Interim Consolidated Financial Statements of

ERDENE GOLD INC.

Third Quarter 2004

Three and nine months ended September 30, 2004 and 2003
(Unaudited)

Prepared by Management - See Notice to Reader

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November 19, 2004

ERDENE GOLD INC.

Management Discussion and Analysis
Third Quarter – September 30, 2004

This interim Management Discussion and Analysis of Erdene Gold Inc. (the "Company") provides analysis of the Company's financial results for the three and nine-month periods ended September 30, 2004 and its financial position as at September 30, 2004. The following discussion and analysis provides a summary of selected consolidated financial information for the nine-month period ended September 30, 2004 and 2003, 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 and note 1 (a): Basis of Presentation). The following information should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and nine months ended September 30, 2004 and 2003, and the audited consolidated financial statements of the Company for the year ended December 31, 2003, 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. Date of report

This report is prepared as of November 19, 2004

2. Nature of Business and Overall Performance

The Company is a resource exploration company listed on the TSX Venture Exchange 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 and copper-gold deposits. It is conducting exploration programs on its eight, 100% owned properties in Mongolia that are represented by 21 exploration licenses covering more than 400,000 hectares and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company's exploration activities in 2004 were consistent with its objective which was to conduct exploration programs on all eight of its Mongolian mineral exploration properties and conduct drill testing on three properties, with the majority of the focus placed on the Virgin property. The Company significantly expanded the scope of its exploration activity during the quarter ended September 30, 2004 incurring 77% or $1,852,566 of its 2004 year to date exploration expenses of $2,391,945 during the three months ended September 30, 2004 and increasing the operating loss to $3,327,478 for the first nine months of fiscal 2004 from $393,440 for the same period in 2003.

The Company's exploration program is led by a senior management team with extensive exploration experience in Mongolia. The total budget for 2004 and 2005 is approximately $4.0 million each year. The Company will continue to fund operating losses and exploration expenditures out of existing working capital that amounted to $9.8 million at September 30, 2004.

3. Selected Annual Information

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year	**2003**	**2002**	**2001**
Revenues	$ 9	$ -	$ 1
Loss	$ 629	$ 76	$ 189
Basic and diluted loss per share	$ 0.14	$ 0.05	$ 0.11
Total assets	$ 4,161	$ 445	$ 102
Total long-term liabilities	$ -	$ -	$ -
Cash dividends per share	N/A	N/A	N/A

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

4. Results of Operations

Three months ended September 30, 2004 and 2003

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 September 30, 2004 the Company incurred a loss of $2,417,108 or $0.11 per share as compared to a loss of $190,669 or $0.05 per share in the corresponding period in 2003. Revenues increased to $95,571 during the three months ended September 30, 2004 from nil in 2003, which was primarily interest. The increase in interest revenue is due to the interest earned on substantially higher cash balances generated from the net proceeds of private placements of common shares in the fall of 2003 and from an initial public offering of common shares, which closed on March 16, 2004. The Company recognized a gain during the current period of $28,167 on the sale of its Tangier, Nova Scotia property to Acadian Gold Corporation on the receipt of partial consideration of 166,667 shares of Acadian prior to quarter end. Total consideration on the sale was 500,000 shares of Acadian with 100,000 shares received July 17, 66,667 shares received September 17, 2004 and the remaining 333,333 shares to be received in 66,667 share increments each March 17 and September 17 until March 17, 2007. The 333,333 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.

Operating expenses for the quarter increased to $2,512,679 from $190,669 in the same period in 2003. Exploration expenses were $1,852,566 in 2004 as compared to $68,316 during the same period in 2003. The Company conducted a comprehensive exploration program on its eight, 100% owned Mongolian properties during the three months ended September 30, 2004 including an approximate 5,000-metre diamond drilling program, airborne and ground geophysics programs and an extensive surface program.

