

**ENTRÉE GOLD INC.**  
**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States dollars)**

**September 30, 2007**

# ENTRÉE GOLD INC.

(An Exploration Stage Company)  
CONSOLIDATED BALANCE SHEETS  
(Expressed in United States Dollars)

|   | September 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| <b>Current</b>  |                                      |                      |
| Cash and cash equivalents   | \$ 26,895,815                        | \$ 14,258,422        |
| Receivables   | 311,444                              | 246,405              |
| Prepaid expenses  | 578,207                              | 160,345              |
| Total current assets  | 27,785,466                           | 14,665,172           |
| Investments (Note 4)  | 3,431,195                            | -                    |
| Equipment (Note 5)  | 881,355                              | 844,922              |
| <b>Total assets</b>   | <b>\$ 32,098,016</b>                 | <b>\$ 15,510,094</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| <b>Current</b>  |                                      |                      |
| Accounts payable and accrued liabilities  | \$ 349,380                           | \$ 356,229           |
| <b>Commitments (Note 11)</b>  |                                      |                      |
| <b>Stockholders' equity</b>   |                                      |                      |
| Common stock, no par value, unlimited number authorized, (Note 7)<br>79,079,201 (December 31, 2006 - 70,858,093) issued and outstanding | 68,552,673                           | 47,294,292           |
| Additional paid-in capital  | 10,877,643                           | 9,281,914            |
| Accumulated other comprehensive income:   |                                      |                      |
| Foreign currency cumulative translation adjustment  | 4,857,152                            | 1,532,753            |
| Accumulated deficit during the exploration stage  | (52,538,832)                         | (42,955,094)         |
| Total stockholders' equity  | 31,748,636                           | 15,153,865           |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 32,098,016</b>                 | <b>\$ 15,510,094</b> |

## Nature of operations (Note 2)

The accompanying notes are an integral part of these consolidated financial statements.

# ENTRÉE GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(Expressed in United States Dollars)

|   | Three<br>Months<br>Ended<br>September 30,<br>2007 | Three<br>Months<br>Ended<br>September 30,<br>2006 | Nine<br>Months<br>Ended<br>September 30,<br>2007 | Nine<br>Months<br>Ended<br>September 30,<br>2006 | Inception<br>(July 19,1995) -<br>September 30,<br>2007 |
|---|---|---|--|--|--|
| <b>EXPENSES</b>   |   |   |  |  |  |
| Audit and accounting  | \$ 8,702  | \$ 7,276  | \$ 27,321  | \$ 44,482  | \$ 288,036   |
| Consulting fees (Note 7)  | 27,369  | 105,905   | 524,598  | 212,839  | 2,184,257  |
| Depreciation  | 54,657  | 48,329  | 157,349  | 138,188  | 518,789  |
| Escrow shares compensation  | -   | -   | -  | -  | 1,790,959  |
| Foreign exchange (gain)loss   | 39,672  | (192)   | 34,840   | 7,510  | 70,824   |
| Legal (Note 7)  | 49,425  | 10,416  | 188,073  | 65,112   | 1,346,256  |
| Loss on settlement of debt  | -   | -   | -  | -  | 5,252  |
| Management fees (Notes 7 and 8)                                       | 11,865  | 282,656   | 943,133  | 304,418  | 4,074,996  |
| Mineral property interests<br>(Notes 6 and 7)                         | 2,120,233   | 2,571,691   | 5,413,978  | 4,295,961  | 33,517,376   |
| Office and administration (Note 7)                                    | 350,121   | 575,804   | 1,378,059  | 1,282,598  | 5,270,583  |
| Regulatory and transfer agent fees                                    | (37,532)  | 16,849  | 79,147   | 239,374  | 490,628  |
| Shareholder communications and<br>investor relations (Note 7)         | 186,386   | 144,970   | 572,181  | 1,066,443  | 3,303,191  |
| Travel  | 82,999  | 48,714  | 287,879  | 140,022  | 884,766  |
| <b>Loss from operations</b>   | <b>(2,893,897)</b>                                | <b>(3,812,418)</b>                                | <b>(9,606,558)</b>                               | <b>(7,796,947)</b>                               | <b>(53,745,913)</b>                                    |
| Interest income   | 318,226   | 202,112   | 596,083  | 547,341  | 1,780,344  |
| Fair value adjustment to asset<br>backed commercial paper<br>(Note 4) | (573,263)   | -   | (573,263)  | -  | (573,263)  |
| <b>Net loss</b>   | <b>\$ (3,148,934)</b>                             | <b>\$ (3,610,306)</b>                             | <b>\$ (9,583,738)</b>                            | <b>\$ (7,249,606)</b>                            | <b>\$ (52,538,832)</b>                                 |
| Comprehensive loss:   |   |   |  |  |  |
| Net loss  | \$ (3,148,934)                                    | \$ (3,610,306)                                    | \$ (9,583,738)                                   | \$ (7,249,606)                                   | \$ (52,538,832)  |
| Foreign currency translation adjusti                                  | 2,080,246   | (10,518)  | 3,324,399  | 970,363  | 4,857,152  |
| <b>Comprehensive loss</b>   | <b>\$ (1,068,688)</b>                             | <b>\$ (3,620,824)</b>                             | <b>\$ (6,259,339)</b>                            | <b>\$ (6,279,243)</b>                            | <b>\$ (47,681,680)</b>                                 |
| <b>Basic and diluted loss per share</b>                               | <b>\$ (0.04)</b>                                  | <b>\$ (0.05)</b>                                  | <b>\$ (0.13)</b>                                 | <b>\$ (0.10)</b>                                 |  |
| <b>Weighted average number of<br/>shares outstanding</b>              | <b>78,463,001</b>                                 | <b>70,708,093</b>                                 | <b>73,526,676</b>                                | <b>70,459,289</b>                                |  |

The accompanying notes are an integral part of these consolidated financial statements.

