

Interim Consolidated Financial Statements of

ERDENE GOLD INC.

Second Quarter 2004

Three and six months ended June 30, 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 June 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 six months ended June 30, 2004 and 2003. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 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

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

	2004 (unaudited)	2003 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,866,602	\$ 3,510,296
Accounts receivable	45,298	42,892
Prepaid expenses	20,820	-
	<u>11,932,720</u>	<u>3,553,188</u>
Deferred share issue costs	-	52,342
Resource property interests (note 2)	562,469	538,583
Capital assets, net	82,787	17,313
	<u>\$ 12,577,976</u>	<u>\$ 4,161,426</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 133,048	\$ 75,311
Due to related parties (note 3)	301	500
	<u>133,349</u>	<u>75,811</u>
Shareholders' equity:		
Share capital	15,847,722	5,171,722
Contributed surplus	61,464	61,464
Deficit	(3,464,559)	(1,147,571)
	<u>12,444,627</u>	<u>4,085,615</u>
	<u>\$ 12,577,976</u>	<u>\$ 4,161,426</u>

Approved on behalf of the Board:

"Bill Burton" 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 June 30, 2004	3 months ended June 30, 2003	6 months ended June 30, 2004	6 months ended June 30 2003
Revenue:				
Interest revenue	\$ 62,524	\$ 2,280	\$ 87,511	\$ 2,732
	62,524	2,280	87,511	2,732
Expenses:				
General and administrative expenses	306,967	83,330	445,848	133,453
Exploration expenses	446,270	65,846	539,379	77,006
Exchange loss (gain)	12,558	(6,410)	12,654	(4,956)
	765,795	142,766	997,881	205,503
Loss for the period	(703,271)	(140,486)	(910,370)	(202,771)
Deficit, beginning of period	2,761,288	348,458	1,147,571	283,195
Share issue costs	-	(1,071)	(1,406,618)	(4,049)
Deficit, end of period	\$ 3,464,559	\$ 490,015	\$ 3,464,559	\$ 490,015
Basic and diluted loss per share (note 4)	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.06)
Weighted average number of common shares outstanding	20,436,822	3,424,447	20,436,822	3,424,447

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows (unaudited)

	3 months ended June 30, 2004	3 months ended June 30, 2003	6 months ended June 30, 2004	6 months ended June 30 2003
Cash provided by (used in):				
Operations:				
Loss for the period	\$ (703,271)	\$ (140,486)	\$ (910,370)	\$ (202,771)
Item not involving cash:				
Depreciation	3,478	303	5,268	435
Change in non-cash working capital	(42,279)	79,235	34,312	49,226
	(742,072)	(60,948)	(870,790)	(153,110)
Financing:				
Issue of common shares for cash	51,000	610	10,676,000	205,700
Share issue costs	-	(1,071)	(1,406,618)	(4,049)
Decrease (increase) in deferred share issue costs	-	(20,432)	52,342	(55,755)
	51,000	(20,893)	9,321,724	145,896
Investments:				
Resource property interests	(7,659)	(2,773)	(23,886)	(19,561)
Purchase of capital assets	(35,424)	(1,881)	(70,742)	(7,155)
	(43,083)	(4,654)	(94,628)	(26,716)
Increase (decrease) in cash	(734,155)	(86,495)	8,356,306	(33,930)
Cash, beginning of period	12,600,757	330,149	3,510,296	277,584
Cash, end of period	\$ 11,866,602	\$ 243,654	\$ 11,866,602	\$ 243,654

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 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.

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Notes to the Interim Consolidated Financial Statements, page 2

Six months ended June 30, 2004
(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%

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Notes to the Interim Consolidated Financial Statements, page 3

Six months ended June 30, 2004
(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.

ERDENE GOLD INC.

Notes to the Interim Consolidated Financial Statements, page 4

Six months ended June 30, 2004
(unaudited)

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.