Interim Consolidated Financial Statements of

ERDENE RESOURCE DEVELOPMENT CORP.

(Formerly Erdene Gold Inc.)

Second Quarter 2008

Three and six months ended June 30, 2008 and 2007
(unaudited)

Prepared by Management - See Notice to Reader

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. These interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited interim consolidated balance sheet of Erdene Resource Development Corp. (formerly Erdene Gold Inc.) as at June 30, 2008, the audited consolidated balance sheet as at December 31, 2007 and the unaudited interim consolidated statements of operations and deficit, comprehensive income (loss), and cash flows for the three and six months ended June 30, 2008 and 2007. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2008 and 2007 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORP.

Interim Consolidated Balance Sheets

June 30, 2008 and December 31, 2007

	2008	2007
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 22,837,343	$ 8,727,380
Accounts receivable (note 2)	321,891	1,078,416
Prepaid expenses	71,285	33,435
	23,230,519	9,839,231
Cash – flow-through funds	–	2,713,644
Resource property interests (note 3)	31,379,850	27,176,538
Capital assets (note 4)	2,259,549	2,285,810
Goodwill	5,000,000	5,000,000
	$ 61,869,918	$ 47,015,223
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 677,631	$ 1,937,881
Future income taxes	5,764,420	4,367,290
Shareholders' equity:		
Share capital (note 5)	78,430,475	60,926,339
Contributed surplus (note 6)	5,841,317	5,113,451
Deficit	(28,843,925)	(25,329,738)
	55,427,867	40,710,052
Commitments (note 11)		
Subsequent event (note 13)		
	$ 61,869,918	$ 47,015,223

See accompanying Notes to the Interim Consolidated Financial Statements.

Approved on behalf of the Board:

__________________________________ Director

__________________________________ Director

ERDENE RESOURCE DEVELOPMENT CORP.

Interim Consolidated Statements of Operations and Deficit
(unaudited)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30 2007
Expenses:				
Exploration and operating expenses, net of partner recovery	$ 298,200	$ 2,032,351	$ 962,595	$ 2,475,023
General and administrative expenses				
Administrative services	145,866	109,120	343,153	236,013
Depreciation	9,939	7,555	23,002	21,531
Investor relations and communications	76,610	56,544	125,248	92,673
Office and sundry	40,976	47,858	93,353	93,549
Professional fees	68,106	59,578	121,964	103,930
Regulatory compliance	106,525	62,605	153,790	103,494
Stock based compensation	0	869,663	464,475	869,663
Travel and accommodations	40,147	24,693	125,968	78,846
Other	9,972	9,326	16,287	12,123
	498,141	1,246,942	1,467,240	1,611,822
Other income (expenses)				
Interest revenue	68,484	135,486	164,635	202,037
Gain on sale of resource properties	0	0	0	70,666
Gain on sale of marketable securities	0	(2,669)	0	469,569
Foreign exchange	1,540	10,602	(3,460)	3,775
Lab revenue	0	74,793	0	107,280
Other	1,746	(20,399)	(9,523)	(101,009)
	71,770	197,813	151,652	752,318
Loss for the period	724,571	3,081,480	2,278,183	3,334,527
Deficit, beginning of period	26,883,350	17,693,877	25,329,738	17,440,830
Share issue costs	1,236,004	975,934	1,236,004	975,934
Deficit, end of period	$ 28,843,925	$ 21,751,291	$ 28,843,925	$ 21,751,291
Basic and diluted loss per share (note 7)	$ 0.01	$ 0.05	$ 0.03	$ 0.06
Weighted average number of common shares outstanding	71,551,760	58,509,026	71,551,760	58,509,026

See accompanying notes to the interim consolidated financial statements.

ERDENE RESOURCE DEVELOPMENT CORP.

Interim Consolidated Statements of Comprehensive Income (Loss)
(unaudited)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30 2007
Net loss for the period	$ 724,571	$ 3,081,480	$ 2,278,183	$ 3,334,527
Other comprehensive income:				
Reclassification of gain from accumulated comprehensive income to net income	–	2,669	–	(290,036)
Comprehensive loss	$ 724,571	$ 3,084,149	$ 2,278,183	$ 3,044,491

See accompanying notes to Interim Consolidated financial statements.

ERDENE RESOURCE DEVELOPMENT CORP.

