ERDENE GOLD INC.

Management Discussion and Analysis
Third Quarter – September 30, 2005

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

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

1.1 Date of report

This report is prepared as of November 21, 2005

1.2 Nature of Business and Overall Performance

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

The Company is a well-funded mineral resource company engaged in the acquisition and exploration of mineral properties in Mongolia, with emphasis on the discovery of gold, copper-gold, molybdenum and uranium deposits. The Company's resource property portfolio under license, application and option includes 21 precious and base metal properties in Mongolia that are represented by 81 exploration licenses and applications covering approximately 2,000,000 hectares and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company commenced its 2005 exploration field work activities in April, 2005. The objective of the overall 2005 exploration program is to conduct advanced level programs on each of its four core Mongolian projects, Zuun Mod, Virgin, Erdenet and the Uranium land package, conduct programs on each of its four second tier projects, Wild Mountain, Shurtiin Khundii, Biger and Tsenkher Gol, to ascertain the potential to advance these properties to core projects and perform more preliminary, reconnaissance exploration activities on a number of its remaining 13 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 $5.6 million. The Company will continue to fund operating losses and exploration expenditures out of existing working capital that amounted to $5.7 million at September 30, 2005.

1.3 Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

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

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

1.4 Results of Operations

Three months ended September 30, 2005 and 2004

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

During the three months ended September 30, 2005 the Company incurred a loss of $1,573,211 or $0.06 per share as compared to a loss of $2,417,108 or $0.11 per share in the corresponding period in 2004. Revenues decreased to $53,978 during the three months ended September 30, 2005 compared to $95,571 for the same period last year. The decrease was mainly due to lower interest revenue as a result of lower cash balances.

Total operating expenses for the third quarter were $1,627,190 compared to $2,512,679 for the same period last year. Exploration expenses were $1,219,449 in 2005 compared to $1,852,566 during the same period in 2004. The decrease in the third quarter is mainly a difference in the timing of exploration operations compared to the prior year. Exploration partner contributions of $149,887 are expense recoveries related to exploration costs incurred by the Company on its uranium properties, as operator. These costs are recoverable from the Company's joint venture partner, International Uranium Corporation. General and administrative expenses for the third quarter 2005 were $421,126 compared to $679,438 for the same period in 2004. The decrease is due primarily to non-cash stock-based compensation charges which were $147,202 for the third quarter 2005 versus $459,119 during the same period in 2004. If stock based compensation is excluded, general and administrative costs increased by $53,605 compared to last year, mainly due to additional administrative support for the expanded 2005 exploration program.

Nine months ended September 30, 2005 and 2004

During the nine months ended September 30, 2005 the Company incurred a loss of $3,772,141 or $0.14 per share compared to a loss of $3,327,478 or $0.15 per share for the corresponding period in 2004. Revenues decreased to $156,700 during the nine months ended September 30, 2005 from $183,082 in 2004. This decrease is primarily due to a decrease in earned interest due to lower cash balances in 2005 versus 2004.

Total operating expenses for the nine months ended September 30, 2005 increased to $3,928,842 compared to $3,510,560 in the same period in 2004. Exploration expenses were $2,963,262 in 2005 compared to $2,391,945 in 2004. The increase in 2005 is primarily due to a more expansive exploration program (detailed in section 1.12 below). Also included in the 2005 exploration expenses is $89,131 of non-cash stock based compensation charges representing the estimated fair value for options issued to individuals involved in exploration activities versus nil during the nine months ended September 30, 2004. General and administrative expenses for the nine months ended September 30, 2005 were $1,056,490 compared to $1,125,286 for the same period in 2004. The decrease is mainly due to non-cash stock-based compensation charges decreasing to $208,470 in 2005 versus $459,119 in 2004. With stock based compensation excluded, general and administrative expenses increased $181,853 over last year. This increase was primarily due to additional regulatory and investor relation costs and additional administrative support for the larger 2005 exploration program.

