



Entrée Gold Inc.

ENTRÉE GOLD INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

December 31, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Entrée Gold Inc.

We have audited the accompanying consolidated financial statements of Entrée Gold Inc. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years ended December 31, 2014, 2013, and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entrée Gold Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years ended December 31, 2014, 2013, and 2012 in conformity with accounting principles generally accepted in the United States of America.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

March 30, 2015



ENTRÉE GOLD INC.

CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

	December 31, 2014	December 31, 2013
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 33,517,096	\$ 46,701,216
Receivables	133,729	203,346
Prepaid expenses	856,358	751,140
Total current assets	34,507,183	47,655,702
Equipment (Note 5)	177,566	288,943
Mineral property interests (Note 6)	44,419,538	48,806,565
Reclamation deposits	474,959	491,808
Other assets	111,252	152,087
Total assets	\$ 79,690,498	\$ 97,395,105
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 1,903,472	\$ 1,261,206
Loans payable to Oyu Tolgoi LLC (Note 7)	6,355,408	5,978,133
Deferred revenue (Note 8)	34,507,372	37,638,211
Deferred income tax liabilities (Note 11)	3,407,124	7,340,516
Total liabilities	46,173,376	52,218,066
Stockholders' equity		
Common stock, no par value, unlimited number authorized, (Note 9) 146,984,385 (December 31, 2013 - 146,734,385) issued and outstanding	177,138,693	177,065,075
Additional paid-in capital	20,346,551	20,095,161
Accumulated other comprehensive income (loss) (Note 14)	(2,850,122)	465,615
Accumulated deficit	(161,118,000)	(152,448,812)
Total stockholders' equity	33,517,122	45,177,039
Total liabilities and stockholders' equity	\$ 79,690,498	\$ 97,395,105

Nature and continuance of operations (Note 1)

Commitments and Contingencies (Note 16)

Subsequent events (Note 18)

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

ENTRÉE GOLD INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in United States dollars)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
EXPENSES			
Exploration (Note 6)	\$ 9,054,887	\$ 6,102,992	\$ 8,234,354
General and administration	4,151,910	6,638,262	5,236,226
Consultancy and advisory fees	830,623	1,941,130	-
Impairment of mineral property interests (Note 6)	552,095	437,732	486,746
Depreciation	65,517	102,941	150,654
Gain on sale of mineral property interests	(28,096)	(451,892)	(104,914)
Foreign exchange gain	(1,978,854)	(1,113,728)	(187,773)
Loss from operations	(12,648,082)	(13,657,437)	(13,815,293)
Interest income	295,023	431,596	190,449
Interest expense (Note 4)	(264,869)	(260,453)	(229,359)
Loss from equity investee (Note 4)	(107,907)	(146,051)	(1,012,156)
Fair value adjustment of asset backed commercial paper	-	147,564	-
Loss before income taxes	(12,725,835)	(13,484,781)	(14,866,359)
Current income tax recovery (expense) (Note 11)	123,255	(319,112)	-
Deferred income tax recovery (expense) (Note 11)	3,933,392	2,381,868	(329,770)
Net loss	\$ (8,669,188)	\$ (11,422,025)	\$ (15,196,129)
Comprehensive loss:			
Net loss	\$ (8,669,188)	\$ (11,422,025)	\$ (15,196,129)
Foreign currency translation adjustment (Note 14)	(3,315,737)	(2,787,404)	1,351,668
Comprehensive loss:	\$ (11,984,925)	\$ (14,209,429)	\$ (13,844,461)
Basic and diluted net loss per share	\$ (0.06)	\$ (0.08)	\$ (0.12)
Weighted average number of common shares outstanding	146,883,700	143,847,888	128,650,791

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

ENTRÉE GOLD INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Expressed in United States dollars)