General and administrative expenses for the three months ended September 30, 2004 were $679,438 compared to $118,278 for the same period in 2003. The increase in 2004 is due to costs associated with the Company having obtained a listing on the TSX Venture Exchange and supporting a major exploration program in 2004. These costs were in the form of professional fees, investor communication and relations, regulatory reporting and the necessary increased administrative support. The 2004 expenses include a non-cash stock-based compensation expense of $459,119 attributable to the value of stock options earned in the period compared to nil in the previous year. In addition, the cost of maintaining an office in Ulaanbaatar, Mongolia is included in general and administrative expenses in 2004, while no such expenses were incurred during the same period in 2003. Salaries and benefits decreased from the previous year from $59,665 to $52,620 as a result of senior technical management spending more time on exploration projects with their time being charged directly to the exploration projects in the category of logistical and field support.

Nine months ended September 30, 2004 and 2003

During the nine months ended September 30, 2004 the Company incurred a loss of $3,327,478 as compared to $393,440 for the same period in 2003. Revenue increased to $183,082 from $2,732 in the prior year, primarily due to interest and the gain on the sale of the Tangier, Nova Scotia resource property.

Operating expenses for the nine months ended September 30, 2004 increased to $3,510,560 as compared to $396,172 during the same period in 2003. This is largely due to the significant increase in exploration activity in 2004 resulting in an increase in exploration expenses of $2,246,623 from $145,322 to $2,391,945. The Company began a budgeted $4,000,000 exploration program in late April of 2004 that involved exploration programs on all eight of the Company's 100% owned Mongolian properties covering over 400,000 hectares. Approximately 66% or $1.6 million of the $2.4 million 2004 exploration expenses were spent on the Virgin property.

General and administrative expenses for the nine months ended September 30, 2004 were $1,125,286 compared with $251,731 for the same period in 2003. The increase in 2004 is due to costs associated with the Company having obtained a listing on the TSX Venture Exchange and supporting a major exploration program in 2004. These costs were in the form of professional fees, investor communication and relations, regulatory reporting and the necessary increased administrative support. The 2004 expenses include a non-cash stock-based compensation expense of $459,119 attributable to the value of stock options earned in the period compared to nil in the previous year. In addition, the cost of maintaining an office in Ulaanbaatar, Mongolia is included in general and administrative expenses in 2004, while no such expenses were incurred during the same period in 2003.

5. Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2004		
	Q1	Q2	Q3
Revenue	$ 25	$ 63	$ 96
Loss	$ 208	$ 703	$ 2,417
Basic and diluted loss per share	$ 0.01	$ 0.03	$ 0.11
Total assets	$ 13,319	$ 12,578	$ 11,022

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.

6. Liquidity and Capital Resources

As of September 30, 2004 the Company had working capital of $9.8 million representing an increase of $8.3 million from the year ended December 31, 2003. The increase in working capital is attributable primarily to the proceeds from the Company's initial public offering offset by expenditures during the nine months ended September 30, 2004. On March 16, 2004 the Company completed a fully subscribed initial public offering of its common shares by way of prospectus. The offering resulted in the sale of 12,500,000 common shares at $0.85 per share for aggregate proceeds of $10,625,000. Net proceeds of the offering of approximately $9,218,000, after agents' commissions and offering costs, are being used to finance the Company's Mongolian exploration program and for possible acquisition of additional resource properties in Mongolia. The success of the initial public offering places the Company in a position to fund its budgeted $4.0 million 2004 exploration program, fund the 2005 exploration program 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 second quarter of 2004, 120,000 warrants were exercised at $0.425 per share for total cash proceeds of $51,000. There were no changes in share capital during the quarter ended September 30, 2004.

The Company used $1,624,175 of working capital during the quarter and $2,494,965 during the nine months ended September 30, 2004 to fund its operating expenses. The Company plans to fund a total of approximately $3.8 million of operating expenditures from its working capital balance during fiscal 2004.

During the three and nine months ended September 30, 2004, $23,338 and $47,662 respectively was expended on resource property interests compared with $20,014 and $38,762 for the corresponding periods in 2003. The majority of expenditures during 2004 were expended on renewal of existing licenses with $2,892 of the total expended on the acquisition of new licenses.

