



ENTRÉE GOLD INC.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

September 30, 2008

ENTRÉE GOLD INC.

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

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 57,776,665 | \$ 67,106,113 |
| Receivables | 561,615 | 615,826 |
| Prepaid expenses | 254,306 | 475,074 |
| Total current assets | 58,592,586 | 68,197,013 |
| Investments (Note 4) | 1,536,172 | 3,032,751 |
| Equipment (Note 5) | 719,283 | 841,819 |
| Total assets | \$ 60,848,041 | \$ 72,071,583 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 1,137,453 | \$ 603,623 |
| Loan Payable to Ivanhoe Mines Limited (Note 7) | 320,648 | - |
| Commitments (Note 13) | | |
| Stockholders' equity | | |
| Common stock, no par value, unlimited number authorized, (Note 8) 94,560,898 (December 31, 2007 - 93,572,841) issued and outstanding | 112,005,732 | 110,492,309 |
| Additional paid-in capital | 13,727,896 | 10,691,873 |
| Accumulated other comprehensive income: | | |
| Foreign currency cumulative translation adjustment | 480,352 | 5,072,288 |
| Accumulated deficit during the exploration stage | (66,824,040) | (54,788,510) |
| Total stockholders' equity | 59,389,940 | 71,467,960 |
| Total liabilities and stockholders' equity | \$ 60,848,041 | \$ 72,071,583 |

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 Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Inception (July 19,1995) - September 30, 2008 |
|-----------------------------------------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|-----------------------------------------------|--------------------------------------------------------|
| EXPENSES | | | | | |
| Audit and accounting | \$ 22,015 | \$ 8,702 | \$ 106,066 | \$ 27,321 | \$ 487,348 |
| Consulting fees (Note 8) | 3,772 | 27,369 | 188,183 | 524,598 | 2,467,775 |
| Depreciation (Note 5) | 11,241 | 54,657 | 114,616 | 157,349 | 688,875 |
| Write-down of equipment (Note 5) | 51,145 | - | 123,816 | - | 123,816 |
| Escrow shares compensation | - | - | - | - | 1,790,959 |
| Foreign exchange (gain) loss | (11,960) | 39,672 | (2,082) | 34,840 | 163,879 |
| Legal (Note 8) | 201,308 | 49,425 | 397,182 | 188,073 | 1,815,013 |
| Loss on settlement of debt | - | - | - | - | 5,252 |
| Management fees (Notes 8 and 9) | 1,144,946 | 11,865 | 2,657,473 | 943,133 | 6,529,055 |
| Mineral property interests (Notes 6 and 8) | 2,889,592 | 2,120,233 | 6,004,770 | 5,413,978 | 40,627,623 |
| Office and administration (Note 8) | 612,579 | 350,121 | 1,533,585 | 1,378,059 | 7,327,618 |
| Regulatory and transfer agent fees | 46,834 | (37,532) | 126,906 | 79,147 | 811,568 |
| Shareholder communications and investor relations (Note 8) | 198,575 | 186,386 | 562,779 | 572,181 | 4,096,580 |
| Travel | 69,658 | 82,999 | 218,717 | 287,879 | 1,161,768 |
| Loss from operations | (5,239,705) | (2,893,897) | (12,032,011) | (9,606,558) | (68,097,129) |
| Interest income | 443,438 | 318,226 | 1,656,630 | 596,083 | 3,931,609 |
| Loss from equity investee (Note 4) | (325,989) | - | (325,989) | - | (325,989) |
| Fair value adjustment of asset backed commercial paper (Note 4) | (844,537) | (573,263) | (1,334,160) | (573,263) | (2,332,531) |
| Net loss | \$ (5,966,793) | \$ (3,148,934) | \$ (12,035,530) | \$ (9,583,738) | \$ (66,824,040) |
| Comprehensive loss: | | | | | |
| Net loss | \$ (5,966,793) | \$ (3,148,934) | \$ (12,035,530) | \$ (9,583,738) | \$ (66,824,040) |
| Foreign currency translation adjustment | (2,502,136) | 2,080,246 | (4,591,936) | 3,324,399 | 480,352 |
| Comprehensive loss | \$ (8,468,929) | \$ (1,068,688) | \$ (16,627,466) | \$ (6,259,339) | \$ (66,343,688) |
| Basic and diluted loss per share | \$ (0.06) | \$ (0.04) | \$ (0.13) | \$ (0.13) | |
| Weighted average number of shares outstanding | 94,296,184 | 78,463,001 | 94,053,235 | 73,526,676 | |

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

ENTRÉE GOLD INC.

