

**ENTRÉE GOLD INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**  
**(In United States dollars unless stated otherwise)**

## **INTRODUCTION**

This discussion and analysis of financial position, results of operations and cash flows ("MD&A") of Entrée Gold Inc. (the "Company") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2011 (the "Annual Financial Statements"). Additional information relating to the Company, including the Company's Annual Information Form dated March 29, 2012 (the "AIF") is available on SEDAR at [www.sedar.com](http://www.sedar.com). The effective date of this MD&A is March 29, 2012. The Company prepares its financial statements in conformity with generally accepted accounting principles in the United States of America ("US GAAP").

In this MD&A, all dollar amounts are expressed in United States dollars, unless otherwise specified as "Cdn \$" or "C\$" for Canadian dollars or "A\$" for Australian dollars. All references to "common shares" mean common shares in the capital stock of the Company.

As used in this MD&A, the terms "we", "us", "our" and "Entrée" mean Entrée Gold Inc. and/or one or more of the Company's wholly-owned subsidiaries.

Robert Cann, P.Geo., Entrée's Vice-President, Exploration and a Qualified Person as defined by National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101"), has approved this MD&A.

## **CORPORATE INFORMATION**

Our corporate headquarters are located in Vancouver, British Columbia, Canada. Field operations are conducted out of local offices in Mongolia and the United States. Entrée is primarily focused on exploring its principal properties in Nevada and Mongolia.

## **LISTING OF COMMON STOCK ON OTHER STOCK EXCHANGES**

Trading of the Company's common shares commenced on the NYSE Amex effective July 18, 2005, under the trading symbol "EGI". On April 24, 2006, the Company's common shares began trading on the Toronto Stock Exchange and discontinued trading on the TSX Venture Exchange. The trading symbol remained "ETG". The Company is also traded on the Frankfurt Stock Exchange, under the trading symbols "EKA" and "WKN 121411".

## **OVERVIEW**

We are an exploration stage resource company engaged in exploring mineral resource properties. We have interests in development and exploration properties in Mongolia, the United States, Australia and Peru. Our two principal assets are our interest in the Lookout Hill property in Mongolia, which hosts a copper-gold porphyry system with a NI 43-101 compliant probable reserve as well as indicated and inferred resources, and our Ann Mason copper-molybdenum project in Nevada, which hosts NI 43-101 compliant indicated and inferred resources. The following is an overview of our two principal assets.

### **MONGOLIA – LOOKOUT HILL**

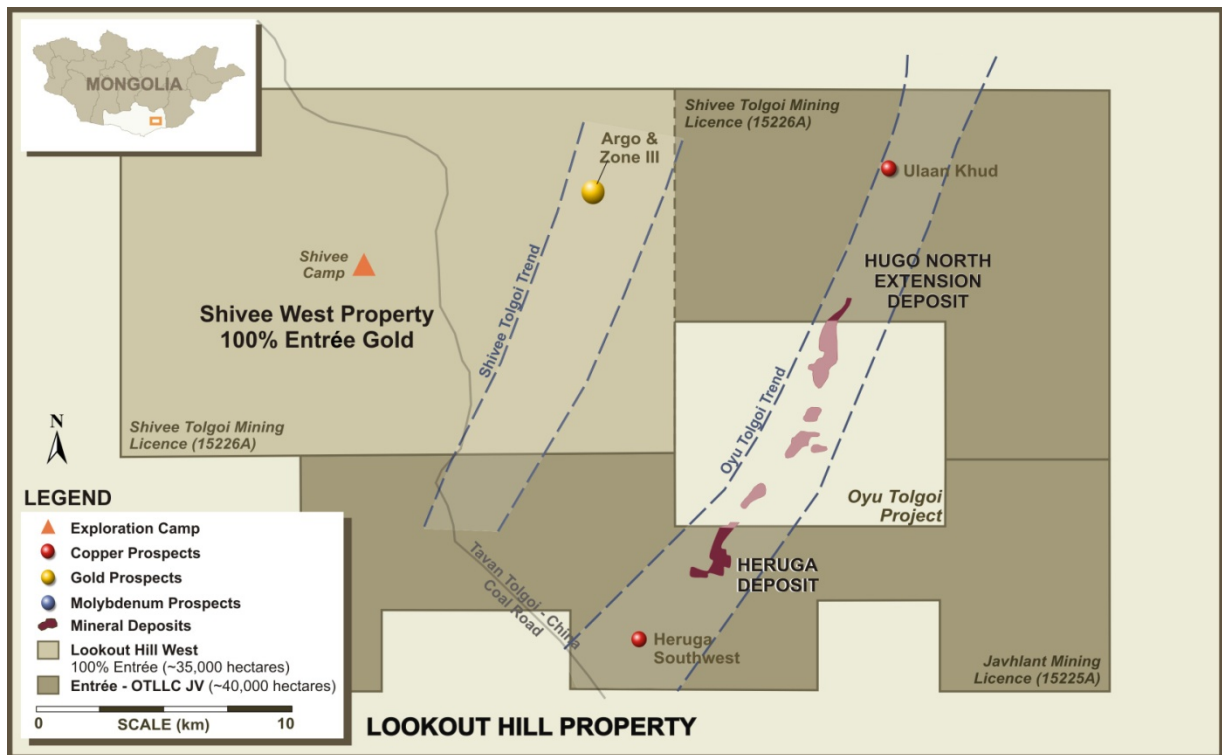
The Lookout Hill property in the South Gobi region of Mongolia is comprised of two mining licences, Shivee Tolgoi and Javhlant, granted by the Mineral Resources Authority of Mongolia in October 2009. Shivee Tolgoi and Javhlant completely surround Oyu Tolgoi LLC's ("OTLLC") Oyu Tolgoi licence and host the Hugo North Extension copper-gold deposit and the Heruga copper-gold-molybdenum deposit, respectively. These deposits are located within a land area that is subject to a joint venture between Entrée and OTLLC (the "Entrée-OTLLC Joint Venture"). OTLLC is owned 66% by Ivanhoe Mines Ltd. ("Ivanhoe Mines") and 34% by the Government of Mongolia (through Erdenes Oyu Tolgoi LLC).

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The Shivee Tolgoi and Javhlant mining licences are divided between Entrée and the Entrée-OTLLC Joint Venture as follows:

- The Entrée-OTLLC Joint Venture covers 39,807 hectares consisting of the eastern portion of Shivee Tolgoi and all of the Javhlant mining licence (the "Joint Venture Property"). The Joint Venture Property is contiguous with, and on three sides (to the north, east and south) surrounds OTLLC's Oyu Tolgoi mining licence. The Joint Venture Property hosts the Hugo North Extension deposit and the Heruga deposit.
- The portion of the Shivee Tolgoi mining licence outside of the Joint Venture Property ("Shivee West") covers an area of 35,173 hectares. Shivee West is 100% owned by Entrée but is subject to a first right of refusal by OTLLC.

The illustration below depicts the different areas of Lookout Hill:



***Entrée-OTLLC Joint Venture***

In October 2004, the Company entered into an arm's-length Equity Participation and Earn-In Agreement (the "Earn-In Agreement") with Ivanhoe Mines. Under the Earn-In Agreement, Ivanhoe Mines agreed to purchase equity securities of the Company, and was granted the right to earn an interest in the Joint Venture Property. Most of Ivanhoe Mines' rights and obligations under the Earn-In Agreement were subsequently assigned by Ivanhoe Mines to what was then its wholly-owned subsidiary, OTLLC. The Government of Mongolia subsequently acquired from Ivanhoe Mines a 34% interest in OTLLC, which is also the title holder of the Oyu Tolgoi mining licence, illustrated in the map above.

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OTLLC undertook an exploration program which established the presence of two significant resources on the Joint Venture Property: the Hugo North Extension deposit immediately to the north of the Oyu Tolgoi mining licence and the Heruga deposit immediately to the south of the Oyu Tolgoi mining licence.

On June 30, 2008, OTLLC gave notice that it had completed its earn-in obligations by expending a total of \$35 million on exploration on the Joint Venture Property. OTLLC earned an 80% interest in all minerals extracted below a sub-surface depth of 560 metres from the Joint Venture Property and a 70% interest in all minerals extracted from surface to a depth of 560 metres from the Joint Venture Property. In accordance with the Earn-In Agreement, Entrée and OTLLC formed the Entrée-OTLLC Joint Venture on terms annexed to the Earn-In Agreement.

Under the terms of the Entrée-OTLLC Joint Venture, Entrée may be carried through to production, at its election, by debt financing from OTLLC with interest accruing at OTLLC's actual cost of capital or prime +2%, whichever is less, at the date of the advance. Debt repayment may be made in whole or in part from (and only from) 90% of monthly available cash flow arising from sale of Entrée's share of products. Such amounts will be applied first to payment of accrued interest and then to repayment of principal. Available cash flow means all net proceeds of sale of Entrée's share of products in a month less Entrée's share of costs of operations for the month.

At December 31, 2011, Ivanhoe Mines owned approximately 11% of the Company's issued and outstanding shares, which it acquired pursuant to the Earn-In Agreement. Certain of Ivanhoe Mines' rights and obligations under the Earn-In Agreement, including a right to nominate one member of the Company's Board of Directors, a pre-emptive right to enable it to preserve its ownership percentage in the Company, and an obligation to vote its shares as the Company's Board of Directors directs on certain matters, expired with the formation of the Entrée-OTLLC Joint Venture. OTLLC's right of first refusal on Shivee West is maintained.