# ENTREE GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Expressed in United States Dollars)

|   | Number of<br>Shares | Common<br>Stock | Additional<br>Paid-in Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Accumulated<br>Deficit<br>During the<br>Exploration<br>Stage | Total<br>Stockholders'<br>Equity |
|---|---------------------|-----------------|-------------------------------|---|--|----------------------------------|
| <b>Balance, July 19, 1995 (date of inception)</b> | -                   | \$ -            | \$ -                          | \$ -  | \$ -   | \$ -                             |
| Shares issued:                                    |                     |                 |                               |   |  |                                  |
| Private placements                                | 4,200,000           | 60,852          | -                             | -   | -  | 60,852                           |
| Acquisition of mineral property interests         | 3,200,000           | 147,520         | -                             | -   | -  | 147,520                          |
| Foreign currency translation adjustment           | -                   | -               | -                             | (756)   | -  | (756)                            |
| Net loss  | -                   | -               | -                             | -   | (175,714)  | (175,714)                        |
| <b>Balance, April 30, 1996</b>                    | 7,400,000           | 208,372         | -                             | (756)   | (175,714)  | 31,902                           |
| Shares issued:                                    |                     |                 |                               |   |  |                                  |
| Private placements                                | 3,880,000           | 274,718         | -                             | -   | -  | 274,718                          |
| Foreign currency translation adjustment           | -                   | -               | -                             | (8,568)   | -  | (8,568)                          |
| Net loss  | -                   | -               | -                             | -   | (56,250)   | (56,250)                         |
| <b>Balance, April 30, 1997</b>                    | 11,280,000          | 483,090         | -                             | (9,324)   | (231,964)  | 241,802                          |
| Foreign currency translation adjustment           | -                   | -               | -                             | (5,216)   | -  | (5,216)                          |
| Net loss  | -                   | -               | -                             | -   | (33,381)   | (33,381)                         |
| <b>Balance, April 30, 1998</b>                    | 11,280,000          | 483,090         | -                             | (14,540)  | (265,345)  | 203,205                          |
| Foreign currency translation adjustment           | -                   | -               | -                             | (3,425)   | -  | (3,425)                          |
| Net loss  | -                   | -               | -                             | -   | (40,341)   | (40,341)                         |
| <b>Balance, April 30, 1999</b>                    | 11,280,000          | 483,090         | -                             | (17,965)  | (305,686)  | 159,439                          |
| Escrow shares compensation                        | -                   | -               | 41,593                        | -   | -  | 41,593                           |
| Exercise of stock options                         | 1,128,000           | 113,922         | -                             | -   | -  | 113,922                          |
| Foreign currency translation adjustment           | -                   | -               | -                             | (896)   | -  | (896)                            |
| Net loss  | -                   | -               | -                             | -   | (154,218)  | (154,218)                        |
| <b>Balance, April 30, 2000</b>                    | 12,408,000          | 597,012         | 41,593                        | (18,861)  | (459,904)  | 159,840                          |
| Foreign currency translation adjustment           | -                   | -               | -                             | (5,627)   | -  | (5,627)                          |
| Net loss  | -                   | -               | -                             | -   | (18,399)   | (18,399)                         |
| <b>Balance, April 30, 2001</b>                    | 12,408,000          | \$ 597,012      | \$ 41,593                     | \$ (24,488)                                     | \$ (478,303)   | \$ 135,814                       |

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# ENTRÉE GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Expressed in United States Dollars)

|  | Number of<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensiv<br>e Income | Accumulated<br>Deficit<br>During the<br>Exploration<br>Stage | Total<br>Stockholders'<br>Equity |
|--|---------------------|-----------------|----------------------------------|--|--|----------------------------------|
| - continued -                                      |                     |                 |                                  |  |  |                                  |
| <b>Balance, April 30, 2001</b>                     | 12,408,000          | \$ 597,012      | \$ 41,593                        | \$ (24,488)                                      | \$ (478,303)   | \$ 135,814                       |
| Foreign currency translation adjustment            | -                   | -               | -                                | (2,561)  | -  | (2,561)                          |
| Net loss   | -                   | -               | -                                | -  | (22,490)   | (22,490)                         |
| <b>Balance, April 30, 2002</b>                     | 12,408,000          | 597,012         | 41,593                           | (27,049)   | (500,793)  | 110,763                          |
| Shares issued:                                     |                     |                 |                                  |  |  |                                  |
| Private placements                                 | 7,500,000           | 1,351,055       | -                                | -  | -  | 1,351,055                        |
| Exercise of warrants                               | 12,500              | 3,288           | -                                | -  | -  | 3,288                            |
| Agent's finder fee                                 | 310,000             | 39,178          | -                                | -  | -  | 39,178                           |
| Finder's fee for mineral property interests        | 100,000             | 35,827          | -                                | -  | -  | 35,827                           |
| Debt settlement                                    | 135,416             | 45,839          | 5,252                            | -  | -  | 51,091                           |
| Agent's warrants                                   | -                   | -               | 16,877                           | -  | -  | 16,877                           |
| Escrow shares compensation                         | -                   | -               | 40,205                           | -  | -  | 40,205                           |
| Stock-based compensation                           | -                   | -               | 16,660                           | -  | -  | 16,660                           |
| Share issue costs                                  | -                   | (211,207)       | -                                | -  | -  | (211,207)                        |
| Foreign currency translation adjustment            | -                   | -               | -                                | 73,080   | -  | 73,080                           |
| Net loss   | -                   | -               | -                                | -  | (1,073,320)  | (1,073,320)                      |
| <b>Balance, April 30, 2003</b>                     | 20,465,916          | 1,860,992       | 120,587                          | 46,031   | (1,574,113)  | 453,497                          |
| Shares issued:                                     |                     |                 |                                  |  |  |                                  |
| Private placements and offerings                   | 16,352,942          | 10,891,160      | -                                | -  | -  | 10,891,160                       |
| Exercise of warrants                               | 3,730,372           | 1,316,664       | (6,443)                          | -  | -  | 1,310,221                        |
| Exercise of stock options                          | 35,000              | 18,730          | (4,026)                          | -  | -  | 14,704                           |
| Agent's corporate finance fee                      | 100,000             | 64,192          | 8,384                            | -  | -  | 72,576                           |
| Acquisition of mineral property interests (Note 6) | 5,000,000           | 3,806,000       | -                                | -  | -  | 3,806,000                        |
| Agent's warrants                                   | -                   | -               | 370,741                          | -  | -  | 370,741                          |
| Escrow shares compensation                         | -                   | -               | 1,949,878                        | -  | -  | 1,949,878                        |
| Stock-based compensation                           | -                   | -               | 414,847                          | -  | -  | 414,847                          |
| Share issue costs                                  | -                   | (1,302,715)     | -                                | -  | -  | (1,302,715)                      |
| Foreign currency translation adjustment            | -                   | -               | -                                | 1,950  | -  | 1,950                            |
| Net loss   | -                   | -               | -                                | -  | (12,505,759)   | (12,505,759)                     |
| <b>Balance, December 31, 2003</b>                  | 45,684,230          | \$ 16,655,023   | \$ 2,853,968                     | \$ 47,981  | \$(14,079,872)   | \$ 5,477,100                     |

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# ENTRÉE GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Expressed in United States Dollars)