1.5 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2005			Fiscal 2004			
	Q3 Sep-05	Q2 Jun-05	Q1 Mar-05	Q4 Dec-05	Q3 Sep-05	Q2 Jun-05	Q1 Mar-05
Revenue	$54	$53	$35	$43	$67	$63	$25
Loss	$1,573	$1,692	$507	$1,110	$2,417	$703	$207
Basic and diluted loss per share	$0.06	$0.06	$0.02	$0.04	$0.11	$0.03	$0.01
Total Assets	$7,924	$9,375	$9,806	$9,426	$11,022	$12,578	$13,319

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

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

1.6 Liquidity and Capital Resources

As of September 30, 2005 the Company had working capital of $5.7 million compared to $8.5 million at December 31, 2004 and $9.7 million at September 30, 2004. The decrease in working capital is attributable primarily to funding the Company's operating expenditures, recoverable exploration partner expenditures and resource property interests 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 $1.5 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 nine months of 2005, 25,000 options and 45,725 warrants were exercised at $0.85 per share for total cash proceeds of $60,116.

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 September 30, 2005, has an ascribed value of $984,440. This includes stock-based compensation representing the estimated fair value of the warrants issued on the date granted of $396,830.

The Company granted 560,000 options during the first nine months of 2005. The fair value of the options granted, calculated using the Black-Scholes model amounted to $396,830. Of this amount, $89,131 was reported under exploration expenses and the remaining $208,470 was reported under general and administrative expenses.

During the nine months ended September 30, 2005, $59,866 was spent on the purchase of capital assets compared with $104,016 in 2004. The 2005 and 2004 expenditures relate primarily to the purchase of computer, office and field equipment to support the exploration program.

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

1.7 Off-Balance Sheet Arrangements

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

1.8 Transactions with Related Parties

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

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

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

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

1.10 Financial Instruments and Other Risks

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

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

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

1.11 Outstanding Share Data

a) Share Capital:

Authorized and issued

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	27,232,135	$17,340,199	25,798,910	$ 15,906,210
Issued for cash	-	-	1,000,000	$1,000,000
Issued pursuant to option agreement	-	-	400,000	400,000
Issued on exercise of options and warrants	37,500	31,875	70,725	60,116
Amount reclassified from contributed surplus upon exercise	-	-	-	5,747
Balance, end of period	27,269,635	$17,372,074	27,269,635	$ 17,372,074

b) Warrants

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	2,626,775	$0.70	1,835,000	$ 0.63
Exercised	(37,500)	0.85	(45,725)	0.85
Issued	-	-	800,000	0.87
Closing balance	2,589,275	$0.70	2,589,275	$ 0.70

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

Expiry Date	Number of Warrants	Exercise Price
March 16, 2006	829,275	$0.85
February 28, 2007	800,000	$0.87
January 23, 2008	960,000	$0.425
	2,589,275	$0.70

c) Options

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	2,070,000	$0.67	1,795,000	$0.67
Exercised	-	-	(25,000)	$0.85
Issued	260,000	$0.85	560,000	$0.78
Closing balance	2,330,000	$0.69	2,330,000	$0.69

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

Expiry Date	Number of Options	Exercise Price
June 30, 2006	40,000	$0.85
May 8, 2008	400,000	$0.425
November 19, 2008	370,000	$0.425
March 31, 2009	100,000	$0.85
April 6, 2009	760,000	$0.85
August 26, 2009	100,000	$0.85
February 4, 2010	200,000	$0.70
March 30, 2010	10,000	$0.70
May 1, 2010	90,000	$0.77
July 1, 2010	10,000	$0.74
August 5, 2010	250,000	$0.85
	2,330,000	$0.69

d) Stock-based Compensation:

The Company estimates the fair value of stock-based incentives using the Black-Scholes model, recognized over their vesting period. The fair value of the 1,360,000 warrants and options granted during the three and nine months ended September 30, 2005 were calculated assuming no dividends are to be paid and with the following weighted average assumptions:

Risk-free interest rate	4.0%
Expected volatility	80%
Expected life of the option	Option Period

The estimated fair value of the 1,360,000 warrants and options granted during the reporting period under the Black-Scholes model was $694,431 and is presented in these financial statements as follows:

Other assets	$396,830
Exploration expenses	$ 89,131
General and administrative	$ 208,470

1.12 Exploration Results

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

Zuun Mod Molybdenum-Copper Porphyry Project

In the third quarter, the Phase I diamond drilling program initiated in the second quarter was completed at the Zuun Mod molybdenum-copper porphyry project. A series of 11 holes totaling 3,500 metres were drilled. This Phase I program was designed to test multiple targets throughout the 20-square-kilometre Zuun Mod porphyry complex. All holes intersected anomalous copper and/or molybdenum over various widths. Five of these new holes tested areas within the Southeast Molybdenum Zone where four holes intersected significantly anomalous molybdenum mineralization. The Southeast Molybdenum Zone consists of a 3 kilometre long series of structurally controlled and mineralized quartz-monzonites and granodioritic bodies.

Southeast Molybdenum Zone

To date, a total of 10 holes have tested the Southeast Molybdenum Zone over a 2.6-kilometre strike length; five holes (ZMD series) drilled by Erdene in 2005 and five holes (KKMD series) drilled in 2003 by Gallant Minerals/WMC Resource Ltd. (Gallant). The holes are spaced at intervals of 75 metres to 1000 metres and average approximately 380 metres. Of these 10 holes, seven have returned intersections ranging from 18 metres of 0.04% molybdenum to 340 metres of 0.05% molybdenum beginning within 100 metres of surface and the three drill holes with the widest mineralized zones, ZMD-11, KKMD-03 and KKMD-08, all ended in mineralization.

The thickest intervals of mineralization, grading 0.05% molybdenum or greater, from the 2005 drilling were returned from the central portion of the Southeast Molybdenum Zone (referred to as the Race-Track Zone) where ZMD-11, returned 340 metres of 0.05% molybdenum which contained two zones of 52 metres and 24 metres averaging 0.08% and 0.09% molybdenum, respectively. This result is particularly encouraging as it suggests continuity from a previous Gallant hole, KKMD-08, located 255 metres to the north which returned 160 metres of 0.06% molybdenum and ended in mineralization at 279 metres. Gallant drill hole KKMD-03 is also situated in the Southeast Molybdenum Zone, approximately 1.5 kilometres southwest of ZMD-11 in an area referred to as the Stockwork Zone. KKMD-03 intersected 236 metres of 0.06% molybdenum beginning at 90 metres depth, and also ended in mineralization at 326 metres.

The Southeast Molybdenum Zone is only a portion of a much larger porphyry complex at Zuun Mod much of which remains un-explored by drilling. However, exploration to date has identified areas of anomalous mineralization which will be followed up on a priority basis.

Review by Independent Consultant

During the third quarter, following the completion of the drilling program, Mr. Andre Talaska (MAusIMM), an independent consultant, visited the property and reviewed all data. He confirmed that exploration of the Zuun Mod project area has resulted in the delineation of multiple molybdenum targets. In addition, he concluded that the Zuun Mod molybdenum-copper exploration project merits a resource definition drilling program to establish the resource potential of previously delineated molybdenum mineralized areas within the Southeast Molybdenum Zone, specifically the Stockwork and Racetrack Zones. Drilling is planned to resume in November, 2005.

About Zuun Mod & Molybdenum

Zuun Mod is located in the south Gobi region of Mongolia where major copper, gold, coal and uranium projects are currently being developed. The property is located less than 200 kilometres from rail and high voltage power facilities being constructed to service the Jiaguan Iron and Steel complex located in China's Gansu Province. The facilities are being built to source raw materials from the Naraan Sukhait coal project. Molybdenum is used in steel and cast iron products as well as superalloys, electronics, catalysts, lubricants and pigments. Stainless steel, which can contain up to 6% molybdenum, is a major growth area for the metal as are natural gas and oil pipelines which utilize a significant amount of molybdenum. Strong demand in China coupled with limited supply has resulted in significant price increases in Molybdenum which is currently priced at US$29/lb.

Erdenet - Ikh Tal Project

Erdene commenced exploration on its properties adjacent to the Erdenet Mine open pit in May 2005. During the third quarter, Erdene reported the following project update.

