



ERDENE GOLD INC.

Management Discussion and Analysis First Quarter – March 31, 2005

This interim Management Discussion and Analysis of Erdene Gold Inc. (the “Company”) provides analysis of the Company’s financial results for the three months ended March 31, 2005 and its financial position as at March 31, 2005. The following discussion and analysis provides a summary of selected consolidated financial information for the three month period ended March 31, 2005 and 2004, and includes financial information relating to the Company and its wholly owned subsidiary, Erdene Mongol XXK. 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 months ended March 31, 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 May 25, 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 and molybdenum 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 81 exploration licenses covering approximately 2,000,000 hectares and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company's exploration activities during the three months ended March 31, 2005 were devoted primarily to planning and preparation for the 2005 exploration program. 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 \$7.9 million at March 31, 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 March 31, 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 March 31, 2005 the Company incurred a loss of \$507,388 or \$0.02 per share as compared to a loss of \$207,099 or \$0.01 per share in the corresponding period in 2004. Revenues increased to \$35,409 during the three months ended March 31, 2005 from \$24,987 in 2004, which was primarily interest. The increase in interest revenue is mainly

due to the interest earned on cash balances generated from the proceeds of the initial public offering of common shares, which closed on March 16, 2004. The average cash balance in the first three months of 2005 was higher than the average balance in the same period last year. The Company recognized a gain during the current period of \$14,667 relating to the sale of its Tangier, Nova Scotia property to Acadian Gold Corporation from the receipt of partial consideration of 66,667 shares of Acadian prior to quarter end. Total consideration on the sale was 500,000 shares of Acadian with 233,334 shares received to March 31, 2005 and the remaining 266,666 shares to be received in 66,667 share increments each March 17 and September 17 until March 17, 2007. The 266,666 outstanding shares will be recorded at the market value of Acadian at the date of release and a corresponding gain on the sale recognized at that time.

Total Operating expenses for the first quarter increased to \$616,087 from \$231,990 in the same period in 2004. Exploration expenses were \$385,227 in 2005 as compared to \$93,109 during the same period in 2004. The increase in 2005 is due to increased work in preparation for the 2005 exploration program. In 2004, in advance of the initial public offering, preparatory work for the 2004 season was limited. General and administrative expenses for the first quarter 2005 were \$230,860 compared to \$138,881 for the same period in 2004. The increase is mainly due to expanded administrative support after the public offering and to support the expanded exploration program.

1.5 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2005	Fiscal 2004			
	Q1 Mar-05	Q4 Dec-04	Q3 Sep-04	Q2 Jun-04	Q1 Mar-04
Revenue	\$ 35	\$ 43	\$ 67	\$ 63	\$ 25
Loss	\$ 507	\$1,110	\$ 2,417	\$ 703	\$ 207
Basic and diluted loss per share	\$ 0.02	\$ 0.04	\$ 0.11	\$ 0.03	\$ 0.01
Total assets	\$ 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 March 31, 2005 the Company had working capital of \$7.9 million as compared to \$12.5 million at March 31, 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 \$4.5 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 three 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 March 31, 2005, has an ascribed value of \$846,126. This includes stock-based compensation representing the estimated fair value of the warrants issued on the date granted of \$396,830.

During the three months ended March 31, 2005, \$78,091 was spent on the purchase of capital assets as compared with \$35,318 in 2004. The 2005 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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:

	Three Months Ended	
	March 31, 2005	
	Number of shares	\$
Authorized:		
Unlimited number of common shares without par value		
Issued:		
Balance, beginning of period	25,798,910	\$ 15,906,210
Issued pursuant to option agreement (note 3)	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	26,232,135	\$16,340,199

b) Warrants:

Three Months Ended March 31, 2005		
	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	1,835,000	\$ 0.63
Exercised	(8,225)	0.85
Issued	800,000	0.87
Closing balance	2,626,775	\$ 0.70

The following is a summary of the warrants outstanding as of March 31, 2005:

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Exercise Price</u>
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 March 31, 2005		
	Number of Options	Weighted Avg. Exercise Price
Opening balance	1,795,000	\$ 0.67
Exercised	(25,000)	0.85
Issued	-	-
Closing balance	1,770,000	\$ 0.67

The following is a summary of the options outstanding as of March 31, 2005:

<u>Expiry Date</u>	<u>Number of Options</u>	<u>Exercise Price</u>
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
	1,770,000	\$0.67

d) Stock-based Compensation:

During the three months ended March 31, 2005, the Company issued 800,000 warrants pursuant to an option agreement dated March 1, 2005 with Gallant Minerals Limited. The fair value of the warrants on the date granted of \$396,830 was recorded as other assets

and added to contributed surplus. The Company estimates the fair value of stock-based incentives at the date of grant using the Black-Scholes model, recognized over their vesting period with the following assumptions:

Risk-free interest rate	3.75%
Expected volatility	85%
Expected life of the option	2 years

1.12 Exploration Results

Exploration Overview

During the first quarter 2005, Erdene finalized its agreement with Gallant Minerals Limited (“Gallant”), previously announced in December 2004. The arrangement includes the acquisition of the Zuun Mod molybdenum-copper project, 16 uranium licenses and applications, a land position surrounding the Erdenet Copper Mine and 12 other gold and copper projects concentrated in the South Gobi and Erdenet regions, as well as an extensive regional database for Mongolia.

The agreement provides Erdene shareholders with exposure to high quality uranium, copper-gold and molybdenum projects in Mongolia, a country that has a proven record of supporting mining and foreign investment. Mongolia is also located next to China where industrialization and modernization will continue to place large demands on steel manufacturing and energy, which will continue to drive the demand for copper, molybdenum and uranium.

The acquisition added significantly to Erdene’s portfolio of properties which includes the Temujin copper-gold porphyry project, the Wild Mountain gold-copper property as well as six additional gold and copper exploration projects.

The following is a brief description on the main properties acquired from Gallant.

Zuun Mod Molybdenum-Copper Project

The Zuun Mod project is a large porphyry copper-molybdenum system identified over an area in excess of 20 square kilometres in southwestern Mongolia, within 200 kilometres of Chinese rail and power developments. Early drilling shows excellent potential for the discovery of a sizeable molybdenum and copper deposit. Thirteen drill holes, at an average spacing exceeding 1 kilometre, have been drilled to date with eight having returned potentially economic grades of molybdenum and copper.

In April 2005, new exploration work carried out by Erdene provided additional detailed information with respect to structure, alteration and lithological distribution of mineralized lithologies within the Zuun Mod prospect area. The new work included gradient and dipole-dipole IP surveys, geological mapping and reinterpretation of previous data. As a result, new drill target areas have been identified. Erdene began a drilling program in early April 2005 to test these target areas.

Erdenet - Ikh Tal Project

Erdene has also acquired a significant land position surrounding the Erdenet Mine, one of the world's largest producing copper mines. Erdenet produces the equivalent of 132,000 tonnes of refined copper annually and 3,000 tonnes of molybdenum concentrate. Erdene's license boundaries are within 300 metres of the current open pit operation and favourable geology and alteration suggest good potential for the discovery of near surface extensions.

In 2005, it is the intention of management to carry out geological mapping, geochemical sampling and geophysics (IP) to test the area surrounding the mine for potential new deposits.

Uranium Properties

With the Gallant acquisition, Erdene now has 19 uranium exploration licenses and applications covering in excess of 1.3 million hectares. The prospects are located in south central Mongolia proximal to the Eastern Mongolian railway in sedimentary basins hosting significant uranium deposits. The Erdene land package contains multiple uranium occurrences, radiometric anomalies, and very favourable geology for sediment hosted, near surface, uranium deposits.

Subsequent to quarter-end, on April 5, 2005, Erdene announced the signing of a Memorandum of Agreement with International Uranium Corporation ("IUC"), an experienced explorer and producer of uranium. The agreement provides for IUC and Erdene to form a strategic alliance and gives IUC the option to earn a 65% interest in Erdene's uranium properties by spending \$6 million over four years on the properties. IUC will also invest \$1 million in Erdene through the purchase of Erdene common shares. This agreement will allow Erdene to focus on its high quality gold, copper and molybdenum properties while maintaining a significant interest in these early stage uranium projects. The completion of the transactions is subject to due diligence, all required approvals and the signing of formal documents.

Erdene is the operator of the 2005 work program which began in mid-April. Erdene field teams commenced evaluations of prospects identified during previous exploration with supporting radiometric and geochemical surveys. It is anticipated that this initial exploration will lead to drill target definition by mid-2005.

In addition to the work planned for these newly acquired properties Erdene will continue exploration on a number of its original properties including the following.