***Investment by Rio Tinto in Entrée***

In June 2005, following the announcement in May 2005 of the discovery of high grade mineralization at Hugo North Extension, Rio Tinto Exploration Canada Inc. (formerly Kennecott Canada Exploration Inc.) ("Rio Tinto") took part in a private placement in the Company and became its largest shareholder. The terms of the equity participation agreement provide that in the event the Company undertakes an equity financing, Rio Tinto has a pre-emptive right to maintain its ownership percentage in the Company.

At December 31, 2011, Rio Tinto owned approximately 12.9% of the Company's issued and outstanding shares.

***Investment by Rio Tinto Holdings in Ivanhoe Mines***

Following Rio Tinto's investment in the Company in June 2005, Rio Tinto plc, through its subsidiary Rio Tinto International Holdings Ltd. ("Rio Tinto Holdings"), acquired through a series of transactions approximately 49% of Ivanhoe Mines' issued and outstanding shares as at December 31, 2011. Rio Tinto Holdings' ownership interest in Ivanhoe Mines was capped at 49% until January 18, 2012, pursuant to a Heads of Agreement dated December 8, 2010 (the "Heads of Agreement"). On January 24, 2012, Rio Tinto plc announced that Rio Tinto Holdings had purchased an additional 15.1 million shares of Ivanhoe Mines increasing its ownership interest to 51%.

***Heads of Agreement***

Among other things, the Heads of Agreement between Ivanhoe Mines and Rio Tinto Holdings provides for the management structure of OTLLC and the project management structure of the Oyu Tolgoi mining complex. Under the Heads of Agreement, Rio Tinto Holdings is entitled to appoint three of the nine directors of OTLLC (with Ivanhoe Mines appointing three and the Government of Mongolia appointing three) and Rio Tinto Holdings assumes management of the building and operation of the Oyu Tolgoi mining complex, which includes the Heruga and Hugo North Extension deposits on the Joint Venture Property. Ivanhoe Mines will continue to directly manage ongoing exploration on the licences outside of the projected life-of-mine area, including the balance of the Joint Venture

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Property. On March 20, 2012, Ivanhoe Mines announced that overall construction of the first phase of the Oyu Tolgoi mining complex was 72.7% complete at the end of February 2012, and that construction remains on track to meet the targeted start of initial production in the third quarter of 2012.

***Investment Agreement and Integrated Development Plan***

In October 2009, Ivanhoe Mines, OTLLC and Rio Tinto Holdings signed an Investment Agreement with the Mongolian Government. The Investment Agreement took legal effect on March 31, 2010, and specifies that the Government of Mongolia will own 34% of the shares of OTLLC (and by extension, 34% of OTLLC's interest in the Joint Venture Property) through its subsidiary Erdenes Oyu Tolgoi LLC. The Investment Agreement regulates the relationship among these parties and stabilizes the long term tax, legal, fiscal, regulatory and operating environment to support the development of the Oyu Tolgoi mining complex, which includes the Joint Venture Property.

Entrée is not presently a party to the Investment Agreement. Entrée does not have any direct rights or benefits under the Investment Agreement, and Entrée's interest in the Joint Venture Property is not subject to the Investment Agreement. In October 2011, Ivanhoe Mines, Rio Tinto and the Government of Mongolia released a joint statement reaffirming their continued support for the Investment Agreement and its implementation.

In March 2012, Ivanhoe Mines released a technical report ("Ivanhoe TR12") that reports the results of OTLLC's updated mine plan or Integrated Development and Operations Plan ("OTIDOP12"). The Ivanhoe TR12 updates the current path of development for the initial phases of the Oyu Tolgoi group of deposits (Southern Oyu Pits and Hugo North Underground Lift 1, which includes the Hugo North Extension deposit).

On March 30, 2012, the Company filed an updated technical report titled "Technical Report 2012 on the Lookout Hill Property" ("LHTR12"). LHTR12 is dated March 29, 2012 and was prepared by AMC Consultants Pty Ltd ("AMC") in Adelaide, Australia, a "qualified person" as defined in NI 43-101. The following information is summarized, derived or extracted from LHTR12. For a complete description of the assumptions, qualifications and procedures associated with the information in LHTR12, reference should be made to the full text of LHTR12, which is available for review on SEDAR located at [www.sedar.com](http://www.sedar.com) or on [www.entreegold.com](http://www.entreegold.com).

LHTR12 considers the conclusions and recommendations raised within the Ivanhoe TR12 in the context of Entrée's operations.

LHTR12 analyses a reserve case only. The underground mineral reserves for the Hugo North deposit, including the Entrée-OTLLC Joint Venture's Hugo North Extension deposit, were updated in the LHTR12. While the mineral reserve tonnage on the Joint Venture Property remained the same as those that were reported by the Company in June 2010, the grades increased. The probable reserve for Hugo North Extension effective as of March 29, 2012 totals 27 million tonnes ("Mt") grading 1.91% copper and 0.74 g/t gold.

<b>Table 1. Entrée-OTLLC Joint Venture Mineral Reserve, 29 March 2012</b>						
<b>Classification</b>	<b>Ore (Mt)</b>	<b>NSR (\$/t)</b>	<b>Cu (%)</b>	<b>Au (g/t)</b>	<b>Copper (Billion lb)</b>	<b>Gold (Moz)</b>
<b>Proven</b>	-	-	-	-	-	-
<b>Probable</b>	27	79.40	1.91	0.74	1.0	0.5
<b>Total Entrée-OTLLC Joint Venture</b>	27	79.40	1.91	0.74	1.0	0.5

**Notes:**

- Table shows only the part of the mineral reserve on the Entrée-OTLLC Joint Venture portion of the Shivee Tolgoi licence.

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- Metal prices used for calculating the Hugo North underground net smelter returns ("NSR") are copper \$1.80/lb, gold \$750/oz, and silver \$12.00/oz based on long term metal price forecasts at the beginning of the mineral reserve work. The analysis indicates that the mineral reserve is still valid at these metal prices.
- The NSR has been calculated with assumptions for smelter refining and treatment charges, deductions and payment terms, concentrate transport, metallurgical recoveries and royalties.
- For the underground block cave all material within the shell has been converted to mineral reserve; this includes low grade indicated material and inferred material assigned zero grade treated as dilution.
- Only measured resources were used to report proven reserves and only indicated resources were used to report probable reserves.
- The Entrée-OTLLC Joint Venture Property comprises the eastern portion of the Shivee Tolgoi licence and all of the Javhlant licence. Title to both licences is held by Entrée. The Joint Venture Property is managed by OTLLC. OTLLC will receive 80% of cash flows after capital and operating costs for material originating below 560 metres, and 70% above this depth.
- The base case financial analysis has been prepared using current long term metal price estimates of copper \$2.85/lb, gold \$1200/oz, and silver \$16.60/oz. Metal prices are assumed to fall from current prices to the long term average over five years.
- The mineral reserves are not additive to the mineral resources.

The OTIDOP12 uses the same mineral resource estimates previously reported in the Company's June 2010 technical report. The following table summarizes the mineral resources for the Hugo North Extension deposit and the Heruga deposit as reproduced in LHTR12. The resource estimate for the Hugo North Extension deposit is effective as of February 20, 2007 and is based on drilling completed to November 1, 2006. The Heruga mineral resource estimate is effective as of March 30, 2010.

<b>Table 2. Entrée-OTLLC Joint Venture Mineral Resources (0.6% CuEq cut-off), based on Technical Report March 2010</b>							
<b>Deposit</b>	<b>Tonnage (Mt)</b>	<b>Copper (%)</b>	<b>Gold (g/t)</b>	<b>CuEq (%)</b>	<b>Contained Metal</b>		
					<b>Copper (000 lb)</b>	<b>Gold (oz)</b>	<b>CuEq (000 lb)</b>
<b>Hugo North Extension Deposit</b>							
<b>Indicated Shivee Tolgoi (Hugo North Extension)</b>	117.0	1.80	0.61	2.19	4 640 000	2 290 000	5 650 000
<b>Inferred Shivee Tolgoi (Hugo North Extension)</b>	95.5	1.15	0.31	1.35	2 420 000	950 000	2 840 000
<b>Heruga Deposit</b>							
<b>Inferred Javhlant (Heruga)</b>	910.0	0.48	0.49	0.87	9 570 000	14 300 000	17 390 000

**Notes:**

- Copper Equivalent ("CuEq") has been calculated using assumed metal prices of \$1.35/lb for copper, \$650/oz for gold, and \$10.50 for molybdenum. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and 72% of copper recovery respectively.  $CuEq = Cu\% + ((Au\ g/t * 18.98) + (Mo\ g/t * 0.1586)) / 29.76$ .
- Mo content in Heruga deposit is 141 ppm and included in calculation of CuEq.
- The contained copper, gold and molybdenum in the tables have not been adjusted for metallurgical recovery.
- The 0.6% CuEq cut-off is highlighted as the base case resource for underground bulk mining.
- Mineral resources that are not mineral reserves do not have demonstrated economic viability.

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- The Entrée-OTLLC Joint Venture Property comprises the eastern portion of the Shivee Tolgoi licence and all of the Javhlant licence. Title to both licences is held by Entrée. The Joint Venture Property is managed by OTLLC. OTLLC will receive 80% of cash flows after capital and operating costs for material originating below 560 m, and 70% above this depth.

**UNITED STATES – ANN MASON**

Entrée's other principle asset is the Ann Mason Project in the Yerington District of Nevada.