Interim Consolidated Statements of Cash Flows
(unaudited)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30 2007
Cash provided by (used in):				
Operations:				
Loss for the period	$ (724,571)	$(3,081,480)	$(2,278,183)	$ (3,334,527)
Item not involving cash:				
Depreciation	17,707	10,772	39,553	30,528
Amortization of intangible assets	-	817	-	7,850
Stock-based compensation	-	1,492,336	794,418	1,492,336
Write down of resource properties	75,723	42,209	75,723	109,025
Gain on sale of marketable securities	-	(398,903)	-	(469,569)
Gain on sale of resource properties	-	401,572	-	(70,666)
Change in non-cash working capital	361,621	154,169	(541,544)	376,233
	(269,520)	(1,378,508)	(1,910,033)	(1,858,790)
Financing:				
Issue of common shares for cash	18,586,000	10,000,000	18,586,000	10,000,000
Share issue costs	(1,236,004)	(726,934)	(1,236,004)	(726,934)
Issue of common shares on exercise of options and warrants	51,600	938,226	248,713	1,058,226
	17,401,596	10,211,292	17,598,709	10,331,292
Investments:				
Resource property interests	(2,736,911)	(1,000,833)	(4,279,035)	(3,205,300)
Proceeds on sale of marketable securities	-	67,997	-	704,568
Purchase of capital assets	(8,792)	(22,154)	(13,292)	(22,969)
	(2,745,703)	(954,990)	(4,292,327)	(2,523,701)
Increase (decrease) in cash	14,386,373	7,877,794	11,396,349	5,948,801
Cash, beginning of period	8,451,000	5,717,500	11,441,024	7,646,493
Cash, end of period	$ 22,837,373	$ 13,595,294	$ 22,837,373	$ 13,595,294
Cash is defined as:				
Cash and cash equivalents	22,837,373	11,646,771	22,837,373	11,646,771
Cash – flow through funds	-	1,948,523	-	1,948,523
	$ 22,837,373	$ 13,595,294	$ 22,837,373	$ 13,595,294

See accompanying notes to the interim consolidated financial statements.

Nature of business:

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

1. Summary of significant accounting policies:

(a) Principles of consolidation:

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

(b) Changes in accounting policies:

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

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. See note 9 for further information.

Section 3862 and 3863 replaces Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. See note 8 for further information.

Six months ended June 30, 2008
(unaudited)

2. Accounts receivable:

	June 2008	December 2007
Trade receivables	$ –	$ 22,633
Exploration partner recovery	137,069	645,285
GST/HST	38,476	347,319
Other	146,346	63,179
	$ 321,891	$ 1,078,416

Other receivables includes an amount receivable of $139,275 (2007 - $42,300) from a director and officer, which is non-interest bearing and repayable on demand.

3. Resource property interests:

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

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

	Jan – Jun 2008	Jan - Dec 2007
Balance, beginning of period	$ 27,176,538	$ 16,754,731
Additions during period	94,490	1,545,253
Deferred exploration expenditures (Donkin)	3,156,644	6,541,979
Deferred exploration expenditures (Zuun Mod)	1,027,901	3,438,202
Write-downs	(75,723)	(1,032,310)
Exploration partner contributions	–	(71,317)
	$ 31,379,850	$ 27,176,538

4. Capital assets:

			June 2008
	Cost	Accumulated depreciation	Net book value
Land	$ 1,894,364	$ –	$ 1,894,364
Building	386,830	228,311	158,519
Equipment, furniture and fixtures	642,677	529,502	113,175
Software and computer	159,817	92,695	67,122
Vehicles	48,438	22,069	26,369
	$ 3,132,126	$ 872,577	$ 2,259,549

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

5. Share capital:

Authorized and issued

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	Number of shares	$	Number of shares	$
Authorized:				
Unlimited number of common shares without par value				
Issued:				
Balance, beginning of period	70,530,877	59,786,667	70,200,939	60,926,339
Issued for cash	18,586,000	18,586,000	18,586,000	18,586,000
Tax effect of renounced expenditures	-	-	-	(1,397,130)
Issued on exercise of options and warrants	114,000	57,808	443,938	315,266
Balance, end of period	89,230,877	78,430,475	89,230,877	78,430,475

5. Share capital (continued)

Warrants:

The following table summarizes the continuity of the warrants for June 30, 2008:

	Three months ended June 30, 2008		Six months ended June 30, 2008	
	Number of Warrants	Weighted Avg. Exercise Price	Number of Warrants	Weighted Avg. Exercise Price
Opening balance	4,849,975	$ 1.57	5,249,913	$ 1.50
Exercised	-	-	(329,938)	0.60
Expired	(360,000)	1.15	(430,000)	1.08
Closing balance	4,489,975	$ 1.60	4,489,975	$ 1.60

The following is a summary of the warrants outstanding as of June 30, 2008:

Weighted Average Exercise Price	Year of Expiration	Number of Warrants
$ 1.60	2009	4,489,975
$ 1.60		4,849,975

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

	2008	2007
Dividend yield	0%	0%
Risk-free interest rate	3.15%	4.15%
Expected volatility	105%	90%
Expected life	1 year	1 year

5. Share capital (continued):

Stock Options

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

The following table summarizes the continuity of the stock options for June 30, 2008.