(An Exploration Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Expressed in United States dollars)

| | Number of Shares | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Accumulated Deficit During the Exploration Stage | Total Stockholders' Equity |
|-----------------------------------------|---------------------|-----------------|----------------------------------|-------------------------------------------------|--------------------------------------------------------------|----------------------------------|
| Balance, December 31, 2006 | 70,858,093 | \$ 47,294,292 | \$ 9,281,914 | \$ 1,532,753 | \$(42,955,094) | \$ 15,153,865 |
| Shares issued: | | | | | | |
| Private placement | 14,428,640 | 43,826,994 | - | - | - | 43,826,994 |
| Mineral property interests (Note 6) | 15,000 | 33,976 | - | - | - | 33,976 |
| Exercise of warrants | 7,542,408 | 20,392,043 | - | - | - | 20,392,043 |
| Exercise of stock options | 728,700 | 926,364 | (322,880) | - | - | 603,484 |
| Share issue costs | - | (1,981,360) | - | - | - | (1,981,360) |
| Stock-based compensation | - | - | 1,732,839 | - | - | 1,732,839 |
| Foreign currency translation adjustment | - | - | - | 3,539,535 | - | 3,539,535 |
| Net loss | - | - | - | - | (11,833,416) | (11,833,416) |
| Balance, December 31, 2007 | 93,572,841 | 110,492,309 | 10,691,873 | 5,072,288 | (54,788,510) | 71,467,960 |
| Shares issued: | | | | | | |
| Exercise of stock options | 465,000 | 754,596 | (232,779) | - | - | 521,817 |
| Mineral property interests (Note 6) | 10,000 | 20,066 | - | - | - | 20,066 |
| Share issue costs | - | (7,186) | - | - | - | (7,186) |
| Stock-based compensation | - | - | 49,868 | - | - | 49,868 |
| Foreign currency translation adjustment | - | - | - | (2,724,857) | - | (2,724,857) |
| Net loss | - | - | - | - | (1,978,646) | (1,978,646) |
| Balance, March 31, 2008 | 94,047,841 | 111,259,785 | 10,508,962 | 2,347,431 | (56,767,156) | 67,349,022 |
| Stock-based compensation | - | - | 2,116,821 | - | - | 2,116,821 |
| Foreign currency translation adjustment | - | - | - | 635,057 | - | 635,057 |
| Net loss | - | - | - | - | (4,090,091) | (4,090,091) |
| Balance, June 30, 2008 | 94,047,841 | 111,259,785 | 12,625,783 | 2,982,488 | (60,857,247) | 66,010,809 |
| Shares issued: | | | | | | |
| Exercise of stock options | 493,057 | 705,072 | (370,419) | - | - | 334,653 |
| Mineral property interests (Note 6) | 20,000 | 40,875 | - | - | - | 40,875 |
| Stock-based compensation | - | - | 1,472,532 | - | - | 1,472,532 |
| Foreign currency translation adjustment | - | - | - | (2,502,136) | - | (2,502,136) |
| Net loss | - | - | - | - | (5,966,793) | (5,966,793) |
| Balance, September 30, 2008 | 94,560,898 | \$ 112,005,732 | \$ 13,727,896 | \$ 480,352 | \$(66,824,040) | \$ 59,389,940 |

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 Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Inception (July 19, 1995) to September 30, 2008 |
|--------------------------------------------------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|-----------------------------------------------|-------------------------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Net loss | \$ (5,966,793) | \$ (3,148,934) | \$ (12,035,530) | \$ (9,583,738) | \$ (66,824,040) |
| Items not affecting cash: | | | | | |
| Depreciation | 11,241 | 54,657 | 114,616 | 157,349 | 688,875 |
| Stock-based compensation (Note 8) | 1,472,532 | - | 3,639,221 | 1,911,925 | 13,440,062 |
| Fair value adjustment of asset backed commercial paper (Note 4) | 844,537 | 573,263 | 1,334,160 | 573,263 | 2,332,531 |
| Write-down of equipment | 51,144 | - | 123,815 | - | 123,815 |
| Escrow shares compensation | - | - | - | - | 2,001,832 |
| Loss on settlement of debt | - | - | - | - | 5,252 |
| Finder's fee and membership paid in stock | - | - | - | - | 44,697 |
| Mineral property interest paid in stock and warrants | 40,875 | 33,976 | 60,941 | 33,976 | 4,030,183 |
| Loss from equity investee (Note 4) | 325,989 | - | 325,989 | - | 325,989 |
| Changes in assets and liabilities: | | | | | |
| Receivables | 249,676 | (55,212) | 13,033 | (20,394) | (519,711) |
| Prepaid expenses | 64,933 | 239,648 | 196,723 | (349,088) | (220,547) |
| Accounts payable and accrued liabilities | 880,439 | (793,733) | 599,522 | (60,720) | 1,148,528 |
| Net cash used in operating activities | (2,025,427) | (3,096,335) | (5,627,510) | (7,337,427) | (43,422,534) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issuance of capital stock | 334,653 | 423,073 | 856,470 | 20,908,211 | 109,711,684 |
| Share issue costs | - | - | (7,186) | - | (3,545,920) |
| Loan Payable to Ivanhoe Mines Limited | 320,648 | - | 320,648 | - | 320,648 |
| Purchase of asset backed commercial paper (Note 4) | - | (4,004,458) | - | (4,004,458) | (4,031,122) |
| Net cash provided by financing activities | 655,301 | (3,581,385) | 1,169,932 | 16,903,753 | 102,455,290 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Joint Venture - Ivanhoe Mines Limited | (320,648) | - | (320,648) | - | (320,648) |
| Acquisition of equipment | (19,880) | (4,912) | (179,851) | (69,559) | (1,466,670) |
| Net cash used in investing activities | (340,528) | (4,912) | (500,499) | (69,559) | (1,787,318) |
| Effect of foreign currency translation on cash and cash equivalents | (2,417,649) | 1,967,663 | (4,371,371) | 3,140,626 | 531,227 |
| Change in cash and cash equivalents during the period | (4,128,303) | (4,714,969) | (9,329,448) | 12,637,393 | 57,776,665 |
| Cash and cash equivalents, beginning of period | 61,904,968 | 31,610,784 | 67,106,113 | 14,258,422 | - |
| Cash and cash equivalents, end of period | \$57,776,665 | \$26,895,815 | \$57,776,665 | \$26,895,815 | \$57,776,665 |
| Cash paid for interest during the period | \$ - | \$ - | \$ - | | |
| Cash paid for income taxes during the period | \$ - | \$ - | \$ - | | |

