ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
Years ended December 31, 2011 and 2010

This Management Discussion and Analysis ("MD&A"), dated March 28 2012, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2011, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

The following discussion and analysis includes consolidated financial information relating to the following subsidiaries which are wholly owned unless stated otherwise: Erdene Gold International Inc. and Erdene International Exploration Inc., both incorporated under the laws of Barbados; Tamerlane International Limited incorporated under the laws of Bermuda; Advanced Primary Minerals Corporation ("APM") (60%), Erdene Resources Inc., and 6531954 Canada Limited, incorporated under the laws of Canada; Advanced Primary Minerals USA Corp. ("APMUSA") (60%) and ERD Aggregate Corporation, both incorporated under the laws of Delaware as well as Erdene Mongol XXK and Anian Resources XXK, incorporated under the laws of Mongolia.

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

Overview

Erdene is a resource exploration and development Corporation listed on the Toronto Stock Exchange with two core projects: the Donkin Coal Project in Nova Scotia and the Zuun Mod Molybdenum-Copper Project in Mongolia. The Corporation has numerous non-core projects including gold-copper exploration prospects in Mongolia, an operating aggregate quarry (Granite Hill royalty), and kaolin interests.

The Corporation's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits in Mongolia; and the development of its coal and industrial mineral interests in North America. In the short term, management is focused on financing and creating greater value in the Corporation by undergoing a strategic review of various options including a spin-off of Mongolian assets, monetization of subsidiaries, strategic investments, project financing and other corporate and financial transactions.

Donkin Coal Project – Nova Scotia, Canada

In June 2011, the Corporation announced, on behalf of the Donkin Joint Venture (“DJV”), the receipt of a National Instrument 43-101 compliant Technical Report for the Donkin Coal Project prepared by Marston & Marston, Inc. of St. Louis, Missouri (the “Report”). The Report presents the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Xstrata Coal Donkin Limited (“Xstrata Coal”) and the reserves defined by the PFS. The Report assesses the viability of a multiple continuous miner ("CM") underground operation, producing approximately 3.5 million tonnes per year ("Mtpa") Run of Mine ("ROM") coal that would be subsequently washed to provide 2.75 Mtpa of coal with a product split of approximately 75% coking coal and 25% thermal coal. The coal is suitable for the international export coking and thermal coal markets and domestic thermal coal markets. The Report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concludes that Donkin has a $1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately $500 million and demonstrates the potential for first quartile operating costs.

The feasibility stage will include the initial phase of mining, referred to as the exploration phase. The intent is to deploy one CM section in the Harbour Seam one year after securing an off-take agreement for the ROM coal. The feasibility study is estimated to cost $94.2 million and is forecast to be conducted over a 24-month period. The schedule for this initial development is partially dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the feasibility study and receipt of all government approvals.

The Environmental Assessment ("EA") process, that requires both provincial and federal approvals, is continuing. The Canadian Environmental Assessment Agency (“CEA Agency”), after public consultation, provided final Environmental Impact Statement (“EIS”) Guidelines for the project to Xstrata Coal Donkin Management (“Xstrata Management”) in early February 2012. The EIS Guidelines provide minimum information requirements for the preparation of the EA documents by Xstrata Management.

Zuun Mod Molybdenum-Copper Project – Mongolia

In June 2011, the Corporation announced the receipt of an updated resource estimate for the Zuun Mod project by independent technical consultants Minarco-MineConsult (“MMC”), part of the Runge Group. Their revised resource estimate included an increase in the Measured and Indicated resources by 38 million tonnes as well as an increase in the average grade.

Also in June, the Corporation was granted a 30-year Mining License for the Zuun Mod project by the Mongolian Government. The Zuun Mod Mining License covers an area of 6,041 hectares and contains the South Racetrack and North Racetrack deposits, which host all of the M&I resources at Zuun Mod. The Mining License also contains the Khuvyn Khar copper prospect. Approval of an application for a second contiguous Mining License, south of the approved Mining License, is pending. This license application covers 358 hectares and contains the Stockwork deposit which hosts 17.8 percent of the Inferred resource at Zuun Mod.

At year-end, the Corporation's independent technical consultant, MMC, continued to carry out work on a pit optimization study. Once completed this study will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2012/2013.

Other – Mongolia

In 2011, exploration work was carried out on the Corporation's Tsenkher Nomin property in southwestern Mongolia. Exploration work on this license has identified a number of previously unknown gold and base metal mineral occurrences. The Corporation has carried out initial scout drilling on two of these prospects, Nomin Tal and Altan Nar, (located 2.5km apart) and has reported very encouraging initial results.

At Nomin Tal, drilling has intersected copper-gold mineralization in a series of drill holes along a 750m strike length included 2.7g/t gold, 0.9% copper and 6g/t silver over 6m (48 to 54m) in TND-6, drilled under historic workings where mineralization is exposed on surface.

The Altan Nar prospect consists of a broad (2km by 3km) polymetallic-gold-in-soil anomaly identified during a regional soil survey. Follow-up mapping and prospecting confirmed the presence of multiple prospects, containing gold-bearing epithermal-style quartz veins, within the large soil anomaly. Geophysical surveys over the Altan Nar prospect aided in indentifying scout-drilling targets.

A series of 24 holes were drilled over a 1km^2 area of the Altan Nar prospect and the presence of anomalous gold-bearing mineralized zones in 15 of the 24 holes confirmed the widespread nature of the Altan Nar mineralized system. In the one area where multiple holes have been drilled in close proximity, results have confirmed the lateral and vertical continuity of mineralized zones. Hole TND-19 was drilled 50 metres below the mineralization intersected in TND-09 (55m of 1.02g/t gold and 12g/t silver), and intersected 29m averaging 4.3g/t gold and 24.1g/t silver, suggesting an increase in intensity of gold mineralization at depth. Additional drill intersections, northeast from TND-9, 19 along a magnetic low feature, suggests a single or multiple mineralized zones over a 300m strike length. This area is referred to as the 'Discovery Zone'. The lateral and vertical extent of mineralization in other widely spaced drill holes remains untested.

The 2012 field program at Tsenkher Nomin is expected to start in early April and will include delineation drilling of the Discovery Zone, additional scout drilling to follow-up on encouraging preliminary drill-results as well as a number of geochemical and geophysical targets that remain untested by drilling. Additional field work, including close-spaced soil and rock geochemical sampling and geophysical surveys is expected to start once ground conditions permit.

Kaolin Clay Operations – Georgia, USA

The Corporation, through its controlled subsidiary APM, operates a kaolin processing plant in Dearing, Georgia, USA. To date, despite encouraging results from product trials, APM has been unable to secure sufficient sales to generate positive cash flows. APM continues to seek additional sales commitments for its specialty primary kaolin products with numerous product trials to target customers and through sales growth within its current customer base.

An assessment of the recoverable amount of APM's assets determined there to be impairment to its clay assets. As a result, the Corporation recognized an impairment loss of $3.9 million in 2011, recorded in cost of sales in the Statement of Loss.

Subsequent to year end, on February 8, 2012, Erdene granted APM an extension to the promissory note now due August 31, 2012. This extension will allow APM to refinance or restructure its operations. Options include equity financing, renegotiating a new credit facility with Erdene or another lender, or the monetization of assets.

Aggregate – Georgia, USA

The Granite Hill property is under long term lease to Aggregates USA (Sparta), LLC ("AUSA") and the Corporation earns a royalty on sales. Throughout 2011, project development was carried out by AUSA including site preparation (installation of processing and shipping infrastructure) and construction of a rail link under Georgia Highway 16 connecting the aggregate quarry site to the existing rail-line. Construction was completed by the end of 2011 and commercial production commenced in January 2012. AUSA is targeting markets in the southeastern U.S.A.

Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December 31	**2011**	**2010**	**2009**
Revenues	$ 883	$ 585	$ 168
Loss for the year attributable to equity holder of Erdene	$ 11,861	$ 4,089	$ 2,177
Basic and diluted loss per share	$ 0.13	$ 0.05	$ 0.02
Total assets	$ 46,783	$ 54,251	$ 57,025
Total long-term liabilities	$ 5,354	$ 5,236	$ 5,300
Cash dividends declared	Nil	Nil	Nil

All financial data has been prepared in accordance with IFRS with the exception of certain 2009 data.

Discussion of Operations

Years ended December 30, 2011 and 2010

The Corporation recognized a net loss attributable to equity holders of $11,861,320, or $0.13 per share, in 2011 compared to a loss of $4,088,680, or $0.05 per share, in 2010.

Revenue was $882,828 for the year ended December 31, 2011, compared to $584,629 in 2010. Kaolin clay processing and sales generated revenue of $673,054 in 2011 compared to $526,593 in the prior year. Approximately $120,000 of the increase was generated by higher sales to existing customers while most of the remaining increase was due to one-time toll processing revenue recognized in 2011. Royalty revenue represents minimum payments on the Corporation's Granite Hill property.

	For the year ended December 31	
	2011	**2010**
Clay processing and sales	**$ 673,054**	$ 526,593
Royalty revenue	**162,643**	14,434
Rental property revenue	**22,918**	24,228
Miscellaneous revenue	**24,213**	19,374
	$ 882,828	$ 584,629

For the year ended December 31, 2011, cost of sales was $5,166,644 compared to $1,410,842 in 2010. Persistent operating losses in APM, a decrease in sales to a key customer, and the inability to secure new customers for APM's clay products caused the Corporation to assess the recoverable amount of its clay operations. As a result, an impairment loss of $3,917,790 was recognized in the fourth quarter of 2011 and charged to cost of sales.

Excluding the impairment of property, plant & equipment and share-based payments, cost of sales decreased 4% compared to 2010 even as kaolin sales increased 28%. Although variable costs associated with the operations, such as mining and hauling, repairs and maintenance, gas and electricity have increased over 2010, these were partially offset by the savings generated by APM eliminating unnecessary costs and increasing efficiency as the production process was optimized.

	For the year ended December 31	
	2011	**2010**
Depletion	**$ 39,840**	$ 41,490
Depreciation & amortization	**272,463**	319,880
Employee benefit costs	**426,171**	511,077
Share-based payments	**-**	108,028
Direct costs	**510,380**	430,367
Impairment of property, plant & equipment	**3,917,790**	-
	$ 5,166,644	$ 1,410,842

Exploration expenses totalled $3,943,421 in 2011 compared to $1,310,288 in 2010. Exploration expenses exclude costs incurred on the Corporation's Donkin and Zuun Mod projects. Costs incurred on these projects are capitalized in accordance with the Corporation's accounting policy and in 2011 amounted to $1,176,213 for Donkin and $774,056 for Zuun Mod (2010 - Donkin $1,099,027, Zuun Mod $1,641,607). As mentioned in greater detail under "Exploration Results", the Corporation carried out exploration drilling at its Nomin Tal and Altan Nar prospects in Mongolia in 2011, accounting for the majority of the increase in direct costs compared to 2010. The Corporation's 2011 coal exploration program was much smaller in scale compared to 2010. In 2010, the Corporation carried out geophysical surveys (magnetic and seismic) as well as a 2,339 metre drill program on certain coal prospects. Xstrata Coal continues to fund 100% of the Corporation's direct coal exploration costs in Mongolia in order to earn a 75% interest in any property brought into production. Partner recoveries were $313,841 in 2011 compared to $1,436,861 in 2010.

	For the year ended December 31	
	2011	**2010**
Depreciation & amortization	**$ 1,930**	$ 3,676
Employee benefit costs	**958,854**	875,675
Share-based payments	**664,637**	277,836
Direct costs	**2,631,841**	1,589,962
Partner recoveries	**(313,841)**	(1,436,861)
	$ 3,943,421	$ 1,310,288

Corporate & administrative expenses amounted to $5,632,809 for the year ended December 31, 2011 compared to $2,750,244 in 2010. $2,556,344 of the increase is due to higher non-cash share based payments made to certain officers, directors and employees of the Corporation. Employee benefit costs increased $169,758, or 21%, over 2010 due to increased salary rates, bonuses paid and additional administrative personnel. Direct costs increased by $155,515 over 2010. Most of the increase is due to participation in more conferences and trade shows, increased investor relations activities and associated corporate travel.

	For the year ended December 31			
		2011		**2010**
Depreciation & amortization	**$**	**44,309**	$	43,361
Employee benefit costs		**965,948**		796,190
Share-based payments		**3,146,422**		590,078
Direct costs		**1,476,130**		1,320,615
	$	**5,632,809**	$	2,750,244

Fourth Quarter

Mongolia

During the fourth quarter of 2011, the Corporation carried out a shallow, 20 hole, drill program (3,307 metres) on its Altan Nar prospect in Mongolia. Direct costs for the program were approximately $830,000 in the fourth quarter of 2011 and were recorded under exploration expenses. Results of the program are described further under Exploration Results.

USA

APM's application for a Conditional Use Permit to mine kaolin from its Cofer and surrounding properties in the Margarets Road area of McDuffie County, Georgia was denied by the McDuffie County Board of Commissioners at a meeting held the evening of October 18, 2011. This decision does not affect the ability of APM to supply products to its existing customers where it will continue to source the kaolin for these products from the Corporation's Tudor Mine.

On November 9, 2011, APM closed the sale of non-core assets in Eatonton, Georgia, USA, generating proceeds of approximately $345,000, and a recognizing a gain of approximately $102,000.

The Corporation recognized an impairment loss of $3.9 million on its clay assets in Georgia, USA. The loss was recognized largely as a result of APM being unable to secure sufficient sales contracts to reduce the ongoing operating losses at its Dearing, GA, facility.

Corporate

The Corporation closed a private placement financing in November and December 2011 issuing 5,479,524 shares and generating gross proceeds of $2,191,814. Cash commissions of $107,509 and $20,429 in other share issue costs were paid in conjunction with the private placement.

Other than mentioned above, there were no unusual events or items during the fourth quarter of 2011 that affected the Corporation's financial condition, cash flows or results of operations in a material nature.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2011				Fiscal 2010			
	Q4 Dec-11	Q3 Sep-11	Q2 Jun-11	Q1 Mar-11	Q4 Dec-10	Q3 Sep-10	Q2 Jun-10	Q1 Mar-10
Revenue	$187	$223	$233	$240	$211	$133	$112	$129
Loss	$5,807	$1,355	$1,876	$4,720	$1,293	$834	$1,509	$1,016
Basic and diluted loss per share	$0.05	$0.01	$0.02	$0.05	$0.02	$0.01	$0.01	$0.01
Total Assets	$46,783	$51,017	$51,260	$53,466	$54,251	$56,507	$56,632	$57,558

All financial data has been prepared in accordance with IFRS.

The Corporation's expenditures vary from quarter to quarter largely depending on the timing of its exploration and development programs. The Corporation is not aware of any other specific trends which account for fluctuations in financial results from period to period.

Liquidity and Capital Resources

The Corporation had working capital of $3,387,452 at December 31, 2011 compared to $8,326,448 at December 31, 2010, representing a $4,938,996 decrease.

During 2011, the Corporation carried out drilling on three prospects: the Khuvyn Khar copper project and the Nomin Tal and Altan Nar copper-gold prospects. The Corporation also continued to advance its core properties: the Donkin coal project and Zuun Mod molybdenum project.

Current working capital is only sufficient to fund the Corporation's budgeted expenditures until approximately the third quarter of 2012. The ability of the Corporation to continue with, or expand upon, its exploration programs is contingent upon securing equity financing or monetizing assets by the third quarter of 2012. The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Corporation's ongoing exploration programs.

The Corporation has minimal sources of income other than royalty income from its early stage aggregate properties, kaolin clay sales from its operations in Georgia, USA and interest earned on cash and GICs. It is therefore difficult to identify any meaningful trends or develop an analysis from the Corporation's cash flows. The Corporation is dependent primarily on the issuance of share capital to finance its exploration and development programs.

Other than as discussed herein, the Corporation is not aware of any trends, demands, commitments, events or uncertainties that may result in the Corporation's liquidity or capital resources materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Corporation's liquidity and capital resources will be substantially determined by the success or failure of the Corporation's two advanced stage projects (being the Donkin Coal Project and Zuun Mod Molybdenum-Copper Project), exploration and development programs on its exploration and evaluation assets and its ability to obtain sufficient equity financing.

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2011:

Contractual Obligations	Total	Less than one year	1-3 years years	4-5 years	More than 5 years
Operating leases	$210,023	$76,727	$133,296	-	-
Finance leases	341,800	8,591	333,209	-	-
Accounts payable and accrued liabilities	$1,036,247	$1,036,247	-	-	-
Total	$1,588,070	$1,121,565	$466,505	-	-

Gallant Minerals Limited is entitled to a 1.5% net smelter return royalty on Zuun Mod Project, subject to a buy-down provision.

The Corporation has an obligation of $104,751 for site restoration costs related to APM's clay operations in Georgia, USA.

Off-Balance Sheet Arrangements

As at December 31, 2011, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

Events or changes in circumstances, may give rise to significant impairment charges or reversals of impairment in a particular year.

In accordance with the Corporation's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditures. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Share-based payments

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

Fair value of financial instruments, including embedded derivatives

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Provisions for site restoration

The Corporation records provisions which include various estimates, including the Corporation's best estimate of the future costs associated with settlement of the obligation, and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change.

Taxation

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditures, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Future changes in accounting policies

IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009, addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 ("IAS 39") for debt instruments with a mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Corporation has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

IAS 1, Presentation of Financial Statements, was amended to revise the presentation of other comprehensive income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Corporation has not early adopted the amendments to IAS1 and is currently evaluating the impact on its financial statements.

The following IFRS standards have been recently issued by the IASB: IFRS 13 Fair Value Measurement, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and IAS 19 Employee Benefits. The Corporation is assessing the impact of these new standards, but does not expect them to have a significant effect on the condensed consolidated interim financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine was issued in October 2011, and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that the stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRIC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The impact of adoption of IFRIC 20 has not yet been determined.

Financial Instruments and Other Risks

The Corporation's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, accrued liabilities and obligations under finance leases. Management does not believe these financial instruments expose the Corporation to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

During the financial year ended December 31, 2011, the Corporation issued 635,000 shares, for proceeds of $459,640, on the exercise of incentive stock options. The Corporation also closed a private placement in the fourth quarter of 2011 which resulted in the issuance of 5,479,524 shares at $0.40 per share bringing the total issued and outstanding shares as of the date of this MD&A to 95,802,901.

Stock Options

For the year ended ended December 31, 2011, the Corporation granted 4,350,000 options, with an exercise price of $1.23, to certain officers, directors and employees of the Corporation. During the same period, 635,000 options with a weighted average exercise price of $0.72 were exercised and 150,000 options with a weighted average exercise price of $0.99 expired or were forfeited, leaving a total of 7,608,000 options issued and outstanding to the date of this MD&A. Of this balance, 7,377,000 were exercisable.

Exploration Results

The following is an overview of the programs carried out on the Corporation’s principal properties.

Donkin Coal Project – North America

The Corporation is a 25% joint venture partner in the Donkin Joint Venture (“DJV”) with Xstrata Coal Donkin Limited (“Xstrata Coal”). The DJV was formed to secure the rights to the Donkin Coal Project and to explore, assess, study and, if feasible, develop the high-grade Donkin coking and thermal coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia, proximal to deep water ideal for seaborne shipping into the major world markets. Xstrata Coal Donkin Management Limited (“Xstrata Management”), a related party to Xstrata, is the manager of the Donkin Coal Project.

In April 2007, the DJV received a National Instrument 43-101 compliant resource report for the Donkin Coal Project from McElroy Bryan Geological Services. The report identified a 227Mt Indicated and 254Mt Inferred high volatile A-bituminous (12,000-14,000 BTUs/lb) coal. The processed Donkin coal also has many excellent coking coal properties including low ash, medium sulphur, low phosphorus, high CSN (crucible swell number) and high fluidity.

In August 2007, the dewatering phase of the project and the subsequent tunnel clearing and refurbishing program was completed to the end of the 3,500m long twin tunnels. This represented a major milestone in the project’s development and clears the way for direct access to the Harbour Seam.

In February 2010, Xstrata Coal indicated that they intend to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is initially expected to utilize four continuous miners added incrementally over the first 18 months of production. In addition, a coal wash plant would be built on site and it is proposed that coal would be shipped from the mine site using a barge to ship system or by rail to Sydney Harbour.

In 2010, a number of key elements of the project were initiated including civil construction, engineering and pre-feasibility studies, environmental assessment studies and consultation with government officials. Mining consulting firm Marston & Marston Inc. (“Marston”) was engaged to complete an independent NI 43-101 compliant review of the pre-feasibility study of the revised project scope. Marston is an international full-service mine consulting firm headquartered in St. Louis, Missouri with extensive experience in open pit and underground coal mines.

On June 30, 2011, the Corporation announced the receipt of a NI 43-101 compliant technical report for the Donkin Project (the “Report”) from Marston. The purpose of the Report is to present the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Xstrata Coal and the reserves defined by the PFS. The Report assesses the viability of a multiple continuous miner ("CM") underground operation, producing approximately 3.5 million tonnes per year ("Mtpa") Run of Mine ("ROM") coal that would be subsequently washed to provide 2.75 Mtpa of product coal suitable for the international export coking and thermal coal markets and domestic thermal coal markets. The Report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concludes that Donkin has a $1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately $500 million and demonstrates the potential for first quartile operating costs.

The coal quality of the Harbour Seam is characterized by low ash, high energy, high vitrinite content, high fluidity, high crucible swell number ("CSN") and elevated levels of sulfur. Subject to further coal testing, approximately 75% of product coal from Donkin is targeted to be marketed as a coking coal blend into international coking coal markets with the remaining 25% expected to be marketed to domestic and international thermal coal markets.

The Report restates the coal resources for the Hub and Harbour Seams at Donkin with no change from previously reported resource estimates. The Report also classified a portion of the resources for the Hub and Harbour Seams as reserves. The Indicated Resources for the Hub and Harbour Seams are 73 million tonnes ("Mt") and 101 Mt respectively, for a total Indicated Resource of 174 Mt. Included in these resource numbers are 28 Mt and 30 Mt of Probable Reserves from the Hub and Harbour Seams, respectively, for a total of 58 Mt of Probable Reserves. The effective date for the resource and reserve estimates is May 2011. There are sufficient Reserves at Donkin for the first 20 years of mining. These form the basis of the economic analysis. No Inferred tonnages are included in the economic analysis.

In June 2011, a draft Project Description document was filed with Federal and Provincial regulators. This is the initial step in the Environmental Assessment ("EA") process. The document seeks approval for the 2.75 Mtpa export coking and thermal coal underground mine. On November 14, 2011, the Canadian Environmental Assessment Agency (“CEA Agency”) announced their decision that the Donkin Export Coking Coal Project is to undergo a comprehensive-study-type environmental assessment. The CEA Agency prepared and released draft Environmental Impact Statement (“EIS”) Guidelines for the project which will guide the EIS preparation and identify minimum information requirements. The public was invited to submit comments to the CEA Agency by December 29, 2011. The CEA Agency prepared draft

Environmental Impact Statement ("EIS") guidelines and invited public comment. In early February 2012, the CEA Agency issued final EIS Guidelines for the project to Xstrata Management. The EIS guidelines provide minimum information requirements for the preparation of the EA documents.

The feasibility stage will include the initial phase of mining, referred to as the exploration phase. The intent is to deploy one CM section in the Harbour Seam one year after securing an off-take agreement for the ROM coal. The exploration phase will provide the opportunity to collect multiple Harbour Seam bulk samples for testing the coal quality, geotechnical information on the roof, floor and coal, data on structures and gas desorption and underground drilling from the Harbour Seam will allow for collection of data for all categories within the Hub Seam. The additional geological and geotechnical information as well as the results of bulk sample testing by potential customers, will provide information necessary to finalize the mine and plant design and the ultimate production including an evaluation of the viability of using longwall mining equipment. Included in this study would be continued work on the studies, plans, permits and licenses necessary to start construction and operate the mine. The feasibility study is estimated to cost $94.2 million and is forecasted to be conducted over a 24-month period. The estimated cost includes tunnel rehabilitation, exploration mining along with the cost of the mining equipment and the study. The schedule for this initial development is partially dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the feasibility study and receipt of all government approvals.

Zuun Mod Molybdenum Project – Mongolia

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in Bayankhongor Province, Mongolia, approximately 950km southwest of Ulaanbaatar and 215km from railhead on the Mongolia-China border at Ceke. The railhead is located 20km south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of a Mining License totaling 6,041 hectares and a pending Mining License application totaling 358 hectares. The Mining License is registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

Since acquiring the Zuun Mod property, the Corporation has carried out a staged exploration program. This program has included a phased resource delineation drilling program which resulted in the identification of three mineralized zones (South Racetrack, North Racetrack and Stockwork) with potentially economic concentrations of molybdenum, with associated copper mineralization, within the 3.5km long area referred to as the South Corridor. The Corporation retained the services of MMC to carry out an independent resource estimate for the Zuun Mod Molybdenum Project. In May 2008, the Corporation received the first NI 43-101 compliant resource report for the project from MMC and established Zuun Mod as one of the largest and most advanced pre-development molybdenum projects in the North Asia Region.

Subsequent to the May 2008 resource estimate, the Corporation continued to carry out additional drilling designed to better defining localized higher grade zones and enlarging the overall deposit, both vertically and laterally. A second, updated resource estimate was completed by MMC in June 2009. In 2009 and 2010, the Corporation continued to carry out additional drilling designed to better determine the continuity of the Zuun Mod resource to a depth of 500m and to provide more detailed information on areas of higher grade mineralization expected to be initially developed for mining.

In February 2011, the Corporation released the final results of the 2010 drilling program. These included the expansion of higher grade molybdenum (“Mo”) and copper (“Cu”) zones within the Racetrack deposits and new higher grade molybdenum and copper zones discovered at depth. Included in these results was a newly identified high-grade zone intersected in hole ZMD-51. This hole intersected 118m (362m to 480m) of 0.106% Mo and 0.098% Cu. Overall ZMD-51 averaged 0.061% Mo and 0.072% Cu over the 432m mineralized section (68m to 500m). The high-grade zone in ZMD-51 can be correlated with higher-grade zones in surrounding new and previously drilled holes.

Once again Minarco was contracted to update the resource estimate. In early June, 2011, the Corporation released the new May 2011 Zuun Mod molybdenum-copper deposit NI 43-101 compliant resource estimate which has a Measured and Indicated ("M&I") resource of 218 million tonnes ("Mt") at an average grade of 0.057% Mo, and 0.069% Cu at a cut-off grade ("cog") of 0.04% Mo. This equates to 273.5 million pounds ("M lbs") of contained Mo metal and 330.7 M lbs of contained Cu metal. In addition, there is a 168 Mt Inferred Resource at an average grade of 0.052% Mo and 0.065% Cu, equating to a further 191.8 M lbs of contained Mo metal and 240.5 M lbs of contained Cu metal.

Compared with the June 2009 resource estimate, the May 2011 resource estimate shows that the M&I resource increased significantly to 218 Mt from 180 Mt at a 0.04% Mo cog, a 21% increase. Much of the drilling was concentrated in the South Racetrack deposit where the high-grade zone was extended to 500m depth. The contained metal within the M&I resource of both the South Racetrack deposit and the North Racetrack deposit high-grade zones (0.04% cog) increased by 25% for molybdenum (grading 0.058% Mo) and 26% for copper (grading 0.071% Cu) to 245 M lbs and 300 M lbs respectively.

Since 2009, the Corporation has been working on a number of technical and engineering studies on various aspects of the Zuun Mod project including an environmental and social economic baseline study, a geological report and resource estimate, for submission to the Mongolian Mineral Resource Council, hyrdro-geologic drilling to identify a source for process water, metallurgical test work, a 3D data compilation project and additional geophysical surveys. The Corporation's independent technical consultant, Minarco, carried out work on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates.

Work on the pit optimization study continued until the end of 2011 and is still ongoing. Once completed this study will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2012/2013.

In 2010, the Zuun Mod molybdenum-copper deposit was officially registered by the Mongolian Minerals Resource Council, a prerequisite for applying for a mining license. During the first quarter of 2011, the Corporation applied for a Mining License for Zuun Mod property and in the second quarter a Mining License was granted to the Corporation by the Mongolian Government. The Zuun Mod Mining License covers an area of 6,041 hectares and contains the South Racetrack and North Racetrack deposits, which hosts all of the M&I resources at Zuun Mod. The Mining License is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. Approval of an application for a second contiguous Mining License, south of the approved Mining License, is awaiting a decision by the Government of Mongolia on the definition of the boundaries of a water protection area overlapping the license area. This license application covers 358 hectares and contains the Stockwork deposit which hosts 17.8% of the Inferred resource at Zuun Mod.

The Zuun Mod property covers a large porphyry system and while the majority of the work to date has concentrated on defining the main molybdenum-copper deposit, the Corporation has continued to evaluate exploration targets on the remainder of the property. One such target is the Khuvyn Khar copper prospect located 2.2km northwest of the Zuun Mod deposit and located within the boundaries of the new Mining License.

In February 2011, the Corporation released the final results of the 2010 drilling program including data from the Khuvyn Khar copper prospect. Hole ZMD-121, which was drilled to test a geophysical target, intersected 34m of 1.3% copper and 9.24g/t silver from 308m to 342m. This drill hole is located within an area that exhibits intense alteration and copper geochemical anomalies on surface and in previous intersections from limited drilling in the vicinity. During the second quarter, the Corporation announced the results of a follow-up drilling program that was carried out over the Khuvyn Khar copper prospect. This program was successful in defining a very large copper mineralized zone trending over 900m with multiple zones in three drill holes in excess of 0.2% copper. This zone remains untested to the south where it trends under andesite cover.

Regional Coal and Metals Exploration Programs - Mongolia

Coal Project

The Corporation is involved in a comprehensive coal generative program, in cooperation with Xstrata Coal (the “Erdene-Xstrata Coal Alliance”), evaluating numerous prospective metallurgical and high quality thermal coal deposits throughout Mongolia. All of the Corporation’s coal exploration in Mongolia is fully funded by Xstrata Coal and is being carried out in consultation with Xstrata Management personnel.

As part of this program, the Corporation has visited over one hundred coal sites throughout Mongolia and has compiled an extensive database on coal deposits, occurrences, prospective stratigraphy and sedimentary basins allowing for a prioritization of targets. In 2010, the Corporation carried out due diligence work on behalf of the Erdene-Xstrata Coal Alliance in addition to completing the fieldwork portion of the 2010 exploration program.

Throughout 2011, the Corporation continued its program of monitoring and evaluating opportunities to acquire new coal projects in Mongolia on behalf of the Erdene-Xstrata Coal Alliance.

Metals Project – Copper-Gold-Molybdenum

In 2009, the Corporation carried out a comprehensive regional exploration program for porphyry related copper-gold-molybdenum mineralization within the same geologic and tectonic terrane that hosts the Zuun Mod molybdenum deposit in southwestern Mongolia. The program covered an area of 35,000 square kilometres in 2009 and included interpretation of Landsat data, a regional-scale stream sediment geochemical survey, geological prospecting and rock-chip geochemical sampling. This program resulted in the identification of a number of new copper-gold-molybdenum porphyry targets.

Throughout 2010, the Corporation expanded the regional exploration program started in 2009, assessing large areas of Mongolia for their potential to host porphyry related mineral deposits. Field work for the metals exploration program focused on evaluating newly acquired exploration licenses, follow-up of anomalous results from the 2009 regional exploration program and expansion of the southwest regional porphyry evaluation program.

In 2011, the Corporation continued to expand its program of regional exploration to identify areas, principally in southern Mongolia, with the potential to host porphyry related copper-gold-molybdenum mineralization.

One of the exploration licenses acquired in 2009 was the Tsenkher Nomin property. Exploration work on this license has identified a number of previously unknown gold and base metal mineral occurrences. The Corporation has carried out initial scout drilling on two of these prospects (Nomin Tal and Altan Nar) and has reported the encouraging initial results.

The Nomin Tal prospect includes previously undocumented ancient workings (shallow pits). Samples from these pits returned an average of 2.2% copper and 1.7g/t gold from several samples taken over a strike length of 250m. Drilling at Nomin Tal in 2011 identified narrow, steeply dipping, parallel zones of high-grade gold, silver and copper bearing massive sulphide along a north-south mineralized structure over a strike length of approximately 750m and to a vertical depth between 30m to 60m. Assay results included 2.7 g/t gold, 0.9% copper and 6 g/t silver over 6m (TND-06); 0.2g/t Au, 3.2% Cu and 8g/t Ag over 3m (TND-05); 0.7g/t Au, 1.8% Cu and 5 g/t Ag over 8m (TND-02); and 0.55 g/t gold, 0.60% copper and 0.07% molybdenum over 3.45m (TND-8).

The Altan Nar prospect is located 2.5km southwest of Nomin Tal and consists of a broad polymetallic-gold-in-soil anomaly identified during a regional soil survey which was initiated after the discovery of gold-copper mineralization at Nomin Tal. The soil sampling program at Altan Nar has outlined a 3km by 2km area with highly anomalous values for gold (up to 1.5g/t) and lead (up to 2.6%) and associated anomalies for zinc, molybdenum, silver and copper. Follow-up mapping and rock-chip geochemistry has confirmed the presence of multiple prospects, containing gold-bearing epithermal-style quartz veins, within the large soil anomaly at Altan Nar. Geophysical surveys (magnetic and IP dipole-dipole and gradient array) over the Altan Nar prospect outlined anomalies proximal to polymetallic-gold-in-soil anomalies and epithermal veins at surface that were used to guide the initial scout-drilling program.

A 24-hole, 3,713m scout drilling program was carried out in the second half of 2011 at Altan Nar. The presence of anomalous gold-bearing mineralized zones in 15 of the 24 holes (TND-09, 10, 11, 12, 15, 16, 17, 18, 19, 25, 28, 29, 30, 31, 32), many located within wider zones of lead and zinc mineralization, confirmed the widespread nature of the Altan Nar mineralized system. In the few areas where multiple holes have been drilled in close proximity, assay results have confirmed the lateral and vertical continuity of mineralized zones. Hole TND-19 was drilled 50m below the gold mineralization intersected in TND-09 (55m of 1.02g/t Au and 12g/t Ag), and intersected 29m averaging 4.3g/t Au and 24.1g/t Ag, indicating an increase in intensity of gold mineralization at depth. Gold-polymetallic mineralization intersected in holes TND-09, 10, 11, 12, 18, 19 and 28 are located along a northeast-trending magnetic low feature, and have coincident gold- and base-metal-in-soil anomalies, suggesting a single or multiple mineralized zones over a 300m strike length. This area is referred to as the 'Discovery Zone'. The lateral and vertical extent of mineralization intersected in isolated, or widely spaced, drill holes (e.g. TND-25, 29, 30, 32) remains untested by drilling.

Ongoing work for the Altan Nar project includes a review of all technical data in preparation for the 2012 exploration program. Detailed mineralogical and petrographic studies are currently being carried out to determine characterization the ore mineralogy in preparation for future geological and metallurgical studies. The 2012 field program is expected to start in early April and will include delineation drilling of the Discovery Zone, additional scout drilling to follow-up on encouraging preliminary drill-results as well as a number of geochemical and geophysical targets that remain untested by drilling. Additional field work, including close-spaced soil and rock geochemical sampling and geophysical surveys, is expected to start in the second quarter, once ground conditions permit.

Advanced Primary Minerals - Georgia, U.S.A.

As a result of an aggressive exploration and acquisition program in the late 1990s, APM acquired a large high brightness primary kaolin (clay) resource through its U.S. subsidiary, APMUSA. APMUSA's in-ground, "premium" quality, primary kaolin resource in Georgia has a total NI 43-101 compliant resource of 16.1 million tons (M&I).

APM's primary kaolin products meet or exceed the quality of comparable foreign imports and domestic sources. APM looks to develop its unique, high quality primary clay deposits to focus on small to moderate-volume opportunities with high-margin specialty products. Proximity to domestic markets and elimination of foreign exchange risk add a competitive advantage over comparable foreign imports. Kaolin is used in the manufacture of value-added products for the ceramics, paint, paper, coatings and catalytic industries as well as specialty applications.

In 2009, APM completed construction of a processing plant in Dearing, Georgia, to produce primary kaolin products for the U.S. market. The plant is processing clay from the Tudor primary kaolin deposit which was permitted for mining in April 2009.

In the fourth quarter of 2011, APM announced its application for a Conditional Use Permit to mine kaolin from its Cofer and surrounding properties in McDuffie County, Georgia was denied by the McDuffie County Board of Commissioners. This decision does not affect the ability of APM to supply products to its existing customers which are sourced from its Tudor Mine. The unpermitted McDuffie Country properties account for 10.9 of the 16.1 Mt of M&I resource.

Persistent operating losses in APM, and the inability to secure new customers for APMs clay products, caused the Corporation to assess the recoverable amount of its clay operations. This analysis resulted in an impairment charge of $3,917,790 recorded in cost of sales.

Granite Hill Project (Sparta Quarry) - Georgia, U.S.A.

The Corporation's Granite Hill project (also known as the "Sparta Quarry") is a producing granite aggregate quarry in central Georgia. The Corporation, through its subsidiary ERD Aggregate Corp, owns the 342-acre property, which holds a resource in excess of 120 million tons situated on an existing rail line. In 2009, the property was under mining lease to Ready-Mix USA which completed permitting and initiated site preparation including overburden removal.

In early 2010, through the acquisition of Ready-Mix USA and Aggregates USA, the operation of the Granite Hill Project came under the control of SPO Partners ("SPO"), a private California based investment company. As a result of the acquisition, Aggregates USA (Sparta), LLC ("AUSA") is now party to the mining lease agreement with the Corporation. In 2010, AUSA announced a production decision and has made the Sparta Quarry Project one of its top priority new developments.

Construction work on the Granite Hill site started in the second half of 2010 and continued throughout 2011. This work included installation of all processing equipment (including primary and secondary crushers, conveyors and stalkers), roads, buildings, and rail loadout tunnel and bins. A rail-line was also completed and included the construction of an overpass on Georgia Highway 16, linking the property to an existing rail-line. AUSA is responsible for fully funding all capital and operating costs for the project. The quarry has been constructed to a design capacity of greater than 2 million tonnes of product per annum. All on-site construction work was completed by the end of 2011 and commercial production commenced in January 2012. AUSA's target market is the southeastern U.S.

Under the mining lease, the Corporation has granted an exclusive right to AUSA to mine, process, and sell aggregate from the Granite Hill property. The sale of all aggregate from the property is subject to an industry competitive royalty payable to the Corporation.

Disclosure Controls and Internal Controls over Financial Reporting

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at December 31, 2011 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2011.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Outlook

General

The Corporation has working capital sufficient to meet its budgeted expenditures until the third quarter of 2012. The ability of the Corporation to continue its exploration programs beyond this is contingent upon securing equity financing, assets sales or a combination of both.

Management’s long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits in Mongolia; and the development of its coal and industrial mineral interests in North America.

Management’s short term focus is financing and creating greater value in the Corporation by undergoing a strategic review of various options including a spin-off of Mongolian assets, sale of subsidiaries, strategic investments, project financing and other corporate and financial transactions.

Donkin

In June 2011, the Corporation received a National Instrument 43-101 compliant Technical Report for the Donkin Coal Project prepared by Marston & Marston, Inc. of St. Louis, Missouri (the “Report”). The Report presents the results of the Pre-feasibility Study (“PFS”) on the Donkin Export Coking Project prepared by Xstrata Coal and confirms the technical economic viability of the project and supports advancing the project to the next phase. The PFS concludes that Donkin has a $1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately $500 million and demonstrates the potential for first quartile operating costs.

A full feasibility study is estimated to cost $94.2 million and is forecast to be conducted over a 24-month period. The estimated cost includes tunnel rehabilitation, exploration mining along with the cost of the mining equipment and the study. The schedule for this initial development is dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the Feasibility Study and receipt of all government approvals.

Since the release of the PFS, the share price of the Corporation has decreased significantly. Some of this reduction is attributable to general market uncertainty and fluctuations in commodity prices. To the extent a portion of this reduction pertains to the Donkin project, management is of the opinion it is due to delays in the progress of the project and the lack of specific direction as to the timing and extent of the next phase of development on part of the operating partner. Management expects to provide greater clarity on the future direction of the project in the second quarter of 2012.

Zuun Mod

On June 2, 2011, the Corporation released the results of a new NI 43-101 compliant report by independent technical consultants, MMC. The report included an increase in the M&I resources by 38 million tonnes as well as an increase in the average grade.

Erdene continues to carry out additional technical and economic studies, components of an overall project economic evaluation study expected to be complete in the first half of 2012.

Qualified Person

J. Christopher Cowan, P.Eng., is a qualified person under NI 43-101 and supervises all of the Corporation's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation's properties has been reviewed by J. Christopher Cowan, P.Eng., who is not independent of the Corporation.

Other Information

Additional information regarding the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com and on the Corporation's website at www.erdene.com.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

(Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Erdene Resource Development Corporation has no significant sources of revenue and does not have sufficient capital to fund its operations beyond the third quarter of 2012 unless it can secure additional equity financing or monetize assets. These conditions along with other matters set forth in note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
Halifax, Canada
March 28, 2012

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position
(Canadian dollars)

	Notes		December 31, 2011		December 31, 2010		January 1, 2010
ASSETS					**(Note 29)**		**(Note 29)**
Current assets:							
Cash and cash equivalents	**7**	$	**4,104,350**	$	8,379,230	$	13,764,186
Available-for-sale financial assets			**-**		-		232,437
Trade and other receivables	**8**		**242,851**		800,221		403,027
Prepaid expenses			**70,259**		69,837		80,728
Inventory			**14,830**		-		-
			4,432,290		9,249,288		14,480,378
Non-current assets:							
Exploration and evaluation assets	**9**		**32,313,187**		30,882,674		30,679,866
Property, plant and equipment	**10**		**5,037,361**		9,118,646		6,851,770
Reclamation bond			**-**		-		12,625
Goodwill	**11**		**5,000,000**		5,000,000		5,000,000
			42,350,548		45,001,320		42,544,261
TOTAL ASSETS		**$**	**46,782,838**	**$**	54,250,608	$	57,024,639
LIABILITIES & EQUITY							
Current liabilities:							
Trade and other payables		$	**1,036,247**	$	918,252	$	483,511
Current portion of obligations under finance leases	**12**		**8,591**		4,588		6,465
			1,044,838		922,840		489,976
Non-current liabilities:							
Obligations under finance leases	**12**		**333,209**		320,160		384,018
Provision for restoration costs	**14**		**104,751**		-		-
Deferred tax liability	**15**		**4,916,034**		4,916,034		4,916,034
			5,353,994		5,236,194		5,300,052
TOTAL LIABILITIES		$	**6,398,832**	$	6,159,034	$	5,790,028
EQUITY							
Shareholders' equity:							
Share capital	**17**	$	**75,186,822**	$	72,325,969	$	71,965,457
Contributed surplus			**10,500,956**		7,012,557		6,155,222
Accumulated other comprehensive income (loss)			**(360,078)**		22,671		136,603
Deficit			**(42,874,792)**		(31,012,681)		(27,063,373)
			42,452,908		48,348,516		51,193,909
Non-controlling interest			**(2,068,902)**		(256,942)		40,702
TOTAL EQUITY		$	**40,384,006**	$	48,091,574	$	51,234,611
TOTAL LIABILITIES AND EQUITY		$	**46,782,838**	$	54,250,608	$	57,024,639

Going concern (Note 2)

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

Approved on behalf of the Board:

Signed "Kenneth W. MacDonald"
________________________________ Director

Signed "David S.B. Carnell"
________________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION
Consolidated Statements of Loss
(Canadian dollars)

	Notes	For the year ended December 31, 2011	2010
Revenue	**19**	**$ 882,828**	$ 584,629
Cost of sales	**20**	**5,166,644**	1,410,842
		(4,283,816)	(826,213)
Exploration expenses	**21**	**3,943,421**	1,310,288
Corporate and administration	**22**	**5,632,809**	2,750,244
Other expenses	**23**	**-**	24,493
Other income	**24**	**(89,767)**	(105,858)
Foreign exchange loss		**14,306**	43,274
Loss from operating activities		**(13,784,585)**	(4,848,654)
Finance income	**25**	**82,574**	270,535
Finance expense	**25**	**(40,441)**	(35,283)
Net finance income		**42,133**	235,252
Income tax expense	**15**	**(15,919)**	(38,285)
Net loss		**$ (13,758,371)**	**$ (4,651,687)**
Net loss attributable to:			
Equity holders of the Corporation		**(11,861,320)**	(4,088,680)
Non-controlling interest		**(1,897,051)**	(563,007)
		$ (13,758,371)	$ (4,651,687)
Basic and diluted earnings per share		**$ (0.13)**	$ (0.05)
Basic and diluted weighted average number of shares outstanding		**90,726,635**	89,257,772

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss
(Canadian dollars)

	Notes	For the year ended December 31, 2011	2010
Net loss		**$ (13,758,371)**	$ (4,651,687)
Other comprehensive (loss)			
Unrealized (loss) on available for sale marketable securities recognized in income		**-**	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries		**(296,867)**	(121,437)
Other comprehensive loss		**(296,867)**	(258,040)
Total comprehensive loss		**$ (14,055,238)**	$ (4,909,727)
Total comprehensive loss attributable to:			
Equity holders of the Corporation		**(12,244,069)**	(4,202,612)
Non-controlling interest		**(1,811,169)**	(707,115)
		$ (14,055,238)	$ (4,909,727)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Attributable to equity holders of the Corporation					
	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Non-controlling interests	Total equity
Balance at January 1, 2010	$ 71,965,457	$ 6,155,222	$ 136,603	$ (27,063,373)	$ 40,702	$ 51,234,611
Total comprehensive loss for the period:						
Net loss	-	-	-	(4,088,680)	(563,007)	$ (4,651,687)
Other comprehensive loss	-	-	(113,932)	-	(144,108)	$ (258,040)
Change in share subscription receivable (Note 27)	10,601	-	-	-	-	10,601
Share-based payments	-	999,642	-	-	-	999,642
Stock options exercised	349,911	(142,307)	-	-	-	207,604
Total transactions with owners	360,512	857,335	-	-	-	1,217,847
Reduction in ownership of APM (Note 28)	-	-	-	139,372	409,471	548,843
Balance at December 31, 2010	$ 72,325,969	$ 7,012,557	$ 22,671	$ (31,012,681)	$ (256,942)	$ 48,091,574
Total comprehensive loss for the period:						
Net loss	$ -	$ -	$ -	$ (11,861,320)	$ (1,897,051)	$ (13,758,371)
Other comprehensive loss:	-	-	(382,749)	-	85,882	(296,867)
Private placement net of share issue costs	2,063,876	-	-	-	-	2,063,876
Change in share subscription receivable (Note 27)	14,677	-	-	-	-	14,677
Share-based payments	-	3,811,059	-	-	-	3,811,059
Stock options exercised	782,300	(322,660)	-	-	-	459,640
Total transactions with owners	2,860,853	3,488,399	-	-	-	6,349,252
Reduction in ownership of APM (Note 28)	-	-	-	(791)	(791)	(1,582)
Balance at December 31, 2011	$ 75,186,822	$ 10,500,956	$ (360,078)	$ (42,874,792)	$ (2,068,902)	$ 40,384,006

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

	Notes	For the year ended December 31, 2011	2010
Cash flows from operating activities:			
Net loss		**$ (13,758,371)**	$ (4,651,687)
Item not involving cash:			
Depreciation and amortization		**318,702**	366,917
Depletion of resource property interest		**39,840**	41,490
Stock-based compensation		**3,811,059**	999,642
Impairment of resource properties		**-**	15,466
Impairment of property, plant & equipment	**10**	**3,917,790**	-
Gain on sale of exploration & evaluation assets		**-**	(105,858)
Gain on sale of property, plant & equipment and resource property interests		**(89,767)**	-
Net finance income		**(42,133)**	(235,252)
Income tax expense		**15,919**	38,285
Income taxes paid		**(15,919)**	(38,285)
Foreign exchange (gain) loss		**(2,403)**	50,435
Change in non-cash working capital		**675,798**	48,438
Cash flows from operating activities		**(5,129,485)**	(3,470,409)
Cash flows from financing activities:			
Issue of common shares for cash, net of issue costs		**2,063,876**	-
Issue of APM common shares for cash, net of issue costs		**-**	548,843
Proceeds from exercise of stock options		**459,640**	207,604
Changes in ownership of subsidiary that		**-**	
do not result in a loss of control		**(1,582)**	-
Proceeds on repayment of share subscription receivable		**12,000**	8,000
Repayment of obligations under capital lease		**(5,960)**	(65,735)
Interest paid		**(8,192)**	(35,283)
Cash flows from financing activities		**2,519,782**	663,429
Cash flows from investing activities:			
Proceeds on sale of marketable securities		**-**	276,432
Expenditures on exploration and evaluation assets		**(2,019,746)**	(2,790,526)
Proceeds on sale of property, plant and equipment		**324,732**	105,858
Expenditures on property, plant and equipment		**(66,310)**	(224,439)
Refund of reclamation bond		**-**	12,625
Interest received		**82,574**	92,509
Cash flows from investing activities		**(1,678,750)**	(2,527,541)
Effect of exchange rate change on cash and cash equivalents		**13,573**	(50,435)
Decrease in cash and cash equivalents		**(4,274,880)**	(5,384,956)
Cash and cash equivalents, beginning of period		**8,379,230**	13,764,186
Cash and cash equivalents, end of period		**$ 4,104,350**	$ 8,379,230

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

1. Nature of operations and continuance of operations:

Erdene Resource Development Corporation (the "Corporation") is a Corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The consolidated financial statements of the Corporation as at and for the year ended December 31, 2011 and 2010 comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the discovery of large tonnage, low cost, gold, copper, molybdenum and coal deposits primarily in Mongolia; and the development of coal and industrial mineral interests in North America.

2. Going concern:

These consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, as described in the following paragraphs.

The Corporation is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Corporation experienced significant losses and negative cash flows from operations in 2011 and 2010. The Corporation had working capital of $3,387,452 at December 31, 2011 compared to $8,326,448 at December 31, 2010, representing a $4,938,996 decrease. Current working capital is sufficient to fund the Corporation's budgeted expenditures only until approximately the third quarter of 2012. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

These consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying values of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

3. Basis of presentation and first-time adoption of IFRS

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These are the Corporation's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied.

3. Basis of presentation and first-time adoption of IFRS (continued)

a) Statement of compliance (continued)

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 29.

The consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2012.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis expect for available-for-sale financial assets measured at fair value.

Items included in the financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Erdene Resource Development Corporation.

c) Use of estimates and judgments

The preparation of the financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimate of recoverability for non-financial assets

Events or changes in circumstances, may give rise to significant impairment charges or reversals of impairment in a particular year.

In accordance with the Corporation's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset

3. Basis of presentation and first-time adoption of IFRS (continued)

c) Use of estimates and judgments (continued)

Estimate of recoverability for non-financial assets (continued)

in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditure. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Share-based payments

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

Fair value of financial instruments, including embedded derivatives

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Provisions for site restoration

The Corporation records provisions which include various estimates, including the Corporation's best estimate of the future costs associated with settlement of the obligation, and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change.

3. Basis of presentation and first-time adoption of IFRS (continued)

c) Use of estimates and judgments (continued)

Taxation

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by all subsidiaries of the Corporation.

a) Basis of consolidation

The consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Tamerlane International Limited (Bermuda); Erdene Mongol XXK and Anian Resources XXK (Mongolia); Erdene Resources Inc., 6531954 Canada Limited and Advanced Primary Minerals Corporation ("APM") (Canada) 60% (2010 – 60%); Advanced Primary Minerals USA Corp. ("APMUSA") 60% (2010 – 60%) and ERD Aggregate Corporation (Delaware). All subsidiaries are wholly owned unless otherwise indicated.

i) Business combinations

The Corporation measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

4. Summary of significant accounting policies (continued)

a) Basis of consolidation (continued)

i) Business combinations (continued)

The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

ii) Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transitions with equity holders. Therefore, no goodwill is recognized as a result of such transactions. Non-controlling interests are allocated their share of net profit after tax in the statements of loss and comprehensive loss and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the Corporation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

iii) Subsidiaries

Subsidiaries are those entities over which the Corporation has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Corporation controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Corporation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the parent Corporation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation and cease to be consolidated from the date on which control is transferred out of the Corporation. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

iv) Transactions eliminated on consolidation

Inter-Corporation balances and transactions, and any unrealized income and expenses arising from inter-Corporation transactions, are eliminated in preparing the consolidated financial statements.

4. Summary of significant accounting policies (continued)

b) Foreign currency

i) Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for: exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from cumulative translation account to profit or loss on repayment of the monetary items.

ii) Foreign operations

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each income statement presented are translated at monthly average exchange rates; and
- all resulting exchange differences are recognized as a separate component of equity (“cumulative translation account”)

On the loss of control of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in the cumulative translation account in equity.

c) Financial instruments

i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they originate. All other financial assets are recognized initially on trade date at which the Corporation becomes party to the contractual provision of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

4. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

i) Financial assets (continued)

The Corporation has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less on the date they are acquired by the Corporation.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. The Corporation's investments in the equity securities of other entities are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments.

ii) Financial liabilities

The Corporation initially recognizes other financial liabilities on the trade date at which the Corporation becomes party to the contractual provisions of the instrument.

The Corporation derecognizes financial liabilities when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following non-derivative other financial liabilities: trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

4. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

d) Inventory

Inventory is stated at the lower of cost or net realizable value and represents costs that are incurred in the process of mining and hauling crude clay from the Tudor mine and stockpiling at the plant prior to processing. The costs are removed and transferred to cost of sales as the stockpiled clay is processed.

e) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time a property, or an area's potential has been determined, in which case subsequent exploration and evaluation costs are capitalized.

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount, in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

4. Summary of significant accounting policies (continued)

f) Property, plant and equipment

Recognition and measurement

Land is stated at historical cost. All items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation of property, plant and equipment is calculated using the declining balance method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of certain leased plant and equipment, the shorter lease term at the following rates:

Asset	Basis	Rate
Building	Declining balance	10%
Equipment, furniture & fixtures	Declining balance	20%
Plant equipment and leaseholds	Declining balance	20%
Software & computers	Declining balance	33%
Vehicles	Declining balance	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Resource properties

Resource properties include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, and development assets also includes subsequent costs to develop the mine to the production phase.

Depletion of resource properties is calculated on the basis of units of production and commences when the mine starts commercial production. Depletion is based on assessments of measured and indicated resources and a proportion of mineral resources available to be mined by the current production equipment.

4. Summary of significant accounting policies (continued)

g) Impairment

i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. Impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, excluding exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at least once each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating-unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

4. Summary of significant accounting policies (continued)

ii) Non-financial assets (continued)

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to the goodwill and then to the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Exploration assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment loss is recognized for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. Where the assets are not associated with a specific cash generating unit, the recoverable amount is assessed using fair value less cost to sell for the specific exploration area.

h) Lease payments

Determining whether an arrangement is, or contains a lease, is based on the substance of the arrangement, and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to control the asset.

Leases where the lessee assumes substantially all of the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the lower of the estimated present value of the underlying lease payments and the fair value of the asset. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding.

The corresponding rental obligations, net of finance charges, are included in other long-term and short-term payables, respectively. The interest element is expensed to the income statement, as a finance expense, over the lease period.

The property, plant and equipment acquired under finance leasing contracts is amortized in terms of the Corporation accounting policy limited to the lease contract term.

Leases of assets under which substantially all the benefits and risks of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the life of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

4. Summary of significant accounting policies (continued)

i) Provisions for site restoration

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost

j) Flow-through shares

The Corporation has financed a portion of its exploration activities through the issue of flow-through shares. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the closing market price of the Corporation's common shares is allocated to liabilities.

Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and deferred tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. The premium liability is reduced pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction to the premium is recognized through profit or loss as other income.

k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

4. Summary of significant accounting policies (continued)

k) Income taxes (continued)

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortization and depreciation on property, plant and equipment, tax losses carried forward and fair value adjustments on assets acquired in business combinations.

l) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at fair value of the equity instruments at the date of grant. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no-true-up for differences between expected and actual outcomes.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

m) Revenue

The Corporation recognizes revenue when the amount of revenue and costs associated with the transaction can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue is recognized when the risks and rewards of ownership are transferred and when the entity no longer has any managerial involvement over goods. Consequently sales are recognized when a Corporation entity has delivered products to the customer and collectability of the related receivables is reasonably assured. Revenue is reported net of discounts and pricing adjustments.

n) Finance income and expenses

Finance income comprises interest income on funds invested and gains on the disposal of available-for-sale financial assets. Interest income is recognized in earnings as it accrues, using the effective interest method. Finance expense comprises interest expense of borrowings.

Borrowing costs are capitalized when such costs are attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. Other borrowing costs that are not directly attributable to qualifying assets are expensed in the period incurred.

4. Summary of significant accounting policies (continued)

o) Earnings per share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares. All share options are currently anti-dilutive. As a result basic and diluted earnings per share are the same.

5. Future changes in accounting policies

IFRS 9 Financial instruments (“IFRS 9”) was issued by the IASB on November 12, 2009, addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 (“IAS 39”) for debt instruments with a mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Corporation has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

IAS 1, Presentation of Financial Statements, was amended to revise the presentation of other comprehensive income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Corporation has not early adopted the amendments to IAS 1 and is currently evaluating the impact on its financial statements.

The following IFRS standards have been recently issued by the IASB: IFRS 13 *Fair Value Measurement*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities* and IAS 19 *Employee Benefits*. The Corporation is assessing the impact of these new standards, but does not expect them to have a significant effect on the consolidated financial statements.

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* was issued in October 2011, and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that the stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRIC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The impact of adoption of IFRIC 20 has not yet been determined.

(Canadian dollars)

6. Financial instruments

Credit Risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	**$ 4,104,350**	$ 8,379,230	$ 13,764,186
Trade and other receivables	**242,851**	800,221	403,027
	$ 4,347,201	$ 9,179,451	$ 14,167,213

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2011, less than 3% of the balance of cash and cash equivalents was held in banks outside Canada (2010 - 2%).

Trade and other receivables includes exploration partner recovery which was concentrated with a single company, Xstrata Coal, a large multinational mining conglomerate. Xstrata accounted for 57% of trade and other receivables in 2011 (2010 – 74%). Management believes the credit risk on amounts receivable is low. Other receivables include amounts receivable from employees and an officer and director of the Corporation and are considered to be low risk.

Liquidity Risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Corporation does not have sufficient working capital to carry out all budgeted programs in 2012 and must finance by the third quarter 2012 to avoid disruption in planned expenditures (see Note 2).

Market Risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The Corporation operates in Mongolia and the United States, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash and cash equivalents are primarily held with high quality financial institutions in Canada. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Corporation's budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

(Canadian dollars)

6. Financial instruments (continued)

b) Foreign currency risk (continued)

The Corporation's exposure to US dollar currency risk was as follows:

		December 31, 2011		2010
Cash and cash equivalents	**$**	**375,536**	$	244,559
Trade and other receivables		**157,920**		18,251
Trade and other payables		**(62,411)**		(242,333)
Finance leases		**(327,342)**		(324,748)
	$	**143,703**	$	(304,271)

Sensitivity to a plus or minus 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately $14,370 (2010 - $30,430).

The Corporation's exposure to Mongolian Tugrik currency risk was as follows:

		December 31, 2011		2010
Cash and cash equivalents	**$**	**92,100**	$	34,057
Trade and other receivables		**12,493**		27,296
Trade and other payables		**(65,230)**		(269,113)
	$	**39,363**	$	(207,760)

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $3,740 (2010 - $18,890).

c) Price risk

The Corporation is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

Fair Value

The following items shown in the consolidated statement of financial position as at December 31, 2011 and 2010, and January 1, 2010, are measured at fair value on a recurring basis using level 1 inputs. The fair value of the financial assets and liabilities at December 31, 2011, using level 2 and 3 inputs, was $nil (December 31, 2010 – $nil; January 1, 2010 – $nil). During the years ended December 31, 2011 and 2010, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

		December 31, 2011		2010		January 1, 2010
Cash and cash equivalents	**$**	**4,104,350**	$	8,379,230	$	13,764,186
Available-for-sale financial assets		**-**		-		232,437
	$	**4,104,350**	$	8,379,230	$	13,996,623

(Canadian dollars)

6. Financial instruments (continued)

Fair Value (continued)

Cash and cash equivalents: Consist of bank balances and short-term investments in cashable guaranteed investment certificates ("GICs"). Classified in level 1, as measurement inputs are derived from observable, unadjusted quoted prices in active markets. Interest income is recorded in the consolidated statement of loss as finance income. Due to their short-term nature, the carrying value of cash and cash equivalents approximates their fair value.

Available-for-sale financial assets: Consist of investments in the equity securities of other entities. Classified in level 1, as measurement inputs are derived from observable, unadjusted quoted prices in active markets. Changes in fair value, subsequent to initial recognition, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss and is recognized in finance income or expense.

7. Cash and cash equivalents

	December 31, 2011	December 31, 2010	January 1, 2010
Bank balances	**$ 3,632,575**	$ 484,907	$ 5,661,085
Guaranteed investment certificates	**-**	7,716,718	8,103,101
Deposits in trust	**471,775**	177,605	-
	$ 4,104,350	$ 8,379,230	$ 13,764,186

The Corporation's exposure to interest rate and currency risks and sensitivity analysis for financial assets and liabilities is disclosed in Note 6.

8. Trade and other receivables

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	**$ 18,835**	$ 18,251	$ 35,681
Exploration partner recovery	**139,085**	595,392	301,099
Employee advances and receivables	**49,585**	149,925	54,403
Sales tax receivable	**27,386**	4,773	10,581
Other	**7,960**	31,880	1,263
	$ 242,851	$ 800,221	$ 403,027

Employee advances and receivables are non-interest bearing and repayable on demand. All employee loans were repaid subsequent to year-end. Included in employee receivables is $32,700 (December 31, 2010 - $35,100, January 1, 2010 – $37,500) receivable from a director and officer of the Corporation. The Corporation's exposure to credit and currency risks is disclosed in Note 6.

(Canadian dollars)

9. Exploration and evaluation assets

	North America		Mongolia		
	Donkin Coal	Industrial Minerals	Zuun Mod Molybdenum	Coal and Other	Total
Balance, January 1, 2010	$ 18,747,001	$ 2,995,855	$ 8,743,931	$ 193,079	$ 30,679,866
Additions	1,099,027	-	1,641,607	49,892	2,790,526
Transfer of assets to property, plant and equipment	-	(2,995,855)	-	-	(2,995,855)
Write-off	-	-	-	(23,240)	(23,240)
Effect of movements in exchange rates	-	-	418,194	13,183	431,377
Balance, December 31, 2010	$ 19,846,028	$ -	$ 10,803,732	$ 232,914	$ 30,882,674
Balance, January 1, 2011	$ 19,846,028	$ -	$ 10,803,732	$ 232,914	$ 30,882,674
Additions	1,176,213	-	774,056	69,477	2,019,746
Effect of movements in exchange rates	-	-	(567,379)	(21,854)	(589,233)
Balance, December 31, 2011	$ 21,022,241	$ -	$ 11,010,409	$ 280,537	$ 32,313,187

a) Donkin:

The Corporation's interest in the Donkin Coal Project is held through a wholly owned subsidiary 6531954 Canada Limited.

The Corporation is a 25% joint venture partner in the Donkin Joint Venture ("DJV") with Xstrata Coal Donkin Limited ("XCDL"). The DJV was formed to secure the rights to the Donkin Coal Project and to explore, assess, study and, if feasible, develop the Donkin coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia.

Pursuant to the DJV, the Corporation funded $10 million in qualifying Canadian Exploration Expenditures ("CEE") during the exploration program of the Donkin Coal Project. The Corporation is responsible to fund 25% of expenditures above $10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2011, the Corporation has advanced a total of $14,970,916 (2010 - $13,794,703 and January 1, 2010 - $12,695,676) in order to meet its commitment. In additional to the Corporation's commitment to the exploration and development program, there will be capital obligations upon a positive development decision. In such an event, the first $10 million of the Corporation's capital obligation will be funded by XCDL.

9. Exploration and evaluation assets (continued)

Mongolian properties:

The Corporation's mineral exploration licenses in Mongolia are held by its subsidiaries, Erdene Mongol XXK, and Anian Resources XXK. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of nine years, subject to minimum work requirements. These rights are held in good standing through the payment of an annual license fee.

Zuun Mod

The Zuun Mod property is a molybdenum-copper deposit and consists of one license. It is located in Bayankhongor Province southwest of Ulaanbaatar. Beginning July 1, 2007, the Corporation's Zuun Mod molybdenum project met the Corporation's criteria to begin capitalizing exploration and evaluation costs associated with the project. During the first quarter 2011, the Corporation applied for a Mining License for Zuun Mod property and in the second quarter a Mining License was granted by the Mongolian Government. The Zuun Mod Mining License contains the South Racetrack and North Racetrack deposits, which hosts all of the Measured and Indicated resources at Zuun Mod. The Mining License is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. Approval of an application for a second contiguous Mining License, south of the approved Mining License, is awaiting a decision by the Government of Mongolia on the definition of the boundaries of a water protection area overlapping the license area. This license application contains the Stockwork deposit.

Coal and Other

The Corporation has five coal exploration licenses located in Bayankhongor, Gobi Altai and Sukhbaatar provinces in Mongolia. The license renewal dates are in February, March, and November 2012. Subsequent to year-end, one of the licenses was not renewed.

The Corporation has three metals exploration licenses in Bayankhongor province with renewal dates of December 2012 and April 2013.

(Canadian dollars)

10. Property, plant and equipment

	Land & buildings	Plant & field equipment	Equipment, furniture & fixtures	Software & computer	Resource properties	Total
Cost						
Balance, January 1, 2010	$ 2,496,274	$ 1,374,183	$ 661,968	$ 171,180	$ 3,347,261	$ 8,050,866
Additions	-	104,665	7,240	19,509	93,025	224,439
Disposals	-	-	(11,593)	(15,659)	-	(27,252)
Transfer of assets from exploration & evaluation assets	-	-	-	-	2,995,855	2,995,855
exchange rates	(153,711)	(85,435)	(21,979)	6,108	(395,650)	(650,667)
Balance, December 31, 2010	$ 2,342,563	$ 1,393,413	$ 635,636	$ 181,138	$ 6,040,491	$ 10,593,241
Balance, January 1, 2011	$ 2,342,563	$ 1,393,413	$ 635,636	$ 181,142	$ 6,040,491	$ 10,593,245
Additions	-	41,349	15,876	24,961	104,751	186,937
Disposals	(400,015)	(19,465)	(372,525)	(12,735)	-	(804,740)
Transfer of assets to inventory	-	-	-	-	(25,250)	(25,250)
Impairment (Note 20)	(415,371)	(1,039,460)	(166,683)	(19,230)	(3,274,412)	(4,915,156)
Write-offs	-	1,855	-	2,445	-	4,300
exchange rates	31,944	27,284	(10,662)	(1,821)	140,901	187,646
Balance, December 31, 2011	$ 1,559,121	$ 404,976	$ 101,642	$ 174,762	$ 2,986,481	$ 5,226,982
Depreciation & depletion						
Balance, January 1, 2010	$ (260,244)	$ (197,312)	$ (438,374)	$ (113,735)	$ (189,431)	$ (1,199,096)
Depreciation & depletion	(44,054)	(251,866)	(43,227)	(27,770)	(41,490)	(408,407)
Disposals	-	-	869	24,186	-	25,055
exchange rates	22,376	50,876	24,622	(4,294)	14,273	107,853
Balance, December 31, 2010	$ (281,922)	$ (398,302)	$ (456,110)	$ (121,613)	$ (216,648)	$ (1,474,595)
Balance, January 1, 2011	$ (281,922)	$ (398,302)	$ (456,112)	$ (121,614)	$ (216,649)	$ (1,474,599)
Depreciation & depletion	(36,245)	(225,542)	(36,463)	(20,452)	(39,840)	(358,542)
Disposals	235,490	6,163	344,587	6,040	9,566	601,846
Impairment (Note 20)	72,038	586,886	68,313	16,531	253,598	997,366
exchange rates	10,639	23,409	15,043	1,892	(6,675)	44,308
Balance, December 31, 2011	$ -	$ (7,386)	$ (64,632)	$ (117,603)	$ -	$ (189,621)
Carrying amounts						
At January 1, 2010	$ 2,236,030	$ 1,176,871	$ 223,594	$ 57,445	$ 3,157,830	$ 6,851,770
At December 31, 2010	$ 2,060,641	$ 995,111	$ 179,526	$ 59,525	$ 5,823,843	$ 9,118,646
At January 1, 2011	$ 2,060,641	$ 995,111	$ 179,526	$ 59,525	$ 5,823,843	$ 9,118,646
At December 31, 2011	$ 1,559,121	$ 397,590	$ 37,010	$ 57,159	$ 2,986,481	$ 5,037,361

10. Property, plant and equipment

a) Impairment loss

The Corporation's subsidiary, APM, has been undercapitalized since operations began in 2009 and has been operating during the weakest US economy in recent years. In the current year, APM has financed its working capital deficits through the sale of non-core assets and a line of credit with Erdene. Obtaining sales agreements with new customers has been slower than anticipated and in December 2011, sales to an existing key customer declined significantly. The lower than budgeted sales combined with the lack of success in having the McDuffie land permitted caused the Corporation to assess the recoverable amount of the non-financial assets related to the cash generating unit (APM clay operations). The APM clay operations are part of the operating segment USA.

The recoverable amount of the cash-generating unit was estimated based on the fair value less costs to sell. The fair value less costs to sell for non-producing assets (McDuffie land that is not permitted for producing clay) was based on appraised value of land. For the producing assets, fair value less costs to sell was based on a non-binding offer from an interested party associated with the operations, which represented the best available information. Based on the assessment in 2011, the carrying amount of the cash-generating unit was approximately $1,350,000 resulting in an impairment loss of $3,917,790 recorded in cost of sales in the Statement of Loss. The assumptions used to estimate the impairment are subject to further change which could lead to further write downs or the reversal of previously recognized impairments. The impairment loss by category of property, plant and equipment are disclosed above.

b) Leased land and building:

At December 31, 2011 the net carrying amount of leased land and buildings was $315,270 (December 31, 2010: $262,740, January 1, 2010: $306,486).

c) Leased plant & field equipment:

At December 31, 2011 the net carrying amount of leased plant and field equipment was $24,013 (December 31, 2010: $15,656, January 1, 2010: $21,689).

d) Leased equipment, furniture & fixtures:

At December 31, 2011 the net carrying amount of leased equipment, furniture and fixtures was $13,947 (December 31, 2010: nil, January 1, 2010: nil).

10. Property, plant and equipment

e) Resource properties:

United States – Kaolin clay

The Corporation, through APMUSA, owns outright or has entered into lease agreements for primary kaolin properties in the United States. These agreements also provide that the Corporation will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. To date, the Corporation has not mined clay subject to a royalty.

United States – Aggregate

The Granite Hill property, held by ERD Aggregate Corp., is under long term lease to Aggregates USA (Sparta), LLC ("AUSA"), an arm's length third party. AUSA commenced commercial production in January 2012 from the quarry and is responsible for 100% of all capital and operating costs for the project. All aggregate sales from the quarry are subject to an industry competitive royalty, payable to Erdene.

11. Goodwill

For the purpose of impairment testing, goodwill is allocated to the Corporation's cash-generating unit which represents the lowest level within the Corporation at which the goodwill is monitored for internal management purposes, which is not higher than the Corporation's operating segments. For the purpose of impairment testing, the entire amount of goodwill is allocated to the Donkin project which is part of the Operating Segment Canada.

The Donkin cash-generating unit's impairment test was based on fair value less costs to sell.

As the Donkin Coal project is still in the pre-development stage, the discounted cash flow model utilized by the Company includes the following significant assumptions: expected future capital costs to develop the project; expected future operating costs; production commencing in 2012 and continuing to 2033; and estimates of the future selling price of the coal resources. Note that the assumptions used by the Company are based on expected future costs and expected future realized pricing for the coal resources and the actual costs and realized pricing of the coal resources may differ from those used by the Company and those differences may be material. The cash flows have been discounted using a post-tax discount rate of 8%. The after-tax net present value of the Donkin Coal project provides a value of approximately $265M for Erdene's interest in the project as compared to a carrying amount of approximately $26.0M for the cash generating unit as at December 31, 2011. While there are significant assumptions used in the determination of the estimated fair value less costs to sell that may not be realized, the Corporation does not believe there is an impairment of the cash generating unit at December 31, 2011.

(Canadian dollars)

12. Finance leases

APM entered into a renewable five year lease agreement on March 1, 2009 for a parcel of land and building (the "Property") for APM's kaolin clay processing facility. As APM intends to purchase the Property from the landlord on or before the first renewal period in 2014, for an agreed amount equal to the appraised value at the time of purchase, the agreement has been accounted for as a finance lease.

APM has also entered into a lease agreement for certain plant equipment and office equipment which is considered a finance lease.

An impairment loss has been recorded on certain of APM's property, plant and equipment, including resource properties. The impairment loss has been calculated with reference to a non-binding offer for the purchase certain operating assets. The offer includes the assumption of the related finance leases. Refer to note 10(a).

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	December 31, 2011			December 31, 2010		
Less than 1 year	**$ 40,764**	**$ 32,173**	**$ 8,591**	$ 35,286	$ 30,698	$ 4,588
Between 1 and 5 years	**421,241**	**88,032**	**333,209**	435,417	115,257	320,160
Total	**$ 462,005**	**$ 120,205**	**$ 341,800**	$ 470,703	$ 145,955	$ 324,748

	Future minimum lease payments	Interest	Present value of minimum lease payments
	January 1, 2010		
Less than 1 year	$ 41,872	$ 35,407	$ 6,465
Between 1 and 5 years	529,044	145,026	384,018
Total	$ 570,916	$ 180,433	$ 390,483

(Canadian dollars)

13. Operating leases

Operating lease rentals are payable as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	76,727	62,124	60,063
Between 1 and 5 years	133,296	166,817	225,321
Total	$ 210,023	$ 228,941	$ 285,384

The Corporation has the following operating leases:

- Office premises in Dartmouth, Nova Scotia until August 31, 2014. The Corporation has the right to terminate the lease by giving six months' notice prior to each anniversary date.

14. Provision for restoration costs

A provision of $104,751 was made in respect of the Corporation's obligation for site restoration costs related to the APM clay operations in Georgia, USA. The provision is calculated based on an estimated 30 year mine life discounted based on a risk free rate of 3.36% with an assumed inflation rate of 2.5%.

In accordance with local mining laws and the terms of the mining permit for the Tudor property in Georgia, USA from which APM acquires all clay for its operations, the Corporation is required to restore the mining site by reclaiming the pit from which clay has been removed for operations, sloping and grading the pit as well as reseeding the affected areas. The Corporation maintains a $54,000 irrevocable standby letter of credit ("LOC") with Peoples Bank in Eatonton Georgia, secured with the Tudor property, as set forth by the Environmental Protection Division of the Georgia Department of Natural Resources.

15. Income taxes and deferred tax liability

The Corporation's provision for income taxes differs from the amount computed by applying the combined federal and provincial income tax rates to income (loss) before income taxes as a result of the following:

	For the year ended December 31, 2011	2010
Statutory tax rates	**32.50%**	34.0%
Income taxes (recovery) computed at the statutory rates	**$ (4,471,470)**	$ (1,568,557)
Effects of foreign exchange translation	**254,024**	(68,659)
Benefit of tax losses not recognized	**1,170,034**	1,440,819
Expenses not deductible for tax purposes	**1,245,135**	320,630
Effect of foreign tax rates	**17,644**	113,844
Write down of resource properties	**1,428,372**	(509)
Effect of change in enacted tax rates	**-**	(34,698)
Other	**372,180**	(164,045)
Provision for income taxes	**$ 15,919**	$ 38,825

(Canadian dollars)

15. Income taxes and deferred tax liability (continued)

The enacted tax rates in Canada (32.5% in 2011), USA (39% in 2011) and Mongolia (25%) where the Corporation operates are applied in the tax provision calculation. The combined Canadian federal and provincial statutory rate has decreased from the prior period due to a scheduled enacted rate reduction. This decrease has not materially affected the measurement of deferred tax obligations arising from temporary differences as these scheduled reductions were enacted at December 31, 2010.

	For the year ended December 31,			
		2011		2010
Current income tax expense	**$**	**15,919**	$	38,285

The following table the Corporation's reflects deferred income tax assets (liabilities):

		December 31, 2011		December 31, 2010		January 1, 2010
Resource properties and deferred exploration costs	**$**	**(4,916,034)**	$	(4,916,034)	$	(4,916,034)
Deferred income tax liability	**$**	**(4,916,034)**	$	(4,916,034)	$	(4,916,034)

The following temporary differences and non-capital losses have not been recognized in the consolidated financial statements.

		December 31, 2011		December 31, 2010		January 1, 2010
Non-capital losses carried forward	**$**	**24,299,747**	$	20,237,054	$	16,988,597
Property, plant and equipment		**1,387,388**		-		-
Deferred expenses		**-**		245,521		293,540
Share issuance costs		**422,521**		846,487		1,301,394
Intangible assets		**1,299,522**		1,367,369		1,516,056
Other		**1,047,613**		377,053		509,067
		-		-		-
	$	**28,456,790**	$	23,073,484	$	20,608,654

(Canadian dollars)

15. Income taxes and deferred tax liability (continued):

As at December 31 2011, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	For the year ended December 31, 2011	2010
2011	**$ -**	$ 2,052,673
2012	**1,062,033**	1,062,033
2013	**991,178**	991,178
2014	**3,163,285**	3,163,285
2015	**4,463,161**	2,296,347
Thereafter	**14,620,089**	10,671,538
	$ 24,299,746	$ 20,237,054

16. Capital management

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can continue to finance its ongoing exploration and development programs and joint venture obligations and ensure the Corporation remains in sound financial position. The Company defines capital that it manages as the aggregate of its obligations under finance leases and equity attributable to common shareholders of the Corporation, which is comprised of share capital, contributed surplus, accumulated other comprehensive income (loss), and deficit.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust the capital structure, the Corporation (upon approval from its Board of Directors, as required) may issue additional capital, primarily through equity financings. The Board of Directs reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions, major investments, as well as annual capital and operating budgets. The Company is not subject to externally imposed capital requirements.

The Company utilizes a combination of finance leases and equity to finance its operations and exploration.

Capital Structure	**Interest rate**	**Maturity**	**December 31, 2011**	**December 31, 2010**
Shareholders' Equity			**$ 40,384,006**	$ 48,091,574
Obligations under finance leases	8.15%	August 2014	**341,800**	324,748
Net capital			**$ 40,725,806**	$ 48,416,322

(Canadian dollars)

17. Share Capital

Share capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The number of common shares outstanding at year-end is as follows:

	2011	2010
On issue at January 1	**89,688,377**	89,230,877
Issued for cash	**5,479,524**	-
Exercise of stock options	**635,000**	457,500
On issue at December 31	**95,802,901**	89,688,377

Reducing the dollar value of share capital is the balance of a share subscription receivable (see note 27). At December 31, 2011, this receivable amounted to $74,630 (2010 - $83,953). Repayments of this share subscription receivable are added back to share capital each period and can been seen in the Consolidated Statement of Changes in Equity.

Issuance of common shares

In November and December 2011, the Corporation closed a private placement financing which resulted in the issuance of 5,479,524 shares at $0.40 per share generating gross proceeds of $2,191,814. Share issue costs of $127,938 were paid in conjunction with the private placement resulting in net proceeds of $2,063,876. All securities issued are subject to a hold period of four months and one day from the date of issuance. All issued shares are fully paid.

Additionally, 635,000 common shares (2010 – 457,500) were issued as a result of the exercise of vested options. Options were exercised at an average price of $0.72 per option (2010 - $0.45 per option). All issued shares are fully paid.

18. Stock options and warrants

(a) Stock Options - Erdene

The Corporation has a rolling 10% incentive stock option plan (the “Plan”) under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. Under the Plan, the terms and conditions of each grant of options are

(Canadian dollars)

18. Stock options and warrants (continued)

(a) Stock options – Erdene (continued)

determined by the board of directors. If there are no terms specified upon grant, options vest immediately on the grant date. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

The changes in stock options during the years ended December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	**4,043,000**	**$ 0.60**	4,124,000	$ 0.73
Granted	**4,350,000**	**1.23**	1,780,000	0.58
Exercised	**(635,000)**	**0.72**	(457,500)	0.45
Expired	**(40,000)**	**1.37**	(1,253,500)	1.01
Forfeited	**(110,000)**	**0.85**	(150,000)	0.98
Outstanding at December 31	**7,608,000**	**$ 0.95**	4,043,000	$ 0.60
Exercisable at December 31	**7,377,000**	**$ 0.95**	4,043,000	$ 0.60

The weighted average share price at the date of exercise for stock options exercised in 2011 was $1.43 (2010 - $1.16)

The following table summarizes information concerning outstanding and exercisable options at December 31, 2011:

	Outstanding		Exercisable
Expiry date	Number of Options	Exercise price	Number of Options
May 11, 2012	125,000	$ 1.35	125,000
May 25, 2012	125,000	1.43	125,000
October 1, 2012	100,000	1.14	100,000
April 4, 2013	125,000	0.91	125,000
October 10, 2012	27,000	0.35	27,000
June 26, 2014	900,000	0.30	900,000
September 21, 2014	345,000	0.30	345,000
April 15, 2015	811,000	0.58	811,000
October 8, 2015	700,000	0.58	700,000
March 22, 2016	4,150,000	1.26	4,069,000
September 1, 2016	200,000	0.67	50,000
	7,608,000	**$ 0.95**	**7,377,000**

(Canadian dollars)

18. Stock options and warrants (continued)

(b) Share-based payment – Erdene

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Share price at grant date	$ 1.27	$ 0.58
Exercise price	$ 1.23	$ 0.58
Risk-free interest rate	2.0%	3.0%
Expected life	4.3 years	5.0 years
Expected volatility	98%	88%
Expected dividends	0.0%	0.0%

Expected volatility is estimated by considering historic average share price volatility.

(c) Stock options - APM

APM has a stock option plan, whereby it can grant options to employees, officers, directors and consultants of APM to acquire up to 10% of the outstanding shares at the time of grant. The board of directors of APM shall determine the exercise price, term and vesting provisions of options granted. Under APM's stock option plan, the exercise price of each option may not be less than the market price of its shares at the date of grant less a discount permitted by the TSX-V. Options granted under the APM plan will have a term not to exceed 5 years so long as APM is classified as a Tier 2 issuer by the TSX-V.

The changes in stock options for the years ended December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at January 1	**2,328,571**	**$ 0.19**	457,139	$ 0.71
Granted	**-**	**-**	2,300,000	0.18
Expired	**-**	**-**	(428,568)	0.70
Outstanding at December 31	**2,328,571**	**$ 0.19**	2,328,571	$ 0.19
Exercisable at December 31	**2,328,571**	**$ 0.19**	2,328,571	$ 0.19

(Canadian dollars)

18. Stock options and warrants (continued)

(c) Stock options – APM (continued)

The following table summarizes information concerning outstanding and exercisable options at December 31, 2011:

Expiry date	Number of Options		Exercise price	Remaining Contractual Life (Years)
April 30, 2012	28,571	$	0.88	0.33
March 1, 2015	1,670,000		0.16	3.17
November 15, 2015	630,000		0.24	3.88
	2,328,571	**$**	**0.19**	**3.32**

(d) Share-based payment – APM

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	Year-ended December 31, 2011		Year-ended December 31, 2010
Share price at grant date	-	$	0.18
Exercise price	-	$	0.18
Risk-free interest rate	-		3.0%
Expected life	-		5 years
Expected volatility	-		97%
Expected dividends	-		-

(e) Warrants - APM

The following table summarizes the continuity of the warrants for the years ended December 31, 2011 and 2010 were as follows:

	December 31, 2011			December 31, 2010		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding at January 1	**252,666**	**$**	**0.15**	-	$	-
Issued	**-**		**-**	252,666		0.15
Exercised	**(8,000)**		**0.15**	-		-
Outstanding at December 31	**244,666**	**$**	**0.15**	252,666	$	0.15
Exercisable at December 31	**244,666**	**$**	**0.15**	252,666	$	0.15

The share price on the date of exercise was $0.26.

(Canadian dollars)

18. Stock options and warrants (continued)

(e) Warrants - APM

APM issued 252,666 broker warrants, with a fair value of $23,700, in conjunction with its August 4, 2010 private placement. APM estimates the fair value of the warrants at the grant date using the Black-Scholes model, recognized on the grant date with the following assumptions:

	Year-ended December 31, 2011	Year-ended December 31, 2010
Share price at grant date	$ 0.10	$ 0.18
Exercise price	$ 0.15	$ 0.18
Risk-free interest rate	3.0%	3.0%
Expected life	0.6 years	1.6 years
Expected volatility	146%	97%
Expected dividends	-	-

19. Revenue

	For the year ended December 31 2011	2010
Clay processing and sales	**$ 673,054**	$ 526,593
Royalty revenue	**162,643**	14,434
Rental property revenue	**22,918**	24,228
Miscellaneous revenue	**24,213**	19,374
	$ 882,828	$ 584,629

20. Cost of Sales

	For the year ended December 31 2011	2010
Depletion	**$ 39,840**	$ 41,490
Depreciation & amortization	**272,463**	319,880
Employee benefit costs	**426,171**	511,077
Share-based payments	**-**	108,028
Direct costs	**510,380**	430,367
Impairment of property, plant & equipment	**3,917,790**	-
	$ 5,166,644	$ 1,410,842

21. Exploration expenses

	For the year ended December 31 2011	2010
Depreciation & amortization	**$ 1,930**	$ 3,676
Employee benefit costs	**958,854**	875,675
Share-based payments	**664,637**	277,836
Direct costs	**2,631,841**	1,589,962
Partner recoveries	**(313,841)**	(1,436,861)
	$ 3,943,421	$ 1,310,288

(Canadian dollars)

22. Corporate and administration

	For the year ended December 31 2011	2010
Depreciation & amortization	**$ 44,309**	$ 43,361
Employee benefit costs	**965,948**	796,190
Share-based payments	**3,146,422**	590,078
Direct costs	**1,476,130**	1,320,615
	$ 5,632,809	$ 2,750,244

23. Other expenses

	For the year ended December 31 2011	2010
Write-off exploration & evaluation assets	**$ -**	$ 23,240
Other	**-**	1,253
	$ -	$ 24,493

24. Other income

	For the year ended December 31 2011	2010
Gain on sale of exploration & evaluation assets	**$ -**	$ (105,858)
Gain on sale of property, plant & equipment	**(89,767)**	-
	$ (89,767)	$ (105,858)

25. Finance income and expense

	For the year ended December 31 2011	2010
Interest income	**$ 82,574**	$ 89,937
Gain on sale of available-for-sale financial assets	**-**	180,598
	$ 82,574	$ 270,535
Interest expense - finance leases	**$ (37,764)**	$ (32,682)
Interest expense - other	**(2,677)**	(2,601)
	$ (40,441)	$ (35,283)
	$ 42,133	$ 235,252

(Canadian dollars)

26. Operating segments:

The Corporation has four reportable segments: Canada, United States, Mongolia and Corporate, based on the geographic regions of the exploration and evaluation assets and resource properties. The corporate segment includes corporate growth activities and the groups that provide administrative, technical, financial and other support to the exploration and development segments. The information reported for segments is based on information provided to the Chief Executive Officer and Chief Financial Officer, the chief operating decision makers.

Information about reportable segments:

For the year ended December 31, 2011

	Canada	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 882,828	$ -	$ -	$ 882,828
Interest revenue	-	327	3,271	78,976	82,574
Interest expense	-	37,231	-	3,210	40,441
Depreciation and amortization	-	312,303	1,930	44,309	358,542
Segment profit (loss) before tax and finance income	$ 411,722	$ 4,836,484	$ 2,914,631	$ 5,621,748	$ 13,784,585
Other material non-cash items:					
Impairment of property, plant & equipment	$ -	$ 3,917,790	$ -	$ -	$ 3,917,790
Capital expenditures	$ 1,176,213	$ 9,873	$ 878,757	$ 21,213	$ 2,086,056
Reportable segment assets	$ 26,106,045	$ 4,840,342	$ 11,523,241	$ 4,313,210	$ 46,782,838
Reportable segment liabilities	$ 3,221,685	$ 557,118	$ 1,774,213	$ 845,816	$ 6,398,832

For the year ended December 31, 2010

	Canada	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 584,629	$ -	$ -	$ 584,629
Interest revenue	-	1,047	2,920	85,970	89,937
Interest expense	-	32,682	-	2,601	35,283
Depreciation and amortization	-	361,370	3,676	43,361	408,407
Segment profit (loss) before tax and finance income	$ 144,887	$ 1,606,957	$ 312,789	$ 2,784,021	$ 4,848,654
Other material non-cash items:					
Write off exploration & evaluation assets	$ -	$ -	$ 24,493	$ -	$ 24,493
Capital expenditures	$ 1,099,027	$ 197,689	$ 1,702,841	$ 15,408	$ 3,014,965
Reportable segment assets	$ 20,401,832	$ 13,502,898	$ 11,197,412	$ 9,148,466	$ 54,250,608
Reportable segment liabilities	$ 3,210,068	$ 657,492	$ 1,978,096	$ 313,381	$ 6,159,037

(Canadian dollars)

26. Operating segments (continued):

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items:

	2011	2010
Revenues		
Total revenue for reportable segments	$ 882,828	$ 584,629
Other revenue	-	-
Consolidated revenue	$ 882,828	$ 584,629
Loss		
Total profit or loss for reportable segments	$ (13,784,585)	$ (4,848,654)
Other profit or loss	42,133	235,252
Loss before tax	$ (13,742,452)	$ (4,613,402)

	2011	2010
Assets		
Total assets for reportable segments	$ 46,782,838	$ 54,250,608
Other assets	-	-
Consolidated assets	$ 46,782,838	$ 54,250,608
Liabilities		
Total liabilities for reportable segments	$ 6,398,832	$ 6,159,034
Other liabilities	-	-
Consolidated liabilities	$ 6,398,832	$ 6,159,034

Major customer

Revenue from one customer of the Corporation's USA segment represents approximately 61.0% (2010 – 83.2%) of the Corporation's total revenues.

27. Related Parties

Compensation of key management personnel:

The total remuneration of the Directors and other key management personnel were as follows:

	2011	2010
Directors' fees	55,000	58,000
Share-based payments to directors	1,410,000	201,960
Key management short-term benefits	784,698	664,034
Share-based payments to key management	1,363,000	202,800
	3,612,698	1,126,794

27. Related Parties (continued)

Balances with director:

The balance of an unsecured loan granted to a director and officer amounted to $32,700 as at December 31, 2011 (December 31, 2010: $35,100). No interest is payable by the director and the loan is repayable upon demand.

The share subscription receivable is from a director and officer. The loan is non-interest bearing and is evidenced by a promissory note due in March 2013. The loan requires minimum monthly payments of $1,000 which began May 2010. The balance of the share subscription receivable was $74,630 as at December 31, 2011 (December 31, 2010: $83,953). The balance of the outstanding share subscription receivable is a reduction of share capital. Payments on the loan are added back to share capital each period as disclosed in the Consolidated Statement of Changes in Equity.

28. Non-Controlling Interest

Non-controlling interest (“NCI”) represents the minority shareholder’s ownership in APM. Each reporting period, the NCI is adjusted for the minority interest’s share of APM’s net loss during the period.

When APM issues common shares, it changes the percentage ownership the Corporation owns of APM and corresponding value of NCI. On March 21, 2011 8,000 APM broker warrants were exercised generating proceeds of CAD$1,200. On August 4, 2010 APM closed a private placement of $1,019,700, including $350,000 invested by Erdene. Changes due to the disposition of NCI are disclosed in the Statement of Changes in Equity.

29. Transition to IFRS

As stated in note 3(a), these are the Corporation's first consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 4 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing its IFRS statement of comprehensive income for the year-ended December 31, 2010, the Corporation made various reclassifications to present expenses by function rather than by nature as presented under Canadian GAAP.

The transition from Canadian GAAP to IFRS has had no effect upon the reported cash flows generated by the Corporation. The reconciling items between the Canadian GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

IFRS 1 – First-time adoption of International Financial reporting Standards ("IFRS") sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards applied are retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Corporation has applied the following exemptions to its opening statement of financial position dated January 1, 2010.

- Business combination election – The election allows the Corporation to adopt IFRS 3(R) prospectively from the date of transition.
- Cumulative translation differences – The election enables the Corporation to deem the cumulative translation difference to be zero at the transition date.
- Arrangements containing a lease - The election allows the Corporation to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement
- Reassessment of lease determination – If the Corporation made the same determination of whether an arrangement contains a lease under Canadian GAAP (EIC-150) as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the election allows the Corporation to not reassess that determination for such arrangements when it adopts IFRS.

(Canadian dollars)

29. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS
January 1, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets:				
Cash and cash equivalents		13,764,186	-	13,764,186
Available-for-sale financial assets		232,437	-	232,437
Trade and other receivables		403,027	-	403,027
Prepaid expenses		80,728	-	80,728
		14,480,378	-	14,480,378
Non-current assets:				
Exploration & evaluation assets	a, f	35,119,854	(4,439,988)	30,679,866
Property, plant & equipment	a, f	4,033,776	2,817,994	6,851,770
Reclamation bond		12,625	-	12,625
Goodwill		5,000,000	-	5,000,000
		44,166,255	(1,621,994)	42,544,261
		58,646,633	(1,621,994)	57,024,639
Current liabilities:				
Trade and other payables		483,511	-	483,511
Current portion of obligations				-
under finance leases		6,465	-	6,465
		489,976	-	489,976
Non-current liabilities				
Obligations under finance leases	f	384,018	-	384,018
Deferred tax liability	h	5,295,182	(379,148)	4,916,034
		5,679,200	(379,148)	5,300,052
Non-controlling interest	d	215,815	(215,815)	-
Shareholders' equity:				
Share capital	b, c, e	78,307,296	(6,341,839)	71,965,457
Contributed surplus		6,155,222	-	6,155,222
Accumulated other comprehensive income		136,603	-	136,603
Deficit	b, c, e, f, h	(32,337,479)	5,274,106	(27,063,373)
		52,261,642	(1,067,733)	51,193,909
Non-controlling interest	d, f	-	40,702	40,702
		52,261,642	(1,027,031)	51,234,611
		58,646,633	(1,621,994)	57,024,639

(Canadian dollars)

29. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS
December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets:				
Cash and cash equivalents		8,379,230	-	8,379,230
Available-for-sale financial assets		-	-	-
Trade and other receivables		800,221	-	800,221
Prepaid expenses		69,837	-	69,837
		9,249,288	-	9,249,288
Non-current assets:				
Exploration & evaluation assets	a, f	37,938,676	(7,056,002)	30,882,674
Property, plant & equipment	a, f	3,806,075	5,312,571	9,118,646
Reclamation bond		-	-	-
Goodwill		5,000,000	-	5,000,000
		46,744,751	(1,743,431)	45,001,320
		55,994,039	(1,743,431)	54,250,608
Current liabilities:				
Trade and other payables		918,252	-	918,252
Current portion of obligations				-
under finance leases		4,588	-	4,588
		922,840	-	922,840
Non-current liabilities				
Obligations under finance leases	f	320,160	-	320,160
Deferred tax liability		4,916,034	-	4,916,034
		5,236,194	-	5,236,194
Non-controlling interest	d	62,279	(62,279)	-
Shareholders' equity:				
Share capital	b, c, e	78,665,207	(6,339,238)	72,325,969
Contributed surplus		7,012,557	-	7,012,557
Accumulated other				
comprehensive income	f	-	22,671	22,671
Deficit	b, c, e, f	(35,905,038)	4,892,357	(31,012,681)
		49,772,726	(1,424,210)	48,348,516
Non-controlling interest	d, f	-	(256,942)	(256,942)
		49,772,726	(1,681,152)	48,091,574
		55,994,039	(1,743,431)	54,250,608

(Canadian dollars)

29. Transition to IFRS (continued)

Reconciliation of comprehensive income
For the year ended December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		584,629		584,629
Cost of sales		1,410,842	-	1,410,842
		(826,213)	-	(826,213)
Exploration expenses		1,310,288	-	1,310,288
Corporate & administration		2,750,244	-	2,750,244
Other expenses		24,493	-	24,493
Other income		(105,858)	-	(105,858)
Foreign exchange loss (gain)		43,274	-	43,274
Dilution gain on disposal of interest in subsidiary	g	(139,372)	139,372	-
Loss from operating activities		(4,709,282)	(139,372)	(4,848,654)
Finance income		270,535	-	270,535
Finance expense	c	(32,682)	(2,601)	(35,283)
Net finance income (expense)		237,853	(2,601)	235,252
Income tax expenses		(38,285)		(38,285)
Future income tax recovery	h	379,148	(379,148)	-
Net tax recovery (expense)		340,863	(379,148)	(38,285)
Non-controlling interest	d	(563,007)	563,007	-
Net loss		(3,567,559)	(1,084,128)	(4,651,687)
Other comprehensive (loss) income:				
Unrealized gain (loss) on available for sale marketable securities recognized in income		(136,603)	-	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries	f	-	(121,437)	(121,437)
Total comprehensive loss		(3,704,162)	(1,205,565)	(4,909,727)

(Canadian dollars)

29. Transition to IFRS (continued)

Details of the material adjustments to the statements of financial position, income and comprehensive income:

(a) Resource properties

Under IFRS, where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated Statement of Financial Position		
Exploration & evaluation assets	(3,346,641)	(6,573,176)
Property, plant & equipment	3,346,641	6,573,176

(b) Share issue costs

Under IFRS, share issue costs are recorded as a deduction against share capital. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense. Under Canadian GAAP, share issue costs were recorded through retained earnings.

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated Statement of Financial Position		
Share Capital	(5,033,836)	(5,033,836)
Deficit	(5,033,836)	(5,033,836)

(c) Financial Instruments

Under IFRS, there is no special recognition requirements for related party transactions, therefore loans between related parties are subject to the requirements of IAS 39. The Corporation has a loan to a director that is required to be recognized at fair value under IAS 39. Under Canadian GAAP, this loan was measured at the exchange amount. For presentation purposes, the loan was recorded as a reduction to share capital as the loan was related to the exercise of warrants.

(Canadian dollars)

29. Transition to IFRS (continued)

(c) Financial Instruments

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated Statement of Financial Position		
Share Capital	8,823	6,222
Deficit	(8,823)	(6,222)
Consolidated Statement of Comprehensive Income		
Finance expense		2,601
Net loss		(2,601)

(d) Non-controlling interest

Under Canadian GAAP, non-controlling interests in the statement of financial position are presented between liabilities and shareholders' equity. Under IFRS, non-controlling interests in the consolidated statement of financial position are classified as equity but are presented separately from the parent shareholder's equity.

Non-controlling interest in income of subsidiaries is included in the determination of net income and other comprehensive income reported by an entity under Canadian GAAP. Under IFRS, net income and each component of other comprehensive income is attributed to the owners of the parent and to the non-controlling interests. Under IFRS, this adjustment adds back non-controlling interest to net income and other comprehensive income as reported under Canadian GAAP.

(e) Flow-through shares

Under Canadian GAAP, the estimated deferred income tax impact of renounced expenditures related to the issue of flow-through shares was charged to common stock. Under IFRS, the related balance was reallocated to deferred income tax expense and recognized through profit or loss. This results in a reclassification between deficit and share capital on adoption of IFRS.

29. Transition to IFRS (continued)

(e) Flow-through shares (continued)

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated Statement of Financial Position		
Share capital	(1,299,180)	(1,299,180)
Deficit	(1,299,180)	(1,299,180)

(f) Functional currency and foreign operations

In accordance with IFRS 1, the Corporation has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.

IFRS requires that the functional currency of each entity in the consolidated Corporation be determined separately in accordance with IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operations ("the functional currency"). The Corporation's reporting currency is the Canadian dollar (CAD).

Under IFRS, the results and financial position of all Corporation entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Corporation's presentation currency are translated into the presentation currency as follows:

- o Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- o Income and expenses for each income statement are translated at the average rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- o All resulting exchange differences are recognized as a separate component of equity.

(Canadian dollars)

29. Transition to IFRS (continued)

(f) Functional currency and foreign operations (continued)

As a result of the application of the translation rules contained in IAS 21, for the year ending December 31, 2010, non-monetary assets, which includes property, plant and equipment and exploration and evaluation assets, will decrease with a corresponding adjustment to the foreign currency translation reserve.

The impact arising from the change is summarized as follows:

	January 1, 2010	December 31, 2010
Consolidated Statement of Financial Position		
Exploration & evaluation assets	(1,093,347)	(482,826)
Property, plant & equipment	(528,647)	(1,260,605)
Accumulated other comprehensive income	-	(22,671)
Deficit	1,446,881	1,446,881
Non-controlling interests	175,113	319,221
		-
Consolidated Statement of Comprehensive Income		
Foreign currency translation adjustment		(121,437)

(g) Change in ownership of a subsidiary

Under IFRS, once a parent has obtained control of a subsidiary, changes in ownership interests in that subsidiary that do not affect control are accounted for as equity transactions, and, therefore, no gain or loss is recognized in the consolidated income statement. When such a change in ownership occurs, the carrying amount of the non-controlling interest is adjusted to reflect its new ownership level, and any difference between the adjustment and the fair value of the consideration paid or received is recognized in equity.

The impact arising from the change is summarized as follows:

	December 31, 2010
Consolidated Statement of Financial Position	
Deficit	139,372
Consolidated Statement of Comprehensive Income	
Dilution gain on disposal of interest in subsidiary	(139,372)
Net loss	139,372

(h) Deferred tax liability

Upon transition to IFRS, a deferred tax liability was reversed due to the initial recognition exception relating to a Mongolian asset purchased in a prior year.