ERDENE GOLD INC.

Management Discussion and Analysis
Second Quarter – June 30, 2005

This interim Management Discussion and Analysis of Erdene Gold Inc. (the "Company") provides analysis of the Company's financial results for the three and six months ended June 30, 2005 and its financial position as at June 30, 2005. The following discussion and analysis provides a summary of selected consolidated financial information for the three and six month period ended June 30, 2005 and 2004, and includes financial information relating to the Company and its wholly owned subsidiaries, Erdene Gold International Inc. and Erdene International Exploration Inc., both of which are incorporated under the laws of Barbados, as well as Erdene Mongol XXK and Erdene Energy XXK, both of which are incorporated under the laws of Mongolia. The consolidated financial statements of the Company have been prepared by management, in Canadian dollars, in accordance with Canadian generally accepted accounting principles (see note 1: Summary of Significant Accounting Policies). The following information should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and six months ended June 30, 2005 and 2004, and the audited consolidated financial statements of the Company for the year ended December 31, 2004, including all accompanying notes to the consolidated financial statements.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

1.1 Date of report

This report is prepared as of August 10, 2005

1.2 Nature of Business and Overall Performance

The Company is a resource company listed on the TSX Venture Exchange under the trading symbol "ERD" with no operating cash flow and whose level of expenditures is dependent on the sale of share capital to finance its exploration programs. As a result, the Company has no current sources of revenue other than interest earned on cash and short-term money market instruments, all of which was derived from issuances of share capital. Therefore, it is difficult to identify any meaningful trends or develop an analysis from the Company's cash flows.

The Company is a well-funded mineral resource company engaged in the acquisition and exploration of mineral properties in Mongolia, with emphasis on the discovery of gold, copper-gold, molybdenum and uranium deposits. The Company's resource property portfolio under license, application and option includes 21 precious and base metal properties in Mongolia that are represented by 80 exploration licenses and applications covering approximately 2,000,000 hectares and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company's commenced its 2005 exploration field work activities in April, 2005. The objective of the overall 2005 exploration program is to conduct advanced level programs on each of its four core Mongolian projects, Zuun Mod, Virgin, Erdenet and the Uranium land package, conduct programs on each of its four second tier projects, Wild Mountain, Shurtiin Khundii, Biger and Tsenkher Gol, to ascertain the potential to advance these properties to core projects and perform more preliminary, reconnaissance exploration activities on a number of its remaining 16 early-stage properties.

The Company's exploration program is led by a senior management team with extensive exploration experience in Mongolia. The total budget for 2005 is approximately $5.0 million. The Company will continue to fund operating losses and exploration expenditures out of existing working capital that amounted to $7.2 million at June 30, 2005.

1.3 Selected Annual Information

The following information has been extracted from the Company's audited consolidated financial statements.

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December 31	**2004**	**2003**	**2002**
Revenues	$ 198	$ 9	$ -
Loss for the year	$ 4,437	$ 629	$ 76
Basic and diluted loss per share	$ 0.19	$ 0.14	$ 0.05
Total assets	$ 9,426	$ 4,161	$ 445
Total long-term liabilities	$ -	$ -	$ -
Cash dividends declared	Nil	Nil	Nil

All financial data has been prepared in accordance with Canadian generally accepted accounting principles.

1.4 Results of Operations

Three months ended June 30, 2005 and 2004

As a mineral exploration company, the majority of the Company's revenue is derived from interest income earned on cash balances. All direct costs related to the acquisition of resource property interests have been capitalized. Exploration expenses are charged to operations in the period incurred until such time as it has been determined that a property has potential for economically recoverable reserves, at which point subsequent exploration costs and the costs incurred to develop a property will be capitalized.

During the three months ended June 30, 2005 the Company incurred a loss of $1,691,542 or $0.06 per share as compared to a loss of $703,271 or $0.03 per share in the corresponding period in 2004. Revenues decreased to $52,646 during the three months ended June 30, 2005 from $62,524 in 2004, which was due primarily to lower interest as a result of lower cash balances.