The Ann Mason Project is currently defined by the mineral rights to 1008 unpatented lode claims on public land administered by the Bureau of Land Management, and title to 3 patented lode claims. Entrée assembled this package of claims through a combination of staking and a series of transactions undertaken since August 2009, including the acquisition of PacMag Metals Limited ("PacMag"). The Roulette and Blackjack properties have been folded into the Ann Mason Project, which now includes the Ann Mason copper-molybdenum porphyry deposit, the Blue Hill oxide target, and the Blackjack, Roulette and Minnesota targets. Unless otherwise described below, Entrée has a 100% interest in the claims comprising the Ann Mason Project.

On August 26, 2010, the Entrée acquired 51% of Honey Badger Exploration Inc.'s ("Honey Badger") interest in 466 unpatented lode claims formerly known as the Blackjack property after incurring expenditures of \$900,000 on the property, issuing 37,500 common shares and reimbursing Honey Badger for up to \$206,250 of expenditures previously incurred on the property. On July 27, 2011, Entrée acquired Honey Badger's remaining 49% interest in the Blackjack property, by issuing 550,000 common shares and paying \$650,000 to Honey Badger. 227 of the claims are subject to an underlying mining lease and option to purchase agreement with two individuals. The underlying agreement provides for an option to purchase the claims for \$500,000, a 3% NSR royalty (which may be brought down to a 1% NSR royalty for \$2 million) and annual advance minimum royalty payments of \$27,500 which commenced in June 2011 and will continue until the commencement of sustained commercial production. The advance payments will be credited against future net smelter returns royalty payments.

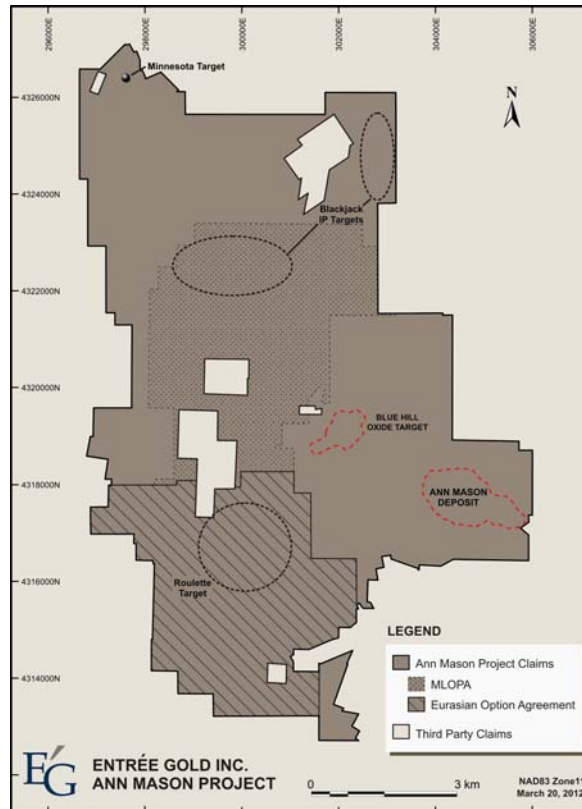
In September 2009, Entrée entered into an agreement with Bronco Creek Exploration Inc. ("Bronco Creek"), a wholly-owned subsidiary of Eurasian Minerals Inc. (together, "Eurasian"), whereby Entrée may acquire an 80% interest in 214 unpatented lode claims formerly known as the Roulette property. In order to acquire its interest, Entrée must: (a) incur expenditures of \$1,000,000, make cash payments of \$140,000 and issue 85,000 common shares of the Company within three years; (b) make aggregate advance royalty payments totalling \$375,000 between the fifth and tenth anniversaries of the agreement; and (c) deliver a bankable feasibility study before the tenth anniversary of the agreement. In accordance with the agreement, Entrée has completed required exploration expenditures of \$600,000, issued 85,000 shares and made payments totalling \$140,000.

Entrée has an agreement to acquire a 100% interest in three of the unpatented lode claims, which is expected to complete on or before September 13, 2012.

Subsequent to the year ended December 31, 2011, Entrée, through a combination of staking and purchase agreements, acquired or entered into agreements to acquire a total of 72 unpatented and patented lode claims within or contiguous to the boundaries of its Ann Mason Project for aggregate costs of \$3,618,853 and 40,000 common shares.

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The illustration below depicts the location of the Ann Mason Project.



The following information was taken from "Technical Report and Updated Mineral Resource Estimate, Ann Mason Project, Nevada, USA" with an effective date of March 26, 2012 (the "AMTR12"). This report was prepared by Scott Jackson, F.AusIMM, Robert Cinits, P.Geo, and Lyn Jones, P.Eng. Mr. Cinits is the Company's Director, Technical Services. A copy of AMTR12 is filed on SEDAR at [www.sedar.com](http://www.sedar.com). The following information is summarized, derived or extracted from the AMTR12. Portions of the information are based on assumptions, qualifications and procedures, which are not fully described herein. Reference should be made to the full text of the AMTR12.

***Mineral Resource Estimate***

The Ann Mason deposit is estimated to contain an indicated resource of 640 Mt averaging 0.41% CuEq (at a 0.3% copper cut-off) estimated to contain over 5.3 billion pounds of copper and 100 million pounds of molybdenum, and an inferred resource of 444 Mt averaging 0.38% CuEq (at a 0.3% copper cut-off) estimated to contain 3.54 billion pounds of copper and 40 million pounds of molybdenum.

The following table summarizes the mineral resource for the Ann Mason deposit as produced in the AMTR12. The resource estimate for the Ann Mason deposit is effective as of March 26, 2012:

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Cut-off Cu (%)	Indicated Resources					
	Tonnes (million)	Cu (%)	Mo (%)	lb Cu (billion)	lb Mo (billion)	CuEq* (%)
0.2	1,115	0.33	0.007	8.04	0.16	0.35
0.25	904	0.35	0.007	6.98	0.13	0.38
0.3	640	0.38	0.007	5.38	0.10	0.41
0.35	391	0.42	0.007	3.60	0.06	0.45
0.4	201	0.46	0.008	2.04	0.03	0.49

Cut-off Cu (%)	Inferred Resources					
	Tonnes (million)	Cu (%)	Mo (%)	lb Cu (billion)	lb Mo (billion)	CuEq* (%)
0.2	1,131	0.29	0.004	7.31	0.11	0.31
0.25	780	0.32	0.004	5.56	0.07	0.34
0.3	444	0.36	0.004	3.54	0.04	0.38
0.35	215	0.40	0.004	1.90	0.02	0.42
0.4	82	0.45	0.005	0.82	0.01	0.47

\*Copper equivalent is calculated using assumed metal prices of: copper \$2.50/lb; and molybdenum \$15.00/lb and assumed metallurgical recoveries relative to copper of: molybdenum 70%.

**SELECTED ANNUAL FINANCIAL INFORMATION**

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Total Revenues	\$ -	\$ -	\$ -
Net Loss	(17,140,208)	(20,069,408)	(17,102,254)
Net loss per share, basic and diluted	(0.15)	(0.19)	(0.18)
Working capital	19,004,136	21,268,201	40,874,503
Total assets	74,589,810	81,359,098	45,804,120
Total long term liabilities	13,720,492	16,158,190	676,083

(1) Working Capital is defined as Current Assets less Current Liabilities.

For the year ended December 31, 2011, net loss was \$17,140,208 compared to \$20,069,408 in the year ended December 31, 2010. During the year ended December 31, 2011 Entrée incurred higher operating expenditures, including increased general and administrative and mineral exploration expenses, further described below, and increased spending by the Entrée-OTLLC Joint Venture resulting in increased losses from equity investee relative to the year ended December 31, 2010. These increases were offset by a recorded deferred income tax recovery in the period, a gain on sale of mineral property interests and the gain on sale of investments. For the year ended December 31, 2011, working capital was \$19,004,136 compared to \$21,268,201 during the year ended December 31, 2010. The decrease in working capital is



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primarily the result of cash used in operations during the period partially offset by cash proceeds received from share issuances, the sale of certain investments and the sale of mineral property interests. For the year ended December 31, 2011, total assets were \$74,589,810 compared to \$81,359,098 during the year ended December 31, 2010. The decrease in total assets over the prior year is the net effect of a decrease in working capital described above. For the year ended December 31, 2011, total long term liabilities were \$13,720,492 compared to \$16,158,190 during the year ended December 31, 2010. The decrease in long term liabilities over the prior year is due primarily to a deferred income tax recovery for the period.

**REVIEW OF OPERATIONS**

Results of operations are summarized as follows:

	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
Exploration	\$ 17,532,831	\$ 11,800,772
General and administrative	5,412,788	4,971,109
Loss from equity investee	2,397,085	985,441
Stock-based compensation	991,161	2,897,845
Impairment of mineral property interests	531,005	-
Depreciation	196,221	203,086
Current income tax expense	152,190	-
Interest income	(190,391)	(243,433)
Gain on sale of mineral property interest	(1,574,523)	-
Gain on sale of investments	(3,326,275)	-
Deferred income tax recovery	(4,981,884)	(545,412)
Net loss	\$ 17,140,208	\$ 20,069,408

Mineral properties expenditures are summarized as follows:

	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
US	\$ 14,088,428	\$ 3,973,528
Mongolia	3,255,588	6,945,394
Other	335,158	1,307,641
Total costs	17,679,174	12,226,563
Less stock-based compensation	(146,343)	(425,791)
Total expenditures, cash	\$ 17,532,831	\$ 11,800,772

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## **MONGOLIA**

### **Lookout Hill – Joint Venture Property**

Since formation, and as of December 31, 2011, the Entrée-OTLLC Joint Venture had expended \$20.5 million to advance the project. Under the terms of the Entrée-OTLLC Joint Venture, OTLLC contributed on Entrée's behalf the required cash participation amount of \$4.3 million, equal to 20% of the \$20.5 million incurred to date, plus interest at prime plus 2%.

