potential for porphyry-related copper-gold mineralization.

Mineral occurrence locations within the Wild Mountain property include the following:

Jugant Massive Sulphide Occurrence

This occurrence is manifest as an approximately 18 metre long exposure of near massive pyrite containing minor chalcopyrite and secondary copper mineralization (malachite). The massive sulphide body, which is exposed along the bank of a seasonal stream was reportedly chip sampled at one metre intervals along a 24 metre section. A four metre zone of 0.36% copper, 5.9 g/t silver and 1.7 g/t gold was reported. In addition, a 12 metre section of the exposure assayed 1.8 g/t gold. It is unclear whether these intersections were representative of the true width.

A site visit to the Wild Mountain license by the Qualified Person in June 2003 confirmed the location of the above occurrence. However, the Jugant occurrence was almost entirely covered by ice. The assay results from a grab sample of loose massive sulphide rubble collected from under the edge of the ice were 2.6% copper, 2.1 g/t gold and 10 ppm (10 g/t) silver which compare closely with the reported assay values.

Wild Mountain North Area

While investigating the reported occurrence of anomalous platinum from pan concentrates to the north of Jugant in the Wild Mountain North license, the Qualified Person discovered an area of altered andesite porphyry containing disseminated pyrite mineralization. The altered andesite is located approximately two kilometres north of the Jugant occurrence. The andesite also hosts several areas of pervasively limonitic to siliceous, vuggy hydrothermal breccia that contains pyritic quartz veins/clasts. Adjacent to the andesite contact the Qualified Person also noted rubble of silicified volcanic breccia containing vuggy chalcedonic veins and minor disseminated pyrite. The pyritic andesite forms a gossanous zone extending over an area of approximately one kilometre in length and 500 metres in width. No secondary copper-mineralization and only limited stockwork veining was noted, however, the style is considered indicative of epithermal/porphyry-related type mineralization. The Qualified Person collected a grab sample of the altered andesite, which assayed 0.17% copper and 181 ppb (0.181 g/t) gold, and vuggy quartz breccia, which assayed 41 ppb (0.041 g/t) gold.

Exploration Target

The Qualified Person spent two days evaluating the Wild Mountain property, confirming the geology and the occurrence of the massive sulphide mineralization at Jugant. However, due to ice cover and therefore limited exposure of the Jugant massive sulphide zone at the time of the site visit, no recommendations beyond another visit to better evaluate this occurrence was offered by the Qualified Person. The prospecting work also identified an area within the Wild Mountain North property characterized by limonitic, vuggy, quartz breccia spatially associated with a pyritic andesite porphyry. Based on this site visit, the Qualified Person is of the opinion that the epithermal-type gold potential of the Wild Mountain area should be further investigated.

(ii) East Gobi Property

This 27,869 hectare property is located about 200 kilometres northeast of the Virgin Property licenses and consists of a single exploration license acquired by the Company through claim staking. As of September 5, 2003, the license is in its first year of issue. The property is situated adjacent to the inferred junction of two major, gold-bearing, regional faults systems within an island arc setting. Government mapping within the East Gobi property has identified quartz vein-hosted gold occurrences with associated quartz-carbonate alteration, and also chalcedonic quartz occurrences which may represent near surface alteration related to epithermal-type gold mineralization.

An area of extensive hydrothermal breccia and quartz breccia over an area of approximately 2.5 square kilometres has been identified. The breccia-types identified include: (i) vuggy, polymictic, quartz breccia with finegrained siliceous matrix; (ii) vuggy, quartz breccia with limonite (jarosite), matrix and angular quartz clasts, and; (iii) chalcedonic breccia with possible altered intrusive clasts. In addition, rubble of fine to medium grained, argillic-altered, quartz porphyry and a magnetite (secondary) bearing andesite porphyry were also identified.

Although no surface mineralization was noted, it is the opinion of management that the rock-types are indicative of a porphyry related possible diatreme type setting. Management recommends a program of detailed mapping, sampling and soil/stream geochemistry within a five to 10 square kilometre area centered around the breccia zones.

(iii) South Gobi Property

This 10,135 hectare property is situated within the Gobi Desert proximal to the Chinese border. The Company acquired a 100% interest in this license for US\$5,000 in March 2003. As of December 23, 2003, the license is in its second year of issue. It is located approximately 45 kilometres southwest of Ivanhoe's Turquoise Hill (Oyut Tolgoi) deposit area. The South Gobi property is situated adjacent to documented porphyry copper and epithermal gold occurrences. Management recommends a general reconnaissance mapping and sampling program on the property in 2004.

Sample Preparation and Security

All verification samples were collected by or under the direct supervision of Snowden. Individual samples were stored in large sealed bags for transport and were under the control of Snowden at all times. At the conclusion of the site visits, the samples were submitted directly to Analabs secure analytical facility in Ulaanbaatar. Laboratory security includes locked gates at all times. All client samples were given unique laboratory numbers to avoid identification of the client. Snowden is of the opinion that no tampering with the samples occurred.

The Company has employed a QA/QC assay protocol utilizing prepared standards, field duplicate samples and duplicate sample pulps from stored samples. Rock samples for assay were submitted in batches with each batch containing 25 samples including, a prepared standard and one duplicate sample. Generally, elemental concentrations in excess of three standard deviations when compared to average standard and duplicate split concentrations are identified and if necessary the entire batch would be reassayed.

Analabs' Ulaanbaatar laboratory is operated by SGS Australia Pty Ltd and is managed by expatriate technical personnel. A quality management system which meets the requirements of ISO 17025/ISO 9000 is used by the laboratory, although the laboratory is neither accredited nor certified by a third party. The laboratory participates in various internal and external proficiency programs to ensure that a high standard of analytical precision and accuracy is maintained. Rocklab standards which meet the requirements of ISO Guide 35 and have been tested by numerous independent laboratories, are used by Analabs on site. Analabs' quality assurance/quality control protocol encompasses internal monitoring, statistical monitoring, proficiency program, standards scrutiny, document and method validation, client recommended methods and critical supply specifications. Details of Analabs' quality assurance program and their statement of compliance are provided in Appendix B of the Qualifying Report.

Proposed Exploration Program - Mongolian Properties

To evaluate the resource potential of the Company's mineral properties, a two-year exploration program of \$6.5 million is proposed by the Qualified Person. As recommended above, the Virgin property should be the recipient of the majority of these funds. Direct exploration expenditures of about \$2.4 million in Year 1 (2004) and \$3.5 million in Year 2 (2005) are proposed and are detailed below in Table 2. With the addition of a 10% contingency, the total two-year exploration program budget proposed is \$6.5 million.

From Snowden's assessment of the Company's project areas, it is their opinion that the projects are of merit and are worthy of further exploration. Snowden considers that the proposed work and budget is adequate to establish the mineral resource potential of the exploration properties.

Year 1 (2004) - \$2,425,000

Priorities:

1. Detailed surface exploration/scout drilling of Temuujin Prospect Areas
2. Detailed surface exploration of other Virgin Prospects
3. Detailed surface exploration of Regional properties (Blue Springs, Rich Gobi and White Hills)

The fieldwork is planned over an eight month period commencing in April 2004. The top priority is to have targets defined for scout and diamond drilling at the Temuujin I and II prospect areas. It is recommended that trenching along strike and over geophysical anomalies precede the drilling at both sites. The purpose of the trenching is to better define potential copper-gold mineralized zones at surface and provide additional information regarding geological and structural characteristics/controls prior to drilling. A 4,200 metre drill program (twelve, 350 metre holes) is proposed to further evaluate the Temuujin I (four holes) and II (eight holes) prospects. This work should initially investigate ground geophysical anomalies relative to indicated mineralized zones mapped on surface. Initial drilling should be underway by mid to late-summer 2004. Pending positive results, the drill program can expand and begin to define areas of potential resource.

Concurrent with drilling at Temuujin I and II, surface exploration will proceed at the Temuujin III and Togrug Uul prospects and other sites of interest within the Temuujin district. These areas will undergo grid-based mapping, sampling, trenching, and geophysics with the objective to identify drill targets for evaluation in Year 2 or possibly

fall 2004 if results warrant. Other Virgin license areas, particularly the Tsagrig and Burkhtej Uul prospects in southwest Virgin will also be evaluated by detailed surface exploration.

Detailed surface exploration is also proposed for the Rich Gobi and White Hills properties. This work will include: detailed mapping, sampling, trenching, and ground geophysics (IP and magnetics) over surveyed grids. The objective of this work is to have drill targets identified within the Rich Gobi and White Hills properties by late 2004. A program of shallow diamond-drilling (< 200 metres) to evaluate the near surface resource potential of these properties will follow in Year 2. The exact location and number of drill holes within these two properties will depend on the results of the ground surveys but an initial program of six drill holes (~1200 metres) at each property is budgeted.

Although ground geophysics (IP and magnetics) was completed over a portion of the Blue Springs property, this work was done along variably oriented and irregularly spaced lines and did not appear to delineate known mineralized skarn zones. Further evaluation of this data and additional ground surveys across the limestone-dabase contact area is recommended. Trenching is also proposed across the contact area to systematically evaluate zones of anomalous gold-in-soil defined by previous workers. In addition a program of detailed mapping and rock and soil sampling is proposed to discover skarn (possibly sulphide-poor) occurrences elsewhere within the license area.

Year 2 - (2005) - \$3,475,000

Priorities:

1. Detailed drilling at Temuujin Prospects
2. Scout and detailed drilling at other Virgin and Regional properties (Blue Springs, Rich Gobi and White Hills)
3. Detailed surface exploration at Virgin and Regional properties (Blue Springs, Rich Gobi and White Hills)

Pending encouraging results from the scout drilling program in Year 1, a detailed drill program using both diamond and reverse-circulation drills will follow at the Temuujin I and II prospects. The objective of the drilling will be to extend indicated mineralized zones to depth and along strike. Scout drilling is also proposed to test defined drill targets at other Temuujin district and Virgin prospect areas. The scout drill program will also be extended to examine targets identified at the Rich Gobi and White Hills property areas. A detailed surface exploration program of anomaly delineation and drill target prioritization will also proceed at other areas of interest within the Virgin and Mongolian regional properties. Additional acquired properties will be similarly evaluated. It is recognized by the Qualified Person that the scope of Year 2 exploration activities will be to some extent dependant on results in Year 1.

| Table 2 | | |
|-----------------------------------|--|--------------------|
| Exploration Budget Details | | |
| Allocation | Item | \$ |
| Exploration | Year 1 (2004) | |
| | Drilling | \$1,370,000 |
| | Program management | 150,000 |
| | Equipment / support | 100,000 |
| | Sampling and analysis | 150,000 |
| | Geophysics | 100,000 |
| | Remote sensing | 25,000 |
| | Property acquisition | 75,000 |
| | Property renewal | 75,000 |
| | Travel | 50,000 |
| | Expatriate technical personnel | 200,000 |
| | Mongolian technical personnel | 60,000 |
| | Mongolian support personnel | 30,000 |
| | Mongolia exploration office | 25,000 |
| | Board / lodging – Mongolia | 15,000 |
| | Total Year 1 (2004) | \$2,425,000 |
| | | |
| Exploration | Year 2 (2005) | |
| | Drilling | \$2,255,000 |
| | Program management | 150,000 |
| | Equipment / support | 200,000 |
| | Sampling and analysis | 150,000 |
| | Geophysics | 100,000 |
| | Property acquisition | 100,000 |
| | Property renewal | 75,000 |
| | Travel | 70,000 |
| | Expatriate technical personnel | 200,000 |
| | Mongolian technical personnel | 75,000 |
| | Mongolian support personnel | 50,000 |
| | Mongolia exploration office | 25,000 |
| | Board / lodging – Mongolia | 25,000 |
| | Total Year 2 (2005) | \$3,475,000 |
| | Exploration Total 2004 / 2005 | 5,900,000 |
| | 10% Contingency | 590,000 |
| | Total Exploration including Contingency 10% | \$6,490,000 |

Nova Scotia (Tangier)

Location

The Tangier property is located 90 kilometres east-northeast of the Metro-Halifax area along Highway 7. The Company has a single license consisting of 77 claims issued by the Nova Scotia Department of Natural Resources. The license is currently in good standing with sufficient work credits to maintain the license until 2007. The Tangier property is a former gold producer.

Future Development

In January of 2004, the Company entered into an agreement to transfer its interests in the Tangier property in consideration of 500,000 shares and 100,000 warrants of Acadian Gold Corporation ("Acadian"). The closing price of the common shares of Acadian on the TSX Venture Exchange on March 3, 2004 was \$0.380. The agreement is subject to regulatory approval and to Acadian conducting due diligence on the Tangier property and receiving board approval. This transaction is expected to close prior to March 19, 2004. In any event, none of the proceeds from this Offering will be used to fund further development of the Tangier property.

USE OF PROCEEDS

The Company intends to carry out exploration of its eight Mongolian mineral exploration properties during the years 2004 and 2005 with the proceeds of the Offering. Exploration will be directed towards defining resources on the more advanced properties while carrying out early stage exploration on the remaining prospects. The program will also include an ongoing review and field evaluation of new opportunities with some acquisitions anticipated.

The Virgin property will receive a significant portion of the proceeds in order to carry out thorough evaluations of the Temujin prospects, including drilling, while multiple targets are evaluated elsewhere in the license block through mapping, sampling and ground geophysics. An airborne geophysical survey is also planned for the Virgin property.

Four properties have been the subject of previous exploration activity and now require limited geophysical surveying, sampling, mapping and trenching to assist in drilled target definition. The Company's 2004 exploration program is designed to advance these four principal properties to the pre-drill stage, and then complete a preliminary drilling program on at least two of the four properties in the summer of 2004. The exact location and number of drill holes will depend on the results of the ground surveys. Simultaneously, the Company's field crews will be gathering geological, geochemical and geophysical data on the mineral occurrences on the remaining three properties.