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2011	127,016,788	\$ 165,574,192	\$ 17,420,307	\$ 1,901,351	\$ (125,830,658)	\$ 59,065,192
Shares issued:						
Exercise of over allotment	1,320,455	1,628,583	-	-	-	1,628,583
Exercise of stock options	-	(44,679)	44,679	-	-	-
Mineral property interests	540,000	378,776	-	-	-	378,776
Stock-based compensation	-	-	1,207,878	-	-	1,207,878
Share issuance costs	-	(108,058)	-	-	-	(108,058)
Foreign currency translation adjustment	-	-	-	1,351,668	-	1,351,668
Net loss	-	-	-	-	(15,196,129)	(15,196,129)
Balance, December 31, 2012	128,877,243	\$ 167,428,814	\$ 18,672,864	\$ 3,253,019	\$ (141,026,787)	\$ 48,327,910
Shares issued:						
Private placement	17,857,142	9,722,897	-	-	-	9,722,897
Stock-based compensation	-	-	1,422,297	-	-	1,422,297
Share issuance costs	-	(86,636)	-	-	-	(86,636)
Foreign currency translation adjustment	-	-	-	(2,787,404)	-	(2,787,404)
Net loss	-	-	-	-	(11,422,025)	(11,422,025)
Balance, December 31, 2013	146,734,385	\$ 177,065,075	\$ 20,095,161	\$ 465,615	\$ (152,448,812)	\$ 45,177,039
Shares issued:						
Mineral property interests	250,000	73,618	-	-	-	73,618
Stock-based compensation	-	-	251,390	-	-	251,390
Foreign currency translation adjustment	-	-	-	(3,315,737)	-	(3,315,737)
Net loss	-	-	-	-	(8,669,188)	(8,669,188)
Balance, December 31, 2014	146,984,385	\$ 177,138,693	\$ 20,346,551	\$ (2,850,122)	\$ (161,118,000)	\$ 33,517,122

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

ENTRÉE GOLD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (8,669,188)	\$ (11,422,025)	\$ (15,196,129)
Items not affecting cash:			
Depreciation	65,517	102,941	150,654
Stock-based compensation	251,390	1,422,297	1,207,878
Loss from equity investee	107,907	146,051	1,012,156
Interest expense	264,869	260,453	229,359
Deferred income tax expense (recovery)	(3,933,392)	(2,381,868)	329,770
Gain on sale of mineral property interests	(28,096)	(451,892)	(104,914)
Impairment of mineral property interests	552,095	437,732	486,746
Unrealized foreign exchange gain	(1,966,349)	(919,289)	(178,639)
Other items not affecting cash	38,075	44,202	67,021
Changes in assets and liabilities:			
Receivables	55,362	6,109	209,098
Prepaid expenses	(176,164)	(22,569)	197,321
Other assets	35,451	(3,592)	22,913
Accounts payable and accrued liabilities	784,886	760,600	(1,235,090)
Deposit on metal credit delivering obligation	-	40,000,000	-
Net cash provided by (used in) operating activities	<u>(12,617,637)</u>	<u>27,979,150</u>	<u>(12,801,856)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	-	9,722,897	1,628,583
Share issue costs	-	(86,636)	(108,058)
Net cash provided by financing activities	<u>-</u>	<u>9,636,261</u>	<u>1,520,525</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Mineral property interests	(100,000)	(50,000)	(3,910,000)
Reclamation deposits	17,249	115,180	(207,962)
Short-term investments	-	-	5,076,271
Acquisition of equipment	(13,074)	(7,623)	(35,893)
Proceeds from sale of royalty interest	-	5,000,000	-
Proceeds from sale of mineral property interests	28,096	451,892	104,914
Net cash provided by (used in) investing activities	<u>(67,729)</u>	<u>5,509,449</u>	<u>1,027,330</u>
Effect of foreign currency translation on cash and cash equivalents	<u>(498,754)</u>	<u>(679,152)</u>	<u>(2,689)</u>
Change in cash and cash equivalents during the year	(13,184,120)	42,445,708	(10,256,690)
Cash and cash equivalents, beginning of the year	46,701,216	4,255,508	14,512,198
Cash and cash equivalents, end of the year	<u>\$ 33,517,096</u>	<u>\$ 46,701,216</u>	<u>\$ 4,255,508</u>
Cash paid for interest during the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes during the year	<u>\$ (135,583)</u>	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 15)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Entrée Gold Inc. was incorporated under the laws of the Province of British Columbia on July 19, 1995 and continued under the laws of the Yukon Territory on January 22, 2003. On May 27, 2005, Entrée Gold Inc. changed its governing jurisdiction from the Yukon Territory to British Columbia by continuing into British Columbia under the *Business Corporations Act* (British Columbia). The principal business activity of Entrée Gold Inc., together with its subsidiaries (collectively referred to as the “Company”), 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 amounts denoted in Canadian dollars (“C\$”), and Australian dollars (“A\$”).

These consolidated financial statements have been prepared on the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company currently earns no operating revenues. Continued operations of the Company are dependent upon the Company’s ability to secure additional equity capital or receive other financial support, and in the longer term to generate profits from business operations. Management believes that the Company has sufficient working capital to maintain its operations for the next fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) in the United States of America and include the accounts of the Company and all of its subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to deferred income tax asset valuations, asset impairment, stock-based compensation, valuation of asset-backed commercial paper and loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgements about the other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between estimates and the actual results, future results of operations will be affected.

Cash and cash equivalents

Cash and cash equivalents includes cash in banks, money market funds, and certificates of term deposits with maturities of less than three months from inception, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of loss in value. The Company had \$33,517,096 in cash at December 31, 2014.

