ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
Third quarter – September 30, 2012

This Management Discussion and Analysis ("MD&A"), dated November 13, 2012, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2011, unaudited condensed interim consolidated financial statements for the period ended September 30, 2012 and the notes thereto. The consolidated financial statements of the Corporation have been prepared by management, in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS").

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

Overview

Erdene is a resource exploration and development corporation listed on the Toronto Stock Exchange (TSX:ERD), and subsequent to the transaction outlined below is focused primarily on base and precious metals exploration in Mongolia. The Corporation has numerous projects in Mongolia including the Zuun Mod Molybdenum-Copper Project, the Altan Nar Gold-Silver Project as well as other early stage prospects.

Transaction with Advanced Primary Minerals

On November 9, 2012, the Corporation announced closure of a Plan of Arrangement (the "Arrangement") pursuant to an August 7, 2012 definitive agreement. The Corporation entered into a definitive agreement with Advanced Primary Minerals Corp ("APM") to exchange all of Erdene's North American property interests, comprised primarily of Erdene's interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for shares of APM.

Terms of the Arrangement

The Arrangement Agreement set out the terms of the statutory plan of arrangement under section 192 of the Canada Business Corporations Act involving Erdene, Advanced Primary Minerals (“APM”), Erdene Resources Inc. ("ERI"), and the securityholders of Erdene and APM whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, a corporation formed under the federal laws of Canada and being the entity that owned Erdene’s North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien Resources Corp (“Morien”), TSXV:MOX.
- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene created a new class of common shares ("Erdene New Shares") and distributed to the Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene.

Following the Arrangement, Erdene has 47,901,450 Erdene New Shares outstanding and Morien has 49,255,990 shares outstanding, 47,901,450 (97.25%) of which are held by the Erdene shareholders.

The Arrangement resulted in two strategically positioned public companies, with Morien focused on North America (i.e. the Donkin Coal Project) and Erdene focused on minerals exploration and development in Mongolia.

Related Party Transaction

Prior to the Arrangement, Erdene owned approximately 60% of the issued and outstanding shares of APM. Consequently, the Arrangement was a "related party transaction" pursuant to Multilateral Instrument 61-101 - Protection of Minority Securityholders in Special Transactions ("MI 61-101"). The Erdene Board appointed an independent committee comprised of two directors to lead the valuation process on behalf of the Company. The independent committee retained its financial advisor, Paradigm Capital Inc (“Paradigm”), to prepare a formal valuation to meet the requirements of MI 61-101 and to prepare a fairness opinion. Paradigm advised, in its opinion, based on the various assumptions and limitations set out in its opinion, the Arrangement is fair, from a financial point of view to the Erdene shareholders. The Erdene Board concluded that the Arrangement was in the best interest of the Company and the Erdene shareholders.

Under MI 61-101, because it is a related party transaction, the Arrangement was required to be approved by greater than 50% of the Erdene shareholders (excluding the directors and senior officers of Erdene and APM) present in person or by proxy at a meeting held to consider the Arrangement.

Closing

A special meeting of the Erdene shareholders was held in Halifax, Nova Scotia on October 26, 2012 and obtained the necessary shareholder approval. Closure of the arrangement occurred on November 9, 2012.

Detailed disclosure of the Arrangement can be found in the management information circulars prepared by Erdene and APM, both of which are available on SEDAR at www.sedar.com.

Project Summaries

Zuun Mod Molybdenum-Copper Project – Mongolia

During the third quarter of 2012, the Corporation's independent technical consultant, Minarco-MineConsult (“MMC”), part of the Runge Group, completed work on a pit optimization study. This study includes high level production scheduling, a review of operating and capital costs, and economic modeling. The study will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2013. During the second quarter 2012, the Environmental Impact Study for the Zuun Mod project, prepared by EcoTrade LLC, a Mongolian consulting firm, was approved by the Mongolian Ministry of the Environment.

In June 2011, the Corporation announced the receipt of an updated resource estimate for the Zuun Mod project by MMC. Their revised resource estimate included an increase in the Measured and Indicated (“M&I”) resources by 38 million tonnes as well as an increase in the average grade.

Also in June 2011, the Corporation was granted a 30-year mining license for the Zuun Mod project by the Mongolian government. The June-2011 Zuun Mod mining license covers an area of 6,041 hectares. A second mining license, located south of the June-2011 mining license, was received on July 20, 2012. This mining license covers 358 hectares. All of the reported Zuun Mod molybdenum and copper resources lie within the boundaries of the two contiguous mining licenses.

The Zuun Mod property covers a large porphyry system with multiple exploration targets. One such target is the Khuvyn Khar copper prospect located 2.2km northwest of the Zuun Mod molybdenum-copper deposit. Drilling at Khuvyn Khar intersected 34m of 1.3% copper and 9.24g/t silver from 308 meters to 342 meters. This hole lies within a very large copper mineralized zone trending over 900 meters with multiple zones in three drill holes in excess of 0.2% copper. This zone remains untested to the south where it trends under andesite cover.

In late 2011, a mobile-metal-ion (“MMI”) soil survey was carried out over the Khuvyn Khar prospect and successfully identified copper and silver anomalies intersected in drilling. The 2012 exploration program at Khuvyn Khar includes a review of all technical data, the expanded MMI geochemical survey, reprocessing of geophysical data, as well as a review of all surface and drill-hole geological data. The goal of this work it to identify targets for a follow-up drilling program expected to be carried out in 2013.

Other – Mongolia

The Altan Nar prospect consists of a large area (1.5km by 5km) with coincident geochemical and gradient array IP chargeability anomalies hosting multiple prospects containing gold-bearing epithermal-style quartz veins. The first reported occurrence of gold mineralization was by Erdene in mid-2011 when initial drilling returned 11 metres of 9.0 g/t gold within broad zones containing up to 50 metres of over 1.0 g/t gold. Results to date have included the identification of an area approximately 350 metres by 150 metres, referred to as the Discovery Zone (“DZ”) defined by significant gold-silver mineralization associated with epithermal quartz veins and breccias. The DZ is characterized by multiple, shallow (surface to 150 metres depth) mineralized zones greater than 30 metres (apparent thickness) grading more than 1.0 g/t gold.

