Interim Consolidated Financial Statements of

ERDENE GOLD INC.

First Quarter 2007

Three months ended March 31, 2007 and 2006
(unaudited)

Prepared by Management - See Notice to Reader

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. These interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited interim consolidated balance sheet of Erdene Gold Inc. as at March 31, 2007, the audited consolidated balance sheet as at December 31, 2006 and the unaudited interim consolidated statements of operations and deficit and cash flows for the three months ended March 31, 2007 and 2006. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 31, 2007 and 2006 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE GOLD INC.

Consolidated Balance Sheets

March 31, 2007 and December 31, 2006

	2007 (unaudited)	2006 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,918,999	$ 3,047,970
Marketable securities (note 2)	76,666	164,333
Accounts receivable (note 3)	144,755	363,147
Prepaid expenses	27,562	43,719
	3,167,982	3,619,169
Cash – flow-through funds (note 4)	2,798,501	4,598,523
Resource property interests (note 5)	19,100,685	16,754,731
Capital assets, net (note 6)	2,262,199	2,281,140
Intangible assets, net (note 7)	1,116,400	1,123,433
Goodwill	5,800,079	5,800,079
	$ 34,245,846	$ 34,177,075
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 253,603	$ 353,755
Future income taxes (notes 8 and 13)	5,179,290	2,899,290
Shareholders' equity:		
Share capital (note 8)	43,147,947	44,611,619
Contributed surplus (note 9)	3,352,883	3,753,241
Deficit	(17,693,877)	(17,440,830)
Accumulated other comprehensive income (loss) (note 16)	6,000	–
	28,812,953	30,924,030
Commitments (note 15)		
Subsequent events (note 17)		
	$ 34,245,846	$ 34,177,075

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Signed "*David S.B. Carnell*" Director

Signed "*Ken W. MacDonald*" Director

ERDENE GOLD INC.
Interim Consolidated Statements of Comprehensive Income (Loss)

Three months ended March 31, 2007
(unaudited)

		2007
Net income (loss) for the period	$	(253,047)
Other comprehensive income:		
Unrealized gain available for sale assets		6,000
Comprehensive income (loss) for the period	$	**(247,047)**

See accompanying notes to consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Operations and Deficit

Three months ended March 31, 2007 and 2006
(unaudited)

	2007	2006
Revenue:		
Lab services	$ 32,487	$ –
	32,487	–
Expenses:		
Exploration and operating expenses:		
Diamond drilling	2,787	1,823
Analytical and assaying	4,473	9,223
Geological services	229,745	308,041
Logistical and field support	35,480	58,544
Travel	39,731	20,822
Lab and property maintenance	97,551	–
Write down of resource properties	66,816	–
Amortization of intangible assets	7,033	–
Other	5,909	60
	489,525	398,513
General and administrative expenses:		
Depreciation	13,976	7,426
Insurance	16,535	12,323
Investor relations and communications	36,129	63,555
Office	29,156	30,063
Professional services	44,352	53,616
Regulatory compliance	40,889	22,225
Administrative services	126,893	99,653
Stock-based compensation	–	52,920
Travel and accommodations	54,153	56,637
Other	2,797	3,158
	364,880	401,576
Other income (expenses):		
Interest revenue	66,551	43,877
Exploration partner contributions	46,853	40,738
Gain on sale of marketable securities	472,238	–
Gain on sale of resource property	70,666	32,667
Foreign exchange	(6,827)	5,841
Other	(80,610)	–
	568,871	123,123
Loss for the period	253,047	676,966
Deficit, beginning of period	17,440,830	12,203,623
Deficit, end of period	$ 17,693,877	$ 12,880,589
Basic and diluted loss per share (note 10)	$ 0.01	$ 0.02
Weighted average number of common shares outstanding	53,370,016	29,308,075

See accompanying notes to consolidated financial statements.

ERDENE GOLD INC.

Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2007 and 2006
(unaudited)

	2007	2006
Cash provided by (used in):		
Operations:		
Loss for the period	$ (253,047)	$ (676,966)
Items not involving cash:		
Depreciation	19,756	8,426
Amortization of intangible assets	7,033	–
Stock-based compensation	–	127,008
Write down of resource properties	66,816	–
Gain on sale of marketable securities	(472,238)	–
Gain on sale of resource property	(70,666)	(32,667)
Change in non-cash operating working capital	222,064	(77,330)
	(480,282)	(651,529)
Financing:		
Issue of common shares for cash	–	3,000,000
Issue of common shares on exercise of options and warrants	120,000	832,789
	120,000	3,832,789
Investing:		
Proceeds on sale of resource property	70,666	32,667
Proceeds on sale of marketable securities	636,571	–
Resource property interests	(2,275,133)	(223,135)
Purchase of capital assets	(815)	(2,975)
	(1,568,711)	(214,368)
Increase (decrease) in cash and equivalents	(1,928,993)	2,966,892
Cash, beginning of period	7,646,493	4,269,991
Cash, end of period	$ 5,717,500	$ 7,236,883
Cash is defined as:		
Cash and cash equivalents	2,918,999	7,236,883
Cash – flow through funds	2,798,501	–
	$ 5,717,500	$ 7,236,883

See accompanying notes to consolidated financial statements.

Nature of business:

Erdene Gold Inc. (the “Company”) 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, uranium and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America with near-term cash flow potential. To date the Company has not yet earned any significant operating revenues and is considered to be in the exploration and development stage.

The Company is listed on the Toronto Stock Exchange (TSX - ERD).

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., Erdene International Exploration Inc. (Barbados), Erdene Mongol XXK, Erdene Energy XXK and Anian Resources XXK (Mongolia), Erdene Resources Inc. (formerly Kaoclay Resources Inc (“Kaoclay”)) and 6531954 Canada Limited (Canada), and Sparta Kaolin Corporation (Delaware). Inter-company accounts and transactions have been eliminated.

(b) Changes in accounting policies:

On January 1, 2007, the Company adopted recommendations of CICA handbook sections 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and measurement”, Section 3861 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be 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, including derivatives, 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

(b) Changes in accounting policies (continued):

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.

Under adoption of these new standards, the Company designated marketable securities as available-for-sale securities. Such securities are measured at fair value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold, or otherwise disposed of, gains or losses are included in net earnings (loss). The Company designated cash, accounts receivable, cash flow through funds and accounts payable and accrued liabilities as held-for-trading, which is measured at fair market value,

Section 3251 of the CICA Handbook requires the separate presentation of the components of equity (retained earnings, accumulated other comprehensive income, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves) and the changes in equity arising from each of these components.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

(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) Cash and cash equivalents:

The Company considers deposits in banks and highly liquid investments with remaining maturities of three months or less at the date of acquisition as cash and cash equivalents.

(e) Marketable securities:

Marketable securities are carried at fair market value.

(f) 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 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 explorations expenses are recorded on the accrual basis as reduction of other 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.

(g) Capital assets:

Capital assets 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%

1. Summary of significant accounting policies (continued):

(h) Foreign currency translation:

Integrated subsidiaries are financially or operationally dependent on the parent company. The accounts of Erdene Gold International Inc., Erdene International Exploration Inc., Erdene Mongol XXK, Erdene Energy XXK, Anian Resources XXK, Erdene Resources Inc. (formerly Kaoclay Resources Inc.), 6531954 Canada Limited, and Sparta Kaolin Corporation which are considered to be integrated operations use the temporal method to translate their financial statements. 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.

(i) 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.

(j) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 8. 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.

1. Summary of significant accounting policies (continued):

(k) 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 (see note 13).

(l) Intangible assets:

Intangible assets represent the value of certain customer relationships and contracts, as well as the brand value of an acquired subsidiary, and are amortized on a straight-line basis over their estimated useful lives of 15 years.

(m) 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.

2. Marketable Securities:

			2007	2006
	Cost	Unrealized gains	Fair value	Fair value
Marketable securities	$ 70,666	$ 6,000	$ 76,666	$ 522,667
	$ 70,666	$ 6,000	$ 76,666	$ 522,667

3. Accounts receivable:

	2007	2006
Trade receivables	$ 35,206	$ 47,392
Exploration partner recovery	50,950	251,149
Other	58,599	64,606
	$ 144,755	$ 363,147

Other receivables includes an amount receivable of $44,100 (2006 - $44,700) from a director and officer, which is non-interest bearing and repayable on demand.

4. Cash – flow-through funds:

On July 14, 2006 The Company completed a $6,000,000 flow-through financing to fund its commitment under the Donkin Coal Alliance (see note 5) regarding the exploration and evaluation of the Donkin Coal Resource Block located in Cape Breton, Nova Scotia. The use of these funds is restricted to qualifying Canadian Exploration Expenditures (“CEE”) under the Income Tax Act (Canada) and is therefore shown separately. To March 31, 2007 $3,201,499 was advanced to the project manager Xstrata Coal Donkin Management Limited leaving a balance of $2,798,501. It is the Company’s intention to advance these funds to the project manager who anticipates expending these funds on CEE before the end of the 2007 fiscal year.

5. Resource property interests:

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. These rights are held in good standing through the payment of an annual license fee. Resource property interests are recorded at the cost of acquisition.

	Jan - Mar 2007	Jan - Dec 2006
Balance, beginning of period	$ 16,754,731	$ 2,001,708
Additions during period	2,412,770	3,253,483
Acquired via plan of arrangement	–	11,999,500
Write-downs	(66,816)	(460,178)
Exploration partner contributions	–	(39,782)
	$ 19,100,685	$ 16,754,731

The Company's significant resource properties and joint venture agreements are outlined below:

a) Xstrata Copper agreement:

In January 2007, the Company entered into an agreement with Xstrata Copper to acquire the rights to two Mongolian copper-gold properties, subject to certain vendor back-in rights. These projects were acquired through Xstrata plc's acquisition of Falconbridge Limited ("Falconbridge"), in August 2006.

The two core licenses over the main prospects are under Option from the vendor of the property, a group of three local Mongolians. The four larger surrounding licenses, obtained in November 2006, are owned 100% by Xstrata Copper and are currently held in trust by their Mongolian geologic consultant, Mine Info, via a separate Letter Agreement.

The Company and Xstrata Copper have entered into an Assignment and Option Agreement whereby the Company can acquire 100% of Falconbridge's rights and interest in an Option Agreement with a Mongolian company ("Mongolian Agreement") covering two copper-gold exploration licenses located in south central Mongolia. The Company agrees to assume responsibility for all of Falconbridge's remaining obligations to the license owners as defined in the Mongolian Agreement. In addition, Xstrata Copper has agreed to assign its 100% interest in four exploration licenses that are contiguous to the optioned properties.

The remaining obligations under the Mongolian Agreement include incurring US$450,000 in exploration expenditures by January 2009 and by making cash payments of US$40,000 in January 2007 and US$50,000 in January 2008. After fulfilling these remaining obligations, the Company will have earned an 80% interest in the two properties with the Mongolian company

a) Xstrata Copper agreement (continued):

retaining the remaining 20%. The Company can earn a 100% interest in the properties, subject to a 2.5% net smelter royalty, by making a US$2 million advance royalty payment over a five year period. The Company also has the option to reduce the net smelter royalty to 0.5% by making cash payments of US$1 million for each 0.5% reduction in the net smelter royalty over an eight year period.

In exchange for granting the Company the rights and interest described above, Xstrata Copper has the right to acquire 75% of the Company's interest in the optioned properties and the four Falconbridge licenses. Xstrata Copper must exercise its option within 60 days of receipt of a full feasibility study. They must also make a payment to the Company equal to 200% of the funds expended on the properties by the Company.

b) Sparta:

The Company, through its subsidiary Sparta Kaolin Corporation, has entered into lease agreements and exploration agreements with options to lease and/or purchase kaolin properties in the United States. The aggregate commitment associated with the cancelable agreements over the next twelve months is US $46,000. 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 majority of the payments to land-owners pursuant to these agreements are creditable against future royalty payments or, where applicable, the purchase price of the property. The Maddox property, which is owned by Sparta Kaolin Corporation, is under long term lease to Rinker Materials Corporation and is in the process of permit approval for a commercial aggregate quarry with production anticipated in 2008.

c) Donkin:

In December 2004, the Nova Scotia Department of Natural Resources ("NSDNR") issued a "Call for Proposals for the Exploration/Development of the Donkin Coal Resource Block". The Donkin Coal Resource Block is the largest remaining undeveloped coal resource in the Sydney, Nova Scotia coalfield that has the potential to be mined by underground methods.

The Donkin Coal Alliance was formed by or on behalf of Xstrata Coal Pty Limited (66%), Kaoclay Resources Inc. ("Kaoclay") (20%), American Transbridge Technologies LLC (9.3%) and PDC Resources Corporation (4.67%) 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 Donkin Coal Alliance was the successful proponent. Effective June 12, 2006, Kaoclay amalgamated with Erdene Resources Inc., a wholly-owned subsidiary of the Company, under a court approved Plan of Arrangement and Kaoclay is now a wholly-owned subsidiary of the Company operating under the name of

5. Resource property interests (continued):

c) Donkin (continued):

Erdene Resources Inc. On April 23, 2007 the Company concluded agreements with minority partners to increase its ownership in the Donkin Coal Alliance from 20% to 25% in exchange for cash consideration of US$9,400 (paid in fiscal 2006) and 360,000 common shares of the Company. Under the agreements, Xstrata Coal Donkin Limited ("XCDL"), a related party to Xstrata Coal Pty Limited has also increased its interest in the Donkin Coal Alliance from 66% to 75% in exchange for cash.

The members of the Donkin Coal Alliance signed an agreement ("Alliance Agreement") effective March 11, 2005, and amending agreements dated April 23, 2006, October 26, 2006 and October 27, 2006. The Company and XCDL are presently negotiating the terms of a definitive joint venture agreement and sales agency agreement. Pursuant to the April 23, 2006 amending agreement, the Company's interest in the Donkin Alliance is held by 6531954 Canada Limited, a wholly owned subsidiary of Erdene Resources Inc., and Xstrata Coal Pty Limited's interest is held by XCDL, 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.

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

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. Xstrata Coal Donkin Limited 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. A preliminary estimate of the total budget for the Exploration Program is approximately $17,200,000 and the exploration program is expected to be complete in the first quarter of 2008. In July 2006, the Company completed a $6,000,000 flow-through financing to partially fund its obligation.

5. Resource property interests (continued):

d) Gallant option agreement:

On March 1, 2005 the Company entered into an agreement with Gallant Minerals Limited ("Gallant") to acquire certain uranium property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and an exclusive and irrevocable option to acquire 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. On signing, the Company released to Gallant US $75,000, 400,000 common shares of the Company and 800,000 warrants with each warrant entitling Gallant to purchase one common share of the Company for prices ranging from $0.60 to $1.00 for a period of 24 months from the date of issue. Under the option terms, the Company also committed to the following payments, expenditures and deliverables on or before February 28, 2007 in exchange for 100% ownership of Tamerlane:

i. US $275,000;

ii. Direct or indirect expenditures on properties aggregating US $1,000,000; and

iii. 1,200,000 common shares of the Company.

The Company has met its obligation to incur US $1,000,000 of expenditures on the optioned properties and on March 1, 2006 paid US $125,000 and issued 500,000 shares, consistent with the option terms. On February 28, 2007, the Company made its final payment of US $150,000 and issued 700,000 shares to Gallant, meeting all conditions of the option agreement and entitling it to 100% ownership of Tamerlane.

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

e) Xstrata Coal agreement:

On February 16, 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), pursuant to which Xstrata subscribed for 3,000,000 common shares of the Company at $1.00/share.

Under the agreement, 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 make the opportunity available to another party or develop the property itself. As part of the agreement Xstrata named a nominee to the Board of Directors of the Company. The rights granted to Xstrata under the

5. Resource property interests (continued):

e) Xstrata Coal agreement (continued):

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 a result of the private placement outlined in note 16, Xstrata Coal's equity position has been diluted to 4.7%. However, due to current discussions involving Xstrata Coal with respect to participation in certain mineral projects, Erdene has waived, until September 30, 2007 ("Waiver Date"), the requirement that Xstrata Coal maintain a 5% equity position in order to be able to exercise its rights under the Alliance Agreement. Erdene has agreed that Xstrata Coal may, prior to the Waiver Date, increase its equity interest to in excess of 5% by way of an issuance from treasury at an issue price to be agreed between Erdene and Xstrata Coal.

f) Denison Mines Corporation joint venture agreement:

On June 14, 2005, pursuant to an April 4, 2005 Memorandum of Understanding with International Uranium Corporation (“IUC”), now Denison Mines Corporation, the Company granted International Uranium Mongolia Ltd. (“IUM”) the exclusive right and option to acquire a 65% interest in its uranium properties. IUM must spend $6,000,000 of eligible expenditures on the properties over a period of up to four years. The Company and IUM have also formed a strategic alliance for the purpose of staking additional ground in Mongolia for the exploration of uranium over a three year period. In addition, IUC purchased 1.0 million common shares of the Company at a price of $1.00 per share by way of a private placement. A finder’s fee totaling $60,000 was paid in connection with this transaction.

6. Capital assets:

			March 2007	December 2006
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 1,874,766	$ –	$ 1,874,766	$ 1,874,766
Building	386,830	206,919	179,911	184,525
Equipment, furniture and fixtures	625,293	487,430	137,863	148,181
Software and computer	117,096	62,487	54,609	57,742
Vehicles	27,267	12,217	15,050	15,926
	$ 3,031,252	$ 769,053	$ 2,262,199	$ 2,281,140

7. Intangible assets:

			March 2007	December 2006
	Cost	Accumulated amortization	Net book value	Net book value
Customer relationships and contracts	$ 984,500	$ 88,975	$ 895,525	$ 898,683
Brand	232,500	11,625	220,875	224,750
	$ 1,217,000	$ 100,600	$ 1,116,400	$ 1,123,433

8. Share capital:

Authorized and issued:

	Three months ended March 31, 2007	
	Number of shares	$
Authorized:		
Unlimited number of common shares without par value		
Issued:		
Balance, December 31, 2006	53,051,127	$ 44,611,619
Issued pursuant to option agreement	700,000	574,000
Tax effect of renunciation (note 13)		(2,280,000)
Issued on exercise of options and warrants	200,000	242,328
Total	53,951,127	$ 43,147,947

8. Share capital (continued)

Warrants:

The following table summarizes the continuity of the warrants for March 31, 2007:

	Three months ended March 31, 2007	
	Number of Warrants	Weighted average exercise price
Balance, December 31, 2006	6,465,725	$ 1.33
Exercised	(200,000)	0.60
Expired	(600,000)	0.96
Closing balance	5,665,725	$ 1.40

The following is a summary of the warrants outstanding as of March 31, 2007:

Exercise Price	Expiry Date	Number of Warrants
$ 1.00	January 14, 2008	395,750
0.43	January 23, 2008	780,000
1.60	June 11, 2009	4,489,975
$ 1.40		5,665,725

The Company estimates the fair value of warrants at the date of grant using the Black-Scholes model, recognized over the vesting period with the following assumptions:

	2007	2006
Dividend yield	0%	0%
Risk-free interest rate	4.15%	5.0%
Expected volatility	90%	80%
Expected life	1 year	2 year

8. Share capital (continued)

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. 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 March 31, 2007.

	Three months ended March 31, 2007	
	Number of options	Weighted average exercise price
Balance, December 31, 2006	3,259,000	$ 0.80
Expired	(5,000)	1.05
Closing balance	3,254,000	$0.80

The following is a summary of the options outstanding and exercisable as of March 31, 2007, all of which are exercisable:

Exercise price	Expiry date	Number of options
$0.43	May 8, 2008	104,000
$0.43	November 18, 2008	290,000
$0.85	March 31, 2009	100,000
$0.85	April 6, 2009	720,000
$0.85	August 26, 2009	100,000
$0.70	February 4, 2010	125,000
$0.77	May 1, 2010	90,000
$0.74	July 1, 2010	10,000
$0.85	August 5, 2010	250,000
$1.05	March 31, 2011	175,000
$0.85	August 23, 2011	1,290,000
$0.80		3,254,000

8. Share capital (continued):

Stock Based Compensation:

The company estimates the fair value of stock based incentives at the date of grant using the Black-Scholes model, recognized over the vesting period with the following assumptions:

	2007	2006
Dividend yield	0%	0%
Risk-free interest rate	4.15%	5.0%
Expected volatility	90%	80%
Expected life	5 years	5 years

9. Contributed surplus:

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

	Jan - Mar 2007	Jan - Dec 2006
Opening balance	$ 3,753,241	$ 1,201,779
Warrants/options relating to issue costs	–	141,362
Warrants relating to purchase of subsidiary	–	1,744,731
Warrants/options exercised or expired	(400,358)	(228,545)
Options expensed	–	893,914
	$ 3,352,883	$ 3,753,241

10. 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.

11. Financial instruments:

(a) Fair values:

The fair values of the Company's financial assets and liabilities included in current assets and liabilities approximate their carrying values at each period-end.

(b) Credit risks:

The Company places its cash and cash equivalents with high-quality financial institutions and public companies and believes that no significant concentration of credit risk exists with respect to cash and cash equivalents.

12. Foreign currency risks:

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

13. Future income taxes:

	2007	2006
Kaoclay acquisition	$ 2,100,983	$ 2,100,983
Anian Resources acquisition	798,307	798,307
Renouncement of $6 million in CEE	2,280,000	–
	$ 5,179,290	$ 2,899,290

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 February 28, 2007, the Company filed the renouncement documents with the tax authorities and recognized a future income tax liability of $2,280,000, and reduced shareholders' equity, for the tax effect of expenditures renounced to subscribers.

14. 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):

				2007				2006
	Canada	USA	Mongolia	Total	Canada	USA	Mongolia	Total
Working capital	2,803	78	33	2,914	3,122	118	25	3,265
Capital assets	63	2,136	63	2,262	68	2,145	68	2,281
Resource properties	8,724	6,523	3,854	19,101	6,924	6,523	3,308	16,755
Total assets	16,380	13,915	3,951	34,246	16,612	14,008	3,557	34,177

15. Commitments:

The Company has an operating lease for office premises until August 31, 2011. The Company has the right to terminate the lease by giving notice prior to the anniversary date, after 2007. Annual payments are as follows:

2007	$	44,242
2008		57,733
2009		58,888
2010		60,065
2011		30,633
	$	251,561

16. Accumulated other comprehensive income:

		2007
Opening balance	$	–
Adjustment to opening balance on adoption of new accounting policy		358,334
Unrealized gain of marketable securities		6,000
Reclassification of earnings on available for sales marketable securities		(358,334)
	$	6,000

17. Subsequent events:

a. On April 12, 2007, the Company concluded an agreement with National Bank Financial together with syndicate partner Wellington West Capital who purchased, on a private placement bought deal basis subject to certain conditions, 10,000,000 shares of the Company at $1.00 per share resulting in gross proceeds to Erdene of $10,000,000 ("Offering"). The Company agreed to pay the underwriters a commission of 6% of the aggregate gross proceeds and to issue 600,000 broker warrants, representing 6% of the number of shares issued under the Offering. One broker warrant will entitle the holder to acquire one common share for $1.15 at any time before April 12, 2008.

b. On April 23, 2007 the Company concluded agreements with minority partners to increase its ownership in the Donkin Coal Alliance from 20% to 25% in exchange for 360,000 common shares of the Company.

18. Comparative figures:

Certain comparative financial data for 2006 has been reclassified to conform to the presentation adopted in the 2007 financial statements.

ERDENE GOLD INC.

Management Discussion and Analysis
First quarter - March 31, 2007

This Management Discussion and Analysis of Erdene Gold Inc. (the "Company") provides analysis of the Company's financial results for the three months ended March 31, 2007 and its financial position as at March 31, 2007. The following discussion and analysis provides a summary of selected consolidated financial information for the thee month period ended March 31, 2007 and 2006 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, Erdene Resources Inc. and its wholly owned subsidiary 6531954 Canada Limited, both incorporated under the laws of Canada, Sparta Kaolin Corporation, incorporated under the laws of Delaware as well as Erdene Mongol XXK, Erdene Energy XXK and Anian Resources XXK which are 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 unaudited consolidated financial statements of the Company for the three months ended March 31, 2007 and 2006, and the audited consolidated financial statements of the Company for the year ended December 31, 2006, 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. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. The information contained herein is stated as of May 10, 2007 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 May 10, 2007

1.02 Nature of Business and Overall Performance

General

The Company is a resource exploration company listed on the Toronto Stock Exchange which, through the acquisition of Kaoclay Resources Inc. ("Kaoclay") in the second quarter of 2006, now owns three advanced-stage projects including coal assets in Nova Scotia and aggregate and kaolin clay assets in Georgia, U.S.A. The Georgia kaolin project began commercial production in January 2005. Cash flow is expected to increase over the next five years conditional on the Georgia aggregate project commencing production, anticipated in late 2008, and culminating with the potential production from the Donkin coal exploration and development project in Cape Breton, Nova Scotia. Until a decision is made to proceed with commercial development of the aggregate and coal projects, to expand the scope of the kaolin operations and until resultant cash flows increase substantially over current, the annual level of exploration expenditures of the Company is dependent primarily on the sale of share capital to finance its exploration programs. The Company has minimal sources of income other than revenue from an industrial lab in Eatonton, Georgia, royalty income from its kaolin and aggregate properties which are early stage, and interest earned on cash and short-term money market instruments. It is therefore difficult to identify any meaningful trends or develop an analysis from the Company's cash flows.

The Company is well-funded with its focus on the discovery of large tonnage, low cost, gold, copper, molybdenum, uranium and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America with near term cash flow potential. At March 31, 2007 the Company held 33 mineral licenses in Mongolia representing 13 projects covering approximately 1.2 million acres.

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

Xstrata Copper Agreement

In January 2007, the Company entered into an agreement with Xstrata Copper to acquire the rights to two Mongolian copper-gold properties, subject to certain vendor back-in rights. These projects were acquired through Xstrata plc's acquisition of Falconbridge Limited ("Falconbridge"), in August 2006. The two properties host copper-gold porphyry style targets located in central Mongolia.

The two core licenses over the main prospects are under Option from the vendor of the property, a group of three local Mongolians. The four larger surrounding licenses, obtained in November 2006, are owned 100% by Xstrata Copper and are currently held in trust by their Mongolian geologic consultant, MineInfo, via a separate Letter Agreement.

The Company and Xstrata Copper have entered into an Assignment and Option Agreement whereby the Company can acquire 100% of Falconbridge's rights and interest in an Option Agreement with a Mongolian company ("Mongolian Agreement") covering two copper-gold exploration licenses located in south central Mongolia. The Company agrees to assume responsibility for all of Falconbridge's remaining obligations to the license owners as defined in the Mongolian Agreement. In addition, Xstrata Copper has agreed to assign its 100% interest in four exploration licenses that are contiguous to the optioned properties.

The remaining obligations under the Mongolian Agreement include incurring US$450,000 in exploration expenditure by January 2009 and by making cash payments of US$40,000 in January 2007 and US$50,000 in January 2008. After fulfilling these remaining obligations, the Company will have earned an 80% interest in the two properties with the Mongolian company retaining the remaining 20%. The Company can earn a 100% interest in the properties, subject to a 2.5% net smelter royalty, by making a US$2 million advance royalty payment over a five year period. The Company also has the option to reduce the net smelter royalty to 0.5% by making cash payments of US$1 million for each 0.5% reduction in the net smelter royalty over an eight year period.

In exchange for granting the Company the rights and interest described above, Xstrata Copper has the right to acquire 75% of the Company's interest in the optioned properties and the four Falconbridge licenses. Xstrata Copper must exercise its option within 60 days of receipt of a full feasibility study. They must also make a payment to the Company equal to 200% of the funds expended on the properties by the Company.

Donkin Coal Alliance

The Donkin Coal Alliance was formed by or on behalf of Xstrata Coal Pty Limited (66%), Kaoclay Resources Inc. ("Kaoclay") (20%), American Transbridge Technologies LLC (9.33%) and PDC Resources Corporation (4.67%) 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 Donkin Coal Alliance was the successful proponent. Effective June 12, 2006, Kaoclay amalgamated with Erdene Resources Inc., a wholly-owned subsidiary of the Company, under a court approved Plan of Arrangement and Kaoclay is now a wholly-owned subsidiary of the Company operating under the name of Erdene Resources Inc. On October 26, 2006 the Company entered into agreements with minority partners to increase its ownership in the Donkin Coal Alliance from 20% to 25% in exchange for cash consideration of US$9,400 and 360,000 common shares of the Company. Closing of the transaction took place on April 23, 2007. Under the agreements, Xstrata Coal Donkin Limited ("XCDL"), a related party to Xstrata Coal Pty Limited, has also increased its interest in the Donkin Coal Alliance from 66% to 75% in exchange for cash.

The members of the Donkin Coal Alliance 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 Donkin Coal Alliance is held by 6531954 Canada Limited, a wholly owned subsidiary of Erdene Resources Inc., and Xstrata Coal Pty Limited's interest is held by XCDL. The Company and XCDL are presently negotiating 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.

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

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 Expenses ("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. A preliminary estimate of the total budget for the Exploration Program is approximately $17,200,000 and the Exploration Program is expected to be complete in the first quarter of 2008. In July 2006, the Company completed a $6,000,000 flow-through financing to partially fund its obligation.

Strategic Alliance with Xstrata Coal Canada Limited

On February 14, 2006 the Company announced that it had concluded an alliance agreement with Xstrata Coal Canada Limited ("Xstrata") a subsidiary of Xstrata plc (London Stock Exchange: XTA.L; Zurich Stock Exchange: XTA.S), pursuant to which Xstrata subscribed for 3,000,000 common shares of the Company at $1.00/share, resulting in Xstrata owing a 9.8% equity interest in the Company, at the date of the transaction. Xstrata's equity interest in the Company as at December 31, 2006 was 5.66%.

Under the agreement, 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 make the opportunity available to another party or develop the property itself. Xstrata has the right to name a nominee to the Board of Directors of the Company and on February 24, 2006 named Jeffrey Gerard as their nominee to the Company's Board. 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.

Joint Venture Agreement with International Uranium Corporation (now Denison Mines Corporation)

On June 14, 2005, pursuant to an April 4, 2005 Memorandum of Understanding with International Uranium Corporation ("IUC"), the Company granted International Uranium Mongolia Ltd. ("IUM") the exclusive right and option to acquire a 65% interest in its uranium properties. IUM must spend $6,000,000 of eligible expenditures on the properties over a period of up to four years. The Company and IUM have also formed a strategic alliance for the purpose of staking additional ground in Mongolia for the exploration of uranium over a three year period. In addition, IUC purchased 1.0 million common shares of the Company at a price of $1.00 per share by way of a private placement. A finder's fee totaling $60,000 was paid in connection with this transaction.

Agreement with Gallant Minerals Limited

On March 1, 2005, the Company signed an agreement with Gallant Minerals Limited ("Gallant") to acquire 16 uranium licenses and applications in Mongolia, to obtain possession and control of certain assets and geological data pertaining to Mongolia and to receive an exclusive and irrevocable option to acquire all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane International Limited ("Tamerlane") which controls 100% ownership of 13 properties in Mongolia with potential to contain gold, copper and/or molybdenum. On closing on March 1, 2005, the Company committed US$75,000, 400,000 common shares, and 800,000 warrants of the Company with each warrant entitling Gallant to purchase one common share of the Company for prices ranging from $0.60 to $1.00 for a period of 24 months from the date of issue.

Under the option terms, the Company committed to the following payments, expenditures and deliverables at set dates on or before February 28, 2007 in exchange for 100% ownership of Tamerlane:

a) US$275,000;

b) direct or indirect expenditures aggregating US $1,000,000 on the properties acquired or under option to acquire; and,

c) 1,200,000 common shares of the Company.

The Company has met its obligation to incur US $1,000,000 of expenditures on the optioned properties and on March 1, 2006 paid US $125,000 and issued 500,000 shares, consistent with the option terms. On February 28, 2007, the Company made its final payment of US $150,000 and issued 700,000 shares to Gallant, meeting all conditions of the option agreement and entitling it to 100% ownership of Tamerlane.

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

The Company's exploration program is led by a senior management team with extensive exploration experience in Mongolia and is well positioned to maximize value from its North American assets. The total budget for 2007 is approximately $6 million. The company will continue to fund operating losses and exploration expenditures out of existing working capital that amounted to approximately $14.5 million at May 10, 2007.

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 December 31	**2006**	**2005**	**2004**	**2003**
Revenues	$ 250	$ -	$ -	$ -
Loss for the year	$ 4,565	$ 4,981	$ 4,437	$ 629
Basic and diluted loss per share	$ 0.11	$ 0.19	$ 0.19	$ 0.14
Total assets	$ 34,177	$ 6,649	$ 9,426	$ 4,161
Total long-term liabilities	$ 2,899	$ -	$ -	$ -
Cash dividends declared	Nil	Nil	Nil	Nil

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

1.04 Results of Operations

Three months ended March 31, 2006 and 2006

The Company had a loss of $253,047 in the three months ended March 31, 2007, as compared to a loss of $676,966 during the same period last year.

With the acquisition of Sparta Kaolin Corp ("Sparta"), via the acquisition of Kaoclay, Erdene began to earn a limited amount of revenue. Sparta's industrial lab in Eatonton, Georgia generated $32,487 in revenue in the three months ended March 31, 2007.

Total exploration and operating expenses for the three months ended March 31, 2007 amounted to $489,525 compared to $398,513 in the same period in 2006. $97,551 of the increase is due to lab operating and property maintenance costs incurred by Sparta in the first quarter of 2007. The Company also wrote off $66,816 in the first quarter of 2007. The decrease in geological services is entirely due to stock based compensation of $74,088 recognized in the first quarter of 2006 which was not repeated in the same period in 2007.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined that a property has 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 have been capitalized as an asset, which during the first quarter of 2007 amounted to $2,412,770. The aggregate costs of resource properties that have, or plan to be abandoned have been charged to operations which during the first quarter of 2007 amounted to $66,816 resulting in a net addition during the three months ended March 31, 2007 of $2,345,954. Resource property interest additions in the three months ended March 31, 2006 amounted to $758,135 with no write offs.

Since the Company charges exploration costs to operations until a property displays 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 were in the exploration phase, and accordingly, all exploration costs were charged to operations in the respective periods. The funds expended on the Donkin coal project have been capitalized because in the opinion of management the project has 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 resource will not be economically recoverable.

General and administrative expenses for the three months ended March 31, 2007 were $364,880 compared to $401,576 for the same period in 2006. The main reason for the decrease was $52,920 in stock based compensation charged to operations in the first quarter of 2006 versus zero dollars charged in 2007. The increase in administrative services is mainly due to changes in remuneration for certain employees and contractors compared to the prior year.

Other income amounted to $568,871 in 2007 compared with $123,123 in 2006. The increase from 2006 was a result of a one time gain on the sale of marketable securities, higher interest income in 2007 and an increase in gain of the sale of resource properties. This was partially offset by a foreign exchange loss and other expenses of $80,610 which includes an accrual for Part XII.6 tax. Since the Company used the look-back rule to renounce CEEs to subscribers, it is required to pay a tax under part XII.6 calculated on the portion that was unspent after February of 2007.

1.05 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2007	Fiscal 2006				Fiscal 2005		
	Q1 Mar-07	Q4 Dec-06	Q3 Sep-06	Q2 Jun-06	Q1 Mar-06	Q4 Dec-05	Q3 Sep-05	Q2 Jun-05
Revenue	$33	($205)	$301	$110	$44	$28	$54	$53
Loss	$253	$1,199	$1,504	$1,185	$677	$1,209	$1,573	$1,692
Basic and diluted loss per share	$0.01	$0.03	$0.03	$0.03	$0.02	$0.05	$0.06	$0.06
Total Assets	$34,246	$34,177	$39,170	$34,944	$10,345	$6,649	$7,924	$9,375

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 March 31, 2007 of $2,914,379 representing a decrease of $351,035, from the December 31, 2006 working capital position of $3,265,414. This working capital does not include $2,798,501 in flow through cash the Company had at March 31, 2007. The flow-through funds are restricted to qualifying CEE and are therefore excluded from working capital. The decrease in working capital is primarily due to expenditures related to the Company's 2007 exploration program and general and administrative costs in support of this program offset by $120,000 of non flow-through equity proceeds in the quarter and $636,571 in proceeds from the sale of marketable securities.

Subsequent to quarter end, on April 12, 2007, the Company concluded an agreement with National Bank Financial together with syndicate partner Wellington West Capital who purchased, on a private placement bought deal basis subject to certain conditions, 10,000,000 shares of the Company at $1.00 per share resulting in gross proceeds to Erdene of $10,000,000.

Current working capital is sufficient to fund the company's remaining 2007 budgeted expenditures and meet its property and contractual commitments for the next 36 months. The timing for additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration program.

During the three months ended March 31, 2007, $2,690,800 was expended on additions to resource property interests offset by a write down of resource properties of $66,816 and a reduction of $278,030 due to the expiration of 600,000 Gallant warrants charged to resource properties in 2006. In the first quarter of 2007, the assigned value of these expired warrants was removed from resource properties and applied against contributed surplus. Of the $2,690,800 expended in first three months of 2007, $1,800,000 was advanced to the Donkin project manager Xstrata Coal Donkin Management

Limited to fund qualifying CEE. The remaining $890,800 includes $574,000 in non cash consideration made as part of the Gallant Agreement (see section 1.02)).

During the three months ended March 31, 2007, the Company expended $815 on capital assets compared to $2,975 in 2006.

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 either 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 exploration and development programs on its resource properties and its ability to obtain sufficient equity financing.

1.07 Contractual Obligations

As of March 31, 2007 the Company is committed to the following obligations:

- The Company has entered into an operating lease for office space until August 31, 2011 representing total payments of $251,561 to the end of the lease. The Company has the right to terminate the lease by giving notice prior to the anniversary date, after 2007.

- The Company, through its subsidiary Sparta Kaolin Corporation, has entered into lease agreements and exploration agreements with options to lease kaolin properties in the United States. The aggregate commitment associated with the cancelable agreements over the next twelve months is US $46,000.

- As mentioned in section 1.02, on October 26, 2006 the Company entered into an agreement with the Donkin project minority partners to increase its ownership from 20% to 25%. To exercise its right, the Company paid US$9,400 and agreed to issue 360,000 shares of the Company. Closing occurred on April 23, 2007.

- Pursuant to the Alliance Agreement (see section 1.02) the Company is committed to fund up to $10,000,000 of the expenditures incurred during the Exploration Program of the Donkin Coal Project provided such expenses qualify as CEE.

1.08 Off-Balance Sheet Arrangements

As at March 31, 2007, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

1.09 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 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 on the Company's balance sheet at March 31, 2007.

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 uses an expected volatility rate of 90% in 2007 (80% in 2006). 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. Although the actual cost of stock-based compensation can vary materially from the estimated cost recorded in the Company's financial statements, it represents a non-cash expense and, as such, has no impact on the Company's financial position or liquidity.

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.

1.10 Changes in Accounting Policies

The accounting policies applied in the preparation of the March 31, 2007 audited consolidated financial statements did not differ from those applied in the preparation of the December 31, 2006 audited financial statements. A detailed summary of the Company's accounting policies and any estimates derived therefrom is described in Note 1 of the March 31, 2007 audited consolidated financial statements.

On January 1, 2007, the Company adopted recommendations of CICA handbook sections 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be 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, including derivatives, 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.

Under adoption of these new standards, the Company designated marketable securities as available-for-sale securities. Such securities are measured at fair value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold, or otherwise disposed of, gains or losses are included in net earnings (loss). The Company designated cash, accounts receivable, cash flow through funds and accounts payable and accrued liabilities as held-for-trading, which is measured at fair market value,

Section 3251 of the CICA Handbook requires the separate presentation of the components of equity (retained earnings, accumulated other comprehensive income, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves) and the changes in equity arising from each of these components.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

1.11 Financial Instruments and Other Risks

The Company’s financial instruments consist of cash, marketable securities, accounts receivable, prepaid expenses and accounts payable. 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.

In conducting its business, the principal risks and uncertainties faced by the Company relate primarily to exploration results and, to a lesser extent, metal 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 Tugrik, 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.

1.12 Outstanding Share Data

See Note 7 to the March 31, 2007 interim consolidated financial statements for detail as to the change in the issued and outstanding common shares, warrants and options of the Company during the three months ended March 31, 2007.

Issued and Outstanding Share Capital

During the period ended March 31, 2007 the Company issued a total of 900,000 shares as follows:

- On February 28, 2007 the company issued 700,000 shares to Gallant Minerals Limited as part of the final payment concluding the agreement signed on March 1, 2005 (see section 1.02).
- The Company issued 200,000 shares on the exercise of warrants during the first quarter of 2007.

This brings the total shares outstanding at March 31, 2007 to 53,951,127.

Warrants

During the three months ended March 31, 2007, 200,000 warrants were exercised at a price of $0.60 per share for gross proceeds of $120,000, and 600,000 warrants expired. This brings the outstanding warrants at March 31, 2007 to 5,665,725.

Stock Options

During the three months ended March 31, 2007, 5,000 options expired, bringing the outstanding options at March 31, 2007 to 3,254,000.

1.13 Exploration Results

Overview

At March 31, 2007 the Company was actively preparing for the start of field work on its 2007 exploration season. Exploration costs incurred in the first quarter were predominantly for preparation and planning for the 2007 season. The following is a brief summary for each of the Company's exploration projects which are expected to incur work in 2007.

Zuun Mod Porphyry Molybdenum Project

The Zuun Mod property is a porphyry molybdenum prospect located in Bayankhongor Province approximately 950 kilometres southwest of Ulaanbaatar and 180 kilometres north of the Mongolia-

China border. The property consists of a single exploration license totaling 49,538 hectares. The license is registered in the name of Anian Resources XXK a wholly owned subsidiary. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty (refer to section 1.02).

The Zuun Mod project has been under exploration and evaluation since 2002. Subsequent to signing an agreement with Gallant Minerals Limited in March 2005, the Company carried out extensive exploration that has resulted in the delineation of multiple targets with highly significant, relatively near surface molybdenum intersections. The type and styles of alteration and mineralization within the Company's Zuun Mod property are consistent with many characteristics documented from other porphyry-type deposits within Mongolia and also worldwide.

In the first quarter 2007 Erdene appointed Minarco Asia Pacific Pty Limited ("Minarco") to evaluate strategic options and advise on project planning and design for the Zuun Mod molybdenum project. Minarco is a prominent mining and energy industry advisor in the Asia Pacific region and has recently been involved in assisting China Molybdenum with the technical aspects of its Initial Public Offering. As well, Minarco has worked on various projects with many of China's major coal and steel producers.

Minarco's review, based on the drill results and other data, indicates the Zuun Mod molybdenum project has the potential to host reserves in the two most advanced zones (Racetrack and Stockwork zones), and their extensions, of similar tonnage to other major molybdenum projects being currently developed else where in the world with average grades equal to or greater than 0.05% Mo. In addition, Minarco believes there is reasonable potential to identify additional targets within the identified 7.5 kilometre long by 600 metre wide molybdenum-in-rock surface geochemical anomaly.

Minarco has recommended a two-phase drilling program. Phase I drilling will include a 200 metre spaced grid drilling program on the Stockwork and Racetrack Zones. This drilling is expected to provide sufficient detail for the definition of the extent of mineralization already identified in these areas. This phase will also include further work intended to identify and test additional targets within the 7.5 kilometre long molybdenum-in-rock surface geochemical anomaly. It is anticipated that a minimum of 15 holes will be drilled at an average depth of 250 metres in Phase I. This program will provide greater certainty for focusing the Phase II 100 metre spaced grid drilling program which will be the basis for generating an anticipated resource estimate for the Zuun Mod molybdenum project during 2007. Two diamond core drill rigs are now on the property and have started drilling as of May 7, 2007.

Mogoit and Tsagaan Ovoo

In January 2007, the Corporation entered into an agreement with Xstrata Copper ("Xstrata") to acquire the rights to two Mongolian copper-gold properties, subject to certain vendor back-in rights. These projects were acquired through Xstrata plc's acquisition of Falconbridge Limited ("Falconbridge"), in August 2006. The two properties host copper-gold porphyry style targets located in central Mongolia.

The two properties lie 30 kilometres apart in south central Mongolia, 460 kilometres southwest of the capital city of Ulaanbaatar and approximately 60km from Arvakheer, the provincial capital. The two properties are within a large, contiguous, six license claim group totaling 98,838 hectares. Two of the licenses were acquired by Falconbridge through an option agreement with local Mongolians and are subject to certain cash payments, exploration expenditure requirement and royalty provisions (refer to section 1.02). The remaining four licenses were acquired by Falconbridge through staking. All of the licenses are subject to certain back-in rights in favor of Xstrata (see section 1.02).

In 2006, Falconbridge completed mapping, soil and rock sampling, and geophysical surveys to test for a porphyry-style copper-gold system beneath the mineralized surface showings on both properties. This work identified target areas characterized by coincident geophysical (IP and magnetic) and geochemical (rock and soil) anomalies in areas of historic shallow pits and trenching. Rock samples from these areas have returned significant copper (up to 14%) and gold (up to 4 g/t) values. Falconbridge identified six high priority drill targets on the two properties. Due diligence sampling by the Corporation in late 2006 confirmed the surface assay values reported by Falconbridge.

Erdene is in the process of compiling the geotechnical data on the property in preparation for the upcoming field season. Additional surface exploration will be carried out in anticipation of a four to six hole drilling program in summer 2007.

Biger Copper-Gold-PGE Project

The Biger property is an early stage exploration project located in a highly prospective area for copper and gold located approximately 780km southwest of Ulaanbaatar and 100km southeast of the provincial centre of Altai in Govi-Altai Province in southwestern Mongolia. The property consists of a single exploration license totaling 12,522 hectares. The license is registered in the name of Anian Resources XXK, a wholly owned subsidiary. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty (refer to section 1.02)

Exploration work to date, including rock and soil geochemistry (including mobile metal ion (MMI)), magnetic and induced polarization (gradient and dipole-dipole) geophysical programs and a three-hole diamond drilling program have resulted in the identification of a number of significant anomalies. Rock samples have returned copper values up to 2.8%, accompanied by elevated palladium (1.37 g/t), gold (0.5 g/t), and platinum (0.29 g/t). A drill hole testing coincident geochemical and geophysical anomalies in the Altan Khad outlier intersected a 24 metre section that assayed 0.5% copper with elevated gold (86 ppb) and palladium (89 ppb) values. An area of younger rocks and recent sediments with a radius of at least 6 kilometres from this drill intersection remains untested.

In 2006, a gradient induced polarization survey and follow-up 5-line dipole-dipole survey was completed over the central Altan Khad mineralized outlier, adjoining buried pediment area and an adjacent mineralized gabbro/diorite located 7 kilometres to the east. In addition, a two line mobile metal ion (MMI) geochemical orientation survey was also completed over the central Altan Khad mineralized outlier and the mineralized zone intersected in the 2005 drill hole in an attempt to identify buried mineralized bodies. Analyses of the MMI results indicate that subtle gold and copper anomalies occur over zones of magnetic high. A standard soil geochemical orientation survey over portions of the pediment, as well as additional MMI sampling is planned for June 2007 along with drill testing of the geophysical anomalies.

Erdenet Ikh-Tal Porphyry Copper Project

The Erdenet Project is located in Orkhon and Bulgan aimags in northern Mongolia, approximately 250km northwest of Ulaanbaatar, the capital of Mongolia. The properties are connected to

Ulaanbaatar by paved road and a rail line which is a spur of the Trans Mongolian railroad which runs through Mongolia between Russia and China. The Erdenet Ikh-Tal properties consist of three contiguous exploration licenses (Ikh Tal 1 to 3) covering 8,540 hectares which surround the Erdenet Mine Corporation ("EMC") open pit copper-molybdenum mining operation. The license is registered in the name of Anian Resources XXK, a wholly owned subsidiary. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty (see section 1.02)

The project goal is to identify extensions of porphyry-style copper/molybdenum mineralization on the Company's exploration licenses that surround the Erdenet open pit copper/molybdenum mining operation. Erdenet is the second largest porphyry copper deposit in Central Asia and one of the largest in the world, with published mining reserves in 2002 of 766.7 million tonnes grading 0.61% copper and 0.015% molybdenum.

To date the Company has carried out extensive mapping, geochemical and geophysical programs. A 12 hole reconnaissance drilling program has been carried out over the past two years testing geochemical, alteration and geophysical anomalies. The drilling program has resulted in the identification of several significantly anomalous intersections. Drill hole, ITDD 4 in the South-Central Baglai area, located 200 metres from the EMC property boundary intersected a mineralized zone starting at 36 metres that returned 0.2% copper over 32 metres, including an 8 metre section of 0.3% copper and up to 0.65% copper over 2 metres. Occasionally samples exceeding 0.2% copper over 2 metres were returned deeper in the hole. A second hole, ITDD-08, located 200 metres southeast of ITDD-04, intersected 32 metres of 0.27% copper including 0.33% copper over 12 metres, starting at 34 metres from surface. In addition, sulfide zones were intersected deeper in the hole including 8 metres of 0.3% copper at 125 metres and 25 metres of 0.23% copper from 215 metres to the bottom of the hole. A broad high chargeability anomaly has been traced for 400 metres southeast of ITDD-08 along with surface porphyry style alteration.

In the Northwest Extension area, hole ITDD-09, located 1200 metres northwest of EMC's open pit, returned a 35 metre interval with copper oxide mineralization that averaged 0.21% copper from 24 to 59 metres. This includes a five metre section of 0.71% copper at 54 metres. Hole ITDD-10, located 550 metres to the northeast of hole ITDD-09, intersected five metres of 0.25% copper at 40 metres from the surface.

These results indicate the extension of both near surface oxide and deeper sulfide porphyry copper mineralization onto the Corporation's adjoining property to the southeast as well as the northwest of EMC's mine and demonstrate potential for the discovery of economic copper concentrations in near-surface oxide zones and deeper sulfide ore-bodies.

Tsagaan Chuluut Area

Additional geological mapping and sampling in the Tsagaan Chuluut area in the north central part of the Ikh Tal 1 license, 4 kilometres northwest of the Erdenet open pit has outlined an area of silicification and alunite alteration coincident with a large magnetic low, high chargeability and low resistivity. It is anticipated that this new target area will be drill tested in 2007 along with follow-up drilling on areas of interest generated by the 2006 drilling results.

Bayan Kharaat Copper Porphyry Project

The Bayan Kharaat property is located approximately 200km north north-west of Ulaanbaatar in

Selenge province. The property is located is adjacent to the paved highway leading from Ulaanbaatar to the Russian border-crossing at Sukhbaatar. Bayan Kharaat lies within the Ervana Arc Terrane which hosts numerous porphyry deposits, including Erdenet, Shand, Oyuut, and others. The property consists of a single exploration license covering 3,523 hectares. The license is registered in the name of Anian Resources XXK, a wholly owned subsidiary. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty (refer to section 1.02)

In 2005 the Company has carried out a ground magnetic survey and gradient IP survey over the southern and central portion of the Bayan Kharaat property. The magnetics showed very strong NE-SW and NW-SE trending linear features, which appear to intersect in the area of strong alteration and associated copper mineralization. In June 2006, a systematic soil survey was carried out on a 200m grid over the south western and south central portions of the property. Two target areas of co-incident silicification, sericite/pyrite alteration and elevated copper in soil and chargeability have been outlined on the NE-SW trending structure in granite porphyry in the southwest central area and in felsic volcanics in the west central area. Additional exploration including drilling is planned for 2007.

Tsenkher Gol Gold Project

The Tsenkher Gol property is located in Khentii Province 180 kilometres east of Ulaanbaatar and is accessible by a newly paved highway. The property consists of two contiguous licenses totaling 7,982 hectares. The license is registered in the name of Anian Resources XXK, a wholly owned subsidiary. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty (refer to section 1.02)

Exploration work to date has included geological mapping, an extensive soil geochemical survey and geophysical surveys (magnetic and IP), and a two phase drilling program. Under the Phase I drilling program four target areas (Altan Suult and three in the Khond Uul area), 1 to 4 kilometres apart, all returned anomalous gold intersections (0.2 g/t gold and higher) commonly over significant thicknesses (up to 68 metres) including 10 metres of 1.2g/t gold and 2 metres of 6.6g/t gold at Altan Suult. This Phase I drilling program confirmed that gold mineralization is hosted in all granitic, volcanic and metasedimentary rock types and extends to depth in multiple gold mineralized zones over broad thicknesses. These broad zones of low grade gold mineralization typically envelop higher grade zones.

A six-hole Phase II diamond drill program was initiated in mid October to further test mineralized zones and structural targets in the Altan Suult area. The Phase II holes were step-out holes ranging from 120 to 280 metres from the previous Phase I drilling and tested coincident surface gold geochemical and dipole-dipole geophysical anomalies. Broad zones of anomalous gold values including 62 metres (52 to 114m) of 0.10g/t gold in drill hole TGD-10 and narrow higher grade zones, including 2 metres (223 to 225m) of 1.6g/t gold in drill hole TGD-9, were intersected.

Gold bearing zones have now been traced over 7 kilometers at Khond Uul and over an area approximately 1 kilometre by 1 kilometre at Altan Suult with both areas remaining open at depth and in all directions. These results support the presence of a strong gold bearing hydrothermal system over a wide area (5 by 10 kilometres). Additional drilling on the project is on hold pending a comprehensive technical review of the results to date.

Energy Project – Coal

The Company is involved in a comprehensive coal generative program in cooperation with Xstrata Coal evaluating numerous prospective metallurgical and high quality thermal coal deposits. The Company's technical staff has compiled an extensive database on coal deposits, occurrences and prospective sedimentary basins allowing for a prioritization of targets. Data on approximately 350 coal deposits and occurrences have been entered into the database. All the Company's coal exploration in Mongolia is being fully funded by Xstrata (refer to section 1.02 for further information about the Xstrata agreement) and is being carried out in consultation with Xstrata personnel.

One of the priority targets identified to date is the Galshar coal property located 300km southeast of Ulaanbaatar on the border of Dornogovi and Khentii provinces. Galshar lies 63km from the nearest rail link and 250km from the Mongolia-China border. Three exploration licenses totalling 97,082 hectares are considered to be part of the Galshar coal property. The licenses are 100% owned by the Corporation and are registered in the name of the Erdene Mongol XXK, a wholly owned subsidiary.

To date Erdene has completed eleven exploration drill holes, with an average spacing of greater than 1 kilometre and totalling 1,093 metres have been completed in the Galshar basin by the Corporation. Drilling has identified one main coal seam with an average thickness of 21 metres (maximum thickness of 46.6 metres) overlain by an additional five to 10 seams, each 1 to 2 metres thick. Drilling by the Corporation in 2006 (drill hole GHR-11) confirmed the coal seams extend at least 3.6 kilometres to the northeast of the Corporation's 2005 drill hole CDD-01 that returned a 21.8 metre section of greater than 10,000 BTU/lb coal with low ash (6%) and low sulfur (0.4%). Hole GHR-03, located 2.2 kilometres northeast of hole CDD-01 intersected a 17.4 metre section of the main coal seam that averaged greater than 8,000 BTU/lb. Drilling results from 2006 and historic exploration reports suggest additional seams may also occur east and south of the area currently being explored.

Based on the 2006 drilling results, Erdene and Xstrata Coal are planning to move the project to the resource delineation stage. The start of a 30-hole drilling program is planned for the second quarter of 2007 to further define the coal seams intersected to date and confirm the coal quality. It is anticipated that this program will culminate in the establishment of a NI 43-101 compliant resource estimate for the Galshar coal project. Erdene believes that Galshar has the potential to be the site of a large-scale open-pit operation of thermal grade coal with a low stripping ratio.

Energy Project - Uranium

Erdene holds 9 exploration licenses in south eastern Mongolia totaling 195,492 hectares. All of the licenses are registered in the name of Erdene Mongol or Erdene Energy, both of which are wholly owned by the Company. One of these licenses was acquired from Gallant Minerals Ltd and is subject to a 1% NSR Royalty, which can be reduced to 0.5% in certain circumstances by making certain payments (refer to section 1.02).

Pursuant to an agreement dated June 14, 2005, between the Company and International Uranium Corporation ("IUC") (now Denison Mines Corp.), IUC has the option to earn a 65% interest in the uranium minerals on the properties by spending a minimum of $6 million over a four-year period and by meeting other obligations. All necessary funds for uranium exploration were covered by IUC as per the terms of the joint venture agreement. IUC's focus is on sandstone-hosted deposits that can be mined using the "In Situ Leach" ("ISL") method. Successful ISL pilot plant testing was completed previously by IUC.

The 2006 exploration program was managed by IUC who initiated an extensive reconnaissance rotary drill program to evaluate the uranium potential of a number of the Galshar block of Licenses as well as on the Yant and Tsagaan Del Licenses. Interesting results were returned from the Ikh Het depression (western Galshar area) where one hole intersected 0.01% to 0.02% uranium over 7m at a depth of 7 to 14m and another intersected 0.01% to 0.02% uranium over 5m at a depth of 20m. A decision to follow up the anomalous results returned on four licenses is under consideration.

North American Projects

The Company's North American project portfolio includes two notable industrial mineral projects as well as a 25% interest in the Donkin coal project (pursuant to an agreement entered into on October 26, 2006, see section 1.02). The industrial mineral opportunities include the Sparta Kaolin project in Georgia, U.S., which is operated by J.M. Huber Corporation, and the Maddox Granite Aggregate project, a royalty project in the southeast U.S. managed by Rinker Materials Corporation.

Donkin Coal Project

Erdene is a 25% joint venture partner in the Donkin Coal Alliance with Xstrata Coal Donkin Limited (Xstrata Coal Donkin). The Donkin Coal Alliance 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.

A 200 million tonne portion of the Donkin coal resource, considered to have very good thermal and metallurgical qualities, is targeted in the initial development planned. The project is well located to serve domestic and Eastern U.S. markets. Approximately $100 million was spent on previous work that included the construction of two 3.7 kilometre access tunnels.

McElroy Bryan Geological Services Pty Ltd (MBGS) has been retained to compile all historical information on the Donkin Coal project and develop an updated model of the deposit. MBGS was established in 1970 and provides independent resource appraisals, technical reviews and due-diligence reports to the coal mining industry and financial institutions within Australia and overseas.

During the quarter the dewatering and the tunnel clearing and refurbishing program was ongoing. By March 31, 2007 the tunnel access program was at approximately the half-way mark or 1,800 metres. In excess of 150 million litres has been safely discharged into the adjoining settling ponds. Access to the targeted Harbour Seam coal face is anticipated during the second quarter of 2007 which will be followed by an extensive, 15,000m 10-hole in-seam exploratory drilling program as well as a bulk sampling program during the second half of 2007.

Subsequent to the quarter end MBGS completed their independent technical report on the resource estimate for the Donkin coal project. The report identified an indicated resource of 227Mt (million metric tons) and an inferred resource of 254Mt of "High Volatile A Bituminous Coal" within the confines of the Donkin coal resource block.

A pre-feasibility study is currently in its final stages and is being completed by leading experts in the coal quality, environmental and mining fields including Runge Consulting who is responsible for producing the final pre-feasibility report. It is anticipated that details of the study, excluding commercial in confidence information, will be released by the company following review and approval of the project pre-feasibility report by the end of the second quarter 2007.

Sparta Kaolin Project

One of the assets acquired through the Kaoclay merger is a large primary kaolin resource in Georgia, U.S.A. Due to an aggressive exploration and acquisition program by Kaoclay in the late 1990s, Erdene now controls a large high brightness primary clay resource through its subsidiary, Sparta Kaolin Corporation. The Company's in-ground, "premium" quality, primary kaolin resource in Georgia amounts to 27.4 million tons. For the project's development stage, Kaoclay partnered with industry leader Huber Engineered Materials (Huber), a subsidiary of J.M. Huber Corporation, a diversified multi-national company and one of the world's largest kaolin producers.

In October 2003, Kaoclay 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 Kaoclay's primary kaolin deposits began in 2005 under the product name HuberPrimeTM, a high quality light-weight coater product.

The company continues to work with Huber and other third parties to identify products and markets to increase utilization of the raw material and therefore increase revenues and volumes mined and produced.

Maddox Aggregate Project

The Company owns the Maddox granite aggregate project in Georgia, USA. Rinker Materials Corporation ("Rinker") has been granted an exclusive right by the Company to mine, process, and sell aggregate from the Maddox property subject to an industry competitive royalty. The Maddox project is being developed as a granite quarry, primarily to serve the southeastern US markets by rail. Rinker is a major global company and one of the largest suppliers of construction aggregates in the southeast U.S. Maddox has an estimated start-up production of one million tonnes of granite aggregate per year with a design capacity of four million tonnes. Based on current production projections, the Maddox quarry would have a lifespan of at least 20 years.

Rinker has designed a quarry mining plan, processing plant and facilities, and produced an environmental impact plan. Rinker has also acquired additional land adjacent to the Maddox property to secure rail access to the site. A final permit decision is expected during 2007. The construction phase is expected to be completed nine to twelve months thereafter. Rinker is responsible for fully funding the development program.

1.14 Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2007, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Multilateral Instrument would have been known to them.

1.15 Outlook

The Company continues to be optimistic about the potential demonstrated by its principal and early stage resource properties. Success from the efforts of the Company's 2007 exploration program on any of its properties will result in an expanded program on the relevant property or properties relative to the significance of the results. Conversely, if anticipated results are not forthcoming on a particular property, a disciplined review and evaluation program will be in place to ensure expenditures are scaled back where management feels they may not be warranted.

1.16 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. All samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Perth Australia with the exception of coal samples which were sent to the Central Geological Laboratory in Ulaanbaatar. In addition to internal checks by SGS Laboratory and the Central Geological Laboratory, the Company incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

1.17 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.