|  | Number of<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensiv<br>e Income | Accumulated<br>Deficit<br>During the<br>Exploration<br>Stage | Total<br>Stockholders'<br>Equity |
|--|---------------------|-----------------|----------------------------------|--|--|----------------------------------|
| - continued -  |                     |                 |                                  |  |  |                                  |
| <b>Balance, December 31, 2003</b>                                | 45,684,230          | \$ 16,655,023   | \$ 2,853,968                     | \$ 47,981  | \$(14,079,872)   | \$ 5,477,100                     |
| Shares issued:   |                     |                 |                                  |  |  |                                  |
| Private placement  | 4,600,000           | 3,846,521       | -                                | -  | -  | 3,846,521                        |
| Exercise of warrants   | 533,836             | 186,208         | (13,197)                         | -  | -  | 173,011                          |
| Exercise of stock options  | 50,000              | 26,180          | (8,238)                          | -  | -  | 17,942                           |
| Warrants issued for cancellation<br>of price guarantee ( Note 6) | -                   | -               | 129,266                          | -  | -  | 129,266                          |
| Escrow shares compensation                                       | -                   | -               | 405,739                          | -  | -  | 405,739                          |
| Share issue costs  | -                   | (21,026)        | -                                | -  | -  | (21,026)                         |
| Stock-based compensation   | -                   | -               | 1,530,712                        | -  | -  | 1,530,712                        |
| Foreign currency translation adjustment                          | -                   | -               | -                                | 132,501  | -  | 132,501                          |
| Net loss   | -                   | -               | -                                | -  | (5,528,114)  | (5,528,114)                      |
| <b>Balance, December 31, 2004</b>                                | 50,868,066          | 20,692,906      | 4,898,250                        | 180,482  | (19,607,986)   | 6,163,652                        |
| Shares issued:   |                     |                 |                                  |  |  |                                  |
| Private placement  | 7,542,410           | 13,538,097      | -                                | -  | -  | 13,538,097                       |
| Exercise of warrants   | 10,456,450          | 10,475,291      | -                                | -  | -  | 10,475,291                       |
| Exercise of stock options  | 772,000             | 1,238,581       | (532,908)                        | -  | -  | 705,673                          |
| Escrow shares compensation                                       | -                   | -               | (435,583)                        | -  | -  | (435,583)                        |
| Share issue costs  | -                   | (521,798)       | -                                | -  | -  | (521,798)                        |
| Stock-based compensation   | -                   | -               | 5,074,100                        | -  | -  | 5,074,100                        |
| Foreign currency translation adjustment                          | -                   | -               | -                                | 1,099,954  | -  | 1,099,954                        |
| Net loss   | -                   | -               | -                                | -  | (13,691,767)   | (13,691,767)                     |
| <b>Balance, December 31, 2005</b>                                | 69,638,926          | \$ 45,423,077   | \$ 9,003,859                     | \$ 1,280,436                                     | \$(33,299,753)   | \$ 22,407,619                    |

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# ENTRÉE GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Expressed in United States Dollars)

|  | Number of<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensiv<br>e Income | Accumulated<br>Deficit<br>During the<br>Exploration<br>Stage | Total<br>Stockholders'<br>Equity |
|--|---------------------|-----------------|----------------------------------|--|--|----------------------------------|
| - continued -                                      |                     |                 |                                  |  |  |                                  |
| <b>Balance, December 31, 2005</b>                  | 69,638,926          | \$ 45,423,077   | \$ 9,003,859                     | \$ 1,280,436                                     | \$ (33,299,753)  | \$ 22,407,619                    |
| Shares issued:                                     |                     |                 |                                  |  |  |                                  |
| Membership paid in stock                           | 4,167               | 8,870           |                                  |  |  | 8,870                            |
| Exercise of stock options                          | 1,215,000           | 1,862,345       | (753,628)                        | -  | -  | 1,108,717                        |
| Stock-based compensation                           | -                   | -               | 1,031,683                        | -  | -  | 1,031,683                        |
| Foreign currency translation adjustment            | -                   | -               | -                                | 252,317  | -  | 252,317                          |
| Net loss   | -                   | -               | -                                | -  | (9,655,341)  | (9,655,341)                      |
| <b>Balance, December 31, 2006</b>                  | 70,858,093          | 47,294,292      | 9,281,914                        | 1,532,753  | (42,955,094)   | 15,153,865                       |
| Shares issued:                                     |                     |                 |                                  |  |  |                                  |
| Exercise of stock options                          | 55,000              | 61,519          | (23,039)                         | -  | -  | 38,480                           |
| Stock-based compensation                           | -                   | -               | 52,999                           | -  | -  | 52,999                           |
| Foreign currency translation adjustment            | -                   | -               | -                                | 147,406  | -  | 147,406                          |
| Net loss   | -                   | -               | -                                | -  | (1,176,636)  | (1,176,636)                      |
| <b>Balance, March 31, 2007</b>                     | 70,913,093          | 47,355,811      | 9,311,874                        | 1,680,159  | (44,131,730)   | 14,216,114                       |
| Shares issued:                                     |                     |                 |                                  |  |  |                                  |
| Exercise of warrants                               | 7,542,408           | 20,392,043      | -                                | -  | -  | 20,392,043                       |
| Exercise of stock options                          | 75,000              | 88,632          | (34,017)                         | -  | -  | 54,615                           |
| Stock-based compensation                           | -                   | -               | 1,858,926                        | -  | -  | 1,858,926                        |
| Foreign currency translation adjustment            | -                   | -               | -                                | 1,096,747  | -  | 1,096,747                        |
| Net loss   | -                   | -               | -                                | -  | (5,258,168)  | (5,258,168)                      |
| <b>Balance, June 30, 2007</b>                      | 78,530,501          | 67,836,486      | 11,136,783                       | 2,776,906  | (49,389,898)   | 32,360,277                       |
| Shares issued:                                     |                     |                 |                                  |  |  |                                  |
| Acquisition of mineral property interests (Note 6) | 15,000              | 33,976          | -                                | -  | -  | 33,976                           |
| Exercise of stock options                          | 533,700             | 682,211         | (259,140)                        | -  | -  | 423,071                          |
| Stock-based compensation                           | -                   | -               | -                                | -  | -  | -                                |
| Foreign currency translation adjustment            | -                   | -               | -                                | 2,080,246  | -  | 2,080,246                        |
| Net loss   | -                   | -               | -                                | -  | (3,148,934)  | (3,148,934)                      |
| <b>Balance, September 30, 2007</b>                 | 79,079,201          | \$ 68,552,673   | \$ 10,877,643                    | \$ 4,857,152                                     | \$ (52,538,832)  | \$ 31,748,636                    |

The accompanying notes are an integral part of these consolidated financial statements.

# ENTRÉE GOLD INC.

(An Exploration Stage Company)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Expressed in United States dollars)