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Opening balance	5,441,500	$0.99	4,356,500	$1.01
Granted	-	-	1,095,000	0.93
Exercised	(114,000)	0.45	(114,000)	0.45
Expired	(265,000)	1.16	(275,000)	1.17
Closing balance	5,062,500	$1.00	5,062,500	$1.00

The following is a summary of the options outstanding and exercisable as of June 30, 2008, all of which are exercisable:

Weighted Average Exercise Price	Year of expiration	Number of options
$0.43	2008	187,500
$0.85	2009	720,000
$0.78	2010	325,000
$0.88	2011	1,255,000
$1.34	2012	1,480,000
$0.93	2013	1,095,000
$1.00		5,062,500

5. Share capital (continued):

Stock Based Compensation:

As of June 30, 2008 there were 5,062,500 share purchase options outstanding. During the six months ended June 30, 2008, 1,095,000 options (2007 – 1,500,000) were granted to certain directors, officers, employees and consultants of the Company. The fair value of the options on the date granted was $0.7255 per option (2007 – $1.36) which represents a total of $794,418 (2007 – $1,492,336) expensed as stock-based compensation and geological services and recorded as contributed surplus. The Company estimates the fair value of stock based incentives at the date of grant using the Black-Scholes model, recognized on the grant date given the options vest immediately, with the following assumptions:

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

6. Contributed surplus:

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

	Jan – Jun 2008	Jan - Dec 2007
Opening balance	$ 5,113,451	$ 3,753,241
Warrants/options relating to issue costs	–	249,000
Warrants/options exercised	(66,552)	(502,790)
Options expensed	794,418	1,614,000
	$ 5,841,317	$ 5,113,451

7. Basic and diluted loss per share:

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

8. Financial Risk Management:

Credit Risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from joint venture partners. At June 30, 2008 the Company's joint venture partner recovery was concentrated with a single company, Xstrata Coal. A portion of the Company's accounts receivable is from the federal government and is effectively risk free (see note 2).

The Company places the majority of its cash and cash equivalents with high-quality financial institutions in Canada, with approximately 1% of the balance at June 30, 2008 being held in banks outside Canada. None of the reported cash balances are invested in asset backed commercial paper.

Liquidity Risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company's liquidity risk is limited to its ability to repay accounts payable which are due within the next year. The Company has sufficient cash to discharge these liabilities.

Market Risk:

Foreign currency risks

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

At June 30, 2008, the Company held foreign currencies equivalent to $656,567 Canadian ($636,165 USD, and 5,218,237 MNT). If the Canadian dollar were to strengthen, the converted value of these currencies would decrease and the impact recognized as a foreign exchange loss.

Interest rate risks

The Company has no interest-bearing debt and earns interest on surplus cash through a negotiated rate with its primary bank and through cashable GIC's. The majority of cash is invested in cashable GIC's which have a guaranteed rate for one year, but are cashable without penalty after 30 days. In the event rates increase, the funds can be transferred to a higher yielding instrument. If rates decrease, the rate on the invested funds is guaranteed for one year. Cash held outside GIC's earns interest on a negotiated rate which floats with the prime rate. In the six months ended June 30, 2008 if prime had been 0.25% lower, earned interest would have been approximately $8,000 lower,

9. Capital Management:

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

There were no changes in the Company’s approach to capital management during the quarter. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

10. Segmented information:

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

				2008				2007
	Canada	USA	Mongolia	Total	Canada	USA	Mongolia	Total
Working capital	22,552	9	(8)	22,553	7,863	60	(21)	7,901
Capital assets	68	2,118	74	2,260	62	2,132	92	2,286
Resource properties	17,151	6,523	7,706	31,380	13,995	6,523	6,659	27,177
Total assets	45,201	8,659	8,010	61,870	31,525	8,716	6,774	47,015