Total operating expenses for the second quarter increased to $1,763,090 from $753,237 in the same period in 2004. Exploration expenses were $1,358,586 in 2005 as compared to $446,270 during the same period in 2004. The increase in 2005 is due to commencement of the 2005 field work earlier than in

2004 including a diamond drill program which began at the Zuun Mod property in April, 2005. In 2004, preparatory work for the 2004 season was delayed until completion of the Company's initial public offering in March, 2004. Exploration partner contributions of $294,128 are expense recoveries related to exploration costs incurred by the Company on its uranium properties as operator. These costs are recoverable from the Company's joint venture partner, International Uranium Corporation. General and administrative expenses for the second quarter 2005 were $404,504 compared to $306,967 for the same period in 2004. The increase is due primarily to stock-based compensation of $61,268 included in 2005 with no corresponding amount in the 2004 period and additional administrative support for the expanded 2005 exploration program.

Six months ended June 30, 2005 and 2004

During the six months ended June 30, 2005 the Company incurred a loss of $2,198,930 or $0.08 per share as compared to a loss of $910,370 or $0.04 per share in the corresponding period in 2004. Revenues increased to $102,722 during the six months ended June 30, 2005 from $87,511 in 2004 which was due to a gain on the sale of resource properties of $9,166 and miscellaneous revenue of $6,021. Interest revenue remained virtually constant during both six month periods at $87,535 and $87,511 for 2005 and 2004. In 2004, the proceeds of the initial public offering in March generated higher interest in the second quarter of 2004 as compared to 2005 which offset comparably lower interest earned in the first quarter of 2004 prior to the initial public offering.

Total operating expenses for the six months ended June 30, 2005 increased to $2,379,177 from $985,227 in the same period in 2004. Exploration expenses were $1,743,813 in 2005 as compared to $539,379 during the same period in 2004. The increase in 2005 is due to commencement of the 2005 field work earlier than in 2004 including a diamond drill program which began at the Zuun Mod property in April, 2005 and continued throughout the second quarter and a Titan deep geophysics program conducted within the Temuujin District of the Virgin property during the second quarter 2005. There were no such major expenditures incurred in the second quarter of 2004. Also included in the 2005 exploration expenses is $84,475 of stock based compensation representing the estimated fair value for options issued to individuals involved in exploration activities. In 2004, preparatory work for the 2004 season was delayed until completion of the Company's initial public offering in March, 2004. General and administrative expenses for the first half of 2005 were $635,364 compared to $445,848 for the same period in 2004. The increase is due to stock-based compensation of $61,268 included in 2005 with no corresponding amount in the 2004 period and additional administrative support for the expanded 2005 exploration program.

1.5 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2005		Fiscal 2004			
	Q2 Jun-05	Q1 Mar-05	Q4 Dec-04	Q3 Sep-04	Q2 Jun-04	Q1 Mar-04
Revenue	$ 53	$ 35	$ 43	$ 67	$ 63	$ 25
Loss	$ 1,692	$ 507	$ 1,110	$ 2,417	$ 703	$ 207
Basic and diluted loss per share	$ 0.06	$ 0.02	$ 0.04	$ 0.11	$ 0.03	$ 0.01
Total Assets	$ 9,375	$ 9,806	$ 9,426	$ 11,022	$ 12,578	$ 13,319

This financial data has been prepared in accordance with Canadian generally accepted accounting principles and all figures are stated in Canadian dollars.

The Company became a reporting issuer in March, 2004 upon the successful completion of an Initial Public Offering. Accordingly, quarterly information has not been filed prior to Q1 of 2004.

1.6 Liquidity and Capital Resources

As of June 30, 2005 the Company had working capital of $7.2 million as compared to $8.5 million at December 31, 2004 and $11.8 million at June 30, 2004. The decrease in working capital is attributable primarily to operating expenditures since the Company's initial public offering in March 2004. Current working capital is sufficient to fund the company's remaining 2005 budgeted expenditures of $2.4 million and meet its property and contractual commitments for the next 36 months. The timing for additional financing will be determined largely by the results of the exploration program currently underway. During the first six months of 2005, 25,000 options and 8,225 warrants were exercised at $0.85 per share for total cash proceeds of $29,475.

On March 1, 2005 the Company entered into an agreement with Gallant Minerals Limited ("Gallant") to acquire certain uranium property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and an exclusive and irrevocable option to acquire all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane International Limited ("Tamerlane") which controls 100% ownership of mineral properties in Mongolia. On signing, the Company released to Gallant US $75,000, 400,000 common shares of the Company and 800,000 warrants with each warrant entitling Gallant to purchase one common share of the Company for prices ranging from $0.60 to $1.00 for a period of 24 months from the date of issue. The consideration provided to Gallant has been recorded by the Company as other assets and to June 30, 2005, has an ascribed value of $984,440. This includes stock-based compensation representing the estimated fair value of the warrants issued on the date granted of $396,830.