Ikh Tal-1 (Erdenet West)

Three vertical diamond drill holes were completed in the area west of the Erdenet open pit to test gradient and co-incident high chargeability dipole anomalies. Holes ITDD-01 and ITDD-02, located 700 metres and 2000 metres west of the open pit intersected unaltered and essentially unmineralized granodiorite (2 metre interval maximum 0.16% copper) to depths of 251 metres and 334 respectively. Hole ITDD-03 was collared 2.3 kilometres west of the open pit to test a high chargeability dipole-dipole IP anomaly. The hole intersected minor disseminated pyrite in moderately potassic and propylitic altered granodiorite to the final depth of 260.5 metres.

Baglai (Erdenet East)

Geological mapping in the Baglai area, immediately east of the Erdenet Mine open pit, identified a 1000 metre by 500 metre area of intensely altered Erdenet Complex granite and microgranite. Strong phyllic and argillic alteration with associated pyrite was observed in the granitic and volcanic rocks with minor copper oxides. Magnetic and gradient IP surveys outlined coincident magnetic low and high resistivity and chargeability anomalies over this alteration zone.

Tsagaan Chuluut (Erdenet North West)

Reconnaissance mapping and sampling were carried out in July in the Tsagaan Chuluut area located northwest of the Erdenet Mine open pit. Propylitic alteration was noted in a small area of Erdenet Complex granitic rocks. A magnetic and gradient IP survey completed over the Tsagaan Chuluut area outlined a chargeability high and associated resistivity low anomaly over this alteration zone.

Uranium Properties

Initial field evaluations, scintilometer surveys and sampling over the more than 1 million hectare land package that was started in the second quarter was completed in the third quarter. Multiple previously-documented uranium occurrences and radiometric anomalies have been evaluated for sediment-hosted, near-surface, uranium mineralization. In addition, numerous previously undocumented high-background radiometric anomalies have been identified by the Company's exploration team.

As a result of an initial reconnaissance program, three properties were chosen for more detailed surface exploration, Durvuljin Uul, Galshar Uul and Yant. These properties are characterized by well-defined zones of high radiometrics hosted within clastic sediments or carbonaceous siltstone. Eight separate anomalous radiometric zones have been identified within the three properties. Target structures are believed to represent efficient conduits for oxygen-rich surface waters that can leach and mobilize metals to form roll-front type uranium deposits suitable for in-situ leach (ISL) mining. The Erdene-IUC joint venture controls in excess of 1 million hectares in the area of the central sedimentary basins in southeastern Mongolia.

<u>High Priority Target Areas</u>

The following is a brief description of the high priority target areas identified to date:

Durvuljin Uul: This property is located approximately 50 kilometres northeast of the town on Sainshand and is situated within the defined uraniferous Sainshand Basin which is host to the Nars uranium deposit, located about 12 kilometres to the southwest. Three target areas have been identified on this property the largest of which extends over an area of 800 metres by 500 metres. The targets are characterized by highly anomalous radiometrics measuring from 500 to 9,800 tcps (total counts per second), spectrometer values of 50 to 350 ppm uranium and rock geochemical assays ranging from 100 to 1,300 ppm uranium. Anomalous areas are typically underlain by mottled sandstone and siltstone. The property was previously explored during Russian-Mongolia reconnaissance exploration programs which included wide spaced drilling (>8 kilometres spacing) which is reported to have returned anomalous uranium mineralization in all holes within which six mineralized sandstone beds were identified.

Galshar Uul: This property is located in the northeast part of the large Galshar Property Block located 200 kilometres north of the Chinese border. Three target areas have been identified along a 2 kilometre long by 300 metre wide, northwest-trending zone of high radiometrics ranging from 500 to 2,700 tcps with spectrometer readings of 200 to 300 ppm uranium. This orientation conforms to regional structural trends and accordingly infers a structural and/or stratigraphic control for possible mineralization.

Yant: This property is located approximately 60 kilometres west of Sainshand, where two anomalous target areas have been defined. Maximum scintillometer reading of 4,500 tcps within unconsolidated carbonaceous siltstone have been identified. Two grab samples returned assays of 106 ppm and 101 ppm uranium while soil samples have returned assays of up to 984 ppm uranium.