11. Commitments:

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

2008	$ 29,645
2009	58,715
2010	59,889
2011	40,725
	$ 188,974

12. Accumulated other comprehensive income:

		2008		2007
Opening balance	$	–	$	–
Adjustment to opening balance on adoption of new accounting policy		–		290,036
Reclassification of earnings on available for sale marketable securities		–		(290,036)
	$	–	$	–

13. Subsequent event:

On July 15, 2008, the Company entered into a binding letter agreement (the "Agreement") with Beta Minerals Inc. ("Beta") (TSXV:BMI) and Deepstep Kaolin Company LLC ("Deepstep") whereby the Company will exchange all of the outstanding common shares of its wholly owned US subsidiary, Erdene Materials Corporation ("EMC"), for common shares of Beta (the "Transaction"), giving the Company a controlling interest in Beta. Prior to the Transaction, EMC will transfer all of its "non-clay assets", consisting primarily of its construction aggregate assets, to another company owned by the Company.

Pursuant to the Agreement, Beta will effect a 10:1 share consolidation prior to the closing of the Transaction resulting in Beta having a fully diluted share position of approximately 3,132,248 shares immediately prior to the issuance of any post-consolidation Beta shares. EMC will transfer all of its non-clay assets to a separate entity and, on the closing of the Transaction, the Company will transfer all of the shares of EMC to Beta in exchange for 11,700,000 Beta post consolidation shares ("Transaction Shares"). The 11,700,000 Transaction Shares will be distributed to the Company to the extent of 10,700,000 shares and the remaining 1,000,000 shares to Deepstep. As a result, upon issuance of the Transaction Shares, the Company will control 72% of the issued and outstanding shares of Beta. 3,600,000 of the Consideration Shares issuable to the Company will be subject to a contractual hold period and will be released upon certain milestone events pertaining to the clay assets being achieved. Additional Consideration Shares may be issued to the Company based on a closing adjustment for any surplus expenditures made by EMC with respect to the management or development of its clay assets in excess of $300,000 before the closing. The Consideration Shares may be subject to escrow conditions imposed by the TSX Venture Exchange. Concurrent with the closing of the Transaction, the Company will nominate a new board of directors of Beta, initially expected to be five persons.

The Agreement is subject to a 30 day due diligence period and to fulfillment of a number of conditions precedent including receipt of all required regulatory approvals, approval from the shareholders of Beta to the transaction, the share consolidation and a name change, Beta entering into employment/service agreements for the position of President and CEO and with key management personnel, Beta receiving a satisfactory opinion from its financial adviser, and Beta having cash on hand at closing in the minimum amount agreed upon by the parties. Assuming all conditions are met, it is anticipated that the transaction will close not later than late November 2008.

14. Comparative figures:

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

ERDENE RESOURCE DEVELOPMENT CORP.

Management Discussion and Analysis
Second Quarter – June 30, 2008

This Management Discussion and Analysis of Erdene Resource Development Corp. (the "Company") (formerly Erdene Gold Inc.) provides analysis of the Company's financial results for the three and six months ended June 30, 2008 and 2007 and its financial position as at June 30, 2008 and December 31, 2007. The following discussion and analysis provides a summary of selected consolidated financial information for the three and six months ended June 30, 2008 and 2007 and includes financial information relating to the Company and its wholly owned subsidiaries, Erdene Gold International Inc. and Erdene International Exploration Inc., both incorporated under the laws of Barbados, Tamerlane International Limited incorporated under the laws of Bermuda, Erdene Resources Inc. and its wholly owned subsidiary 6531954 Canada Limited, both incorporated under the laws of Canada, Erdene Materials Corporation, incorporated under the laws of Delaware as well as Erdene Mongol XXK, Erdene Energy XXK and Anian Resources XXK incorporated under the laws of Mongolia. The consolidated financial statements of the Company have been prepared by management, in Canadian dollars, in accordance with Canadian generally accepted accounting principles (see note 1: Summary of Significant Accounting Policies). The following information should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2007 and 2006, including all accompanying notes to the consolidated financial statements.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. The information contained herein is stated as of August 12, 2008 and is subject to change after that date.

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

1.01 Date of MD&A

This MD&A is prepared as of August 12, 2008.

1.02 Nature of Business and Overall Performance

General

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

The Company is well-funded with its focus on the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America with near term cash flow potential.

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

Donkin Coal Alliance

The Donkin Coal Alliance, between the Company and Xstrata Coal Ply Limited, was formed to submit a proposal to the Province of Nova Scotia to secure the exclusive right to the Donkin coal project; namely, the project to explore, assess, study and, if feasible, develop the Donkin Coal Resource Block into an operating coal mine. On December 14, 2005, the Province of Nova Scotia announced that the Donkin Coal Alliance was the successful proponent. Xstrata holds a 75% interest in the Alliance and the Company holds a 25% ownership.