The Company granted 300,000 options during the first half of 2005. The fair value of the options granted, calculated using the Black-Scholes model amounted to $145,743. Of this amount, $84,475 was reported under exploration expenses and the remaining $61,268 was reported under general and administrative expenses.

During the six months ended June 30, 2005, $49,373 was spent on the purchase of capital assets as compared with $70,742 in 2004. The 2005 and 2004 expenditures relate primarily to the purchase of computer, office and field equipment to support the exploration program.

Other than as discussed herein, the Company is not aware of any trends, demands, commitments, events or uncertainties that may result in the Company's liquidity or capital resources either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Company's liquidity and capital resources will be substantially determined by the success or failure of the Company's exploration programs on its resource properties and its ability to obtain sufficient equity financing.

1.7 Off-Balance Sheet Arrangements

As at June 30, 2005 the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

1.8 Transactions with Related Parties

See Note 4 to the unaudited interim consolidated financial statements at June 30, 2005.

1.9 Critical Accounting Estimates and Changes in Accounting Policies Including Initial Adoption

A detailed summary of the Company's accounting policies and any estimates derived there from is described in Note 1 of the June 30, 2005 unaudited consolidated financial statements.

In the first quarter of 2005, the company changed its depreciation policy on computer equipment and software. The annual depreciation rate was increased to 33.3%, from 20% previously. Other than this change in depreciation rates, the accounting policies applied in the preparation of the June 30, 2005 unaudited consolidated financial statements did not differ from those applied in the preparation of the December 31, 2004 audited financial statements.

1.10 Financial Instruments and Other Risks

The Company's financial instruments consist of cash, accounts receivable, prepaid expenses and accounts payable. Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

In conducting its business, the principal risks and uncertainties faced by the Company relate primarily to exploration results and, to a lesser extent, metal prices. Exploration for minerals and development of mining operations involve many risks, many of which are outside the Company's control. In addition to the normal and usual risks of exploration and mining, the Company works in remote locations that lack the benefit of infrastructure and easy access.

At this stage in the Company's development it relies on equity financing for its long-term working capital and capital requirements and to fund its exploration programs. Future equity financing could be adversely or positively affected by many factors outside the Company's control such as market or commodity price changes, changes in the value of the Canadian dollar against the US dollar and/or the Mongolian Togrog, general economic conditions, exploration results or political or economic changes in Mongolia. The Company does not have sufficient funds to put any of its properties into commercial production from its current financial resources. There is no assurance that such financing will be available to the Company when required, or that it will be available on acceptable terms.

1.11 Outstanding Share Data

a) Share Capital:

Authorized and issued

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	26,232,135	$16,340,199	25,798,910	$ 15,906,210
Issued for cash	1,000,000	1,000,000	1,000,000	$1,000,000
Issued pursuant to option agreement	-	-	400,000	400,000
Issued on exercise of options and warrants	-	-	33,225	28,242
Amount reclassified from contributed surplus upon exercise	-	-	-	5,747
Balance, end of period	27,232,135	$17,340,199	27,232,135	$ 17,340,199

b) Warrants

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	2,626,775	$0.70	1,835,000	$ 0.63
Exercised	-	-	(8,225)	0.85
Issued	-	-	800,000	0.87
Closing balance	2,626,775	$0.70	2,626,775	$ 0.70

The following is a summary of the warrants outstanding as of June 30, 2005:

Expiry Date	Number of Warrants	Exercise Price
March 16, 2006	866,775	$0.85
February 28, 2007	800,000	$0.87
January 23, 2008	960,000	$0.425
	2,626,775	$0.70

c) Options

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	1,770,000	$0.67	1,795,000	$0.67
Exercised	-	-	(25,000)	$0.85
Issued	300,000	$0.72	300,000	$0.72
Closing balance	2,070,000	$0.67	2,070,000	$0.67

The following is a summary of the options outstanding as of June 30, 2005:

Expiry Date	Number of Options	Exercise Price
June 30, 2006	40,000	$0.85
May 8, 2008	400,000	$0.425
November 19, 2008	370,000	$0.425
March 31, 2009	100,000	$0.85
April 6, 2009	760,000	$0.85
August 26, 2009	100,000	$0.85
February 4, 2010	200,000	$0.70
March 30, 2010	10,000	$0.70
May 1, 2010	90,000	$0.77
	2,070,000	$0.67

d) Stock-based Compensation:

The Company estimates the fair value of stock-based incentives using the Black-Scholes model, recognized over their vesting period. The fair value of the 1,100,000 warrants and options granted during the three and six months ended June 30, 2005 were calculated assuming no dividends are to be paid and with the following weighted average assumptions:

Risk-free interest rate	3.5%
Expected volatility	80%
Expected life of the option	Option Period

The estimated fair value of the 1,100,000 warrants and options granted during the reporting period under the Black-Scholes model was $542,573 and is presented in these financial statements as follows:

Other assets	$396,830
Exploration expenses	$ 84,475
General and administrative	$ 61,268

1.12 Exploration Results

Exploration Overview

During the second quarter 2005, the Company entered into an Agreement with International Uranium Corporation (IUC) (TSX:IUC) of Vancouver, British Columbia to provide IUC with the option to acquire a majority interest in the Company's Mongolian uranium assets by spending CDN$6 million over four years. Exploration commenced in April 2005 with Erdene as operator for the 2005 exploration program. The company also entered into an agreement with Erdenet Mining Corporation (EMC), Mongolia's largest mining company and operator of the Erdenet copper-molybdenum mine. The agreement forms the basis for a strategic alliance and joint exploration program being carried out immediately west of the mine site. The objective of this new alliance is to explore for and develop new porphyry-style copper deposits or extensions of mineralization in areas adjacent to EMC's current mining operations.

These agreements provide the Company's shareholders with high quality partners in Mongolia. These agreements are a result of the Gallant Minerals acquisition discussed in the first quarter report. The quarter included exploration start-up on a large number of properties throughout Mongolia including the Galshar uranium projects, the Zuun Mod molybdenum-copper porphyry project, the Temuujin copper-gold porphyry project, the Biger copper-gold-platinum project, the Shurtiin Khundii copper-gold project, and the Wild Mountain gold-copper property as well as regional exploration in multiple locations.

The following is a brief description of the work completed in the second quarter:

Zuun Mod Molybdenum-Copper Porphyry Project

A Phase I diamond drilling program was initiated at the Zuun Mod molybdenum-copper porphyry project. Drilling during the quarter included nine holes totaling 2,672.8 metres. Final assay results are pending receipt of additional reports from SGS Laboratories and a final report on the Quality Control and Analysis program. Visual results have confirmed the presence of moderate molybdenum mineralization in drill core from the southeast portion of the property where previous drilling (hole KKMD-03) had encountered significant molybdenum mineralization. Based on encouragement from the Phase I drilling program, the Company committed to resume drilling in the third quarter. The Zuun Mod property is located less than 200 kilometres from the Chinese border in southwestern Mongolia, where rail and high voltage power generation facilities are being constructed to service the Jiaguan Iron and Steel complex located in

China's Gansu Province. The facilities are being built to source raw materials from Mongolia's Gobi desert region.

Erdenet - Ikh Tal Project

Drilling commenced late in the quarter on the Ikh Tal - Erdenet West prospect with an initial three-hole drilling program totaling approximately 1,000 metres. The drilling program is targeting near-surface coincident IP chargeability and resistivity anomalies, approximately 1.5 kilometres long by 0.5 kilometres wide, along an east-west trend in an area where previous satellite imagery and surface geochemistry returned anomalous values. The target area has been further strengthened by an IP dipole-dipole survey that has outlined coincident chargeability and resistivity anomalies, which indicate the surface geophysical signatures extend to depth. The drilling program is designed to test these anomalies and is expected to take several weeks. As announced on June 7, The Company has entered into an exploration agreement with Erdenet Mining Corporation (EMC) to explore for porphyry copper-molybdenum deposits adjacent to their existing mine. The Company controls a significant land position immediately surrounding the EMC deposit, the second-largest porphyry copper deposit in Central Asia and one of the world's largest producing copper mines.