<u>Drilling Program</u>

A reverse-circulation drilling program, including a minimum of 2,000 metres, was started in mid-September to test the defined target areas. This program will test for uranium mineralization and establish local and regional stratigraphy to depths of 100 to 150 metres. A minimum of two drill holes are planned for each of the eight defined zones.

In Situ Leach Mining

The Erdene-IUC joint venture is exploring for uranium deposits suitable for the in-situ leach method of uranium extraction (ISL), also known as solution mining. These types of deposits occur in permeable sand or sandstones, confined above and below by impermeable strata. Most uranium mining in the USA is now done by in situ leach (ISL) method which involves leaving the ore where it is in the ground, and using liquids which are pumped through it to remove the uranium from the ore by leaching. Consequently there is little surface disturbance and no tailings or waste rock generated. However, the ore body needs to be permeable to the liquids used, and located so that they do not contaminate ground water away from the ore body. Approximately 13% of world uranium production is by ISL.

Erdene-IUC Joint Venture Agreement

IUC has the right to earn a majority (65%) interest in any uranium resource identified on Erdene's million plus hectare uranium licenses located in south-central Mongolia by spending a minimum of $6 million over a period of four years. Erdene is the operator of the IUC funded program for 2005.

Tsenkher Gol Gold Project

Situated within the South Hentii Gold Belt, the Tsenkher Gol project is targeting granite hosted disseminated gold mineralization geologically similar to Centerra Gold's Boroo Mine. The property is less than 200 kilometres from Ulaanbaatar and is accessible by a newly paved highway. The mineralization is hosted in a quartz-sericite-pyrite (QSP) altered Carboniferous granitoid. During the third quarter, Erdene completed mapping, geochemical rock and soil surveys and a magnetometer survey. The program has identified two main zones (Altan Suult and Khond Uul) characterized by high grade gold veins and lower gold values associated with disseminated sulfides in altered granite. Active placer gold mining operations occur in drainages adjacent to the Tsenkher Gol property.

Altan Suult Zone

A program of geological mapping and rock chip and soil geochemistry was completed at Altan Suult in August 2005. Mapping indicates that the QSP alteration zone has dimensions of 500 by 1500 metres, and remains open along strike to the east. In addition, this zone was outlined by a corresponding area of highly anomalous soil results ranging from 0.02 to 4.02g/t gold. Rock geochemical results included 4 metres of 0.32 g/t gold and a grab sample of 0.22g/t gold, and confirmed the widespread high gold anomaly reported by Gallant Minerals Mongolia Limited (GMML). Visible gold was also noted in quartz vein material derived from old trench dumps, confirming previous reports.

GMML completed preliminary work on the site in 2000 which included sampling of previously excavated trench dump material. Results from analysis of 107 trench-dump samples, which included grab and trench samples, returned values from detection limit, 1ppb (0.001g/t) gold, to a maximum of 179.0g/t gold and 56.2g/t silver from a quartz vein grab sample. Continuous 2 metre sampling returned highly anomalous gold values, including 5.45g/t gold over 2 metres with adjacent altered granites averaging 0.13g/t (max 0.27g/t) over 22 metres. Individual trench samples included 2.5 metres of 6.9g/t gold, 2 metres of 5.45g/t gold and 2 metres of 1.5g/t gold.

Khond Uul Zone

Gold in soil results and alteration mapping have resulted in the definition of a new zone (Khond Uul). This prospect is approximately 2.5 kilometres northeast of Altan Suult and is characterized by a 200 by 3500 metre, northwest-trending gold-bearing alteration zone. The zone remains open along strike to the northwest. Anomalous soil samples with concentrations of 0.05 to 0.17g/t gold, with corresponding anomalous arsenic values, were returned along this 3500 metre long zone. In the southwest end of the zone, a 12 metre continuous chip sample returned 1.4g/t gold. This sample was located along a previously unidentified gold-bearing zone in altered granite.