Supplemental disclosure with respect to cash flows (Note 11)

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

ENTRÉE GOLD INC.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(Unaudited)

(Expressed in United States dollars)

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, 2007. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain of the comparable figures have been reclassified to conform with the presentation in the current period.

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. 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, 2007.

The Company adopted SFAS No. 157, Fair Value Measurements, on January 1, 2008. SFAS No. 157 applies to all financial instruments being measured and reported on a fair value basis. In February 2008, the FASB issued a staff position that delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities except for those recognized or disclosed at least annually. Therefore, the Company has adopted the provision FAS 157 with respect to its financial assets and liabilities only.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Level 1 — Quoted prices that are available in active markets for identical assets or liabilities. The types of financial instruments included in Level 1 are marketable equity available for sale securities that are traded in an active exchange market.

Level 2 — Pricing inputs other than quoted prices in active markets, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Instruments included in this category are warrants and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 includes assets and liabilities whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. At September 30, 2008, the Company had one Level 3 financial instrument with a fair value of \$1,536,172. (Note 4)

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
|------------------------------------|--------------------------------------------------------------------------------|
| Beginning Balance, January 1, 2008 | \$ 3,032,751 |
| Total unrealized losses | (1,334,160) |
| Total foreign exchange (loss) | (162,419) |
| Ending Balance, September 30, 2008 | \$ 1,536,172 |

Effective January 1, 2008, the Company adopted FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“FAS 159”) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not elect to adopt the fair value option under this statement.

4. INVESTMENTS***Asset Backed Commercial Paper***

The Company owns Third Party Asset Backed Commercial Paper (ABCP) with a face value of C\$4,015,709. When the ABCP matured but was not redeemed in 2007, it became the subject of an ongoing restructuring process that will replace the ABCP with long term asset backed securities (New Notes).

While the restructuring proposal received investor approval in April 2008, and Court approval in June 2008, the proposal has been the subject of numerous appeals to the Ontario Court of Appeal and the Supreme Court of Canada. In September 2008, the Supreme Court of Canada denied all the appeals, thus clearing the way for implementation of the restructuring plan. A firm implementation date has not yet been provided, but the Pan-Canadian Investor Committee which is overseeing the restructuring has indicated an intent to complete the restructuring prior to the end of November 2008.

Since the restructuring process began, the Company has been valuing its ABCP using a methodology that estimates the characteristics of the New Notes that the Company will receive and then, using a variety of quantitative and qualitative market inputs, estimates the price a prospective investor would pay for those notes using a discounted cash flow calculation. This value was then probability weighted based on

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4. INVESTMENTS (cont'd...)

Management's estimate of the probability of a successful implementation of the restructuring compared to the probability of the restructuring failing.

At September 30, 2008 developments in the global credit market made it increasingly difficult to estimate the yield that a prospective investor will require since the number of potential investors has been significantly reduced. In prior periods, the Company was able to make specific enquiries of prospective investors to ascertain the yield that they would require. Due to the current market turmoil, however, such enquiries are not analytically useful as there are too few prospective investors at this time and few of them are focused on the Canadian ABCP market.

While there can be no certainty at this point of a successful completion of this restructuring, the Company believes that a successful restructuring is likely and has assumed in the valuation of its holdings that the restructuring will indeed be complete by November 30, 2008. If the restructuring fails, the value of the Company's holdings is likely to materially different from the figure presented herein.