Uranium Properties

Field evaluations, scintilometer surveys and sampling over the entire 1.3 million hectare land package was underway throughout the quarter. Multiple previously-documented uranium occurrences and radiometric anomalies have been evaluated for sediment-hosted, near-surface, uranium mineralization. In addition, more than 50 previously undocumented high-background radiometric anomalies have been identified by the Company's exploration team. The IUC-Erdene joint venture properties are situated in the central sedimentary basins of southeast Mongolia which host significant uranium resources and are located proximal to the Trans-Mongolian Railway which enters China to the south. Senior management representatives of the Company and IUC visited the Mongolian field projects in late June to review progress to date and to finalize the exploration program for the remainder of this year's field season. Several of the Company’s properties are in proximity to IUC's (70% interest) known uranium deposits. IUC's past work on these deposits has included nearly 150,000 metres of drilling and operation of two successful in-situ leach mining pilot tests. The uranium mineralization is hosted in Cretaceous age sediments derived from weathered crystalline basement rocks. Grades are typically in the 0.05% to 0.5% U_3O_8 range. The deposits are relatively thin tabular bodies and occur at shallow depths (less than 150 metres).

Virgin Property – Temuujin Prospect

In early June, a 'TITAN-24 Deep Earth Imaging System' survey was completed over the Temuujin II porphyry copper-gold prospect. Titan is a state-of-the-art geophysical system developed and operated by Quantec Geosciences Inc. of Canada. This system offers the potential to identify mineral anomalies at depths ranging from near surface to greater than 1,000 metres below the earth's surface. The survey was successful in identifying an induced polarization (IP) anomaly that distinctly intensifies below the two holes drilled at Temuujin II. This has been interpreted as indicating an increase in the intensity of mineralization with depth. According to Quantec's geophysicist, the extent and amplitude of the interpreted IP zones are significant in terms of exploration for a deep porphyry copper target, based on similar results which have been obtained over existing porphyry copper deposits in Mongolia. Given these encouraging results, the Company has committed to test this anomaly with deep drilling in the third quarter.

Erdenet's 2004 drilling program confirmed a porphyry-related deposit environment, particularly at Temuujin II. Two holes were drilled 600 metres apart at Temuujin II, both of which intersected porphyry-related alteration and mineralization, including anomalous copper, gold, silver and zinc values. Alteration increased in the system at depth accompanied by increased copper-gold values, particularly in drill hole TDD-02 drilled to a depth of 540 meters. The alteration and mineralization encountered is typical of the upper portion of a zoned porphyry system.

The Temuujin project is situated within the inferred northeast continuation of the island-arc environment which hosts significant copper-gold porphyry mineral deposits, including the world-class Hugo deposit at Oyu Tolgoi. The Company's exploration to date has focused on the 20 kilometre by 8 kilometre Temuujin district in the northeast part of the 95 kilometre long Virgin claim block.

Biger Project

The Company completed a three-hole, 610 metre diamond drilling program on the Biger property. Visual results indicated minor copper mineralization in granodiorite. Final results and interpretation are pending and will be included in the third quarter report.

Shurtiin Khundii Project

The Company completed a three-hole, 421 metre diamond drilling program on the Shurttin Khundii property. Results indicated minor anomalous copper and gold mineralization in restricted zones. Final results and interpretation are pending, however no further work is anticipated on this property.

Wild Mountain Property

In 2004, Erdene discovered significant, widespread copper and gold mineralization on the Wild Mountain property in two uniquely different areas. Geological mapping indicates that one of the mineralized areas is related to a volcanogenic type massive sulphide environment while the other appears to be porphyry related. The Wild Mountain property is located near the Provincial Centre of Altai in western Mongolia, approximately 250 kilometres north of the China-Mongolia border.

During the second quarter the Company began a comprehensive exploration program, which will include detailed geological mapping, geochemical sampling, trenching and geophysical surveys (magnetic and IP) in an effort to identify the extent and nature of the gold and copper mineralization and to identify potential drill targets.

Outlook

The Company continues to be optimistic about the potential demonstrated by its expanded portfolio of properties. Success from the efforts of the Company’s 2005 exploration program on any of its properties will result in an expanded program on the relevant property or properties relative to the significance of the results. Conversely, if anticipated results are not forthcoming on a particular property, a disciplined review and evaluation program is in place to ensure expenditures are scaled back where management feels they may not be warranted.

Qualified Persons

Michael Corey, P.Geo., serves as the qualified person under National Instrument 43-101 and supervises all of the Company's exploration programs in Mongolia. All samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia. In addition to internal checks by SGS Laboratory, Erdene incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

Other Information

Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.erdene.com.