During 2011, 5 deep exploration holes (including two daughter holes) were completed to the north of the Hugo North Extension deposit but were unsuccessful in reaching the target or intersecting significant mineralization. During 2011, 10 engineering holes totaling 13,067 metres were completed to test the geotechnical character of Lift 1 at Hugo North and Hugo North Extension and to test the area of a planned shaft to the west of Hugo North Extension.

On the Javhlant license, two existing holes were deepened on the Heruga deposit but did not intersect significant mineralization. An additional hole (EJD0038) tested an induced polarization ("IP") target to the southwest of Heruga and intersected some significant advanced argillic alteration with low copper values (up to 36 metres of 0.39% copper). Three other holes tested various IP/gravity and geological targets but did not locate significant mineralization.

In the second half of 2011, a detailed magnetotelluric ("MT") survey was completed by OTLLC along the Oyu Tolgoi trend and a detailed ground magnetic survey was completed on the east side of the Javhlant licence.

As of December 31, 2011, exploration drilling continued with two drill rigs on the Joint Venture Property. One drill was testing a target to the west of the Heruga deposit and the other drill was testing an IP/geology target to the southwest of Heruga, both located on the Javhlant licence.

### **Lookout Hill - Shivee West**

Entrée has a 100% interest in the western portion of the Shivee Tolgoi mining licence.

For 2011, Entrée's work program consisted of geological and geophysical surveying, and 23 reverse circulation ("RC") drill holes totalling 2,470 metres. Field work included a 1,670 line-kilometre detailed magnetic survey completed over a belt of rocks which demonstrate similarities to the Devonian-aged units that host the Oyu Tolgoi deposits.

RC drilling was conducted over the Zone III near-surface epithermal gold target and expanded north, where a new gold zone ("Argo Zone") was discovered 250 metres beyond the previously known area of gold mineralization. The Argo Zone has been partly defined by six new RC holes (holes EGRC-11-110 to 115), two trenches and surface chip sampling. Hole EGRC-11-112 returned 14 metres of 1.82 grams/tonne ("g/t") gold and hole EGRC-11-111 returned 3 metres of 2.21 g/t gold. Two separate high-grade surface chip samples averaged 42.4 g/t gold over 4 metres and 19.3 g/t gold over 3 metres. Shallow gold mineralization in both zones is hosted by quartz veined felsic volcanic rocks.

### **Togoot**

Entrée had a 100% interest in the 14,031 hectare Togoot mining licence, which was issued by the Mineral Resources Authority of Mongolia on June 24, 2010. During the year ended December 31, 2011 Entrée sold the licence for \$1,365,475, net of taxes and recorded a gain on sale of mineral property interests of \$1,474,640. OTLLC did not exercise its right of first refusal with respect to the sale.

For the year ended December 31, 2011, Shivee West and Togoot expenses were \$3,255,588 compared to \$6,945,394 during the year ended December 31, 2010. The higher expenses in 2010 resulted from a broader drill program on Shivee West compared to 2011 and no drilling activity on Togoot during the year ended December 31, 2011.

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**UNITED STATES**

In addition to its Ann Mason Project, the Company has direct and indirect interests in non-material properties in Nevada, New Mexico and North Dakota.

**Ann Mason Project, Nevada**

The Ann Mason Project is Entrée's most advanced project outside of Mongolia.

To date, Entrée has expended approximately \$16.5 million on the Ann Mason Project including \$13.2 million in the year ended December 31, 2011. The program included step out holes to explore the potential for adding mineralization to the west of the previously defined Ann Mason resource, and infill drilling to increase resource confidence. In addition, Entrée completed detailed geochemical sampling, and RC and diamond drilling to test the extent of shallow oxide copper mineralization in the Blue Hill oxide target.

Core drilling commenced at Ann Mason in late 2010. At the end of December 2011, Entrée had completed 24 holes (for a total of 26,846 metres) and received complete assay results for 13 holes. The first hole (EG-AM-10-001) was completed mid-December 2010 and in early February 2011, the Company released results for this hole which include 988 metres averaging 0.31% copper. During the second half of 2011, the Company released results for 9 Ann Mason drill holes (EG-AM-11-005 to 013). All of the holes, except EG-AM-11-006, returned long intercepts of significant copper mineralization. Subsequent to year-end 2011, the Company released results for an additional 14 holes.

Drilling continues to significantly expand and to better define the copper distribution within the deposit. In addition, drilling is better defining the molybdenum, gold and silver content and distribution as these elements were not systematically assayed in historical drill programs. At the end of December 2011, Entrée had two core rigs completing infill and stepout holes at Ann Mason.

In late July, two composite samples of sulphide-bearing core were sent to METCON Research in Tucson, Arizona for preliminary flotation testing. At the end of December 2011, testing was still ongoing but interim results indicated excellent recoveries of over 90% copper.

In December, work started on additional sampling and assaying of historical core. A total of 5,700 samples from 22 Anaconda holes will be reassayed to check copper assays and to add molybdenum, gold and silver to the resource database. Work will be completed in the first half of 2012.

On the near-surface Blue Hill oxide target (3 kilometres northwest of the Ann Mason deposit), copper oxide mineralization extends from surface to a depth of up to 185 metres (average approximately 125 metres), over an area of 650 by 500 metres and remains open to the northwest and southeast. Drilling of the underlying sulphide target remains very widely spaced, but has identified a target area more than one kilometre in width, which still remains open in most directions. Significant molybdenum mineralization was also intersected in two of the drill holes targeting the sulphide mineralization.

Since 2010, 24 RC holes totalling 4,266 metres and 7 diamond drill holes totalling 2,590 metres have been completed at Blue Hill. In 2011, Entrée completed 6 diamond drill holes (EG-BH-11-015 to 019 and 021) totalling 2,557 metres. Four holes in the oxide zone provided important geotechnical, structural and assay data. All 4 holes returned significant oxide copper. Two diamond holes (019 and 021), drilled east of the oxide copper zone, tested deeper sulphide copper potential and encountered long intervals of sulphide copper mineralization including 644 metres of 0.19% copper (from 238 metres) and 266 metres of 0.18% copper (from 218 metres). A diamond hole (EG-BH-11-031) located 750 metres east-southeast of EG-BH-11-019 was collared into bedrock but not completed. This hole was terminated at 33 metres depth, but intersected oxide copper mineralization averaging 0.31% over the final 11.3 metres and ended in mineralization. Most importantly, this is in an area with no previously documented copper mineralization.

Permitting has been completed to expand the approved area of operations so additional drilling can be completed to the southwest of the Blue Hill area.

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For the year ended December 31, 2011, Ann Mason Project expenditures were \$13,202,048 compared to \$3,323,750 during the year ended December 31, 2010. The greater exploration expenditures in 2011 reflect a full year drilling program, compared to a more limited drilling program in 2010, the year of the PacMag acquisition.

**Lordsburg and Oak Grove, New Mexico**

In June 2007, Entrée entered into an agreement with Empirical Discovery LLC ("Empirical") to explore for and develop porphyry copper targets in southeastern Arizona and southwestern New Mexico. Two targets are currently being explored – the Lordsburg property in New Mexico, and the Oak Grove property, which is located approximately 45 kilometres northeast of Lordsburg. Under the terms of the agreement, as amended, Entrée has the option to acquire up to a 100% interest in either or both of the properties by incurring exploration expenditures of \$1.9 million and issuing 300,000 shares by August 9, 2012. In addition, for each property that Entrée wishes to acquire an interest in, it must incur all additional exploration expenditures necessary to produce a NI 43-101 compliant resource estimate and complete a scoping study on that property. If Entrée fulfills all of its obligations on a property, Empirical may elect within 90 days to retain a 20% participating interest or convert to a 2% NSR royalty, half of which may be purchased by Entrée for \$2 million. To date, Entrée has incurred minimum expenditures of \$1.4 million and issued 300,000 shares under the agreement.

The Lordsburg claims cover 2,013 hectares adjacent to the historic Lordsburg copper-gold-silver district in New Mexico. Drilling at Lordsburg has been successful in discovering a new porphyry copper-gold occurrence in an area previously known only for vein-style gold mineralization. No field work was completed at Lordsburg in 2010 or in 2011. Future drilling will be directed towards expanding the existing drill defined copper and gold zone.

The Lordsburg Plan of Operations/Environmental Assessment and Application to Conduct Mineral Exploration is currently under review and provides for drilling on 65 additional sites and 28.2 acres of surface disturbance. The proposed Plan of Operations for Lordsburg has been approved by the Bureau of Land Management. An Application to Conduct Mineral Exploration filed with the New Mexico Division of Mining and Minerals is currently being processed. When final, the proposed work will require posting of an additional reclamation bond.

Work on the 1,435 hectare Oak Grove property to date has consisted of permitting, negotiation of access agreements, a 17 line kilometre IP survey and a 50 line kilometre magnetic survey. The work defined moderate chargeability anomalies associated with a strong, circular magnetic feature. Drill testing on the target is planned for 2012.

A Minimal Impact Application to Conduct Mineral Exploration, filed with the New Mexico Division of Mining and Minerals, is currently being processed. When final, the proposed work will require posting of a reclamation bond.