Management's previous experience in mineral exploration in Mongolia has resulted in a good mineral resource knowledge base in addition to a good contact base. As a result, management is planning to undertake a thorough mineral property evaluation and a disciplined acquisition program from its working capital. Evaluation and interpretation of the data from any newly acquired properties will take place in the winter of 2004-2005 in order to prioritize the properties for detailed exploration during the 2005 exploration program.

The working capital of the Company as at February 29, 2004 was approximately \$3,339,000. The Company intends to use its available funds, namely the net proceeds of the Offering and its current working capital, as follows:

| Available Funds | Minimum Offering | Maximum Offering |
|---|----------------------------|----------------------------|
| Working capital as at February 29, 2004 | \$3,339,000 | \$3,339,000 |
| Net Proceeds of the Offering | <u>7,330,000</u> | <u>9,306,250</u> |
| Total | <u>\$10,669,000</u> | <u>\$12,645,250</u> |
| | | |
| Intended Use of Available Funds: | Minimum Offering | Maximum Offering |
| Recommended exploration on the Company's principal properties in Year 1 (2004) ⁽¹⁾ | \$ 2,667,500 | \$ 2,667,500 |
| Proposed exploration on other properties in Year 1 (2004) | 334,000 | 334,000 |
| Recommended exploration on the Company's principal properties in Year 2 (2005) ⁽¹⁾ | 3,822,500 | 3,822,500 |
| Proposed exploration on other properties in Year 2 (2005) | 797,000 | 797,000 |
| Estimated general and administrative expenses for 12 months | 648,000 | 648,000 |
| Working capital ⁽²⁾ | <u>2,400,000</u> | <u>4,376,250</u> |
| Total | <u>\$10,669,000</u> | <u>\$12,645,250</u> |

Notes:

- (1) See "Mineral Projects - Proposed Exploration Program - Mongolian Properties".
- (2) Working capital may be used to fund acquisitions and/or expanded drilling programs as warranted.

The Company intends to spend the funds available to it as stated in this prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary. The Company will only redirect the funds to other properties on the basis of a recommendation from a professional geologist or engineer.

SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Annual Information

The following table sets forth selected financial information for and as of the end of the periods indicated. This financial information is derived from the financial statements of the Company which are included in this prospectus.

| | Nine Months Ended September 30, 2003 (unaudited) | Year Ended December 31, 2002 (audited) | Year Ended December 31, 2001 (audited) | Period from incorporation on June 27, 2000 to December 31, 2000 (audited) |
|--|--|--|--|---|
| Revenue | | | | |
| Interest revenue | \$2,732 | \$169 | \$1,380 | Nil |
| Loss before income tax and non- controlling interest | \$393,440 | \$91,201 | \$303,515 | \$6,408 |
| Basic and diluted loss per share | \$0.11 | \$0.05 | \$0.11 | \$0.01 |
| Assets | \$751,579 | \$445,184 | \$101,722 | \$44,592 |
| Total long term debt | Nil | Nil | Nil | Nil |
| Shareholders' equity | \$582,354 | \$403,170 | \$67,257 | \$(5,408) |
| • Share capital | \$1,232,065 | \$296,215 | \$262,195 | \$1,000 |
| • Contributed surplus | \$49,920 | Nil | Nil | Nil |
| • Convertible promissory notes payable | Nil | \$390,150 | Nil | Nil |
| • Deficit | \$(699,631) | \$(283,195) | \$(194,938) | \$(6,408) |
| Cash dividends declared per share | Nil | Nil | Nil | Nil |

Quarterly Information

As of the date of this prospectus, the Company is not a reporting issuer and did not prepare quarterly financial statements for each of the eight most recently completed quarters ending December 31, 2002.

Dividends

There are no restrictions in the Company's constating documents that would restrict or prevent the Company from paying dividends.

The Company has not paid any dividends to date on its Common Shares. It is not contemplated that any dividends will be paid on any shares of the Company in the immediate future, as it is anticipated that all available funds will be invested to finance the growth of the Company's business. Any decision to pay dividends on Common Shares in the future will be made by the board of directors of the Company on the basis of the earnings, financial requirements and other conditions existing at such time.

Management's Discussion and Analysis

General

The following discussion and analysis is based on the Company's results of operations and financial position and should be read in conjunction with the financial statements included herein.

The Company was incorporated on June 27, 2000 to operate as a resource exploration company focused on the acquisition, evaluation and exploration of mineral properties and therefore has no cash flow from operations. The level of operations has been determined by the availability of capital resources. To date, private placements of equity capital have provided the main source of funding.

All direct costs related to the acquisition of resource property interests have been capitalized. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

The Company reviews the carrying values of its resource property interests on a regular basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results. When the carrying value of a property exceeds its estimated net recoverable amount, an impairment provision is made for other than a temporary decline in value.

The Company is a resource exploration company with no operating cash flow and whose level of expenditures is dependent on the sale of equity capital to finance its exploration operations. Therefore, it is difficult to identify any meaningful trends or develop an analysis from the Company's cash flows.

Quarterly Information

See "Selected Financial Information and Management's Discussion and Analysis - Quarterly Information".

Liquidity and Capital Resources

The Company is in the development stage, dependent on the sale of equity capital to finance its exploration operations and therefore has no cash flow from operations. The Company's principal source of funds since its incorporation has been from the sale of equity capital. The Company has raised \$4,956,037 from the sale of equity capital for cash from the date of its incorporation on June 27, 2000 to the date of this prospectus; \$1,016,380 was raised to September 30, 2003, and \$3,939,657 was raised between September 30, 2003, and December 5, 2003. The Company has 1,200,000 warrants and 770,000 options outstanding. Each warrant and option entitles the holder to purchase one Common Share of the Company at \$0.425 per Common Share. The warrants are exercisable at any time prior to January 24, 2008 and 400,000 of the options are exercisable at any time prior to May 9, 2008. The remaining 370,000 options (issued pursuant to an incentive stock option plan and subject to regulatory approval) are exercisable at any time prior to November 19, 2008. If all of the warrants and options are exercised, this will result in proceeds to the Company of \$837,250. All references in this prospectus to issued and outstanding Common Shares, warrants, options and loss per share give effect to a 2-for-1 stock split approved by the shareholders of the Company on November 18, 2003 effective at the close of business on December 5, 2003.

As at September 30, 2003, the Company's current assets were \$126,808 and current liabilities were \$169,225, resulting in a working capital deficiency at that time of \$42,417. As at September 30, 2003, the Company had no long-term debt. There are no known trends on the Company's liquidity or capital resources.

As at September 30, 2003, the Company had total assets of \$751,579. The principal asset of the Company is its mineral exploration property interests in Mongolia with a carrying value of \$529,588, which will be the subject of an exploration program to be funded from the net proceeds of this Offering. See "Mineral Projects – Mongolia Properties – Principal Properties" and "Use of Proceeds".

As at September 30, 2003, the Company's share capital was \$1,232,065 with 3,789,128 Common Shares issued and outstanding.

Nine Month Period Ended September 30, 2003 (unaudited)

Results of Operations

The loss for the nine months ended September 30, 2003 was \$393,440 or \$0.11 per share as compared to a loss of \$79,086 or \$0.05 per share for the same period in 2002. The main reason for the increase in the loss in 2003 was due to expenses related to exploration programs for the Company's Mongolian mineral exploration properties and due to the cost of geological consultants to develop and plan the exploration programs. During the same period in 2002 the Company had not yet acquired its Mongolian property interests and had just completed the exploration program on its Tangier, Nova Scotia property. There was no activity on the Tangier property during the nine months ended September 30, 2003.

Total expenses for the nine months ended September 30, 2003 were \$396,172 compared to \$79,189 for the same period in 2002. General and administrative expenses were \$180,423 in 2003 compared to \$35,873 in 2002 and exploration expenses were \$215,749 in 2003 compared to \$43,316 in 2002.

In the 2003 period, the general and administrative expenses were composed primarily of travel, contract administrative services, professional fees for legal and auditing services and office supplies in connection with preparation for the initial public offering of the Company's securities and to support the Mongolian exploration program for 2003 as well as plan the 2004 Mongolian exploration program. There were no such expenditures in the same period of 2002. The exploration expenditures in 2003 consisted of contract geological services in connection with planning and conducting the 2003 Mongolian exploration program while the 2002 exploration expenditures related to the completion of the Tangier, Nova Scotia exploration program.

Financing Activities

On January 23, 2003 the Company issued 800,000 Common Shares at an ascribed value of \$0.425 per share and issued warrants to acquire 1,200,000 Common Shares in connection with the acquisition of properties in Mongolia, see "General Development of the Business - Acquisitions - Mongolia Acquisition Agreement". In addition, in January 2003, \$390,150 of convertible promissory notes issued by the Company were converted to an aggregate of 918,000 Common Shares (\$0.425 per share). In March 2003, the Company completed a private placement share offering of 484,000 Common Shares at \$0.425 per Common Share, to generate gross proceeds of \$205,700. The Company incurred costs of \$10,516 in connection with this private placement offering. Between October and December 2003, the Company closed a series of private placement share offerings for 9,269,782 Common Shares at \$0.425 per share, to generate gross proceeds of \$3,939,657. The Company incurred costs of approximately \$139,000 in connection with these private placement share offerings.

In addition, the Company incurred costs of \$55,755 during the nine months ended September 30, 2003 in connection with the preparation of a draft preliminary prospectus for the initial public offering of its securities. These costs have been recorded in the financial statements as deferred share issue costs and classified as a long-term asset until the shares are issued to which the costs relate. To December 31, 2002, the Company had incurred deferred share issue costs of \$32,373 bringing the total share issue costs deferred to September 30, 2003 to \$88,128. The deferred share issue costs will be charged against the related share capital upon completion of the initial public offering or charged to operations if the prospectus financing is not completed.

Kaoclay Resources Inc. ("Kaoclay") is a company associated with a director of the Company, in that one of the Company's directors is an officer of Kaoclay. Since June 2002, the Company has been subleasing office space at 1583 Hollis Street in Halifax from Kaoclay on a month-to-month basis at market rates of \$1,085 per month on average, which increased to \$1,250 effective January 1, 2004. Effective February 1, 2004, the Company agreed to sublease the space until February 28, 2005 at one-half of the amount payable by Kaoclay for base rent, additional rent and occupancy taxes, which amount is currently \$1,250 per month. Payments made by Kaoclay on behalf of the Company have been recorded by the Company as a loan that is non-interest bearing and is repayable on demand. During the nine months ended September 30, 2003, the loan payable to Kaoclay decreased by \$14,107 to \$5,486. The balance outstanding at September 30, 2003 was \$5,486.

Investing Activities

During the period January 1 to September 30, 2003, the Company acquired additional resource property interests in Mongolia at a cost of \$38,762 and acquired capital assets at a cost of \$7,844.

Year Ended December 31, 2002 compared with year ended December 31, 2001 and the period from incorporation on June 27, 2000 to December 31, 2000 (audited)

Results of Operations

The loss for the year ended December 31, 2002 was \$76,141 or \$0.05 per share compared to a loss of \$188,530 or \$0.11 per share for the same period in 2001 and a loss of \$6,408 or \$0.01 per share for the period from incorporation on June 27, 2000 to December 31, 2000. The company acquired a 60% interest in the Subsidiary on August 27, 2002 and acquired the remaining 40% interest on January 23, 2003. Prior to June, 2002, the primary activity of the Company was the exploration of its Tangier gold property in Nova Scotia. After June, 2002, the Company's primary activity evolved around the acquisition of its interest in the Mongolian mineral exploration properties through its Subsidiary, subsequent staking of additional Mongolian mineral exploration properties, planning and conducting private placement offerings to fund the acquisition and exploration of its mineral exploration properties, preparation for the initial public offering of its securities and planning for the continuing Mongolian exploration program.

Total expenses for 2002 were \$91,370 as compared to \$304,895 for 2001 and \$6,408 for the 2000 period. For the period ended December 31, 2000, the year of incorporation, there was minimal exploration activity and the loss consisted primarily of expenses associated with the start-up of the Company.

The total expenses for 2002 of \$91,370 consisted of general and administrative expenses of \$48,590 and exploration expenses of \$42,780. The non-controlling interest in the loss of the Mongolian subsidiary was \$5,730. The majority of the 2002 administrative expenses and approximately \$16,000 of the exploration expenses related to the Mongolian resource property interests. The total expenses for 2001 of \$304,895 consisted of \$3,252 of general and administrative expenses and \$301,643 of exploration expenses. The remaining 2002 exploration expenses of \$26,780 and all of the 2001 expenses were conducted on the Company's Tangier property in Nova Scotia. All of the expenses associated with the Tangier property have been expensed.

Financing Activities/Liquidity and Capital Resources

During 2002, the Company issued for cash 102,000 Common Shares for gross proceeds of \$43,350 and issued for cash, convertible promissory notes for gross proceeds of \$390,150 as part of a share subscription agreement. The notes were convertible to Common Shares at a price of \$0.425 per share contingent on the Company meeting certain conditions. These conditions were waived by the noteholders and, in January, 2003, the notes were converted to 918,000 Common Shares at a price of \$0.425 per share. This resulted in the issuance of a total of 1,020,000 Common Shares for cash proceeds of \$433,500 pursuant to the private placement agreements entered into during the year ended December 31, 2002.