Currently, there is no active market for the ABCP the Company holds and no liquidity is anticipated until the Plan is implemented at which time the Company expects a secondary trading market to develop. Accordingly, we continue to classify these investments as long-term assets until such time as the underlying investments can be readily sold.

Under the Plan, existing ABCP will be exchanged for several classes of new long term floating rate notes. Based on information currently available from the Committee the notes we will receive under the plan will be as follows:

| Issuer | Class | Expected Credit Rating | Par Amount (C\$) |
|------------------------|--------------|-------------------------------|-------------------------|
| Master Asset Vehicle 2 | A1 | AA | \$ 822,417 |
| Master Asset Vehicle 2 | A2 | AA | 2,621,455 |
| Master Asset Vehicle 2 | B | none | 451,366 |
| Master Asset Vehicle 2 | C | none | 120,471 |
| Total | | | \$ 4,015,709 |

At September 30, 2008 the fair value of the Company's financial instrument, which is measured on a recurring basis was C\$1,628,189. This instrument is valued based on Level 3 inputs (Note 3).

Management has estimated as at September 30, 2008 the fair value adjustment on ABCP held by using a probability-weighted cash flow approach. To accomplish this, we modeled the key characteristics of the new notes ("Restructured Notes") based upon details provided in the Information Statement and JP Morgan Report issued by the Committee on March 20, 2008. Where these materials lacked sufficient detail, Management developed estimates with the assistance of an external financial advisor.

The Company then arrived at a value for the Restructured Notes by estimating the yield that a prospective purchaser would require in order to purchase the notes. The resulting valuation is the one that provides the required yield to prospective investors and is estimated to be function of credit quality, prevailing interest rates, the potential for future margin calls, the potential lack of liquidity in the market, and the complexity of the instruments. Depending on the class of note, our estimates of required yield ranged from 11.8% to 44.3%.

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4. INVESTMENTS (cont'd...)

We have not included an estimate of the Committee's restructuring costs, which have been advised as being immaterial, nor have we included any interest income on our investments since their acquisition dates of August, 2007.

The assumptions which have the most significant impact on our estimates of fair value and impairment include: whether or not the restructuring is successful and the yield required by prospective investors. In the event the restructuring is unsuccessful, recoverable values could be materially different from the estimated value presented here. With regard to the yield requirement, we have done a sensitivity analysis on that assumption with yielded a range of potential valuations between C\$1.4 million and C\$2.0 million.

Based on this fair value methodology, we recorded an estimated fair value charge of \$489,623 in the quarter ended March 31, 2008, no further fair value adjustment for the quarter ended June 30, 2008 and a further fair value adjustment of \$844,537 in the quarter ended September 30, 2008. While we believe that we have utilized an appropriate methodology to estimate fair value, given the current state and ongoing volatility of global credit markets there can be no assurance that management's estimate of potential recovery as at September 30, 2008 is accurate. Subsequent adjustments, either materially higher or lower, may be required in future reporting periods. Management will continue to seek all avenues to recover the maximum value from the original investments and interest due.

Equity Method Investment

The Company has a 20% equity investment in a joint venture with Ivanhoe Mines (Note 6). At September 30, 2008, the Company's investment in the joint venture is \$Nil. The Company's share of the loss of the joint venture is \$325,989 for the quarter ended September 30, 2008 (September 30, 2007, \$Nil).

5. EQUIPMENT

| | September 30, 2008 | | | December 31, 2007 | | |
|--------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Office equipment | \$ 99,849 | \$ 50,719 | \$ 49,130 | \$ 137,875 | \$ 47,622 | \$ 90,253 |
| Computer equipment | 384,340 | 204,834 | 179,506 | 492,523 | 374,389 | 118,134 |
| Field equipment | 393,840 | 127,796 | 266,044 | 417,524 | 54,133 | 363,391 |
| Buildings | 403,909 | 179,306 | 224,603 | 447,423 | 177,382 | 270,041 |
| | <u>\$ 1,281,938</u> | <u>\$ 562,655</u> | <u>\$ 719,283</u> | <u>\$ 1,495,345</u> | <u>\$ 653,526</u> | <u>\$ 841,819</u> |

During the three months ended September 30, 2008, the Company performed an analysis of equipment located at our Mongolia Operations and determined that a write down of \$51,145 was required to reflect damage and obsolescence. The cumulative equipment write-down for the nine months ended September 30, 2008 is \$123,816.

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(Unaudited)

(Expressed in United States dollars)

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. A portion of the Shivee Tolgoi license and the Javhlant license are subject to the joint venture with Ivanhoe Mines.

Lookout Hill

Each of our exploration licences was granted by the Mineral Resources and Petroleum Authority of Mongolia, issued initially for a three-year term with a right of renewal for two more years, and a further right of renewal for two years, making a total of seven years. Mongolian Mineral Law was amended in July 2006. Consequently, our licences were extended with final expiry in March and April 2010, unless previously converted to mining licences.