Virgin Property – Temuujin Prospect

The Temuujin copper-gold porphyry district was discovered by Erdene geologists in 2003. It is located in south-eastern Mongolia, approximately 90 kilometres west of the Trans-Mongolian Railway and 40 kilometres north of the China-Mongolia border. Erdene carried out a district-wide exploration program in 2004, including the drill testing of numerous targets, which resulted in the drill confirmation of a large, mineralized, copper-gold porphyry style system.

Drilling and a review by an independent consultant have confirmed that the Temuujin II and Temuujin III areas represent a porphyry-related deposit environment containing significant polymetallic sulphide mineralization. Regional drilling has indicated the potential for similar

environments across the Temuujin District, and regional geologic mapping suggests the entire 95-kilometre long Virgin property is situated within the same island-arc tectonic setting that hosts known significant porphyry deposits, including Ivanhoe's Hugo deposit.

A complete evaluation of all exploration data acquired to date has been carried out. This review will be used to determine the best approach to future exploration in the Temuujin area. This will include a deep penetrating IP survey followed by deeper drilling if drill targets are indicated. As well, Erdene will continue to evaluate the entire Virgin property for its potential to host porphyry and porphyry related mineral deposits.

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.

Significant potential exists within the large areas of alteration and mineralization identified to date. In early summer 2005, Erdene will carry out a comprehensive exploration program, including detailed geological mapping, geochemical sampling and conduct 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 will be 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.

First Quarter 2005

Three months ended March 31, 2005 and 2004
(unaudited)

Prepared by Management - See Notice to Reader

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May 25, 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 March 31, 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 months ended March 31, 2005 and 2004. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 31, 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

March 31, 2005, with comparative figures for December 31, 2004

	2005 (unaudited)	2004 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,375,350	\$ 8,579,289
Marketable securities	42,834	28,167
Accounts receivable	136,922	41,369
Prepaid expenses	610,088	8,375
	<u>8,165,194</u>	<u>8,657,200</u>
Resource property interests (note 2)	605,480	603,607
Capital assets, net	188,706	120,975
Other assets (note 3)	846,126	44,690
	<u>\$ 9,805,506</u>	<u>\$ 9,426,472</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 183,903	\$ 147,982
Due to related parties (note 4)	46,923	21,494
	<u>230,826</u>	<u>169,476</u>
Shareholders' equity:		
Share capital (note 5)	16,340,199	15,906,210
Contributed surplus (note 6)	904,178	513,095
Deficit	(7,669,697)	(7,162,309)
	<u>9,574,680</u>	<u>9,256,996</u>
Subsequent event (note 8)		
	<u>\$ 9,805,506</u>	<u>\$ 9,426,472</u>

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

Three months ended March 31, 2005, with comparative figures for the three months ended March 31, 2004
(unaudited)

	2005	2004
Revenue:		
Interest revenue	\$ 35,206	\$ 24,987
Other	203	-
	35,409	24,987
Expenses:		
Exploration expenses		
Diamond drilling	2,258	-
Analytical and assaying	45,878	2,292
Geological services	61,943	41,932
Geo-technical surveys	78,553	30,032
Logistical and field support	105,060	9,386
Travel	59,788	9,467
Other	31,747	-
	385,227	93,109
General and administrative expenses		
Depreciation	9,311	1,790
Insurance	9,941	-
Investor relations and marketing	46,022	20,496
Office	12,643	19,824
Professional services	22,753	18,226
Regulatory compliance	20,617	7,372
Administrative services	81,312	60,524
Travel	27,343	9,435
Other	918	1,214
	230,860	138,881
Loss from operations for the period	580,678	207,003
Other income (expense)		
Foreign exchange	58,623	(96)
Gain on sale of resource property	14,667	-
	73,290	(96)
Loss for the period	507,388	207,099
Deficit, beginning of period	7,162,309	1,147,571
Share issue costs	-	(1,406,618)
Deficit, end of period	\$ 7,669,697	\$ 2,761,288
Basic and diluted loss per share (note 7)	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding	25,939,654	15,142,243

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2005, with comparative figures for the three months ended March 31, 2004
(unaudited)