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

Long-term investments

Long-term investments in companies in which the Company has voting interests of 20% to 50% or where the Company has the ability to exercise significant influence, are accounted for using the equity method. Under this method, the Company's share of the investees' earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends received are credited to the long-term investment accounts.

Other long-term investments are classified as "available-for-sale" investments and unrealized gains and losses on these investments are recorded in accumulated other comprehensive income as a separate component of stockholders' equity, unless the declines in market value are judged to be other than temporary, in which case the losses are recognized in income in the period. Gains and losses from the sale of these investments are included in income in the period.

Equipment

Equipment, consisting of office, computer, field equipment and buildings, is recorded at cost less accumulated depreciation. Depreciation is recorded on a declining balance basis at rates ranging from 20% to 30% per annum.

Mineral property interests

Costs of exploration and costs of carrying and retaining unproven properties are expensed as incurred. The Company considers mineral rights to be tangible assets and accordingly, the Company capitalizes certain costs related to the acquisition of mineral rights.

Asset retirement obligation

The Company records the fair value of the liability for closure and removal costs associated with the legal obligations upon retirement or removal of any tangible long-lived assets where the initial recognition of any liability will be capitalized as part of the asset cost and depreciated over its estimated useful life. To date, the Company has not incurred any asset retirement obligations.

Impairment of long-lived assets

Long-lived assets are continually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the discounted carrying amount of the assets exceeds the fair value of the assets.

Stock-based compensation

The Company applies the fair value method of accounting for all stock option awards, whereby the Company recognizes a compensation expense for all stock options awarded to employees, officers and consultants based on the fair value of the options on the date of grant, which is determined using the Black Scholes option pricing model. The options are expensed over the vesting period of the options.

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

Financial instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income.

The Company classifies its financial instruments as follows:

Cash and cash equivalents is classified as held for trading, and is measured at fair value using Level 1 inputs. Receivables and accounts payable and accrued liabilities, are classified as loans and receivables, and have a fair value approximating their carrying value, due to their short-term nature. The Company's other financial instruments, reclamation deposits, and loans payable are classified as loans and receivables, and are measured at amortized cost.

Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of deferred income tax assets recognized is limited to the amount that is more likely than not to be realized.

Foreign currency translation

The functional currency of Entrée Gold Inc. is the Canadian dollar. Accordingly, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet date while non-monetary assets and liabilities denominated in a foreign currency are translated at historical rates. Revenue and expense items denominated in a foreign currency are translated at exchange rates prevailing when such items are recognized in the statement of operations and comprehensive loss. Exchange gains or losses arising on translation of foreign currency items are included in the statement of operations and comprehensive loss. The functional currency of Entrée Gold Inc.'s significant subsidiaries is the United States dollar. Upon translation into Canadian dollars for consolidation, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations and comprehensive loss. Exchange gains or losses arising on translation of foreign currency items are included in the statement of operations and comprehensive loss.

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

Foreign currency translation (cont'd...)

The Company follows the current rate method of translation with respect to its presentation of these consolidated financial statements in the reporting currency, which is the United States dollar. Accordingly, assets and liabilities are translated into United States dollars at the period-end exchange rates while revenue and expenses are translated at the prevailing exchange rates during the period. Related exchange gains and losses are included in a separate component of stockholders' equity as accumulated other comprehensive income.

Net loss per share

Basic net loss per share is computed by dividing the net loss for the period attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share takes into consideration shares of common stock outstanding (computed under basic loss per share) and potentially dilutive shares of common stock. Diluted net loss per share is not presented separately from basic net loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive. At December 31, 2014, the total number of potentially dilutive shares of common stock excluded from basic net loss per share was 13,779,000 (December 31, 2013 - 14,400,500; December 31, 2012 - 9,223,000).

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Recent accounting pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation". This ASU does the following, among other things: a) eliminates the requirement to present inception-to-date information on the statements of income, cash flows, and shareholders' equity, b) eliminates the need to label the financial statements as those of a development stage entity, c) eliminates the need to disclose a description of the development stage activities in which the entity is engaged, and d) amends FASB ASC 275, "Risks and Uncertainties", to clarify that information on risks and uncertainties for entities that have not commenced planned principal operations is required. The amendments in ASU No. 2014-10 related to the elimination of Topic 915 disclosures and the additional disclosure for Topic 275 are effective for public companies for annual and interim reporting periods beginning after December 15, 2014. Early adoption is permitted. The Company has evaluated this ASU and early adopted for the period beginning on April 1, 2014.