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

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

Pursuant to the Alliance Agreement, the Company is committed to fund up to $10,000,000 ("Initial Funding") of the expenditures incurred during the Exploration Program of the Donkin coal project provided such expenses qualify as Canadian Exploration Expenses ("CEE"). XCDL agreed to pay any other costs up to a maximum of $5,000,000 but if the Company only pays a portion of the

Initial Funding, XCDL is only obliged to pay a corresponding portion of the $5,000,000. The Company is responsible to fund 25% of any additional expenditures incurred in the Exploration Program if it is to maintain its 25% interest in the Donkin coal project. The total budget for the Exploration Program was approximately $17,800,000 and to April 30, 2008 $11,100,100 million was advanced to Xstrata Coal Donkin Management Limited to fund the Company's commitment toward total project expenditures of $19,522,000 to the same date. On May 16, 2008 the DCA announced the funding of a feasibility study for an Evaluation and Development Program ("Program") utilising a continuous miner, as an interim step in the development path leading towards establishing a large scale underground longwall mining operation. The DCA has endorsed this interim step in the project management process to obtain further information deemed critical to the assessment of the feasibility of the large scale underground mining options under consideration. The Program feasibility decision is expected before the end of 2008 with a budget of $3.8 million of which the Company's will be required to fund $950,000.

Strategic Alliance with Xstrata Coal Canada Limited

On February 14, 2006 the Company concluded an agreement with Xstrata Coal Canada Limited ("Xstrata") a subsidiary of Xstrata plc (London Stock Exchange: XTA.L; Zurich Stock Exchange: XTA.S), pursuant to which Xstrata subscribed for 3,000,000 common shares of the Company at $1.00/share.

Under the agreement, Xstrata was granted a first option to enter into a joint venture and earn a 75% interest in any coal opportunity in Mongolia identified by the Company by funding all work through completion of a feasibility study. Should the Company elect to develop or pursue third party participation in any non-coal projects or properties in Mongolia or elsewhere, Xstrata has a 60-day right to review all supporting project information and, if it wishes to participate in the project, to negotiate the terms of its participation before the Company may dispose of or develop the property itself. As part of the agreement Xstrata named a nominee to the Company's Board of Directors. The rights granted to Xstrata under the agreement expire if Xstrata does not maintain a 5% equity position in the Company although parties' rights and obligations for any established joint venture survive. Under the agreement, Xstrata is entitled to participate in all future financings of the Company to allow them to hold up to 9.9% of the common shares of the Company.

Agreement with Gallant Minerals Limited

On March 1, 2005 the Company entered into an agreement with Gallant Minerals Limited ("Gallant") to acquire certain uranium property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and an exclusive and irrevocable option to acquire all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane International Limited ("Tamerlane") which controls 100% ownership of mineral properties in Mongolia through it's wholly owned subsidiary Anian Resources XXK.

On February 28, 2007, the Company made a final payment of US$150,000 and issued 700,000 shares meeting all conditions of the agreement and has acquired 100% ownership of Tamerlane. Gallant is entitled to a net smelter return royalty on certain properties ranging from 1% to 1.5%, subject to a buy-down provision.

1.03 Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December 31	**2007**	**2006**	**2005**
Revenues	$ 267	$ 250	$ -
Loss for the year	$ 6,651	$ 4,565	$ 4,981
Basic and diluted loss per share	$ 0.11	$ 0.11	$ 0.19
Total assets	$ 47,015	$ 34,181	$ 6,649
Total long-term liabilities	$ 4,367	$ 2,899	$ -
Cash dividends declared	Nil	Nil	Nil

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

1.04 Results of Operations

Three months ended June 30, 2008 and 2007

The Company had a loss of $724,571 for the three months ended June 30, 2008, net of deferred expenditures and partner contributions, as compared to a loss of $3,081,480 during the same period in 2007.