|  | Three<br>Months<br>Ended<br>September 30,<br>2007 | Three<br>Months<br>Ended<br>September 30,<br>2006 | Nine<br>Months<br>Ended<br>September 30,<br>2007 | Nine<br>Months<br>Ended<br>September 30,<br>2006 | Inception<br>(July 19,<br>1995) to<br>September 30,<br>2007 |
|--|---|---|--|--|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |   |   |  |  |   |
| Net loss   | \$ (3,148,934)                                    | \$ (3,610,306)                                    | \$ (9,583,738)                                   | \$ (7,249,606)                                   | \$(52,538,832)  |
| Items not affecting cash:  |   |   |  |  |   |
| Depreciation   | 54,657  | 48,329  | 157,349  | 138,188  | 518,789   |
| Stock-based compensation (Note 7)  | -   | 769,327   | 1,911,925  | 1,009,720  | 9,979,927   |
| Fair value adjustment to asset backed<br>commercial paper (Note 4)             | 573,263   | -   | 573,263  | -  | 573,263   |
| Escrow shares compensation   | -   | -   | -  | -  | 2,001,832   |
| Loss on settlement of debt   | -   | -   | -  | -  | 5,252   |
| Warrants issued for cancellation of<br>price guarantee                         | -   | -   | -  | -  | 129,266   |
| Finder's fee paid in stock   | -   | -   | -  | -  | 35,827  |
| Mineral property interest paid in stock  | 33,976  | -   | 33,976   | -  | 3,839,976   |
| Membership fees paid in stock  | -   | -   | -  | 8,870  | 8,870   |
| Changes in assets and liabilities:   |   |   |  |  |   |
| Receivables  | (55,212)  | (73,547)  | (20,394)   | 128,926  | (253,865)   |
| Prepaid expenses   | 239,648   | 88,957  | (349,088)  | (192,873)  | (503,210)   |
| Accounts payable and accrued liabilities                                       | (793,733)   | 186,772   | (60,720)   | (211,848)  | 319,423   |
| Net cash used in operating activities  | <u>(3,096,335)</u>                                | <u>(2,590,468)</u>                                | <u>(7,337,427)</u>                               | <u>(6,368,623)</u>                               | <u>(35,883,482)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |   |   |  |  |   |
| Proceeds from issuance of capital stock  | 423,073   | -   | 20,908,211                                       | 957,202  | 64,940,903  |
| Share issue costs  | -   | -   | -  | -  | (1,557,374)   |
| Purchase of asset backed commercial paper<br>(Note 4)                          | (4,004,458)                                       | -   | (4,004,458)                                      | -  | (4,004,458)   |
| Net cash provided by financing activities                                      | <u>(3,581,385)</u>                                | <u>-</u>  | <u>16,903,753</u>                                | <u>957,202</u>                                   | <u>59,379,071</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |   |   |  |  |   |
| Acquisition of equipment   | (4,912)   | (79,272)  | (69,559)   | (239,229)  | (1,275,921)   |
| Net cash used in investing activities  | <u>(4,912)</u>                                    | <u>(79,272)</u>                                   | <u>(69,559)</u>                                  | <u>(239,229)</u>                                 | <u>(1,275,921)</u>  |
| <b>Effect of foreign currency translation on cash and<br/>cash equivalents</b> |   |   |  |  |   |
|  | 1,967,663   | (9,187)   | 3,140,626  | 967,411  | 4,676,147   |
| <b>Change in cash and cash equivalents<br/>during the period</b>               |   |   |  |  |   |
|  | (4,714,969)                                       | (2,678,927)                                       | 12,637,393                                       | (4,683,239)                                      | 26,895,815  |
| <b>Cash and cash equivalents, beginning of period</b>                          | <u>31,610,784</u>                                 | <u>19,683,175</u>                                 | <u>14,258,422</u>                                | <u>21,687,487</u>                                | <u>-</u>  |
| <b>Cash and cash equivalents, end of period</b>                                | <u>26,895,815</u>                                 | <u>17,004,248</u>                                 | <u>26,895,815</u>                                | <u>17,004,248</u>                                | <u>26,895,815</u>   |
| <b>Cash paid for interest during the period</b>                                | <u>\$ -</u>                                       | <u>\$ -</u>                                       | <u>\$ -</u>                                      | <u>\$ -</u>                                      | <u>\$ -</u>   |
| <b>Cash paid for income taxes during the period</b>                            | <u>\$ -</u>                                       | <u>\$ -</u>                                       | <u>\$ -</u>                                      | <u>\$ -</u>                                      | <u>\$ -</u>   |

The accompanying notes are an integral part of these consolidated financial statements.

Supplemental disclosure with respect to cash flows (Note 10)

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**1. BASIS OF PRESENTATION**

The interim period financial statements have been prepared by the Company in conformity with generally accepted accounting principles in the United States of America. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements, and in the opinion of management these financial statements contain all adjustments necessary (consisting of normally recurring adjustments) to present fairly the financial information contained therein. Certain information and footnote disclosure normally included in the financial statements prepared in conformity with generally accepted accounting principles in the United States of America have been condensed or omitted. These interim period statements should be read together with the most recent audited financial statements and the accompanying notes for the year ended December 31, 2006. The results of operations for the nine period ended September 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

**2. NATURE OF OPERATIONS**

The Company was incorporated under the laws of the Province of British Columbia and continued under the laws of the Yukon Territory. On May 27, 2005, the Company changed the governing jurisdiction from the Yukon Territory to British Columbia by continuing into British Columbia under the British Columbia *Business Corporation Act*. The Company's principal business activity is the exploration of mineral property interests. Effective October 10, 2002, pursuant to a special resolution passed by the stockholders of the Company, the Company changed its name from Entrée Resources Inc. to Entrée Gold Inc. and consolidated its share capital on a 2:1 basis. In December 2003, the Company changed its fiscal year end from April 30 to December 31. To date, the Company has not generated significant revenues from its operations and is considered to be in the exploration stage.

All amounts are expressed in United States dollars, except for certain per share amounts denoted in Canadian dollars ("C\$").

**3. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements follow the same significant accounting principles as those outlined in the notes to the audited consolidated financial statements for the year ended December 31, 2006.

**4. INVESTMENTS**

As at September 30, 2007, investments comprised the Company's interest in \$3,431,155 invested in Canadian Asset-Backed Commercial Paper ("ABCP"), net of \$573,263 fair value adjustment. The ABCP portfolio matured in mid-September 2007, but was not repaid. A group of participants in the ABCO market, including banks, liquidity providers and major investors (the "Consortium") have agreed to a standstill period with respect to ABCP to permit time for the issuers of the ABCP to be restructured. On October 15, 2007, the Consortium agreed to extend the period to December 14, 2007 to allow for more time to restructure the issuers.

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**5. EQUIPMENT**

|                    | September 30, 2007 |                             |                   | December 31, 2006 |                 |                   |
|--------------------|--------------------|-----------------------------|-------------------|-------------------|-----------------|-------------------|
|                    | Cost               | Accumulated<br>Depreciation | Net Book<br>Value | Cost              | Accumulate<br>d | Net Book<br>Value |
| Office equipment   | 136,946            | 42,215                      | 94,731            | 107,574           | 24,222          | 83,352            |
| Computer equipment | 479,418            | 337,683                     | 141,735           | 362,113           | 200,628         | 161,485           |
| Field equipment    | 413,928            | 51,651                      | 362,277           | 352,973           | 33,988          | 318,985           |
| Buildings          | 454,409            | 171,797                     | 282,612           | 383,703           | 102,603         | 281,100           |
|                    | <u>1,484,701</u>   | <u>603,346</u>              | <u>881,355</u>    | <u>1,206,363</u>  | <u>361,441</u>  | <u>844,922</u>    |

**6. MINERAL PROPERTY INTERESTS**

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral property interests. The Company has investigated title to its mineral property interests and, to the best of its knowledge, title to the mineral property interests are in good standing.

Each of our exploration licenses was granted by the Mineral Resources and Petroleum Authority of Mongolia for an initial term of three years, subject to a right to renew for two successive 2-year renewals. Two of the three licenses that comprise Lookout Hill were issued April 3, 2001 and were renewed for the second of their two year renewals in March, 2006. The third Lookout Hill license was issued March 30, 2001 and was renewed for the second of its two-year renewals in March, 2006. The Manlai license was issued March 9, 2001 and renewed for the second of its two-year renewals in March, 2006.