During the nine months ended September 30, 2004 the Company expended $104,016 on the purchase of capital assets as compared with $7,844 during the same period in 2003. The 2004 expenditures relate primarily to the purchase of software and 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.

7. Off-Balance Sheet Arrangements

As at September 30, 2004 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.

8. Transactions with Related Parties

See note 3 to the unaudited interim consolidated financial statements at September 30, 2004.

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 therefrom is described in Note 1 of the September 30, 2004 unaudited consolidated financial statements.

The accounting policies applied in the preparation of the September 30, 2004 unaudited consolidated financial statements did not differ from those applied in the preparation of the December 31, 2003 audited financial statements.

10. Financial Instruments and Other Risks

The Company's financial instruments consist of cash, marketable securities, 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 arising from these financial instruments. The fair market value of these financial instruments approximate their carrying values, unless otherwise noted.

In conducting its business, the principal risks and uncertainties faced by the Company relate primarily to exploration results, market sentiment and general economic conditions 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.

11. Outstanding Share Data

a) Share Capital:

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	25,678,910	$ 15,847,722	13,058,910	$ 5,171,722
Issued for cash	-	-	12,500,000	10,625,000
Issued on exercise of warrants	-	-	120,000	51,000
Balance, end of period	25,678,910	$ 15,847,722	25,678,910	$ 15,847,722

b) Warrants:

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	1,080,000	$ 0.425	1,200,000	$ 0.425
Exercised	-	$ -	(120,000)	$ 0.425
Issued	-	-	-	-
Closing balance	1,080,000	$ 0.425	1,080,000	$ 0.425

The following is a summary of the warrants outstanding as of September 30, 2004:

Expiry Date	Number of Warrants	Exercise Price
January 20, 2008	1,080,000	$0.425

c) Options:

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	2,670,000	$ 0.73	770,000	$ 0.425
Exercised	-	$ -	-	$ -
Issued	-	-	1,900,000	0.85
Closing balance	2,670,000	$ 0.73	2,670,000	$ 0.73

The following is a summary of the options outstanding as of September 30, 2004:

Expiry Date	Number of Options	Exercise Price
March 16, 2006	875,000	$0.85
June 30, 2006	65,000	$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
	2,670,000	$0.73

d) Stock-based Compensation:

The Company estimates the fair value of stock-based incentives using the Balck-Scholes model, recognized over their vesting period. The fair value of the 1,900,000 options granted during the three and nine months ended September 30, 2004 were calculated assuming no dividends are to be paid and with the following weighted average assumptions:

Risk-free interest rate	3.5%
Expected volatility	55%
Expected life of the option	One half of Option Period

12. Exploration Results

Exploration Overview

During the quarter Erdene carried out exploration on each of its eight properties: White Hills, Rich Gobi, Turquoise, Blue Springs, Wild Mountian, South Gobi, East Gobi and Virgin. The following is a brief summary of the highlights of each project.

White Hills:

Gold mineralization in White Hills is hosted in a series of offset or en echelon quartz veins and stockworks, which form part of a quartz vein system. This regional vein system is exposed over a six-kilometre strike length and a width of at least three kilometres. The 2004 program defined an area, east and west of the main zone, with gold mineralization occurring in vein sets and breccia within a 100-metre wide, east-west trending zone over a minimum strike length of 760 metres. Of the samples collected within this area 25% have returned values between 4.5 g/t and 66 g/t gold. Continuous sampling of two existing trenches 40 metres apart returned 2.2 g/t gold over 14.8 metres in the first trench and 5.2 g/t gold over 3.8 metres in the second. Drilling is being considered for early 2005.