Two of the three licences that comprise Lookout Hill were issued April 3, 2001 and expire in April 2010. The third Lookout Hill licence was issued on March 30, 2001, and expires in March 2010.

Mongolian exploration licences 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 licences in good standing is approximately \$280,000.

The Company entered into an arm's-length Equity Participation and Earn-In Agreement (the "Earn-In Agreement") in October 2004 with Ivanhoe Mines Ltd. This agreement was subsequently assigned to a subsidiary of Ivanhoe Mines Ltd., Ivanhoe Mines Mongolia Inc. XXK, (collectively, "Ivanhoe Mines"). The Earn-in Agreement provided that Ivanhoe Mines would have the right, subject to certain conditions outlined in the Earn-in Agreement, to earn a participating interest in mineral exploration and, if warranted, development and mining project on a portion of the Lookout Hill property (the "Project Property").

As of June 30, 2008, Ivanhoe Mines had expended a total of \$35 million on exploration on the Project Property and in accordance with the Earn-In Agreement, Entrée and Ivanhoe Mines formed a joint venture on terms annexed to the Earn-In Agreement.

During the three months ended September 30, 2008, the joint venture expended approximately \$1.6 million in mineral property interests to advance the project. Under the terms of the Earn-in Agreement, Ivanhoe advanced to Entrée the required cash participation amount charging interest at prime plus 2%.

Manlai

The Manlai licence was issued March 9, 2001 and renewed in March, 2006 to March 2008. Subsequent to December 31, 2007 and pursuant to Mongolian Minerals Law, we extended our licences for final expiry in March 2010, unless converted before this date to a mining licence. The total estimated annual fees in order to maintain the licence in good standing is approximately \$10,000.

Sol Dos

In May 2006, the Company secured an option to acquire the Sol Dos copper prospect, located in the prolific Safford district, of south-east Arizona. In February 2008, the Company chose to discontinue earning-in on this prospect due to the lack of favourable results and terminated this agreement.

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

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 totalling a minimum of \$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 (net smelter return) royalty, half of which may be purchased for \$2 million. In August 2007, the Company issued 15,000 shares to Empirical as per the terms of the agreement. In August 2008, a further 20,000 shares were issued to Empirical as per the terms of the agreement.

Bisbee

In January 2008, the Company entered into a second agreement with Empirical whereby the Company has the option to acquire an 80% interest in any of the properties by incurring exploration expenditures totaling a minimum of \$1.9 million and issuing 150,000 shares within 5 years of the anniversary of TSX acceptance of the agreement (Feb 13, 2008). 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 \$2 million.

Huaxi

In November 2007, the Company entered into an agreement with the Zhejiang No. 11 Geological Brigade to explore for copper within three prospective contiguous exploration licences in Pingyang County, Zhejiang Province, People's Republic of China.

The Company has agreed to spend \$3 million to fund exploration activities on the licences over a four year period in order to earn 78% interest with Zhejiang No. 11 Geological Brigade holding a 22% interest.

Lordsburg

The Lordsburg project is one of the targets advanced under the 2007 Empirical agreement. The Company determined that based on favourable preliminary results this project warranted further exploration.

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

Mineral property interest costs incurred by region are summarized as follows:

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Inception (July 19,1995) - September 30, 2008 |
|---------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|-----------------------------------------------|--------------------------------------------------------|
| MONGOLIA | | | | | |
| Lookout Hill: | | | | | |
| Property payments & claim maintenance | \$ 66,545 | \$ 65,286 | \$ 198,096 | \$ 198,476 | \$ 10,768,387 |
| Assaying, testing and analysis | 82,071 | 57,902 | 93,099 | 244,966 | 1,472,813 |
| Camp and field supplies | 257,486 | 299,924 | 488,076 | 692,873 | 4,286,748 |
| Drilling | 641,067 | 641,835 | 641,067 | 1,178,288 | 6,406,003 |
| Geological and geophysical | 664,485 | 391,593 | 1,343,728 | 905,090 | 7,253,610 |
| Travel and accommodation | 81,698 | 59,725 | 164,549 | 150,334 | 986,181 |
| Project administration | 152,394 | - | 437,195 | - | 437,195 |
| | <u>1,945,746</u> | <u>1,516,265</u> | <u>3,365,810</u> | <u>3,370,027</u> | <u>31,610,937</u> |
| Manlai: | | | | | |
| Property payments & claim maintenance | 2,552 | 2,520 | 7,614 | 7,617 | 40,601 |
| Assaying, testing and analysis | - | 1,961 | - | 41,954 | 218,898 |
| Camp and field supplies | 6,879 | 73,477 | 11,074 | 234,284 | 1,249,430 |
| Drilling | - | 75,991 | - | 294,547 | 1,369,785 |
| Geological and geophysical | 8,765 | 68,005 | 9,200 | 197,420 | 1,302,943 |
| Travel and accommodation | - | 2,669 | - | 13,373 | 94,890 |
| | <u>18,196</u> | <u>224,623</u> | <u>27,888</u> | <u>789,195</u> | <u>4,276,547</u> |
| USA | | | | | |
| Empirical | | | | | |
| Property payments & claim maintenance | 84,864 | 34,638 | 392,593 | 34,638 | 453,480 |
| Assaying, testing and analysis | 29,964 | - | 88,733 | - | 89,004 |
| Camp and field supplies | 4,644 | 3,562 | 63,647 | 3,562 | 82,005 |
| Geological and geophysical | 132,345 | 12,780 | 784,789 | 12,780 | 804,506 |
| Travel and accommodation | 2,984 | 2,079 | 95,766 | 2,079 | 100,494 |
| | <u>254,801</u> | <u>53,059</u> | <u>1,425,528</u> | <u>53,059</u> | <u>1,529,489</u> |