Pursuant to Mongolian Minerals Law, we have extended our licenses for a further two year term for final expiry in March and April 2010, unless converted before these dates to mining licenses. Mongolian exploration licenses are maintained in good standing by payment to the Mineral Resources and Petroleum Authority of Mongolia of set annual fees escalating from \$0.05 to \$1.50 per hectare over the course of the mineral tenure. The total estimated annual fees in order to maintain the licenses in good standing is approximately \$280,000.

Under the terms of an option agreement completed in July, 2002, as amended, the Company acquired from Mongol Gazar Co., Ltd. ("Mongol Gazar") a 100% interest in three mineral concessions (collectively, the "Lookout Hill Property"). As consideration, the Company paid \$5,500,000 and issued 5,000,000 common shares at a value of \$3,806,000. For the above purchase price, the Company also acquired a 100% interest in a fourth mineral concession (the "Manlai Property") located in southern Mongolia.

In June 2004 and as part of the Lookout Hill acquisition, the Company issued non-transferable warrants to purchase up to 250,000 shares of the Company at a price of C\$1.05 per share for two years to Mongol Gazar. The fair value of the warrants was estimated to be \$129,266. In addition, Mongol Gazar agreed to transfer to the Company's subsidiary, Entrée LLC, its 100% interest in an exploration licence located in Khanbogd, Omnogovi, Mongolia (the "Khatsavch" property). The warrants expired without exercise in April, 2006 (Note 7). The Khatsavch license was returned to the Mongolian government in October 2006.

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**6. MINERAL PROPERTY INTERESTS (cont'd...)**

In October, 2004, the Company granted to Ivanhoe Mines Ltd. ("Ivanhoe") the right to earn, over an eight year period, a participating interest in a certain portion of its Lookout Hill Property (the "Project Property"). Under the agreement, Ivanhoe must spend a minimum of \$3 million in order to earn surface rights in the Project Property and a minimum of \$20 million in order to earn any mineral rights interest in the Project Property and may acquire up to an 80% interest in mineralization below a depth of 560 metres and a 70% interest in mineralization above a depth of 560 metres by spending \$35 million. Thereafter, the Company has the right to require Ivanhoe to fund its share of subsequent project costs through to production, to be recovered from production cash flow. The agreement with Ivanhoe also provided for Ivanhoe to subscribe for 4,600,000 units of the Company at a price of C\$1.00 per unit (completed in November 2004). In October, 2007, the Company has received notice from Ivanhoe that it has incurred the required expenditures (US\$20 million) to earn a 51% participating interest. (Note 12).

In May 2006, the Company secured an option to acquire the Sol Dos copper prospect, located in the Safford district, of south-eastern Arizona. Under the terms of the agreement, the Company may earn a 100% interest in the Sol Dos property by spending \$4 million on exploration over four years and by making staged payments totalling \$1 million cash and issuing 250,000 shares. The Company's interest would be subject to a 2% NSR royalty, one half of which it may purchase for \$1 million cash and issuing 250,000 shares.

In July, 2007, the Company entered into an agreement with Empirical Discovery LLC ("Empirical") to explore for and develop certain mineral targets in southeastern Arizona and adjoining southwestern New Mexico. Under the terms of the agreement, the Company has the option to acquire an 80% interest in any of the properties by incurring exploration expenditures totaling a minimum of US \$1.9 million and issuing 300,000 shares within 5 years of acceptance of the agreement. If the Company exercises its option, Empirical may elect within 90 days to retain a 20% participating interest or convert to a 2% NSR royalty, half of which may be purchased for US \$2 million. The Company issued 15,000 shares to Empirical as per the terms of the agreement upon approval from the TSX.

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**6. MINERAL PROPERTY INTERESTS (cont'd...)**

Mineral property interest costs incurred are summarized as follows:

|                                | Three<br>Months<br>Ended<br>September 30,<br>2007 | Three<br>Months<br>Ended<br>September 30,<br>2006 | Nine<br>Months<br>Ended<br>September 30,<br>2007 | Nine<br>Months<br>Ended<br>September 30,<br>2006 | Inception<br>(July 19,1995) -<br>September 30,<br>2007 |
|--------------------------------|---|---|--|--|--|
| <b>Lookout Hill:</b>           |   |   |  |  |  |
| Acquisition                    | \$ 65,286   | \$ 94,329   | \$ 198,476                                       | \$ 228,192                                       | \$ 10,503,687  |
| Assaying, testing and analysis | 57,902  | 208,713   | 244,966  | 238,736  | 1,278,286  |
| Camp and field supplies        | 299,924   | 16,220  | 692,873  | 138,454  | 3,620,201  |
| Drilling                       | 641,835   | 589,508   | 1,178,288  | 828,569  | 5,453,763  |
| Geological and geophysical     | 391,593   | 365,850   | 905,090  | 847,486  | 5,733,332  |
| Travel and accommodation       | 59,725  | 71,992  | 150,334  | 174,393  | 803,740  |
|                                | <u>1,516,265</u>                                  | <u>1,346,612</u>                                  | <u>3,370,027</u>                                 | <u>2,455,830</u>                                 | <u>27,393,009</u>                                      |
| <b>Manlai:</b>                 |   |   |  |  |  |
| Acquisition                    | 2,520   | 4,201   | 7,617  | 9,422  | 30,407   |
| Assaying, testing and analysis | 1,961   | 52,583  | 41,954   | 63,563   | 218,202  |
| Camp and field supplies        | 73,477  | 12,991  | 234,284  | 101,584  | 1,224,230  |
| Drilling                       | 75,991  | 785,639   | 294,547  | 785,639  | 1,364,896  |
| Geological and geophysical     | 68,005  | 194,162   | 197,420  | 446,500  | 1,270,560  |
| Travel and accommodation       | 2,669   | 22,596  | 13,373   | 54,943   | 100,344  |
|                                | <u>224,623</u>                                    | <u>1,072,172</u>                                  | <u>789,195</u>                                   | <u>1,461,651</u>                                 | <u>4,208,639</u>                                       |
| <b>Sol Dos</b>                 |   |   |  |  |  |
| Acquisition                    | 5,068   | 24,316  | 55,320   | 50,041   | 110,958  |
| Assaying, testing and analysis | 14,978  | -   | 33,438   | -  | 33,438   |
| Camp and field supplies        | 21,502  | -   | 51,946   | -  | 51,946   |
| Drilling                       | 141,083   | -   | 657,690  | -  | 657,690  |
| Geological and geophysical     | 17,072  | 54,392  | 148,881  | 60,476   | 250,598  |
| Travel and accommodation       | 15,447  | 7,031   | 49,981   | 8,271  | 59,177   |
|                                | <u>215,150</u>                                    | <u>85,739</u>                                     | <u>997,256</u>                                   | <u>118,788</u>                                   | <u>1,163,807</u>                                       |
| <b>Empirical</b>               |   |   |  |  |  |
| Acquisition                    | 34,638  | -   | 34,638   | -  | 34,638   |
| Camp and field supplies        | 3,562   | -   | 3,562  | -  | 3,562  |
| Geological and geophysical     | 12,780  | -   | 12,780   | -  | 12,780   |
| Travel and accommodation       | 2,079   | -   | 2,079  | -  | 2,079  |
|                                | <u>53,059</u>                                     | <u>-</u>  | <u>53,059</u>                                    | <u>-</u>   | <u>53,059</u>  |
| <b>Other</b>                   |   |   |  |  |  |
|                                | 111,136   | 67,168  | 204,441  | 259,692  | 698,862  |
|                                | <u>\$ 2,120,233</u>                               | <u>\$ 2,571,691</u>                               | <u>\$ 5,413,978</u>                              | <u>\$ 4,295,961</u>                              | <u>\$ 33,517,376</u>                                   |

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**7. COMMON STOCK**

In October 2002, the Company consolidated its issued share capital on a two old shares for one new share basis. Authorized share capital remained unchanged. All references to share and per share amounts in these consolidated financial statements have been adjusted accordingly.