Total exploration and operating costs for the three months ended June 30, 2008, net of deferred expenditures and partner contributions, amounted to $298,200 compared to $2,032,351 during the same period in 2007. The decrease is predominantly due to Zuun Mod costs being capitalized in the current period whereas they were charged to operations the same period the prior year. The exploration season also began later in 2008 as compared to 2007, accounting for a portion of the decrease.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined that a 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 three months ended June 30, 2008 amounted to $88,946 as compared with $603,367 for the same period in 2007. In April 2007, the Company issued shares with a fair value of $529,200 as partial consideration to buyout minority partners in the Donkin Alliance and increase it's ownership to 25%, accounting for the large expense the prior year. Beginning July 1, 2007 the Company's Zuun Mod molybdenum project met the Company's criteria to begin capitalizing exploration and development costs associated with the project. For the three months ended June 30, 2008, the Company incurred $641,321 in exploration and support costs directly related to the Zuun Mod project which were capitalized (2007 – Nil). In addition to Zuun Mod, the Company capitalized $2,006,644 in costs associated with the Donkin coal project during the three months ended June 30, 2008 (2007 - $850,000). The Company wrote off $75,723 in resource properties in three months ended June 30, 2008 compared to a write off of $42,209 in the same period in 2007.

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

General and administrative expenses amounted to $498,141 in the three months ended June 30, 2008 compared to $1,246,942 in the same period in 2007 representing an decrease of $748,801. The bulk of the decrease is attributed to $869,663 in non-cash stock based compensation expensed in the second quarter of 2007 versus zero in the same quarter the current year.

Other income amounted to $71,770 in the three months ended June 30, 2008 compared with $197,813 in the same period in 2007. The decrease is partially due to the lack of lab revenue in 2008 as compared to 2007 due to an agreement with Deepstep Kaolin Company ("DKC") whereby DKC assumed operation of the Company's industrial lab in Eatonton, GA. (see section 1.14). The other main reason for the decrease in other income is lower interest revenue due to a lower average cash balance and a drop in interest rates during the quarter ended June 30, 2008.

Six months ended June 30, 2008 and 2007

The Company had a loss of $2,278,183 in the six months ended June 30, 2008, as compared to a loss of $3,334,527 during the same period last year.

Total exploration and operating expenses for the six months ended June 30, 2008 amounted to $962,595 compared to $2,475,023 during the same period in 2007. The decrease is predominantly due to Zuun Mod costs being capitalized in the current period whereas they were charged to operations the same period the prior year. The exploration season also began later in 2008 as compared to 2007, accounting for a portion of the decrease.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined that a 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 six months ended June 30, 2008 amounted to $94,490 as compared with $1,216,137 for the same period in 2007. The 2007 additions include $574,000 in non cash consideration made as part of the Gallant Agreement (see section 1.02) and $529,200 in non cash consideration paid to increase the Company's ownership in the Donkin Coal Alliance (see section 1.02). Beginning July 1, 2007 the Company's

Zuun Mod molybdenum project met the Company's criteria to begin capitalizing exploration and development costs associated with the project. For the six months ended Jun 30, 2008, the Company incurred $1,027,901 in exploration and support costs directly related to the Zuun Mod project which were capitalized (2007 – Nil). In addition to Zuun Mod, the Company capitalized $3,156,644 in costs associated with the Donkin coal project during the six months ended June 30, 2008 (2007 - $2,650,000). The Company wrote off $75,723 in resource properties in six months ended June 30, 2008 compared to a write off of $109,025 in the same period the prior year.

General and administrative expenses for the six months ended June 30 2008 were $1,467,240 compared to $1,611,822 for the same period in 2007. The variance is mainly due to a decrease of $405,188 in non-cash stock based incentives, partially offset by increases in administrative, investor relations, regulatory and professional fees.

Other income for the six months ended June 30, 2008 amounted to $151,652 compared with $752,318 in 2007. The decrease from 2007 was a result of a one time gain on the sale of marketable securities in 2007, higher interest income in 2007, and lab revenue recognized in the prior year. These decreases were partially offset by drop other expenses which includes an accrual for Part XII.6 tax on unspent flow through funds. The average balance of flow through funds held in the first six months of 2007 was higher than 2008, hence a higher tax accrual in the prior year.

1.05 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2008		Fiscal 2007				Fiscal 2006	
	Q2 Jun-08	Q1 Mar-08	Q4 Dec-07	Q3 Sep-07	Q2 Jun-07	Q1 Mar-07	Q4 Dec-06	Q3 Sep-06
Revenue	$0	$0	$98	$62	$74	$33	($205)	$301
Loss	$724	$1,554	$2,118	$986	$3,081	$253	$1,199	$1,504
Basic and diluted loss per share	$0.01	$0.02	$0.03	$0.02	$0.05	$0.01	$0.03	$0.03
Total Assets	$61,870	$45,077	$47,015	$42,973	$43,623	$34,245	$34,177	$39,170

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

1.06 Liquidity and Capital Resources

The Company had working capital at June 30, 2008 of $22,552,888 representing an increase of $14,258,362 from the December 31, 2007 working capital position of $7,901,350. The increase in working capital is primarily due to a June 19, 2008 financing whereby the Company issued 18,586,000 shares at $1.00 per share. Net of issue costs, proceeds of the financing amounted to $17,349,996. During the six months ended June 30, 2008 the Company received $248,713 on the exercise of warrants and options. These inflows were partially offset by costs associated with the normal operations of the company in carrying out its exploration program and general and administrative costs in support of the program.