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

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Inception (July 19,1995) - September 30, 2008 |
|-------------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|-----------------------------------------------|--------------------------------------------------------|
| USA (cont'd...) | | | | | |
| Bisbee | | | | | |
| Property payments & claim maintenance | 26,571 | - | 154,796 | - | 154,796 |
| Camp and field supplies | 176 | - | 1,280 | - | 1,280 |
| Geological and geophysical | 7,180 | - | 44,925 | - | 44,925 |
| Travel and accommodation | 882 | - | 2,181 | - | 2,181 |
| | <u>34,809</u> | <u>-</u> | <u>203,182</u> | <u>-</u> | <u>203,182</u> |
| Lordsburg | | | | | |
| Assaying, testing and analysis | 60,602 | - | 60,602 | - | 60,602 |
| Geological and geophysical | 166,344 | - | 178,200 | - | 178,200 |
| Camp and field supplies | 54,029 | - | 54,029 | - | 54,029 |
| Travel and accommodation | 27,129 | - | 27,129 | - | 27,129 |
| | <u>308,104</u> | <u>-</u> | <u>319,960</u> | <u>-</u> | <u>319,960</u> |
| Sol Dos | | | | | |
| Property payments & claim maintenance | - | 5,068 | - | 55,320 | 84,971 |
| Assaying, testing and analysis | - | 14,978 | - | 33,438 | 33,751 |
| Camp and field supplies | - | 21,502 | - | 51,946 | 85,137 |
| Drilling | - | 141,083 | - | 657,690 | 663,840 |
| Geological and geophysical | 1,768 | 17,072 | 2,611 | 148,881 | 264,739 |
| Travel and accommodation | - | 15,447 | - | 49,981 | 60,541 |
| | <u>1,768</u> | <u>215,150</u> | <u>2,611</u> | <u>997,256</u> | <u>1,192,979</u> |
| CHINA | | | | | |
| Huaixi | | | | | |
| Assaying, testing and analysis | 9,417 | - | 11,271 | - | 11,271 |
| Camp and field supplies | 2,923 | - | 5,436 | - | 5,436 |
| Geological and geophysical | 16,876 | - | 66,719 | - | 66,719 |
| Travel and accommodation | 1,843 | - | 13,319 | - | 13,319 |
| Project administration | 181,211 | - | 305,252 | - | 305,252 |
| | <u>212,270</u> | <u>-</u> | <u>401,997</u> | <u>-</u> | <u>401,997</u> |
| | <u>113,898</u> | <u>111,136</u> | <u>257,794</u> | <u>204,441</u> | <u>1,092,532</u> |
| OTHER | | | | | |
| Total Mineral Properties Interests | \$ 2,889,592 | \$ 2,120,233 | \$ 6,004,770 | \$ 5,413,978 | \$ 40,627,623 |

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7. LOAN PAYABLE

Under the terms of the Earn-In Agreement, Ivanhoe Mines will contribute funds to approved joint venture programs and budgets on the Company's behalf in an amount sufficient to enable the Company to participate in such approved programs and budgets as the Company may so elect. Interest on each advance of the loan shall accrue at an annual rate from the date of advance to the date of repayment equal to Ivanhoe's actual cost of capital or the prime rate of the Royal Bank of Canada, plus two percent (2%) per annum, whichever is less, as at the date of the advance. The loans will be repayable by the Company monthly from ninety percent (90%) of the Company's share of available cash flow from the joint venture. In the absence of available cash flow, the loans are not repayable. The loans are unsecured and the Company will use the proceeds of the loans only to meet its obligation under the joint venture. The loans are not expected to be repaid within one year.

8. COMMON STOCK**Share issuances**

In February 2008, the Company issued 10,000 shares at a fair value of \$20,066 to Empirical pursuant to the July 2007 mineral property option agreement. (Note 6).

During the quarter ended March 31, 2008, the Company issued 465,000 common shares for cash proceeds of \$521,817 on the exercise of stock options. The fair value recorded when the options were granted of \$232,779 has been transferred from additional paid-in capital to common stock on the exercise of the options.