The 2012 exploration program at Altan Nar included close-spaced soil and rock geochemical sampling and IP gradient array and magnetic geophysical surveys. This work resulted in the identification of 15 exploration drill targets along the 5km strike length of the Altan Nar prospect. Most of these drill targets lie outside the 1 km^2 area drill-tested in 2011, which significantly expands the potential of identifying additional gold-bearing epithermal mineralization on the Altan Nar property. A drilling program designed to test a number of the exploration targets identified by the expanded 2012 exploration program was started on October 7, 2012, subsequent to the end of the third quarter. Results have been returned for 11 of the 17 holes drilled.

Early stage surface exploration on a new prospect (Altan Arrow), located 15 km south-southeast of Altan Nar, has returned significant gold and silver mineralization associated with epithermal quartz veins over a one-square-kilometre area. Results include an average grade from rock chip samples over a 1 km strike length of 3.5 g/t Au and 60 g/t Ag, including samples with up to 57 g/t Au and 416 g/t Ag.

Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

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

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

Discussion of Operations

Three months ended September 30, 2012 and 2011

The Corporation recognized revenue of $3,593 in the third quarter of 2012, compared to $222,903 in the third quarter of 2011. On June 29, 2012, APM completed the sale of its clay processing assets in Dearing, Georgia. As a result, no clay sales have been recognized after the sale date. The small amount of revenue in the quarter is related to real estate rentals.

Cost of sales amounted to $14,162 for the three months ended September 30, 2012 compared to $325,750 for the same period in 2011. The $14,162 in cost of sales in the third quarter is due to cutoff and accrual adjustments from the prior quarter. With the sale of the Dearing plant, the corporation will no longer incur cost of sales.

Total exploration expenses for the three months ended September 30, 2012 amounted to $826,871 compared to $850,661 for the same period in 2011. Exploration activity in the quarter was focused on the Altan Nar property. Details of the program can be seen under Exploration Results.

Corporate & administrative expenses amounted to $603,385 for the three months ended September 30, 2012 compared to $456,033 for the same period in 2011. Excluding non-cash share based payments of $176,975 in the third quarter of 2012 (2011 – 1,583), corporate and administrative costs decreased by $28,040 compared to 2011.

The Corporation recognized a loss from discontinued operations of $2,439,400 in the third quarter of 2012. The loss is predominantly an impairment incurred on the revaluation of assets classified as held for sale at September 30, 2012.

The net loss attributable to Erdene equity holders, for the three months ended September 30, 2012, was $3,977,211 compared to a loss of $1,266,964 for the same period in 2011.

Nine months ended September 30, 2012 and 2011

The Corporation recognized revenue of $341,069 in the nine months ended September 30, 2012, compared to $696,241 for the same period in 2011. The majority of the decrease is due to the sale of APM's clay processing facility on June 29, 2012.

Cost of sales totaled $402,486 for the nine months ended September 30, 2012 compared to $950,282 for the same period in 2011. With the sale of APM's clay processing plant, the Corporation will no longer incur costs of sales.

Total exploration expenses for the nine months ended September 30, 2012 amounted to $2,229,440 compared to $2,898,732 for the same period in 2011. The decrease is mainly due to a drop in share based payments which amounted to $76,559 for the six months ended September 30, 2012 (2011 - $650,519). Most of the remaining decrease is due to lower drilling in 2012 compared to the same period in 2011.

Corporate & administrative expenses amounted to $1,693,051 for the nine months ended September 30, 2012 compared to $4,818,500 for the same period in 2011. If we exclude non-cash share based payments which amounted to $185,276 for the nine months ended September 30, 2012 (2011 - $3,140,497), the Corporations corporate & administrative costs decreased by $170,228, or 10.1%, compared to the same period in 2011.

The Corporation recognized a loss from discontinued operations of $2,441,796 during the nine months ended September 30, 2012. The loss is predominantly an impairment incurred on the revaluation of assets classified as held for sale at September 30, 2012.

The net loss attributable to Erdene equity holders, for the nine months ended September 30, 2012, was $5,954,742 compared to a loss of $7,694,729 for the same period in 2011.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2012			Fiscal 2011				Fiscal 2010
	Q3 Sep-12	Q2 Jun-12	Q1 Mar-12	Q4 Dec-11	Q3 Sep-11	Q2 Jun-11	Q1 Mar-11	Q4 Dec-10
Revenue	$4	$180	$157	$187	$223	$233	$240	$211
Loss to equity holders	$3,977	$896	$1,082	$4,166	$1,267	$1,790	$4,638	$1,197
Basic and diluted loss per share	$0.04	$0.01	$0.01	$0.05	$0.01	$0.02	$0.05	$0.01
Total Assets	$34,910	$44,084	$45,871	$46,783	$51,017	$51,260	$53,466	$54,251

All financial data has been prepared in accordance with IFRS.

The Corporation's expenditures vary from quarter to quarter largely depending on the timing of its exploration and development programs. With the sale of APM's clay processing plant and the Granite Hill aggregate quarry, revenue has been reduced to nominal rental revenues on real estate. Management is not aware of any other specific trends which account for fluctuations in financial results from period to period.

Liquidity and Capital Resources

The Corporation had working capital of $3,063,885 at September 30, 2012, excluding assets held for distribution, compared to $3,387,452 at December 31, 2011, representing a decrease of $323,567.

The Corporation sold its non-core Granite Hill property and APM sold its underperforming clay processing plant generating cash proceeds of approximately $3.9 million. Current working capital is sufficient to fund the Corporation's budgeted expenditures until approximately the second quarter of 2013. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

The Corporation has minimal sources of income. It is therefore difficult to identify any meaningful trends or develop an analysis from the Corporation's cash flows. The Corporation is dependent primarily on the issuance of share capital to finance its exploration and development programs.