In August 2014, the FASB issued "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). Historically, there has been no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. This ASU clarifies when and how management should be assessing their ability to continue as a going concern. ASU 2014-15 is effective for fiscal years ending after December 15, 2016. Early adoption of this standard is permitted, and the Company expects to adopt the standard for the fiscal year ending December 31, 2015. The Company expects the adoption of ASU 2014-15 will have an impact on the frequency with which going concern assessments are conducted but does not expect the adoption to have significant changes to existing disclosure.

ENTRÉE GOLD INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(Expressed in United States dollars)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank and in hand of \$33,517,096 as at December 31, 2014 (December 31, 2013 - \$46,701,216).

4. LONG-TERM INVESTMENTS

Equity Method Investment

The Company accounts for its interest in a joint venture with Oyu Tolgoi LLC (“OTLLC”), a company owned 66% by Turquoise Hill Resources Ltd. (formerly Ivanhoe Mines Ltd.) (“Turquoise Hill”) and 34% by the Government of Mongolia (Note 7), as a 20% equity investment. The Company’s share of the loss of the joint venture is \$107,907 for the year ended December 31, 2014 (December 31, 2013 - \$146,051; December 31, 2012 - \$1,012,156) plus accrued interest expense of \$264,869 for the year ended December 31, 2014 (December 31, 2013 - \$260,453; December 31, 2012 - \$229,359).

5. EQUIPMENT

	December 31, 2014			December 31, 2013		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 81,314	\$ 60,877	\$ 20,437	\$ 92,057	\$ 64,123	\$ 27,934
Computer equipment	363,823	290,361	73,462	459,426	349,636	109,790
Field equipment	217,036	141,797	75,239	251,604	144,786	106,818
Buildings	48,762	40,334	8,428	246,540	202,139	44,401
	<u>\$ 710,935</u>	<u>\$ 533,369</u>	<u>\$ 177,566</u>	<u>\$ 1,049,627</u>	<u>\$ 760,684</u>	<u>\$ 288,943</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, except as otherwise disclosed below, to the best of its knowledge, title to the mineral property interests is in good standing.

Material Properties

The Company’s two principal assets are the Ann Mason project (the “Ann Mason Project”) in Nevada and its interest in the Lookout Hill property in Mongolia.

Ann Mason, Nevada, United States

The Ann Mason Project is defined by a series of both unpatented lode claims on public land administered by the Bureau of Land Management, and title to patented lode claims. The project area includes the Ann Mason and the Blue Hill deposits, several early-stage copper porphyry targets including the Blackjack IP, Blackjack Oxide, Roulette and Minnesota targets, and the Minnesota, Shamrock and Ann South copper skarn targets.

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

Material Properties (cont'd...)

Ann Mason, Nevada, United States (cont'd...)

Certain of the unpatented lode claims are leased to the Company pursuant to a mining lease and option to purchase agreement ("MLOPA") with two individuals. Under the MLOPA, the Company has the option to purchase the claims for \$500,000, which, if exercised, will be subject to a 3% net smelter returns ("NSR") royalty (which may be bought down to a 1% NSR royalty for \$2 million). The MLOPA also provides for annual advance minimum royalty payments of \$27,500 which commenced in 2011 and will continue until the commencement of sustained commercial production. The advance payments will be credited against future royalty payments or the buy down of the royalty.

In September 2009, the Company entered into an agreement whereby the Company may acquire an 80% interest in certain unpatented lode claims formerly known as the Roulette property. In order to acquire its interest, the Company must: (a) incur expenditures of \$1,000,000, make cash payments of \$140,000 and issue 85,000 common shares of the Company within three years (completed); (b) make aggregate advance royalty payments totalling \$375,000 between the fifth and tenth anniversaries of the agreement (\$50,000 of which has been paid); and (c) deliver a bankable feasibility study before the tenth anniversary of the agreement.

In February 2013, the Company entered into an agreement with Sandstorm Gold Ltd. ("Sandstorm") whereby the Company granted Sandstorm a 0.4% NSR royalty over certain of the unpatented lode claims, including the claims covering the Ann Mason and Blue Hill deposits, in return for an upfront payment of \$5 million (the "Sandstorm NSR Payment") which was recorded as a recovery to acquisition costs. In addition, certain of the patented lode claims are subject to a 2% NSR royalty.

During the year ended December 31, 2014, the Company acquired certain unpatented lode claims within or contiguous to the boundaries of its Ann Mason Project pursuant to which the Company paid \$100,000 and issued 250,000 common shares valued at \$73,618.

Lookout Hill, Mongolia

The Lookout Hill property in the South Gobi region of Mongolia is comprised of two mining licences, Shivee Tolgoi and Javhlant, granted by the Mineral Resources Authority of Mongolia ("MRAM") in October 2009. Title to the two licences is held by the Company.