In 2000, the Company issued 2,000,000 Common Shares to two shareholders for subscriptions receivable of \$1,000. In June of 2001, these two shareholders made a gift to the Company of an aggregate of 1,400,000 Common Shares and these shares were cancelled. In 2001, the Company issued 885,128 shares for cash proceeds of \$376,180 of which 767,328 Common Shares were issued pursuant to share subscriptions under flow-through share agreements to fund the exploration program for the Company's Tangier, Nova Scotia property.

Investing Activities

In 2002, the Company acquired mineral exploration property interests in Mongolia for \$113,386. Of this total, \$97,975 was paid for a 100% ownership of existing exploration licenses from third parties while the remaining \$15,411 was paid to the Mineral Resource Authority of Mongolia to acquire exploration licenses directly and for transfer fees. There were no investing activities in 2001 or 2000.

Outlook

The Company has sufficient working capital, generated through its most recent private placements, to complete the organization of its planned 2004 Mongolian exploration program and to meet its property and contractual commitments for the next 24 months. With the completion of the Offering, the Company will also have sufficient working capital to complete its planned exploration programs for the next 24 months.

DESCRIPTION OF THE SECURITIES OFFERED

Description of the Common Shares

The Company is authorized to issue an unlimited number of Common Shares, of which 13,058,910 Common Shares are issued and outstanding as at the date of this prospectus.

All of the issued and outstanding Common Shares have been fully paid for and none are subject to any future call or assessment. Holders of Common Shares are entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of the Company. Each Common Share carries one vote at such meetings. The holders of Common Shares are entitled to dividends if, as and when declared by the board of directors of the Company and, upon the liquidation, dissolution or winding-up of its affairs or other distribution of its assets for the purpose of winding-up its affairs, to receive, on a pro-rata basis, all of the remaining assets of the Company. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking fund or purchase fund provisions.

CONSOLIDATED CAPITALIZATION

The following capitalization table discloses the Company's consolidated capitalization on an actual basis, as well as its Common Share capital on a pro forma basis in the event all securities offered for sale hereunder are sold:

| Designation of Security | Number Outstanding as at December 31, 2002 (audited) | Number Outstanding as at February 29, 2004 (unaudited) | Number Outstanding as at February 29, 2004 upon completion of the Maximum Offering (unaudited) |
|---|---|---|---|
| Common Shares (Authorized - unlimited) | \$296,215 (1,587,128 Common Shares) | \$5,171,722 (13,058,910 Common Shares) | \$15,796,722 (25,558,910 Common Shares) |
| Contributed Surplus | Nil | \$49,920 | \$49,920 |
| Convertible Promissory Notes | \$390,150 | Nil | Nil |
| Deficit | \$(283,195) | \$(1,700,000) ⁽¹⁾⁽²⁾ | \$(2,443,750) ⁽¹⁾⁽²⁾ |
| Total Consolidated Capitalization | \$403,170 | \$3,521,642 | 13,402,892 |

Note:

(1) After deduction of estimated expenses in connection with the Offering of \$575,000.

(2) Represents an estimate.

The Company has no long-term debt.

OPTIONS TO PURCHASE SECURITIES

Incentive Stock Option Plan

On November 18, 2003, the shareholders of the Company approved the establishment of an incentive stock option plan ("Plan"). The purpose of the Plan is to provide incentives to the directors, officers, employees and consultants of, or retained by, the Company. The number of Common Shares issuable upon exercise of options granted under the Plan is limited to 10% of the number of Common Shares issued and outstanding at the time of the grant. The Plan provides that no more than 5% of the issued and outstanding Common Shares may be granted to any one individual in any twelve month period, or 2% in the case of an optionee that is a consultant or performing investor relations activities. Options issued under the Plan are non-transferable and non-assignable.

Under the Plan, options may be granted to any director, officer, employee, consultant or affiliate of the Company. The exercise price of options granted under the Plan may not be less than the fair market value of the Common Shares at the date of such grant. Options will be exercisable for a term not exceeding five years from the date of the grant.

The term, exercise price and number of Common Shares subject to each option may be determined by the Company's board of directors.

Except in particular circumstances indicated in the Plan (such as the termination of employment without cause), when an optionee ceases to be an eligible person in respect of the Plan, all options expire and terminate, except that all exercisable options held at the time the optionee ceases to be an eligible person continue to be exercisable for a period of ninety days following the time that the optionee ceases to be an eligible person, or thirty days in the case of persons performing investor relations activities. In the event of the death of an optionee, all options held by the optionee at the time of death shall be exercisable by the heirs or representatives of the estate of the optionee until the earlier of the original expiration date of the options or twelve months following the date of death.

On November 18, 2003, the Company granted an aggregate of 370,000 incentive stock options to the directors, senior officers and consultants of the Company entitling them to purchase an aggregate of 370,000 Common Shares of the Company at a price of \$0.425 per share at any time prior to November 19, 2008.

On March 3, 2004, the Company granted to three individuals (William B. Burton, Terence D. Coughlan and Kenneth W. MacDonald) an aggregate of 400,000 incentive stock options entitling them to purchase an aggregate of 400,000 Common Shares at \$0.425 per Common Share at any time prior to May 9, 2008. These options were granted under the Plan to replace the 400,000 options that were granted to them effective May 8, 2003, prior to the establishment of the Plan, in consideration of financing services. The options granted in March 2004, have the same terms and conditions as the options they replaced and the individuals did not receive any additional consideration for the exchange.

All of the options issued under the Plan, as shown below, are non-assignable and non-transferable.

| Optionee | Number of Common Shares Under Option |
|--|---|
| Three senior officers, as a group | 178,000 |
| Four directors and one former director who are not senior officers, as a group | 532,000 |
| Two consultants, as a group | 60,000 |

Warrants to Mongolia Group

On January 23, 2003, the Mongolia Group acquired an aggregate 800,000 Common Shares and 1,200,000 warrants in connection with the Mongolia Acquisition Agreement. Each warrant is non-assignable and non-transferrable, otherwise than on death, and entitles the holder to purchase one Common Share at a price of \$0.425 at any time prior to January 24, 2008. See "General Development of the Business - Acquisitions - Mongolia Acquisition Agreement".

PRIOR SALES

During the 12 months ended March 3, 2004, the Company issued an aggregate of 9,753,782 Common Shares, all at \$0.425 per Common Share.

The following table contains details of issuances of Common Shares by the Company from incorporation to the date hereof:

| Date | Number of Common Shares | Proceeds | Price per share |
|---------------------------|-------------------------|--------------------|-----------------|
| June, 2000 ⁽¹⁾ | 600,000 | \$ 1,000 | (\$0.001665) |
| June, 2001 | 529,576 | 225,070 | (\$0.425) |
| September, 2001 | 355,552 | 151,110 | (\$0.425) |
| October, 2002 | 102,000 | 43,350 | (\$0.425) |
| January, 2003 | 918,000 | 390,150 | (\$0.425) |
| January, 2003 | 800,000 | ⁽²⁾ | ⁽²⁾ |
| May, 2003 | 484,000 | 205,700 | (\$0.425) |
| October, 2003 | 1,973,250 | 838,631 | (\$0.425) |
| November, 2003 | 240,000 | 102,000 | (\$0.425) |
| December, 2003 | 7,056,532 | 2,999,026 | (\$0.425) |
| Total | 13,058,910 | \$4,956,037 | |

Notes:

- (1) In June, 2000, an aggregate of 2,000,000 Common Shares were issued to two shareholders for an aggregate of \$1,000. In June 2001, these two shareholders made a gift to the Company of an aggregate of 1,400,000 Common Shares.
- (2) An aggregate of 800,000 Common Shares and 1,200,000 warrants were issued to five individuals in exchange for their rights in mineral exploration licenses in Mongolia. See "General Development of the Business - Acquisitions - Mongolia Acquisition Agreement".

ESCROWED SHARES

National Policy 46-201

Under National Policy 46-201 "Escrow for Initial Public Offerings" ("NP 46-201"), equity securities of a company owned or controlled by "Principals" are required to be escrowed at the time of the company's initial public offering.

A "Principal" is defined in NP 46-201 to include:

- (a) directors and senior officers of the Company or of a material operating subsidiary of the Company, as listed in this prospectus;
- (b) promoters of the Company during the two years preceding this Offering;
- (c) those who own and/or control more than 10% of the Company's voting securities immediately before and immediately after completion of this Offering if they also have elected or appointed or have the right to elect or appoint a director or senior officer of the Company or of a material operating subsidiary of the Company;
- (d) those who own and/or control more than 20% of the Company's voting securities immediately before and immediately after completion of this Offering; and
- (e) a spouse or relative of any of the above if they live at the same address.

There is an exception for Principals who hold less than 1% of the Company's issued and outstanding Common Shares on completion of the Offering, calculated on the basis that convertible securities held by the Principal are included in the calculation.

The Company will be classified for the purposes of escrow as either an "exempt issuer", an "established issuer" or an "emerging issuer". It is anticipated that the Company will be classified as an "emerging issuer". Accordingly, the following automatic timed-releases will apply to the securities held by the Company's Principals:

- (a) 10% of each Principal's holdings will be released at closing; and
- (b) tranches of 15% at six month intervals over the 36 months following the closing date.

If the Company achieves "established issuer" status during the term of the escrow, it will "graduate", resulting in a catch-up release and an accelerated release of any securities remaining in escrow under the 18 month schedule applicable to "established issuers" as if the Company had originally been classified as an "established issuer".

Securities Escrowed

The following securities of the Company are held by, and are subject to the terms of an Escrow Agreement dated March 4, 2004, among the Principals and Computershare Trust Company of Canada:

| Name of Principals | Number of Escrowed Securities | Percentage of Class ⁽¹⁾ |
|------------------------------------|--------------------------------|------------------------------------|
| Peter C. Akerley | 364,000 Common Shares | 1.43% |
| | 420,000 warrants | 35.00% |
| | 50,000 options ⁽³⁾ | 6.49% |
| Terence D. Coughlan ⁽²⁾ | 537,800 Common Shares | 2.10% |
| | 336,000 options ⁽³⁾ | 43.64% |
| J. C. (Chris) Cowan | 264,000 Common Shares | 1.03% |
| | 180,000 warrants | 15.00% |
| | 40,000 options ⁽³⁾ | 5.19% |
| Total: | 1,165,800 Common Shares | 4.56% |
| | 600,000 warrants | 50.00% |
| | 426,000 options | 55.32% |

Notes:

- (1) The percentage that the escrowed Common Shares will represent of the total issued and outstanding Common Shares upon completion of the Maximum Offering.
- (2) 237,800 of Mr. Coughlan's shares are beneficially owned by RD Financial Corporation Limited, a company owned by two Nova Scotia companies that are beneficially owned by two family trusts controlled by Mr. Coughlan.
- (3) These options were issued pursuant to an Incentive Stock Option Plan. See "Executive Compensation - Compensation of Directors".

Pursuant to the terms of the Escrow Agreement, the securities held in escrow may not be transferred or otherwise dealt with during the term of the Escrow Agreement unless the transfers or dealings within escrow are:

- (a) transfers to continuing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the Company's board of directors;
- (b) transfers to other Principals;
- (c) transfers to an RRSP or similar trust plan provided that the only beneficiaries are the transferor or the transferor's spouse or children;
- (d) transfers upon bankruptcy to the trustee in bankruptcy; and
- (e) pledges to a financial institution as collateral for a *bona fide* loan, provided that upon a realization the securities remain subject to escrow.

Tenders of escrowed securities to a take-over bid are permitted provided that, if the tenderer is a Principal of the successor company upon completion of the take-over bid, securities received in exchange for tendered escrowed securities are submitted in escrow on the basis of the successor company's escrow classification.

Shares Subject to Resale Restrictions

Canadian securities legislation generally requires that shares issued by a company during its private stage may not be resold until the expiration of certain hold periods. This legislation generally provides that, in addition to the escrow restrictions herein described (see "Escrowed Securities"), all of the Company's currently issued and outstanding 13,058,910 Common Shares will be subject to a 12 month hold period commencing from the date the Company becomes a reporting issuer, which will be the date a final receipt for the Company's prospectus is issued by the last of the applicable securities regulatory authorities. However, pursuant to a new multilateral instrument which is expected to become effective on March 30, 2004, there will no longer be a seasoning period on shares that were issued during the time that the issuer was a private company, so long as the issuer becomes a reporting issuer by filing a prospectus and so long as the appropriate hold period has expired. See "Plan of Distribution" for a description of the voluntary hold period arrangements with certain shareholders.

PRINCIPAL SHAREHOLDERS

As at March 3, 2004, to the knowledge of the directors and officers of the Company, no person beneficially owns, directly or indirectly, or exercises control or direction over, Common Shares carrying more than 10% of the voting rights attaching to all outstanding Common Shares of the Company, except as follows:

| Name and Address | Designation of Class | Number | Percentage of Class | Percentage of Class on Completion of Maximum Offering |
|--|----------------------|-----------|---------------------|---|
| Estate of the Late William S McCartney | Common Shares | 1,313,000 | 10.05% | 5.14% |

DIRECTORS AND OFFICERS

General

As specified in the Company's articles, the size of the board of directors of the Company must consist of not less than three directors and not more than ten directors to be elected annually. The size of the board of directors is to be determined by the board of directors and is currently set at seven. Each director elected will hold office until the next annual meeting of shareholders of the Company and until such director's successor is elected and qualified, or until the director's earlier death, resignation or removal.