Rich Gobi:

In August, Erdene completed seven shallow diamond drill holes totalling 784 metres on two targets on the Rich Gobi licence. Three holes were drilled on the central grid zone targeting gold and pyrite mineralized quartz carbonate sediment packages. Anomalous results from the drilling included 0.41 g/t gold over 4 metres and 0.35 g/t gold over 1 metre. The targets are shear zone-hosted-quartz veins and altered sediments that have near surface, bulk mineable gold potential. The central grid drilling and 2004 surface exploration program have confirmed the occurrence of low concentrations of gold within the sedimentary host rocks. Erdene plans to test additional favourable structural targets along the 12-kilometre trend in 2005.

Four holes were also drilled on the south grid within gold, silver and copper mineralized, extensively sheared and brecciated quartz vein material and granodiorite. The drilling discovered three narrow sulphide mineralized zones, with one hole intersecting 0.16% copper and 9 g/t silver over 2 metres. No further work is anticipated in this target area.

Turquoise:

A detailed trenching and sampling program was completed during the third quarter within a large alteration zone with a coincident geophysical target. Trenching over an area of argillic altered volcanics and intrusives with hydrothermal breccia and a discrete, coincident chargeability, resistivity and magnetic anomaly has indicated anomalous gold and copper. Values of up to 227 ppm copper, 56 ppb gold, 2,050 ppm zinc and 2 ppm silver were returned in trenches. A dipole-dipole chargeability program is being considered which would determine whether drilling is warranted.

Blue Springs:

A drill program at Blue Springs was completed during the third quarter comprised of 10 holes totalling 760 metres. Results from this program have confirmed that the high grade gold/copper skarn mineralization found on surface extends at depth. North Zone drilling included KBD-01, which intersected the down-dip extension of the surface gold-copper skarn mineralization observed in trenches in the North Zone with a three-metre drill section averaging 25.2 g/t gold and 1.55% copper. In the Central Zone, KBD-04 was drilled to test the down-dip extent of Au-Cu-skarn mineralization at surface and intersected three metres averaging 6.29 g/t gold and 1.14% copper. In addition, the presence of gold/copper mineralization in the new Ridge Zone, located 1.5 kilometres north of the North Zone has increased the potential of this property. The drill program and recent mapping has indicated that the occurrence of skarn related alteration and mineralization is much more widespread than previously recognized. Compilation and interpretation of the data from this initial drilling phase, in conjunction with geophysics and surface mapping, will be used to design further exploration plans.

Temuujin District (Virgin Property):

The Company completed a total of 14 holes totalling 4,142 metres of core drilling of its 2004 reconnaissance drill program in the Temuujin District during the quarter, targeting nine widely spaced prospects within the 20 by 8 kilometre district. The average distance between targets was approximately 3 kilometres with a maximum of two holes testing each prospect at an average spacing of approximately 500 metres. The maximum depth drilled was 540 metres in TDD-02, a vertical hole at Temuujin II. Drilling has confirmed a porphyry-related deposit environment, particularly at Temuujin II, based on intense pervasive propylitic alteration and locally intense phyllic alteration of host intrusive rocks and the adjacent volcanic package. This, together with locally abundant disseminated and stringer-type sulfide mineralization (pyrite, arsenopyrite, sphalerite, chalcopyrite) with extensive zones of anomalous copper, gold, silver, zinc, and arsenic is typical of the distal part of a zoned porphyry system. The Company is continuing its drilling program with a minimum of 2,000 additional metres in 2004 planned and will resume further drilling in early 2005 in the Temuujin as well as other gold and copper targets within the Virgin claim block.

Greenfield Project Update:
Wild Mountain:

Two areas within the Wild Mountain district have returned significant gold and copper values from surface sampling and trenching carried out in the third quarter.

Trench sampling of the massive sulfide zone at Jugant has returned a 24-metre section averaging 1.85g/t gold, 11.92 g/t silver and 1.54% copper within an area 1,400 metres by 400 metres characterized by multiple argillic and silicified alteration zones within andesite-basalt. The 27 samples collected from the area have returned an average copper value of 0.25% and gold values ranging from detection to 4.99 g/t gold.