Other than as discussed herein, the Corporation is not aware of any trends, demands, commitments, events or uncertainties that may result in the Corporation's liquidity or capital resources materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Corporation's liquidity and capital resources will be substantially determined by the success or failure of the Corporation's Mongolian exploration and development programs and its ability to obtain sufficient equity financing.

Contractual Obligations

The following table summarizes the Corporation’s contractual obligations at September 30, 2012:

Contractual Obligations	Total	Less than one year	1-3 years years	4-5 years	More than 5 years
Office leases	$ 149,676	$ 76,987	$ 72,689	$ -	$ -
Finance leases	$ 11,778	$ 3,844	$ 7,934	$ -	$ -
Accounts payable and accrued liabilities	$ 446,190	$ 446,190	$ -	$ -	$ -
	$ 607,644	$ 527,021	$ 80,623	$ -	$ -

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

Off-Balance Sheet Arrangements

As at September 30, 2012, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

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

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

Share-based payments

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

Fair value of financial instruments, including embedded derivatives

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

Provisions for site restoration

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

Taxation

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

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

Future changes in accounting policies

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

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

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

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

Financial Instruments and Other Risks

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

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

As part of the transaction outlined above, the Corporations issued and outstanding shares have been reorganized on a one-for-two basis and as of the date of this MD&A total 47,901,450.

Stock Options

During the nine months ended September 30, 2012, 245,000 options with a weighted average exercise price of $1.13 were forfeit, 600,000 options with a weighted average exercise price of $1.20 expired and 3,780,000 options with a weighted average exercise price of $1.22 were relinquished.

During the nine months ended September 30, 2012, the Corporation issued 1,770,000 options at a weighted average exercise price of $0.31. After giving effect to the transaction, the outstanding options total 2,376,500 to the date of this MD&A. Of this balance, 2,302,500 were exercisable.

Exploration Results

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

Zuun Mod Molybdenum Project – Mongolia

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in Bayankhongor Province, Mongolia, approximately 950km southwest of Ulaanbaatar and 215km from railhead on the Mongolia-China border at Ceke. The railhead is located 20km south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of two contiguous mining licenses totaling 6,399 hectares. The mining licenses are registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation and have an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

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

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

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

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

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

Since 2009, the Corporation has been working on a number of technical and engineering studies on various aspects of the Zuun Mod project including an environmental and social economic baseline study, a geological report and resource estimate, for submission to the Mongolian Mineral Resource Council, hyrdro-geologic drilling to identify a source for process water, metallurgical test work, a 3D data compilation project and additional geophysical surveys. The Corporation's independent technical consultant, Minarco, have completed 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 provides high level production scheduling, a review of operating and capital costs, and economic modeling. The study will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2013.

In June 2011, the Corporation was granted a 30-year mining license for the Zuun Mod project by the Mongolian government. The June-2011 Zuun Mod mining license covers an area of 6,041 hectares. A second mining license, located south of the June-2011 mining license, was received during the third quarter, on July 20, 2012. This mining license covers 358 hectares. All of the reported Zuun Mod molybdenum and copper resources lie within the boundaries of the two contiguous mining licenses. In association with the granting of the mining licenses at Zuun Mod the Corporation is required to file an Environmental Impact Study with the Mongolian Ministry of the Environment. During the second quarter 2012, the Environmental Impact Study for the Zuun Mod project, prepared by EcoTrade LLC, a Mongolian consulting firm, was approved by the Mongolian Ministry of the Environment.

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

In early 2011, the Corporation released the final results of the 2010 drilling program including data from the Khuvyn Khar copper prospect. Hole ZMD-121, which was drilled to test a geophysical target, intersected 34m of 1.3% copper and 9.24g/t silver from 308 meters to 342 meters. 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. In June 2011, the Corporation announced the results of a follow-up drilling program that was carried out over the Khuvyn Khar copper prospect. This program was successful in defining a very large copper mineralized zone trending over 900 meters with multiple zones in three drill holes in excess of 0.2% copper. This zone remains untested to the south where it trends under andesite cover.

In late 2011, a mobile-metal-ion (“MMI”) soil survey was carried out over the Khuvyn Khar prospect to determine the effectiveness of this specialized geochemical survey at detecting anomalies at Khuvyn Khar. The MMI orientation survey successfully identified copper and silver anomalies intersected in drilling and plans for an expanded survey covering a one-square-kilometre area were drawn up.

The 2012 exploration program at Khuvyn Khar includes a review of all technical data, an expanded MMI geochemical survey, reprocessing of geophysical data, as well as a review of all surface and drill-hole geological data. This program commenced in early June and is ongoing. The goal of this work it to identify targets for a follow-up drilling program.

Regional Coal and Metals Exploration Programs - Mongolia

Coal Project

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

As part of this program, the Corporation has visited over one hundred coal sites throughout Mongolia and has compiled an extensive database on coal deposits, occurrences, prospective stratigraphy and sedimentary basins allowing for a prioritization of targets. In 2010, the Corporation carried out due diligence work on behalf of the Erdene-Xstrata Coal Alliance in addition to completing the fieldwork portion of the 2010 exploration program. In 2011, the Corporation continued its program of monitoring and evaluating opportunities to acquire new coal projects in Mongolia on behalf of the Erdene-Xstrata Coal Alliance. The coal project monitoring and evaluation work has continued in 2012.