In May 2004, the Company received stockholder approval to amend its Articles to increase the authorized share capital of the Company from 100,000,000 common shares without par value to an unlimited number of common shares without par value.

**Share issuances**

In July 1995, the Company completed a private placement consisting of 4,200,000 common shares issued at a price of C\$0.02 per share for gross proceeds of \$60,852.

In July 1995, the Company issued 3,200,000 shares at a value of \$147,520 for the acquisition of a mineral property interest in Costa Rica. This mineral property was abandoned in 2001.

In January 1997, the Company completed a private placement consisting of 1,680,000 common shares issued at a price of C\$0.06 per share for gross proceeds of \$77,553.

In April 1997, the Company completed a private placement consisting of 2,200,000 common shares issued at a price of C\$0.12 per share for gross proceeds of \$197,165.

In February 2000, the Company issued 1,128,000 common shares for cash proceeds of \$113,922 on the exercise of stock options.

In September 2002, the Company completed a brokered private placement consisting of 4,000,000 units issued at a price of C\$0.20 per unit for gross proceeds of \$505,520. Each unit consisted of one common share and one-half non-transferable share purchase warrant. Each whole share purchase warrant entitled the holder to acquire one additional common share at a price of C\$0.40 per share for a period of one year. As part of this private placement, the Company issued 310,000 units as a finder's fee to the agent. Each agent's unit consisted of one common share and one-half non-transferable share purchase warrant whereby each whole share purchase warrant entitled the agent to acquire one additional common share at a price of C\$0.40 per share for a period of one year. Related share issue costs of \$112,338 were comprised of cash costs totalling \$72,556 and the fair value of 310,000 units estimated at \$39,782, of which \$39,178 was assigned to the common shares and \$604 was assigned to the warrants.

In January 2003, the Company completed a combination brokered and non-brokered private placement consisting of 2,500,000 units issued at a price of C\$0.35 per unit for gross proceeds of \$569,975. Each unit consisted of one common share and one-half non-transferable share purchase warrant. Each whole share purchase warrant entitled the holder to acquire one additional common share at a price of C\$0.40 per share for a period of one year. As part of this private placement, the Company issued 329,723 agent's warrants whereby each warrant entitled the agent to acquire one additional common share at a price of C\$0.40 per share for a period of one year. Related share issue costs of \$94,461 were comprised of cash costs totalling \$78,188 and the fair value of the agents warrants estimated at \$16,273.

In January 2003, the Company issued 100,000 common shares at a value of \$35,827 as a finder's fee towards the acquisition of mineral property interests (Note 6).

In February 2003, the Company issued 12,500 common shares for proceeds of \$3,288 on the exercise of warrants.

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**7. COMMON STOCK (cont'd...)****Share issuances (cont'd...)**

In March 2003, the Company issued 135,416 common shares at a value of \$45,839 and 67,708 non-transferable share purchase warrants with a value of \$5,252 to settle accounts payable totalling \$45,839 resulting in a loss on settlement of \$5,252. Each share purchase warrant entitled the holder to acquire one additional common share at a price of C\$0.60 per share for a period of one year.

In April 2003, the Company completed a non-brokered private placement consisting of 1,000,000 units issued at a price of C\$0.40 per unit for proceeds of \$275,560. Each unit consisted of one common share and one non-transferable share purchase warrant. Each share purchase warrant entitled the holder to acquire one additional common share at a price of C\$0.50 per share for the first year and at C\$0.60 per share for the second year. The Company incurred costs of \$4,408 with respect to this private placement.

In August 2003, the Company completed a non-brokered private placement consisting of 2,000,000 common shares issued at a price of C\$0.20 per share for gross proceeds of \$288,360. Related share issue costs of \$15,270 were charged as a reduction to the gross proceeds raised on the non-brokered private placement.

In October 2003, the Company completed a short-form offering and issued 2,352,942 units at a price of C\$0.85 per unit for gross proceeds of \$1,510,400. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allowed the holder to purchase one additional common share at an exercise price of C\$1.06 on or before October 22, 2005. The agent for the offering was paid a cash commission of 8.5% of the gross proceeds received, or \$128,384, in respect of units sold and received agent's warrants to acquire common shares equal to 10% of the number of units sold, or 235,294 warrants. The agent's warrants allowed the agent to purchase one additional common share at an exercise price of C\$0.95 per share on or before October 22, 2004. The agent was also issued 100,000 units as a corporate finance fee. Each agent's unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allowed the agent to purchase one additional common share at an exercise price of C\$0.95 on or before October 22, 2004. Related share issue costs of \$296,296 were comprised of cash costs totalling \$164,004 and the fair value of 100,000 agents units estimated at \$72,576 and the fair value of 235,294 agent's warrants estimated at \$59,716. The fair value of the agent's units of \$72,576 consisted of \$64,192 assigned to the common shares and \$8,384 assigned to the warrants.

In October 2003, the Company completed a brokered private placement consisting of 12,000,000 units at a price of C\$1.00 per unit for gross proceeds of \$9,092,400. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant allowed the holder to purchase one additional common share at an exercise price of C\$1.35 on or before October 31, 2005. The agent for the offering was paid a cash commission of 6.5% of the gross proceeds received in respect of units sold by the agent up to 11,500,000 units, or \$566,381, and received 920,000 agent's warrants. The agent's warrants allowed the agent to purchase one additional common share at an exercise price of C\$1.35 per share on or before April 30, 2005. Related share issue costs of \$991,149 were comprised of cash costs totalling \$680,124 and the fair value of the agents warrants estimated at \$311,025.

In November 2003, the Company issued 5,000,000 shares at a value of \$3,806,000 for the acquisition of a mineral property interest (Note 6).

During the eight month period ended December 31, 2003 the Company issued 3,730,372 common shares for cash proceeds of \$1,310,221 on the exercise of warrants. The warrants exercised had a corresponding

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**7. COMMON STOCK (cont'd...)****Share issuances (cont'd...)**

fair value of \$6,443 when issued which has been transferred from additional paid-in capital to common stock on the exercise of the warrants.

