



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Years ended December 31, 2010 and 2009

This Management Discussion and Analysis of Erdene Resource Development Corporation (the "Corporation" or "Erdene") provides analysis of the Corporation's financial results for the years ended December 31, 2010 and 2009 and its financial position as at December 31, 2010 and December 31, 2009. The following discussion and analysis includes financial information relating to the Corporation and its subsidiaries. The following subsidiaries are wholly owned unless stated otherwise: Erdene Gold International Inc. and Erdene International Exploration Inc., both incorporated under the laws of Barbados; Tamerlane International Limited incorporated under the laws of Bermuda; Advanced Primary Minerals Corporation ("APM") (60%), Erdene Resources Inc., and 6531954 Canada Limited, incorporated under the laws of Canada; Advanced Primary Minerals USA Corp ("APMUSA") (60%) and ERD Aggregate Corporation, both incorporated under the laws of Delaware as well as Erdene Mongol XXK and Anian Resources XXK, incorporated under the laws of Mongolia. The consolidated financial statements of the Corporation have been prepared by management, in Canadian dollars, in accordance with Canadian generally accepted accounting principles. The following information should be read in conjunction with the audited consolidated financial statements of the Corporation for the years ended December 31, 2010 and 2009, 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, budgeted financial results and events or developments that the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions. The information contained herein is stated as of March 30, 2011 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 Corporation's Board of Directors.

1.01 Date of MD&A

This MD&A is prepared as of March 30, 2011.

1.02 Nature of Business and Overall Performance

General

The Corporation is a resource exploration and development company listed on the Toronto Stock Exchange with two core projects: The Donkin Coal Project in Nova Scotia and the Zuun Mod Molybdenum Project in Mongolia. Erdene also has numerous non-core projects including kaolin and aggregate interests.

The Corporation, through its controlled subsidiary APM, operates a clay processing plant in Dearing, Georgia, USA. APM is in the second year of a three year business plan with the aim of building a high value added specialty products operation projected to begin generating positive cash flows in late 2011. On August 6, 2010, APM closed a private placement of 6,797,997 common shares of APM at \$0.15 per share for aggregate proceeds of \$1,019,699, including \$350,000 by Erdene. APM has begun work on a feasibility program to evaluate numerous business opportunities and determine the optimal plan for permitting and development of APM's remaining McDuffie County resources.

In early 2010, development work began on the Granite Hill aggregate quarry with commercial production to begin as early as the fourth quarter 2011. Until resulting cash flows from Granite Hill or APM increase substantially over current levels, the Corporation is dependent primarily on the issuance of share capital to finance its exploration and development programs.

The Corporation has minimal sources of income other than royalty income from its aggregate properties which are early stage, kaolin clay sales from its startup operations in Georgia, and interest earned on cash and GICs. It is therefore difficult to identify any meaningful trends or develop an analysis from the Corporation's cash flows.

The Corporation has working capital to the date of this report of approximately \$7.4 million. The Corporation's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits in Mongolia; and the development of its coal and industrial mineral interests in North America.

Beta Acquisition

On February 27, 2009, the Corporation concluded a reverse takeover of Beta Minerals Inc. ("Beta") whereby the Corporation and Deepstep Kaolin Company LLC ("DKC") transferred to Beta all of the outstanding common shares of Erdene Materials Corporation ("EMC"), and certain debt owing to the Corporation, in exchange for common shares of Beta, giving the Corporation a controlling interest in Beta. In conjunction with the closing, Beta changed its name to Advanced Primary Minerals Corporation and on March 6, 2009 began trading on the TSX Venture Exchange ("Exchange") under the symbol APD. The transaction constituted an arms length "Reverse Takeover" under the applicable policies of the Exchange.

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing, EMC held only primary kaolin clay assets located in Georgia, U.S.A. Also prior to closing, DKC transferred all rights to undertake production operations of ceramic products using the Corporation's clay, for 0.08542 of a share of EMC. On closing, the Corporation and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to the Corporation in exchange for the issuance by Beta of 81,000,000 common shares (71,000,000 to the Corporation and 10,000,000 to DKC). Upon completion of the Transaction, EMC became a wholly-owned subsidiary of Beta (now Advanced Primary Minerals Corporation). EMC subsequently changed its name to Advanced Primary Minerals USA Corp. Subsequent to

the closing, the Corporation transferred 2,925,000 of its shares of Beta to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the transaction and acquired 7,924,579 additional shares on conversion of approximately US\$400,000 of debt owed to the Corporation by APM.

A special meeting of shareholders of APM was held on December 8, 2009, where shareholders passed a special resolution approving a consolidation of APM's shares on the basis of one (1) post-consolidation share for up to every seven (7) pre-consolidation shares. The consolidation was effected as of December 18, 2009, on the basis of one (1) post-consolidation share for every seven (7) pre-consolidation shares. Outstanding options and warrants were adjusted on the basis of the same ratio. As at the effective date of the consolidation, APM had 117,667,382 shares issued and outstanding. Upon the consolidation, there were 16,809,626 shares issued and outstanding. Following the consolidation, APM issued an aggregate of 9,525,337 shares in connection with a private placement and settlements, including 2,527,340 shares to the Corporation on the settlement of \$380,000 of debt. On March 16, 2011, APM issued 8,000 common shares on the exercise of broker warrants. The Corporation presently holds 15,717,748 shares of APM's 26,342,963 outstanding shares and an additional 5,142,857 shares will be issued to the Corporation provided certain permits are obtained by APM by February 27, 2012 to allow production from certain of the clay assets.

1.03 Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December 31	2010	2009	2008
Revenues	\$ 527	\$ 168	\$ -
Loss for the year	\$ 3,568	\$ 2,177	\$ 3,592
Basic and diluted loss per share	\$ 0.04	\$ 0.02	\$ 0.04
Total assets	\$ 55,994	\$ 58,647	\$ 60,497
Total long-term liabilities	\$ 5,298	\$ 5,895	\$ 5,764
Cash dividends declared	Nil	Nil	Nil

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

1.04 Results of Operations

The Corporation had a loss of \$3,567,559 for the year ended December 31, 2010, compared to a loss of \$2,177,057 in 2009.

The Corporation generated \$526,593 in clay sales from its kaolin processing operations in 2010, compared to \$167,957 the previous year. The increase is due to higher sales to existing customers as well as securing new customers for the Corporation's kaolin clay products.

Total exploration and operating costs for the year ended December 31, 2010, net of deferred expenditures and partner contributions, amounted to \$2,763,595 compared to \$2,386,308 in 2009. Operating costs of \$1,302,815 (2009 - \$1,140,113) relate to APM's clay operations. This includes non cash expenses of \$361,370 (2009 - \$252,594) mainly for depreciation on plant equipment and leaseholds at APM's Dearing, Georgia kaolin processing plant and depletion of

APM's resource properties. The Corporation wrote off \$23,240 in non performing Mongolian resource properties during the year ended December 31, 2010, compared to \$1,183,323 the prior year.

The Corporation charges all exploration costs to operations in the period incurred until such time as it has been determined the property has good potential to contain an economically recoverable resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. All direct costs related to the acquisition of resource property interests are capitalized as an asset. Total resource property additions for the year ended December 31, 2010 amounted to \$129,295 as compared with \$285,264 in 2009.

For the year ended December 31, 2010, the Corporation incurred \$1,562,205 (2009 – \$876,619) in exploration and support costs directly related to the Zuun Mod project and incurred \$1,009,027 (2009 – \$834,576) on the Donkin Coal Project, which were capitalized.

As long as exploration results justify and allow further equity financing, 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 positive cash flows.

General and administrative expenses amounted to \$2,707,779 for the year ended December 31, 2010 compared to \$2,040,955 in 2009. Excluding non cash expenses such as depreciation and stock based compensation, total general and administrative costs increased \$162,752 compared to the previous year. The Corporation has incurred higher investor relations and conference costs, additional administration and professional fees due to increased corporate demands as Erdene marketed its numerous projects. Higher regulatory compliance costs are mainly due to APM which held its first annual general meeting under Erdene's control in 2010.

Other income amounted to \$458,307 for the year ended December 31, 2010, compared with \$2,296,256 in 2009. A few items of note under other income:

- The Corporation received final payment of \$105,858 on the sale of its Galshar coal property in Mongolia. Erdene retains a royalty interest in the property.
- The Corporation recognized a gain of \$180,598 on the sale of its marketable securities, compared to a gain of \$934,947 in 2009.
- A dilution gain of \$139,372 was recognized in 2010, triggered by the issuance of shares by APM and the corresponding change in Non-Controlling Interest ("NCI"). This compared to a dilution gain of \$878,595 recognized on the close of the Beta transaction in 2009.

The Corporation accounts for the interest in APM it does not own as NCI. For the year ended December 31, 2010, the NCI portion of the consolidated loss was \$563,007, compared to \$500,078 in the prior year.

The following tables supply a continuity of exploration and operating expenses and resource property interests as at December 31, 2010 and 2009.

Year ended December 31, 2010

EXPLORATION AND OPERATING EXPENSES

	Minerals	Donkin Coal	Other	Zuun Mod Molybdenum	Coal	Other	Total
Assaying and Analytical	325	4,617	-	11,559	5,158	12,670	34,329
Dewatering/Refurbishment/Maintenance of Tunnels	-	169,476	-	-	-	-	169,476
Drilling/Testing	-	-	1,793	809,783	682,167	121,247	1,614,990
Engineering/Technical Consultants	-	85,138	-	-	-	-	85,138
Environmental	-	58,085	-	-	-	-	58,085
Geological Services	346,660	289,767	-	187,550	353,291	181,368	1,358,636
Geo-technical Surveys	-	-	-	331,058	412,617	47,473	791,148
Logistical and Field Support	11,062	485,253	1,280	211,404	415,780	171,149	1,295,928
Professional fees	29,547	2,326	6,828	-	-	-	38,701
Travel	18,726	3,176	-	9,182	50,108	22,655	103,847
Write off of resource properties	-	1,189	-	-	22,176	1,064	24,429
Other	1,674	-	-	1,669	3,534	529	7,406
Exploration partner contributions	-	-	-	-	(1,436,861)	-	(1,436,861)
Total exploration and development expenses	407,994	1,099,027	9,901	1,562,205	507,970	558,155	4,145,252
Deferred expenditures	-	(1,099,027)	-	(1,562,205)	-	-	(2,661,232)
Clay processing, plant and lab operating expenses	1,302,815	-	-	-	-	-	1,302,815
Expenses incurred in 2010	1,710,809	-	9,901	-	507,970	558,155	2,786,835
Expensed to December 31, 2009	3,596,309	-	144,045	2,455,326	1,050,456	12,785,097	20,031,233
Cumulative expenses to December 31, 2010	5,307,118	-	153,946	2,455,326	1,558,426	13,343,252	22,818,068

RESOURCE PROPERTY INTERESTS

Balance, December 31, 2009

Resource property additions	-	-	-	79,403	46,392	3,500	129,295
Depletion of resource properties	(41,490)	-	-	-	-	-	(41,490)
Deferred expenditures	93,025	1,099,027	-	1,562,205	-	-	2,754,257
Write off of resource properties	-	-	-	-	(22,176)	(1,064)	(23,240)

Resource Properties at December 31, 2010

North America			Mongolia			Total
Industrial Minerals	Donkin Coal	Other	Zuun Mod Molybdenum	Coal	Other	
6,521,641	18,747,001	-	9,651,894	182,567	16,751	35,119,854

Year ended December 31, 2009

EXPLORATION AND OPERATING EXPENSES

	Minerals	Donkin Coal	Other	Zuun Mod Molybdenum	Coal	Other	Total
Assaying and Analytical	2,067	1,038	-	35,372	17,582	74,410	130,469
Dewatering/Refurbishment/Maintenance of Tunnels	-	231,255	-	-	-	-	231,255
Drilling/Testing	-	-	-	135,533	-	-	135,533
Engineering/Technical Consultants	-	52,181	-	-	-	-	52,181
Environmental	-	51,593	-	-	-	-	51,593
Geological Services	291,490	330,958	2,739	395,679	331,687	164,569	1,517,122
Geo-technical Surveys	-	-	-	-	63,581	-	63,581
Logistical and Field Support	32,756	58,675	137,191	268,161	320,116	295,760	1,112,659
Professional fees	69,382	23,130	4,115	-	-	-	96,627
Travel	27,718	75,501	-	41,714	147,776	16,268	308,977
Write off of resource properties	-	-	-	-	16,652	1,166,671	1,183,323
Other	3,543	10,245	-	160	1,363	1,243	16,554
Exploration partner contributions	-	-	-	-	(759,161)	-	(759,161)
Total exploration and development expenses	426,956	834,576	144,045	876,619	139,596	1,718,921	4,140,713
Deferred expenditures	-	(834,576)	-	(876,619)	-	-	(1,711,195)
Clay processing, plant and lab operating expenses	1,140,113	-	-	-	-	-	1,140,113
Expenses incurred in 2009	1,567,069	-	144,045	-	139,596	1,718,921	3,569,631
Expensed to December 31, 2008	2,029,240	-	-	2,455,326	910,860	11,066,176	16,461,602
Cumulative expenses to December 31, 2009	3,596,309	-	144,045	2,455,326	1,050,456	12,785,097	20,031,233

RESOURCE PROPERTY INTERESTS

Balance, December 31, 2008

Resource property additions	-	-	-	86,222	182,567	16,475	285,264
Depletion of resource properties	(917)	-	-	-	-	-	(917)
Deferred expenditures	-	834,576	-	876,619	-	-	1,711,195
Write off of resource properties	-	-	-	-	(16,652)	(1,166,671)	(1,183,323)

Resource Properties at December 31, 2009

North America			Mongolia			Total
Industrial Minerals	Donkin Coal	Other	Zuun Mod Molybdenum	Coal	Other	
6,522,558	17,912,425	-	8,689,053	16,652	1,166,947	34,307,635

1.05 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2010				Fiscal 2009			
	Q4 Dec-10	Q3 Sep-10	Q2 Jun-10	Q1 Mar-10	Q4 Dec-09	Q3 Sep-09	Q2 Jun-09	Q1 Mar-09
Revenue	\$182	\$130	\$109	\$106	\$37	\$65	\$61	\$5
Loss	\$898	\$363	\$1,449	\$858	\$140	\$1,239	\$1,479	(\$681)
Basic and diluted loss per share	\$0.01	\$0.00	\$0.02	\$0.01	\$0.00	\$0.01	\$0.01	\$0.00
Total Assets	\$55,994	\$56,507	\$56,632	\$57,558	\$58,647	\$58,910	\$60,209	\$61,965

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

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

1.06 Liquidity and Capital Resources

The Corporation had working capital of \$8,326,448 at December 31, 2010, representing a decrease of \$5,663,954 from the December 31, 2009 working capital position of \$13,990,402. APM raised \$548,843, net of issue costs, on the close of a private placement financing on August 4, 2010. The Corporation also received \$207,604 on the exercise of employee stock options, \$276,432 in proceeds on the sale of marketable securities and \$105,858 on the sale of resource property interests. These inflows were more than offset by costs associated with the normal activities of the Corporation in carrying out its exploration programs, general and administrative costs in support of the program, as well as the ongoing operation and maintenance of APM's kaolin processing plant in Dearing, Georgia, USA.

Current working capital is sufficient to fund the Corporation's budgeted expenditures through 2012. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration program and ongoing studies for the Donkin coal project. Erdene has committed up to \$550,000 continued funding of APM subject to conventional commercial loan terms.

During the year ended December 31, 2010, \$129,295 was expended on additions to resource property interests, offset by write downs of \$23,240, compared to additions of \$285,264 for 2009, and write downs of \$1,183,323. The Corporation deferred expenditures totaling \$2,754,257 in 2010 compared to \$1,711,195 in 2009.

During the year ended December 31, 2010, the Corporation spent \$139,216 on property, plant and equipment compared to \$1,439,625 in 2009. The majority of the additions in 2009 were the purchase of kaolin processing equipment and leaseholds for APM's kaolin processing operation.

Other than as discussed herein, the Corporation is not aware of any trends, demands, commitments, events or uncertainties that may result in the Corporation's liquidity or capital resources materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Corporation's liquidity and capital resources will be substantially determined by the success or failure of the Corporation's three advanced stage projects (being APM's kaolin clay operation, and the Donkin Coal and Zuun Mod Molybdenum Projects),

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

1.07 Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2010:

Contractual Obligations	Total	Less than one year	2-3 years	4-5 years	More than 5 years
Operating leases ⁽¹⁾	228,941	62,124	124,751	42,066	-
Capital leases ⁽²⁾	324,748	4,588	9,176	310,984	-
Accounts payable and accrued liabilities	918,252	918,252	-	-	-
Kaolin property lease agreements ⁽³⁾	63,284	15,821	15,821	15,821	15,821
	<u>1,535,225</u>	<u>1,000,785</u>	<u>149,748</u>	<u>368,871</u>	<u>15,821</u>

(1) The Corporation has entered into operating leases for office space and office equipment.

(2) The Corporation, through its controlled subsidiary APMUSA, has entered into capital leases for certain assets associated with its kaolin processing operation.

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

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

1.08 Off-Balance Sheet Arrangements

As at December 31, 2010, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

1.09 Fourth Quarter

During the fourth quarter, the Corporation carried out a 4,802 metre drilling program on its Zuun Mod project. Exploration costs for the program totalled just under \$1.2 million for the fourth quarter of 2010. See section 1.14 for further details on the work carried out in the fourth quarter of 2010.

Other than mentioned above, there were no unusual events or items during the fourth quarter of 2010 that affected the Corporation's financial condition, cash flows or results of operations in a material nature.

1.10 Critical Accounting Estimates

Critical accounting estimates used in the preparation of the Corporation's consolidated financial statements include the Corporation's estimate of the recoverable value of its resource properties, goodwill, the value attributed to stock-based compensation and future taxes. These estimates could be significantly affected by factors beyond the Corporation'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 Corporation 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. The Corporation charges all exploration costs to operations when incurred, with the exception of expenditures related to the Donkin Coal Project and the Zuun Mod Molybdenum Project. Management feels confident that the recoverable value of its resource properties equals or exceeds the carrying value of \$37,938,676 on the Corporation's balance sheet at December 31, 2010.

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 Corporation's common shares. The Corporation used an expected volatility rate of 88% in 2010 (77% in 2009). This is an estimate only based on using past share trading data to predict future volatility, and actual volatility may be different from the estimate used in the valuation formula. Stock-based compensation represents a non-cash expense and, as such, has no impact on the Corporation's financial position or liquidity. The Corporation granted 1,780,000 options during the year ended December 31, 2010 with an ascribed value at the time of grant of \$670,638 and charged as follows: \$392,802 to general and administrative and \$277,836 to exploration and operating. This compares to \$277,318 in 2009 charged as follows: \$184,398 to general and administrative and \$92,920 to exploration and operating.

The 2,300,000 share purchase options issued by APM had an ascribed value of \$305,304 and were charged to general and administration. The 252,666 broker warrants issued by APM had an ascribed value of \$23,700 and were charged to share issue costs. APM used an expected volatility rate of 97% in 2010 (80% in 2009).

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 that a future tax asset will not be recognized.

1.11 Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

Effective February 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2010 will require the restatement into IFRS for comparative purposes of amounts previously reported under Canadian GAAP by the Corporation for the year ended December 31, 2010, including a revised opening balance sheet as at January 1, 2010.

The initial stage of the IFRS conversion project was to train and educate senior finance personnel on IFRS. The Corporation offered IFRS specific training to senior financial staff and participation in peer group meetings on IFRS readiness organized by an external consulting firm. Late in 2009,

the Corporation also performed an initial diagnostic impact assessment, whereby management reviewed each of the significant areas of difference between Canadian Generally Accepted Accounting Principles (“CGAAP”) and IFRS. To this end, in the fourth quarter of 2009 the Corporation engaged its external auditor to perform a review of the key areas of financial statement impact with the conversion to IFRS. This report was delivered to the Corporation in November 2009 and presented to the Corporation’s audit committee.

The next phase of the Corporation’s IFRS project was the impact assessment phase, whereby the project team reviewed each of the significant areas of difference highlighted by the initial diagnostic. In this phase, the project team determined the potential qualitative differences between CGAAP and IFRS through the completion of technical topic papers, and assessed the impact of these differences on the Corporation’s accounting policies, information systems, internal controls over financial reporting and other business processes.

The Corporation has completed technical papers that address significant GAAP differences. In addition, the Corporation has quantified the impact of adjustments to the opening balance sheet, which are outlined in more detail below. Further, the Corporation has developed its new IFRS-compliant accounting policies, which the Corporation will include in its first set of IFRS statements in the first quarter of 2011. Draft financial statements under IFRS are in the process of being compiled in preparation for the transitional requirements.

The following is a discussion of some of the accounting standards identified that will have a significant financial statement impact on the Corporation, and the expected impact on the opening balance sheet.

1) IFRS 1, First-Time Adoption of IFRS:

Significant adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of January 1, 2010, the date of the transitional balance sheet presented under IFRS. However, for entities adopting IFRS for the first time, IFRS 1 provides a number of optional exemptions and mandatory exemptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition. The following are the optional exemptions which the Corporation expects to elect:

- Business combination election – The election allows the Corporation to adopt IFRS 3(R) prospectively from the date of transition.
- Arrangements containing a lease - The election allows the Corporation to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement

2) Exploration for and Evaluation of Mineral Resources

IFRS 6, applies to expenditures incurred on properties in the exploration and evaluation (E&E) phase. The E&E phase begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E&E expenditures are capitalized and which are expensed. The Corporation’s project team is developing a policy that includes defining the E&E phase and accounting for E&E expenditures. The Corporation expects to establish an accounting policy to expense, as incurred, all costs, except acquisition costs, relating to E&E until such time as it is determined that a property, in the opinion of management, has

documented evidence of economically recoverable resources. On adoption of IFRS, the Corporation does not expect an adjustment related to the adoption of IFRS 6; although a reclassification on the statement of financial position from exploration and evaluation assets to property, plant and equipment is expected related to properties in the development stage.

3) Share Issue Costs

Under IFRS, share issue costs are required to be recorded as a reduction in share capital. The expected adjustment results in a reduction of the deficit of approximately \$5 million, with a corresponding reduction in share capital

4) Financial Instruments

IFRS does not provide different measurement standards for financial instruments acquired from or disposed to related parties unlike Canadian GAAP. IAS 39 indicates that where transactions between related parties omit carrying costs (e.g. do not charge interest), the general requirement to record financial instruments at fair value can be interpreted to require recognizing imputed interest between the related parties. The expected adjustment results in a reduction of the deficit of approximately \$9,000, with a corresponding reduction in share capital.

5) The Effects of Changes in Foreign Exchange Rates

Under Canadian GAAP, functional currency is determined for the reporting entity based on the evaluation of a number of factors. Each subsidiary is then evaluated to determine if they are integrated with the parent or self-sustaining and the appropriate foreign currency translation methods are followed based on that determination. Under Canadian GAAP, the Corporation's subsidiaries were considered integrated and non-monetary assets and liabilities were recorded at the historical rate. Any gains or losses on the translation of monetary assets and liabilities were recorded in the Statement of Loss and Comprehensive Loss

Under IFRS, each entity has a functional currency which is determined based on the evaluation of primary factors and if those do not provide conclusive evidence then secondary factors are evaluated. A presentation currency is determined and all subsidiaries with functional currencies different than the presentation currency are translated using a method similar to the method used for translating self-sustaining entities under Canadian GAAP; whereby, assets and liabilities are translated at the current rate with any exchange gains and losses recorded as Cumulative Translation Adjustment in Shareholders' Equity. This will result in greater volatility in the recorded amount of assets and liabilities. The expected adjustment related to the translation of non-monetary assets of foreign operations at the current exchange rates (rather than the historical exchange rate under Canadian GAAP), results in a reduction in exploration and evaluation assets and property plant and equipment of approximately \$1.4 million, with a corresponding increase in the deficit at the transition date to IFRS.

The Corporation has also completed a review of the above areas of potential difference on its information systems and is in the process of implementing an integrated enterprise resource planning software system. The accounting software system is expected to be implemented during the first quarter of 2011.

As the transition to IFRS is completed and the new information systems are implemented, the Corporation will monitor the impact on internal controls over financial reporting and disclosure

controls. The Corporation will ensure appropriate changes, as required, are made throughout this process to ensure the integrity of internal controls over financial reporting and disclosure controls.

1.12 Financial Instruments and Other Risks

The Corporation's financial instruments consist of cash and cash equivalents, marketable securities, amounts receivable, accounts payable, accrued liabilities and obligations under capital leases. Management does not believe these financial instruments expose the Corporation to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

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

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

1.13 Outstanding Share Data

Issued and Outstanding Share Capital

During the year ended December 31, 2010, Erdene issued 457,500 shares, for cash proceeds of \$207,604, on the exercise of employee stock purchase options. Subsequent to year end, the Corporation issued 625,000 shares, for proceeds of \$456,640, on the exercise of incentive stock options, bringing the total issued and outstanding shares to the date of this report to 90,313,377.

Stock Options

During the year ended December 31, 2010, the Corporation granted 1,780,000 options, with an exercise price of \$0.58, to certain officers, directors and employees of the Corporation. During the same period, 457,500 options with a weighted average exercise price of \$0.45 were exercised and 1,403,500 options with a weighted average exercise price of \$0.98 expired or were surrendered, leaving a total of 4,043,000 options issued and outstanding at December 31, 2010.

Subsequent to year end, 625,000 options were exercised and 4,150,000 options were granted to certain officers, directors and employees of the Corporation. The granted options have an exercise price of \$1.26 per share and vest immediately with the exception of 65,000 options which vest over two years beginning with 20% on the grant date and an additional 20% every six months thereafter.

To the date of this report, the Corporation has 7,568,000 options issued and outstanding. .

1.14 Exploration Results

Summary

During the year, the Donkin Joint Venture (“DJV”) continued to advance the Donkin Coal Project towards completion of a pre-feasibility level engineering and marketing study in support of the development of the project based on sales into the coking coal market. The pre-feasibility study by Marston & Marston Inc. (“Marston”) for the revised Donkin coking coal project is expected to be finalized in April 2011.

In Mongolia, work continued to advance the Zuun Mod Molybdenum Project towards a mining license and pre-feasibility level studies. In July, the Zuun Mod molybdenum-copper deposit was officially registered with the Mongolian Minerals Resource Council, a prerequisite to applying for a mining license. The Corporation reduced the size of its Zuun Mod license to exclude an area to the south which was classified as “Water and Forest”. The Mining license application was approved by the Department of the Environment as not including any designated Water and Forest area as it is defined under the Law on Prohibition on Exploration and Mining of Minerals from River Headwaters, Protected Areas of Water Reservoir Land and Wood Reservoir Areas. In November and December 2010, the Corporation carried out a 4,802m drilling program on the Zuun Mod property. Results included expansion of higher grade mineralization within the Racetrack deposits, discovery of new higher grade molybdenum and copper zones at depth and identification of a significant new copper prospect, Khuvyn Khar, 2.2 kilometres northwest of the main Racetrack deposits.

The 2010 coal and metals exploration programs in Mongolia continued throughout the year culminating in the identification of a number of areas of interest, including the Nomin copper-gold project in southwestern Mongolia.

In Georgia, U.S.A., the Corporation, through its controlled subsidiary APM, continued to mine and sell primary kaolin products to customers in the ceramics industry. APM continues to build markets for its specialty primary kaolin products with product trials for a number of target customers ongoing and through sales growth within its current customer base.

Also in Georgia, Aggregates USA (Sparta), LLC (“AUSA”), continued development work on the Granite Hill aggregate quarry after making a production decision in the second quarter. The Granite Hill property is under long term lease to AUSA and the Corporation earns a royalty on sales. During the second half of the year, site preparation commenced and plant equipment was delivered to the site to begin crushing aggregate for road and rail bed construction. Construction also began on the railway underpass to link the property to the existing rail-line.

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

Donkin Coal Project – North America

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

In April 2007, the DJV received a National Instrument 43-101 compliant resource report for the Donkin Coal Project from McElroy Bryan Geological Services. The report identified a 227Mt Indicated and 254Mt Inferred high volatile A-bituminous (12,000-14,000 BTUs) coal. The

processed Donkin coal also has many excellent coking coal properties including low ash, medium sulphur, low phosphorus, high CSN (crucible swell number) and high fluidity.

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

In November 2007, the DJV received an independent Preliminary Assessment Study ("PAS") by Norwest Corporation ("Norwest"). The PAS was a study into the business case for a continuous miner development and longwall ("LW") extraction thermal coal mine at the Donkin Coal Project.

In February 2010, Xstrata indicated that they intend to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is initially expected to utilize four continuous miners added incrementally over the first 18 months of production. In addition, a coal wash plant would be built on site and it is proposed that coal would be shipped from the mine site using a barge to ship system or by rail to Sydney Harbour. Under the revised development plan, the Donkin Coal Project is projected to produce approximately 2.75 million tonnes per annum of washed export grade coking coal at full production, pending the receipt of all government approvals.

Over the course of the year a number of key elements of the project have been initiated including civil construction, engineering and pre-feasibility studies, environmental assessment studies and consultation with government officials. Mining consulting firm Marston has been engaged to complete an independent NI 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") compliant review of the pre-feasibility study of the revised project scope. Marston is an international full-service mine consulting firm headquartered in St. Louis, Missouri with extensive experience in open pit and underground coal mines.

Subsequent to the end of the year, the Corporation announced that Xstrata was in the process of completing revisions to the production profile and execution plan. Evaluations at the Donkin site were also finalized in February 2011. The pre-feasibility report by Marston for the revised Donkin coking coal project is expected to be finalized in April 2011.

The joint-venture currently employs nine people, directly and through contracts, the majority of which are underground mine personnel. In association with recent developments on the Donkin Coal Project, Xstrata has appointed a Nova Scotia-based Environment/Community Liaison Officer. These individuals are leading the project team to advance the Donkin coal project into the next phase of development.

Zuun Mod Molybdenum Project - Mongolia

The Zuun Mod Molybdenum Project is a porphyry molybdenum deposit (with copper and rhenium) located in Bayankhongor Province, Mongolia, approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The railhead is located 20 kilometres south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of a single license totaling 30,650 hectares. The license is registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

In 2007, a phased resource delineation drilling program resulted in the identification of three mineralized zones with potentially economic concentrations of molybdenum, with associated

copper and rhenium mineralization, within the 3.5 kilometre long area referred to as the South Corridor. The Corporation retained the services of Minarco Mine Consult (Runge) ("Minarco") to carry out an independent resource estimate for the Zuun Mod Molybdenum Project. In May 2008, the Corporation received the first NI 43-101 compliant resource report for the project from Minarco and established Zuun Mod as one of the largest and most advanced pre-development molybdenum projects in the North Asia Region.

Following the release of the resource estimate, additional drilling was carried out in 2008 at Zuun Mod. This program was successful in defining localized higher grade zones and enlarging the overall deposit, both vertically and laterally. The deposit was confirmed to extend to depths exceeding 500 metres over a minimum strike length of 1.7 kilometres while locally coming to within 22 metres of surface. Drilling confirmed several continuous intersections exceeding 350 metres of 0.06% Molybdenum ("Mo") and multiple high grade zones exceeding 50 metres of 0.10% Mo.

In 2009, Minarco incorporated the 2008 drilling results into the May 2008 resource estimate with a focus on higher-grade zones. Minarco's updated Zuun Mod molybdenum deposit mineral resource estimate, dated June 2009, has a Measured and Indicated ("M&I") Resource of 98 million metric tonnes ("Mt") at an average grade of 0.062% Mo, at a cut-off grade ("cog") of 0.05% Mo equating to 133.8 million pounds ("Mlbs") of contained Mo metal. In addition, there is a 73 Mt Inferred Resource at an average grade of 0.060% Mo equating to a further 97.1 Mlbs of contained Mo metal.

In late 2008, the Corporation contracted two Mongolian consulting companies to assist with the application to convert the Zuun Mod exploration license into a mining license. Ecotrade XXK prepared an environmental and social economic baseline study and AMC XXK, prepared a geological report and resource estimate, for submission to the Mongolian Mineral Resource Council. Early in the third quarter, the Zuun Mod molybdenum-copper deposit was officially registered by the Mongolian Minerals Resource Council, a prerequisite for applying for a mining license. Subsequent to year end, the Corporation applied for a mining license totaling 6,456.8 hectares, a reduction from the current 30,650 hectare exploration license. The issuance of the mining license is pending approval of the Mineral Resource Authority of Mongolia. Under the Minerals Law of Mongolia the initial term for a mining license is 30 years with an option for two 20-year extensions.

Throughout the year, work continued on the Zuun Mod molybdenum-copper project including engineering studies, hydro-geologic drilling to identify a source for process water, a 3D data compilation project and additional geophysical surveys. The Corporation's independent technical consultant, Minarco, carried out work on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies to be carried out in 2011.

In November and December 2010, the Corporation carried out a 4,802 metre drilling program focused on two target areas on the Zuun Mod property. The first target is within the area of the Zuun Mod molybdenum-copper deposit. This drilling program was designed to better determine the continuity of the Zuun Mod resource to a depth of 500m and to provide more detailed information on areas of higher grade mineralization expected to be initially developed for mining.

The second target area on the Zuun Mod property is the Khuvyn Khar copper prospect located 2.2 kilometre northwest of the Zuun Mod deposit. The Khuvyn Khar copper target measures approximately two square kilometres in area and is defined by coincident geophysical and copper geochemical anomalies within a zone of moderate to intense porphyry copper-molybdenum related alteration.

Subsequent to the end of the year, the Corporation released the final results of the 2010 drilling program. These included the expansion of higher grade molybdenum and copper zones within the Racetrack deposits, new higher grade molybdenum and copper zones discovered at depth and a significant new copper zone, Khuvyn Khar, discovered 2.2 kilometres northwest of the main Racetrack deposits.

Included in these results was a newly identified high-grade zone intersected in hole ZMD-51. This hole intersected 118 metres (362 to 480 metres) of 0.106% Mo and 0.098% Cu. Overall ZMD-51 averaged 0.061% Mo and 0.072% Cu over the 432-metre mineralized section (68 to 500 metres). The high-grade zone in ZMD-51 can be correlated with higher-grade zones in surrounding new and previously drilled holes. These results will now be incorporated in a new resource estimate. It is anticipated the new data will result in an increased level of confidence in resource classification at depths between 350 and 500 metres. Resources at these depths are, for the most part, currently classified as Inferred resources.

The recently completed Zuun Mod drill program within the resource area further defined the mineralization in key areas expected to be initially developed for mining. The data from this drill program is now being used to define a more extensive pre-feasibility level drill program designed to upgrade Inferred resources to Measured and Indicated resource categories.

Exploration on the Khuvyn Khar copper prospect included drill hole ZMD-121 which intersected 34 metres of 1.3% copper and 9.24g/t silver from 308 to 342 metres testing a geophysical target. This drill hole is located within an area that exhibits intense alteration and copper geochemical anomalies on surface and in previous intersections from limited drilling in the vicinity. The mineralized section of ZMD-121 is associated with a high chargeability, low resistivity Induced Polarization ("IP") geophysical signature which extends beyond the area of the drill hole. In addition, there are a number of similar targets in the vicinity of this hole. This area will be tested through additional exploration drilling which is expected to start early in the second quarter 2011.

Regional Coal and Metals Exploration Programs - Mongolia

Coal

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

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

Field work in 2010 was focused on evaluating the potential of several large basins (Zarman and Nomin) in southwestern Mongolia to host coal deposits. Exploration work included the discovery

of coal bearing lithologies outcropping discontinuously over a strike length of 60km along the northern edge of the Zarman basin. As a result, geophysical surveys (magnetic and seismic), and a nine hole, 2,339m, reconnaissance drilling program were carried out in the Zarman basin. No significant coal lithologies were intersected by the drilling program; however, a greater understanding of the basin's stratigraphy was acquired and will be used to direct future exploration programs in the area.

Metals Project – Copper-Gold-Molybdenum

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

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

In the third quarter, the Corporation announced early stage results for the Nomin copper-gold project in south-western Mongolia. The Nomin prospect is a new discovery; however, previously undocumented ancient workings (shallow pits) have been found on the property. Samples from these pits returned an average of 2.2% copper and 1.7g/t gold from several samples taken over a strike length of 250m. A sample from a second similar occurrence, 1.2 kilometres south-southwest of the main occurrence, returned assays of 1.6% copper and 1.15g/t gold. Additional prospecting in the area has identified additional mineralized occurrences 4km to the SSW and 7 kilometres to the south west. Magnetic and IP dipole-dipole surveys have been completed over the area of the initial mineral occurrences and are currently under review and expected to provide drill targets for the 2011 exploration program.

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

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

In July 2008, the Corporation moved forward with its business plan to create a dedicated vehicle for its primary kaolin operations by initiating a reverse takeover of Beta Minerals Inc. ("Beta"), a TSX Venture Exchange-listed company. In February 2009, the reverse takeover of Beta was concluded. Beta changed its name to Advanced Primary Minerals Corporation ("APM") and is listed on the TSX Venture Exchange (TSXV:APD) with the Corporation as 60% (2009 – 64%) majority shareholder. See section 1.02 for details.

The goal of APM is to be North America's leading specialized kaolin producer. APM's primary kaolin products meet or exceed the quality of comparable foreign imports and domestic sources. APM looks to develop its unique, high quality primary clay deposits to focus on small to

moderate-volume opportunities with high-margin specialty products. Proximity to domestic markets and elimination of foreign exchange risk add a strong competitive advantage over comparable foreign imports. Kaolin is used in the manufacture of value-added products for the ceramics, paint, paper, coatings and catalytic industries as well as specialty applications.

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

Throughout 2010, APM continued to build markets for its specialty primary kaolin products with product trials for a number of target customers ongoing and through sales growth within its current customer base.

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

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

In early 2010, through the acquisition of Ready-Mix USA and Aggregates USA, the operation of the Granite Hill Project came under the control of SPO Partners ("SPO"), a private California based investment company. As a result of the acquisition, Aggregates USA (Sparta), LLC is now party to the mining lease agreement with the Corporation. During the second quarter, AUSA announced a production decision and has made the Sparta Quarry Project one of its top priority new developments. Mine development is now well advanced with commercial production forecast to commence late in 2011.

During the second half of 2010, construction work at the Granite Hill was started and included clearing of the property where the quarry and processing plant will be located. Phase I plant equipment, including primary and secondary crushers, conveyors and stalkers were delivered to the site and being installed to enable crushing of aggregate for construction of roads and rail bed. In addition, the Georgia Department of Transportation approved the construction of the railway underpass on Highway 16 to link the property to the existing rail-line. This work was started subsequent to year end, in early January 2011, and is expected to be completed in the first half 2011.

Under the mining lease, the Corporation has granted an exclusive right to AUSA to mine, process, and sell aggregate from the Granite Hill property. As operator, AUSA is responsible for 100% of all capital and operating costs for the project. The sale of all aggregate from the property is subject to an industry competitive royalty payable to the Corporation.

1.15 Disclosure Controls and Procedures

An evaluation of the design and effectiveness of the operation of the Corporation's disclosure controls and procedures has been conducted by management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2010, the Corporation's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), are effective to ensure information required to be disclosed

in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

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

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of internal controls over financial reporting. Based on this evaluation, the CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2010.

There has been no change in the Corporation's internal control over financial reporting that occurred since the year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

1.16 Outlook

The Corporation has the working capital necessary to meet its budgeted expenditures through 2012 and remains optimistic about the potential demonstrated by its core projects: The Donkin Coal Project and Zuun Mod Molybdenum Project.

Donkin

On February 10, 2010, Xstrata indicated that it intends to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is expected to produce approximately 2.75 million tonnes per annum of washed export grade coking coal at full production, pending the receipt of all approvals. Xstrata is also looking to obtain expressions of interest from potential strategic partners to contribute to the project. A preliminary assessment study for the revised Donkin Coal Project is currently underway and expected to be finalized in April 2011.

Zuun Mod

The Zuun Mod molybdenum-copper deposit was officially registered by the Mongolian Minerals Resource Council in July 2010. Subsequent to year end, the Corporation submitted an application for a mining license of 6,456.8 hectares, a reduction from the current 30,650 hectare exploration license. The issuance of the mining license is pending approval of the Mineral Resource Authority of Mongolia. Under the Minerals Law of Mongolia the initial term for a mining license is 30 years with an option for two 20 year extensions.

In November-December 2010, the Corporation carried out a 4,802 metre drilling program focused on two targets on the Zuun Mod property. The first was to further define higher-grade mineralization in the Zuun Mod molybdenum-copper deposit and second to test the Khuvyn Khar copper prospect located 2.2 kilometre northwest of the Zuun Mod deposit, an area prospective for porphyry copper mineralization,

Subsequent to the end of the year, the Corporation released the final results of the 2010 drilling program. These results included the expansion of higher grade molybdenum and copper zones within the Racetrack deposits, new higher grade molybdenum and copper zones discovered at

depth and a significant new copper zone, Khuvyn Khar, discovered 2.2 kilometres northwest of the main Racetrack deposits.

The 2010 drilling results from the Zuun Mod molybdenum-copper deposit will now be incorporated in a new resource estimate and will be used to define a more extensive pre-feasibility level drill program designed to upgrade Inferred resources to Measured and Indicated resource categories. At Khuvyn Khar, the mineralization intersected is associated with geophysical signatures which extend beyond the area of the drill hole. This area will be tested through additional exploration drilling expected to start early in the second quarter 2011.

In addition to the drilling program, work will continue on pre-feasibility level studies including geotechnical, hydrogeological, marketing, mine planning, metallurgical testing etc. in preparation for a NI 43-101 compliant pre-feasibility report expected to be released by the end of 2011.

1.17 Qualified Person

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

1.18 Other Information

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

Consolidated Financial Statements of

ERDENE RESOURCE DEVELOPMENT CORPORATION

Years ended December 31, 2010 and 2009



KPMG LLP
Chartered Accountants
Suite 1500 Purdy's Wharf Tower I
1959 Upper Water Street
Halifax NS B3J 3N2
Canada

Telephone (902) 492-6000
Telefax (902) 492-1307
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ERDENE RESOURCE DEVELOPMENT CORPORATION

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income (loss) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2010 and December 31, 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Halifax, Canada
March 29, 2011

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Balance Sheets

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,379,230	\$ 13,764,186
Marketable securities	—	232,437
Amounts receivable (note 3)	800,221	403,027
Prepaid expenses	69,837	80,728
	<u>9,249,288</u>	<u>14,480,378</u>
Resource property interests (note 4)	37,938,676	35,119,854
Property, plant and equipment (note 5)	3,806,075	4,033,776
Reclamation bond	—	12,625
Goodwill	5,000,000	5,000,000
	<u>\$ 55,994,039</u>	<u>\$ 58,646,633</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 918,252	\$ 483,511
Current portion of obligations under capital leases (note 6)	4,588	6,465
	<u>922,840</u>	<u>489,976</u>
Obligations under capital leases (note 6)	320,160	384,018
Future income taxes (note 7)	4,916,034	5,295,182
Non-controlling interest (note 8)	62,279	215,815
Shareholders' equity:		
Share capital (note 9)	78,665,207	78,307,296
Contributed surplus (note 10)	7,012,557	6,155,222
Deficit	(35,905,038)	(32,337,479)
Accumulated other comprehensive income	—	136,603
	<u>49,772,726</u>	<u>52,261,642</u>
Nature of operations and going concern (note 1)		
Commitments (note 15)		
Subsequent event (note 17)		
	<u>\$ 55,994,039</u>	<u>\$ 58,646,633</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Signed "David S.B. Carnell"

Director

Signed "Kenneth W. MacDonald"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Operations and Deficit

Years ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Clay sales	\$ 526,593	\$ 167,957
Expenses:		
Exploration and operating expenses, net of partner recovery	\$ 2,763,595	\$ 2,386,308
Write down of resource property interests	23,240	1,183,323
	<u>2,786,835</u>	<u>3,569,631</u>
General and administrative expenses		
Administrative services	670,911	617,766
Depreciation	43,361	52,997
Investor relations and communications	282,860	243,689
Office and sundry	262,745	279,918
Professional fees	305,057	268,940
Regulatory compliance	231,551	222,489
Stock based compensation	698,106	184,398
Travel and accommodations	136,435	124,622
Other	76,753	46,136
	<u>2,707,779</u>	<u>2,040,955</u>
Other income (expenses)		
Foreign exchange gain (loss)	(43,274)	53,502
Gain on sale of resource properties	105,858	137,205
Gain on sale of marketable securities	180,598	934,947
Interest expense	(32,682)	(29,861)
Interest revenue	89,937	223,355
Taxes	(38,285)	(54,839)
Other	56,783	153,352
Dilution gain on disposal of interest in subsidiary (note 8)	139,372	878,595
	<u>458,307</u>	<u>2,296,256</u>
Loss before taxes and non controlling interest	4,509,714	3,146,373
Future income tax recovery (note 7)	(379,148)	(469,238)
Loss before non controlling interest	4,130,566	2,677,135
Non controlling interest (note 8)	(563,007)	(500,078)
Loss for the year	3,567,559	2,177,057
Deficit, beginning of year	32,337,479	30,160,422
Deficit, end of year	<u>\$ 35,905,038</u>	<u>\$ 32,337,479</u>
Basic and diluted loss per share (note 11)	\$ 0.04	\$ 0.02
Weighted average number of common shares outstanding	89,257,772	89,230,877

See accompanying notes to consolidated financial statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income
(Loss)

Years ended December 31, 2010 and 2009

	2010	2009
Loss for the year	\$ 3,567,559	\$ 2,177,057
Other comprehensive income:		
Unrealized gain (loss) on available for sale marketable securities, net of tax of nil (2009 -\$32,043)	-	136,603
Comprehensive loss for the year	\$ 3,567,559	\$ 2,040,454
Accumulated Other Comprehensive Income (loss)		
Balance, beginning of year	\$ 136,603	\$ (64,318)
Unrealized gain (loss) on available for sale marketable securities	-	136,603
Unrealized (gain) loss on available for sale marketable securities recognized in income during the year.	(136,603)	64,318
Balance, end of year	\$ -	\$ 136,603

See accompanying notes to consolidated financial statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (3,567,559)	\$ (2,177,057)
Item not involving cash:		
Depreciation and amortization	366,917	316,215
Depletion of resource property interest	41,490	917
Stock-based compensation	999,642	277,318
Write down of resource properties	23,240	1,183,323
Gain on sale of marketable securities	(180,598)	(934,947)
Gain on sale of resource properties	(105,858)	(137,205)
Future income tax recovery	(379,148)	(469,238)
Loss on disposal of property, plant and equipment	-	3,226
Dilution gain on disposal of interest in subsidiary	(139,372)	(878,595)
Non controlling interest	(563,007)	(500,078)
Change in non-cash working capital	48,438	(835,744)
	(3,455,815)	(3,651,787)
Financing:		
Issue of common shares on exercise of options and warrants	207,604	-
Proceeds on repayment of share subscription receivable	8,000	-
Repayment of obligations under capital lease	(65,735)	-
	149,869	-
Investing:		
Proceeds on sale of marketable securities	276,432	3,000,874
Additions to resource property interests	(2,883,552)	(1,996,459)
Proceeds on sale of resource property interests	105,858	137,205
Purchase of property, plant and equipment	(139,216)	(1,439,625)
Proceeds on sale of property, plant and equipment	-	16,582
Proceeds on refund of reclamation bond	12,625	-
Cash acquired on purchase of Beta	-	1,502,221
Cash received on dilution of subsidiary	548,843	-
	(2,079,010)	1,220,798
Decrease in cash and cash equivalents	5,384,956	2,430,989
Cash and cash equivalents, beginning of year	13,764,186	16,195,175
Cash, and cash equivalents, end of year	\$ 8,379,230	\$ 13,764,186
Supplementary cash flow information		
Interest paid	\$ 32,682	\$ 29,861
Taxes paid	\$ 38,285	\$ 54,839

See accompanying notes to consolidated financial statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Nature of operations and going concern:

Erdene Resource Development Corporation (the "Corporation") 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 Corporation is the exploration and development of mineral deposits. The Corporation is principally focused on the discovery of large tonnage, low cost, gold, copper, molybdenum and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America. To date, the Corporation has not yet earned any significant revenues from its clay operations in Georgia, USA and is considered to be in the exploration and development stage.

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

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

1. Summary of significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements are presented in Canadian dollars and include the accounts of the Corporation and its subsidiaries. All subsidiaries are wholly owned unless otherwise indicated: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Tamerlane International Limited (Bermuda); Erdene Mongol XXK and Anian Resources XXK (Mongolia); Erdene Resources Inc., 6531954 Canada Limited and Advanced Primary Minerals Corporation ("APM") (Canada) 60% (2009 – 64%); Advanced Primary Minerals USA Corp. ("APMUSA") 60% (2009 – 64%) and ERD Aggregate Corporation (Delaware). Inter-company accounts and transactions have been eliminated.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 2

Years ended December 31, 2010 and 2009

1. Summary of significant accounting policies (continued):

(b) 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 presented. Significant estimates and assumptions relate to the recoverability of resource property interests, goodwill and the calculation of stock-based compensation. While management believes that these estimates and assumptions are reasonable, actual results could differ.

(c) Financial instruments:

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

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

- (i) Cash and cash equivalents, consisting of deposits in banks, money market instruments and GICs are classified as held-for-trading and are measured at fair value.
- (ii) Amounts receivable are classified as loans and receivables, which are measured at amortized cost.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 3

Years ended December 31, 2010 and 2009

1. Summary of significant accounting policies (continued):

(c) Financial instruments (continued):

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

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

(d) Resource property interests:

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

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

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

The cost of removing overburden and waste materials to access crude kaolin clay at an open pit are capitalized when they represent betterment to the mineral property in that access is gained to reserves which will be exploited in future periods that would otherwise not have been accessible. Capitalized stripping costs are amortized over the life of the exposed resource using the unit-of-production method based on measured crude clay extracted from the stripped area.

The Corporation 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 4

Years ended December 31, 2010 and 2009

1. Summary of significant accounting policies (continued):

(e) Property, plant and equipment:

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

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

(f) Foreign currency translation:

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

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

(g) Income taxes:

The Corporation 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.

(h) Stock-based compensation:

The Corporation has a stock-based compensation plan, which is described in note 9. The Corporation 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 measurement date.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 5

Years ended December 31, 2010 and 2009

1. Summary of significant accounting policies (continued):

(i) Flow-through shares:

The Corporation 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 were renounced to subscribers. On the date that the Corporation filed the renouncement documents with the tax authorities, a future income tax liability was recognized and shareholders' equity reduced, for the tax effect of expenditures renounced to subscribers.

(j) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(k) 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 Corporation'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 value 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.

(l) International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board confirmed that January 1, 2011 is the changeover date for publically accountable enterprises to use IFRS. This transition date will require the restatement of amounts reported by the Corporation for the year ended December 31, 2010, in order to provide comparative information under IFRS for 2011 interim and annual reports. The Corporation will prepare its first consolidated financial statements in accordance with IFRS for the quarter ended March 31, 2011.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 6

Years ended December 31, 2010 and 2009

2. Acquisition:

On February 27, 2009, the Corporation concluded the reverse takeover of Beta Minerals Inc. ("Beta") whereby the Corporation and Deepstep Kaolin Company LLC ("DKC") exchanged all of the outstanding common shares of Erdene Materials Corporation ("EMC"), and certain debt owing by EMC to the Corporation, for common shares of Beta giving the Corporation a controlling interest in Beta.

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing it was only holding the primary kaolin assets located in Georgia, USA, (collectively, "Clay Assets"). Also prior to closing, DKC transferred all rights to undertake production operations of ceramic products using the Corporation's clay, for 0.08542 of a share of EMC. On closing, the Corporation and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to the Corporation in exchange for the issuance by Beta of 81,000,000 common shares (71,000,000 to the Corporation and 10,000,000 to DKC). In addition, Beta agreed to issue 36,000,000 additional shares to the Corporation upon certain permits being obtained to allow production from certain of the clay assets and if such permits are not obtained by February 27, 2012, the 36,000,000 shares will not be issued. Following the closing, the Corporation has transferred 2,925,000 of its shares of Beta to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the Transaction. Upon completion of the Transaction, EMC became a wholly-owned subsidiary of APM. EMC subsequently changed its name to Advanced Primary Minerals USA Corporation.

Effective December 18, 2009, APM consolidated its share capital on a one-for-seven basis. Upon consolidation, there were 16,809,626 APM common shares issued and outstanding. Following the consolidation, APM issued an aggregate of 9,525,337 common shares in connection with a private placement and settlements, including 2,527,340 common shares to the Corporation on the settlement of \$380,000 of debt. At December 31, 2010, Erdene held 15,717,748 shares of APM's 26,334,963 outstanding shares and an additional 5,142,857 shares will be issued to the Corporation provided certain permits are obtained by APM by February 27, 2012 to allow production from certain of the clay assets.

In accounting for the transaction, Beta was not considered a business for accounting purposes as outlined in EIC Abstract 124. The transaction was considered to be a capital transaction whereby the Corporation effectively disposed of an interest in a subsidiary in exchange for cash, as follows:

Net assets acquired:

Cash and cash equivalents	\$	1,906,846
Non-cash working capital, net		92,266
Acquisition costs		(404,624)
	\$	<u>1,594,488</u>

Accounting for transaction (net of acquisition costs):

Dilution gain	\$	878,595
Non-controlling interest		715,893
	\$	<u>1,594,488</u>

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 7

Years ended December 31, 2010 and 2009

3. Amounts receivable:

	2010	2009
Trade receivables	\$ 18,251	\$ 35,681
Exploration partner recovery	595,392	301,099
GST/HST	4,773	10,581
Other	181,805	55,666
	\$ 800,221	\$ 403,027

Other receivables include \$114,825 (2009 - nil) from employees of the Corporation, which were non-interest bearing and repayable on demand. All employee loans were repaid subsequent to year end. Also included in other receivables is \$35,100 (2009 - \$37,500) from a director and officer, which is non-interest bearing and repayable on demand.

4. Resource property interests:

The Corporation capitalizes acquisition costs on all properties and is also capitalizing exploration expenses incurred on its Donkin and Zuun Mod projects.

The Corporation's mineral exploration licenses in Mongolia are held by its subsidiaries, Erdene Mongol XXK, and Anian Resources XXK. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of nine years, subject to minimum work requirements. These rights are held in good standing through the payment of an annual license fee. The Corporation's mineral rights in Georgia are held by APMUSA and in Nova Scotia the Corporation's interest in the Donkin Coal Project is held through Erdene Resources Inc.'s wholly owned subsidiary 6531954 Canada Limited.

The cost of resource property interests as at December 31, 2010 and 2009 are as follows:

Year ended December 31, 2010

	North America		Mongolia ^(c)			Total
	Industrial Minerals ^(a)	Donkin Coal ^(b)	Zuun Mod Molybdenum	Coal	Other	
Balance, December 31, 2009	6,521,641	18,747,001	9,651,894	182,567	16,751	35,119,854
Resource property additions	-	-	79,403	46,392	3,500	129,295
Depletion of resource properties	(41,490)	-	-	-	-	(41,490)
Deferred expenditures	93,025	1,099,027	1,562,205	-	-	2,754,257
Write off of resource properties	-	-	-	(22,176)	(1,064)	(23,240)
Resource Properties at December 31, 2010	6,573,176	19,846,028	11,293,502	206,783	19,187	37,938,676

Year ended December 31, 2009

	North America		Mongolia ^(c)			Total
	Industrial Minerals ^(a)	Donkin Coal ^(b)	Zuun Mod Molybdenum	Coal	Other	
Balance, December 31, 2008	6,522,558	17,912,425	8,689,053	16,652	1,166,947	34,307,635
Resource property additions	-	-	86,222	182,567	16,475	285,264
Depletion of resource properties	(917)	-	-	-	-	(917)
Deferred expenditures	-	834,576	876,619	-	-	1,711,195
Write off of resource properties	-	-	-	(16,652)	(1,166,671)	(1,183,323)
Resource Properties at December 31, 2009	6,521,641	18,747,001	9,651,894	182,567	16,751	35,119,854

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 8

Years ended December 31, 2010 and 2009

4. Resource property interests (continued):

a) Industrial Minerals:

As outlined in Note 2, on February 27, 2009, the Corporation concluded the reverse takeover of Beta.

The Corporation, through APMUSA, owns outright or has entered into lease agreements for primary kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is US \$15,821. These agreements also provide that the Corporation will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. To date, the Corporation has not mined clay subject to a royalty.

Included in Industrial Minerals are capitalized stripping costs associated with the Corporation's kaolin mining and processing operations.

	2010	2009
Balance, beginning of year	\$ -	\$ -
Stripping costs capitalized	93,025	-
Depletion	(41,490)	-
Balance, end of year	\$ 51,535	\$ -

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

b) Donkin:

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

Pursuant to the Joint Venture Agreement, the Corporation funded \$10 million in qualifying Canadian Exploration Expenditures ("CEE") during the exploration program of the Donkin Coal Project. The Corporation is responsible to fund 25% of expenditures above \$10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2010, the Corporation has advanced a total of \$13,794,703 (2009 - \$12,695,676) in order to meet its commitment. The first \$10 million of the Corporation's capital obligation, upon a positive development decision, will be funded by XCDL.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 9

Years ended December 31, 2010 and 2009

4. Resource property interests (continued):

c) Mongolian properties:

Zuun Mod

The Zuun Mod property is a molybdenum-copper deposit and consists of one license. It is located in Bayankhongor Province southwest of Ulaanbaatar. Beginning July 1, 2007, the Corporation's Zuun Mod molybdenum project met the Corporation's criteria to begin capitalizing exploration and development costs associated with the project. In the third quarter of 2010, the Zuun Mod deposit was officially registered by the Mongolian Minerals Resource Council, a prerequisite for applying for a mining license. Subsequent to year end, the Corporation applied for a mining license totaling 6,456.8 hectares, a reduction from the current 30,650 hectare exploration license. The issuance of the mining license is pending approval of the Mineral Resource Authority of Mongolia. Under the Minerals Law of Mongolia the initial term for a mining license is 30 years with an option for two 20-year extensions.

Coal

The Corporation has six coal exploration licenses located in Bayankhongor, Gobi Altai and Sukhbaatar provinces in Mongolia. The license renewal dates are in February, March, November and December 2012.

Other

The Corporation has one other license in Bayankhongor province with a renewal date of April 2013.

d) Resource property write offs:

	2010	2009
Tsenkher Gol	\$ —	\$ 1,047,994
Erdenet	—	100,966
Other	23,240	34,363
	<u>\$ 23,240</u>	<u>\$ 1,183,323</u>

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 10

Years ended December 31, 2010 and 2009

5. Property, plant and equipment:

2010			
	Cost	Accumulated amortization	Net book value
Land	\$ 1,894,364	\$ –	\$ 1,894,364
Building	404,185	267,679	136,506
Equipment, furniture and fixtures	718,869	515,503	203,366
Plant equipment and leaseholds	1,606,273	458,173	1,148,100
Software and computer	194,066	130,304	63,762
Vehicles	40,975	11,351	29,624
	4,858,732	1,383,010	3,475,722
Assets under capital lease:			
Land	70,813	–	70,813
Building	295,055	54,093	240,962
Plant equipment	27,867	9,289	18,578
	393,735	63,382	330,353
	\$ 5,252,467	\$1,446,392	3,806,075

2009			
	Cost	Accumulated amortization	Net book value
Land	\$ 1,894,364	\$ –	\$ 1,894,364
Building	404,185	253,131	151,054
Equipment, furniture and fixtures	713,868	473,464	240,404
Plant equipment and leaseholds	1,501,287	209,119	1,292,168
Software and computer	190,246	127,076	63,170
Vehicles	40,975	13,790	27,185
	4,744,925	1,076,580	3,668,345
Assets under capital lease:			
Land	70,813	–	70,813
Building	295,055	24,588	270,467
Plant equipment	27,867	3,716	24,151
	393,735	28,304	365,431
	\$ 5,138,660	\$ 1,104,884	\$ 4,033,776

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 11

Years ended December 31, 2010 and 2009

6. Obligations under capital leases:

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

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

Capital lease repayments are due as follows:

	2010	2009
Year ending December 31:		
2011	\$ —	\$ 41,871
2012	35,286	41,871
2013	35,286	41,871
2014	35,286	41,871
2015	335,007	397,530
Total minimum lease payments	440,865	565,014
Less amount representing interest (rates ranging from 6%-10%)	116,117	174,531
Present value of net minimum capital lease payments	324,748	390,483
Current portion of obligations under capital leases	4,588	6,465
	\$ 320,160	\$ 384,018

Interest of \$32,682 relating to capital lease obligations has been included in interest expense.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 12

Years ended December 31, 2010 and 2009

7. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2010 and 2009 are presented below:

	2010			
	Canada	United States	Mongolia	Total
Future tax assets:				
Non-capital loss carry forwards	\$ 3,924,201	\$ 1,423,308	\$ –	\$ 5,347,509
Deferred expenses	676,085	95,753	2,836,661	3,608,499
Share issue costs	262,411	–	–	262,411
Intangible assets	123,217	378,259	–	501,476
Other	39,516	97,337	–	136,853
	5,025,430	1,994,657	2,836,661	9,856,748
Less valuation allowance	(4,975,351)	(1,994,657)	(2,507,592)	(9,477,600)
Net future tax asset	\$ 50,079	\$ –	\$ 329,069	\$ 379,148
Less future tax liabilities:				
Resource properties and deferred exploration costs	\$ (4,966,113)	\$ –	\$ (329,069)	\$ (5,295,182)
Net future tax liabilities	(4,916,034)	\$ –	\$ –	\$ (4,916,034)
	2009			
	Canada	United States	Mongolia	Total
Future tax assets:				
Non-capital loss carry forwards	\$ 3,536,207	\$ 740,296	\$ –	\$ 4,276,503
Deferred expenses	682,608	106,274	2,198,587	2,987,469
Share issue costs	403,432	–	–	403,432
Intangible assets	123,217	436,247	–	559,464
Other	33,291	156,654	–	189,945
	4,778,755	1,439,471	2,198,587	8,416,813
Less valuation allowance	(4,778,755)	(1,439,471)	(2,198,587)	(8,416,813)
Net future tax asset	\$ –	\$ –	\$ –	\$ –
Future tax liabilities:				
Resource properties and deferred exploration costs	\$ (5,295,182)	\$ –	\$ –	\$ (5,295,182)

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements, page 13

Years ended December 31, 2010 and 2009

7. Income taxes (continued):

Included in the determination of total gross tax assets are Canadian non-capital loss carry-forwards of approximately \$11,786,348 which expire substantially between 2011 and 2031, and US loss carry-forwards of approximately \$3,658,824 which expire between 2027 and 2031.

Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 34.0% (2009 – 35.0%) to loss before taxes as follows:

	2010	2009
Loss before taxes	\$ 4,509,714	\$ 3,146,373
Computed expected tax recovery	\$ (1,533,303)	\$ (1,101,231)
Effects of foreign exchange translation	(68,659)	1,029,655
Change in valuation allowance	1,060,787	(638,585)
Dilution gain on disposal of interest in subsidiary	(47,386)	(307,508)
Expenses not deductible for tax purposes	320,630	216,011
Effect of different foreign tax rates	113,844	84,414
Write down of resource properties	(509)	(469,238)
Effect of change in tax rates	(34,698)	700,589
Other	(189,854)	16,654
Net income tax recovery	\$ (379,148)	\$ (469,238)

8. Non-controlling interest:

The following table summarizes the continuity of the non-controlling interest (“NCI”) balance in APM for 2010 and 2009:

	2010	2009
Balance, beginning of year	\$ 215,815	\$ –
Change in NCI on issuance of APM shares	409,471	715,893
NCI share of APM loss	(563,007)	(500,078)
Balance, end of year	\$ 62,279	\$ 215,815

The NCI represents the minority shareholder’s ownership in APM. Each reporting period, the NCI is adjusted for the minority interest’s share of APM’s net loss during the period.

On August 4, 2010 APM closed a private placement of \$1,019,700, including \$350,000 invested by Erdene. This financing changed the Corporation’s ownership interest in APM and the corresponding value of NCI and resulted in a dilution gain to the Corporation.

The 2009 dilution gain is described in Note 2.

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Years ended December 31, 2010 and 2009

9. Share capital:

Authorized and issued:

	2010		2009	
	Number of shares	\$	Number of shares	\$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	89,230,877	78,405,471	89,230,877	78,405,471
Issued for cash	–	–	–	–
Issued on exercise of options	457,500	349,911	–	–
	89,688,377	78,755,382	89,230,877	78,405,471
Share subscription receivable		(90,175)	–	(98,175)
Total	89,688,377	78,665,207	89,230,877	78,307,296

The share subscription receivable is from a director and officer. The loan is non-interest bearing and is evidenced by a promissory note due in March 2013. The loan requires minimum monthly payments of \$1,000 which began May 2010.

Warrants:

The following table summarizes the continuity of the warrants for 2010 and 2009:

	2010		2009	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Opening balance	–	–	4,489,975	\$ 1.60
Exercised	–	–	–	–
Expired	–	–	(4,489,975)	1.60
Closing balance	–	–	–	–

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Years ended December 31, 2010 and 2009

9. Share capital (continued):

Stock Options for Erdene

The Corporation has a rolling 10% incentive stock option plan (the "Plan") under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. Under the Plan, the terms and conditions of each grant of options are determined by the board of directors. If there are no terms specified upon grant, options are assumed to vest immediately on the grant date. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

The following table summarizes the continuity of the stock options for 2010 and 2009.

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	4,124,000	0.73	4,725,000	\$1.01
Granted	1,780,000	0.58	1,660,000	0.30
Exercised	(457,500)	0.45	—	—
Expired or surrendered	(1,403,500)	0.98	(2,261,000)	1.01
Closing balance	4,043,000	\$0.60	4,124,000	\$0.73

The following is a summary of the options outstanding and exercisable as of December 31, 2010:

Weighted Average Exercise Price	Year of expiration	Number of options
\$0.92	2011	365,000
\$1.33	2012	400,000
\$0.85	2013	254,000
\$0.30	2014	1,415,000
\$0.58	2015	1,609,000
\$0.60		4,043,000

Stock Based Compensation for Erdene:

As of December 31, 2010 there were 4,043,000 share purchase options outstanding. During the year ended December 31, 2010, 1,780,000 options (2009 – 1,660,000) were granted to certain directors, officers, employees and consultants of the Corporation. The weighted average fair value of the options on the date granted was \$0.38 per option (2009 – \$0.167 per option) which represents a total of \$670,638 (2009 – \$277,318) expensed as stock-based compensation and geological services and recorded as contributed surplus. The Corporation estimates the fair value

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Years ended December 31, 2010 and 2009

9. Share capital (continued):

Stock Based Compensation for Erdene (continued):

of stock based compensation at the date of grant using the Black-Scholes model, recognized on the grant date, with the following assumptions:

	2010	2009
Dividend yield	0%	0%
Risk-free interest rate	3.00%	2.40%
Expected volatility	88%	77%
Expected life	5 years	5 years

Stock Options for APM:

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

The following table summarizes the continuity of APM stock options for 2010 and 2009.

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	457,139	\$0.71	457,139	\$0.71
Granted	2,300,000	0.18	–	–
Expired	(428,568)	0.70	–	–
Closing balance	2,328,571	\$0.19	457,139	\$0.71

The following is a summary of the APM options outstanding and exercisable as of December 31, 2010:

Weighted Average Exercise Price	Year of expiration	Number of options
\$ 0.87	2012	28,571
\$ 0.18	2015	2,300,000
\$ 0.19		2,328,571

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Years ended December 31, 2010 and 2009

9. Share capital (continued):

Stock Based Compensation for APM:

As of December 31, 2010 there were 2,328,571 share purchase options outstanding. During the year ended December 31, 2010, 2,300,000 options (2009 – nil) were granted to certain directors, officers, employees and consultants of APM. The weighted average fair value of the options on the date granted was approximately \$0.13 per option which represents a total of \$305,304 (2009 – nil) expensed as stock-based compensation and issue costs and recorded as contributed surplus. APM estimates the fair value of stock based incentives at the date of grant using the Black-Scholes model, recognized on the grant date, with the following assumptions:

	2010	2009
Dividend yield	0%	0%
Risk-free interest rate	3.0%	2.75%
Expected volatility	97%	80%
Expected life	5 years	5 years

Warrants for APM:

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

	2010	2009
Dividend yield	0%	–
Risk-free interest rate	3.0%	–
Expected volatility	97%	–
Expected life	2 years	–

The following table summarizes the continuity of the warrants for 2010 and 2009:

	2010		2009	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Opening balance	–	\$ –	–	\$ –
Issued	252,666	0.15	–	–
Closing balance	252,666	\$ 0.15	–	–

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10. Contributed surplus:

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

	2010	2009
Opening balance	\$ 6,155,222	\$ 5,877,904
Options exercised	(142,307)	–
Options granted – Erdene	670,638	277,318
Options granted - APM	329,004	–
Closing balance	\$ 7,012,557	\$ 6,155,222

11. Basic and diluted loss per share:

As the Corporation 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.

12. Financial Risk Management:

Credit Risk:

The Corporation's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash and cash equivalents consist mainly of GICs and bank deposits. The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2010, less than 2% of the balance of cash and cash equivalents was held in banks outside Canada.

Amounts receivable includes exploration partner recovery which was concentrated with a single company, Xstrata Coal, a large multinational mining conglomerate. Management believes the credit risk on amounts receivable is low. Other receivables include amounts receivable from employees and an officer and director of the Corporation and are considered to be low risk.

Liquidity Risk:

The Corporation's liquidity risk is limited to its ability to discharge liabilities when due. At December 31, 2010, the Corporation had current assets of \$9,249,288 (2009 - \$14,480,378) available to settle current liabilities of \$922,840 (2009 - \$489,976). The Corporation's GIC's have a guaranteed interest rate for one year, but are cashable all, or in part, without penalty after 30 days.

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12. Financial Risk Management (continued):

Market Risk:

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

Interest rate risk

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

Foreign currency risk

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

At December 31, 2010, the Corporation held foreign currencies equivalent to \$270,173 Canadian (US\$239,279 and MNT 38,226,596). Sensitivity to a plus or minus 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$24,000. Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$3,100.

Price risk

The Corporation is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries.

13. Capital Management:

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

The Corporation is taking a cautious approach towards its future spending. The availability and timing of future financings is uncertain. As a result, the Corporation is continuing to advance its core programs while focusing on capital preservation and maintaining sufficient working capital to carry the Corporation through to 2012.

There were no changes in the Corporation's approach to capital management during the year ended December 31, 2010. The Corporation is not subject to externally imposed capital requirements.

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14. Segmented information:

The Corporation'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):

	2010				2009			
	Canada	USA	Mongolia	Total	Canada	USA	Mongolia	Total
Working capital	\$ 8,776	\$ (315)	\$ (135)	\$ 8,326	\$ 13,848	\$ (4)	\$ 146	\$ 13,990
Property, plant and equipment	55	3,681	70	3,806	55	3,914	65	4,034
Resource properties	19,846	6,573	11,520	37,939	18,747	6,522	9,851	35,120
Total assets	33,930	10,341	11,723	55,994	38,032	10,545	10,070	58,647

15. Commitments:

The Corporation has the following operating leases:

- Office premises in Dartmouth, Nova Scotia until August 31, 2014. The Corporation has the right to terminate the lease by giving six months notice prior to each anniversary date.
- Office equipment until November 1, 2012.

Annual payments, including operating costs, are as follows:

2011	\$ 62,124
2012	63,491
2013	61,260
2014	42,066
	\$ 228,941

16. Comparative figures:

Certain comparative financial data for 2009 has been reclassified to conform to the presentation adopted in the 2010 financial statements.

17. Subsequent events:

On March 22, 2011, the Corporation granted 4,150,000 stock purchase options to certain officers, directors and employees of the Corporation. The options have a five year life and all vested immediately with the exception of 65,000 options which vest over two years beginning with 20% on the grant date and an additional 20% every six months thereafter.

Subsequent to year end, the Corporation issued 625,000 common shares for proceeds of \$456,640 pursuant to the exercise of stock options.