Metals Project – Gold-Silver-Copper

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

The Altan Nar prospect consists of a large area (1.5km by 5km) with coincident geochemical and gradient array IP chargeability anomalies hosting multiple prospects containing gold-bearing epithermal-style quartz veins. The first reported occurrence of gold mineralization was by Erdene in mid-2011 when initial drilling returned 11 metres of 9.0 g/t gold within broad zones containing up to 50 metres of over 1.0 g/t gold. Results to date have included the identification of an area approximately 300 metres by 150 metres, referred to as the Discovery Zone ("DZ") defined by significant gold-silver mineralization associated with epithermal quartz veins and breccias. The DZ is characterized by multiple, shallow (surface to 150 metres depth) mineralized zones greater than 30 metres (apparent thickness) grading more than 1.0 g/t gold.

DZ results from the 2011 drilling program included 29 meters averaging 4.3g/t gold and 24.1g/t silver from hole TND-19 which was drilled 50 metres below the mineralization intersected in TND-09 (55 meters of 1.02g/t gold and 12g/t silver), indicating an increase in intensity of gold mineralization at depth. Gold-polymetallic mineralization intersected in holes TND-09, 10, 11, 12, 18, 19 and 28 are located along a northeast-trending magnetic low feature, and have coincident gold- and base-metal-in-soil anomalies, suggesting a single or multiple mineralized zones over the 300 meters strike length of the DZ.

The 2012 exploration program at Altan Nar started in early April with a drilling program that included delineation drilling of the DZ and scout drilling to follow-up on additional encouraging preliminary drill-results. The nine-hole, 2,029-metre, drilling program confirmed the lateral and vertical continuity of gold-silver mineralization within the DZ. All nine holes intersected mineralized zones with greater than 1 g/t gold, and anomalous silver, lead and zinc, confirming the widespread nature of the Altan Nar mineralized epithermal system.

Three holes drilled in the northeastern end of the DZ (TND-37, -38, and -40) confirmed the presence of gold-silver mineralization and extended the depth of the mineralized epithermal zone to approximately 180 metres.

Three holes drilled in the central part of the DZ (TND-35, -36, and -41) intersected gold-silver-bearing quartz breccia zones, previously encountered in TND-11 and TND-12, and extended the depth of the DZ to greater than 100 metres.

Results from two holes drilled in the southwestern end of the DZ (TND-33 and -34) extended the depth of the mineralization to 150 metres; however, gold-silver mineralization in this area was narrower and lower grade than previously encountered (TND-09, -19) and may represent pinching or faulting of this portion of the zone.

The 2012 exploration program at Altan Nar included close-spaced soil and rock geochemical sampling and IP gradient array and magnetic geophysical surveys. This work has resulted in the identification of 15 exploration drill targets along the 5km strike length of the Altan Nar prospect. Most of these drill targets lie outside the 1 km2 area drill-tested in 2011, which significantly expands the potential of identifying additional gold-bearing epithermal mineralization on the Altan Nar property.

A drilling program designed to test a number of the exploration targets identified by the expanded 2012 exploration program and to test the DZ at depth was started on October 7, 2012 and totaled 2,465 metres, including 11 wide-spaced reconnaissance holes and six holes to test the lateral and down dip extension of the DZ. Results have been returned for 11 of the 17 holes drilled.

Discovery Zone Gold Trend

Two 50-metre step-out holes were completed at the northeast and southwest ends of the DZ. Hole TND-50, located 50 metres to the northeast of the DZ, intersected a broad zone of gold-polymetallic mineralization over a 94 metre interval. This zone averaged 0.45 g/t gold and was bounded by higher grade gold zones, including a five metre interval averaging 2.7 g/t gold (111 to 116 metres) and a 4.5 metre interval at the bottom of the hole (200 to 204.5 metres) that averaged 2.4 g/t gold, 18.8 g/t silver, 2.8% lead and 0.86% zinc. Previous drilling at the northeastern end (TND-40) of the DZ intersected a broad mineralized zone that included 27 metres of 1.8 g/t gold, 11 g/t silver, 0.47% lead and 0.62% zinc and higher grade zones including four metres of 4.5 g/t gold, 56 g/t silver, 2.5% lead and 1.2% zinc.

Previous results from the southwestern end of the DZ included 29 metres averaging 4.3 g/t gold and 24.1 g/t silver from hole TND-19 which was drilled 50 metres below the mineralization intersected in TND-09 that averaged 1.02 g/t gold and 12 g/t silver over 55 metres. The southwestern end of the DZ appears to be structurally displaced or pinched out, as confirmed by the results from TND-43 in the table below. The DZ remains open at depth and to the northeast. A map portraying the drill results projected to surface and the location of drill holes can be viewed on the Erdene website at www.erdene.com. Table one presents assay results for the DZ extension holes, TND-43 and TND-50:

Table 1

Hole No	From (m)	To (m)	Interval (m)	Au g/t	Ag g/t	Pb %	Zn %
TND-43	46	48	2	0.53	5.5	0.92	2.58
And	70	72	2	0.59	2.5	0.14	0.22
And	82	84	2	0.60	0.5	0.10	1.74
TND-50	111	204.5	93.5	0.45	5.9	0.51	0.42
Including	111	116	5	2.70	10.0	0.62	0.37
Including	111	113	2	5.80	21.0	1.50	0.62
Including	193	204.5	11.5	1.10	9.3	1.30	0.43
Including	200	204.5	4.5	2.40	18.8	2.80	0.86

**Note: TND holes were drilled at approximately 45 to 60 degree dip and intersected zones are interpreted to be steeply-dipping to vertical. Additional information is required to determine true widths.*

Regional Reconnaissance Targets

Assays have been received for nine of the 11 reconnaissance holes and seven of these holes returned intervals (1 to 19 metres) of 0.5 g/t gold or higher (up to 4.4 g/t over 9 metres. TND-46 contains multiple higher grade gold zones separated by post-mineralization dykes which, when included in the overall zone results, yielded an average grade of 1.3 g/t gold over 47. TND-49, 100 metres to the west, has intersected a parallel zone to the DZ with multiple gold-bearing zones ranging from one to four metres in width and from 0.51 to 2.7 g/t gold.

Table two presents the results to date for the nine reconnaissance holes from the recent drilling program.

Table 2

Hole No	From (m)	To (m)	Interval (m)	Au g/t	Ag g/t	Pb %	Zn %
TND-42	112	113	1	0.73	5.0	0.03	0.30
TND-44	14	18	4	0.58	nil	nil	0.12
TND-45	19	38	19	0.46	2.2	0.40	0.57
TND-46	22	30	8	1.10	3.5	0.05	0.15
Including	28	30	2	3.60	6.0	0.12	0.26
And	41	43	2	5.40	20.0	1.14	1.15
And	58	67	9	4.40	11.6	0.97	0.77
Including	62	64	2	9.70	24.5	2.06	2.00
And	98	102	4	1.03	3.0	0.23	0.47
TND-47	no interval greater than 0.5g/t Au						
TND-48	92	93	1	1.80	115.0	0.11	0.57
TND-49	40	41	1	2.00	3.0	0.04	0.12
And	52	54	2	2.70	4.0	0.04	0.09
And	57	61	4	0.51	0.8	0.03	0.07
And	122	126	4	0.55	nil	0.03	0.07
TND-51	36	38	2	0.48	3.0	0.18	0.31
TND-52	no interval greater than 0.5g/t Au						

**Note: TND holes were drilled at approximately 45 to 60 degree dip and intersected zones are interpreted to be steeply-dipping to vertical. Additional information is required to determine true widths.*

Multiple targets with geophysical and geochemical signatures similar to the DZ remain untested across the 1.5 kilometre by 5 kilometre Altan Nar prospect. In addition, the most recent round of drilling has identified gold zones that require follow-up drilling.

Results for the additional six new drill holes at Altan Nar are expected to be received by the end of November. Analysis of results from the drilling completed to date continues. This work includes studies to characterize the ore mineralogy. Petrographic work has been carried out at SGS Lakefield while metallurgical work is being carried out by ALS Ammtec in Australia. Preliminary metallurgical results, on a relatively high grade sample, indicate that gold recoveries between 90% and 95% can be achieved from Altan Nar samples using established processing techniques. Additional work will be required to confirm these results and to identify the most efficient and effective mineral processing methodology.

The Nomin Tal prospect is located 2.5km northeast of Altan Nar prospect and includes previously undocumented ancient workings (shallow pits). Samples from these pits returned an average of 2.2% copper and 1.7g/t gold from several samples taken over a strike length of 250m. Drilling at Nomin Tal in 2011 identified narrow, steeply dipping, parallel zones of high-grade gold, silver and copper bearing massive sulphide along a north-south mineralized structure over a strike length of approximately 750 meters and to a vertical depth between 30 meters to 60 meters. Assay results included 2.7 g/t gold, 0.9% copper and 6 g/t silver over 6 meters (TND-06); 0.2g/t Au, 3.2% Cu and 8g/t Ag over 3 meters (TND-05); 0.7g/t Au, 1.8% Cu and 5 g/t Ag over 8 meters (TND-02); and 0.55 g/t gold, 0.60% copper and 0.07% molybdenum over 3.45 meters (TND-8).

Early stage surface exploration on a new prospect (Altan Arrow), located 15 km south-southeast of Altan Nar, has returned significant gold and silver mineralization associated with epithermal quartz veins over a one-square-kilometre area. Results include an average grade from rock chip samples over a 1 km strike length of 3.5 g/t Au and 60 g/t Ag, including samples with up to 57 g/t Au and 416 g/t Ag.

Disclosure Controls and Internal Controls over Financial Reporting

There have been no material changes in the Corporation’s internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

Outlook

General

The Corporation has working capital sufficient to meet its budgeted expenditures until the second quarter of 2013. The ability of the Corporation to continue beyond this point is contingent upon reduction of expenditures, entering joint venture agreement(s), equity financing or a combination of the three.

Management’s long term focus remains the discovery and development of large tonnage, low cost, base and precious metal deposits in Mongolia.

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During the third quarter 2012, the Corporation's independent technical consultant, MMC, completed work on a pit optimization study. This study provides high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2013.

Altan Nar

Results from the Corporations drilling program on Altan Nar have delivered very encouraging results. The Corporation is awaiting further assay results and will continue to evaluate further work programs.

Qualified Person

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

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

Other Information

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Canadian dollars)
(Unaudited)

Prepared by Management – See Notice to Reader

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect. These unaudited condensed interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at September 30, 2012 and December 31, 2011 and the unaudited condensed interim consolidated statements of loss, comprehensive loss and cash flows for the three and nine months ended September 30, 2012 and 2011. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2012 and 2011 condensed interim consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position
(Canadian dollars)
(Unaudited)

	Note		September 30, 2012		December 31, 2011
ASSETS					
Current assets:					
Cash and cash equivalents		$	**3,230,700**	$	4,104,350
Trade and other receivables			**238,179**		242,851
Prepaid expenses			**45,040**		70,259
Inventory			**-**		14,830
Assets held for distribution	**5**		**19,887,840**		-
			23,401,759		4,432,290
Non-current assets:					
Exploration and evaluation assets			**11,381,532**		32,313,187
Property, plant and equipment			**126,738**		5,037,361
Goodwill			**-**		5,000,000
			11,508,270		42,350,548
TOTAL ASSETS		**$**	**34,910,029**	**$**	46,782,838
LIABILITIES & EQUITY					
Current liabilities:					
Trade and other payables		$	**446,190**	$	1,036,247
Current portion of obligations under finance leases			**3,844**		8,591
Liabilities held for distribution	**5**		**184,782**		-
			634,816		1,044,838
Non-current liabilities:					
Obligations under finance leases			**7,934**		333,209
Provision for restoration costs			**-**		104,751
Deferred tax liability			**-**		4,916,034
			7,934		5,353,994
TOTAL LIABILITIES		$	**642,750**	$	6,398,832
EQUITY					
Shareholders' equity:					
Share capital		$	**75,197,880**	$	75,186,822
Contributed surplus			**10,783,056**		10,500,956
Accumulated other comprehensive loss			**(662,259)**		(360,078)
Deficit			**(48,829,534)**		(42,874,792)
			36,489,143		42,452,908
Non-controlling interest			**(2,221,864)**		(2,068,902)
TOTAL EQUITY		$	**34,267,279**	$	40,384,006
TOTAL LIABILITIES AND EQUITY		$	**34,910,029**	$	46,782,838

Going concern (Note 2)
Subsequent event (Note 5)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Loss
(Canadian dollars)
(Unaudited)

	Notes	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Revenue		**$ 3,593**	$ 222,903	**$ 341,069**	$ 696,241
Cost of sales		**14,162**	325,750	**402,486**	950,282
		(10,569)	(102,847)	**(61,417)**	(254,041)
Exploration expenses		**826,871**	850,489	**2,229,440**	2,896,453
Corporate and administration		**603,385**	456,027	**1,693,051**	4,818,091
Other (income) / expense		**8,824**	603	**(367,442)**	10,575
Foreign exchange loss (gain)		**136,244**	(26,125)	**143,670**	4,260
Loss from operating activities		**(1,585,893)**	(1,383,841)	**(3,760,136)**	(7,983,420)
Finance income		**4,424**	27,852	**93,690**	67,131
Finance expense		**(950)**	(8,432)	**(18,272)**	(24,848)
Net finance income		**3,474**	19,420	**75,418**	42,283
Income tax expense (recovery)		**5,316**	(8,627)	**5,316**	(683)
Loss from continuing operations		**$ (1,577,103)**	$ (1,355,794)	**$ (3,679,402)**	$ (7,940,454)
Loss from discontinued operation	**6**	**$ (2,439,400)**	$ 606	**$ (2,441,796)**	$ (10,856)
Net loss		**$ (4,016,503)**	$ (1,355,188)	**$ (6,121,198)**	$ (7,951,310)
Net loss attributable to:					
Equity holders of the Corporation		**(3,977,211)**	(1,266,964)	**(5,954,742)**	(7,694,729)
Non-controlling interest		**(39,292)**	(88,224)	**(166,456)**	(256,581)
		$ (4,016,503)	$ (1,355,188)	**$ (6,121,198)**	$ (7,951,310)
Basic and diluted earnings per share		**$ (0.04)**	$ (0.01)	**$ (0.06)**	$ (0.09)
Continuing operations					
Basic and diluted earnings per share		**$ (0.02)**	$ (0.01)	**$ (0.04)**	$ (0.09)
Basic and diluted weighted average number of shares outstanding		**95,802,901**	90,323,377	**95,802,901**	90,233,107

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Loss

(Canadian dollars)

(Unaudited)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net loss	**$ (4,016,503)**	$ (1,355,188)	**$ (6,121,198)**	$ (7,951,310)
Other comprehensive income (loss)				
Foreign currency translation difference arising on translation of foreign subsidiaries	**(547,844)**	1,026,901	**(288,687)**	596,973
Other comprehensive income (loss)	**(547,844)**	1,026,901	**(288,687)**	596,973
Total comprehensive loss	**$ (4,564,347)**	$ (328,287)	**$ (6,409,885)**	$ (7,354,337)
Total comprehensive loss attributable to:				
Equity holders of the Corporation	**(4,540,073)**	(413,203)	**(6,256,923)**	(7,217,127)
Non-controlling interest	**(24,274)**	84,916	**(152,962)**	(137,210)
	$ (4,564,347)	$ (328,287)	**$ (6,409,885)**	$ (7,354,337)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity
(Canadian dollars)
(Unaudited)

	Attributable to equity holders of the Corporation					
	Share capital	**Contributed surplus**	**Accumulated other comprehensive income**	**Deficit**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2011	$ 72,325,969	$ 7,012,557	$ 22,671	$ (31,012,681)	$ (256,942)	$ 48,091,574
Total comprehensive loss for the period:						
Net loss	-	-	-	(7,694,729)	(256,581)	$ (7,951,310)
Other comprehensive income	-	-	477,602		119,371	$ 596,973
Change in share subscription receivable	11,001	-	-	-	-	11,001
Share-based payments	-	3,791,016	-	-	-	3,791,016
Stock options exercised	782,300	(322,660)	-	-	-	459,640
Total transactions with owners	793,301	3,468,356	-	-	-	4,261,657
Reduction in ownership of APM	-	-	-	(791)	(791)	(1,582)
Balance at September 30, 2011	$ 73,119,270	$ 10,480,913	$ 500,273	$ (38,708,201)	$ (394,943)	$ 44,997,312
Balance at January 1, 2012	$ 75,186,822	$ 10,500,956	$ (360,078)	$ (42,874,792)	$ (2,068,902)	$ 40,384,006
Total comprehensive loss for the period:						
Net loss	-	-	-	(5,954,742)	(166,456)	(6,121,198)
Other comprehensive income (loss)	-	-	(302,181)		13,494	(288,687)
Change in share subscription receivable	11,058	-	-	-	-	11,058
Share-based payments	-	282,100	-	-	-	282,100
Total transactions with owners	11,058	282,100	-	-	-	293,158
Balance at September 30, 2012	$ 75,197,880	$ 10,783,056	$ (662,259)	$ (48,829,534)	$ (2,221,864)	$ 34,267,279

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows
(Canadian dollars)
(Unaudited)