For the year ended December 31, 2011, expenses incurred on the Lordsburg, Oak Grove and other Empirical targets were \$142,538 compared to \$274,100 during the year ended December 31, 2010. Little work was completed on the Lordsburg, Oak Grove, and other Empirical targets during 2011.

**Bisbee, Arizona**

In January 2008, Entrée entered into a second agreement with Empirical on similar terms as the Lordsburg/Oak Grove agreement to explore for buried porphyry copper targets in an area north of Bisbee, Arizona.

A \$610,000 exploration program designed to test the Dixie and Abbot targets commenced in 2010 and continued in the first quarter of 2011. As at the end of the period ended March 31, 2011, Entrée had completed two planned holes at Bisbee for a total of 2,179 metres. Neither of these holes intersected significant economic mineralization. In April 2011, Entrée gave notice to Empirical terminating the Bisbee agreement.

For the year ended December 31, 2011, Bisbee expenses were \$660,006 compared to \$345,124 during the year ended December 31, 2010. The higher expenses in 2011 resulted from an earlier start in drilling.

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For the year ended December 31, 2011, Entrée recorded an impairment of mineral property interest of \$200,385 on the Bisbee property writing down total capitalized acquisition costs to \$Nil.

**Shamrock, Nevada**

The Shamrock property was acquired on June 30, 2010 through the acquisition of PacMag. The Shamrock property is a copper skarn exploration target located in the Yerington copper porphyry district in western Nevada. The property consists of 54 claims covering approximately 362 hectares (895 acres). Entrée has a 100% interest in 18 unpatented lode mining claims (the McConnell Canyon claims). An additional 13 patented and 23 unpatented lode mining claims are subject to an exploration and option agreement, with an option to purchase 100% interest in the claims for \$300,000 payable in three equal \$100,000 tranches on September 12, 2010, 2011 and 2012. Entrée made the initial and second \$100,000 payments in September 2010 and September 2011.

**Eagle Flats, Nevada**

In March 2011, Entrée entered into a mining lease and option to purchase agreement with respect to 58 unpatented lode claims, 65 kilometres east of Yerington, in Mineral County, Nevada. Under the agreement, as amended, Entrée may lease the claims for combined payments of \$125,000 over five years, and must reimburse \$30,000 in property and recording costs. Entrée has an option to purchase the claims for \$500,000, subject to a 2% NSR royalty which may be bought down to a 1% NSR royalty for \$500,000. After the fifth anniversary, Entrée must pay \$40,000 per year, either as a lease payment or an advanced royalty payment, depending on whether the option has been exercised. Advanced royalty payments will be credited against future NSR royalty payments.

**Sentinel, North Dakota**

The Sentinel uranium exploration property is located in southwest North Dakota. The property consists of a mineral lease of approximately 2,100 hectares which includes the Church uranium deposit, and two nearby non-contiguous prospecting permits covering approximately 1,160 hectares. The lease agreement is for a twenty year term ending on June 30, 2027. It provides for cumulative payments totaling approximately \$180,000 to June 30, 2013 (\$5.00 per acre of lands per year). Thereafter, if paying production has not been established, the agreement provides for payments of \$10.00 per acre of lands per year until June 30, 2017, after which the annual payment becomes the greater of \$225,000 or a 4% royalty on gross proceeds from molybdenum and uranium sales.

For the year ended December 31, 2011, Entrée recorded an impairment of mineral property interest of \$309,483 on the Sentinel property writing down total capitalized acquisition costs to \$Nil. No work was completed in 2011 on Sentinel.

**Meadow Valley, Arizona**

The Meadow Valley property consisted of 44 unpatented mining claims staked by Entrée and a lease agreement with Minquest Inc. on six adjoining claims. The lease agreement was terminated by Entrée on June 28, 2011 and Entrée relinquished the remaining claims in September 2011. The Meadow Valley property was an early stage exploration project within the Laramide porphyry copper province in Arizona. For the year ended December 31, 2011, Entrée recorded an impairment of mineral property interest of \$21,137 on the Meadow Valley property writing down total capitalized acquisition costs to \$Nil.

**Rainbow Canyon, Nevada**

The Rainbow Canyon property is an early stage epithermal gold project consisting of 50 unpatented lode mining claims in Nevada. In June 2011, Entrée sold its 100% interest in the property to Acrex Ventures Ltd. ("Acrex"), for \$125,000

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and a 3% NSR royalty, which may be bought down to a 1% NSR royalty for \$1 million. At the date of the transaction, Acrex was related to the Company by way of a common director.

## **AUSTRALIA**

### **Blue Rose Joint Venture**

Entrée has a 51% interest in the Blue Rose copper-iron-gold-molybdenum joint venture property, with Giralia Resources Pty Ltd, now a subsidiary of Atlas Iron Limited (ASX:AGO) ("Atlas"), retaining a 49% interest. The joint venture covers exploration license EL 3848 in the Olary Region of South Australia, 300 kilometres north-northeast of Adelaide. Magnetite iron formations occur in the southern portion of this 1,000 square kilometre tenement, and a zone of copper oxide mineralization and a gold target (Golden Sophia) are located in the north-central area of the tenement.

In September 2010, the joint venture entered into an agreement with Bonython Metals Group Pty. Ltd. ("BMG"), a private Australian resource company. BMG purchased 100% of the iron ore rights on the joint venture property in exchange for 6% of BMG's future issued capital. Should BMG convert to a public company by September 25, 2012, BMG will exchange the joint venture's shares in the private company for 6% of the initial public offering on the day of listing. Should BMG fail to publicly list its shares by that date, it shall, by way of a selective share buy-back, acquire the joint venture's private shares for A\$25 million. On January 31, 2011, BMG issued 3,060 ordinary shares to Entrée representing Entrée's 51% interest of the joint venture's 6% ownership of BMG. On February 27, 2012, the Federal Court of Australia ordered that BMG be wound up and that a liquidator be appointed. A notice of appeal has been filed.

The joint venture also entered into a mineral development agreement with WASCO Mining Company Pty Ltd ("WASCO"), which plans to conduct mining operations on the Blue Rose copper deposit with Entrée and Atlas retaining a royalty interest. WASCO is a private Australian investment group owned 50% by a Chinese investment vehicle targeting copper production opportunities in Australia. WASCO can earn 100% of a 12 square kilometre area surrounding the Blue Rose copper deposit along with the rights to mine and process any mineralization extracted. WASCO will refund the joint venture A\$1.95 million in past expenditures and pay a 1.5% gross revenue royalty on any production from the property to the joint venture. The joint venture retains the rights to mineralization other than iron ore on the exploration license outside of the 12 square kilometre WASCO agreement area.

A soil sampling program was completed by the joint venture over the Golden Sophia shallow gold target in August 2011. The survey confirmed the previous Battle Mountain gold in soil anomaly and defined a new, linear gold anomaly located approximately 700 metres to the northeast. An RC drill program is planned for the first half of 2012 after completion of all native title requirements. On September 22, 2011, the joint venture filed notice to initiate negotiations with native title parties, as required under the Mining Act of South Australia. Drilling may not commence until either an ex parte order has been obtained or a native title and heritage agreement has been concluded.

### **Mystique Farm-Out**

Mystique is an early stage gold exploration property comprised of exploration license E28/1915, held by Entrée. Entrée entered into a farm-out agreement with Black Fire Gold Pty Ltd, a wholly-owned subsidiary of Black Fire Minerals Limited (ASX:BFE – "Black Fire"), pursuant to which Black Fire can earn a 60% interest in the property by expending A\$1 million by September 2012 and a 75% interest by expending A\$2.5 million by September 2014. Black Fire can earn an additional 10% interest by sole funding a pre-feasibility study on the property. The property is located in the Albany-Fraser Province of West Australia. Black Fire's 2010 exploration program did not return any significant results and many drill holes failed to reach bedrock. No additional work was completed in 2011.

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**Northling Farm-Out**

Entrée entered into a farm-out agreement with Quadrio Resources Pty Ltd., a subsidiary of Kingsgate Consolidated Limited (ASX:KCN – "Kingsgate"), whereby Kingsgate could earn up to a 70% interest in exploration licence E52/2314 by spending A\$750,000 over five years. The property was explored by DeBeers for diamonds in the early 1990s, with copper being intersected in one of the drill holes (2.4% over 4 metres). In March 2012, Kingsgate assigned its interest in the farm-out agreement to a private Australian company, Vanguard Exploration Pty Ltd. ("Vanguard"). Entrée entered into a purchase and sale agreement with Vanguard pursuant to which Vanguard agreed to purchase Entrée's interest in the Northling property for A\$100,000. The transaction closed on March 12, 2012.

**PERU**

In September 2010, Entrée entered into a conditional agreement with a private Peruvian company whereby Entrée may acquire an initial 70% interest in the Lukkacha property located in Tacna Province of southeastern Peru. The property is situated within 50 kilometres of the international border with Chile, and initiation of work is subject to Entrée obtaining a Supreme Decree allowing it to work on the property. Subject to obtaining the Supreme Decree, Entrée may earn a 70% interest by making cash payments totalling \$215,000 and expending a minimum of \$1.5 million on exploration, to include a minimum 6,000 metres of diamond drilling, within 24 months. Once Entrée has earned a 70% interest, it may acquire a further 30% interest by paying the vendors \$2 million within 24 months. The vendors would retain a 2% NSR royalty, half of which may be purchased at any time for \$1 million.

The property consists of seven concessions totalling 4,400 hectares which cover two large areas of surface alteration, iron oxides and quartz veining approximately 50 kilometres along the structural trend southeast from the giant Toquepala mining operation of Grupo Mexico. The property has never been drilled and represents a unique opportunity for early stage exploration within an under-explored major copper district. Further exploration (geophysics and drilling) is dependent on receipt of the Supreme Decree.

