

ENTREE GOLD INC
Form 6-K
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULES 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the period ended March 31, 2006

Commission File Number: 001-32570

ENTRÉE GOLD INC.

1201-1166 Alberni Street Vancouver, British Columbia V6E 3X3

Tel: (604) 687-4777 Fax: (604) 687-4770

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F [] Form 40-F []

Indicate by check mark whether the registrant by furnishing the information in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [] No []

ENTRÉE GOLD INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2006

(In United States Dollars unless stated otherwise)

1.

INTRODUCTION

This discussion and analysis of financial position and results of operations (MD&A) and cash flows of Entrée Gold Inc. (the Company) should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three months ended March 31, 2006 and the audited consolidated financial statements of the Company for the year ended December 31, 2005. Additional information relating to the Company, including the Company's Annual Information Form is available on SEDAR at www.sedar.com. The effective date of this MD&A is May 9, 2006.

The annual financial statements have been prepared by the Company in conformity with generally accepted accounting principles in the United States of America (US GAAP). US GAAP differs in certain material respects from accounting principles generally accepted in Canada (Canadian GAAP) (See Note 13 to the annual financial statements for the year ended December 31, 2005).

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

As used in this quarterly report, the terms "we", "us", "our", the Company and "Entrée" mean Entree Gold Inc. and our wholly-owned Mongolian subsidiary Entrée LLC, unless otherwise indicated.

This MD&A contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors" that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

ENTRÉE GOLD INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2006

(In United States Dollars unless stated otherwise)

2.

OVERVIEW

We are an exploration stage resource company engaged in exploring mineral resource properties. Our current mineral properties consist of eight mineral exploration licenses granted by the Mineral Resources and Petroleum Authority of Mongolia, a division of the government of Mongolia. All of these mineral exploration licenses have been registered in the name of our Mongolian subsidiary Entrée LLC.

There is no assurance that a commercially viable mineral deposit exists on any of our properties, and further exploration is required before we can evaluate whether any exist and, if so, whether it would be economically and legally feasible to develop or exploit those resources. Even if we complete our current exploration program and we are successful in identifying a mineral deposit, we would be required to spend substantial funds on further drilling and engineering studies before we could know whether that mineral deposit will constitute a reserve (a reserve is a commercially viable mineral deposit).

Equity Participation and Earn-In Agreement with Ivanhoe Mines Ltd.

We entered into an arm's-length Equity Participation and Earn-In Agreement dated October 15, 2004, with Ivanhoe Mines Ltd. (Ivanhoe), an unrelated Yukon corporation which owns a mineral exploration property known as Oyu Tolgoi, or 'Turquoise Hill', which is located adjacent to our Lookout Hill property. This agreement provided that, upon satisfaction of certain conditions, Ivanhoe Mines Ltd. would:

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subscribe for 4,600,000 units of our company for C\$1.00 per unit, with each unit consisting of one common share of our company and one share purchase warrant entitling the holder to purchase one additional common share of our

company for a purchase price of C\$1.10 for two years from the date of purchase.

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have the right, during an earn-in period beginning on closing of the subscription for units and ending, at the latest, on the eighth anniversary of that closing date (subject to earlier expiration as specified in the agreement), to earn a participating interest in a mineral exploration and, if warranted, development and mining project to be conducted by Ivanhoe Mines Ltd. on a portion of our company's Lookout Hill property consisting of approximately 40,000 hectares, or approximately 22% of the land area of our Lookout Hill property shown on the map below. The amount of the participating interest in the project will vary depending on the amount of money that Ivanhoe. expends on the project during the earn-in period, but the agreement provides that Ivanhoe can earn a 51% interest by expending an aggregate of at least \$20,000,000 during the earn-in period, a 60% interest by expending an aggregate of at least \$27,500,000 during the earn-in period, or a sliding percentage interest, depending on the depth from which minerals are extracted from the project, of between 70% and 80% by expending an aggregate of at least \$35,000,000 during the earn-in period.

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have the right to nominate one member of our Board of Directors until the earlier to occur of (a) the expiration of the earn-in period, or (b) the date upon which Ivanhoe ceases to own at least ten percent (10%) of our issued and outstanding common shares (assuming the exercise by Ivanhoe of all securities convertible into our common shares).

In addition, the Equity Participation and Earn-In Agreement gives to Ivanhoe a pre-emptive right to such percentage of any offering of securities of our company as will enable them to preserve their ownership percentage in our company.

The portion of our property subject to the Equity Participation and Earn-In Agreement, which is referred to in the agreement as the "Project Property", is shown below:

We closed the private placement described in the Equity Participation and Earn-In Agreement on November 9, 2004, at which time Ivanhoe purchased the 4,600,000 units described above.

We believe that the Equity Participation and Earn-In Agreement represents a significant milestone in the development of our company. It has enabled us to raise money that we can use to pursue our exploration activities on the balance of our Lookout Hill property and elsewhere. It has the potential, depending on how much money Ivanhoe actually expends on the project during the earn-in period, to enable the exploration of that portion of our Lookout Hill property at little or no cost to our company. Finally, their commitment to explore our property demonstrates that Ivanhoe, an internationally recognized mineral exploration and development company, has sufficient confidence in our company and our Lookout Hill property to invest significant time, money and effort in our future.