	Notes	For the nine months ended September 30, 2012	2011
Cash flows from operating activities:			
Net loss		**$ (6,121,198)**	$ (7,951,310)
Item not involving cash:			
Depreciation and amortization		**28,826**	256,680
Depletion of resource property interest		**-**	32,194
Stock-based compensation		**282,100**	3,791,016
Net finance income		**(75,418)**	(42,283)
Foreign exchange loss / (gain)		**141,385**	(29,599)
Gain on sale of resource property interests		**(376,266)**	-
Loss on disposal of property, plant and equipment		**57,811**	-
Impairment loss on assets held for distribution	**6**	**2,435,485**	-
Change in non-cash working capital		**(805,053)**	397,643
Cash flows from operating activities		**(4,432,328)**	(3,545,659)
Cash flows from financing activities:			
Proceeds from exercise of stock options		**-**	459,640
Changes in ownership of subsidiary that do not result in a loss of control		**-**	(1,582)
Proceeds on repayment of share subscription receivable		**9,000**	9,000
Repayment of obligations under capital lease		**(5,074)**	(3,940)
Interest paid		**(16,214)**	(22,847)
Cash flows from financing activities		**(12,288)**	440,271
Cash flows from investing activities:			
Proceeds on sale of resource property interests		**3,489,293**	-
Proceeds on sale of property, plant and equipment		**492,099**	-
Expenditures on exploration and evaluation assets		**(331,686)**	(1,538,378)
Recovery of expenditures on exploration and evaluation assets		**328,775**	-
Expenditures on property, plant and equipment		**(26,818)**	(50,921)
Increase in restricted cash		**(55,355)**	-
Interest received		**93,690**	67,131
Cash flows from investing activities		**3,989,998**	(1,522,168)
Effect of exchange rate change on cash and cash equivalents		**(141,385)**	43,828
Increase (decrease) in cash and cash equivalents		**(596,003)**	(4,583,728)
Transfer of cash and cash equivalents to assets held for distribution	**5**	**(277,647)**	
Cash and cash equivalents, beginning of period		**4,104,350**	8,379,230
Cash and cash equivalents, end of period		**$ 3,230,700**	$ 3,795,502

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

1. Nature of operations and continuance of operations

Erdene Resource Development Corporation (the "Corporation" or "Erdene") is a Corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the discovery of large tonnage, low cost precious and base metal deposits in Mongolia.

2. Going concern

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

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

The Corporation experienced significant losses and negative cash flows from operations in 2012 and 2011. The sale of non-core assets in the second quarter of 2012 has raised approximately $3.9 million in cash. The Corporation had working capital of $3,063,885 at September 30, 2012 compared to $3,387,452 at December 31, 2011, representing a decrease of $323,567. Current working capital is sufficient to fund the Corporation's budgeted expenditures until approximately the second quarter of 2013. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing, entering into joint venture agreement(s), or monetizing assets beyond this point (see note 5). The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

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

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34").

The policies applied in these condensed interim consolidated financial statements are consistent with the policies disclosed in Notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2011 with the exception of the significant accounting policies described in Note 4. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2011.

The condensed interim consolidated financial statements were authorized for issue by the Audit Committee on behalf of the Board of Directors on November 13, 2012.

4. Restricted cash

The Corporation holds restricted cash of $55,355 (2011 – nil) used to secure an irrevocable standby letter of credit with Peoples Bank in Eatonton Georgia, as set forth by the Environmental Protection Division of the Georgia Department of Natural Resources. The letter of credit was previously secured with the Tudor Mine property which was sold in the second quarter of 2012. The letter of credit will remain in force until the termination of Advance Primary Minerals USA Corp's mining permit, expected to occur within the next three months.

5. Assets and liabilities held for distribution and subsequent event

On August 7, 2012 the Corporation entered into a definitive agreement with Advanced Primary Minerals Corporation ("APM") to exchange all of Erdene's North American property interests, comprised primarily of Erdene's interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for shares of APM. The transaction was completed by way of a court-approved plan of arrangement (the "Arrangement") after obtaining shareholder approval on October 26, 2012 and approval by the Supreme Court of Nova Scotia on November 1, 2012. The shares of Morien Resources Corp. (formerly Advanced Primary Minerals Corporation) are listed on the TSX Venture Exchange under the symbol "MOX". On November 9, 2012, the transaction closed and the shares of both companies commenced trading. Erdene continues under the same name and trading symbol "ERD".

Terms of the Arrangement

The Arrangement Agreement set out the terms of the statutory plan of arrangement under section 192 of the Canada Business Corporations Act involving Erdene, APM, Erdene Resources Inc. ("ERI"), and the securityholders of Erdene and APM whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, a corporation formed under the federal laws of Canada and being the entity that owns or will own Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien Resources Corp. ("Morien").

(Canadian dollars)

5. Assets and liabilities held for distribution (continued)

- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene created a new class of common shares ("Erdene New Shares") and distributed to the Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene.

Following the Arrangement, Erdene has 47,901,450 Erdene New Shares outstanding and Morien has 49,255,990 shares outstanding, 47,901,450 (97.25%) of which are held by the Erdene shareholders.

The Arrangement results in two strategically positioned public companies, with Morien focused on North America (i.e. the Donkin Coal Project) and Erdene focused on minerals exploration and development in Mongolia.

The Arrangement caused the Corporation to assess the recoverable amount of the Donkin disposal group at September 30, 2012. The recoverable amount of the disposal group was estimated based on the fair value less costs to distribute. The fair value less costs to distribute for Donkin is supported by a formal valuation of the range of values representing the fair market value of the ERI assets to be acquired by APM.

Based on the assessment, the carrying amount of the disposal group was approximately $20.8 million resulting in an impairment loss of approximately $2.4 million recorded in the Statement of Loss in the third quarter of 2012. The assumptions used to estimate the impairment are subject to further change which could lead to further write downs or the reversal of previously recognized impairments.

In the third quarter of 2012, the assets and liabilities associated with the disposal groups for Donkin and APM were presented as assets and liabilities held for distribution. The Donkin disposal group is part of the operating segment Canada and the APM disposal group is part of the operating segment USA. At September 30, 2012, the disposal groups comprised assets of $19,887,840 less liabilities of $184,782.