For the year ended December 31, 2011, Lukkacha expenses were \$60,298 compared to \$85,911 during the year ended December 31, 2010.

**GENERAL AND ADMINISTRATIVE**

For the year ended December 31, 2011, general and administrative expense, before stock-based compensation, was \$5,412,788 compared to \$4,971,109 during the year ended December 31, 2010. The increase in 2011 was due to a number of factors including increases in personnel expenses and higher accounting, legal and regulatory fees compared to 2010.

**STOCK-BASED COMPENSATION**

For the year ended December 31, 2011, stock-based compensation expense was \$991,161 compared to \$2,897,845 during the year ended December 31, 2010. During the year ended December 31, 2011, 575,000 options were granted with a fair value of \$944,319, compared to 1,737,500 options that were granted with a fair value of \$3,007,946 during the year ended December 31, 2010.

**INTEREST INCOME**

For the year ended December 31, 2011, interest income was \$190,391 compared to \$243,433 during the year ended December 31, 2010 as set out above. The Company earns interest income on its invested cash which decreased compared to the equivalent period last year due primarily to cash expenditures on operations throughout the year and the PacMag acquisition.

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## **VALUATION OF LONG-TERM INVESTMENT**

### *Asset Backed Commercial Paper*

In September 2011, the Company sold its asset backed notes ("AB Notes") with a face value of C\$4,007,068, and an expected maturity date of December 20, 2016, for gross cash proceeds of \$2,560,687, net of taxes. The Company had designated the notes as available for sale and the notes were recorded at fair value using a discounted cash flow approach (December 31, 2010 – C\$2,623,998). The Company recorded a gain on sale of investments of \$1,178,254 for the year ended December 31, 2011.

### *Australia Listed Equity Securities*

In April 2011, Entrée sold its Australian listed equity securities for gross cash proceeds of \$3,174,208, net of taxes and recorded a gain on sale of investments of \$2,148,021 for the year ended December 31, 2011.

### *Equity Method Investment*

As further described in the notes to the Audited Consolidated Financial Statements, Entrée has a 20% interest in a joint venture with OTLLC. As at December 31, 2011, the Company's investment in the joint venture was \$98,450 (December 31, 2010 - \$119,517). The Company's share of the loss of the joint venture is \$2,397,085 for the year ended December 31, 2011 (December 31, 2010 - \$985,441) including accrued interest expense of \$151,952 for the year ended December 31, 2011 (December 31, 2010 - \$44,103).

## **OUTLOOK**

Entrée is primarily focused on exploring its principal properties in Nevada and Mongolia. In addition, Entrée is engaged in evaluating additional acquisition opportunities which are complementary to its existing projects, particularly large tonnage base and precious metal targets in eastern Asia and the Americas. These efforts have resulted in the acquisition of PacMag, agreements with Honey Badger and Eurasian's wholly owned subsidiary Bronco Creek Exploration Inc. on projects in Nevada and a conditional agreement on the Lukkacha property in Peru. The commodities Entrée is most likely to pursue include copper, gold and molybdenum, which are often associated with large tonnage, porphyry related environments. Smaller, higher grade systems will be considered by Entrée if they demonstrate potential for near-term production and cash-flow. If Entrée is able to identify smaller, higher grade bodies that may be indicative of concealed larger tonnage mineralized systems, it may negotiate and enter into agreements to acquire them.

Entrée has not generated any revenue from operations since its incorporation and Entrée anticipates that it will continue to incur operating expenses without revenues unless and until the Joint Venture Property is brought into production or it is able to identify a mineral reserve in a commercially exploitable quantity on one or more of its mineral properties and it builds and operates a mine. As at December 31, 2011, Entrée had working capital of approximately \$19.0 million. Entrée's average monthly operating expenses in 2011 were approximately \$1.9 million, including exploration, general and administrative expenses and investor relations expenses. Due to the nature of Entrée's mineral property interests and related exploration expenses, it has the ability to alter the timing of these expenditures and, to a lesser extent, its general and administrative expenses. In order to advance its existing projects beyond the next twelve months, and to consider acquiring any additional complementary projects, Entrée will have to raise additional funds. In order to provide the Company with flexibility to raise funds should the opportunity arise, the Company announced on November 19, 2010 that it had filed a short form base shelf prospectus with the securities commissions in each of the provinces of Canada, except Quebec, and a corresponding shelf registration statement with the United States Securities and Exchange Commission on Form F-10/A. These filings will allow the Company to make offerings of common shares, warrants, subscription receipts or any combination of such securities up to an aggregate offering price of C\$100,000,000 during



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the 25-month period that the short form base shelf prospectus remains effective. Net proceeds from the sale of the securities, if any, are expected to be used by the Company for acquisitions, development of acquired/existing mineral properties, working capital requirements and/or for other general corporate purposes. The Company completed a marketed offering in November 2011, raising gross proceeds of \$14,075,483, and subsequent to year end raised additional gross proceeds of \$1,628,583 through the exercise of the related over-allotment option. The foregoing amounts include gross proceeds from the sale of common shares to Rio Tinto pursuant to the exercise of its pre-emptive rights.

**SELECTED QUARTERLY DATA**

	<b>Three Months Ended December 31, 2011</b>	<b>Three Months Ended September 30, 2011</b>	<b>Three Months Ended June 30, 2011</b>	<b>Three Months Ended March 31, 2011</b>
Exploration	\$ 4,671,238	\$ 3,662,130	\$ 5,698,144	\$ 3,647,662
General and administrative	1,444,511	1,185,528	1,901,162	1,922,626
Loss (gain) on sale of mineral property interest	(1,474,640)	26,033	(125,916)	-
Impairment of mineral property interests	309,483	221,522	-	-
Loss from operations	(4,950,592)	(5,095,213)	(7,473,390)	(5,570,288)
Gain on sale of investments	-	1,178,254	2,148,021	-
Interest income	4,651	35,452	94,921	55,367
Loss from equity investee	(514,390)	(593,087)	(645,264)	(644,344)
Current income tax expense	(152,190)	-	-	-
Deferred income tax recovery	938,766	968,356	2,257,762	817,000
Net loss	\$ (4,673,755)	\$ (3,506,238)	\$ (3,617,950)	\$ (5,342,265)
Loss per share, basic and diluted	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ (0.05)

	<b>Three Months Ended December 31, 2010</b>	<b>Three Months Ended September 30, 2010</b>	<b>Three Months Ended June 30, 2010</b>	<b>Three Months Ended March 31, 2010</b>
Exploration	\$ 4,109,919	\$ 4,496,968	\$ 2,511,312	\$ 1,108,364
General and administrative	4,041,289	1,729,714	808,638	1,066,608
Loss from operations	(8,151,208)	(6,226,682)	(3,319,950)	(2,174,972)
Interest income	51,199	80,251	50,564	61,419
Loss from equity investee	(388,114)	(401,539)	(153,177)	(42,611)
Deferred income tax recovery	545,412	-	-	-
Net loss	\$ (7,942,711)	\$ (6,547,970)	\$ (3,422,563)	\$ (2,156,164)
Loss per share, basic and diluted	\$ (0.07)	\$ (0.06)	\$ (0.04)	\$ (0.02)

The 2010 field exploration season did not begin until the end of March resulting in lower explorations costs in the first quarter compared to 2011. Exploration costs were also much lower in the second quarter of 2010 compared to the current year. This is due in part to increased operational requirements following the acquisition of PacMag in June 2010. Exploration expenditures during 2011 were relatively more constant than through 2010 due to a continuous drilling

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program at the Ann Mason Project with the exception of the quarter ended June 30, 2011 during which Entrée increased drilling activity on the Blue Hill portion of the Ann Mason Project. General and administrative costs fluctuated throughout 2011 and 2010, primarily due to stock-based compensation expenses. During the three months ended June 30, 2011, Entrée sold its Australian listed securities and recorded a gain on sale of investments of \$2,148,021. During the three months ended September 30, 2011, the Company sold its asset backed notes and recorded a gain on sale of investments of \$1,178,254. In addition, in the three months ended June 30, 2011, Entrée sold the Rainbow Canyon property, and recorded a gain on sale of mineral property interest of \$125,916. During the three months ended December 31, 2011, Entrée sold the Togoot license and recorded a gain on sale of mineral property interest of \$1,474,640. Deferred income tax recovery was much higher in 2011, due to an increase in deferred tax assets related to expenditures on the Ann Mason Project.

**LIQUIDITY**

To date, Entrée has not generated revenues from its operations and is considered to be in the exploration stage. Working capital on hand at December 31, 2011 was \$19,004,136 and is sufficient to fund exploration, general and administrative expense and investor relations for the next twelve months. In order to advance its existing projects beyond the twelve months, and to consider acquiring any additional complementary projects, Entrée will have to raise additional funds. Cash and cash equivalents was \$14,512,198 and short-term investments was \$4,916,421 at December 31, 2011. To date, the Company has been dependent on equity financing for additional funding.

Under the terms of the Entrée-OTLLC Joint Venture, Entrée may be carried through to production on the Joint Venture Property, at its election, by debt financing from OTLLC with interest accruing at OTLLC's actual cost of capital or prime +2%, whichever is less, at the date of the advance.

**Operating activities**

Cash used in operations was \$22,390,021 for the year ended December 31, 2011 (December 31, 2010 - \$15,970,131) and represents expenditures primarily on mineral property exploration and secondarily on general and administrative expense for both periods.