The second area of interest is located approximately 2 kilometres north of Jugant. It is characterized by altered andesite porphyry with disseminated pyrite mineralization and several areas of pervasively limonitic to siliceous, vuggy hydrothermal breccia with clasts of pyritic quartz vein and massive sulfide within an area measuring approximately 1,400 metres by 500 metres. Over 30% of 57 samples collected throughout this area have returned copper values between 0.1% and 2.5%. Gold values ranged from detection to 1.5 g/t. A major exploration program designed to define drill targets at Wild mountain will be undertaken in 2005.

In addition to the Wild Mountain property, field teams evaluated the South Gobi and East Gobi (Matad) properties in August and September. The South Gobi property is situated approximately 45 kilometres southwest of Ivanhoe Mine’s Oyu Tolgoi deposit. Field work this year has identified an area of argillic altered, pyritic intermediate volcanics associated with altered intrusive rocks.

The Matad property is situated along the inferred northeast extension of the south Gobi island arc terrane. Field work this year included rock sampling of quartz vein and breccia zones occurring in altered volcanics.

Outlook

The Company continues to be optimistic about the potential demonstrated by its principal properties. Success from the efforts of the Company’s 2004 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.

13. 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.

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ERDENE GOLD INC.

Third Quarter 2004

Three and nine months ended September 30, 2004 and 2003
(Unaudited)

Prepared by Management - See Notice to Reader

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November 19, 2004

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 September 30, 2004, the audited consolidated balance sheet as at December 31, 2003 and the unaudited interim consolidated statements of operations and deficit and cash flows for the three and nine months ended September 30, 2004 and 2003. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2004 and 2003 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

September 30, 2004, with comparative figures for December 31, 2003

	2004 (unaudited)	2003 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 10,213,982	$ 3,510,296
Marketable securities	28,167	-
Accounts receivable	66,216	42,892
Prepaid expenses	15,400	-
	10,323,765	3,553,188
Deferred share issue costs	-	52,342
Resource property interests (note 2)	585,807	538,583
Capital assets, net	112,562	17,313
	$ 11,022,134	$ 4,161,426
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 530,883	$ 75,311
Due to related parties (note 3)	4,613	500
	535,496	75,811
Shareholders' equity:		
Share capital (note 4)	15,847,722	5,171,722
Contributed surplus	520,583	61,464
Deficit	(5,881,667)	(1,147,571)
	10,486,638	4,085,615
	$ 11,022,134	$ 4,161,426

Approved on behalf of the Board:

”Ken MacDonald” Director   “Dave Carnell” Director

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Operations and Deficit
(unaudited)

	3 months ended Sept. 30, 2004	3 months ended Sept. 30, 2003	9 months ended Sept. 30, 2004	9 months ended Sept 30 2003
Revenue:				
Interest revenue	$ 53,627	$ -	$ 141,138	$ 2,732
Gain on sale of resource properties	28,167	-	28,167	-
Other	13,777	-	13,777	-
	95,571	-	183,082	2,732
Expenses:				
Exploration expenses				
Diamond drilling	748,042	-	749,380	-
Analytical and assaying	126,169	2,652	131,323	2,652
Contract services	328,881	46,560	655,709	105,253
Geophysics	274,479	9,074	327,651	9,074
Logistical and field support	337,708	7,588	403,271	16,162
Travel	33,866	2,442	118,022	10,863
Other	3,521	-	6,589	1,318
	1,852,566	68,316	2,391,945	145,322
General and administrative expenses				
Depreciation	3,499	353	8,767	788
Insurance	7,165	-	14,407	170
Investor relations and marketing	51,366	8,865	154,812	11,135
Office	16,294	13,060	68,871	27,799
Professional services	54,801	22,747	110,981	33,636
Regulatory compliance	12,634	-	70,206	-
Salaries and benefits	52,620	59,665	193,743	148,265
Stock-based compensation	459,119	-	459,119	-
Travel	21,940	11,745	38,019	27,034
Other	-	1,843	6,361	2,904
	679,438	118,278	1,125,286	251,731
Exchange loss (gain)	(19,325)	4,075	(6,671)	(881)
	2,512,679	190,669	3,510,560	396,172
Loss for the period	(2,417,108)	(190,669)	(3,327,478)	(393,440)
Deficit, beginning of period	3,464,559	490,015	1,147,571	283,195
Share issue costs	-	(6,467)	(1,406,618)	(10,516)
Deficit, end of period	$ 5,881,667	$ 687,151	$ 5,881,667	$ 687,151
Basic and diluted loss per share (note 5)	$ (0.11)	$ (0.05)	$ (0.15)	$ (0.11)
Weighted average number of common shares outstanding	22,184,185	3,546,007	22,184,185	3,546,007