Assets held for distribution

	Note	Donkin	APM	Total
Cash and cash equivalents		$ 6,819	$ 270,828	$ 277,647
Restricted cash	**4**	-	55,355	55,355
Trade and other receivables		15	37,299	37,314
Prepaid expenses		221,552	174,991	396,542
Exploration and evaluation assets		18,341,949	-	18,341,949
Property, plant and equipment		-	779,033	779,033
		$ 18,570,335	$ 1,317,505	$ 19,887,840

Property plant and equipment reclassified to non-current assets held for sale is primarily comprised of land,

Liabilities held for distribution

	Donkin	APM	Total
Trade and other payables	$ -	$ 184,782	$ 184,782

(Canadian dollars)

6. Discontinued operation

In November 2012, the Corporation completed the Arrangement as discussed in Note 5; which resulted in the transfer of the Donkin cash generating unit ("CGU") to APM. As a result, the cash flows and results from operations of the CGU must be presented as a discontinued operation at September 30, 2012. The CGU was not a discontinued operation or classified as held for distribution at September 30, 2011 and the comparative statement of loss and comprehensive loss has been re-presented to show the discontinued operation separately from continuing operations.

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Results of discontinued operation				
Exploration expenses	**$ 391**	$ 172	**$ 2,168**	$ 2,279
Corporate and administration	**149**	6	**768**	409
Impairment loss	**2,435,485**	-	**2,435,485**	-
Loss from operating activities	**(2,436,025)**	(178)	**(2,438,421)**	(2,688)
Income tax expense	**3,375**	(784)	**3,375**	8,168
Net loss from discontinued operation	**$ (2,439,400)**	$ 606	**$ (2,441,796)**	$ (10,856)

	Continuing operations	Discontinued operation	Total
For the three months ended September 30, 2012			
Net loss attributable to:			
Equity holders of the Corporation	**$ (1,537,811)**	**$ (2,439,400)**	**$ (3,977,211)**
Non-controlling interest	**(39,292)**	**-**	**(39,292)**
	$ (1,577,103)	**$ (2,439,400)**	**$ (4,016,503)**
For the three months ended September 30, 2011			
Net loss attributable to:			
Equity holders of the Corporation	$ (1,267,570)	$ 606	$ (1,266,964)
Non-controlling interest	$ (88,224)	-	$ (88,224)
	$ (1,355,794)	$ 606	$ (1,355,188)

(Canadian dollars)

6. Discontinued operation (continued)

	Continuing operations	Discontinued operation	Total
For the nine months ended September 30, 2012			
Net loss attributable to:			
Equity holders of the Corporation	**$ (3,512,946)**	**$ (2,441,796)**	**$ (5,954,742)**
Non-controlling interest	**(166,456)**	**-**	**(166,456)**
	$ (3,679,402)	**$ (2,441,796)**	**$ (6,121,198)**
For the nine months ended September 30, 2011			
Net loss attributable to:			
Equity holders of the Corporation	$ (7,683,873)	$ (10,856)	$ (7,694,729)
Non-controlling interest	(256,581)	-	(256,581)
	$ (7,940,454)	$ (10,856)	$ (7,951,310)

Cash flows from (used in) discontinued operation	**For the nine months ended September 30, 2012**	**2011**
Net cash used in operating activities	**$ (6,326)**	$ 197,139
Net cash from investing activities	**328,775**	(899,983)
Net cash used in financing activities	**(322,459)**	702,805
Net cash from (used in) discontinued operation	**$ (10)**	$ (40)

7. Operating segments

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

The following table presents reportable segment assets:

Reportable segment assets

	Canada (discontinued)	USA	Mongolia	Corporate	Total
As at September 30, 2012	$ 18,570,335	$ 1,317,505	$ 7,077,143	$ 7,945,046	$ 34,910,029
As at September 30, 2011	$ 25,817,083	$ 9,287,353	$ 12,028,769	$ 3,884,213	$ 51,017,418

(Canadian dollars)

7. Operating segments (continued)

The following tables present selected financial information for the three months ended September 30, 2012 and 2011:

For the three months ended September 30, 2012

	Canada (discontinued)	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 3,593	$ -	$ -	$ 3,593
Segment loss before tax	$ (2,439,400)	$ (79,687)	$ (490,129)	$ (871,009)	$ (3,880,225)

For the three months ended September 30, 2011

	Canada (discontinued)	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 222,903	$ -	$ -	$ 222,903
Segment loss before tax	$ (87,811)	$ (147,880)	$ (629,268)	$ (544,582)	$ (1,409,541)

Reconciliation of reportable segment profit or loss for the three months ended September 30:

	2012	2011
Segment loss before tax	$ (3,880,225)	$ (1,409,541)
Foreign exchange gain (loss)	(136,244)	26,125
Other income/(expenses)	(8,824)	(603)
Finance income	4,424	27,852
Finance expense	(950)	(8,432)
Income tax recovery (expense)	5,316	9,411
Net Loss	$ (4,016,503)	$ (1,355,188)

The following tables present selected financial information for the nine months ended September 30, 2012 and 2011:

For the nine months ended September 30, 2012

	Canada (discontinued)	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 341,069	$ -	$ -	$ 341,069
Segment loss before tax	$ (2,441,796)	$ (308,938)	$ (1,393,034)	$ (2,281,936)	$ (6,425,704)

For the nine months ended September 30, 2011

	Canada (discontinued)	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 696,241	$ -	$ -	$ 696,241
Segment loss before tax	$ (214,762)	$ (455,388)	$ (2,224,546)	$ (5,076,577)	$ (7,971,273)

(Canadian dollars)

7. Operating segments (continued)

Reconciliation of external revenue and segment profit or loss for the nine months ended September 30:

		2012		2011
Segment loss before tax	$	(6,425,704)	$	(7,971,273)
Foreign exchange loss		(143,670)		(4,260)
Other income/(expenses)		367,442		(10,575)
Finance income		93,690		67,131
Finance expense		(18,272)		(24,848)
Income tax expense		5,316		(7,485)
Net loss	$	(6,121,198)	$	(7,951,310)