Interim Consolidated Financial Statements of

ERDENE GOLD INC.

Second Quarter 2005

Three and six months ended June 30, 2005 and 2004
(unaudited)

Prepared by Management - See Notice to Reader

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August 10, 2005

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. These interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited interim consolidated balance sheet of Erdene Gold Inc. as at June 30, 2005, the audited consolidated balance sheet as at December 31, 2004 and the unaudited interim consolidated statements of operations and deficit and cash flows for the three and six months ended June 30, 2005 and 2004. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2005 and 2004 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE GOLD INC.

Interim Consolidated Balance Sheets

June 30, 2005, with comparative figures for December 31, 2004

	2005 (unaudited)	2004 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 6,371,356	$ 8,579,289
Marketable securities	37,333	28,167
Accounts receivable	546,319	41,369
Prepaid expenses	629,200	8,375
	7,584,208	8,657,200
Resource property interests (note 2)	655,072	603,607
Capital assets, net	150,861	120,975
Other assets (note 3)	984,440	44,690
	$ 9,374,581	$ 9,426,472
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 403,728	$ 147,982
Due to related parties (note 4)	7,472	21,494
	411,200	169,476
Shareholders' equity:		
Share capital (note 5)	17,340,199	15,906,210
Contributed surplus (note 6)	1,049,921	513,095
Deficit	(9,426,739)	(7,162,309)
	8,963,381	9,256,996
	$ 9,374,581	$ 9,426,472

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

”Ken MacDonald” Director

“Dave Carnell” Director

ERDENE GOLD INC.

Interim Consolidated Statements of Operations and Deficit
(unaudited)

	3 months ended June 30, 2005	3 months ended June 30, 2004	6 months ended June 30, 2005	6 months ended June 30 2004
Revenue:				
Interest revenue	$ 52,329	$ 62,524	$ 87,535	$ 87,511
Gain on sale of resource properties	(5,501)	-	9,166	-
Other	5,818	-	6,021	-
	52,646	62,524	102,722	87,511
Expenses:				
Exploration expenses				
Diamond drilling	623,794	1,775	626,052	1,775
Analytical and assaying	49,242	2,862	95,120	5,154
Geological services	405,157	108,815	467,100	150,747
Geo-technical surveys	114,516	23,482	193,069	53,514
Logistical and field support	335,769	234,016	440,829	243,402
Professional services	71,377	-	101,916	-
Travel	49,397	74,689	109,185	84,156
Exploration partner contributions	(294,128)	-	(294,128)	-
Other	3,462	631	4,670	631
	1,358,586	446,270	1,743,813	539,379
General and administrative expenses				
Depreciation	6,507	3,478	15,818	5,268
Insurance	9,889	7,242	19,830	7,242
Investor relations and marketing	47,831	82,950	93,853	103,446
Office	33,780	26,575	46,423	46,399
Professional services	82,234	37,954	104,987	56,180
Regulatory compliance	51,700	50,200	72,317	57,572
Salaries and benefits	97,326	80,598	178,638	141,122
Stock-based compensation	61,268	-	61,268	-
Travel	11,101	12,573	38,444	22,008
Other	2,868	5,397	3,786	6,611
	404,504	306,967	635,364	445,848
Exchange loss (gain)	(18,902)	12,558	(77,525)	12,654
	1,744,188	765,795	2,301,652	997,881
Loss for the period	(1,691,542)	(703,271)	(2,198,930)	(910,370)
Deficit, beginning of period	7,669,697	2,761,288	7,162,309	1,147,571
Share issue costs	(65,500)	-	(65,500)	(1,406,618)
Deficit, end of period	$ 9,426,739	$ 3,464,559	$ 9,426,739	$3,464,559
Basic and diluted loss per share (note 7)	$ (0.06)	$ (0.03)	$ (0.08)	$ (0.04)
Weighted average number of common shares outstanding	26,194,448	20,436,822	26,194,448	20,436,822

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows
(unaudited)