Current Directors

The following is a list of the current directors of the Company, the positions and offices with the Company now held by them, their municipality of residence, their principal occupation or employment over the last five years, the period or periods of service as directors of the Company and the number of securities of the Company beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as of the date of this prospectus:

| Name, Municipality of Residence and Current Position(s) with the Company | Principal Occupation | Director Since | Securities Owned, Controlled or Directed⁽¹⁾ |
|--|---|-----------------------|--|
| Peter C. Akerley Halifax, Nova Scotia President, Chief Executive Officer and Director | President and CEO of Erdene Gold Inc. (exploration company) | February 25, 2003 | 364,000 Common Shares 420,000 warrants 50,000 options ⁽⁴⁾ |
| Wayne G. Beach Toronto, Ontario Director | Partner, Beach, Hepburn (a law firm) | November 18, 2003 | 120,000 Common Shares 40,000 options ⁽⁴⁾ |
| William B. Burton ⁽²⁾⁽³⁾ Halifax, Nova Scotia Director | President, Magnesium Alloy Corporation (a junior resource company) | February 25, 2003 | 24,000 Common Shares 76,000 options ⁽⁴⁾ |
| David S.B. Carnell ⁽²⁾⁽³⁾ Halifax, Nova Scotia Director | President, Bedford Capital Group Inc. (an investment holding company) | November 18, 2003 | 240,000 Common Shares 40,000 options ⁽⁴⁾ |
| J.C. (Chris) Cowan ⁽²⁾⁽³⁾ Toronto, Ontario Director and Managing Director of Subsidiary | Independent Consultant | February 25, 2003 | 264,000 Common Shares 180,000 warrants 40,000 options ⁽⁴⁾ |
| Kenneth W. MacDonald Halifax, Nova Scotia Director and Vice President of Finance | President, Fisher Transport Limited (a specialized transport company) | February 25, 2003 | 132,000 Common Shares 118,000 options ⁽⁴⁾ |

Notes:

- (1) The information as to securities beneficially owned, controlled or directed, has been furnished by the directors as of March 3, 2004.
- (2) Member of the Audit and Corporate Governance Committee.
- (3) Member of the Compensation Committee.
- (4) These options were issued pursuant to an incentive stock option plan. See "Executive Compensation - Incentive Stock Option Plan".

The directors and executive officers of the Company as a group beneficially own, directly and indirectly, or exercise control or direction over, 1,144,000 Common Shares, representing 8.8% of the issued and outstanding Common Shares as of the date of this prospectus.

The following are brief biographies of the senior officers, directors and key employees of the Company:

Peter C. Akerley - Peter C. Akerley is 40 years of age and has a BSc from Saint Mary's University in Halifax, 1988. He has been President of BRM Exploration Ltd., a Halifax, Nova Scotia based company owned by Mr. Akerley that provides geologic exploration and managerial services to the industry internationally since 1996. Mr. Akerley previously provided exploration and managerial services for projects in Canada, United States of America, Mexico, Guyana, the Philippines and Mongolia to junior and senior exploration and mining companies. During the period 1996 - 1998, Mr. Akerley was co-manager of a major exploration program in Mongolia with Mr. Cowan. Mr. Akerley has been the Company's President and Chief Executive Officer since March 2003.

Wayne G. Beach - Mr. Beach is a partner in Beach, Hepburn, a Toronto-based law firm specializing in taxation and securities, with a primary focus on the mining and oil and gas sectors. Mr. Beach has been involved as a founder in a number of successful public companies, primarily listed on the Toronto Stock Exchange. He has extensive experience in mergers, acquisitions and buyouts and has been involved in the development of a number of shareholder rights plans for mining companies.

William B. Burton - William B. Burton is president of Magnesium Alloy Corporation and has held that position since 1998. Mr. Burton was previously Vice-President of Exploration for IPC evaluating gold properties in Asia including Mongolia and was President of Mongolian Goldfields Corporation from 1996 to 1997. Mr. Burton has over 30 years experience in exploration and operating junior resource companies.

David S.B. Carnell - Mr. Carnell is the President of Bedford Capital Group Inc. (an investment holding company). From 1987 to 1989, Mr. Carnell was a director of AquaGold Resources Inc. (now Atlantic Industrial Minerals Inc.). He retired in the year 2000 from a bank owned investment dealer after a 32-year career in sales and management.

Michael C. Corey – Mr. Corey is 48 years old and is currently the Company's Exploration Manager. He obtained his BSc from Lakehead University in 1979 and is registered with the Association of Professional Geoscientists of Ontario (APGO). His experience includes 23 years of mineral exploration and geoscientific research, including 10 years with the Nova Scotia Department of Natural Resources. For the past two years, Mr. Corey has been employed as a consultant geologist evaluating mineral properties in Indonesia, the Philippines, Mongolia and Nova Scotia. From 1996 to 1999, Mr. Corey was a senior geologist with Mispac Resources, conducting exploration for porphyry and epithermal-type gold-copper-silver deposits in Indonesia. From 1999 to 2001, Mr. Corey was a senior geologist with Sparta Kaolin Corporation, conducting exploration for primary kaolin in Georgia, USA.

J.C. (Chris) Cowan - J.C. (Chris) Cowan, MSc (Geology), P. Eng. (Ontario), is a minerals consultant providing services to exploration and mining companies world-wide since 1990. He previously spent 28 years with Falconbridge Limited in a variety of senior management and board positions including: President and Director of New Pascalis Mines Ltd., 1984-1990; Vice-President and Director of New Quebec Raglan Mines Ltd., 1981-1990; Chairman of the Board of Indusmin Ltd., 1984-1990; President, CEO and Director of United Keno Hill Mines Ltd., 1981-1990; and President of Wesfrob Mining Division, 1981-1983. Mr. Cowan has also been responsible for technical direction of Falconbridge's world-wide surface and mining exploration as well as exploration manager in Southeast Asia and Chief Geologist for Sudbury Operations. Mr. Cowan and Mr. Akerley are co-managing directors of Erdene Mongol XXX.

Kenneth W. MacDonald - Mr. MacDonald is 47 years old. From September 1992 to present, Mr. MacDonald has been the President and owner of Fisher Transport Limited, a specialized transport company. Mr. MacDonald has been Vice-President of Finance for Kao clay Resources Inc. from 1996 to the present. Mr. MacDonald has been a director of the Company since February of 2003 and its Vice-President of Finance since March 2003. Prior to 1985, Mr. MacDonald, a chartered accountant, was a senior manager with one of Canada's major accounting firms. From 1985 to September 1992, he was involved as Vice-President Finance with public and private corporations in the resource sector.

D. Suzan Frazer, Secretary - Ms. Frazer is a partner of the Halifax office of the law firm, Patterson Palmer. She has been a member of the firm's corporate/corporate finance group for over 20 years and is experienced in representing public and private companies in the junior resource sector. Ms. Frazer's experience includes public offerings and private placements under securities legislation, stock exchange listings, take-over bids, mergers, acquisitions and general compliance with the continuous disclosure and other requirements of securities legislation.

Corporate Cease Trade Orders or Bankruptcies

No director, officer, promoter or other member of the management of the Company is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of the management of any other company that:

- (a) was the subject of a cease trade order or similar order or an order that denied the company access to any statutory exemptions for a period of more than 30 consecutive days; or
- (b) was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or appointed to hold the assets of that director, officer or promoter,

except for the following:

Company director William Burton was president and CEO of Adex Mining Inc. in June 1997 when the Toronto Stock Exchange issued a cease trade order because the company did not meet the continued listing requirements with respect to asset values and trading volume. Adex Mining Inc. remains delisted although it continues to carry on business. Mr. Burton resigned as an officer of Adex Mining Inc. in March 2000.

Personal Bankruptcies

No director or officer of the Company, and no shareholder holding sufficient securities of the Company to effect materially the control of the Company, nor any personal holding company of any such person, has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his or her assets, except as follows:

In August 1999, Company director William Burton, instituted a compromise with his sole creditor, Canada Customs and Revenue Agency, through a proposal under the Bankruptcy and Insolvency Act. The proposal was accepted by the creditor and the court and has since been settled.

Management

Effective February 1, 2004, Peter Akerley, President and CEO, and Michael Corey, Exploration Manager, will be employees of the Company and will be devoting their full time to the business and affairs of the Company. Kenneth W. MacDonald, Vice President of Finance, will be retained as a consultant to the Company and will devote as much of his time as is required to the business and affairs of the Company. The employment agreements with each of Messrs. Akerley and Corey contain non-competition and confidentiality provisions. Wayne Beach, William Burton, David Carnell and Chris Cowan are non-executive directors whose services are provided to the Company on an as-needed basis, and none has entered into non-competition or non-disclosure agreements with the Company.

Conflicts of Interest

The directors of the Company are required by law to act honestly and in good faith with a view to the best interest of the Company and to disclose any interests that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict is required to disclose his interest and abstain from voting on such matter.

To the best of the Company's knowledge, there are no known existing or potential conflicts of interest among the Company, its promoters, directors, officers or other members of management of the Company as a result of their outside business interests at the date hereof. However, certain of the directors, officers, promoters and other members of management serve as directors, officers, promoters and members of management of other public companies. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of the Company.

The directors and officers of the Company have been advised of their obligations to act at all times in good faith in the interest of the Company and to disclose any conflicts to the Company if and when they arise. Persons considering the purchase of Common Shares pursuant to the Offering under this prospectus must appreciate that they will be required to rely on the judgment and good faith of these persons in resolving any such conflicts of interest that may arise.

EXECUTIVE COMPENSATION

The following sets forth all annual and long term compensation for services in all capacities to the Company in respect of the Company's president and former president ("Named Executive Officers") as at December 31, 2003, December 31, 2002 and December 31, 2001. No other executive officer of the Company (or any other individual) earned in excess of \$100,000 during any of those financial periods.

Summary Compensation Table

| Name and Principal Position | Financial Year Ending | Annual Compensation | | | Long Term Compensation | | | |
|--|-----------------------|---------------------|------------|--------------------------------|---|---------------------------------------|-------------------|-----------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Securities Under Options/SARs Granted (#) | Restricted Shares or Share Units (\$) | LTIP Payouts (\$) | All Other Compensation (\$) |
| Peter C. Akerley, President | 2003 | Nil | Nil | Nil | 50,000 | Nil | Nil | 111,914 ⁽²⁾ |
| | 2002 | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| | 2001 | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Terence D. Coughlan, former President ⁽¹⁾ | 2003 | Nil | Nil | Nil | 336,000 | Nil | Nil | Nil |
| | 2002 | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| | 2001 | Nil | Nil | Nil | Nil | Nil | Nil | Nil |

Notes:

- (1) Mr. Coughlan resigned as President of the Company effective March 14, 2003, and resigned as a director of the Company on March 3, 2004.
- (2) Since January 1, 2003, Mr. Akerley has been compensated pursuant to a consulting arrangement whereby BRM Exploration Ltd., a company owned by Mr. Akerley, was paid a per diem rate for services provided by Mr. Akerley. Effective February 1, 2004, Mr. Akerley will be compensated pursuant to an employment agreement under which Mr. Akerley will be paid a salary of \$145,000 per annum.

Compensation of Directors

Directors of the Company did not receive fees or other cash compensation in their capacities as such, other than stock options. Directors were reimbursed for transportation and other out-of-pocket expenses incurred for attendance at directors' meetings. It is the Company's intent that, upon completion of the Offering, it will pay its directors who are not executive officers, an honorarium of \$500 per directors' meeting.

On November 18, 2003, the Company issued an aggregate of 370,000 options to directors, officers and consultants of the Company. See "Options to Purchase Securities - Incentive Stock Option Plan".

From time to time directors may be retained to provide specific services to the Company and will be compensated for services provided to the Company as consultants or experts on the same basis and at the same rate as would be payable if such services were provided by a third party, arm's length service provider. During the year ended December 31, 2003, the Company paid \$46,000 (prior periods, nil) to Fisher Transport Limited, a company owned by Kenneth W. MacDonald, for management and accounting services provided by Mr. MacDonald and others and \$11,600 (2002, \$5,000; 2001, nil) to J.C. (Chris) Cowan for technical services, in addition to the amount disclosed above paid to BRM Exploration Ltd. for services provided by Peter C. Akerley.

On March 3, 2004, the Company issued an aggregate of 400,000 options to three individuals, including two of the current directors of the Company, to replace 400,000 options that had been granted to them effective May 8, 2003 in consideration for financing services. See "Options to Purchase Securities - Incentive Stock Option Plan".

Options Exercised

No stock options were exercised in respect of the Company's Common Shares during the most recently completed financial year or to the date of this prospectus.

Termination of Employment, Change in Responsibility and Employment Contracts

Effective February 1, 2004, Peter Akerley and Michael Corey will be compensated pursuant to employment agreements with each of them under which Mr. Akerley will be paid \$145,000 per annum for his services as President and CEO and Mr. Corey will be paid \$115,000 for his services as exploration manager. Mr. Akerley's agreement is for an indefinite term and Mr. Corey's agreement is for a two-year term, which the board intends to review annually. Also effective February 1, 2004, the Company will compensate Fisher Transport Limited, a company owned by Kenneth W. MacDonald, pursuant to a consulting agreement for financial and accounting services to be provided by Mr. MacDonald and others.

The Company has no compensatory plan or arrangement in respect of compensation received or that may be received by the Named Executive Officers in the event of the termination of employment or in the event of a change in control of the Company except that, under the terms of the employment agreement with Peter Akerley, if his employment is terminated by the Company without cause, he will receive 12 months' salary and the Company shall continue his group insurance benefits, if any, for six months after the date of termination. Also, under the terms of the consulting agreement with Fisher Transport Limited and the employment agreements with Messrs. Akerley and Corey, in the event of a change of control of the Company, either Peter Akerley and/or Michael Corey may terminate his employment with the Company and Fisher Transport Limited may terminate its agreement with the Company. If either Peter Akerley or Michael Corey does so, the Company is required to pay him a lump sum payment equal to his annual salary and if Fisher Transport does so, the Company is obliged to pay it an amount equal to the compensation received by Fisher Transport Limited in the preceding 12 months with respect to Mr. MacDonald's services.