During the quarter ended September 30, 2008, the Company issued 493,057 common shares for cash proceeds of \$348,888 on the exercise of stock options. The fair value recorded when the options were granted of \$370,419 has been transferred from additional paid-in capital to common stock on the exercise of the options.

In August 2008, the Company issued 20,000 shares at a fair value of \$40,875 to Empirical pursuant to the July 2007 mineral property option agreement. (Note 6).

Stock options

The Company has adopted a stock option plan (the "Plan") to grant options to directors, officers, employees and consultants. Under the Plan, as amended in May 2008, the Company may grant options to acquire up to 12,200,000 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.

Effective with the adoption of SFAS No.123R on January 1, 2006, the Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with SFAS No. 123R for employees, the compensation expense is amortized on a straight-line basis over the requisite service period which approximates the vesting period. Compensation expense for stock options granted to non-employees is recognized over the contract services period or, if none exists, from the date of grant until the options vest. Compensation associated with unvested options granted to non-employees is re-measured on each balance sheet date using the Black-Scholes option pricing model.

The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. For non-employees, the expected term of the options approximates the full term of the

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

options. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company has not paid and does not anticipate paying dividends on its common stock; therefore, the expected dividend yield is assumed to be zero. In addition, SFAS No. 123R requires companies to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of Nil in determining the expense recorded in the accompanying Statements of Operations.

Stock option transactions are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price (C\$) |
|-------------------------------|------------------|------------------------------------------------|
| Balance at December 31, 2007 | 9,249,800 | 1.53 |
| Granted | 5,000 | 2.58 |
| Exercised | (465,000) | 1.12 |
| Expired | (50,000) | 0.60 |
| Balance at March 31, 2008 | 8,739,800 | 1.56 |
| Granted | 1,547,500 | 2.00 |
| Balance at June 30, 2008 | 10,287,300 | 1.62 |
| Granted | 1,399,500 | 1.59 |
| Exercised | (493,057) | 1.00 |
| Cancelled | (151,943) | 1.00 |
| Expired | (20,000) | 1.32 |
| Balance at September 30, 2008 | 11,021,800 | 1.66 |

The weighted average fair value per stock option granted during the nine months ended September 30, 2008 was C\$1.22 (September 30, 2007 - C\$1.27). The number of stock options exercisable at September 30, 2008 was 10,805,133.

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

At September 30, 2008, the following stock options were outstanding:

| Number of Shares | Exercise Price (C\$) | Aggregate Intrinsic Value (C\$) | Expiry Date | Number of Options Exercisable | Aggregate Intrinsic Value (C\$) |
|-------------------|----------------------|---------------------------------|--------------------|-------------------------------|---------------------------------|
| 175,000 | 2.32 | \$ - | November 13, 2008 | 175,000 | \$ - |
| 530,000 | 1.24 | 100,700 | February 11, 2009 | 530,000 | 100,700 |
| 30,000 | 2.57 | - | August 24, 2009 | 30,000 | - |
| 100,000 | 3.10 | - | November 1, 2009 | 50,000 | - |
| 1,385,000 | 1.15 | 387,800 | November 12, 2009 | 1,385,000 | 387,800 |
| 600,000 | 1.25 | 108,000 | December 17, 2009 | 600,000 | 108,000 |
| 400,000 | 1.28 | 60,000 | January 7, 2010 | 400,000 | 60,000 |
| 75,000 | 1.19 | 18,000 | March 3, 2010 | 75,000 | 18,000 |
| 20,000 | 2.00 | - | April 3, 2010 | 20,000 | - |
| 63,000 | 1.48 | - | May 24, 2010 | 63,000 | - |
| 2,180,000 | 1.75 | - | June 9, 2010 | 2,180,000 | - |
| 25,000 | 1.66 | - | August 25, 2010 | 25,000 | - |
| 20,000 | 1.85 | - | September 28, 2010 | 20,000 | - |
| 125,000 | 1.80 | - | January 23, 2011 | 125,000 | - |
| 100,000 | 2.20 | - | February 8, 2011 | 100,000 | - |
| 20,000 | 2.34 | - | March 28, 2011 | 20,000 | - |
| 949,300 | 1.32 | 104,423 | July 10, 2011 | 949,300 | 104,423 |
| 10,000 | 1.77 | - | December 11, 2011 | 10,000 | - |
| 50,000 | 1.77 | - | January 22, 2012 | 50,000 | - |
| 228,000 | 2.16 | - | April 5, 2012 | 228,000 | - |
| 500,000 | 2.06 | - | May 16, 2012 | 333,333 | - |
| 504,500 | 2.30 | - | May 31, 2012 | 504,500 | - |
| 5,000 | 2.58 | - | January 9, 2013 | 5,000 | - |
| 1,515,000 | 2.00 | - | April 3, 2013 | 1,515,000 | - |
| 12,500 | 1.55 | - | May 21, 2013 | 12,500 | - |
| 125,000 | 2.02 | - | July 17, 2013 | 125,000 | - |
| 1,274,500 | 1.55 | - | September 17, 2013 | 1,274,500 | - |
| 11,021,800 | | \$ 778,923 | | 10,805,133 | \$ 778,923 |

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of C\$1.43 per share as of September 30, 2008, which would have been received by the option holders had all options holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of September 30, 2008 was 3,939,300 and the weighted average exercise price was \$1.23. The total intrinsic value of options exercised during the nine months ended September 30, 2008 was \$1,062,400.