In October 2004, the Company entered into an arm's-length Equity Participation and Earn-In Agreement (the "Earn In Agreement") with Turquoise Hill. Under the Earn-In Agreement, Turquoise Hill agreed to purchase equity securities of the Company, and was granted the right to earn an interest in what is now the eastern portion of the Shivee Tolgoi mining licence and all of the Javhlant mining licence (together the "Joint Venture Property"). Most of Turquoise Hill's rights and obligations under the Earn-In Agreement were subsequently assigned by Turquoise Hill to what was then its wholly-owned subsidiary, OTLLC. The Government of Mongolia subsequently acquired a 34% interest in OTLLC from Turquoise Hill.

On June 30, 2008, OTLLC gave notice that it had completed its earn-in obligations by expending a total of \$35 million on exploration of the Joint Venture Property. OTLLC earned an 80% interest in all minerals extracted below a sub-surface depth of 560 metres from the Joint Venture Property and a 70% interest in all minerals extracted from surface to a depth of 560 metres from the Joint Venture Property. In accordance with the Earn-In Agreement, the Company and OTLLC formed a joint venture (the "Entrée-OTLLC Joint Venture") on terms annexed to the Earn-In Agreement.

The portion of the Shivee Tolgoi mining licence outside of the Joint Venture Property ("Shivee West") is 100% owned by the Company, but is subject to a right of first refusal by OTLLC.

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

Material Properties (cont'd...)

Lookout Hill, Mongolia (cont'd...)

The conversion of the original Shivee Tolgoi and Javhlant exploration licences into mining licences was a condition precedent to the Investment Agreement (the "Investment Agreement") between Turquoise Hill, OTLLC, the Government of Mongolia and Rio Tinto International Holdings Limited. The licences are part of the contract area covered by the Investment Agreement, although the Company is not a party to the Investment Agreement. The Shivee Tolgoi and Javhlant mining licences were each issued for a 30 year term and have rights of renewal for two further 20 year terms.

On February 27, 2013, notice (the "Notice") was delivered to the Company that the Ministry of Mining had cancelled the July 2009 Order (the "2009 Order") registering the reserves on the Joint Venture Property. The Notice stated that the 2009 Order breached sections of the Minerals Law of Mongolia and Charter of the Minerals Resource Counsel that give the head of MRAM the authority to register reserves, rather than the Minister of Mineral Resources and Energy. The Notice further advised that the Company is temporarily restricted from transferring, selling or leasing the Shivee Tolgoi and Javhlant mining licences. On September 4, 2013, the Minister of Mining issued Order No. 179, advising the Minerals Professional Council to re-submit its previous conclusions regarding the reserves to MRAM for review and registration. On September 6, 2013, the head of MRAM ordered that the reserves on the Joint Venture Property be registered. The Company was also subsequently advised that the temporary transfer restriction on the joint venture mining licences will be lifted.

As of December 31, 2014, the Entrée-OTLLC Joint Venture had expended approximately \$26.9 million to advance the Joint Venture Property. Under the terms of the Entrée-OTLLC Joint Venture, OTLLC contributed on behalf of the Company its required participation amount charging interest at prime plus 2% (Note 7).

Other Properties

The Company also has interests in non-material properties in Australia, the United States and Peru. During the year ended December 31, 2014, the Company recorded an impairment of mineral property interests of \$552,095 (December 31, 2013 - \$437,732; December 31, 2012 - \$486,746) against these properties.

Capitalized mineral property acquisition costs are summarized as follows:

	December 31, 2014	December 31, 2013
Ann Mason	\$ 43,966,474	\$ 47,777,956
Other	453,064	1,028,609
Total	\$ 44,419,538	\$ 48,806,565

Ann Mason capitalized mineral property acquisition costs are net of the \$5 million Sandstorm NSR Payment.

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

Expensed exploration costs are summarized as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
US	\$ 7,066,997	\$ 3,940,264	\$ 5,857,999
Mongolia	1,672,341	1,355,493	1,964,883
Other	315,549	807,235	411,472
Total all locations	\$ 9,054,887	\$ 6,102,992	\$ 8,234,354

7. LOANS PAYABLE

Under the terms of the Entrée-OTLLC Joint Venture (Note 6), OTLLC will contribute funds to approved joint venture programs and budgets on the Company's behalf. Interest on each loan advance shall accrue at an annual rate equal to OTLLC'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 Entrée-OTLLC Joint Venture. In the absence of available cash flow, the loans will not be repayable. The loans are not expected to be repaid within one year.

8. SANDSTORM FINANCING ARRANGEMENT

In February 2013, the Company entered into an equity participation and funding agreement with Sandstorm that provided an upfront deposit (the "Deposit") from Sandstorm of \$40 million. The Company will use future payments that it receives from its mineral property interests to purchase and deliver metal credits to Sandstorm, in amounts that are indexed to the Company's share of gold, silver and copper production from the Joint Venture Property as follows:

- 25.7% of the Company's share of gold and silver, and 2.5% of the Company's share of copper, produced from the portion of the Shivee Tolgoi mining licence included in the Joint Venture Property; and
- 33.8% of the Company's share of gold and silver, and 2.5% of the Company's share of copper, produced from the Javhlant mining licence.

In addition to the Deposit, upon delivery of the metal credits Sandstorm will make a cash payment to the Company equal to the lesser of the prevailing market price and \$220 per ounce of gold, \$5 per ounce of silver and \$0.50 per pound of copper (subject to inflation adjustments). After approximately 8.6 million ounces of gold, 40.3 million ounces of silver and 9.1 billion pounds of copper have been produced from the entire Joint Venture Property, the cash payment will increase to the lesser of the prevailing market price and \$500 per ounce of gold, \$10 per ounce of silver and \$1.10 per pound of copper (subject to inflation adjustments). To the extent that the prevailing market price is greater than the amount of the cash payment, the difference between the two will be credited against the Deposit (the net amount of the Deposit being the "Unearned Balance").

8. SANDSTORM FINANCING ARRANGEMENT (cont'd...)

In the event of a partial expropriation of the Company's economic interest, contractually or otherwise, in the Joint Venture Property, which is not reversed during the abeyance period provided for in the equity participation and funding agreement, the Company will be required to return a pro rata portion of the Deposit (the amount of the repayment not to exceed the amount of the Unearned Balance) and the metal credits that the Company is required to deliver will be reduced proportionately. In the event of a full expropriation, the full amount of the Unearned Balance must be returned with interest.

The Company is not required to deliver actual metal, and the Company may use revenue from any of its assets to purchase the requisite amount of metal credits.

The Company recorded the Deposit as deferred revenue and will recognize amounts in revenue as metal credits are delivered to Sandstorm.

In addition, the Company entered into an agreement with Sandstorm whereby the Company granted Sandstorm a 0.4% NSR royalty over certain of the Ann Mason Project claims, including the claims covering the Ann Mason and Blue Hill deposits, in return for the Sandstorm NSR Payment of \$5 million which was recorded as a recovery to acquisition costs.

The Company also completed a private placement with Sandstorm for gross proceeds of \$9,722,897 during the year ended December 31, 2013.

The transaction costs related to the Sandstorm financing arrangement incurred in 2013 were \$936,926 for consultancy and advisory fees, \$192,203 for legal fees included in general and administration expenses and \$86,636 for share issuance costs.

9. COMMON STOCK

Share issuances

In January 2012, the underwriters for the Company's November 2011 marketed offering exercised their over allotment option pursuant to which the Company issued 1,150,000 common shares at a price of C\$1.25 per share. Rio Tinto elected to exercise its pre-emptive rights and purchased an additional 170,455 shares at a price of C\$1.25 per share. The total gross proceeds from the over allotment were \$1,628,583. Related share issuance costs were \$108,058.

In January 2012, the Company issued 40,000 shares at a fair value of \$52,293 to acquire certain claims within or contiguous to the boundaries of its Ann Mason Project.

In June 2012, the Company issued 500,000 shares at a fair value of \$326,483 to purchase a 100% interest in the Lordsburg and Oak Grove properties.

In March 2013, the Company completed a private placement with Sandstorm consisting of 17,857,142 common shares issued at a price of C\$0.56 per share for gross proceeds of \$9,722,897. Related share issuance costs were \$86,636.

In May 2014, the Company issued 250,000 shares at a fair value of \$73,618 to acquire certain claims within the boundaries of its Ann Mason Project.

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

Stock options

The Company has adopted a stock option plan (the "Plan") to grant options to directors, officers, employees and consultants. Under the Plan, the Company may grant options to acquire up to 10% of the issued and outstanding shares of the Company. Options granted can have a term of up to ten years and an exercise price typically not less than the Company's closing stock price on the last trading day before the date of grant. Vesting is determined at the discretion of the Board of Directors.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. 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. 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. Companies are required 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 and Comprehensive Loss.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price (C\$)
Balance at December 31, 2011	9,135,500	2.16
Granted	1,882,000	1.22
Expired	(1,177,500)	2.14
Forfeited	(617,000)	2.05
Balance at December 31, 2012	9,223,000	1.98
Granted	7,560,000	0.47
Expired	(2,379,500)	1.80
Forfeited	(3,000)	1.25
Balance at December 31, 2013	14,400,500	1.22
Granted	2,815,000	0.21
Expired	(2,811,500)	1.99
Forfeited	(625,000)	1.43
Balance at December 31, 2014	13,779,000	0.85

The number of stock options exercisable at December 31, 2014 was 13,779,000.

ENTRÉE GOLD INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(Expressed in United States dollars)

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

Share options (cont'd...)

At December 31, 2014, the following stock options were outstanding:

Number of Options	Exercise Price (C\$)	Aggregate Intrinsic Value (C\$)	Expiry Date	Number of Options Exercisable	Aggregate Intrinsic Value (C\$)
300,000	2.34	-	September 22, 2015	300,000	-
1,172,500	2.86	-	November 22, 2015	1,172,500	-
200,000	3.47	-	January 4, 2016	200,000	-
125,000	2.94	-	March 8, 2016	125,000	-
150,000	2.05	-	July 7, 2016	150,000	-
100,000	2.23	-	July 15, 2016	100,000	-
1,561,500	1.25	-	January 6, 2017	1,561,500	-
100,000	0.73	-	June 18, 2017	100,000	-
4,680,000	0.56	-	March 15, 2018	4,680,000	-
50,000	0.32	-	April 9, 2018	50,000	-
150,000	0.34	-	June 27, 2018	150,000	-
2,375,000	0.30	-	December 19, 2018	2,375,000	-
2,815,000	0.21	-	December 22, 2019	2,815,000	-
13,779,000		\$ -		13,779,000	\$ -

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of C\$0.21 per share as of December 31, 2014, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of December 31, 2014 was Nil. The total intrinsic value of options exercised during the year ended December 31, 2014 was \$Nil (December 31, 2013 - \$Nil; December 31, 2012 - \$Nil).

Stock-based compensation

2,815,000 stock options were granted during the year ended December 31, 2014. The fair value of stock options granted during the year ended December 31, 2014 was \$251,390 (December 31, 2013 - \$1,421,371; December 31, 2012 - \$1,124,930). Stock-based compensation recognized during the year ended December 31, 2014 was \$251,390 (December 31, 2013 - \$1,422,297; December 31, 2012 - \$1,207,878) which has been recorded in the consolidated statements of operations and comprehensive loss as follows with corresponding additional paid-in capital recorded in stockholders' equity:

ENTRÉE GOLD INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(Expressed in United States dollars)

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

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

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Exploration	\$ 35,893	\$ 294,676	\$ 267,452
General and administration	215,497	1,127,621	940,426
	<u>\$ 251,390</u>	<u>\$ 1,422,297</u>	<u>\$ 1,207,878</u>

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

	December 31, 2014	December 31, 2013	December 31, 2012
Risk-free interest rate	1.25%	1.30%	1.13%
Expected life of options (years)	4.3	4.3	4.9
Annualized volatility	65%	75%	73%
Dividend rate	0.00%	0.00%	0.00%
Fair value per option	\$0.09	\$0.19	\$0.60

10. SEGMENT INFORMATION

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

Geographic information is as follows:

	December 31, 2014	December 31, 2013
Identifiable assets		
USA	\$ 46,949,474	\$ 49,405,542
Canada	31,274,058	45,822,245
Australia	897,181	1,642,736
Mongolia	533,386	504,408
Other	36,399	20,174
	<u>\$ 79,690,498</u>	<u>\$ 97,395,105</u>

ENTRÉE GOLD INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(Expressed in United States dollars)

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Loss for the year before income taxes	\$ (12,725,835)	\$ (13,484,781)	\$ (14,866,359)
Statutory rate	26.00%	25.75%	25.00%
Expected income tax recovery	(3,308,717)	(3,472,331)	(3,716,590)
Permanent differences and other	1,645,947	(78,811)	270,521
Difference in foreign tax rates and enacted tax rates	1,011,166	(366,039)	(577,544)
Effect of dissolution of subsidiaries	(4,065,731)	-	-
Change in valuation allowance	660,688	1,611,239	4,353,383
Withholding taxes	-	243,186	-
Total income tax expense (recovery)	\$ (4,056,647)	\$ (2,062,756)	\$ 329,770
Current income tax expense (recovery)	\$ (123,255)	\$ 319,112	\$ -
Deferred income tax expense (recovery)	(3,933,392)	(2,381,868)	329,770
Total income taxes	\$ (4,056,647)	\$ (2,062,756)	\$ 329,770

ENTRÉE GOLD INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(Expressed in United States dollars)

11. INCOME TAXES (cont'd...)

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Deferred income tax assets:		
Non-capital loss carry forward	\$ 19,506,412	\$ 20,423,498
Resource expenditures	7,259,556	9,278,934
Equipment	152,063	144,776
Share issue and legal costs	70,341	149,596
Other	5,015,648	349,379
	<u>32,004,020</u>	<u>30,346,183</u>
Valuation allowance	(24,634,353)	(23,973,665)
Deferred income tax assets	<u>\$ 7,369,667</u>	<u>\$ 6,372,518</u>
Deferred income tax liabilities:		
Foreign exchange on loan	\$ (1,441,120)	\$ -
Mineral property interests	(9,335,671)	(13,713,034)
Deferred income tax liabilities	<u>\$ (10,776,791)</u>	<u>\$ (13,713,034)</u>
Net deferred income tax liabilities	<u>\$ (3,407,124)</u>	<u>\$ (7,340,516)</u>

The Company has available for deduction against future taxable income non-capital losses of approximately \$36,340,000 (2013: \$34,720,000) in Canada, \$690,000 (2013: \$710,000) in China, \$7,160,000 (2013: \$7,770,000) in Mongolia, \$23,260,000 (2013: \$26,270,000) in the United States of America, \$Nil (2013: \$580,000) in Australia and \$520,000 (2013: \$410,000) in Peru. These losses, if not utilized, will expire through 2033. Subject to certain restrictions, the Company also has foreign resource expenditures available to reduce taxable income in future years. The Company has recognized \$7,369,667 of deferred tax benefits arising as a result of these losses, resource expenditures, equipment, share issue and legal costs in these financial statements.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. As of December 31, 2014, there was no accrued interest or accrued penalties.

The Company files income tax returns in Canada and several foreign jurisdictions. The Company's Canadian income tax returns from 2008 to 2014 are open. For other foreign jurisdictions, including Mongolia and the U.S., all years remain open.

12. FAIR VALUE ACCOUNTING

Fair value measurement is based on 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 which are:

Level 1 — Quoted prices that are available in active markets for identical assets or liabilities.

Level 2 — Quoted prices in active markets for similar assets that are observable.

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.

At December 31, 2014, the Company had Level 1 financial instruments, consisting of cash and cash equivalents, with a fair value of \$33,517,096.

13. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

The Company's financial instruments generally consist of cash and cash equivalents, receivables, deposits, accounts payable and accrued liabilities and loans payable. 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.

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. In addition, as certain of the Company's consolidated subsidiaries' functional currency is the United States dollar, the Company is exposed to foreign currency translation risk. The Company does not use derivative instruments to reduce this currency risk.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (OCI)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Accumulated OCI, beginning of period:			
Currency translation adjustment	\$ 465,615	\$ 3,253,019	\$ 1,901,351
Other comprehensive income (loss) for the period:			
Currency translation adjustments	\$ (3,315,737)	\$ (2,787,404)	\$ 1,351,668
Accumulated OCI, end of period:			
Currency translation adjustment	\$ (2,850,122)	\$ 465,615	\$ 3,253,019

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions affecting cash flows from operating, financing and investing activities for the year ended December 31, 2014 consisted of the issuance of 250,000 common shares (December 31, 2013 – Nil; December 31, 2012 - 540,000) in payment of mineral property acquisitions valued at \$73,618 (December 31, 2013 - \$Nil; December 31, 2012 - \$378,776) which have been capitalized as mineral property interests.

There were no other significant non-cash transactions during the years ended December 31, 2013 and 2014 affecting cash flows from financing and investing activities, except for the funding by OTLLC of the Company's investment requirements for the Entrée-OTLLC Joint Venture of \$1,012,156 during the year ended December 31, 2012.

16. COMMITMENTS AND CONTINGENCIES

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

2015	\$ 283,325
2016	198,006
<u>2017</u>	<u>81,690</u>
	\$ 563,021

The Company incurred lease expense of \$399,906 (December 31, 2013 – \$393,707; December 31, 2012 - \$398,266) for the year ended December 31, 2014.

In the event of a partial expropriation of the Company's economic interest, contractually or otherwise, in the Joint Venture Property, which is not reversed during the abeyance period provided for in the equity participation and funding agreement, the Company will be required to return a pro rata portion of the Deposit (the amount of the repayment not to exceed the amount of the Unearned Balance) and the metal credits that the Company is required to deliver will be reduced proportionately. In the event of a full expropriation, the full amount of the Unearned Balance must be returned with interest.

17. TRANSACTIONS WITH RELATED PARTIES

The Company did not enter into any transactions with related parties during the year ended December 31, 2014.

During the year ended December 31, 2013, the Company paid consulting fees of \$1,167 (December 31, 2012 - \$Nil) to an immediate family member of an executive officer of the Company. The transaction was in the normal course of operations and was measured at the exchange amount, which represented the amount of consideration established and agreed to by the related party. All services under the agreement have been provided.

18. SUBSEQUENT EVENTS

There were no subsequent events after December 31, 2014.