	3 months ended June 30, 2005	3 months ended June 30, 2004	6 months ended June 30, 2005	6 months ended June 30 2004
Cash provided by (used in):				
Operations:				
Loss for the period	$(1,691,542)	$ (703,271)	$(2,198,930)	$ (910,370)
Item not involving cash:				
Depreciation	9,127	3,478	19,487	5,268
Stock-based compensation	145,743	-	542,573	-
Gain on sale of resource properties	5,501	-	(9,166)	-
Change in non-cash working capital	(242,634)	(42,279)	(893,216)	34,312
	(1,773,805)	(742,072)	(2,539,252)	(870,790)
Financing:				
Issue of common shares for cash	1,000,000	51,000	1,000,000	10,676,000
Share issue costs	(65,500)	-	(65,500)	(1,406,618)
Issue of common shares pursuant to option agreement	-	-	400,000	-
Issue of common shares on exercise of options and warrants	-	-	28,241	-
Decrease (increase) in deferred share issue costs	-	-	-	52,342
	934,500	51,000	1,362,741	9,321,724
Investments:				
Proceeds on sale of resource properties	(5,501)	-	9,166	-
Resource property interests	(49,592)	(7,659)	(51,465)	(23,886)
Purchase of capital assets	(28,718)	(35,424)	(49,373)	(70,742)
Other assets	(138,314)	-	(939,750)	-
	(164,689)	(43,083)	(1,031,422)	(94,628)
Increase (decrease) in cash	(1,003,994)	(734,155)	(2,207,933)	8,356,306
Cash, beginning of period	7,375,350	12,600,757	8,579,289	3,510,296
Cash, end of period	$ 6,371,356	$11,866,602	$ 6,371,356	$11,866,602

See accompanying notes to the interim consolidated financial statements.

Nature of business:

Erdene Gold Inc. (formerly 3779751 Canada Inc.) (the "Company") was incorporated by Articles of Incorporation dated June 27, 2000, pursuant to the provisions of the Canada Business Corporations Act. The primary business of the Company is the acquisition, exploration and development of resource properties in Mongolia with emphasis on gold, copper and molybdenum. To date the Company has not yet earned any operating revenues and is considered to be in the development stage.

The common shares of the Company were listed for trading on the TSX Venture Exchange on March 16, 2004 under the trading symbol "ERD" pursuant to an Initial Public Offering.

1. Summary of significant accounting policies:

(a) Basis of presentation:

The accompanying interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Not all disclosures required by Canadian generally accepted accounting principles for annual audited financial statements are presented, accordingly, these interim consolidated financial statements should be read in conjunction with the most recent annual audited financial statements for the year ended December 31, 2004.

These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements for the year ended December 31, 2004.

(b) Principles of consolidation:

The consolidated financial statements include those of the Company and its wholly-owned subsidiary, Erdene Gold International Inc. and its wholly-owned subsidiary Erdene International Exploration Inc., both incorporated under the laws of Barbados. They also include the wholly-owned subsidiaries of Erdene International Exploration Inc., Erdene Mongol XXK and Erdene Energy XXK, both of which are incorporated under the laws of Mongolia. Inter-company accounts and transactions have been eliminated.

(c) Accounting estimates:

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

(d) Cash and cash equivalents:

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

1. Summary of significant accounting policies (continued):

(e) Resource property interests:

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

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

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

(f) Capital assets:

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

Asset	Basis	Rate
Equipment, furniture and fixtures	Declining balance	20%
Vehicles	Declining balance	30%
Computer Equipment	Declining balance	33%
Software	Declining balance	33%

1. Summary of significant accounting policies (continued):

(g) Foreign currency translation:

Integrated subsidiaries are financially or operationally dependent on the parent company. The accounts of Erdene Gold International Inc., Erdene International Exploration Inc., Erdene Mongol XXK and Erdene Energy XXK, which are considered to be integrated operations, use the temporal method to translate its financial statements.

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

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

(h) Income taxes:

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

(i) Stock-based compensation:

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

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

1. Summary of significant accounting policies (continued):

(i) Stock-based compensation (continued):

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

2. Resource property interests:

The Company has acquired interests in mineral exploration licenses in Mongolia. These licenses are held by its subsidiaries Erdene Mongol XXK and Erdene Energy XXK. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of seven years. These rights are held in good standing through the payment of an annual license fee.