PLAN OF DISTRIBUTION

Agency Agreement

Pursuant to an agency agreement dated as of March 4, 2004 between the Company and the Agents ("Agency Agreement"), the Company has appointed the Agents to act as its agents to offer for sale to the public, on a commercially reasonable efforts basis, up to 12,500,000 Common Shares at a price of \$0.85 per Common Share, subject to the terms and conditions of the Agency Agreement. The price of the Common Shares was determined by negotiation between the Agents and the Company. The Offering is subject to a minimum of 10,000,000 Common Shares being sold by the Company within 90 days of the issuance of a receipt for the final prospectus by all securities regulatory authorities having jurisdiction, unless the applicable securities regulatory authorities consent to an extension of the offering period. Funds received from subscriptions will be held by the Agents and, if the minimum condition is not met during the 90 day period or any extension thereof, the Offering will be discontinued and the Agents will return all amounts received without interest or deduction.

The obligations of the Agents under the Agency Agreement may be terminated by them at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. In consideration for their services in connection with the Offering, the Company has agreed to pay the Agents a commission of 7% of the gross proceeds of the Offering. The Company has also agreed to reimburse the Agents for their expenses and legal fees and disbursements incurred in connection with the Offering and to grant to the Agents the Compensation Options which entitle the Agents to subscribe for the Agents' Shares at an exercise price of \$0.85 per Agents' Share, exercisable for a period of two years following the closing of the Offering. This prospectus qualifies the issuance of the Compensation Options and the distribution of the Agents' Shares issuable by the Company upon exercise of the Compensation Options.

The Company has granted to the Agents an option ("Greenshoe Option"), exercisable for a period of 60 days from the Closing of the Offering, to offer additional Common Shares equal to up to 15% of the number of Common Shares issued pursuant to the Offering at the offering price, to cover over-allotments, if any, and for market stabilization purposes. This prospectus qualifies the distribution of the Greenshoe Option and the distribution of the Common Shares issuable by the Company upon exercise of the Greenshoe Option. The Company has agreed to pay a commission of 7% and to grant Compensation Options at the same rate in respect of the Common Shares issued pursuant to the exercise of the Greenshoe Option.

The Agents, or registered sub-agents who assist the Agents in the distribution of the Common Shares offered hereunder, conditionally offer the Common Shares, subject to prior sale, if, as and when issued by the Company and accepted by the Agents in accordance with the conditions contained in the Agency Agreement and subject to the approval of certain legal matters, on behalf of the Company by Patterson Palmer (Canada) and Lynch & Mahoney (Mongolia), and on behalf of the Agents by Goodman and Carr LLP (Canada). Subscriptions for Common Shares will be payable in cash to the Company against delivery of certificates representing the Common Shares. Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will be on March 16, 2004, or such other date as may be agreed on by the Company and the Agents, but, in any event, not later than June 2, 2004.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Agents may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, Common Shares. These exceptions include bids or purchases permitted under the by-laws and rules of the TSX Venture Exchange relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first-mentioned exception, in connection with the Offering, the Agents may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

The Company has agreed not to issue, or enter into an agreement to issue, or announce the issue or intended issue of, any Common Shares (other than in this Offering) or securities convertible into or exchangeable or exercisable for such Common Shares without the prior written consent of the Agents, such consent not to be unreasonably withheld, for a period of 90 days after the date of the closing of this Offering, subject to certain exceptions.

The price of the Common Shares offered hereunder was determined by negotiation between the Company and the Agents.

Voluntary Hold Period Arrangements

The Agents have requested that insiders of the Company not subject to escrow under National Policy 46-201 and certain of the holders of Common Shares released from escrow by virtue of the ten percent (10%) release at closing (see "Escrowed Shares") each enter into a voluntary hold period agreement with the Agents whereby the shareholder agrees to not sell that shareholder's Common Shares for one hundred twenty (120) days following the date of closing of this Offering without the prior written consent of the Agents. Such persons have entered into agreements with respect to an aggregate of 698,800 Common Shares and 186,800 options.

U.S. Sales

The Common Shares offered hereby have not been nor will be registered under the 1933 Act or the securities laws of any state, territory or possession of the United States. Such securities may not be offered or sold or otherwise transferred in the United States except pursuant to an exemption from such registration.

Until 40 days after the commencement of the Offering, offers and sales of Common Shares within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the 1933 Act if that offer or sale is not made in accordance with an applicable exemption therefrom.

RISK FACTORS

An investment in the securities of the Company should be considered speculative due to the nature of the Company's business and the present stage of its development. In evaluating the securities of the Company, the following factors should be considered.

Speculative Nature of Mineral Exploration and Development

Development of the Company's mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when an issuer's properties are in the exploration as opposed to the development phase. There is no assurance that commercial quantities of ore will be discovered on any of the Company's exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Company.

Liquidity Concerns and Future Financings

The further development and exploration of the various mineral properties in which the Company holds interests depends upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets for precious and base metals may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms or at all. The Company operates in a region of the world that is prone to economic and political upheaval, 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 any development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

Mongolian Laws

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 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.

Mongolia's Minerals Law was drafted with the assistance of Western legal experts and is regarded as one of the most logical, internally consistent and effective pieces of mining legislation among all of the developing countries of Asia. However, future amendments to the Minerals Law or new legislation covering ostensibly unrelated matters could affect the existing tenure regime under the Minerals Law and adversely affect the Company's ability to carry on business in Mongolia. The Mongolian Ministry of Industry and Trade has, in the past, unsuccessfully attempted to introduce amendments to the Minerals Law which would, from the perspective of the international mining industry, be regarded as counterproductive. An example of new legislation covering ostensibly unrelated matters is the Special Permits for Business Activities Law that became effective in 2002. This law requires the approval of the Governor of the relevant local aimag (province) as a condition to the grant of a mineral exploration license or mining license. Future amendments to the Minerals Law or new legislation, if implemented, could vary or abrogate key provisions of the Minerals Law in a manner that impairs the Company's ability to conduct exploration and mining in Mongolia.

Lack of Infrastructure

The Company's Mongolian exploration properties are located in an extremely remote area which lacks basic infrastructure, including sources of power, water, housing, food and transport. The Company will need to hire personnel, establish facilities and otherwise establish an exploration infrastructure before it can commence operations. The Company will need to engage expatriate workers to come to Mongolia as there is a shortage of locally trained personnel. The Company will also need to establish the facilities and material necessary to support operations in the extremely remote locations in which the Company's Mongolian exploration properties are situated. The inability to make suitable arrangements may delay the conduct of the Company's exploration program and prevent the Company from meeting its stated business objectives. The remoteness of the Company's Mongolian exploration properties will also affect the potential viability of mining operations, as the Company will also need to establish substantially greater sources of power, water, physical plant and transport infrastructure in the area before it could conduct mining. The unavailability of such sources may adversely affect mining feasibility and will, in any event, require the Company to arrange significant financing, locate adequate supplies and obtain necessary approvals from national, provincial and regional governments, none of which can be assured.

Uninsurable Risks

The Company may become subject to liability for accidents, pollution and other hazards against which it cannot insure or against which it may elect not to insure because of premium costs or for other reasons, or in amounts which exceed policy limits. The impact of any uninsured liabilities would likely have a material adverse effect on the financial position of the Company.

Licenses and Permits

The Company's exploration licenses are subject to periodic renewal. While the Company anticipates that renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. The Company's business objectives may also be impeded by the costs of holding its mineral licenses. License fees in Mongolia for mineral exploration licenses increase substantially upon renewal. The Company will need to continually assess the potential of each mineral exploration license, particularly when it must be renewed, to determine if the costs of maintaining the mineral exploration license are justified by the exploration results to date, and will likely need to let some of its mineral exploration licenses lapse.

Conflict of Interest

Certain of the directors and officers of the Company are directors or officers of, or have significant shareholdings in, other mineral resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with the Company for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director or officer who has such a conflict is required to disclose the conflict to a meeting of the directors of the Company and, if the conflict involves a director, the director is required to abstain from voting for or against the approval of such a participation or such terms. In appropriate cases, the Company will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the provisions of the *Canada Business Corporations Act*, the directors and officers of the Company are required to act honestly in good faith, with a view to the best interests of the Company.

Limited Operating History

The Company has paid no dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably.

Defects in Title

The Company has investigated its rights to explore and exploit its various properties and, to the best of its knowledge, those rights are in good standing but no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of the Company. There can also be no assurance that the Company's rights will not be challenged or impugned by third parties.

Proprietary Information

The Company's success will depend, in part, on its ability to maintain protection of confidential information and also on its ability to operate without infringing the rights of third parties. There is no assurance that the information used by the Company does not infringe the intellectual property rights of others. Any claims or litigation can be time-consuming and expensive regardless of their merit.

Currency Risk

The Company's operations incur most expenditures in the local currency of Mongolia and in U.S. dollars, while most of the funds it raises are Canadian dollars. This renders the Company subject to foreign currency fluctuations which may materially affect its financial position and operating results.

Metal Prices are Volatile

The mining industry is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of the same. There can be no assurance that metal prices will be such that the Company's properties can be mined at a profit. Factors beyond the control of the Company may affect the marketability of any minerals discovered. 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. The supply of, and demand for, the Company's principal exploration targets, precious and base metals, is affected by various factors, including political events, economic conditions and production costs.

Environmental and Regulatory Requirements

The Company's operations are subject to environmental regulations in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in development of new mining properties.

Key Personnel

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Political Instability

The Company's activities are conducted in countries which may be subject to international conflict and to changes in government policy, lack of law enforcement and labour unrest. The Company and its projects may be subject to political changes and the creation of new laws. These changes (which may include new or modified taxes or other government levies as well as other legislation) may impact the profitability and viability of the Company's exploration projects.

Mineral Exploration and Mining Carry Inherent Risks

Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimize risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.

Competition

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, the Company may be unable to acquire rights to explore additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will acquire any additional exploration properties.

Dilution

The offering price of the Common Shares issuable under this Offering significantly exceeds the net tangible book value of the Common Shares. Accordingly, investors will suffer immediate and substantial dilution of their investment.

No Market

There is currently no market for the Company's Common Shares and there is no assurance that a market will develop. The TSX Venture Exchange ("Exchange") has conditionally approved the listing of the Common Shares of the Company, subject to the Company fulfilling all of the listing requirements of the Exchange, including distribution of Common Shares to a minimum number of public securityholders.

PROMOTERS

Terence D. Coughlan, Peter C. Akerley and J.C. (Chris) Cowan took the initiative in founding the Company and arranging for its organization and financing and, accordingly, may be considered promoters of the Company within the meaning of securities legislation.

In January 1988, WMC Acquisition (Canada) Limited ("Westminer"), a wholly-owned subsidiary of Western Mining Corporation Holdings Limited, purchased all of the shares and warrants of Seabright Resources Inc. ("Seabright"), a company then listed and posted for trading on the Toronto Stock Exchange and Montreal Exchange. Terence D. Coughlan, a promoter of the Company, was President, CEO and a director of Seabright.

By statement of claim issued in July 1988, Westminer commenced a legal action against Mr. Coughlan and others claiming damages for, among other things, negligent misrepresentation in respect of the Seabright acquisition.

Between 1988 and 1989, the Ontario Securities Commission ("OSC") initiated an investigation into Seabright. The OSC indicated on or about August 1988, that, while the Westminer litigation was ongoing, it would not issue a receipt for the prospectus of Cavalier Capital Corporation ("Cavalier") – a new company formed by Mr. Coughlan subsequent to the Seabright acquisition, which was in the process of completing a financing of its own.

In March 1990, Mr. Coughlan entered into a settlement agreement with the OSC settling all matters alleged in a notice of hearing issued by the OSC in November 1989. The notice of hearing alleged, among other things, that while Mr. Coughlan was president, CEO and a director of Seabright, Seabright made statements in materials filed with the OSC that contained misrepresentations and that Mr. Coughlan authorized, permitted or acquiesced in the failure by Seabright to issue and file a press release and material change report announcing material changes in relation to Seabright's Beaver Dam gold exploration property in 1987 as required by the *Securities Act* (Ontario). There was no hearing before the OSC as to the merits of the allegations against Mr. Coughlan. Under the terms of the settlement agreement, Mr. Coughlan consented to an order which provided that certain of his trading exemptions would not be exercised for a year without the approval of the OSC and he made a payment of \$40,000 to cover the costs of the OSC's investigation. In the settlement agreement, Mr. Coughlan specifically denied the allegations and stated that "at all material times he acted lawfully, honestly, in good faith and with a view to the best interests of Seabright".

Following the OSC settlement, Cavalier filed a new preliminary prospectus in 1990 to pursue the financing that it did not complete in 1988. The OSC confirmed that the settlement agreement resolved all matters set forth in the notice of hearing and would not be considered cause to refuse a receipt for Cavalier's prospectus. However, in the context of an application to list these shares on the Toronto Stock Exchange, the Toronto Stock Exchange required Mr. Coughlan's resignation as an officer and director of Cavalier. The decision of the Toronto Stock Exchange was upheld on appeal.

Subsequent to the OSC settlement and the Toronto Stock Exchange decision regarding Mr. Coughlan's involvement in Cavalier, in a series of civil actions commenced by Mr. Coughlan and others in Nova Scotia against Westminer and certain of its directors and officers, the Nova Scotia Supreme Court and, subsequently, the Nova Scotia Court of Appeal found in favour of Mr. Coughlan. The court held that Mr. Coughlan had acted honestly, in good faith and in the best interests of Seabright. Mr. Coughlan was awarded damages of \$1 million, plus special damages for costs, including the \$40,000 paid to the OSC. In the decision of the Nova Scotia Supreme Court (Amirault v. Westminer Canada Ltd. [1933] N.S.J. No. 129), the Court held, at page 100, "Therefore, in my view the Plaintiffs, each included, were not in breach of any statutory obligations of the Ontario *Securities Act* or National Policy 40 for failing to disclose any material change or material information."