During the eight month period ended December 31, 2003, the Company issued 35,000 common shares for cash proceeds of \$14,704 on the exercise of stock options. The fair value recorded when the options were granted of \$4,026 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In January 2004, the Company issued 50,000 common shares for cash proceeds of \$17,942 on the exercise of stock options. The fair value recorded when the options were granted of \$8,238 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In November 2004, the Company completed a non-brokered private placement consisting of 4,600,000 units at a price of C\$1.00 per unit for gross proceeds of \$3,846,521. Each unit consisted of one common share and one non-transferable share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of C\$1.10 on or before November 9, 2006. Pursuant to an agreement with the Company, the placee, being Ivanhoe, has a pre-emptive right to such percentage of any future offering of securities by the Company to enable them to preserve their pro-rata ownership interest in the Company after their acquisition of these 4,600,000 units. Related share issue costs were comprised of cash costs totalling \$21,026.

During the year ended December 31, 2004, the Company issued 533,836 common shares for cash proceeds of \$173,011 on the exercise of warrants. Certain of the warrants exercised had a corresponding fair value of \$13,197 when issued which has been transferred from additional paid-in capital to common stock on the exercise of the warrants.

In June 2005, the Company completed a non-brokered private placement consisting of 5,665,730 units at a price of C\$2.20 per unit for gross proceeds of \$10,170,207. Each unit consisted of one common share, one non-transferable share purchase A warrant and one non-transferable share purchase B warrant. Two A warrants entitle the holder to purchase one common share of the Company at a price of C\$2.75 for a period of 2 years. Two B warrants entitle the holder to purchase one common share of the Company at a price of C\$3.00 for a period of two years. Pursuant to an agreement with the Company, the placee, Kennecott Canada Exploration Inc. (indirect wholly-owned subsidiary of Rio Tinto plc) has the right to acquire additional securities and participate in future financings by the Company so as to maintain its proportional equity in the Company. Related share issue costs were comprised of cash costs totalling \$521,798.

In July 2005, the Company completed a non-brokered private placement consisting of 1,876,680 units at a price of C\$2.20 per unit for gross proceeds of \$3,367,890. Each unit consisted of one common share, one non-transferable share purchase A warrant and one non-transferable share purchase B warrant. Two A warrants entitle the holder to purchase one common share of the Company at a price of C\$2.75 for a period of 2 years. Two B warrants entitle the holder to purchase one common share of the Company at a price of C\$3.00 for a period of two years.

During the year ended December 31, 2005, the Company issued 10,456,450 common shares for cash proceeds of \$10,475,291 on the exercise of warrants.

During the year ended December 31, 2005, the Company issued 772,000 common shares for cash proceeds of \$705,673 on the exercise of stock options. The fair value recorded when the options were granted of

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**7. COMMON STOCK (cont'd...)****Share issuances (cont'd...)**

\$532,908 has been transferred from additional paid-in capital to common stock on the exercise of the options.

During the year ended December 31, 2006, the Company issued 1,215,000 common shares for cash proceeds of \$1,108,717 on the exercise of stock options. The fair value recorded when the options were granted of \$753,628 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In June 2006, the Company issued 4,167 common shares to the University of British Columbia as a donation to become a member of the Mineral Deposit Research Unit. The fair value recorded when the shares were issued of \$8,870 has been recorded as a donation expense.

During the three month period ended March 31, 2007, the Company issued 55,000 common shares for cash proceeds of \$38,479 on the exercise of stock options. The fair value recorded when the options were granted of \$23,039 has been transferred from additional paid-in capital to common stock on the exercise of the options.

On June 28, 2007, the Company issued 6,306,920 common shares for cash proceeds of \$17,051,716 on the exercise of warrants.

On June 29, 2007, the Company issued 1,235,488 common shares for cash proceeds of \$3,340,327 on the exercise of warrants.

During the three month period ended June 30, 2007, the Company issued 75,000 common shares for cash proceeds of \$54,615 on the exercise of stock options. The fair value recorded when the options were granted of \$34,017 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In August 2007, the Company issued 15,000 shares at a value of \$33,976 to Empirical Discovery LLC on the acceptance of the agreement between Empirical and the Company to form an alliance to explore and develop porphyry copper targets in New Mexico and Arizona.

During the three month period ended September 30, 2007, the Company issued 533,700 common shares for cash proceeds of \$423,071 on the exercise of stock options. The fair value recorded when the options were granted of \$259,140 has been transferred from additional paid-in capital to common stock on the exercise of the options.

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**7. COMMON STOCK (cont'd...)****Share purchase warrants**

Share purchase warrant transactions are summarized as follows:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price (C\$) |
|---|---------------------|--|
| Balance at December 31, 2005                    | 7,792,410           | 2.82   |
| Expired   | (250,000)           | 1.05   |
| Balance at March 31, 2007 and December 31, 2006 | 7,542,410           | 2.88   |
| Exercised                                       | (7,542,410)         | 2.88   |
| Balance at June and September 30, 2007          | -                   | -  |

**Stock options**

During the year ended April 30, 2003, the Company adopted a stock option plan (the "Plan") to grant options to directors, officers, employees and consultants. Under the Plan, as amended in May 2007, the Company may grant options to acquire up to 10,644,000 common shares of the Company. Options granted can have a term up to ten years and an exercise price typically not less than the Company's closing stock price at the date of grant.

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**7. COMMON STOCK (cont'd...)**

Stock option transactions are summarized as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price (C\$) |
|-------------------------------|---------------------|--|
| Balance at December 31, 2005  | 8,483,000           | 1.28   |
| Granted                       | 1,350,000           | 1.45   |
| Exercised                     | (1,215,000)         | 1.04   |
| Expired                       | <u>(40,000)</u>     | 1.14   |
| Balance at December 31, 2006  | 8,578,000           | 1.34   |
| Granted                       | 50,000              | 1.77   |
| Exercised                     | <u>(55,000)</u>     | 0.82   |
| Balance at March 31, 2007     | 8,573,000           | 1.31   |
| Granted                       | 1,320,500           | 2.18   |
| Exercised                     | <u>(75,000)</u>     | 0.80   |
| Balance at June 30, 2007      | 9,818,500           | 1.46   |
| Exercised                     | (533,700)           | 0.83   |
| Expired                       | <u>(100,000)</u>    | 0.46   |
| Balance at September 30, 2007 | 9,184,800           | 1.51   |

The weighted average fair value per stock option granted during the nine months ended September 30, 2007 was C\$1.27 (September 30, 2006 - C\$0.77). The number of stock options exercisable at September 30, 2007 was 9,184,800.

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**7. COMMON STOCK** (cont'd ...)**Stock options** (cont'd ...)