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows
(unaudited)

	3 months ended Sept. 30, 2004	3 months ended Sept. 30, 2003	9 months ended Sept. 30, 2004	9 months ended Sept 30 2003
Cash provided by (used in):				
Operations:				
Loss for the period	$(2,417,108)	$ (190,669)	$(3,327,478)	$ (393,440)
Item not involving cash:				
Depreciation	3,499	353	8,767	789
Stock-based compensation	459,119	-	459,119	-
Gain on sale of resource properties	(28,167)	-	(28,167)	-
Change in non-cash working capital	358,482	72,994	392,794	121,407
	(1,624,175)	(117,322)	(2,494,965)	(271,244)
Financing:				
Issue of common shares for cash	-	-	10,676,000	205,700
Share issue costs	-	(6,467)	(1,406,618)	(10,516)
Decrease (increase) in deferred share issue costs	-	-	52,342	(55,755)
	-	(6,467)	9,321,724	139,429
Investments:				
Proceeds on sale of resource properties	28,167	-	28,167	-
Resource property interests	(23,338)	(20,014)	(47,224)	(38,762)
Purchase of capital assets	(33,274)	(688)	(104,016)	(7,844)
	(28,445)	(20,702)	(123,073)	(46,606)
Increase (decrease) in cash	(1,652,620)	(144,491)	6,703,686	(178,421)
Cash, beginning of period	11,866,602	243,654	3,510,296	277,584
Cash, end of period	$10,213,982	$ 99,163	$10,213,982	$ 99,163

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 exploration for mineral deposits with emphasis on gold and copper-gold deposits in Mongolia.

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, 2003.

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, 2003.

(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.

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%

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.

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. 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.

4. a) Share Capital:

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	25,678,910	$ 15,847,722	13,058,910	$ 5,171,722
Issued for cash	-	-	12,500,000	10,625,000
Issued on exercise of warrants	-	-	120,000	51,000
Balance, end of period	25,678,910	$ 15,847,722	25,678,910	$ 15,847,722

4. b) Warrants:

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	1,080,000	$ 0.425	1,200,000	$ 0.425
Exercised	-	$ -	(120,000)	$ 0.425
Issued	-	-	-	-
Closing balance	1,080,000	$ 0.425	1,080,000	$ 0.425

The following is a summary of the warrants outstanding as of September 30, 2004:

Expiry Date	Number of Warrants	Exercise Price
January 20, 2008	1,080,000	$0.425

c) Options:

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	2,670,000	$ 0.73	770,000	$ 0.425
Exercised	-	-	-	-
Issued	-	-	1,900,000	0.85
Closing balance	2,670,000	$ 0. 73	2,670,000	$ 0.73

The following is a summary of the options outstanding as of September 30, 2004:

Expiry Date	Number of Options	Exercise Price
March 16, 2006	875,000	$0.85
June 30, 2006	65,000	$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
	2,670,000	$0.73

4. d) Stock-based Compensation:

The Company estimates the fair value of stock-based incentives using the Balck-Scholes model, recognized over their vesting period. The fair value of the 1,900,000 options granted during the three and nine months ended September 30, 2004 were calculated assuming no dividends are to be paid and with the following weighted average assumptions:

Risk-free interest rate	3.5%
Expected volatility	55%
Expected life of the option	One half of Option Period

5. 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.

6. 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.

7. Comparative Figures:

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