See "Escrowed Shares" for the number of shares and other securities of the Company held by the three individuals.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or principal shareholder of the Company and no associate or affiliate of the foregoing have had a material interest, direct or indirect, in any transaction in which the Company has participated within the three year period prior to the date of this prospectus, or will have any material interest in any proposed transaction, which has materially affected or will materially affect the Company, except as set out under "General Development of the Business – Acquisitions - Mongolia Acquisition Agreement".

EXPERTS

Certain legal matters relating to the Offering will be passed upon on behalf of the Company by Patterson Palmer (Canada) and Lynch Mahoney (Mongolia) and on behalf of the Agents by Goodman and Carr LLP (Canada). At the date hereof, the partners and associates of Patterson Palmer, the partners and associates of Lynch Mahoney and the partners and associates of Goodman and Carr LLP, as a group, own beneficially, directly or indirectly, less than 1%, respectively, of the securities of the Company.

Snowden Mining Industry Consultants, which reviewed and opined upon the Qualifying Report, does not own any securities in the Company.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Auditors

The auditors of the Company is the firm of KPMG LLP, Chartered Accountants, Suite 1500, Purdy's Wharf, Tower 1, 1959 Upper Water Street, Halifax, Nova Scotia.

Transfer Agent and Registrar

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its offices in Halifax, Nova Scotia and Toronto, Ontario.

MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by the Company within the two year period prior to the date of this prospectus:

1. The Mongolia Acquisition Agreement. See "General Development of the Business – Acquisitions – Mongolia Acquisition Agreement".
2. The Agency Agreement. See "Plan of Distribution".
3. The Escrow Agreement. See "Escrowed Shares".

OTHER MATERIAL FACTS

There are no other material facts other than as disclosed herein.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Patterson Palmer, counsel to the Company, and Goodman and Carr LLP, counsel to the Agents, the following is a general summary of the principal Canadian federal income tax considerations relevant to subscribers of Common Shares who are resident in Canada, deal at arm's length and are not affiliated with the Company and who will acquire and hold such Common Shares as capital property, all within the meaning of the *Income Tax Act* (Canada) ("Tax Act"). Any Common Shares will generally be considered to be capital property to a holder unless the holder holds such securities in the course of carrying on a business or has acquired them in a transaction or transactions considered to be an adventure in the nature of trade. Certain holders whose Common Shares might not otherwise qualify as capital property may be entitled to make the irrevocable election provided by subsection 39(4) of the Tax Act to have the Common Shares and every other "Canadian Security" (as defined by the Tax Act) owned by such holder in the taxation year of the election and in all subsequent taxation years deemed to be capital property.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, specific proposals to amend the Tax Act (the "Tax Proposals") which have been announced by the Minister of Finance prior to the date hereof, and counsel's understanding of the current administrative practices of the Canada Customs and Revenue

Agency ("Revenue Canada"). This summary assumes that the Tax Proposals will be enacted as proposed and does not take into account or anticipate any other changes in law whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations. No assurances can be given that such Tax Proposals will be enacted as proposed or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is of a general nature only and is not intended to constitute income tax advice to any particular purchaser. This summary does not apply to purchasers that are "financial institutions" for purposes of the mark-to-market provisions of the Tax Act. Purchasers are urged to consult their own income tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.

Disposition of Common Shares

A purchaser who disposes of or is deemed to have disposed of a Common Share will realize a capital gain, or incur a capital loss, as the case may be, equal to the amount by which the proceeds of disposition in respect of the Common Share exceeds or is exceeded by the aggregate of the adjusted cost base of such Common Share and any reasonable expenses associated with the disposition.

One-half of any capital gain (a "taxable capital gain") must be included in income and one-half of any capital loss may be used to offset taxable capital gains incurred in the year, in any of the three prior years or in any subsequent year in the circumstances and to the extent provided in the Tax Act. A capital loss realized on a disposition or deemed disposition of a Common Share may in certain circumstances be reduced by the amount of certain dividends, including deemed dividends, which have been received by the holder on such shares.

Capital gains realized by an individual or trust, other than certain specified trusts, may result in the individual or trust paying alternative minimum tax under the Tax Act. The difference between alternative minimum tax paid and the regular tax payable may be claimed as a credit to offset regular tax payable by the individual or trust in any of the following seven years to the extent that regular tax payable exceeds the alternative minimum tax amount in that subsequent year.

A holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year, which is defined to include an amount in respect of taxable capital gains.

The adjusted cost base to a purchaser of a Common Share will be determined by averaging the cost of that Common Share with the adjusted cost base of all Common Shares held at the time by the purchaser.

Taxation of Dividends Received by Holders of Common Shares

A holder of Common Shares will receive the normal treatment under the Tax Act applicable to dividends received from a corporation resident in Canada. That is, a holder who is an individual will be subject to the usual gross-up and dividend tax credit rules under the Tax Act. A holder that is a corporation will include such dividends in computing its income and generally will be entitled to deduct the amount of such dividends when calculating its taxable income under the Tax Act. A holder that is a "private corporation" or a "subject corporation", as defined in the Tax Act, may be liable under Part IV of the Tax Act to pay a refundable tax of 33 1/3% on dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the corporate holder's taxable income. This tax will generally be refunded to the corporation at the rate of \$1 for every \$3 of taxable dividends paid while it is a private corporation.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Security legislation in certain provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or damages, in some jurisdictions, if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

FINANCIAL STATEMENTS

The following are the audited consolidated financial statements of the Company for the years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000 and the unaudited financial statements for the nine months ended September 30, 2003 and 2002.

AUDITORS' REPORT TO THE DIRECTORS

We have audited the consolidated balance sheets of Erdene Gold Inc. (exploration company) as at December 31, 2002 and 2001 and the consolidated statements of earnings and deficit, and cash flows for each of the years ended December 31, 2002 and 2001, and for the period from incorporation on June 27, 2000 to December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and cash flows for each of the years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Signed "KPMG LLP"

Chartered Accountants

Halifax, Canada
April 17, 2003

[Except as to notes 5(b), (c) and (d) and 13, which are as of March 4, 2004.]

ERDENE GOLD INC. (EXPLORATION COMPANY)
(FORMERLY 3779751 CANADA INC.)

Consolidated Balance Sheets

| | September 30 2003 | December 31 2002 | December 31 2001 |
|--------------------------------------|----------------------|---------------------|---------------------|
| | (Unaudited) | | |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 99,163 | \$ 277,584 | \$ 63,528 |
| Accounts receivable | 26,632 | 9,419 | 38,194 |
| Prepaid expenses | 1,013 | 12,422 | - |
| | <u>126,808</u> | <u>299,425</u> | <u>101,722</u> |
| Deferred share issue costs | 88,128 | 32,373 | - |
| Resource property interests (note 3) | 529,588 | 113,386 | - |
| Capital assets, net | 7,055 | - | - |
| | <u>\$ 751,579</u> | <u>\$ 445,184</u> | <u>\$ 101,722</u> |

Liabilities and Shareholders' Equity (Deficiency)

| | | | |
|---|----------------|----------------|---------------|
| Liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 65,312 | \$ 22,421 | \$ - |
| Due to related parties (note 4) | 103,913 | 19,593 | 34,465 |
| | <u>169,225</u> | <u>42,014</u> | <u>34,465</u> |
| Shareholders' equity (deficiency): | | | |
| Share capital (note 5) | 1,232,065 | 296,215 | 262,195 |
| Contributed surplus (note 5) | 49,920 | - | - |
| Convertible promissory notes payable (note 6) | - | 390,150 | - |
| Deficit | (699,631) | (283,195) | (194,938) |
| | <u>582,354</u> | <u>403,170</u> | <u>67,257</u> |

Subsequent events (note 13)

| | | | |
|--|-------------------|-------------------|-------------------|
| | <u>\$ 751,579</u> | <u>\$ 445,184</u> | <u>\$ 101,722</u> |
|--|-------------------|-------------------|-------------------|

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Kenneth W. MacDonald" Director

"Peter C. Akerley" Director

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Consolidated Statements of Earnings and Deficit

| | Nine months ended September 30 2003 (Unaudited) | Nine months ended September 30 2002 (Unaudited) | Year ended December 31 2002 | Year ended December 31 2001 | Period from incorporation on June 27 2000 to December 31, 2000 |
|--|---|---|-----------------------------------|-----------------------------------|---|
| Revenue: | | | | | |
| Interest revenue | \$ 2,732 | \$ 103 | \$ 169 | \$ 1,380 | \$ - |
| Expenses: | | | | | |
| General and administrative expenses | 180,423 | 35,873 | 48,590 | 3,252 | 4,283 |
| Exploration expenses | 215,749 | 43,316 | 42,780 | 301,643 | 2,125 |
| | 396,172 | 79,189 | 91,370 | 304,895 | 6,408 |
| Loss before income tax and non-controlling interest | 393,440 | 79,086 | 91,201 | 303,515 | 6,408 |
| Future income tax recovery | - | - | (9,330) | (114,985) | - |
| Loss before non-controlling interest | 393,440 | 79,086 | 81,871 | 188,530 | 6,408 |
| Non-controlling interest | - | - | 5,730 | - | - |
| Loss for the period | 393,440 | 79,086 | 76,141 | 188,530 | 6,408 |
| Deficit, beginning of period | 283,195 | 194,938 | 194,938 | 6,408 | - |
| Share issue costs | 22,996 | - | 12,116 | - | - |
| Deficit, end of period | \$ 699,631 | \$ 274,024 | \$ 283,195 | \$ 194,938 | \$ 6,408 |
| Basic and diluted loss per share (note 7) | 0.11 | 0.05 | 0.05 | 0.11 | 0.01 |
| Weighted average number of Common Shares outstanding | 3,451,683 | 1,485,128 | 1,519,128 | 1,668,382 | 2,000,000 |

See accompanying notes to consolidated financial statements.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)
Consolidated Statements of Cash Flows

| | Nine months ended September 30 2003 | Nine months ended September 30 2002 | Year ended December 31 2002 | Year ended December 31 2001 | Period from incorporation June 27 2000 to December 31, 2000 |
|---|--|--|-----------------------------------|-----------------------------------|--|
| | (Unaudited) | (Unaudited) | | | |
| Cash provided by (used in): | | | | | |
| Operations: | | | | | |
| Loss for the period | \$ (393,440) | \$ (79,086) | \$ (76,141) | \$ (188,530) | \$ (6,408) |
| Items not involving cash: | | | | | |
| Amortization of capital assets | 789 | — | — | — | — |
| Future income tax recovery | — | — | (9,330) | (114,985) | — |
| Non-controlling interest | — | — | (5,730) | — | — |
| Increase (decrease) in due to related parties | 84,320 | 4,682 | (14,872) | 34,465 | — |
| Exploration expenses settled for non-cash consideration | — | — | — | 390 | — |
| Change in non-cash working capital | 37,087 | 27,566 | 38,774 | (50,447) | 11,863 |
| | (271,244) | (46,838) | (67,299) | (319,107) | 5,455 |
| Financing: | | | | | |
| Issue of Common Shares for share subscriptions receivable | — | — | — | — | 1,000 |
| Issue of Common Shares for cash | 205,700 | — | 43,350 | 50,065 | — |
| Issue of flow-through shares for cash | — | — | — | 326,115 | — |
| Issue of convertible notes payable | — | — | 390,150 | — | — |
| Issue of shares to non-controlling interest | — | 5,730 | 5,730 | — | — |
| Deferred share issue costs | (55,755) | — | (32,373) | — | — |
| Share issue costs | (10,516) | — | (12,116) | — | — |
| | 139,429 | 5,730 | 394,741 | 376,180 | 1,000 |
| Investments: | | | | | |
| Resource property interests | (38,762) | (84,438) | (113,386) | — | — |
| Purchase of capital assets | (7,844) | — | — | — | — |
| | (46,606) | (84,438) | (113,386) | — | — |
| Increase (decrease) in cash and cash equivalents | (178,421) | (125,546) | 214,056 | 57,073 | 6,455 |
| Cash and cash equivalents beginning of period | 277,584 | 63,528 | 63,528 | 6,455 | — |
| Cash and cash equivalents end of period | \$ 99,163 | \$ (62,018) | \$ 277,584 | \$ 63,528 | \$ 6,455 |

Supplemental cash flow information (note 9)

See accompanying notes to consolidated financial statements.

ERDENE GOLD INC. (EXPLORATION COMPANY)
(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000
(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

Nature of business:

Erdene Gold Inc. (exploration company) (formerly 3779751 Canada Inc.) ("Company") was incorporated by Articles of Incorporation dated June 27, 2000, pursuant to the provisions of the Canada Business Corporations Act. The primary business of the Company is the exploration and evaluation of certain known and potential mineral resource properties.

1. Summary of significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include those of the Company and its Mongolian subsidiary, Erdene Mongol XXK. The Company owned 60% of the shares of this subsidiary and on January 23, 2003 acquired the remaining 40% of the shares. Inter-company accounts and transactions have been eliminated.

(b) Accounting estimates:

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

(c) Cash and cash equivalents:

The Company considers deposits in banks and trust accounts and highly liquid investments with remaining maturities of three months or less at the date of acquisition as cash and cash equivalents.

(d) Resource property interests:

All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. When a resource property is brought into commercial production, the capitalized costs of that property will be depleted over the estimated economic life of the property.