**Financing activities**

Cash provided by financing activities during the year ended December 31, 2011 and 2010 and common shares issued for cash were as follows:

	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>	<b>Year Ended December 31, 2010</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
Marketed Offering	11,482,216	\$ 14,075,483	-	\$ -
Exercise of stock options	427,147	608,466	2,122,278	2,699,728
Share Issue Costs	-	(1,065,065)	-	(147,228)
	<b>11,909,363</b>	<b>\$ 13,618,884</b>	<b>2,122,278</b>	<b>\$ 2,552,500</b>

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**Investing activities**

During the year ended December 31, 2011, Entrée expended \$Nil (December 31, 2010 – \$7,388,397) related to the PacMag acquisition and cash and bond payments of \$839,644 (December 31, 2010 – \$258,367) related to other mineral property interests and recorded in other assets. Entrée also acquired \$837,263 cash on the acquisition of PacMag on June 30, 2010. During the year ended December 31, 2011, cash provided from short-term investments was \$5,076,271 (December 31, 2010 – \$Nil). During the year ended December 31, 2011, Entrée expended \$223,176 on equipment, primarily for exploration activities (December 31, 2010 – \$180,458). During the year ended December 31, 2011, Entrée sold its Australian listed securities for gross cash proceeds of \$3,174,208 and its asset backed notes for gross cash proceeds of \$2,560,687, net of taxes, sold its interest in the Rainbow Canyon property for gross cash proceeds of \$125,916 and sold its interest in the Togoot property for gross cash proceeds of \$1,365,475, net of taxes.

**Table of Contractual Commitments**

The following table lists as of December 31, 2011 information with respect to the Company's known contractual obligations.

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Year	Total
Office leases	\$ 286,412	\$ 389,173	\$ 413,544	\$ 86,723	\$ 1,175,852
Total	\$ 286,412	\$ 389,173	\$ 413,544	\$ 86,723	\$ 1,175,852

**Outstanding share data**

As at December 31, 2011, there were 127,016,788 common shares outstanding. In addition, there were 9,135,500 stock options outstanding with exercise prices ranging from C\$1.32 to C\$3.47 per share. As at March 29, 2012, there were 128,377,243 common shares outstanding. In addition, there were 10,865,000 stock options outstanding with exercise prices ranging from C\$1.25 to C\$3.47 per share. There were no warrants outstanding at December 31, 2011 or at March 29, 2012.

**CAPITAL RESOURCES**

Entrée had no commitments for capital assets at December 31, 2011.

At December 31, 2011, Entrée had working capital of \$19,004,136 compared to \$21,268,201 at December 31, 2010. Entrée believes that in order to advance its existing projects beyond the next twelve months, and to consider acquiring any additional complementary projects, it will have to raise additional funds.

Entrée is committed to make lease payments totalling \$1,175,852 over its six year office lease in Vancouver, four annual office leases in Ulaanbaatar, Colorado, Arizona, and Yerington, two annual warehouse leases in Yerington, and five leases for accommodations in Yerington.

**OFF-BALANCE SHEET TRANSACTIONS**

Entrée has no off-balance sheet arrangements except for the contractual obligation noted above.

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**TRANSACTIONS WITH RELATED PARTIES**

On March 25, 2011, Entrée entered into an agreement with Acrex Ventures Ltd. ("Acrex"), a company that was related by way of a common director at the date of the transaction, pursuant to which Acrex purchased a 100% interest in the Rainbow Canyon property for \$125,916 and a 3% NSR royalty, which may be bought down to a 1% NSR royalty for \$1 million.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

The Company must make estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes in these estimates may result in an increase or decrease to the tax provision in a subsequent period. The Company must assess the likelihood that we will be able to recover any deferred tax assets. If recovery is not likely, the provision for taxes must be increased by recording a valuation allowance against the deferred tax assets. However, should there be a change in the ability to recover any deferred tax assets, the tax provision would increase in the period in which it is determined that the recovery was not likely. Recovery of a portion of the deferred tax assets is impacted by Company plans with respect to holding or disposing of certain assets. Changes in economic conditions, exploration results, metal prices and other factors could result in changes to the estimates and judgements used in determining the income tax expense.

The Company capitalizes the cost of acquiring mineral property interests, including undeveloped mineral property interests, until the viability of the mineral interest is determined. Capitalized acquisition costs are expensed if it is determined that the mineral property has no future economic value. The Company must make estimates and judgments in determining if any capitalized amounts should be written down by assessing if future cash flows, including potential sales proceeds, related to the mineral property are estimated to be less than the property's total carrying value. The carrying value of each mineral property is reviewed periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Reductions in the carrying value of a property would be recorded to the extent that the total carrying value of the mineral property exceeds its estimated fair value.

The Company follows accounting guidelines in determining the value of stock option compensation, as disclosed in Note 9 to the Annual Financial Statements. Unlike other numbers in the accounts, this is a calculated amount not based on historical cost, but on subjective assumptions introduced to an option pricing model, in particular: (1) an estimate for the average future hold period of issued stock options before exercise, expiry or cancellation; and (2) future volatility of the Company's share price in the expected hold period (using historical volatility as a reference). Given that there is no market for the options and they are not transferable, the resulting value calculated is not necessarily the value the holder of the option could receive in an arm's-length transaction.

The Company's accounting policy is to expense exploration costs on a project by project basis consistent with US GAAP. The policy is consistent with that of other exploration companies that have not established mineral reserves. When a mineral reserve has been objectively established further exploration costs would be deferred. Management is of the view that its current policy is appropriate for the Company.

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## **CHANGES IN ACCOUNTING POLICIES**

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2011-12, *Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income (AOCI) in ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income*. ASU 2011-12 is effective for interim and annual reporting periods beginning after December 15, 2011. The Company does not expect its adoption to have a material impact on the Company's financial reporting and disclosures.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income, amending ASC 220*. ASU 2011-05 eliminates the current option under U.S. GAAP to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. Entities are required to present components of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also requires entities to present reclassification adjustments out of AOCI in the statements where the components of net income and the components of OCI are presented. Consequently, this requirement is deferred by ASU 2011-12 and will be reconsidered by the FASB at a future date. ASU 2011-05 is effective for interim and annual reporting periods beginning after December 15, 2011. The Company is currently presenting all components of comprehensive income in a single continuous statement of comprehensive income and accordingly the Company does not expect its adoption to have a material impact on the Company's financial reporting and disclosures.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, amending ASC 820*. ASU 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Accordingly, the amendments clarify the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of ASU 2011-04, but does not expect its adoption to have a material impact on the Company's financial reporting and disclosures.

A detailed summary of all of the Company's significant accounting policies and the estimates derived therefrom is included in Note 2 to the Annual Consolidated Financial Statements for the year ended December 31, 2011.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial assets and liabilities consist of cash and cash equivalents, short-term investments, receivables, deposits, long-term investments, accounts payable and accrued liabilities and loans payable, some of which are denominated in United States dollars, Mongolian Tugriks, Australian dollars, Peruvian Nuevo Sol and Chinese Renminbi. The Company is at risk to financial gain or loss as a result of foreign exchange movements against the Canadian dollar. The Company minimizes its foreign exchange risk by maintaining low account balances in currencies other than the Canadian dollar. The Company does not currently have major commitments to acquire assets in foreign currencies; but historically it has incurred the majority of its exploration costs in foreign currencies.

## **OTHER MD&A REQUIREMENTS**

### **Forward-Looking Statements**

This MD&A contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian securities laws.

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Forward-looking statements include, but are not limited to, statements with respect to the future prices of copper, gold and molybdenum, the estimation of mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production, costs of production and capital expenditures, the costs and timing of the development of new deposits, the potential for the discovery of additional mineralized zones on properties in which Entrée has an interest, the potential for the expansion of existing deposits in which Entrée has an interest, the timing of and potential for future resource estimates on properties in which Entrée has an interest, plans for future exploration and/or development programs and budgets, the potential for Entrée's inclusion in the Investment Agreement, the application of Resolution 175 to the Shivee Tolgoi and Javhlant licences, permitting time lines, currency fluctuations, requirements for additional capital, anticipated business activities, corporate strategies, proposed acquisitions and dispositions of assets, the use of proceeds from financings and future financial performance. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budgeted", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved". While the Company has based these forward-looking statements on its expectations about future events as at the date that such statements were prepared, the statements are not a guarantee of the Company's future performance and are subject to risks, uncertainties, assumptions and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Such factors and assumptions include, amongst others, that the size, grade and continuity of deposits and resource and reserve estimates have been interpreted correctly from exploration results, that the results of preliminary test work are indicative of what the results of future test work will be, that the prices of copper, gold and molybdenum will remain relatively stable, the effects of general economic conditions, changing foreign exchange rates and actions by government authorities including the Government of Mongolia, uncertainties associated with legal proceedings and negotiations and misjudgements in the course of preparing forward-looking statements. In addition, there are also known and unknown risk factors which may cause the actual results, performances or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to international operations, including legal and political risk in Mongolia; recent global financial conditions; actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of copper, gold and molybdenum; possible variations in ore reserves, grade recovery and rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining government approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risk" in this MD&A and in the section entitled "Risk Factors" in the AIF. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, readers should not place undue reliance on forward-looking statements.