Current working capital is sufficient to fund the company's remaining 2008 budgeted expenditures and meet its property and contractual obligations for the next 24 months. The timing for additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration program and decisions based on results from ongoing studies for the Donkin coal project scheduled for release later in 2008.

During the six months ended June 30, 2008, $94,490 was expended on additions to resource property interests offset by a write down of $75,723, compared to additions of $1,216,137 in the same period in 2007, offset by a write down of $109,025. The Company deferred expenditures totalling $4,184,545 in the first six months of 2008 compared to $2,650,000 in the same period in 2007.

During the first half of 2008, the Company expended $13,292 on capital assets compared to $22,969 during the same period in 2007.

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

1.07 Contractual Obligations

As of June 30, 2008 the Company is committed to the following obligations:

- The Company has entered into an operating lease for office space until August 31, 2011 representing total payments of $188,974 to the end of the lease. The Company has the right to terminate the lease by giving notice prior to the annual anniversary date.

1.08 Off-Balance Sheet Arrangements

As at June 30, 2008, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

1.10 Critical Accounting Estimates

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

The acquisition cost of resource properties are recorded as an asset on the balance sheet under the caption resource property interests until such time as the related property(ies) commence commercial production at which time it will be depleted against related mine revenue from the property(ies) or when the Company determines the carrying value of a property cannot be recovered, in which case the carrying value will be written off or down to its recoverable value. Since the Company charges all exploration costs to operations when incurred, with the exception of expenditures related to the Donkin coal project and the Zuun Mod molybdenum project, and ultimately to deficit, until potential for an economically recoverable resource has been identified, management feels confident that the recoverable value of its resource properties equals or exceeds its carrying value of $31,379,850 on the Company's balance sheet at June 30, 2008.

Stock-based compensation is calculated using the Black-Scholes model, a recognized option/warrant valuation formula, which is highly dependent on the expected volatility of the market price of the Company's common shares. The Company use an expected volatility rate of 105% in 2008 (90% in 2007). This is an estimate only based on using past share trading data to predict future volatility and actual volatility may be different from the estimate used in the valuation formula. Although the actual cost of stock-based compensation can vary materially from the estimated cost recorded in the Company's financial statements, it represents a non-cash expense and, as such, has no impact on the Company's financial position or liquidity. The $794,418 the Company determined in the first six months of 2008 as stock-based compensation was charged as follows: $464,475 to general and administrative expenses and $329,943 to geological services. This compared to a 2007 total of $1,492,336 which was charged as $869,663 to general and administrative expenses and $622,673 to geological services.

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

1.11 Changes in Accounting Policies

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

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure will be required for the Company once the new standard becomes effective.

Section 3862 and 3863 will replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by the Company and the disclosure already in place, it is not expected that the revised section will have any impact on the financial statements.

Except as noted above, the accounting policies applied in the preparation of the June 30, 2008 unaudited consolidated financial statements did not differ from those applied in the preparation of the December 31, 2007 audited financial statements. A detailed summary of the Company's accounting policies and any estimates derived therefrom is described in Note 1 of the December 31, 2007 audited consolidated financial statements.

1.12 Financial Instruments and Other Risks

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

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

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

1.13 Outstanding Share Data

See Note 5 to the June 30, 2008 unaudited interim consolidated financial statements for detail as to the change in the issued and outstanding common shares, warrants and options of the Company during the three and six months ended June 30, 2008.

Issued and Outstanding Share Capital

During the six months ended June 30, 2008, the Company issued a total of 19,029,938 shares as follows:

- On June19, 2008 the Company completed a private placement of 18,586,000 shares at a price of $1.00 per share. Toll Cross Inc. and National Bank Financial Inc. were co-lead agents in the offering on behalf of a syndicate that included Acadian Securities Inc., Beacon Securities Limited and Citadel Securities Inc. All the shares in connection with the offering are subject to a four month hold period for the date of issue.
- 443,938 shares were issued on the exercise of warrants and options.