	2005	2004
Cash provided by (used in):		
Operations:		
Loss for the period	\$ (507,388)	\$ (207,099)
Item not involving cash:		
Depreciation	10,360	1,790
Stock-based compensation	396,830	-
Gain on sale of resource properties	(14,667)	-
Change in non-cash working capital	(650,582)	76,591
	(765,447)	(128,718)
Financing:		
Issue of common shares for cash	-	10,625,000
Share issue costs	-	(1,406,618)
Issue of common shares on exercise of options and warrants	28,241	-
Issue of common shares pursuant to option agreement	400,000	
Decrease (increase) in deferred share issue costs	-	52,342
	428,241	9,270,724
Investments:		
Proceeds on sale of resource properties	14,667	
Resource property interests	(1,873)	(16,227)
Purchase of capital assets	(78,091)	(35,318)
Other assets	(801,436)	
	(866,733)	(51,545)
Increase (decrease) in cash	(1,203,939)	9,090,461
Cash, beginning of period	8,579,289	3,510,296
Cash, end of period	\$ 7,375,350	\$12,600,757

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2005
(unaudited)

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 100% owned Mongolian subsidiary, Erdene Mongol XXK. 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.

ERDENE GOLD INC.

Notes to the Interim Consolidated Financial Statements, page 2

Three months ended March 31, 2005
(unaudited)

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 economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. When a resource property is brought into commercial production, the capitalized costs of that property will be depleted over the estimated economic life of the property.

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

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

(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%

ERDENE GOLD INC.

Notes to the Interim Consolidated Financial Statements, page 3

Three months ended March 31, 2005
(unaudited)

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 Mongol XXK, which is considered to be an integrated operation, uses 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.

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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 subsidiary Erdene Mongol XXK. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of seven years. These rights are held in good standing through the payment of an annual license fee.

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 March 31, 2005, has an ascribed value of \$846,126. 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.

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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.

4. Due to related parties:

The amounts due to related parties are payable to directors or officers 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 March 31, 2005	
	Number of shares	\$
Authorized:		
Unlimited number of common shares without par value		
Issued:		
Balance, beginning of period	25,798,910	\$ 15,906,210
Issued pursuant to option agreement (note 3)	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	26,232,135	\$ 16,340,199

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5. Share Capital (continued):

	Three Months Ended March 31, 2005	
	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	1,835,000	\$ 0.63
Exercised	(8,225)	0.85
Issued	800,000	0.87
Closing balance	2,626,775	\$ 0.70

The following is a summary of the warrants outstanding as of March 31, 2005:

<u>Expiry Date</u>	<u>Number of Warrants</u>	<u>Exercise Price</u>
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 March 31, 2005	
	Number of Options	Weighted Avg. Exercise Price
Opening balance	1,795,000	\$ 0.67
Exercised	(25,000)	0.85
Issued	-	-
Closing balance	1,770,000	\$ 0.67

The following is a summary of the options outstanding as of March 31, 2005:

<u>Expiry Date</u>	<u>Number of Options</u>	<u>Exercise Price</u>
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
	1,770,000	\$0.67

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5. Share Capital (continued):

Stock-based Compensation

During the three months ended March 31, 2005, the Company issued 800,000 warrants pursuant to an option agreement dated March 1, 2005 with Gallant Minerals Limited (see note 3). The fair value of the warrants on the date granted of \$396,830 has been recorded as other assets and added to contributed surplus. The Company estimates the fair value of stock-based incentives at the date of grant using the Black-Scholes model, recognized over their vesting period with the following assumptions:

Risk-free interest rate	3.75%
Expected volatility	85%
Expected life of the option	2 years

6. Contributed surplus:

The following summarizes amounts recorded as contributed surplus during the three months ended March 31, 2005 and 2004:

	2005	2004
Opening balance	\$ 513,095	\$ 61,464
Warrants pursuant to option agreement	396,830	-
Warrants exercised	(5,747)	-
	\$ 904,178	\$ 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. Subsequent Event:

On April 4, 2005 the Company signed a Memorandum of Agreement ("MOA") with International Uranium Corporation ("IUC") that gives IUC an option to acquire a 65% interest in the Company's uranium properties under license and application, covering approximately 1.3 million hectares, by spending CAN\$ 6,000,000 of eligible exploration expenditures on the uranium properties over four years. IUC also agreed to purchase one million common shares of the Company at a price of \$1.00 per share by way of private placement. The parties' rights and obligations under the MOA are subject to due diligence, all required approvals and the signing of formal agreements.

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9. 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.

10. Comparative Figures:

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