Gains or losses are recognized on property dispositions when the value of the consideration received exceeds or is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the costs, the excess is credited to operations. The aggregate costs related to abandoned properties are charged to operations.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 2

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

1. Summary of significant accounting policies (continued):

The Company reviews the carrying values of its resource property interests on a regular basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results. When the carrying value of a property exceeds its estimated net recoverable amount, an impairment provision is made for the other than temporary decline in value.

(e) Capital assets:

Capital assets are recorded at cost and are amortized over their estimated useful lives at the following annual rates and methods:

| Asset | Basis | Rate |
|-----------------------------------|-------------------|------|
| Equipment, furniture and fixtures | Declining balance | 20% |

(f) Foreign currency translation:

Integrated subsidiaries are financially or operationally dependent on the parent company. The accounts of Erdene Mongol XXK is considered to be an integrated operation for which the temporal method is used to translate its financial statements.

Under this method monetary items are translated at exchange rates in effect at the balance sheet date, non-monetary assets and liabilities are translated at historical exchange rates, and revenues and expenses are translated at average exchange rates for the period.

Realized and unrealized exchange gains and losses are included in earnings.

(g) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is provided when it is more likely than not that a future tax asset will not be recognized.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 3

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

1. Summary of significant accounting policies (continued):

(h) Stock based compensation:

The Company has a stock-based compensation plan, which is described in note 5. Effective January 1, 2001, the Company began accounting for all stock-based payments to non-employees and employee awards that are direct awards of stock using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Under the fair value based method, compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period.

2. Acquisition of Mongolian resource property interests

The Company acquired nine of its Mongolian exploration licenses pursuant to an agreement dated July 26, 2002, as amended ("Mongolia Acquisition Agreement"), whereby the Mongolian Group (a group of five individuals, including two of the present directors of the Company) transferred to the Company their rights in the mineral exploration licenses. The purchase price paid by the Company of \$490,826 was comprised of an aggregate of 800,000 Common Shares issued at a price of \$0.425 per share and 1,200,000 warrants of the Company valued at \$37,440 issued to the members of the Mongolia Group as well as cash payments of an aggregate of \$113,386 paid to the license holders and the Mineral Resources Authority of Mongolia.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 4

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

3. Resource property interests:

The Company's mineral exploration licenses in Mongolia are held by its subsidiary Erdene Mongol XXK. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of seven years. These rights are held in good standing through the payment of an annual license fee. Mongolian resource property interests are recorded at the cost of acquisition and cost to register.

The Company has a 100% interest in the Tangier property in Nova Scotia, Canada. Exploration expenditures for all periods to December 31, 2002 relate to this project. During 2002 the project was completed. It is anticipated that this property will not continue in the future and at December 31, 2002 there is no asset related to this project (see note 13(a)).

4. Due to related parties:

The amounts due to related parties are payable to directors or companies related with directors or officers of the Company. These amounts are non-interest bearing and are repayable on demand as follows:

| | September 30 2003 | 2002 | December 31 2001 | 2000 |
|--------------------------|----------------------|------------------|---------------------|-------------|
| BRM Exploration Ltd. | \$ 47,352 | \$ - | \$ - | \$ - |
| Fisher Transport Limited | 36,256 | - | - | - |
| J.C. Cowan | 14,819 | - | - | - |
| Kaoclay Resources Inc. | 5,486 | 19,593 | 34,465 | - |
| | <u>\$ 103,913</u> | <u>\$ 19,593</u> | <u>\$ 34,465</u> | <u>\$ -</u> |

- (a) BRM Exploration Ltd., a company owned by the President and CEO of the Company, provided management and technical services to the Company for the nine months ended September 30, 2003 (nil for all prior periods). The cost of the management services, aggregating \$41,576, was charged to general and administrative expenses. The cost of the technical services, aggregating \$41,577, was charged to exploration expenses.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 5

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

4. Due to related parties: (continued):

- (b) Fisher Transport Limited, a company owned by the Vice-President of Finance, provided management and administrative services to the Company for the nine months ended September 30, 2003 (nil for all prior periods). The cost of these services, aggregating \$31,527, was charged to general and administrative expenses.
- (c) Kaoclay Resources Inc., a company associated with directors of the Company, in that two of the Company's directors are officers or directors of Kaoclay Resources Inc., sublet office space to the Company for the nine months ended September 30, 2003, at a cost of \$10,125 (nine months ended September 30, 2002, \$3,000; year ended December 31, 2002, \$6,000; 2001, nil; for the period from incorporation on June 27, 2000 to December 31, 2000, nil). These costs have been charged to general and administrative expenses.
- (d) J.C. Cowan, a director of the Company and managing director of the Company's subsidiary, provided technical services to the Company for the nine months ended September 30, 2003 at a cost of \$11,600 (September 30, 2002, \$5,000; December 31, 2002, \$5,000; nil for all prior periods). The cost of these services have been charged to exploration expenses.

5. Share capital:

On November 18, 2003 the shareholders of the Company approved a 2-for-1 stock split whereby the shareholders of record as of the close of business December 5, 2003 were provided with one additional share, stock option or warrant for each share, stock option or warrant held on that date. All references to Common Shares, options, warrants and loss per share in these financial statements are on a post split basis.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 6

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

| | September 30 | | December 31 | | | | |
|---|------------------|--------------------|------------------|------------------|------------------|------------------|--------------------------|
| | 2003 | | 2002 | | 2001 | 2000 | |
| | Number of shares | \$ | Number of shares | \$ | Number of shares | Number of shares | |
| Authorized: | | | | | | | |
| Unlimited number of Common Shares without par value | | | | | | | |
| Issued: | | | | | | | |
| Balance, beginning of period | 1,587,128 | \$296,215 | 1,485,128 | \$262,195 | 2,000,000 | \$ 1,000 | - \$ - |
| Issued for share subscriptions receivable | - | - | - | - | - | - | 2,000,000 1,000 |
| Gifted to the Company and cancelled | - | - | - | -(1,400,000) | - | - | - |
| Issued for cash | 484,000 | 205,700 | 102,000 | 43,350 | 117,800 | 50,065 | - |
| Issued for cash pursuant to flow-through share agreements | - | - | - | - | 767,328 | 326,115 | - |
| Issued on acquisition of 40% non-controlling interest in subsidiary | 800,000 | 340,000 | - | - | - | - | - |
| Issued on conversion of promissory notes payable | 918,000 | 390,150 | - | - | - | - | - |
| Renunciation of tax deduction on flow-through shares | - | - | - | (9,330) | - | (114,985) | - |
| Total | 3,789,128 | \$1,232,065 | 1,587,128 | \$296,215 | 1,485,128 | \$262,195 | 2,000,000 \$1,000 |

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 7

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

5. Share capital (continued):

- (a) As of September 30, 2003 there were 1,200,000 share purchase warrants outstanding, issued to five individuals as partial consideration to purchase the 40% non-controlling interest of the Company's subsidiary, Erdene Mongol XXK. Each warrant entitles the registered holder thereof to purchase one Common Share of the Company at \$0.425 per share through to January, 2008. The Company determined the fair value of the warrants to be \$37,440 using the Black-Scholes option pricing model assuming a risk free rate of 3.05%, an expected warrant life of 2.5 years, and an expected dividend yield of nil. Volatility was not considered as the Company is privately held.
- (b) On May 8, 2003 the Board of Directors approved, in aggregate, 400,000 share purchase options as consideration for financing services with each option entitling the holder to purchase one Common Share of the Company at \$0.425 per share through to May, 2008. The Company determined the fair value of the options to be \$12,480 using the Black-Scholes option pricing model assuming a risk free rate of 3.05%, an expected option life of 2.5 years, and an expected dividend yield of nil. Volatility was not considered as the Company is privately held. On October 22, 2003 the Board of Directors allocated the 400,000 options among three directors of the Company. On March 3, 2004 the Board of Directors exchanged the share purchase options described above for 400,000 share purchase options under the rolling 10% incentive stock option plan referred to in note 5(c) below. The options that were issued on March 3, 2004 carry all of the terms and conditions referred to above.
- (c) On November 18, 2003 the shareholders of the Company approved a rolling 10% incentive stock option plan for directors, officers, employees and consultants of the Company. On the same date the Company's Board of Directors approved the issuance of an aggregate of 370,000 options under the plan, subject to regulatory approval.
- (d) Between October 2003 and the close of business on December 5, 2003, the Company closed a series of private placement share offerings for total proceeds of \$3,939,657 at \$0.425 per share, issuing 9,269,782 Common Shares.

6. Convertible promissory note payable:

During 2002, the Company issued non-interest bearing convertible promissory notes as part of a share subscription agreement. The notes are convertible to Common Shares at a price of \$0.425 per share contingent on the Company meeting certain conditions. These conditions were waived by the note holders and in the period ended September 30, 2003, the notes were converted to 918,000 Common Shares at a price of \$0.425.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 8

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

7. Basic and diluted loss per share:

As the Company incurred losses in the periods reported, the effect of outstanding warrants and options have been excluded from the computation of loss per share as their impact would be anti-dilutive, reducing loss per share.

8. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets at September 30, 2003, December 31, 2002 and 2001 are presented below:

| | September 30 | | |
|---|--------------|-----------|---------|
| | 2003 | 2002 | 2001 |
| | (unaudited) | | |
| Future tax assets: | | | |
| Non-capital loss carry forwards | \$ 96,571 | \$ 22,559 | \$ 715 |
| Deferred exploration and development expenditures | 7,519 | 7,519 | 689 |
| Incorporation costs | 1,224 | 1,224 | 1,224 |
| Share issue costs | (9,725) | (3,392) | - |
| | 95,589 | 27,910 | 2,628 |
| Less valuation allowance | (95,589) | (27,910) | (2,628) |
| Total | - | - | - |

The Company has financed Canadian exploration programs with flow-through share issues. Under this type of financing agreement, the proceeds are used to fund exploration work on Canadian mineral resource properties within a defined time period and shares are issued to investors as consideration for the Company receiving benefits from the exploration programs and renouncing the eligible exploration expenses to the investors.

Income tax deductions related to eligible exploration expenses and renounced to investors of flow-through shares are claimable only by the investor. Eligible exploration expenses have been renounced to investors to December 31, 2002 representing the total amount renounceable pursuant to flow-through share issuances. As at December 31, 2002 the amount of eligible expenses incurred exceeds the amount renounced to investors. Eligible expenses incurred by the Company in excess of those renounced are available to the Company to reduce future years income for income tax purposes. The renunciation of the eligible exploration expenses to investors results in the recognition of an income tax recovery for accounting purposes.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 9

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

8. Income taxes (continued):

Included in the determination of total gross tax assets are Canadian non-capital loss carry-forwards of approximately \$253,000 which expire substantially between 2009 and 2010.

The Company has also incurred losses of approximately \$228,000 in their Mongolian subsidiary. It cannot be reasonably estimated at this time if it is more likely than not the Company will realize the benefits of the future tax asset. Consequently the amount has not been included in the determination of total gross tax assets.

Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 38.12% for all periods to loss before taxes as follows:

| | September | | December | | |
|-------------------------------------|--------------|-------------|-------------|--------------|------------|
| | 2003 | 2002 | 2002 | 2001 | 2000 |
| Loss before taxes | \$ 393,440 | \$ 79,086 | \$ 91,201 | \$ 303,515 | \$ 6,408 |
| Computed expected tax recovery | \$ (149,979) | \$ (30,148) | \$ (34,765) | \$ (115,700) | \$ (2,443) |
| Increase in valuation allowance | 67,679 | 30,142 | 25,282 | 594 | 2034 |
| Tax effect of losses not recognized | 81,693 | — | — | — | — |
| Other | 607 | 6 | 153 | 121 | 409 |
| Net income tax recovery | \$ — | \$ — | \$ (9,330) | \$ (114,985) | \$ — |

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 10

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

9. Supplemental cash flow information:

| | September | | December | | |
|---|-----------|------|----------|------|----------|
| | 2003 | 2002 | 2002 | 2001 | 2000 |
| Non-cash investing and financing activities: | | | | | |
| Issue of Common Shares for share subscriptions receivable | \$ - | \$ - | \$ - | \$ - | \$ 1,000 |
| Issue of Common Shares and warrants for investment in resource property interests | 377,440 | - | - | - | - |
| Issue of Common Shares on conversion of promissory notes payable | 390,150 | - | - | - | - |

10. Financial instruments:

(a) Fair values:

The fair values of the Company's financial assets and liabilities included in current assets and liabilities approximate their carrying values as at each period-end.

(b) Credit risks:

The Company places its cash and cash equivalents with high-quality financial institutions and public companies and believes that no significant concentration of credit risk exists with respect to cash and cash equivalents.

The Company maintains an allowance for credit losses in an amount considered adequate to absorb credit-related losses.

11. Foreign currency risks:

The Company operates in Mongolia, giving rise to foreign exchange risk in the Mongolian togrog. To limit the Company's exposure to this risk, cash and cash equivalents are primarily held in Canadian and U.S. dollar bank accounts.

ERDENE GOLD INC. (EXPLORATION COMPANY)

(FORMERLY 3779751 CANADA INC.)

Notes to Consolidated Financial Statements, page 11

Years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000

(Information as at September 30, 2003 and for the nine months ended September 30, 2003 and September 30, 2002 is unaudited)

12. Segmented information:

(a) General information:

The Company operates in one industry, that being the exploration of properties for minerals with no reportable business segments. The Company has yet to earn revenue from operations.

(b) Geographic information:

The majority of the Company's exploration expenditures to December 31, 2002 relate to Canadian resource property interests. Resource property interests relate to exploration licenses in Mongolia. Exploration expenditures during 2003 relate to Mongolian resource property interests.