Investment by Rio Tinto plc and Subsequent Investment by Ivanhoe

In June 2005, Rio Tinto plc (one of the world's largest mining and exploration companies), through its wholly owned subsidiary, Kennecott Canada Exploration Inc (collectively, "Rio Tinto") completed a private placement into Entrée, whereby they purchased 5,665,730 units at a price of \$C2.20 per unit, which consisted of one Entrée common share and two warrants (one "A" warrant and one "B" warrant). Two "A" warrants entitle Rio Tinto to purchase one Entrée

common share for C\$2.75 within two years; two B warrants entitle Rio Tinto to purchase one Entrée common share for C\$3.00 within two years. Proceeds from Rio Tinto's investment were \$10,170,207. Ivanhoe exercised its pre-emptive right to maintain proportional ownership of Entrée's shares and thereby exercised its warrant for 4,600,000 shares at C\$1.10, resulting in proceeds to Entrée of \$4,069,214. In July Ivanhoe took part in the private placement, purchasing 1,235,489 units, resulting in further proceeds to Entrée of \$2,217,209. Rio Tinto purchased an additional 641,191 units of the private placement to maintain proportional ownership, resulting in further proceeds of \$1,150,681.

At March 31, 2006, Ivanhoe owned approximately 14.8% of Entrée's issued and outstanding shares with the potential to hold up to a total of 16.3% upon the exercise of warrants.

At March 31, 2006, Rio Tinto owned approximately 8.9% of Entrée's issued and outstanding shares with the potential to hold up to a total of 16.4% upon the exercise of warrants.

Ivanhoe is required to vote their shares as our board of directors direct on all matters pertaining to the appointment of directors, the appointment and remuneration of our auditors and all other matters to be submitted to our shareholders except for extraordinary matters. Extraordinary matters are matters requiring a special majority (66.33%), the vote of a majority of disinterested shareholders and matters where Ivanhoe is precluded from voting. Should Rio Tinto acquire more than 10% of Entrée's issued and outstanding shares, the same condition would apply to Rio Tinto.

We believe that the additional investment by Rio Tinto represents a strong endorsement by one of the world's largest mining companies of Entrée's management and property holdings. We believe that Entrée is in sound financial condition and well positioned to build upon the value of our company, both in terms of our arrangement with Ivanhoe and our exciting and promising prospects elsewhere. As part of our ongoing strategy, we are also actively seeking quality acquisitions to complement our existing portfolio. In February 2006, Entrée announced the acquisition of three licenses in northwestern Mongolia, collectively referred to as the Oyut Tolgoi project.

Mineral Resource Estimate

On February 1, 2006, Entrée announced that a new mineral resource estimate prepared by Ivanhoe under the supervision of AMEC Americas Limited (AMEC) had delineated an initial inferred resource for the northern extension of the Hugo North deposit (the Hugo North Extension) on the Copper Flats area of Entrée's Shivee Tolgoi property, in Mongolia's South Gobi region.

This initial Copper Flats inferred resource is estimated to be 190 million tonnes at an average grade of 1.57% copper and 0.53 grams of gold per tonne (g/t) for a copper equivalent grade of 1.91%, at a 0.6% copper equivalent cut-off, comprising approximately 6.6 billion pounds of copper and 3.2 million ounces of gold.

Our corporate headquarters are located in Vancouver, British Columbia, but we conduct all of our operations in Mongolia through our wholly-owned subsidiary, Entrée LLC. We maintain an office for this purpose in Ulaanbaatar, the capital of Mongolia. Our Mongolian office is staffed by our Vice-President, Exploration, a Canadian geologist who works in Ulaanbaatar for 11 months of the year on a 7 weeks in/3 weeks out basis; a Mongolian office administrator employed full-time, two Mongolian office assistant, on contract for 11 months per year, and a full-time accountant.

Listing of Common Stock on Other Stock Exchanges

On July 7, 2005, the American Stock Exchange approved the listing of 86,807,154 shares of our common stock. The trading of our shares of common stock commenced on the American Stock Exchange effective July 18, 2005, under the trading symbol EGI . On April 24, 2006, Entrée began trading on the Toronto Stock Exchange and discontinued trading on the TSX Venture Exchange. The trading symbol remains ETG . The Company is also traded on the Frankfurt Stock Exchange.

1.

REVIEW OF OPERATIONS

Results of operations are summarized as follows:

| | Three Months ended March 31, 2006 | Three Months ended March 31, 2005 |
|----------------------------------|--------------------------------------|--------------------------------------|
| Mineral property interests, cash | \$ 423,581 | \$ 816,317 |
| Escrow shares compensation | - | (475,056) |
| Stock based compensation | 240,393 | 2,518,054 |
| General and administrative | 462,999 | 301,799 |
| Depreciation | 44,455 | 16,892 |
| Investor Relations | 752,067 | 48,609 |
| Interest income | (191,719) | (29,592) |
| Net Loss | \$ 1,731,776 | \$ 3,197,023 |

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(In United States Dollars unless stated otherwise)

Mineral properties expenditures are summarized as follows: