# ERD Annual Report | **2008**

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# Message from the President

Fellow Shareholders,

I am very pleased to report on Erdene's ("ERD") accomplishments during the past year and to present management's strategy for continued growth of our Company and for creating value for you, our shareholders, in the current year and beyond. We remain focused on energy, metals and industrial minerals projects in areas with ready access to the world's two largest markets, China and the U.S. We will continue to advance our current projects while seeking out new opportunities in commodities with strong long-term market fundamentals.

## 2008 Project Review

### ZUUN MOD MOLYBDENUM PROJECT

*We remain focused on energy, metals and industrial minerals projects in areas with ready access to the world's two largest markets, China and the U.S.*

After starting the year announcing some of the best drill results to date from our molybdenum-copper deposits at the Zuun Mod project in Mongolia, we completed our first NI 43-101 resource estimate on the project in May 2008. Hosting 145M lbs of molybdenum and 182M lbs of copper in the measured and indicated resource categories (averaging 0.06% Mo and 0.08% Cu), the Zuun Mod deposit is the second largest porphyry style deposit discovered in the Gobi region after Oyu Tolgoi and one of the largest and most advanced pre-development molybdenum projects in the North Asia region. The Zuun Mod deposit is also one of the largest porphyry molybdenum discoveries of the past 20 years, globally. The deposit and associated mineralizing system has the potential for significant expansion and new discoveries.

Mongolia borders China, which is the world's largest consumer of coal and the world's largest steel producing nation. This is particularly relevant for the Zuun Mod project as molybdenum is a key ingredient in the production of high quality steel products such as stainless steel. China is scanning the globe in order to secure mineral resources and undoubtedly will ultimately be consuming vast amounts of metals, coal and other material from its neighbour to the north where few companies are as well established as ERD. In 2009, we will be continuing our efforts at the greenfields level to identify new opportunities in the metals and energy sectors while advancing the Zuun Mod molybdenum project to the mining licence level.

The Zuun Mod deposit is one of the largest porphyry molybdenum discoveries of the past 20 years, globally.

It is easy in the current environment to lose touch with long-term fundamentals but they are very real in regard to China and we believe through our investment in Mongolia our shareholders will experience significant benefit. Although our investment level may ebb and flow with the state of affairs in the country and the minerals industry, we have made a long-term commitment to Mongolia. We believe this mineral rich region has the potential to create very significant value for our shareholders.

## DONKIN COAL PROJECT

On a parallel track with our work at Zuun Mod, we also continued to advance the Donkin coal project in eastern Canada, through our partnership with Xstrata Coal, the project's manager. The Donkin coal deposit has a 227Mt indicated and 254Mt inferred resource of high volatile A bituminous coal with very high energy of approximately 14,000 BTUs/lb.

Refurbishing continued on the de-watered access tunnels and an in-seam drilling program was completed on the targeted Harbour seam. Following the completion of the drilling, the joint venture partners committed to the funding of a feasibility study of an Evaluation and Development Program ("Program"). The goal of the Program is to obtain further information deemed critical to the assessment of the feasibility of the large scale underground mining options under consideration. This Program is an interim step in the development path toward establishing a large scale underground longwall mining operation with projected production of up to five million tonnes per annum ("Mtpa").

*At full production, the Donkin coal project would represent the largest coal development on deep water along the eastern seaboard of the Americas.*

The Program will use a continuous miner to explore and develop the Harbour coal seam with annual production anticipated at 400,000 tonnes. The goal of the joint venture is to begin production in 2010.

At full production, the Donkin coal project in which the company has a 25% interest, would represent the largest coal development on deep water along the eastern seaboard of the Americas. The project has the potential to bring significant rewards to our shareholders. The project is only 30 kilometres from a deep water port and has the ability to produce up to 5 Mtpa of high energy coal for the power plants along the eastern seaboard of North America and in Europe.

In addition to our Donkin coal project, we are managing a comprehensive coal generative and acquisition program in Mongolia that evaluates numerous prospective metallurgical and high-quality thermal coal deposits. This program is being fully funded by our partner, Xstrata, with whom we are coordinating operations. In late 2008, ERD completed the sale of the Galshar project for cash with a retained royalty. We will continue to evaluate and pursue high quality coal projects in Mongolia in 2009.

## INDUSTRIAL MINERAL AND CONSTRUCTION MATERIAL PROJECTS

Our industrial mineral and construction material projects were very active in 2008, particularly in regards to ERD's kaolin business. In mid-2008, we announced our intention to spin-out our kaolin assets into a majority-owned subsidiary through a reverse takeover. That plan has now been realized. Advanced Primary Minerals Corporation ("APM"), a TSX-Venture listed company (TSXV:APD), with ERD as the majority shareholder, is now managing the Company's primary-kaolin assets in Georgia, USA. Those assets include a resource of 25.5 M tons of primary-kaolin, large real estate holdings, a pilot plant laboratory complex and a new processing facility. APM is currently producing products for the ceramics industry from its newly permitted mine near Dearing, Georgia and is planning to significantly expand production. In addition, one of APM's primary-kaolin deposits is being mined to produce products for the paper industry through our contractual arrangements with KaMin LLC, one of the major companies involved in the billion dollar kaolin industry in Georgia.

Upon reviewing the financial statements of strong, diversified mining companies, we notice that it is industrial minerals that consistently generate solid earnings. In many cases, these earnings were stable during periods of economic uncertainty. Our primary-kaolin assets represent a unique resource, located in a mining-friendly region

APM is currently producing products for the ceramics industry from its newly permited mine near Dearing, Georgia and is planning to significantly expand production.

with the necessary infrastructure to support the development and production of our primary-kaolin resources.

We are very pleased with the early success we have experienced with APM and look forward to significant growth over the next year and in the future. We believe APM can become the leading producer of specialty industrial minerals.

On the construction materials front, we continue to work with Ready Mix USA to support its efforts to initiate production from our Granite Hill aggregate project in central Georgia. Significant progress was made on the engineering, environmental and permitting work during the year. All the necessary permits have been obtained and production is expected to commence following an eight to 10 months construction period. The project is awaiting a production decision by Ready Mix USA. Their quarry development plan provides for an estimated start-up production rate of 1 M tons of granite aggregate per year, with a design capacity of up to 2.5 M tons. The quarry on the 342-acre Granite Hill property has an estimated lifespan in excess of 30 years.

We believe the inability to secure construction material in growing areas of the southeastern U.S. will reach a critical point over the next decade. This will necessitate the development of new shipping terminals to process offshore supplies from eastern Canada and the Caribbean as well as expanded rail and quarry developments in Georgia and the Carolinas. In 2009, we will continue to position ourselves in those areas, advancing new opportunities in eastern Canada, the Caribbean, and the southern U.S. This will include assisting Ready Mix USA in their planned construction of the Granite Hill quarry.

## Community Development

*We are committed to improving the communities in which we work.*

We are pleased by the progress we have made in our operations but we are especially proud of the contribution we have made to the communities in which we have worked. We have been able to make a difference and we will continue to have a positive impact in the lives of people from the Altai Mountains, Mongolia to Glace Bay, Nova Scotia. We are committed to improving the communities in which we work by developing solid plans and community programs and we have tasked people to be responsible for implementing those programs. Our efforts in Mongolia have been recognized at the Asia Mining Congress in Singapore where we were short listed for their annual Sustainability Awards in each of the last two years. In Nova Scotia, we are particularly proud of our assistance in implementing the Catapult program which is focused on enhancing leadership skills in young people.

## Moving Forward: 2009 and Beyond

With approximately $17 million in working capital, full or partial funding of many projects by our partners, and reduced spending on administration as well as some of the early stage projects, ERD is in a very strong financial position and well positioned to carry out its operations well beyond the current year. Our only major financial commitment is approximately $6 million for the Evaluation and Development Program at Donkin which, with a positive decision, will advance the project to the continuous-miner production stage. Under the terms of the Donkin joint venture agreement, we have a credit of $10 million towards our 25% contribution to the project. Therefore, it is unlikely we will face the additional $6 million expenditure until late 2009 or early 2010.

Apart from that commitment, our working capital is unencumbered. We will be investing additional resources to secure the Zuun Mod project mining licence and to carry out some additional porphyry exploration in Mongolia.

Our coal exploration and associated overhead in Mongolia is fully funded by Xstrata. In North America, in addition to the Donkin project, we will be cautiously advancing some aggregate projects. Otherwise, major project funding will be provided by our partners or through APM. We anticipate entering 2010 with well in excess of $10 million in working capital.

> ERD is in a very strong financial position and well positioned to carry out its operations well beyond the current year.

In addition to the requisite working capital, we also have the management resources necessary to maintain and grow our strategic position in metals, energy and industrial minerals. We remain committed to growing ERD's assets that can be applied to supply resources to markets in China and the U.S. where economic stimulus packages and projected growth will ensure increasing demand for the commodities we are pursuing.

## Summary

Although 2008 will be remembered largely as a time of unprecedented turbulence for the global economy and the capital markets, ERD made significant progress through our disciplined operations and prudent financial management. As a result, we have established a stable platform for growth once the economy begins to rebound.

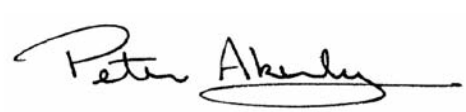
*ERD has successfully built a solid base of strategic commodity projects that are diversified geographically and has partnered with leading global companies to reduce inherent risks.*

We have continued to advance a number of our key projects and are in the strongest financial position since going public in 2004. ERD has successfully built a solid base of strategic commodity projects that are diversified geographically and has partnered with leading global companies to reduce inherent risks. Our diversified mineral focus was the impetus for changing our corporate name to Erdene Resource Development Corporation in 2008. We are excited about the future and the value our projects can ultimately bring to our shareholders.

I would like to thank all of our employees and partners and all stakeholders for their efforts to move us forward on time, within budget and with success. In addition, I would like to thank our Board of Directors for their guidance and valued advice throughout the year.

I extend my deepest thanks and appreciation to you, our shareholders, for your continued support and confidence. Our goal is to provide you with a stable platform from which we can create significant value through the development of our core projects and our proven track record of identifying under-valued opportunities.

Sincerely,



Peter C. Akerley
President & Chief Executive Officer

# Management's Discussion and Analysis of Operating Results

**Year ended December 31, 2008**

This Management Discussion and Analysis of Erdene Resource Development Corporation (the "Company") (formerly Erdene Gold Inc.) provides analysis of the Company's financial results for the years ended December 31, 2008 and 2007 and its financial position as at December 31, 2008 and December 31, 2007. The following discussion and analysis provides a summary of selected consolidated financial information for the year ended December 31, 2008 and 2007 and includes financial information relating to the Company and its wholly owned subsidiaries, 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, Erdene Resources Inc. and its wholly owned subsidiary 6531954 Canada Limited, both incorporated under the laws of Canada, Erdene Materials Corporation ("EMC") and ERD Aggregate Corporation, both incorporated under the laws of Delaware as well as Erdene Mongol XXK, Erdene Energy XXK and Anian Resources XXK incorporated under the laws of Mongolia. The consolidated financial statements of the Company have been prepared by management, in Canadian dollars, in accordance with Canadian generally accepted accounting principles (see note 1: Summary of Significant Accounting Policies). The following information should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2008 and 2007, including all accompanying notes to the consolidated financial statements.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions. The information contained herein is stated as of March 31, 2009 and is subject to change after that date.

This Management Discussion and Analysis ("MD&A") has been prepared in accordance with the provisions of National Instrument 51-102, Section 5 and Form 51-102F1 and has been approved by the Company's Board of Directors.

## 1.01 Date of MD&A

This MD&A is prepared as of March 31, 2009.

## 1.02 Nature of Business & Overall Performance

### GENERAL

The Company is a resource exploration and development company listed on the Toronto Stock Exchange with two advanced exploration projects, namely the Donkin coal project in Nova Scotia and the Zuun Mod Molybdenum Project in Mongolia. Until a decision is made to proceed with commercial development of the coal and molybdenum projects and until resultant cash flows increase substantially over current, the annual level of exploration expenditures of the Company is dependent primarily on the issuance of share capital to finance its exploration programs. The Company has minimal sources of income other than royalty income from its aggregate properties which are early stage, and interest earned on cash and GICs. It is therefore difficult to identify any meaningful trends or develop an analysis from the Company's cash flows.

The Company is well-funded, having raised $17,347,707, net of issue costs, in June 2008 prior to the recent turmoil impacting the financial markets. The Company continues to review its exploration programs closely and will rationalize costs where appropriate given the uncertain outlook for the economy. The Company's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America.

The following summarizes the Company's significant strategic alliances and agreements:

**Donkin Coal Alliance**

The Donkin Coal Alliance ("DCA"), between the Company and Xstrata Coal Pty Limited, was formed to submit a proposal to the Province of Nova Scotia to secure the exclusive right to the Donkin coal project; namely, the project to explore, assess, study and, if feasible, develop the Donkin Coal Resource Block into an operating coal mine. On

December 14, 2005, the Province of Nova Scotia announced that the DCA was the successful proponent. Xstrata holds a 75% interest in the DCA and the Company holds a 25% ownership.

The members of the DCA signed an agreement ("Alliance Agreement") effective March 11, 2005, and amending agreements dated April 23, 2006, October 26, 2006 and October 27, 2006. Pursuant to the April 23, 2006 amending agreement, the Company's interest in the DCA is held by 6531954 Canada Limited, a wholly owned subsidiary of Erdene Resources Inc., and Xstrata Coal Pty Limited's interest is held by Xstrata Coal Donkin Limited ("XCDL"). On October 15, 2008, the Company and XCDL finalized the terms of a definitive joint venture agreement and a sales agency agreement. Xstrata Coal Donkin Management Limited, a related party to XCDL, is acting as manager for the Donkin coal project. If the Donkin coal project is approved to proceed to development, the manager will be responsible for mine development, including infrastructure, coal mining and processing, and coal distribution and sales programs.

The DCA began its exploration program and evaluation and scoping study ("Exploration Program") in June 2006 after Xstrata Coal Donkin Management Limited acquired the surface lands relating to the Donkin Coal Resource Block from the Cape Breton Development Corporation ("DEVCO").

Pursuant to the Alliance Agreement, the Company is committed to fund up to $10,000,000 ("Initial Funding") of the expenditures incurred during the exploration program of the Donkin Coal Project provided such expenses qualify as Canadian Exploration Expenditures ("CEE"). XCDL agreed to pay any other costs up to a maximum of $5,000,000 but if the Company only pays a portion of the Initial Funding, XCDL is only obliged to pay a corresponding portion of the $5,000,000. The Company is responsible to fund 25% of any additional expenditures incurred in the exploration program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2008 a total of $11,861,100 has been advanced in order to meet the Company's commitment toward total project expenditures of $22,444,400 to the same date. Due to the Company's funding of expenditures during the evaluation program in excess of its proportionate interest, the first $10 million of the Company's capital obligations upon a positive development decision will be funded by XCDL.

### Strategic Alliance with Xstrata Coal Canada Limited

On February 14, 2006 the Company concluded an agreement with Xstrata Coal Canada Limited ("Xstrata") a subsidiary of Xstrata plc (London Stock Exchange: XTA.L; Zurich Stock Exchange: XTA.S), whereby Xstrata was granted a first option to enter into a joint venture and earn a 75% interest in any coal opportunity in Mongolia identified by the Company by funding all work through completion of a feasibility study. Should the Company elect to develop or pursue third party participation in any non-coal projects or properties in Mongolia or elsewhere, Xstrata has a 60-day right to review all supporting project information and, if it wishes to participate in the project, to negotiate the terms of its participation before the Company may dispose of or develop the property itself. As part of the agreement, Xstrata named a nominee to the Company's Board of Directors. The rights granted to Xstrata under the agreement expire if Xstrata does not maintain a 5% equity position in the Company, although parties' rights and obligations for any established joint venture survive. Under the agreement, Xstrata is entitled to participate in all future financings of the Company to allow them to hold up to 9.9% of the common shares of the Company. As of December 31, 2008 Xstrata has maintained their minimum ownership requirements.

### Letter of Agreement with Beta Minerals Inc

On February 27, 2009, the Company and Beta Minerals Inc. ("Beta") announced the closing of the transaction (the "Transaction") outlined in an Amended and Restated Letter Agreement dated January 23, 2009 (the "Agreement"), among the Company, Beta and Deepstep Kaolin Company LLC ("Deepstep"). Pursuant to the Agreement, the Company and Deepstep exchanged all of the outstanding common shares of EMC for common shares of Beta, giving the Company a controlling interest in Beta. In conjunction with the close, Beta changed its name to Advanced Primary Minerals Corporation ("APM") and on March 6, 2009 began trading on the TSXV exchange under the new ticker APD. The Transaction constituted an arms length "Reverse Takeover" under the applicable policies of the TSX Venture Exchange (the "Exchange").

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing it was only holding the primary kaolin clay assets located in Georgia, USA. Also prior to closing, DKC transferred its interest in the DKC agreement for shares of EMC. On closing, Erdene and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to Erdene in exchange for the issuance by Beta of 81,000,000 common shares of the APM. The Shares were issued as to 71,000,000 to Erdene and 10,000,000 to DKC. In addition, 36,000,000 Shares are to be issued to Erdene upon certain permits being obtained to allow production from certain Clay Assets, and if such permits are not obtained within three years, the 36,000,000 Shares will not be issued. Pursuant to the Transactions, Erdene has agreed to transfer 2,925,000 Shares of APM to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the Transaction. Upon completion of the Transaction, EMC became a wholly-owned subsidiary of APM.

Refer to the Company's February 27, 2009 press release for further details of the transaction.

**Agreement with Gallant Minerals Limited**

On February 28, 2007, the Company made a final payment of US$150,000 and issued 700,000 shares, meeting all conditions of an agreement with Gallant Minerals Limited ("Gallant") to acquire certain property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and has acquired all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane International Limited ("Tamerlane") which controls 100% ownership of mineral properties in Mongolia through it's wholly owned subsidiary Anian Resources XXK.

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

## 1.03 Selected Annual Information

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

*Expressed in thousands of Canadian dollars except per share amounts.*

| Fiscal Year Ended Dec 31 | 2008 | 2007 | 2006 |
|---|---|---|---|
| | $ | $ | $ |
| Revenues | - | - | - |
| Loss for the year | 3,592 | 6,651 | 4,565 |
| Basic and diluted loss per share | 0.05 | 0.11 | 0.11 |
| Total assets | 60,660 | 47,015 | 34,181 |
| Total long-term liabilities | 5,764 | 4,367 | 2,899 |
| Cash dividends declared | Nil | Nil | Nil |

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

## 1.04 Results of Operations

The Company had a loss of $3,592,391 for the year ended December 31, 2008, as compared to a loss of $6,651,063 during the same period in 2007.

Total exploration and operating costs for the year ended December 31, 2008, net of deferred expenditures and partner contributions, amounted to $1,858,554 compared to $4,146,178 during the same period in 2007. The decrease is largely due to a smaller exploration program on properties other than the Company's core properties: Donkin, Zuun Mod and Mongolian coal.

The schedule on the following page summarizes the exploration and operating expenses as well as the resource property interests and deferred expenditures capitalized to the end of 2008 and 2007.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined the property has good potential to contain an economically recoverable resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. All direct costs related to the acquisition of resource property interests are capitalized as an asset. Total resource property additions for the year ended December 31, 2008 amounted to $136,190 as compared with $1,545,253 in 2007. The prior year included final payment to Gallant as outlined in section 1.02 which included cash and shares with a fair value of $749,590. Prior year additions also included the fair value of shares issued to increase the Company's ownership in the Donkin project, totaling $529,200.

Beginning July 1, 2007 the Company's Zuun Mod molybdenum project met the Company's criteria to begin capitalizing exploration and development costs associated with the project. For the year ended December 31, 2008, the Company incurred $3,710,393 in exploration and support costs directly related to the Zuun Mod project which were capitalized (2007 – $3,438,202); and incurred $3,917,644 on the Donkin project (2007 - $6,541,979) which were capitalized. The Company wrote off $616,907 in non performing Mongolian properties in the year ended December 31, 2008 compared to a write off of $1,032,310 in 2007.

Since the Company charges exploration costs to operations until a property displays good potential for an economically recoverable resource, reported losses vary directly with the extent of the exploration programs conducted. As the Company obtains exploration results from existing resource properties (and those it acquires) that justify and enable further equity financing and continued exploration programs, reported losses will continue and will vary with the extent of exploration activity until such time as economically recoverable resources are identified that warrant development to generate sustainable revenues from operations. Conversely, should exploration results not justify further equity financing or should further equity financing not be available or be insufficient to conduct planned exploration programs, exploration activity would be reduced with exploration funds directed toward projects with highest potential, resulting in lower reported losses. All of the Company's Mongolian properties, with the exception of Zuun Mod effective July 1, 2007, were in the exploration phase, and accordingly, all exploration costs associated with those properties were charged to operations in the respective periods. The funds expended on the Donkin coal project and the Zuun Mod molybdenum projects have been capitalized because, in the opinion of management, the projects have good potential to contain an economically recoverable resource. Further exploration and development costs will continue to be capitalized unless it is determined, at a future date, the resources will not be economically recoverable.

General and administrative expenses amounted to $2,306,334 for the year ended December 31, 2008 compared to $2,427,062 the prior year representing a decrease of $120,728. The decrease is almost entirely due to a decrease in stock based compensation expense. The Company issued fewer options with a lower fair value per option in 2008 compared to 2007. In light of the current downturn in the economy, the Company has begun a cost cutting program which aims to reduce general and administrative expenses by at least fifteen percent in 2009.

Other income amounted to $572,497 for the year ended December 31, 2008 compared with an expense of $889,823 the prior year. The prior year included an impairment charge of $1,923,512 on intangibles and goodwill. The write down in 2007 was partially offset by a gain on the sale of marketable securities.

| YEAR ENDED DECEMBER 31,2008 | NORTH AMERICA | | MONGOLIA | | | |
|---|---|---|---|---|---|---|
| | Industrial Minerals | Donkin Coal | ZuunMod Molybdenum | Coal | Other | Total |
| **EXPLORATION AND OPERATING EXPENSES** | $ | $ | $ | $ | $ | $ |
| Assaying and Analytical | - | - | 263,280 | 34,872 | 28,946 | 327,098 |
| Data Analysis and Testing | - | 424,298 | - | - | - | 424,298 |
| Dewatering/Refurbishment of Tunnels | - | 1,639,747 | - | - | - | 1,639,747 |
| Drilling/Testing | 19,249 | 476,435 | 1,555,341 | 671,381 | 68,847 | 2,791,253 |
| Engineering/Technical Consultants | - | 674,440 | - | - | - | 674,440 |
| Environmental | - | 151,368 | - | - | - | 151,368 |
| Geological Services | 526,885 | 517,373 | 1,154,199 | 278,834 | 37,781 | 2,515,072 |
| Geo-technical Surveys | - | 11,405 | 72,877 | 110,039 | - | 194,321 |
| Logistical and Field Support | 90,798 | - | 567,466 | 191,174 | 63,348 | 912,786 |
| Professional fees | 31,456 | - | 7,687 | - | - | 39,143 |
| Travel | 28,816 | - | 86,757 | 38,568 | 117 | 154,258 |
| Writeoff of resource properties | - | - | - | 12,830 | 604,077 | 616,907 |
| Other | 6,530 | 22,578 | 2,786 | 2,490 | 5,824 | 40,208 |
| Exploration partner contributions | - | - | - | (1,065,826) | - | (1,065,826) |
| **Total exploration expenses** | **703,734** | **3,917,644** | **3,710,393** | **274,362** | **808,940** | **9,415,073** |
| Deferred expenditures | - | (3,917,644) | (3,710,393) | - | - | (7,628,037) |
| Operating and lab expenses | 71,518 | - | - | - | - | 71,518 |
| **Expenses incurred in 2008** | **775,252** | **-** | **-** | **274,362** | **808,940** | **1,858,554** |
| Expensed to December 31, 2007 | 1,253,988 | - | 2,455,326 | 636,498 | 10,257,236 | 14,603,048 |
| **Cumulative expenses to December 31, 2008** | **2,029,240** | **-** | **2,455,326** | **910,860** | **11,066,176** | **16,461,602** |
| **RESOURCE PROPERTIES** | | | | | | |
| Balance, December 31, 2007 | 6,522,558 | 13,994,781 | 4,902,935 | 16,611 | 1,739,653 | 27,176,538 |
| Resource property additions | - | - | 75,725 | 29,094 | 31,371 | 136,190 |
| Deferred expenditures | - | 3,917,644 | 3,710,393 | - | - | 7,628,037 |
| Write off of resource properties | - | - | - | (12,830) | (604,077) | (616,907) |
| Exploration partner contributions | - | - | - | (16,223) | - | (16,223) |
| **Resource Properties at December 31, 2008** | **6,522,558** | **17,912,425** | **8,689,053** | **16,652** | **1,166,947** | **34,307,635** |

| YEAR ENDED DECEMBER 31,2007 | NORTH AMERICA | | MONGOLIA | | | |
|---|---|---|---|---|---|---|
| | Industrial Minerals | Donkin Coal | ZuunMod Molybdenum | Coal | Other | Total |
| **EXPLORATION AND OPERATING EXPENSES** | $ | $ | $ | $ | $ | $ |
| Assaying and Analytical | 47,210 | 12,814 | 227,330 | 19,127 | 137,376 | 443,857 |
| Data Analysis and Testing | - | 386,571 | - | - | - | 386,571 |
| Dewatering/Refurbishment of Tunnels | - | 4,204,247 | - | - | - | 4,204,247 |
| Drilling/Testing | 117,205 | 320,921 | 2,524,544 | 466,733 | 611,878 | 4,041,281 |
| Engineering | - | 354,349 | - | - | - | 354,349 |
| Environmental | - | 97,947 | - | - | - | 97,947 |
| Geological Services | 304,652 | 859,287 | 830,322 | 186,467 | 223,530 | 2,404,258 |
| Geo-technical Surveys | - | 260,469 | 30,278 | 55,147 | 61,620 | 407,514 |
| Logistical and Field Support | 74,299 | - | 478,749 | 110,109 | 243,994 | 907,151 |
| Professional fees | 60,741 | - | - | - | - | 60,741 |
| Travel | 24,780 | - | 56,962 | 69,627 | 17,084 | 168,453 |
| Writeoff of resource properties | - | - | - | 78,230 | 954,080 | 1,032,310 |
| Other | - | 45,374 | 4,535 | 721 | 12,824 | 63,454 |
| Exploration partner contributions | - | - | - | (745,341) | - | (745,341) |
| **Total exploration expenses** | **628,887** | **6,541,979** | **4,152,720** | **240,820** | **2,262,386** | **13,826,792** |
| Deferred expenditures | - | (6,541,979) | (3,438,202) | - | - | (9,980,181) |
| Operating and lab expenses | 299,567 | - | - | - | - | 299,567 |
| **Expenses incurred in 2007** | **928,454** | **-** | **714,518** | **240,820** | **2,262,386** | **4,146,178** |
| Expensed to December 31, 2006 | 325,534 | - | 1,740,808 | 395,678 | 7,994,850 | 10,456,870 |
| **Cumulative expenses to December 31, 2007** | **1,253,988** | **-** | **2,455,326** | **636,498** | **10,257,236** | **14,603,048** |
| **RESOURCE PROPERTIES** | | | | | | |
| Balance, December 31, 2006 | 6,522,558 | 6,923,602 | 1,155,746 | 71,973 | 2,080,852 | 16,754,731 |
| Resource property additions | - | 529,200 | 308,987 | 94,185 | 612,881 | 1,545,253 |
| Deferred expenditures | - | 6,541,979 | 3,438,202 | - | - | 9,980,181 |
| Writeoff of resource properties | - | - | - | (78,230) | (954,080) | (1,032,310) |
| Exploration partner contributions | - | - | - | (71,317) | - | (71,317) |
| **Resource Properties at December 31, 2007** | **6,522,558** | **13,994,781** | **4,902,935** | **16,611** | **1,739,653** | **27,176,538** |

*All financial data has been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.*

## 1.05 Summary of Quarterly Results

*Expressed in thousands of Canadian dollars except per share amounts*

| | Fiscal 2008 | | | | Fiscal 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | Dec-08 | Sep-08 | Jun-08 | Mar-08 | Dec-07 | Sep-07 | Jun-07 | Mar-07 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | - | - | - | - | - | - | - | - |
| Loss | 427 | 887 | 724 | 1,554 | 2,331 | 986 | 3,081 | 253 |
| Basic and diluted loss per share | 0.01 | 0.01 | 0.01 | 0.02 | 0.03 | 0.02 | 0.05 | 0.01 |
| Total Assets | 60,660 | 61,133 | 61,870 | 45,077 | 47,015 | 42,973 | 43,623 | 34,245 |

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

## 1.06 Liquidity and Capital Resources

The Company had working capital at December 31, 2008 of $17,706,185 representing an increase of $9,804,835 from the December 31, 2007 working capital position of $7,901,350. The increase in working capital is primarily due to a June 19, 2008 financing whereby the Company issued 18,586,000 shares at $1.00 per share. Net of issue costs, proceeds of the financing amounted to $17,347,707. During the year ended December 31, 2008, the Company received $248,713 on the exercise of warrants and options. These inflows were partially offset by costs associated with the normal operations of the Company in carrying out its exploration program and general and administrative costs in support of the program.

Current working capital is sufficient to fund the Company's budgeted expenditures through to 2011. The timing and availability of additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration program and decisions based on results from ongoing studies for the Donkin coal project now scheduled for release in the second quarter of 2009.

During the year ended December 31, 2008, $136,190 was expended on additions to resource property interests, offset by partner recovery of $16,223 and write downs of $616,907 compared to additions of $1,545,253 in 2007, offset by partner contributions of $71,317 and write downs of $1,032,310. The Company deferred expenditures totalling $7,628,037 in 2008 compared to $9,980,181 in 2007.

During the year ended December 31, 2008, the Company spent $309,738 on property, plant and equipment compared to $76,350 during 2007.

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

## 1.07 Contractual Obligations

As of December 31, 2008 the Company is committed to the following obligations:

- The Company has entered into an operating lease for office space until August 31, 2014 representing total payments of $360,957 over the next five years. The Company has the right to terminate the lease by giving six months notice prior to each annual anniversary date after August 31, 2010.
- The Company, through its subsidiary EMC, owns outright or has entered into lease agreements for kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is US $37,618. These agreements also provide that the Company will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. The applicable royalty rate per dry processed ton of product is $2.00 per ton and the royalty per ton of crude kaolin mined ranges from $0.35 to $0.50 per ton.

## 1.08 Off-Balance Sheet Arrangements

As at December 31, 2008, the Company 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 Company.

## 1.09 Fourth Quarter

During the fourth quarter, the Company spent $279,499 on property, plant and equipment largely pertaining to equipment for a new plant in Dearing, GA. As part of the Beta agreement mentioned in section 1.02, the Company provided a loan to EMC to purchase the equipment. The Company will receive additional shares of APM as repayment for this loan based on the ten day volume weighted average price of APM shares as traded on the TSXV following the closing.

In December 2008, the Company optioned its 100% interest in the Galshar property to a private Mongolian company and received partial cash consideration of US$50,000 with three additional payments of US$50,000 due over the first year of the option agreement. The Company is also entitled to a royalty of US$1.50 per tonne of coal for each tonne of the first five million tonnes of coal mined from the Properties and a royalty of US$0.75 per tonne for any additional tonnes of coal mined from the Properties in excess of five million tonnes.

Other than those mentioned above, there were no unusual events or items during the fourth quarter of 2008 that affected the Company's financial condition, cash flows or results of operations in a material nature.

## 1.10 Critical Accounting Estimates

Critical accounting estimates used in the preparation of the Company's consolidated financial statements include the Company's estimate of the recoverable value of its resource properties, the value attributed to stock-based compensation and future taxes. These estimates could be significantly affected by factors beyond the Company's control.

The acquisition cost of resource properties are recorded as an asset on the balance sheet under the caption resource property interests until such time as the related property(ies) commence commercial production, at which time it will be depleted against related mine revenue from the property(ies) or when the Company determines the carrying value of a property cannot be recovered, in which case the carrying value will be written off or down to its recoverable value. Since the Company charges all exploration costs to operations when incurred, with the exception of expenditures related to the Donkin coal project and the Zuun Mod molybdenum project, and ultimately to deficit, until potential for an economically recoverable resource has been identified, management feels confident that the recoverable value of its resource properties equals or exceeds its carrying value of $34,307,635 on the Company's balance sheet at December 31, 2008.

Stock-based compensation is calculated using the Black-Scholes model, a recognized option/warrant valuation formula, which is highly dependent on the expected volatility of the market price of the Company's common shares. The Company used a volatility rate of 105% in 2008 (90% in 2007). This is an estimate only based on using past share trading data to predict future volatility, and actual volatility may be different from the estimate used in the valuation formula. Stock-based compensation represents a non-cash expense and, as such, has no impact on the Company's financial position or liquidity. The $806,001 the Company determined in 2008 as stock-based compensation was charged as follows: $467,423 to general and administrative expenses and $338,578 to geological services. This compared to a 2007 total of $1,614,000 which was charged as $910,218 to general and administrative expenses and $703,782 to geological services.

Future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse or when unclaimed losses are expected to be utilized. A valuation allowance is provided when it is more likely than not a future tax asset will not be recognized.

## 1.11 Changes in Accounting Policies

On January 1, 2008, the Company adopted recommendations of the CICA Handbook Sections: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3862 and 3863 replaces Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Except as noted above, the accounting policies applied in the preparation of the December 31, 2008 audited consolidated financial statements did not differ from those applied in the preparation of the December 31, 2007 audited financial statements. A detailed summary of the Company's accounting policies and any estimates derived therefrom is described in Note 1 of the December 31, 2008 audited consolidated financial statements.

### FUTURE ACCOUNTING CHANGES

The Canadian Institute of Chartered Accountants issued new accounting standard Section 3064 Goodwill and Intangible Assets which will be effective January 1, 2009. Section 3064 replaces Section 3062, Goodwill and Other Intangibles and Section 3450, Research and Development. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles assets by profit-oriented enterprises.

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces section 1851 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standards IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January I, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company is evaluating EIC-173 as it applies to financial instrument recognition and measurements. EIC-173 suggests an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes.

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities. The AcSB requires IFRS compliant financial statements for annual and interim financial statements commencing on or after January 1, 2011. The Company's first unaudited interim financial statements under IFRS will be for the quarter ended March 31, 2011, with IFRS compliant comparative financial information for the quarter ended March 31, 2010.

An evaluation of IFRS conversion requirements that pertain to the Company will be conducted by the third quarter of 2009, which will lead to the development of an implementation plan to transition the Company's financial reporting process to IFRS.

## 1.12 Financial Instruments and Other Risks

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, cash - flow-through funds, accounts payable and accrued liabilities. Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted. The Company does not have to the date of this MD&A, nor has it ever had, any of its cash invested in asset backed commercial paper.

In conducting its business, the principal risks and uncertainties faced by the Company 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 Company's control. In addition to the normal and usual risks of exploration and mining, the Company works in remote locations that lack the benefit of infrastructure and easy access.

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

## 1.13 Outstanding Share Data

See Note 6 to the December 31, 2008 audited consolidated financial statements for detail as to the change in the issued and outstanding common shares, warrants and options of the Company during the years ended December 31, 2008 and 2007. From December 31, 2008 to the date of this report, there has been no change in the balance of outstanding shares, warrants or stock options of the Company.

### ISSUED AND OUTSTANDING SHARE CAPITAL

During the year ended December 31, 2008, the Company issued a total of 19,029,938 shares as follows:

- On June 19, 2008 the Company completed a private placement of 18,586,000 shares at a price of $1.00 per share. Toll Cross Inc. and National Bank Financial Inc. were co-lead agents in the offering on behalf of a syndicate that included Acadian Securities Inc., Beacon Securities Limited and Citadel Securities Inc. All the shares in connection with the offering were subject to a four month hold period from the date of issue.
- 443,938 shares were a issued on the exercise of warrants and options.

**Warrants**
During the year ended December 31, 2008, 329,938 warrants were exercised at an average price of $0.60 per share for gross proceeds of $197,114 and 430,000 warrants expired.

**Stock Options**
During the year ended December 31, 2008, 1,150,000 options were granted to certain directors, employees and contractors of the Company, 114,000 options were exercised at an average price of $0.45 per share for gross proceeds of $51,600, and 667,500 options expired or were cancelled.

## 1.14 Exploration Results

During the year, the Company carried out exploration programs on a number of its Mongolian mineral projects. The Company's Zuun Mod molybdenum project was the focus of much of the exploration work in 2008. Minarco MineConsult ("Minarco"), an independent mine engineering firm, part of the Runge Group of Sydney Australia, provided a National Instrument 43-101 ("NI 43-101") compliant resource estimate report for the Zuun Mod molybdenum deposit in May 2008. The Zuun Mod deposit includes 110 million tonnes of Measured and Indicated resource grading 0.06% molybdenum (Mo). Additional drilling was carried out at Zuun Mod in 2008 with the objectives of testing high-grade mineralization at depth, exploring areas peripheral to the deposit and drilling to better define localized zones of higher grade mineralization, particularly those nearer surface. The data from the 2008 drilling program is being incorporated into a revised resource estimate by Minarco expected in the second quarter of 2009.

Exploration work was also carried out on several other metals and coal projects in Mongolia including drilling programs on the Erdenet Ikh Tal copper project and early stage coal projects including the Jargalant, Maanit and Mogoit projects.

In North America, the Donkin Coal Project continued to progress towards an underground development decision. In May, 2008 the DCA announced a commitment to fund a feasibility study of an Evaluation and Development Program ("Program") at the Donkin project in Nova Scotia. The Program, utilizing a continuous miner, is an interim step in the development path leading towards establishing a large scale underground longwall mining operation. The project partners endorsed this interim step in the project to obtain further information deemed critical to the assessment of the feasibility of the large scale underground mining options under consideration. In December, 2008 the Nova Scotia Environment Minister released a decision approving this phase of the project. The Company holds a 25% interest in the Donkin Coal Project with Xstrata Coal Canada holding the remaining 75%.

In Georgia, USA, work continued to develop the Company's kaolin properties which are held by the Company's U.S. subsidiary, EMC. KaMin LLC, through a royalty agreement with the Company, continued mining operations on the Lucky Strike kaolin property. The Company also continued, with partner Deepstep Kaolin Company ("Deepstep"), to develop a new product line for the ceramics industry from the Company's primary kaolin resources.

As mentioned in section 1.02, the Company concluded an agreement with Beta Minerals Inc. on February 27, 2009 whereby the Company and DKC exchanged all of the outstanding common shares of EMC, for common shares of Beta, giving the Company a controlling interest in Beta. The resulting company, Advanced Primary Minerals, will be focused on developing EMC's high quality primary kaolin resources in Georgia for specialty clay markets in the ceramics and other specialty industrial applications.

Also in Georgia, pre-development and permitting activities were completed on the Granite Hill construction aggregate project, under the management of Ready Mix USA. Further development of the proposed granite aggregate quarry at Granite Hill is awaiting a production decision by Ready Mix USA.

The following is an overview of the programs carried out on the Company's principal properties in 2008.

### MONGOLIA

**Zuun Mod Molybdenum Project**
The Zuun Mod project is a porphyry molybdenum (with copper and rhenium) deposit located in Bayankhongor Province 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 single license totaling 49,538 hectares. The licenses are registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Company. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

The Zuun Mod project has been under exploration and evaluation since 2002. Subsequent to signing an agreement with Gallant Minerals Limited in March 2005 to acquire the license, the Company carried out extensive exploration that has resulted in establishing Zuun Mod as one of the largest and most advanced pre-development molybdenum projects in the North Asia Region.

In 2007, a phased resource delineation drilling program resulted in the identification of three mineralized zones with potentially economic concentrations of molybdenum, with associated copper and rhenium mineralization, within the 3.5km long area referred to as the South Corridor. The Company retained the services of Minarco to carry out an independent resource estimate for the Zuun Mod molybdenum project. In May 2008 the Company received a NI 43-101 compliant resource report for the project from Minarco.

A summary of the Zuun Mod resource is provided in the following table.

## RESOURCE ESTIMATE TABLE

| Cut-off Grade Mo% | Resource Category | Resources Mt | Cu% | Mo% | Contained Mo Metal Mlbs |
|---|---|---|---|---|---|
| 0.04% | Inferred | 49.7 | 0.063 | 0.047 | 51 |
| | Indicated | 51.2 | 0.068 | 0.051 | 58 |
| | Measured | 185.9 | 0.068 | 0.053 | 217 |
| | **Total Measured & Indicated** | **237.1** | **0.068** | **0.052** | **272** |
| 0.05% | Inferred | 12.7 | 0.069 | 0.058 | 16 |
| | Indicated | 21.3 | 0.076 | 0.060 | 28 |
| | Measured | 88.8 | 0.075 | 0.062 | 121 |
| | **Total Measured & Indicated** | **110.1** | **0.075** | **0.061** | **148** |

Following the release of the resource estimate, additional drilling was carried out in 2008 at Zuun Mod to test for high-grade mineralization at depth, to explore areas peripheral to the deposit and to better define localized zones of higher grade mineralization, particularly those nearer surface. A total of 32 new holes were completed and eight holes were deepened, totaling 10,785 metres.

The 2008 program was successful in defining localized higher grade zones and enlarging the overall deposit, both vertically and laterally. The deposit was confirmed to extend to depths exceeding 500 metres over a minimum strike length of 1.7 kilometres while locally coming to within 22 metres of surface. Drilling confirmed several continuous intersections exceeding 350 metres of 0.06% Mo and multiple high grade zones exceeding 50 metres of 0.10% Mo. Minarco is currently working to revise the May 2008 resource estimate by incorporating the 2008 drilling data.

### Energy Project – Coal

The Company is involved in a comprehensive coal generative program in cooperation with Xstrata Coal Canada Limited ("Xstrata"), evaluating numerous prospective metallurgical and high quality thermal coal deposits throughout Mongolia. All the Company's coal exploration in Mongolia is being fully funded by Xstrata (see section 1.02 "Strategic Alliance with Xstrata Coal Canada Limited") and is being carried out in consultation with Xstrata personnel.

Since 2006, the Company has visited over one hundred coal sites throughout Mongolia under the Strategic Alliance Agreement with Xstrata and has compiled an extensive database on coal deposits, occurrences, prospective stratigraphy and sedimentary basins allowing for a prioritization of targets. In 2008, Erdene continued with a property evaluation and acquisition program designed to identify and secure access to additional exploration licenses in Mongolia with the potential to host large tonnage thermal and metallurgical coal resources. Three properties were drill tested with 13 drill holes totaling 1,586 metres. Results do not warrant follow-up exploration for coal on these properties. In 2009, the program of project evaluation and acquisition, designed to identify and secure large tonnage thermal and metallurgical coal deposits, will continue.

The Galshar coal project is located on the border of Dornogovi and Khentii provinces 300km southeast of Ulaanbaatar and 63km from rail. The property consists of three exploration licenses covering a major part of the Galshar coal deposit in the southeast part of the Choir-Nyalga coal basin. The Galshar deposit consists of a thick, folded anticline and anticline limb package of locally thermal grade, Lower Cretaceous coal in a topographic and structural depression. The project did not meet Xstrata's size criteria of >100Mt and was excluded from the Strategic Alliance Agreement. In December 2008, the Company optioned its 100% interest in the Galshar property to a private Mongolian company and received partial cash consideration of US$50,000 with three additional payments of US$50,000 due over the first year of the option agreement. The Company is also entitled to a royalty of US$1.50 per tonne of coal for each tonne of the first five million tonnes of coal mined from the Properties and a royalty of US$ 0.75 per tonne for any additional tonnes of coal mined from the Properties in excess of five million tonnes.

### North American Projects

The Company's North American project portfolio includes a 25% interest in the Donkin coal project as well as two notable industrial mineral projects in Georgia, USA. The industrial mineral opportunities include the Sparta Kaolin project and the Granite Hill Aggregate project, a royalty project managed by Ready Mix USA.

### Donkin Coal Project

The Company is a 25% joint venture partner in the Donkin Coal Alliance ("DCA") with Xstrata Coal Donkin Limited. The DCA was formed to secure the rights to the Donkin coal project and to explore, assess, study and, if feasible, develop the high-grade Donkin coal resource. The Donkin coal project is located in Cape Breton, Nova Scotia, proximal to deep water ideal for seaborne shipping into the major markets on North America's east coast and Europe.

In April 2007, the DCA 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 coal with approximately 14,000 BTUs, high sulphur, low ash and low moisture.

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 represents a major milestone in the project's development and clears the way for direct access to the Harbour seam.

In November 2007, the DCA received an independent Preliminary Assessment Study ("PAS") by Norwest Corporation ("Norwest"). The PAS was a study into the business case for a continuous miner development and longwall ("LW") extraction coal mine at the Donkin project. The PAS's base case scenario returned a net present value (NPV) for the project of US$194M (or US$49M for Erdene's 25% interest) using a coal price of US$52/tonne. The proposed mine has a projected life of 30-plus years, producing approximately 108 million tonnes of run-of-mine coal. The initial target market for this product will be domestic and export thermal coal for power generation.

The Norwest PAS should be considered preliminary in nature based on the inclusion of inferred resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Until there is additional information to upgrade the inferred resources to a higher category, there can be no certainty that the preliminary assessment will be realized.

In May, 2008 the DCA announced a commitment to fund a feasibility study of an Evaluation and Development Program ("Program") for the Donkin coal project. The Program, utilizing a continuous miner, is an interim step in the development path leading towards establishing a large scale underground longwall mining operation. The project partners endorsed this interim step in the project to obtain further information deemed critical to the assessment of the feasibility of the large scale underground mining options under consideration.

On October 29, 2008 an Environmental Assessment report for the Program was registered with the Province of Nova Scotia's Environment Department. On December 18, 2008 the Minister of Environment released a decision approving the undertaking in accordance with Section 13(1)b of the Environmental Assessment Regulations, pursuant to Part IV of the Environment Act. The undertaking has been approved subject to a number of conditions. This decision effectively removed the final regulatory hurdle prior to commencement of the Program.

**Sparta Kaolin Project**

As a result of an aggressive exploration and acquisition program in the late 1990s, the Company controls a large high brightness primary kaolin (clay) resource through its U.S. subsidiary, Erdene Materials Corporation ("EMC"). EMC's in-ground, "premium" quality, primary kaolin resource in Georgia has a total NI 43-101 compliant resource of 27.3 million tons (Measured and Indicated).

For the project's initial development stage, EMC partnered with industry leader KaMin LLC (formerly Huber Engineered Materials ("Huber")). In October 2003, the Company entered into an agreement with Huber for prepaid tonnage of crude kaolin. Huber conducted a due diligence evaluation program of the Sparta kaolin resource and performed an extensive product development program. This led to the successful commercialization of a light-weight coater product, in late 2004. Commercial production by Huber from the Company's primary kaolin deposits began in 2005 under the product name HuberPrimeTM, a high quality light-weight coater product, sold by KaMin. KaMin continues to mine from the Company's Lucky Main deposit.

In 2007, EMC announced that it had entered into an Option Agreement with Deepstep Kaolin Company LLC ("Deepstep"), of Georgia, USA. Since that time EMC and Deepstep have worked to jointly develop a new product line for the Company's primary kaolin resources with a focus on casting and glazing products for the ceramic industry.

Subsequent to year end, the shares of EMC, which holds the clay assets mentioned above, have been exchanged for shares of Beta Minerals as outlined in section 1.02.

**Granite Hill Project**

Ready Mix USA ("RMU") holds, through a lease with the Company, an exclusive right to mine, process, and sell aggregate from the Company's Granite Hill property in Georgia. The sale of all aggregate from the property is subject to an industry competitive royalty payable to the Company. The Granite Hill project has been issued all of the Federal, State and local operating permits to enable development as a granite quarry, primarily to serve the southeastern U.S. markets by rail. Granite Hill has an estimated start-up production rate of one million tonnes of granite aggregate per year with a design capacity of up to two million tonnes. Based on current production projections, the Granite Hill quarry would have a lifespan in excess of 30 years.

RMU has designed a quarry mining plan, processing plant and facilities, and produced an environmental impact plan. RMU has also acquired additional land adjacent to the Granite Hill property to secure rail access to the site. The construction phase is expected to be completed nine to twelve months after a production decision by RMU. RMU is responsible for fully funding the development and operating program.

## 1.15 Disclosure Controls and Procedures

An evaluation of the design and effectiveness of the operation of the Company's disclosure controls and procedures has been conducted by management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2008, the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), are effective to ensure information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company, and its subsidiaries, to disclose material information otherwise required to be set forth in the Company's periodic reports. Further, projections of any evaluation of effectiveness to future periods are subject to the risk controls may become inadequate because of a change in conditions, or the degree of compliance with the policies and procedures may deteriorate.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of internal controls over financial reporting. Based on this evaluation, the CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2008.

There has been no change in the Company's internal control over financial reporting that occurred during the year ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

## 1.16 Outlook

The current downturn in commodities prices and general uncertainty in the financial markets makes predictions of future performance difficult. As mentioned earlier in this report, the Company has the working capital necessary to meet its budgeted expenditures through to 2011. The Company remains optimistic about the potential demonstrated by its two advanced stage projects, the Zuun Mod molybdenum and Donkin coal projects.

### ZUUN MOD

Resource evaluation, environmental and hydrogeologic studies will be carried out in the first half of 2009 at Zuun Mod. The current focus is on revising the May 2008 resource estimate by incorporating the 2008 drilling data and developing all necessary data and supporting information for a Mining License application required to secure tenure for Zuun Mod over the longer term. Drilling has defined at least two areas where mineralization begins within 50 metres of surface, with grades in the 0.07% to 0.09% Mo range over intervals between 60 and 80 metres. These zones display good horizontal and vertical continuity. Management expects to develop initial mine plans in these two areas before moving into higher-volume operations at grades of 0.05% to 0.06% Mo based on molybdenum prices higher than current levels.

Evaluations of the economics of such a plan will be carried out in 2009 and based on acceptable returns; a prefeasibility program will be conducted. During this period, molybdenum and steel markets will be evaluated to assess the proper time to more aggressively advance the project through to feasibility. Expenditures for the Zuun Mod project in 2009 will be limited to those needed to advance the project through these stages and provide the necessary information for the mining license application.

### DONKIN

The feasibility study on the Evaluation and Development Program ("Program") at the Donkin coal project is expected to be complete by the end of the second quarter 2009. The Program will focus on gaining greater certainty of the geological, geotechnical and mining conditions of the proposed operation. It is expected the Program will commence within a year of obtaining all requisite external and internal approvals with coal generated from the Program to be marketed domestically and internationally in order to establish a customer base for future levels of production.

During the estimated 18 month duration of the Program, the DCA will use the information generated from the Program to decide on the progression of the project into a feasibility study of the proposed large scale underground longwall mining operation.

## 1.17 Qualified Person

J. Christopher Cowan, P.Eng., serves as the qualified person under National Instrument 43-101 and supervises all of the Company'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 Company incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

## 1.18 Other Information

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

# Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Where appropriate, these financial statements reflect management's best estimates and judgments based on currently available information.

Internal systems of financial and operating controls, which include effective controls to provide reasonable assurance that relevant and reliable financial information is produced, are the responsibility of management. Management believes it maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records are maintained.

The board of directors is responsible for ensuring that management fulfills its financial reporting and internal control responsibilities, which it does primarily through the audit committee. The audit committee meets periodically with management and the Company's external auditors to discuss internal controls over the financial reporting process, the consolidated financial statements, management's discussion and analysis, the results of the annual audit and the auditors' report to shareholders. The audit committee reports its findings to the board of directors before submitting the audited consolidated financial statements to the Board for approval.

The Company's external auditors, KPMG LLP, are appointed by the shareholders to conduct an independent audit in accordance with Canadian generally accepted auditing standards. The external auditors have established their independence from, and have full and free access to, management and the audit committee.

Peter Akerley
President & Chief Executive Officer

Ken MacDonald
Vice-President Business Strategy & Chief Financial Officer

March 5, 2009

# Auditors' Report

We have audited the consolidated balance sheets of Erdene Resource Development Corporation (formerly "Erdene Gold Inc.") as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 5, 2009

# Consolidated Balance Sheets

DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 10) | $ 16,195,175 | $ 8,727,380 |
| Marketable securities | 1,984,074 | – |
| Amounts receivable (note 3) | 238,511 | 1,078,416 |
| Prepaid expenses | 61,002 | 33,435 |
| | 18,478,762 | 9,839,231 |
| Cash – flow-through funds (notes 2 and 10) | – | 2,713,644 |
| Resource property interests (note 4) | 34,307,635 | 27,176,538 |
| Property, plant and equipment (note 5) | 2,508,912 | 2,285,810 |
| Goodwill | 5,000,000 | 5,000,000 |
| Deferred transaction costs | 300,323 | – |
| | **$ 60,595,632** | **$ 47,015,223** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 772,577 | $ 1,937,881 |
| Future income taxes (note 9) | 5,764,420 | 4,367,290 |
| **Shareholders' equity** | | |
| Share capital (note 6) | 78,405,471 | 60,926,339 |
| Contributed surplus (note 7) | 5,877,904 | 5,113,451 |
| Deficit | (30,160,422) | (25,329,738) |
| Accumulated other comprehensive loss | (64,318) | – |
| | 54,058,635 | 40,710,052 |
| Nature of operations and going concern (note 1) | | |
| Commitments (note 14) | | |
| Subsequent event (note 15) | | |
| | **$ 60,595,632** | **$ 47,015,223** |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Ken MacDonald, Director

David Carnell, Director

# Consolidated Statements of Operations and Deficit

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **EXPENSES** | | |
| Exploration and operating expenses, net of recovery | 1,858,554 | 4,146,178 |
| General and administrative | | |
| Administrative services | 633,420 | 482,261 |
| Depreciation | 52,752 | 49,952 |
| Investor relations and communications | 279,550 | 235,692 |
| Office and sundry | 221,877 | 215,009 |
| Professional fees | 209,347 | 213,741 |
| Regulatory compliance | 198,819 | 132,020 |
| Stock based compensation | 467,423 | 910,218 |
| Travel and accommodations | 212,081 | 161,234 |
| Other | 31,065 | 26,935 |
| | 2,306,334 | 2,427,062 |
| Other income (expenses) | | |
| Interest revenue | 483,144 | 412,481 |
| Royalties | 80,612 | 81,175 |
| Foreign exchange | 70,229 | (100,151) |
| Taxes | (88,297) | (107,714) |
| Loss on impairment of intangible assets and goodwill | – | (1,923,512) |
| Gain on sale of resource property | – | 70,666 |
| Gain on the sale of marketable securities | – | 469,569 |
| Other | 26,809 | 207,663 |
| | 572,497 | (889,823) |
| Loss before income taxes | 3,592,391 | 7,463,063 |
| Future income tax recovery | – | (812,000) |
| Loss for the year | 3,592,391 | 6,651,063 |
| Deficit, beginning of year | 25,329,738 | 17,440,830 |
| Share issue costs | 1,238,293 | 1,237,845 |
| **Deficit, end of year** | **$ 30,160,422** | **$ 25,329,738** |
| Basic and diluted loss per share (note 8) | $ 0.04 | $ 0.11 |
| **Weighted average number of common shares outstanding** | **80,439,892** | **62,380,463** |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Loss and Accumulated Other Comprehensive Loss

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| Net loss for the year | $ 3,592,391 | $ 6,651,063 |
| Other comprehensive income, net of tax: | | |
| Reclassification of gain from accumulated other comprehensive income to net income | – | (290,036) |
| Unrealized loss on available for sale marketable securities | 64,318 | – |
| | **$ 3,656,709** | **$ 6,361,027** |
| Accumulated Other Comprehensive Loss | | |
| Balance, beginning of year | $ – | $ – |
| Adjustment to opening balance on adoption of new accounting policy | – | 290,036 |
| Reclassification of earnings on available for sale marketable securities | – | (290,036) |
| Unrealized loss on available for sale marketable securities | (64,318) | – |
| | **$ (64,318)** | **$ –** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operations** | | |
| Loss for the year | $ (3,592,391) | $ (6,651,063) |
| Items not involving cash | | |
| Depreciation | 86,636 | 71,680 |
| Loss on impairment of intangible assets and goodwill | – | 1,923,512 |
| Stock-based compensation | 806,001 | 1,614,000 |
| Write off of resource properties | 616,907 | 1,032,310 |
| Future income tax recovery | – | (812,000) |
| Gain on sale of resource property | – | (70,666) |
| Gain on sale of marketable securities | – | (469,569) |
| Change in non-cash operating working capital | (352,966) | 879,141 |
| | (2,435,813) | (2,482,655) |
| **Financing** | | |
| Issue of common shares for cash | 18,586,000 | 15,712,030 |
| Share issue costs | (1,238,293) | (988,845) |
| Issue of common shares on exercise of options and warrants | 248,714 | 1,276,700 |
| | 17,596,421 | 15,999,885 |
| **Investing** | | |
| Purchase of marketable securities | (2,048,392) | – |
| Purchase of resource property interests | (7,748,004) | (10,350,917) |
| Proceeds on sale of marketable securities | – | 704,568 |
| Purchase of property, plant and equipment | (309,738) | (76,350) |
| Deferred transaction costs | (300,323) | – |
| | (10,406,457) | (9,722,699) |
| Increase (decrease) in cash and cash equivalents | 4,754,151 | 3,794,531 |
| Cash and cash equivalents, beginning of year | 11,441,024 | 7,646,493 |
| **Cash and cash equivalents, end of year** | **$ 16,195,175** | **$ 11,441,024** |
| Cash is defined as: | | |
| Cash and cash equivalents | 16,195,175 | 8,727,380 |
| Cash – flow-through funds | – | 2,713,644 |
| | **$ 16,195,175** | **$ 11,441,024** |

Supplemental cash flow information (note 10)
See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

### NATURE OF OPERATIONS AND GOING CONCERN

Erdene Resource Development Corporation (the "Company") (formerly "Erdene Gold Inc.") was incorporated by Articles of Incorporation dated June 27, 2000, pursuant to the provisions of the Canada Business Corporations Act. The principal business of the Company is the exploration and development of mineral deposits. The Company is principally focused on the discovery of large tonnage, low cost, gold, copper, molybdenum, coal and uranium deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America. To date the Company has not yet earned any significant operating revenues and is considered to be in the exploration and development stage.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts different from those recorded in these consolidated financial statements.

The ability of the Company to continue as a going concern and the recoverability of amounts shown for resource property interests are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development; and the future profitable production or proceeds from disposition of such properties. These consolidated financial statements do not give effect to adjustments necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. All of these outcomes are uncertain and taken together cast substantial doubt over the ability of the Company to continue as a going concern.

## 1. Summary of Significant Accounting Policies

### A) PRINCIPLES OF CONSOLIDATION

These consolidated financial statements are presented in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiaries Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Tamerlane International Limited (Bermuda); Erdene Mongol XXK, Erdene Energy XXK and Anian Resources XXK (Mongolia); Erdene Resources Inc. (formerly Kaoclay Resources Inc ("Kaoclay")) and 6531954 Canada Limited (Canada); Erdene Materials Corporation ("EMC") and ERD Aggregate Corporation (Delaware). Inter-company accounts and transactions have been eliminated.

### B) CHANGES IN ACCOUNTING POLICIES

On January 1, 2008 the Company adopted recommendations of CICA Handbook Sections 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. See note 12 for further information.

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. See note 11 for further information.

### C) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant estimates and assumptions relate to the recoverability of resource property interests and the calculation of stock-based compensation. While management believes that these estimates and assumptions are reasonable, actual results could differ.

### D) FINANCIAL INSTRUMENTS

The Company accounts for its financial assets and liabilities in accordance with Canadian generally accepted accounting principles.

The financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The following is a summary of the classification of the Company's financial assets and liabilities:

(i) Cash and cash equivalents, consisting of deposits in banks, money market instruments and GICs are classified as held-for-trading, are measured at fair value.

(ii) Amounts receivable are classified as loans and receivables, which are measured at amortized cost.

(iii) Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

(v) Marketable securities are classified as available for sale and are carried at fair value with gains and losses recognized in comprehensive income or through the income statement if the loss is considered to be other than temporary.

### E) RESOURCE PROPERTY INTERESTS

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

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

Contributions from exploration partners to fund exploration expenses are recorded on the accrual basis as a reduction of exploration expenses.

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

### F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives at the following annual rates and methods:

| Asset | Basis | Rate |
|---|---|---|
| Building | Declining balance | 10% |
| Equipment, furniture and fixtures | Declining balance | 20% |
| Software and computers | Declining balance | 33% |
| Vehicles | Declining balance | 30% |

### G) FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's integrated foreign subsidiaries that are financially or operationally dependent on the parent company are translated using the temporal method. Under this method monetary items are translated at exchange rates in effect at the balance sheet date, non-monetary assets and liabilities are translated at historical exchange rates, and revenues and expenses are translated at average exchange rates for the period.

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

### H) INCOME TAXES

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

### I) STOCK-BASED COMPENSATION

The Company has a stock-based compensation plan, which is described in note 6. The Company accounts for all stock-based payments to non-employees and employee awards that are direct awards of stock using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Under the fair value based method, compensation cost attributable to awards to employees is measured at fair value at the grant date. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable at the grant date.

### J) FLOW-THROUGH SHARES

The Company has financed a portion of its exploration activities through the issue of flow-through shares. As permitted under the Income Tax Act (Canada), the tax attributes of eligible expenditures incurred with the proceeds of flow-through share issuances are renounced to subscribers. On the date that the Company files the renouncement documents with the tax authorities, a future income tax liability is recognized and shareholders' equity is reduced, for the tax effect of expenditures renounced to subscribers.

### K) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

### L) GOODWILL

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is tested for impairment annually. The fair value of each reporting unit that includes goodwill is compared to the total carrying amount (including goodwill) of that reporting unit. If the fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value is less than the carrying value, the fair values of the assets and liabilities within the reporting unit are estimated. The difference between the fair value of the assets and liabilities within the reporting unit and the fair value of the entire reporting unit represents the deemed fair value of the goodwill of the reporting unit. When the carrying value of goodwill exceeds the deemed fair value, the excess is charged to earnings in the period in which the impairment is determined.

### M) FUTURE ACCOUNTING CHANGES

The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standard Section 3064 Goodwill and Intangible Assets which will be effective January 1, 2009. Section 3064 replaces Section 3062, Goodwill and Other Intangibles and Section 3450, Research and Development. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles assets by profit-oriented enterprises.

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces Section 1851 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standards IFRS 3 – Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January I, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company is evaluating EIC-173 as it applies to financial instrument recognition and measurements. EIC-173 suggests an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes.

### N) DEFERRED TRANSACTION COSTS

The Company has deferred costs associated with the Beta reverse take over which will be capitalized as part of the transaction. See subsequent event note 15.

## 2. Cash – Flow-Through Funds

The Company completed two flow through financings totaling $10,657,100 to fund its commitment under the Donkin Coal Alliance (see note 4) regarding the exploration and evaluation of the Donkin Coal Resource Block located in Cape Breton, Nova Scotia. At December 31, 2007 the company held $2,713,644 in flow through funds which were restricted to qualifying Canadian Exploration Expenditures ("CEE") under the Income Tax Act (Canada). These funds were fully expended during 2008.

## 3. Amounts receivable

| | 2008 | 2007 |
|---|---|---|
| Trade receivables | $ 7,390 | $ 22,633 |
| Exploration partner recovery | 66,228 | 645,285 |
| GST/HST | 18,224 | 347,319 |
| Other | 146,669 | 63,179 |
| | $ 238,511 | $ 1,078,416 |

Other receivables includes an amount receivable of $138,075 (2007 - $42,300) from a director and officer, which is non-interest bearing and repayable on demand.

## 4. Resource Property Interests

The Company currently defers expenses incurred on its Donkin and Zuun Mod projects.

The Company's mineral exploration licenses in Mongolia are held by its subsidiaries, Erdene Mongol XXK, Erdene Energy 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. The Company's mineral rights in Georgia are held by its subsidiary, Erdene Materials Corporation and in Nova Scotia the Company's interest in the Donkin coal project is held through Erdene Resources Inc.'s wholly owned subsidiary 6531954 Canada Limited. Resource property interests are recorded at the cost of acquisition.

The cost of resource property interests as at December 31, 2008 and 2007 are as follows:

| YEAR ENDED DECEMBER 31, 2008 | NORTH AMERICA | | MONGOLIA | | | |
|---|---|---|---|---|---|---|
| | Industrial Minerals | Donkin Coal | ZuunMod Molybdenum | Coal | Other | Total |
| **RESOURCE PROPERTIES** | $ | $ | $ | $ | $ | $ |
| Balance, December 31, 2007 | 6,522,558 | 13,994,781 | 4,902,935 | 16,611 | 1,739,653 | 27,176,538 |
| Resource property additions | - | - | 75,725 | 29,094 | 31,371 | 136,190 |
| Deferred expenditures | - | 3,917,644 | 3,710,393 | - | - | 7,628,037 |
| Write off of resource properties | - | - | - | (12,830) | (604,077) | (616,907) |
| Exploration partner contributions | - | - | - | (16,223) | - | (16,223) |
| **Resource Properties at December 31, 2008** | **6,522,558** | **17,912,425** | **8,689,053** | **16,652** | **1,166,947** | **34,307,635** |

| YEAR ENDED DECEMBER 31, 2007 | NORTH AMERICA | | MONGOLIA | | | |
|---|---|---|---|---|---|---|
| | Industrial Minerals | Donkin Coal | ZuunMod Molybdenum | Coal | Other | Total |
| **RESOURCE PROPERTIES** | $ | $ | $ | $ | $ | $ |
| Balance, December 31, 2006 | 6,522,558 | 6,923,602 | 1,155,746 | 71,973 | 2,080,852 | 16,754,731 |
| Resource property additions | - | 529,200 | 308,987 | 94,185 | 612,881 | 1,545,253 |
| Deferred expenditures | - | 6,541,979 | 3,438,202 | - | - | 9,980,181 |
| Writeoff of resource properties | - | - | - | (78,230) | (954,080) | (1,032,310) |
| Exploration partner contributions | - | - | - | (71,317) | - | (71,317) |
| **Resource Properties at December 31, 2007** | **6,522,558** | **13,994,781** | **4,902,935** | **16,611** | **1,739,653** | **27,176,538** |

### A) INDUSTRIAL MINERALS

The Company, through its subsidiary EMC, owns outright or has entered into lease agreements for kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is US $37,618. These agreements also provide that the Company will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. The applicable royalty rate per dry processed ton of product is $2.00 per ton and the royalty per ton of crude kaolin mined ranges from $0.35 to $0.50 per ton.

In October 2007, EMC entered into an agreement with Deepstep Kaolin Company LLC ("DKC"), whereby the companies agreed to jointly develop a new product line for the Company's primary kaolin resources. EMC and DKC have been working with manufacturers testing various raw material sources in different ceramic and glazing clay applications.

On July 15, 2008 the Company and DKC entered into a letter of agreement ('LOA") with Beta Minerals Inc. ("BMI") (TSX.V:BMI) whereby the Company and DKC agreed to transfer all of its shares in EMC for controlling interest of BMI. See subsequent event (note 15).

The Granite Hill property, which upon closing of the Beta LOA is owned by ERD Aggregate Corp., is under long term lease to Ready Mix USA LLC. The property has received permit approval for a commercial aggregate quarry and is awaiting a decision by Ready Mix USA to commence production.

### B) DONKIN

The Company is a 25% joint venture partner in the Donkin Coal Alliance ("DCA") with Xstrata Coal Donkin Limited ("XCDL"). The DCA was formed to secure the rights to the Donkin coal project and to explore, assess, study and, if feasible, develop the high-grade Donkin coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia.

In November 2007, the DCA received a positive preliminary assessment from Norwest Corporation of the economics of the Donkin coal project (the report is available on SEDAR).

Pursuant to the Alliance Agreement, the Company is committed to fund up to $10,000,000 ("Initial Funding") of the expenditures incurred during the exploration program of the Donkin Coal Project provided such expenses qualify as CEE. XCDL agreed to pay any other costs up to a maximum of $5,000,000 but if the Company only pays a portion of the Initial Funding, XCDL is only obliged to pay a corresponding portion of the $5,000,000. The Company is responsible to fund 25% of any additional expenditures incurred in the exploration program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2008 a total of $11,861,100 has been advanced in order to meet the Company's commitment. Due to the Company's funding of expenditures during the evaluation program in excess of its proportionate interest, the first $10 million of the Company's capital obligations upon a positive development decision will be funded by XCDL.

### C) MONGOLIAN PROPERTIES

#### Zuun Mod

The Zuun Mod property is a molybdenum/copper occurrence and consists of one license. It is located in Bayankhongor Province south-west of Ulaanbaatar. The license renewal date is in May 2009 with a fee of US$74,307. Beginning July 1, 2007, the Company's Zuun Mod molybdenum project met the Company's criteria to begin capitalizing exploration and development costs associated with the project.

#### Coal

The Company has two coal exploration licenses (Galshar property) located in Gobi Altai province in central Mongolia. The license renewal dates are in April and July 2009. A number of applications for additional coal exploration licenses are pending final approval by the Mineral and Petroleum Resource Authority of Mongolia (MPRAM).

In December 2008, the Company optioned its 100% interest in the Galshar property to a private Mongolian company and received partial cash consideration of US$50,000 with three additional payments of US$50,000 due over the first year of the option agreement. The Company is also entitled to a royalty of US$1.50 per tonne of coal for each tonne of the first five million tonnes of coal mined from the Properties and a royalty of US$ 0.75 per tonne for any additional tonnes of coal mined from the Properties in excess of five million tonnes.

#### Other properties

*Tsenkher Gol*

The Tsenkher Gol gold exploration property is located in Khentii Province,. The property consists of two contiguous licenses. The license renewal dates are in May 2009 with a fee of US$7,983.

*Ikh Tal (Erdenet)*

The Erdenet-Ikh Tal property consists of a single exploration license adjacent to the Erdenet copper/molybdenum mine property in northern Mongolia. The license renewal date is in December 2009 with a fee of US$9,054.

*Mogoit*

The Mogoit copper property consists of a single license and its license renewal date is in November 2009 with a fee of US$28,788.

### D) RESOURCE PROPERTY WRITE OFFS

| | 2008 | 2007 |
|---|---|---|
| Erdenet | $ 89,413 | $ 247,250 |
| Biger | 129,247 | – |
| Ongon | 330,876 | – |
| Other | 67,371 | 785,060 |
| | $ 616,907 | $ 1,032,310 |

## 5. Property, plant and equipment

| | | | 2008 |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Land | $ 1,894,364 | $ – | $ 1,894,364 |
| Building | 404,185 | 237,032 | 167,153 |
| Equipment, furniture and fixtures | 869,200 | 547,210 | 321,990 |
| Software and computer | 186,571 | 104,295 | 82,276 |
| Vehicles | 68,522 | 25,393 | 43,129 |
| | $ 3,422,842 | $ 913,930 | $ 2,508,912 |

| | | | 2007 |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Land | $ 1,894,364 | $ – | $ 1,894,364 |
| Building | 386,830 | 220,077 | 166,753 |
| Equipment, furniture and fixtures | 637,409 | 509,767 | 127,642 |
| Software and computer | 146,063 | 81,956 | 64,107 |
| Vehicles | 48,438 | 15,494 | 32,944 |
| | $ 3,113,104 | $ 827,294 | $ 2,285,810 |

## 6. Share Capital

### AUTHORIZED AND ISSUED

| | 2008 Number of shares | 2008 $ | 2007 Number of shares | 2007 $ |
|---|---|---|---|---|
| Authorized | | | | |
| Unlimited number of common shares without par value | | | | |
| Issued: | | | | |
| Balance, beginning of period | 70,200,939 | 60,926,339 | 53,051,127 | 44,611,619 |
| Issued for cash | 18,586,000 | 18,586,000 | 11,000,000 | 11,054,930 |
| Issued on exercise of options and warrants | 443,938 | 290,262 | 1,763,312 | 1,779,490 |
| Flow through shares issued | – | – | 3,326,500 | 4,657,100 |
| Issued pursuant to option agreement | – | – | 700,000 | 574,000 |
| Issued on buyout of minority partners | – | – | 360,000 | 529,200 |
| Tax effect of renunciation (note 9) | – | (1,397,130) | – | (2,280,000) |
| Total | 89,230,877 | 78,405,471 | 70,200,939 | 60,926,339 |

On June 19, 2008 the Company completed the private placement of 18,586,000 common shares at a price of $1.00 per share for aggregate gross proceeds of $18,586,000.

On February 28, 2007 the Company made a final payment of US$150,000 and issued 700,000 shares with a fair value of $574,000 meeting all conditions of the agreement with Gallant Minerals and acquired 100% ownership of Tamerlane. On April 23, 2007 the Company issued 360,000 common shares with a fair value of $529,200 as partial consideration for the buyout of minority partners in the Donkin project.

### WARRANTS

The following table summarizes the continuity of the warrants for 2008 and 2007:

| | 2008 Number of warrants | 2008 Weighted average exercise price | 2007 Number of warrants | 2007 Weighted average exercise price |
|---|---|---|---|---|
| Opening balance | 5,249,913 | $ 1.50 | 6,465,725 | $ 1.33 |
| Issued | – | – | 600,000 | 1.15 |
| Exercised | (329,938) | 0.60 | (1,215,812) | 0.70 |
| Expired | (430,000) | 1.08 | (600,000) | 0.96 |
| Closing balance | 4,489,975 | $ 1.60 | 5,249,913 | $ 1.50 |

The following is a summary of the warrants outstanding as of December 31, 2008:

| Exercise Price | Date of expiration | Number of warrants |
|---|---|---|
| $ 1.60 | June 15, 2009 | 4,489,975 |

### STOCK OPTIONS

The Company has a rolling 10% incentive stock option plan ("the Plan") under which options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. Under the Plan, the 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 Company and no one person may receive in excess of 5% of the outstanding common shares of the Company at the time of grant (on a non-diluted basis).