3. Other assets:

On March 1, 2005 the Company entered into an agreement with Gallant Minerals Limited ("Gallant") to acquire certain uranium property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and an exclusive and irrevocable option to acquire all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane International Limited ("Tamerlane") which controls 100% ownership of mineral properties in Mongolia. On signing, the Company released to Gallant US $75,000, 400,000 common shares of the Company and 800,000 warrants with each warrant entitling Gallant to purchase one common share of the Company for prices ranging from $0.60 to $1.00 for a period of 24 months from the date of issue. The consideration provided to Gallant has been recorded by the Company as other assets and to June 30, 2005, has an ascribed value of $984,440. This includes stock-based compensation representing the estimated fair value of the warrants issued on the date granted of $396,830.

Under the option terms, the Company also committed to the following payments, expenditures and deliverables at set dates on or before February 28, 2007 in exchange for 100% ownership of Tamerlane:

i) US $275,000;

ii) Direct or indirect expenditures on properties aggregating US $1,000,000; and

iii) 1,200,000 common shares of the Company.

Gallant is entitled to a net smelter return royalty on certain properties ranging from 1% to 1.5%, subject to a buy-down provision.

3. Other assets (continued):

The Company can terminate the agreement or accelerate payment at any time. Should the Company not meet its commitments, the agreement can be terminated by Gallant upon notice, where upon the Company shall return possession and control of certain assets and cancel the option. If the agreement is terminated prior to the Company complying with all of its commitments thereunder, the accumulated value will be written off as an expense at that time. At June 30, 2005 the Company met its obligation to incur $1,000,000 US of expenditures on the optioned properties.

4. Due to related parties:

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

5. Share Capital:

Authorized and issued

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	26,232,135	$16,340,199	25,798,910	$ 15,906,210
Issued for cash	1,000,000	1,000,000	1,000,000	$1,000,000
Issued pursuant to option agreement	-	-	400,000	400,000
Issued on exercise of options and warrants	-	-	33,225	28,242
Amount reclassified from contributed surplus upon exercise	-	-	-	5,747
Balance, end of period	27,232,135	$17,340,199	27,232,135	$ 17,340,199

Warrants

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	2,626,775	$0.70	1,835,000	$ 0.63
Exercised	-	-	(8,225)	0.85
Issued	-	-	800,000	0.87
Closing balance	2,626,775	$0.70	2,626,775	$ 0.70

5. Share Capital (continued):

The following is a summary of the warrants outstanding as of June 30, 2005:

Expiry Date	Number of Warrants	Exercise Price
March 16, 2006	866,775	$0.85
February 28, 2007	800,000	$0.87
January 23, 2008	960,000	$0.425
	2,626,775	$0.70

Options

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	1,770,000	$0.67	1,795,000	$0.67
Exercised	-	-	(25,000)	$0.85
Issued	300,000	$0.72	300,000	$0.72
Closing balance	2,070,000	$0.67	2,070,000	$0.67

The following is a summary of the options outstanding as of June 30, 2005:

Expiry Date	Number of Options	Exercise Price
June 30, 2006	40,000	$0.85
May 8, 2008	400,000	$0.425
November 19, 2008	370,000	$0.425
March 31, 2009	100,000	$0.85
April 6, 2009	760,000	$0.85
August 26, 2009	100,000	$0.85
February 4, 2010	200,000	$0.70
March 30, 2010	10,000	$0.70
May 1, 2010	90,000	$0.77
	2,070,000	$0.67

5. Share Capital (continued):

Stock-based Compensation:

The Company estimates the fair value of stock-based incentives using the Black-Scholes model, recognized over their vesting period. The fair value of the 1,100,000 warrants and options granted during the three and six months ended June 30, 2005 were calculated assuming no dividends are to be paid and with the following weighted average assumptions:

Risk-free interest rate	3.5%
Expected volatility	80%
Expected life of the option	Option Period

The estimated fair value of the 1,100,000 warrants and options granted during the reporting period under the Black-Scholes model was $542,573 and is presented in these financial statements as follows:

Other assets	$396,830
Exploration expenses	$ 84,475
General and administrative	$ 61,268

6. Contributed surplus:

The following summarizes amounts recorded as contributed surplus during the six months ended June 30, 2005 and 2004:

	2005	2004
Opening balance	$ 513,095	$ 61,464
Warrants issued pursuant to option agreement	396,830	-
Warrants exercised	(5,747)	-
Options issued	145,743	
	$ 1,049,921	$ 61,464

7. Basic and diluted loss per share:

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

8. Segmented information:

(a) General information:

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

(b) Geographic information:

Resource property interests relate to exploration licenses in Mongolia. Exploration expenditures relate to Mongolian resource property interests.

9. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.