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

The following table summarizes information regarding the non-vested stock purchase options outstanding as of September 30, 2008.

| | Number of Options | Weight Average Grant-Date Fair Value |
|------------------------------------------|----------------------|-----------------------------------------------|
| Non-vested options at December 31, 2007 | 433,333 | \$ 1.43 |
| Granted | - | - |
| Vested | (216,666) | 1.43 |
| Cancellation/forfeited | - | - |
| Non-vested options at September 30, 2008 | 216,667 | \$ 1.43 |

Stock-based compensation

The fair value of stock options granted during the nine months ended September 30, 2008 was \$3,532,013 (September 30, 2007 - \$1,911,925) which is being recognized over the options vesting periods. The stock-based compensation recognized during the nine months ended September 30, 2008 was \$3,639,221 (September 30, 2007 - \$1,911,925) which has been recorded in the consolidated statements of operations as follows with corresponding additional paid-in capital recorded in stockholders' equity:

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | Cumulative to September 31, 2008 |
|------------------------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------------|
| Consulting fees | \$ (33,894) | \$ - | \$ - | \$ 434,440 | \$ 1,794,562 |
| Legal | - | - | - | 37,175 | 287,931 |
| Management fees | 1,105,563 | - | 2,577,783 | 903,288 | 6,064,715 |
| Mineral property interests | 397,936 | - | 850,239 | 175,678 | 2,569,071 |
| Office and administration | (22,276) | - | 162,960 | 353,909 | 1,917,401 |
| Stockholder communications and investor relations | 25,203 | - | 48,239 | 7,435 | 806,383 |
| | \$ 1,472,532 | \$ - | \$ 3,639,221 | \$ 1,911,925 | \$ 13,440,062 |

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8. COMMON STOCK (cont'd ...)

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

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

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|----------------------------------|-----------------------------------------------|-----------------------------------------------|
| Risk-free interest rate | 2.93% | 4.33% |
| Expected life of options (years) | 5.00 | 5.00 |
| Annualized volatility | 84.23% | 79.00% |
| Dividend rate | 0.00% | 0.00% |

9. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the period ended September 30, 2008:

a) Paid or accrued management fees of \$38,767 (September 30, 2007 - \$39,846) 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.

10. SEGMENT INFORMATION

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

Geographic information is as follows:

| | September 30, 2008 | December 31, 2007 |
|---------------------|-----------------------|----------------------|
| Identifiable assets | | |
| Canada | \$ 59,883,738 | \$71,456,338 |
| Mongolia | 561,750 | 575,513 |
| USA | 402,553 | 39,732 |
| China | - | - |
| | \$ 60,848,041 | \$72,071,583 |

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10. SEGMENT INFORMATION (cont'd ...)

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|-------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Loss for the year | | | | |
| Canada | \$ (3,037,455) | \$ (907,596) | \$ (5,865,345) | \$ (3,912,010) |
| Mongolia | (2,055,291) | (1,933,011) | (3,587,988) | (4,584,057) |
| USA | (599,518) | (308,327) | (1,968,676) | (1,087,671) |
| China | (274,529) | - | (613,521) | - |
| | <u>\$ (5,966,793)</u> | <u>\$ (3,148,934)</u> | <u>\$(12,035,530)</u> | <u>\$ (9,583,738)</u> |

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, investments and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company does not use derivative instruments to reduce this currency risk.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the nine months ended September 30, 2008 consisted of the February 2008 issuance of 10,000 common shares in payment of mineral property interests in the amount of \$20,066 and the August 2008 issuance of 20,000 common shares in payment of mineral property interests in the amount of \$40,875 (Note 8).

Cash and cash equivalents consisted of cash of \$1,458,799 (December 31, 2007 - \$9,240,513) and short-term investments of \$56,317,866 (December 31, 2007 - \$57,865,600).

13. COMMITMENTS

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

| | |
|-------------|---------------|
| 2008 | 35,105 |
| 2009 | 84,299 |
| 2010 | 85,345 |
| <u>2011</u> | <u>35,560</u> |
| - | 240,309 |

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14. SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the Company:

- a) cancelled 15,000 stock options granted to a consultant on September 17, 2008, and
- b) granted 5,000 stock options to an employee at an exercise price of \$1.55.