13. Subsequent events:

(a) On January 16, 2004, the Company entered into an agreement with Acadian Gold Corporation to sell the Company's interest in the Tangier property in Nova Scotia, Canada, for 500,000 common shares of Acadian Gold Corporation to be released to the Company in tranches over a three year period. In addition, the Company will receive 100,000 warrants exercisable for a two year period following closing, with one warrant and \$0.50 entitling the Company to one (1) common share of Acadian Gold Corporation. The transaction is subject to regulatory approval and due diligence and is expected to close prior to March 19, 2004.

(b) The Company entered into an Agency Agreement dated March 4, 2004, under which it agreed to file a prospectus to qualify for distribution of up to 12,500,000 Common Shares of the Company to be issued at a price of \$0.85 per Common Share. The agreement provides for the agents' commission of 7% of the aggregate gross proceeds realized from the Offering and the granting of an option to the agents to purchase up to 7% of the number of Common Shares issued pursuant to the Offering at an exercise price of \$0.85 per Common Share exercisable for a period of two years following the closing of the Offering.

In addition, the Company has granted the Agents an option, exercisable for a period of 60 days from the closing of the offering, to offer additional Common Shares of up to 15% of the number of Common Shares issued pursuant to the offering, to cover over-allotments, if any, and for market stabilization purposes.

AUDITORS' CONSENT

The Board of Directors of Erdene Gold Inc. (exploration company)

We have read the prospectus dated March 4, 2004, relating to the qualification for distribution of a minimum of 10,000,000 and a maximum of 12,500,000 Common Shares at a price of \$0.85 per Common Share. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the inclusion in the above-mentioned prospectus of our report to the directors of the Company on the consolidated balance sheets of the Company as at December 31, 2002 and 2001 and the consolidated statements of earnings and deficit, and cash flows for each of the years ended December 31, 2002 and 2001 and for the period from incorporation on June 27, 2000 to December 31, 2000. Our report is dated April 17, 2003, except as to notes 5(b), (c) and (d) and 13 which are as of March 4, 2004.

Signed ("KPMG LLP")

Halifax, Nova Scotia, Canada
March 4, 2004.

Chartered Accountants

GLOSSARY OF TECHNICAL TERMS

The following is a glossary of certain technical terms used in this prospectus:

alteration - any change in the mineralogical composition of a rock that is brought about by physical or chemical means.

alunite - a vitreous white, yellowish mineral that generally occurs as a hydrothermal alteration product in feldspathic igneous rocks and is a hydrous potassium aluminium sulfate.

andesite - a dark-coloured, fine-grained extrusive rock.

anomalous - being different from the general surroundings and possibly of potential economic value.

argillic alteration - alteration in which certain minerals of a rock are converted into minerals of the clay group.

assay - the chemical analysis of an ore, mineral or concentrate of metal to determine the amount of valuable species.

azurite - a mineral that consists of blue basic carbonate of copper and is a copper ore.

basalt - a dark gray to black dense to fine-grained igneous rock that consists of basic plagioclase, augite, and usually magnetite.

bornite - a brittle metallic-looking mineral that consists of a sulfide of copper and iron and is a valuable copper ore.

breccia - rock consisting of fragments, more or less angular, in a matrix of finer-grained material or of cementing material.

brecciated - to break (rock) into fragments.

carbonate alteration - alteration through the reaction of minerals with carbon dioxide contained in water (i.e. a weak carbonic acid solution) characterized by the presence of carbonate minerals such as calcite (CaCO_3) and/or siderite (FeCO_3).

Carboniferous - of, relating to, or being the period of the Paleozoic era between 360 and 290 million years ago.

chalcedonic - low temperature quartz.

chalcopyrite - a yellow mineral consisting of copper-iron sulfide and constituting an important ore of copper.

chargeability - the primary unit of measurement in time-domain induced-polarization surveys. It is the area under the decay curve between two delay times after cessation of the transmitted current.

chloritic alteration - alteration of minerals (mica, hornblende, etc.) to chlorite, a greenish mineral, silicate of iron, magnesium and aluminium, with hydroxyl (OH).

chloritized - see "chloritic alteration."

clast - a fragment of rock.

clastic sedimentary rock - a rock made up of fragments of preexisting rocks.

cockscorn texture - the irregular, "saw toothed" or saw shaped termination of a crystal due to intracrystal solution.

concentrate - a product containing valuable metal from which most of the waste material in the ore has been eliminated.

conformable - following in unbroken sequence; term used for geologic strata formed under uniform conditions.

conglomerate - rounded water-worn fragments of rock of varying sizes cemented together by another mineral substance, which may be of siliceous, calcareous, or argillaceous nature.

Devonian - of, relating to, or being the period of the Paleozoic era between 400 and 360 million years ago.

diabase - a fine-grained rock of the composition of gabbro but with an ophitic texture.

diatreme - a breccia filled volcanic pipe that was formed by gaseous explosion.

diorite - a granular crystalline igneous rock commonly of acid plagioclase and hornblende, pyroxene, or biotite.

dipole-dipole IP - a geophysical method for measuring the conductivity and resistivity of rock at depth.

dyke - a tabular body of igneous rock that has been injected while molten into a fissure.

en echelon - said of geological features that are in an overlapping or staggered arrangement. Each segment is relatively short but collectively they form a linear zone, in which the strike of the individual features is oblique to that of the zone as a whole.

epithermal - said of a hydrothermal mineral deposit formed within about one kilometre of the earth's surface and in temperature range of 50°-200°C, occurring mainly as veins.

extension veins - a series of veins that develop perpendicular to the direction of greatest tensile stress and parallel to the direction of compression.

foliation - a general term for a planar arrangement of textural or structural features in any type of rock.

gossan - an iron bearing weathered product overlying sulfide mineralization formed by the oxidation of sulfides and the leaching-out of the sulfur and most metals, leaving hydrated iron oxides.

gradient IP - the first derivative or change in value of one variable with respect to another such as electrical potential with respect to horizontal or vertical distance.

granite/granitic - a common, coarse-grained, light-colored, hard igneous rock consisting chiefly of quartz, orthoclase or microcline, and mica.

granodiorite - a granular intrusive quartzose igneous rock intermediate between granite and quartz-containing diorite with plagioclase predominant over orthoclase.

hematite - a mineral constituting an important iron ore and occurring in crystals or in a red earthy form.

hydrothermal - of or relating to hot magmatic emanations rich in water.

igneous rock - rock which is magmatic in origin.

induced polarization (IP) - the production of electric charge displacement, brought about by application of an electric or magnetic field.

intrusive - rock which, while molten, penetrated into or between other rocks by solidified before reaching the surface.

island-arc terrane - a tract of country dominated by rocks formed as part of an island arc which is a tectonic belt of volcanic activity bordered by a submarine trench and is formed when oceanic crust collides and is subducted beneath continental crust.

jarosite - an ochre-yellow mineral occurring on minute rhombohedral crystals. It is a hydrous sulphate of iron and potash.

kaolinization - the process by which feldspar is changed into kaolinite.

laminated/laminae - thin layers in stratified rocks, representing layers of original deposition.

leach - to dissolve out by the action of a percolating liquid.

limonite - a native hydrous ferric oxide of variable composition that is a major ore of iron.

lithocap - a near surface alteration phenomena often found associated with porphyry copper deposits characterized by quartz and alunite and typically unmineralized.

Lower Cambrian - of, relating to, or being the early part of the Cambrian period of the Paleozoic era between 570 and 510 million years ago.

mafic - containing or relating to a group of dark-colored minerals, composed chiefly of magnesium and iron, that occur in igneous rocks.

magnetite - a black isometric mineral of the spinel group that is an oxide of iron and an important iron ore.

malachite - a mineral that is a green basic carbonate of copper used as an ore and for making ornamental objects.

mesothermal - said of a hydrothermal mineral deposit formed at considerable depth and in the temperature range of 200°-300°C, occurring mainly as veins.

metallogenic belt - an area characterized by a particular assemblage of mineral deposits, or by one or more types of mineralization.

metamorphic - pertaining to, produced by, or exhibiting, certain changes which minerals or rocks may have undergone since their original deposition; especially applied to the recrystallization which sedimentary rocks have undergone through the influence of heat and pressure, after which they are called metamorphic rocks.

ophiolite - a sequence of rocks that includes ultrabasic rock, basic dyke and pillow lava complexes and cherts, thought to represent slices of oceanic crust and mantle.

Palaeozoic - of, relating to, originating in, or being an era of geological history that extends from the beginning of the Cambrian to the close of the Permian between 570 and 245 million years ago.

Permian (Upper and Lower) - of, relating to, or being part of the Permian period of the Paleozoic era between 290 and 245 million years ago.

pillow lava - lava that showing irregular structures resembling pillows or soft cushions pressed upon and against one another and is formed when basic igneous lava forms as submarine flows.

placer - a glacial or alluvial deposit of sand or gravel containing eroded particles of valuable minerals.

pluton - a typically large body of intrusive igneous rock.

polymetallic - multiple phases of emplacement of metallic mineralization; said of a deposit that contains economically important quantities of three or more minerals.

porphyritic - having distinct crystals (as of feldspar) in a relatively fine-grained base.

porphyry (deposit) - a porphyry is an igneous rock of any composition that contains conspicuous phenocrysts (crystal) in a fine grained groundmass. Porphyry deposits are typically low grade, high tonnage deposits mined in bulk generally in open pits.

propylitic alteration – a low-temperature alteration type characterized by the addition of iron, sulphur, magnesium, calcium and carbonate.

Proterozoic - of, relating to, or being the era of geologic time or the corresponding system of rocks that includes the interval between the Archean and Phanerozoic eras and being between 2,500 and 570 million years ago.

pyrite/pyritic - pyrite is the cubic form of iron sulphide (FeS_2) and is brass-yellow with a metallic lustre. Pyritic is a descriptive term for something containing pyrite.

qualified person - an individual who: (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project; and (c) is a member in good standing of a professional association as defined by National Instrument 43-101 of the Canadian Securities Administrators.

rhyolite - a fine-grained extrusive volcanic rock, similar to granite in composition and usually exhibiting flow lines.

schist - any of various medium-grained to coarse-grained metamorphic rocks composed of laminated, often flaky parallel layers of chiefly micaceous minerals.

sericite - a kind of muscovite occurring in silky scales having a fibrous structure. It is characteristic of sericite schist.

shear fabric - characteristic of highly fractured rocks that reflect a preferred fracture orientation.

shear parallel - a geological feature which is oriented parallel to a shear or fault zone.

shear zone - a tabular zone of rock which has been crushed and brecciated by parallel fractures due to "shearing" along a fault or zone of weakness. Shear zones can be mineralized with ore-forming solutions.

silicified/silicification/siliceous - containing, resembling, relating to, or consisting of silica; silicification/silicified - hydrothermal alteration in which the silica content of a rock increases.

skarn - calc-silicate rocks rich in calcium, iron, magnesium, aluminium and manganese that formed by replacement of carbonate rich rocks.

stockwork - a metalliferous deposit characterized by the impregnation of the mass of rock with many small veins or nests irregularly grouped.

strike - the direction, or course or bearing, of a vein or rock formation measured on a level surface.

sulphides - compounds of sulphur with other metallic elements.

supergene enrichment - enrichment of ore minerals through aqueous solutions percolating downwards, leaching sulphide minerals for redeposition at the water table.

syenite - an igneous rock composed primarily of alkali feldspar together with other minerals, such as hornblende.

synclinal - relating to, formed by, or forming a syncline.

syncline - a fold in rocks in which the rock layers dip inward from both sides toward the axis.

tailing - material rejected from a mill after the recoverable valuable minerals have been extracted.

tectonic super-terranes - terranes that have become amalgamated by over-lapping assemblages or "stitched together" by intrusions and form before final accretions to a continent.

terrestrial/terrigenous - originating from the land.

tourmaline - a mineral that is a complex borosilicate and hydroxide of aluminium containing iron and magnesium and calcium and lithium and sodium; it is usually black but occurs in transparent colored forms.

Triassic-Jurassic - of, relating to, or being the Triassic and/or Jurassic period of the Mesozoic era between 245 and 144 million years ago.

vein - a sheet-like body of minerals formed by fracture filling or replacement of host rock.

vein array - a series or clustering of quartz veins reflecting a preferred structural control.

volcaniclastic - fragmentary material produced by explosive volcanic action.

volcanogenic - of volcanic origin.

vugs - a small cavity in a rock or vein, often with a mineral lining of different composition from that of the surrounding rock.

wallrock - the rock that forms the walls of a vein or lode.

TABLE OF ATOMIC SYMBOLS

| Element | Symbol |
|----------------|---------------|
| Arsenic | As |
| Copper | Cu |
| Gold | Au |
| Lead | Pb |
| Molybdenum | Mo |
| Silver | Ag |
| Zinc | Zn |

CERTIFICATE OF THE COMPANY

Dated: March 4, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part XIV of *The Securities Act* (Newfoundland and Labrador), by Part II of the *Securities Act* (Prince Edward Island) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

(signed) "Peter C. Akerley"
Chief Executive Officer

(signed) "Kenneth W. MacDonald"
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) "Wayne G. Beach"
Director

(signed) "William B. Burton"
Director

BY THE PROMOTERS

(signed) "Peter C. Akerley"

(signed) "Terence D. Coughlan"

(signed) "J.C. (Chris) Cowan"

CERTIFICATE OF THE AGENTS

Dated: March 4, 2004

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 64 of the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick), by Part XIV of *The Securities Act* (Newfoundland and Labrador) and by Part II of the *Securities Act* (Prince Edward Island) and the respective regulations thereunder. To the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

NATIONAL BANK FINANCIAL INC.

By: (Signed) "William A. Washington"

HAYWOOD SECURITIES INC.

By: (Signed) "John Willett"

TOLL CROSS SECURITIES INC.

By: (Signed) "Mark N.J. Ashcroft"