## **Risk**

Entrée is a mineral exploration company and is exposed to a number of risks and uncertainties; some of these risks and uncertainties have been discussed elsewhere in this MD&A. For a more extensive discussion of risks and uncertainties to which Entrée is exposed, the reader should refer to the section titled "Risk Factors" contained in the Company's AIF available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Joint Venture Property forms part of the Oyu Tolgoi mining complex. Development of the Oyu Tolgoi mining complex may be subject to unexpected problems or delays for any number of reasons, including OTLLC's inability to raise the additional funding that it needs to complete the development of the Oyu Tolgoi mining complex, and lack of sophisticated electrical power and transportation infrastructure in proximity to the Oyu Tolgoi mining complex. In

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addition, OTLLC has effective control of the development of both the Oyu Tolgoi licence and the Joint Venture Property. The development of the Joint Venture Property may be adversely affected if OTLLC decides to delay or reduce development in favour of the immediate or complete development of the Oyu Tolgoi licence.

Although the Shivee Tolgoi and Javhlant licences in Mongolia are included in the contract area for the Investment Agreement, Entrée's interest in the Joint Venture Property and Shivee West are not covered by the Investment Agreement. There can be no assurance that Entrée's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. There is no assurance that provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances would be effective to restore the full value of Entrée's original investment or to compensate for the loss of the current value of its interest in the Lookout Hill property.

In June 2011, the Government of Mongolia passed Resolution 175, the purpose of which is to authorize the designation of certain land areas for "state special needs" within certain defined areas in proximity to the Oyu Tolgoi mining complex. These state special needs areas are to be used for infrastructure facilities necessary in order to implement the development and construction of the Oyu Tolgoi mining complex. Portions of the Shivee Tolgoi and Javhlant licences are included in the land area that is subject to Resolution 175. It is expected but not yet formally confirmed by the Government that to the extent that a consensual access agreement exists or is entered into between OTLLC and an affected licence holder, the application of Resolution 175 to the land area covered by the access agreement will be unnecessary. OTLLC has existing access and surface rights to the Joint Venture Property pursuant to the Earn-In Agreement. The Shivee Tolgoi and Javhlant licences are also part of the contract area of the Investment Agreement, which contains certain provisions respecting expropriation. If Entrée is unable to reach a consensual arrangement with OTLLC with respect to Shivee West, Entrée's right to use and access a corridor of land included in the state special needs areas for a proposed power line may be adversely affected by the application of Resolution 175. While the Mongolian Government would be responsible for compensating Entrée in accordance with the mandate of Resolution 175, the amount of such compensation is not presently quantifiable.

The ability of Entrée and its joint venture partner to conduct mining operations or exploration and development activities in Mongolia is subject to changes in legislation or government regulations or shifts in political attitudes beyond their control. Government policy may change to discourage foreign investment, nationalisation of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented.

Entrée is not presently a party to the Investment Agreement. Although OTLLC has agreed under the terms of the Earn-In Agreement to use its best efforts to cause Entrée to be brought within the ambit of, made subject to and to be entitled to the benefits of the Investment Agreement, unless and until Entrée becomes a party of the Investment Agreement or otherwise receives confirmation from the Government of Mongolia, there can be no assurance that Entrée will be entitled to all of the benefits of the Investment Agreement, including stability with respect to taxes payable. Until such time as Entrée becomes a party to the Investment Agreement, it could be subject to the new surtax royalty which came into effect in Mongolia on January 1, 2011. The rates of the new surtax royalty vary from 1% to 5% for minerals other than copper. For copper, the surtax royalty rates range between 22% and 30% for ore, between 11% and 15% for concentrates, and between 1% and 5% for final products. No surtax royalty is charged on any minerals below a certain threshold market price, which varies depending on the type of minerals. This is in addition to the standard royalty rates of 2.5% for coal sold in Mongolia and commonly occurring minerals sold in Mongolia, and 5% for all other minerals. In order to become a party to the Investment Agreement, the Government of Mongolia may require Entrée or the Entrée-OTLLC Joint Venture to agree to certain concessions, including with respect to the ownership of the Entrée-OTLLC Joint Venture or the scope of the lands to be covered by the Investment Agreement.

Entrée is and will be subject to the risks normally associated with the conduct of joint ventures, which include disagreements as to how to develop, operate and finance a project and possible litigation between the participants regarding joint venture matters. These matters may have an adverse effect on Entrée's ability to realize the full economic benefits of its interest in the property that is the subject of a joint venture, which could affect its results of operations and financial condition.

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Recent global financial and market conditions have been subject to increased volatility as a result of, among other things, apprehension over the ongoing debt crisis in the Eurozone and Japan, and concerns that the Chinese economy is slowing, which may impact the ability of Entrée to obtain equity or debt financing in the future and, if obtained, on terms favourable to Entrée. If Entrée cannot raise the money that it needs to continue exploration of its mineral properties, there is a risk that Entrée may be forced to delay, scale back, or eliminate certain of its exploration activities. If these increased levels of volatility and market turmoil continue, Entrée's operations could be adversely impacted and the value and the price of the Company's common shares could be adversely affected.

The estimates of reserves and resources, including the anticipated tonnages and grades that will be achieved or the indicated level of recovery that will be realized, are estimates only and no assurances can be given as to their accuracy. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or formations may be different from those predicted. Reserve and resource estimates are materially dependent on prevailing market prices and the cost of recovering and processing minerals at the mine site. Market fluctuations in the price of metals or increases in the costs to recover metals may render the mining of ore reserves uneconomical and materially adversely affect operations.

There is no assurance that a commercially viable mineral deposit exists on any of the exploration properties in which Entrée has an interest. 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. Most of the above factors are beyond the control of Entrée. If mineral reserves in commercially exploitable quantities are established on any of Entrée's properties (other than the Joint Venture Property, in which Entrée has a carried interest), Entrée will be required to expend substantial sums of money to establish the extent of the resource, develop processes to extract it and develop extraction and processing facilities and infrastructure. Although Entrée may derive substantial benefits from the discovery of a major deposit, there can be no assurance that such a resource will be large enough to justify commercial operations, nor can there be any assurance that Entrée will be able to raise the funds required for development on a timely basis. Entrée may be required to acquire rights to additional lands in order to develop a mine if a mine cannot be properly located on Entrée's properties. There can be no assurance that Entrée will be able to acquire such additional lands on commercially reasonable terms, if at all.

The shareholdings of each of Ivanhoe Mines and Rio Tinto in the Company together with Rio Tinto's pre-emptive rights, and Rio Tinto Holdings' 51% interest in Ivanhoe Mines, potentially give Ivanhoe Mines and Rio Tinto the voting power to influence the policies, business and affairs of Entrée and the outcome of any significant corporate transaction or other matter, including a merger, business combination or a sale of all, or substantially all, of Entrée's assets. In addition, OTLLC has operational control over the Joint Venture Property. OTLLC also has a right of first refusal with respect to any proposed disposition by Entrée of an interest in Shivee West, which is not subject to the Entrée-OTLLC Joint Venture. The share position in the Company of each of Ivanhoe Mines and Rio Tinto and the other rights of each may have the effect of delaying, deterring or preventing a transaction involving a change of control of the Company in favour of a third party that otherwise could result in a premium in the market price of the Company's common shares in the future.

Entrée must comply with licence and permitting requirements. In Mongolia, the Shivee Tolgoi and Javhlant exploration licences were converted to mining licences on October 27, 2009. These licences now have a term of 30 years, with two potential extensions of 20 years each. The total estimated annual fees in order to maintain the Shivee Tolgoi and Javhlant mining licences in good standing is \$1,100,000. Approximately \$500,000 of the total is recoverable from OTLLC.

In Nevada, maintenance fees must be paid to the Bureau of Land Management annually. For the 2011 assessment year, the aggregate fee for the Ann Mason Project is approximately \$138,000.



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In both Mongolia and Nevada, Entrée must comply with environmental regulations that govern air and water quality and land disturbance and provide mine reclamation and closure costs.

**Disclosure Controls and Procedures**

Management is responsible for establishing and maintaining disclosure controls and procedures, which provide reasonable assurance that material information relating to the Company and its subsidiaries is accumulated and communicated to management to allow timely decisions regarding required disclosure. Management has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2011 and believes its disclosure controls and procedures are effective.

**Internal Control over Financial Reporting**

Management is responsible for designing internal control over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Management evaluated the Company's internal control over financial reporting at December 31, 2011 and concluded that it is effective and that no material weakness relating to design or operations exists. No change in the Company's internal control over financial reporting occurred during the period beginning on October 1, 2011 and ended on December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Cautionary Note to United States Investors - Canadian Disclosure Standards in Mineral Resources and Mineral Reserves**

The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with NI 43-101 under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as may be amended from time to time by the CIM.

The definitions of proven and probable reserves used in NI 43-101 differ from the definitions in the SEC Industry Guide 7. Under SEC Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three year history average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and normally are not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases.

Accordingly, information contained in this MD&A containing descriptions of our mineral deposits may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

**International Financial Reporting Standards**

The Company is a "domestic" issuer under Canadian securities law and a "foreign private issuer" under SEC regulations. The Company files its financial statements with both Canadian and U.S. securities regulators in accordance with US

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GAAP, as permitted under current regulations. In 2008, the Accounting Standards Board in Canada and the Canadian Securities Administrators (CSA) confirmed that domestic issuers were required to transition to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. On June 27, 2008, the CSA Staff issued Staff Notice 52-321 "Early Adoption of International Financial Reporting Standards, Use of US GAAP and References to IFRS-IASB" which confirmed that domestic issuers that are also SEC registrants are able to continue to use US GAAP. Consequently, the Company is not required to convert to IFRS effective January 1, 2011 and has elected to continue using US GAAP.