An extensive program of detailed rock-chip sampling, trenching and gradient induced polarization is now being initiated on the main targets. In addition, there are a number of other discrete and lesser explored targets that will be further mapped and sampled during this fall exploration program.

Virgin Property – Temuujin Prospect

During the third quarter a three-hole diamond drilling program totaling 1,498 metres was completed testing a Titan Geophysical anomaly at Temuujin II and an altered quartz monzonite adjacent to Temuujin II. Results are pending.

The Titan Geophysical anomaly was identified in early June by a 'TITAN-24 Deep Earth Imaging System' survey that was completed over the Temuujin II porphyry copper-gold prospect. The survey was successful in identifying an induced polarization (IP) anomaly that distinctly intensifies below the two holes drilled at Temuujin II.

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

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

Biger Project

The Biger prospect was tested by Erdene with three diamond drill holes in the second quarter of 2005 for a total of 610 metres. Drill targets included surface zones of highly anomalous copper-gold-platinum and palladium rock geochemistry, coincident with circular magnetic anomalies, and zones of potassic alteration. Results from the drill program were reported in the third quarter. The Altan Khad pediment outlier zone at the Biger property provided the best intersection with 24 metres of 0.5% copper (BGD-03, 94-118 metres). This is an isolated hole 6 kilometres from BGD-01 and located in a gabbrodiorite exposure protruding through relatively thin surface cover. BGD-03 also contained the following anomalous intervals: 14 metres at 0.1% copper (174-188 metres) and elevated gold and palladium, 22 metres at 81ppb gold, and 22 metres at 89ppb palladium (96-118 metres). Copper mineralization in BGD-03 occurs as disseminated and fracture-fill chalcopyrite and copper-oxide, hosted within potassic altered diorite and gabbrodiorite intrusive. The two remaining holes only intersected anomalous copper values. Future exploration plans are being developed.

Coal Exploration

Erdene geologists have identified the potential for a large coal resource hosted in a Cretaceous basin in the Galshar district 300 kilometres southeast of Ulaanbaatar and 125 kilometres east of the Trans-Mongolian rail line. An operating open pit coal mine is located in this area on a small licence within the boundaries of several Erdene licences. The open pit is 300 metres long by 200 metres wide and approximately 60 metres deep. This pit has exposed a thinly covered, 30-metre thick coal seam that extends onto the surrounding Erdene licences. Based on the results of previous drilling, the Mineral Authority of Mongolia has estimated that this seam extends over a 3 kilometre by 1.5 kilometre area, much of which is on Erdene property. Analysis of six grab samples from the pit indicates that the quality varies from brown coal to high volatile thermal coal.

Outlook

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

Qualified Persons

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

Other Information

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

Interim Consolidated Financial Statements of

ERDENE GOLD INC.

Third Quarter 2005

Three and nine months ended September 2005 and 2004
(unaudited)

Prepared by Management - See Notice to Reader

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November 21, 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 September 30, 2005, the audited consolidated balance sheet as at December 31, 2004 and the unaudited interim consolidated statements of operations and deficit and cash flows for the three and nine months ended September 30, 2005 and 2004. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2005 and 2004 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE GOLD INC.

Interim Consolidated Balance Sheets

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

	2005 (unaudited)	2004 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 5,066,770	$ 8,579,289
Marketable securities	50,666	28,167
Accounts receivable	710,113	41,369
Prepaid expenses	182,845	8,375
	6,010,394	8,657,200
Resource property interests (note 2)	776,079	603,607
Capital assets, net	153,562	120,975
Other assets (note 3)	984,440	44,690
	$ 7,924,475	$ 9,426,472
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 336,572	$ 147,982
Due to related parties (note 4)	8,500	21,494
	345,072	169,476
Shareholders' equity:		
Share capital (note 5)	17,372,074	15,906,210
Contributed surplus (note 6)	1,201,779	513,095
Deficit	(10,994,450)	(7,162,309)
	7,579,403	9,256,996
	$ 7,924,475	$ 9,426,472

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

"Kenneth MacDonald" Director

"William Burton" Director

ERDENE GOLD INC.