The following table summarizes the continuity of the stock options for 2008 and 2007:

| | 2008 Number of options | 2008 Weighted average exercise price | 2007 Number of options | 2007 Weighted average exercise price |
|---|---|---|---|---|
| Opening balance | 4,356,500 | $ 1.01 | 3,259,000 | $ 0.80 |
| Granted | 1,150,000 | 0.90 | 1,650,000 | 1.34 |
| Exercised | (114,000) | 0.45 | (547,500) | 0.77 |
| Expired | (667,500) | 0.92 | (5,000) | 1.05 |
| Closing balance | 4,725,000 | $ 1.01 | 4,356,500 | $ 1.01 |

The following is a summary of the options outstanding and exercisable as of December 31, 2008, all of which are exercisable:

| Range of exercise prices | Number of options | Weighted average remaining contractual life in years | Weighted average exercise price |
|---|---|---|---|
| $ 0.35 | 55,000 | 4.78 | $ 0.35 |
| $ 0.70 - $1.05 | 3,285,000 | 1.76 | 0.88 |
| $ 1.14 - $ 1.43 | 1,385,000 | 3.40 | 1.35 |
| Total | 4,725,000 | 2.81 | $ 1.01 |

### STOCK BASED COMPENSATION

As of December 31, 2008 there were 4,725,000 share purchase options outstanding. During the year ended December 31, 2008, 1,150,000 options (2007 – 1,650,000) were granted to certain directors, officers, employees and consultants of the Company. The weighted average fair value of the options on the date granted was $0.70 per option (2007 - $0.9782 per option) which represents a total of $806,001 (2007 - $1,614,000) expensed as general and administrative and geological services and recorded as contributed surplus. The Company estimates the fair value of stock based incentives at the date of grant using the Black-Scholes model, recognized on the grant date given the options vest immediately, with the following assumptions:

| | 2008 | 2007 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 3.15% | 4.15% |
| Expected volatility | 105% | 90% |
| Expected life | 5 years | 5 years |

## 7. Contributed Surplus

The following summarizes amounts recorded as contributed surplus during the year:

| | 2008 | 2007 |
|---|---|---|
| Opening balance | $ 5,113,451 | $ 3,753,241 |
| Warrants/options relating to issue costs | – | 249,000 |
| Warrants/options exercised | (41,548) | (502,790) |
| Options expensed | 806,001 | 1,614,000 |
| | $ 5,877,904 | $ 5,113,451 |

## 8. Basic and Diluted Loss per Share

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

## 9. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2008 and 2007 are presented below:

| | 2008 | 2007 |
|---|---|---|
| Future tax assets: | | |
| Non-capital loss carry forwards | $ 3,339,643 | $ 2,651,938 |
| Deferred expenses - Mongolia | 3,217,411 | 2,306,029 |
| Share issue costs | 578,146 | 452,953 |
| Intangible assets | 669,186 | 676,732 |
| Other | 236,908 | 229,776 |
| | 8,041,294 | 6,317,428 |
| Less valuation allowance | (8,041,294) | (6,317,428) |
| Net future tax asset | $ – | $ – |
| | | |
| Future tax liabilities: | | |
| Resource properties and deferred exploration costs | $ (5,764,420) | $ (4,367,290) |

Included in the determination of total gross tax assets are Canadian non-capital loss carry-forwards of approximately $9,282,996 which expire substantially between 2009 and 2029, and US loss carry-forwards of approximately $1,186,278 which expire between 2027 and 2029. Deferred expenses for tax purposes of $10,003,805 can be used to reduce future taxable income in Mongolia.

Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 35.50% (2007 - 38.12%) to loss before taxes as follows:

| | 2008 | 2007 |
|---|---|---|
| Loss before taxes | $ 3,592,391 | $ 7,463,063 |
| Computed expected tax recovery | $ (1,275,300) | $ (2,844,920) |
| Effects of foreign exchange translation | (332,460) | 463,170 |
| Increase in valuation allowance | 1,723,866 | 1,007,543 |
| Expenses not deductible for tax purposes | 331,210 | 919,552 |
| Effect of different foreign tax rates | 110,235 | 25,435 |
| Tax deductible expenses charged to retained earnings | (439,594) | (376,948) |
| Effect of change in tax rates | 138,785 | – |
| Other | (256,742) | (5,834) |
| Net income tax recovery | $ – | $ (812,000) |

## 10. Supplemental cash flow information

| | 2008 | 2007 |
|---|---|---|
| Non-cash investing and financing activities: | | |
| Issue of warrants as a share issue cost | – | 249,000 |
| Issue of common shares for investment in resource property interests | – | 1,103,200 |
| Cash consists of: | | |
| Cash on hand, held in trust by third parties and in banks | $ 1,024,956 | $ 276,763 |
| Temporary money market instruments | 15,170,219 | 8,450,617 |
| Total cash and cash equivalents | 16,195,175 | 8,727,380 |
| Temporary money market instruments (flow-through funds) | – | 2,713,644 |
| | $ 16,195,175 | $ 11,441,024 |

## 11. Financial Risk Management

### CREDIT RISK

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash and cash equivalents consist mainly of GICs and bank deposits. The Company 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, 2008, less than 1% of the balance of cash and cash equivalents was held in banks outside Canada. None of the reported cash balances are invested in asset backed commercial paper.

Amounts receivable includes Harmonized Sales Tax due from the Federal Government of Canada and exploration partner recovery which was concentrated with a single company, Xstrata Coal. Management believes the credit risk on amounts receivable is low.

### LIQUIDITY RISK

The Company's liquidity risk is limited to its ability to discharge liabilities when due. At December 31, 2008, the Company had working capital of $17,770,503 (2007 - $7,901,350) available to settle current liabilities of $772,577 (2007 - $1,937,881). The Company's GIC's have a guaranteed interest rate for one year, but are cashable all, or in part, without penalty after 30 days.

### 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.

#### FOREIGN CURRENCY RISK

The Company operates in Mongolia and the United States, giving rise to foreign exchange risk. To limit the Company's exposure to this risk, cash and cash equivalents are primarily held in Canadian dollar bank accounts.

At December 31, 2008, the Company held foreign currencies equivalent to $1,039,999 Canadian (US$836,955 and MNT 6,419,437). 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 $103,000. Sensitivity to a plus or minus 10% change in the Mongolian Tugrig would affect net loss and comprehensive loss and deficit by approximately $500.

#### INTEREST RATE RISK

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

#### PRICE Risk

The Company holds marketable securities which expose it to equity price risks. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. At December 31, 2008, sensitivity to a plus or minus 10% change in the value of marketable securities would affect comprehensive loss and deficit by approximately $198,000.

## 12. Capital Management

The Company considers its capital structure to consist of share capital, stock options and warrants. The primary objective of managing the Company's capital is to ensure there is sufficient available capital to support the Company's ongoing exploration and development programs and joint venture obligations, and ensure the Company remains in sound financial position. This is done primarily through equity financings. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds as they are required in the future.

Given the nature of the current market conditions, the company is taking a cautious approach towards its future spending. The availability and timing of future financings is uncertain. As a result, the Company is continuing to advance its core programs while focusing on capital preservation and maintaining sufficient working capital to carry the company through to 2011.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. The Company is not subject to externally imposed capital requirements.

## 13. Segmented Information

The Company's executive office is located in Nova Scotia, Canada with resource properties and exploration and development activities in Canada, United States and Mongolia. The following table presents selected financial information by geographic origin (in thousands):

| | | | | 2008 | | | | 2007 |
|---|---|---|---|---|---|---|---|---|
| | Canada | USA | Mongolia | Total | Canada | USA | Mongolia | Total |
| Working capital | 17,735 | 16 | (45) | 17,706 | 7,863 | 60 | (21) | 7,901 |
| Property, plant and equipment | 81 | 2,342 | 86 | 2,509 | 62 | 2,132 | 92 | 2,286 |
| Resource properties | 17,912 | 6,523 | 9,873 | 34,308 | 13,995 | 6,523 | 6,659 | 27,177 |
| Total assets | 41,616 | 8,891 | 10,089 | 60,596 | 31,525 | 8,716 | 6,774 | 47,015 |

## 14. Commitments

The Company has an operating lease for office premises until August 31, 2014. The Company has the right to terminate the lease by giving six months notice prior to each anniversary after August 31, 2010. Annual payments, including operating costs, are as follows:

| | |
|---|---|
| 2009 | $ 68,528 |
| 2010 | 69,899 |
| 2011 | 71,995 |
| 2012 | 74,155 |
| 2013 | 76,380 |
| | $ 360,957 |

## 15. Subsequent Event

On February 27, 2009, the Company concluded the reverse takeover of Beta Minerals Inc. ("Beta") whereby the Company and DKC exchanged all of the outstanding common shares of EMC for common shares of Beta giving the Company a controlling interest in Beta. The sole assets of EMC at closing were primary kaolin clay assets located in Georgia, U.S.A., (collectively, "Clay Assets").

The Beta shareholders approved the transaction on February 20, 2009. The Beta shareholders also approved a change of name from Beta to Advanced Primary Minerals Corporation ("APM") at the same meeting.

The Transaction constituted an arms length "Reverse Takeover" under the applicable policies of the TSX Venture Exchange ("the "Exchange"). Shares of APM began trading on the TSX.V under the symbol "APD" on March 6, 2009.

### THE TRANSACTION

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing it was only holding the Clay Assets. Also prior to closing, DKC transferred its interest in the DKC agreement (see note 4(a)) for shares of EMC. On closing, Erdene and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to Erdene in exchange for the issuance by Beta of 81,000,000 common shares of the APM. The Shares were issued as to 71,000,000 to Erdene and 10,000,000 to DKC. In addition, 36,000,000 Shares are to be issued to Erdene upon certain permits being obtained to allow production from certain Clay Assets and if such permits are not obtained within three years, the 36,000,000 Shares will not be issued. Pursuant to the Transactions, Erdene has agreed to transfer 2,925,000 Shares of APM to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the Transaction.

Upon completion of the Transaction, EMC became a wholly-owned subsidiary of APM.

## 16. Comparative Figures

Certain comparative financial data for 2007 has been reclassified to conform to the presentation adopted in the 2008 financial statements.

# Corporate Information

## DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

**Peter C. Akerley**
President and CEO; Director

**J.C. (Chris) Cowan**
Vice-President Asia; Director

**Ken W. MacDonald**
Vice-President Business Strategy and CFO; Director

**William B. Burton**
Director
President and CEO – MagIndustries Corp.

**John P. Byrne**
Director
President – Petroleum Corporation of Canada Exploration Ltd.

**David S. B. Carnell**
Director

**Jamie M. Frankcombe**
Director
Executive General Manager Americas – Xstrata Coal

**Stuart P. Rath**
Director
President – Stuco Holdings Limited

**Philip L. Webster**
Director
President – Imperial Windsor Group Inc.

**D. Suzan Frazer**
Corporate Secretary
Partner – McInnes Cooper

**Mark R. Davies**
Vice-President ERD Aggregate Corp.

**Michael X. Gillis**
Director of Business Operations

**Michael A. O'Keefe**
Director of Finance

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email: erdmon@magicnet.mn

## SHAREHOLDER INFORMATION

### Auditor
KPMG LLP
Chartered Accountants
Halifax, Nova Scotia

### Transfer Agent
Computershare Trust Company of Canada
Halifax, Nova Scotia; Toronto, Ontario

### Legal Counsel
McInnes Cooper, Halifax
Lynch and Mahoney, Mongolia

### Stock Exchange Listing
TSX : ERD

### Website
www.erdene.com

## FINANCIAL HIGHLIGHTS

**As at December 31, 2008**

| | |
|---|---|
| Working Capital | $17.7 Million |
| Shares Issued and Outstanding | 89.2 Million |
| Shares Fully Diluted | 98.4 Million |

### Annual Meeting
The Annual Meeting of Erdene Gold Inc. will be held at the Halifax Marriott Harbourfront, 1919 Upper Water Street, Halifax, Nova Scotia on June 25, 2009 commencing at 5:30pm

**FORWARD LOOKING STATEMENT**

Certain information regarding Erdene Resource Development Corporation ("Erdene") contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although Erdene believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Erdene cautions that actual performance will be affected by a number of factors, many of which are beyond Erdene's control, and that future events and results may vary substantially from what Erdene currently foresees. 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. Erdene's forward-looking statements are expressly qualified in their entirety by this cautionary statement. The information contained herein is stated as of the current date and subject to change after that date.

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