At September 30, 2007, the following stock options were outstanding:

| Number of<br>Shares | Exercise<br>Price<br>(C\$) | Expiry Date        |
|---------------------|----------------------------|--------------------|
| 275,000             | 0.60                       | January 30, 2008   |
| 100,000             | 1.19                       | March 3, 2008      |
| 20,000              | 1.32                       | July 10, 2008      |
| 670,000             | 1.00                       | September 18, 2008 |
| 175,000             | 2.32                       | November 13, 2008  |
| 560,000             | 1.24                       | February 11, 2009  |
| 1,385,000           | 1.15                       | November 12, 2009  |
| 600,000             | 1.25                       | December 17, 2009  |
| 400,000             | 1.28                       | January 7, 2010    |
| 75,000              | 1.19                       | March 3, 2010      |
| 63,000              | 1.48                       | May 24, 2010       |
| 2,180,000           | 1.75                       | June 9, 2010       |
| 100,000             | 2.00                       | August 15, 2010    |
| 25,000              | 1.66                       | August 25, 2010    |
| 20,000              | 1.85                       | September 28, 2010 |
| 125,000             | 1.80                       | January 23, 2011   |
| 100,000             | 2.20                       | February 8, 2011   |
| 20,000              | 2.34                       | March 28, 2011     |
| 974,300             | 1.32                       | July 10, 2011      |
| 10,000              | 1.77                       | December 11, 2011  |
| 50,000              | 1.77                       | January 22, 2012   |
| 238,000             | 2.20                       | April 5, 2012      |
| 500,000             | 2.06                       | May 16, 2012       |
| 519,500             | 2.30                       | May 31, 2012       |
| 9,184,800           |                            |                    |

**Stock-based compensation**

The fair value of stock options granted during the three months ended September 30, 2007 was \$Nil (September 30, 2006 - \$769,327) which is being recognized over the options vesting periods. The fair value of stock options granted and recognized during the nine months ended September 30, 2007 was \$1,911,925 (September 30, 2006 - \$1,009,720) which has been recorded in the consolidated statements of operations as follows with corresponding additional paid-in capital recorded in stockholders' equity:

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**7. COMMON STOCK** (cont'd ...)

**Stock-based compensation** (cont'd ...)

|  | Three<br>Months<br>Ended<br>September 30,<br>2007 | Three<br>Months<br>Ended<br>September 30,<br>2006 | Nine<br>Months<br>Ended<br>September 30,<br>2007 | Nine<br>Months<br>Ended<br>September 30,<br>2006 | Cumulative to<br>September<br>30,<br>2007 |
|--|---|---|--|--|---|
| Consulting fees                                      | \$ -  | \$ -  | \$ 434,439                                       | \$ 102,579                                       | \$ 1,794,562                              |
| Legal  | -   | -   | 37,175   | -  | 287,931                                   |
| Management fees                                      | -   | 270,573   | 903,300  | 270,573  | 3,721,422                                 |
| Mineral property interests                           | -   | 162,343   | 175,678  | 253,579  | 1,718,832                                 |
| Office and administration                            | -   | 321,079   | 353,898  | 352,354  | 1,754,429                                 |
| Stockholder communications and<br>investor relations | -   | 15,332  | 7,435  | 30,635   | 702,751                                   |
|  | \$ -  | \$ 769,327  | \$ 1,911,925                                     | \$ 1,009,720                                     | \$ 9,979,927                              |

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted:

|                                  | Nine<br>Months<br>Ended<br>September<br>30, 2007 | Nine<br>Months<br>Ended<br>September<br>30, 2006 |
|----------------------------------|--|--|
| Risk-free interest rate          | 4.33%  | 4.25%  |
| Expected life of options (years) | 5.0  | 5.0  |
| Annualized volatility            | 79%  | 68%  |
| Dividend rate                    | 0.00%  | 0.00%  |

**8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the period ended September 30, 2007:

a) Paid or accrued management fees of 39,846 (September 30, 2006 - \$33,845) to directors and officers of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

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**9. SEGMENT INFORMATION**

The Company operates in one business segment being the exploration of mineral property interests.

Geographic information is as follows:

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|                     | September 30, December 31, |                     |
|---------------------|----------------------------|---------------------|
|                     | 2007                       | 2006                |
| Identifiable assets |                            |                     |
| Canada              | \$31,481,326               | \$14,827,904        |
| Mongolia            | 616,690                    | 682,190             |
|                     | <u>\$32,098,016</u>        | <u>\$15,510,094</u> |

  

|                   | Three                 | Three                 | Nine                  | Nine                  |
|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                   | Months                | Months                | Months                | Months                |
|                   | Ended                 | Ended                 | Ended                 | Ended                 |
|                   | September 30,         | September 30,         | September 30,         | September 30,         |
|                   | 2007                  | 2006                  | 2007                  | 2006                  |
| Loss for the year |                       |                       |                       |                       |
| Canada            | \$ (907,596)          | \$ (928,189)          | \$ (3,912,010)        | \$ (2,685,841)        |
| Mongolia          | (1,933,011)           | (2,596,378)           | (4,584,057)           | (4,444,977)           |
| USA               | (308,327)             | (85,739)              | (1,087,671)           | (118,788)             |
|                   | <u>\$ (3,148,934)</u> | <u>\$ (3,610,306)</u> | <u>\$ (9,583,738)</u> | <u>\$ (7,249,606)</u> |

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transaction for the nine months ended September 30, 2007 consisted of the issuance of 15,000 common shares in payment of mineral property interests in the amount of \$33,976 (Note 7).

The significant non-cash transaction for the nine months ended September 30, 2006 consisted of the issuance of 4,167 common shares in payment of membership fees in the amount of \$8,870 (Note 7).

Cash and cash equivalents consisted of cash of \$10,812,644 (December 31, 2006 - \$10,896,180) and short-term investments of \$16,083,171 (December 31, 2006 - \$3,362,242).

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**11. COMMITMENTS**

The Company is committed to make lease payments for the rental of office space as follows:

|              |                   |
|--------------|-------------------|
| 2007         | \$ 21,395         |
| 2008         | 87,141            |
| 2009         | 89,816            |
| 2010         | 90,930            |
| 2011         | 37,887            |
| <u>Total</u> | <u>\$ 327,169</u> |

**12. SUBSEQUENT EVENTS**

Subsequent to September 30, 2007, the Company had the following transactions:

- a) issued 25,000 common shares for proceeds of C\$38,000 on the exercise of stock options.
- b) received notice from Ivanhoe that it has incurred the required expenditures (US\$20 million) to earn a 51% participating interest in a portion of the Lookout Hill property. A joint venture may be formed should Ivanhoe choose to discontinue earning-in on the project. Ivanhoe has informed the Company that it intends to continue to incur earn-in expenditures so as to increase its participating interest in the project and therefore, a joint venture is not being formed at this time.
- c) entered into an agreement, dated November 5, 2007, with a Canadian underwriter, for the purchase of 10,000,000 common shares of the Company. The offering price is C\$3.00, representing proceeds of C\$30,000,000. This transaction is subject to receipt of all necessary regulatory and stock exchange approvals. Closing is expected on or about November 26, 2007. In addition, two existing shareholders have exercised pre-emptive rights to acquire 4,428,640 common shares at C\$3.00 per share, for an additional \$13,285,920 in gross proceeds to maintain their respective ownership interest in the Company.
- d) entered into an agreement with the Zhejiang No. 11 Geological Brigade to explore for copper within three prospective contiguous exploration licences, totalling approximately 61 square kilometres in Pingyang County, Zhejiang Province, People's Republic of China. The Company has agreed to spend US\$3,000,000 to fund exploration activities on the licences (collectively known as "Huaixi") over a four year period. After the Company has expended US\$3 million, it will hold a 78% interest and Zhejiang No. 11 Geological Brigade will hold a 22% interest in the project.