Interim Consolidated Statements of Operations and Deficit
(unaudited)

	3 months ended Sept 30, 2005	3 months ended Sept 30, 2004	9 months ended Sept 30, 2005	9 months ended Sept 30, 2004
Revenue:				
Interest revenue	$ 36,205	$ 53,627	$ 123,740	$ 141,138
Gain on sale of resource properties	13,333	28,167	22,499	28,167
Other	4,440	13,777	10,461	13,777
	53,978	95,571	156,700	183,082
Expenses:				
Exploration expenses				
Diamond drilling	616,517	748,958	1,242,569	750,733
Analytical and assaying	116,540	126,169	211,660	131,323
Geological services	243,659	181,436	710,759	332,183
Geo-technical surveys	23,202	275,175	216,271	328,689
Logistical and field support	319,889	486,100	760,718	729,502
Professional services	-	-	101,916	-
Travel	39,558	33,866	148,743	118,022
Exploration partner contributions	(149,887)	-	(444,015)	-
Other	9,969	862	14,639	1,493
	1,219,449	1,852,566	2,963,262	2,391,945
General and administrative expenses				
Depreciation	5,651	3,499	21,469	8,767
Insurance	10,100	7,165	29,930	14,407
Investor relations and marketing	27,577	51,366	121,430	154,812
Office	10,884	22,472	57,307	68,871
Professional services	41,803	54,551	146,790	110,981
Regulatory compliance	26,231	12,634	98,548	70,206
Salaries and benefits	110,137	52,621	288,775	193,743
Stock-based compensation	147,202	459,119	208,470	459,119
Travel	29,724	16,011	68,168	38,019
Other	11,817	-	15,603	6,361
	421,126	679,438	1,056,490	1,125,286
Exchange loss (gain)	(13,385)	19,325	(90,910)	(6,671)
	1,627,190	2,512,679	3,928,842	3,510,560
Loss for the period	(1,573,211)	(2,417,108)	(3,772,141)	(3,327,478)
Deficit, beginning of period	9,426,739	3,464,559	7,162,309	1,147,571
Share issue costs	5,500	-	(60,000)	(1,406,618)
Deficit, end of period	$10,994,450	$ 5,881,667	$10,994,450	$5,881,667
Basic and diluted loss per share (note 7)	$ (0.06)	$ (0.11)	$ (0.14)	$ (0.15)
Weighted average number of common shares outstanding	26,794,824	22,184,185	26,794,824	22,184,185

See accompanying notes to the interim consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows
(unaudited)

	3 months ended Sept 30, 2005	3 months ended Sept 30, 2004	9 months ended Sept 30, 2005	9 months ended Sept 30 2004
Cash provided by (used in):				
Operations:				
Loss for the period	$(1,573,211)	$(2,417,108)	$(3,772,141)	$(3,327,478)
Item not involving cash:				
Depreciation	7,946	3,499	27,433	8,767
Stock-based compensation	151,858	459,119	694,431	459,119
Gain on sale of resource properties	(13,333)	(28,167)	(22,499)	(28,167)
Change in non-cash working capital	203,100	358,482	(690,116)	392,794
	(1,223,640)	(1,624,175)	(3,762,892)	(2,494,965)
Financing:				
Issue of common shares for cash	-	-	1,000,000	10,676,000
Share issue costs	5,500	-	(60,000)	(1,406,618)
Issue of common shares pursuant to option agreement	-	-	400,000	-
Issue of common shares on exercise of options and warrants	31,875	-	60,116	-
Decrease (increase) in deferred share issue costs	-	-	-	52,342
	37,375	-	1,400,116	9,321,724
Investments:				
Proceeds on sale of resource properties	13,333	28,167	22,499	28,167
Resource property interests	(121,007)	(23,338)	(172,472)	(47,224)
Purchase of capital assets	(10,647)	(33,274)	(60,020)	(104,016)
Other assets	-	-	(939,750)	-
	(118,321)	(28,445)	(1,149,743)	(123,073)
Increase (decrease) in cash	(1,304,586)	(1,652,620)	(3,512,519)	6,703,686
Cash, beginning of period	6,371,356	11,866,602	8,579,289	3,510,296
Cash, end of period	$ 5,066,770	$10,213,982	$ 5,066,770	$10,213,982

See accompanying notes to the interim consolidated financial statements.

