Interim Consolidated Financial Statements of

ERDENE GOLD INC.

First Quarter 2004

Three months ended March 31, 2004 and 2003
(Unaudited)

Prepared by Management - See Notice to Reader

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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, 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 months ended March 31, 2004 and 2003. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 31, 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

March 31, 2004, with comparative figures for December 31, 2003

	2004 (unaudited)	2003 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 12,600,757	$ 3,510,296
Accounts receivable	110,725	42,892
Prepaid expenses	1,556	-
	12,713,038	3,553,188
Deferred share issue costs	-	52,342
Resource property interests (note 2)	554,810	538,583
Capital assets, net	50,841	17,313
	$ 13,318,689	$ 4,161,426
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 205,479	$ 75,311
Due to related parties (note 3)	16,312	500
	221,791	75,811
Shareholders' equity:		
Share capital	15,796,722	5,171,722
Contributed surplus	61,464	61,464
Deficit	(2,761,288)	(1,147,571)
	13,096,898	4,085,615
	$ 13,318,689	$ 4,161,426

Approved on behalf of the Board:

"Bill Burton" Director "Chris Cowan" Director

See accompanying notes to interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Operations and Deficit

Three months ended March 31, 2004, with comparative figures for the three months ended March 31, 2003
(unaudited)

	2004	2003
Revenue:		
Interest revenue	$ 24,987	$ 452
Expenses:		
General and administrative expenses	138,881	50,123
Exploration expenses	93,109	11,160
Exchange loss	96	1,454
	232,086	62,737
Loss for the period	207,099	62,285
Deficit, beginning of period	1,147,571	407,510
Share issue costs	1,406,618	2,978
Deficit, end of period	$ 2,761,288	$ 472,773
Basic and diluted loss per share (note 4)	0.01	0.03
Weighted average number of common shares outstanding	15,142,243	2,410,350

See accompanying notes to interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2004, with comparative figures for the three months ended March 31, 2003
(unaudited)

	2004	2003
Cash provided by (used in):		
Operations:		
Loss for the period	$ (207,099)	$ (62,285)
Item not involving cash:		
Depreciation	1,790	132
Change in non-cash working capital	76,591	(30,009)
	(128,718)	(92,162)
Financing:		
Issue of common shares for cash	10,625,000	205,090
Share issue costs	(1,406,618)	(2,978)
Decrease (increase) in deferred share issue costs	52,342	(35,323)
	9,270,724	166,789
Investments:		
Resource property interests	(16,227)	(16,788)
Purchase of capital assets	(35,318)	(5,274)
	(51,545)	(22,062)
Increase in cash	9,090,461	52,565
Cash, beginning of period	3,510,296	277,584
Cash, end of period	$ 12,600,757	$ 330,149

See accompanying notes to interim consolidated financial statements.

ERDENE GOLD INC.

Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2004
(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 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.

ERDENE GOLD INC.

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Three months ended March 31, 2004
(unaudited)

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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%

ERDENE GOLD INC.

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Three months ended March 31, 2004
(unaudited)

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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.

ERDENE GOLD INC.

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Three months ended March 31, 2004
(unaudited)

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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. 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. 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.

5. 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.

Management Discussion and Analysis

Overview

This interim management discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three months ended March 31, 2004 and 2003, and the audited consolidated financial statements of the Company for the year ended December 31, 2003 including all accompanying notes the to the consolidated financial statements. The following discussion and analysis provides a summary of selected consolidated financial information for the three month period ended March 31, 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 (GAAP) (see note 1: Summary of Significant Accounting Policies and note 1 (a): Basis of Presentation).

The Company is a resource exploration company 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.

Description of the Business

Erdene Gold Inc. is a 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. The Company is presently conducting ongoing exploration programs on four of its eight, 100% owned properties in Mongolia that are represented by 20 exploration licenses covering approximately 400,000 hectares. With a focus on the Virgin property, the Company's objective in 2004 is to conduct exploration programs on all eight of its Mongolian mineral exploration properties, with plans to drill test four properties. The emphasis on the Virgin property stemmed from the discovery by Erdene geologists in 2003 of extensive copper-gold mineralization in the Temuujin District of the Virgin property.

The Company's exploration program is led by a senior management team with extensive exploration experience in Mongolia. The total budget for 2004 is approximately $4.8 million which is expected to increase in 2005 based on anticipated expanded drill programs. Approximately 70% of the exploration budget will be allocated to the Virgin property.

Results of Operations

All direct costs related to the acquisition of resource property interests have been capitalized. 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, at which point subsequent exploration costs and the costs incurred to develop a property will be capitalized.

During the period, the Company incurred a loss of $207,099 or $0.01 per share compared to a loss of $62,285 or $0.03 per share for the same period in 2003. Interest revenue increased by $24,535 to $24,987 due to the interest earned on the net proceeds from 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.

General and administrative expenses increased in 2004 by $88,758 to $138,881 for the period due to costs associated with the Company having obtained a listing on the TSX Venture Exchange. These costs were in the form of professional fees, investor communication and relations, regulatory reporting and the necessary increased administrative support. 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.

Exploration expenses increased in 2004 by $81,949 to $93,109 for the period. In the first quarter 2003 there was no exploration activity and the total expense of $11,160 related to planning the Mongolian exploration program set to begin later in 2003. Exploration expenses in the current quarter relate to costs associated with the completion of an evaluation report on the Virgin property from work carried out on the property in late 2003 and costs associated with planning and preparation for the 2004 Mongolian exploration program which began in late April, 2004.

Financial Position, Liquidity and Capital Resources

The Company's working capital position at March 31, 2004 was $12,491,247 compared to $3,477,377 at December 31, 2003. 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 agent's 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 $4.8 million 2004 exploration program, commit additional funds in the event exploration results warrant an expanded 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 period $16,227 was expended on resource property interests. This was primarily for the renewal of existing mineral exploration licenses with $1,522 of the total expended on the acquisition of a new exploration license that expands the area held under license in one of the Company's eight property areas.

During the quarter $35,318 was expended on the purchase of capital assets, primarily computer and office equipment in connection with setting up the office in Mongolia and preparing for the field programs.

At March 31, 2004, the Company's share capital was $15,796,722 with 25,558,910 common shares issued and outstanding. There is a total of 3,605,000 dilutive instruments outstanding, made up of share purchase warrants and options, giving a fully diluted share position of 29,163,910 common shares. With 1,970,000 of the dilutive instruments exercisable at $0.425 per common share and the remaining

1,635,000 exercisable at $0.85 per share, if all of the warrants and options outstanding were exercised, it would result in aggregate proceeds to the Company of $2,227,000.

Outlook

The Company continues to be optimistic about the potential demonstrated by its principal properties, particularly the Virgin property. Success from the efforts of the Company's 2004 exploration program on any of its properties would 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.

The 2004 exploration program began in late April. Base camps have been set up and surface programs are underway at four of our principal properties with a total crew of approximately 60 individuals. During the quarter the Company engaged an airborne geophysical survey firm, Fugro Airborne Surveys Pty Ltd., to carry out an airborne magnetic and radiometric survey on the Virgin property in the South Gobi area of Mongolia. The Fugro plane arrived in the country May 24th with the survey now underway. Erdene also contracted diamond drilling for four properties totaling 7500 metres to begin in early July.

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.

Forward-looking statements

Certain information regarding the Company contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.