Nature of business:

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

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

1. Summary of significant accounting policies:

(a) Basis of presentation:

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

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

(b) Principles of consolidation:

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

(c) Accounting estimates:

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

(d) Cash and cash equivalents:

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

1. Summary of significant accounting policies (continued):

(e) Resource property interests:

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

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

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

(f) Capital assets:

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

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

1. Summary of significant accounting policies (continued):

(g) Foreign currency translation:

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

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

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

(h) Income taxes:

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

(i) Stock-based compensation:

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

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

1. Summary of significant accounting policies (continued):

(i) Stock-based compensation (continued):

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

2. Resource property interests:

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

3. Other assets:

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

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

i) US $275,000;

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

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

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

3. Other assets (continued):

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

4. Related parties and 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 as follows:

	Sept 30, 2005	Dec 31, 2004
Fisher Transport Limited	$ -	$ 14,988
J.C. Cowan	8,500	6,506
	$ 8,500	$ 21,494

5. Share Capital:

Authorized and issued

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	27,232,135	$17,340,199	25,798,910	$15,906,210
Issued for cash	-	-	1,000,000	$1,000,000
Issued pursuant to option agreement	-	-	400,000	400,000
Issued on exercise of options and warrants	37,500	31,875	70,725	60,116
Amount reclassified from contributed surplus upon exercise	-	-	-	5,747
Balance, end of period	27,269,635	$17,372,074	27,269,635	$17,372,074

5. Share Capital (continued):

Warrants

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	2,626,775	$0.70	1,835,000	$ 0.63
Exercised	(37,500)	0.85	(45,725)	0.85
Issued	-	-	800,000	0.87
Closing balance	2,589,275	$0.70	2,589,275	$ 0.70

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

Expiry Date	Number of Warrants	Exercise Price
March 16, 2006	829,275	$0.85
February 28, 2007	800,000	$0.87
January 23, 2008	960,000	$0.425
	2,589,275	$0.70

Options

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	2,070,000	$0.67	1,795,000	$0.67
Exercised	-	-	(25,000)	$0.85
Issued	260,000	$0.85	560,000	$0.78
Closing balance	2,330,000	$0.69	2,330,000	$0.69

5. Share Capital (continued):

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

Expiry Date	Number of Options	Exercise Price
June 30, 2006	40,000	$0.85
May 8, 2008	400,000	$0.425
November 19, 2008	370,000	$0.425
March 31, 2009	100,000	$0.85
April 6, 2009	760,000	$0.85
August 26, 2009	100,000	$0.85
February 4, 2010	200,000	$0.70
March 30, 2010	10,000	$0.70
May 1, 2010	90,000	$0.77
July 1, 2010	10,000	$0.74
Aug 5, 2010	250,000	$0.85
	2,330,000	$0.69

Stock-based Compensation:

The Company estimates the fair value of stock-based incentives using the Black-Scholes model, recognized over their vesting period. The fair value of the 1,360,000 warrants and options granted during the nine months ended September 30, 2005 were calculated assuming no dividends are to be paid and with the following weighted average assumptions:

Risk-free interest rate	4.0%
Expected volatility	80%
Expected life of the option	Option Period

The estimated fair value of the 1,360,000 warrants and options granted during the reporting period under the Black-Scholes model was $694,431 and is presented in these financial statements as follows:

Other assets	$396,830
Exploration expenses	$ 89,131
General and administrative	$ 208,470

6. Contributed surplus:

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

	2005	2004
Opening balance	$ 513,095	$ 61,464
Warrants issued pursuant to option agreement	396,830	171,500
Warrants exercised	(5,747)	(7,488)
Options issued	297,601	287,619
	$ 1,201,779	$ 513,095

7. Basic and diluted loss per share:

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

8. Segmented information:

(a) General information:

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

(b) Geographic information:

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

9. Comparative figures

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