Warrants

During the six months ended June 30, 2008, 329,938 warrants were exercised at an average price of $0.597 per share for gross proceeds of $197,113 and 430,000 warrants expired.

Stock Options

During the six months ended June 30, 2008, 1,095,000 options were granted to certain directors, employees and contractors of the Company, 114,000 options were exercised at an average price of $0.4526 per share for gross proceeds of $51,600, and 275,000 options expired or were cancelled.

1.14 Exploration Results

During the second quarter of 2008 the Company announced a National Instrument 43-101 ("NI 43-101") compliant resource estimate for the Zuun Mod molybdenum project in Mongolia. The Zuun Mod molybdenum deposit has a Measured and Indicated Resource of 467 million metric tonnes ("Mt") at an average grade of 0.044% molybdenum ("Mo"), at a cut off grade ("cog") of 0.03% Mo equating to 453 million pounds (Mlbs) of contained Mo metal. In addition, there are 141 Mt of Inferred Resources at an average grade of 0.039% Mo equating to a further 121 Mlbs of contained Mo metal. The Mineral Resource starts within 18 metres of surface and the mineralization remains open at depth. The resource estimate was prepared by Bill Knox of Minarco MineConsult ("Minarco") of Sydney Australia, a qualified person as defined by NI 43-101. In the second quarter, Erdene commenced the 2008 drilling program at Zuun Mod which consists of additional resource delineation drilling as well as exploration drilling designed to test a number of prospective molybdenum and copper target identified outside the area of the main deposit.

In North America during the quarter, Erdene announced that having completed an evaluation of further studies on the Donkin coal project, the Donkin Coal Alliance commited to funding a feasibility study of an Evaluation and Development Program ("Program") at the Donkin project in Nova Scotia, Canada. The Program, utilising a continuous miner, is an interim step in the development path leading towards establishing a large scale underground longwall mining operation. It is anticipated that the feasibility study of the Program will be completed before the end of 2008.

Mongolia

Zuun Mod Molybdenum Project

The Zuun Mod project is a porphyry molybdenum-copper-rhenium deposit located in Bayankhongor Province approximately 950km southwest of Ulaanbaatar and 215km from railhead on the Mongolia-China border at Ceke. The railhead is located 20km south of Mongolia's Nariin Sukhait coal mine. The Zuun Mod property consists of a single license totaling 49,538 hectares. The licenses are registered in the name of Anian Resources XXK a wholly owned subsidiary of the Company. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

The Zuun Mod project has been under exploration and evaluation since 2002. Subsequent to signing an agreement with Gallant Minerals Limited in March 2005 to acquire the license, the Company carried out extensive exploration. A phased resource delineation drilling program was carried out in 2007 and has resulted in the discovery of three areas with potentially economic concentrations of molybdenum, with associated copper and rhenium mineralization. The Racetrack South ("RTS") and Racetrack North ("RTN") zones are the largest and each is approximately 1.1 km long by 400 to 600m wide. These two zones are only 300m apart, separated by what has been interpreted as a late stage intrusion. Resource delineation drilling shows that these areas are underlain by thick zones (averaging 185m and 151m, respectively) of molybdenum mineralization (averaging approximately 0.05% Mo, including multiple higher grade intervals). The third zone (Stockwork) is located 600m south of the RTS zone, is approximately 500m long by 300m wide.

Erdene retained the services of Minarco to carry out a NI 43-101 compliant independent resource estimate for the Zuun Mod molybdenum project. On May 28, 2008, the Company announced that they had received the resource estimate from Minarco and the Zuun Mod molybdenum deposit has a Measured and Indicated Resource of 467 million metric tonnes ("Mt") at an average grade of 0.044% molybdenum ("Mo"), at a cut off grade ("cog") of 0.03% Mo equating to 453 million pounds (Mlbs) of contained Mo metal. In addition, there are 141 Mt of Inferred Resources at an average grade of 0.039% Mo equating to a further 121 Mlbs of contained Mo metal. The Mineral Resource starts within 18 metres of surface and the mineralization remains open at depth.

Miinarco completed a Technical Report, as an independent technical review of the geological model, methodologies and the resource estimate for the Zuun Mod project consistent with NI 43-101, Standards of Disclosure for Mineral Projects. This report is available under the Company's profile on SEDAR.

The Company has also retained the services of Minarco to complete an independent preliminary assessment of the Zuun Mod project. This study is currently underway. It is anticipated that a pre-feasibility study will commence on receipt of the preliminary assessment, leading to the identification of the best plan for development of the Zuun Mod molybdenum project.

In the second quarter, Erdene commenced the 2008 drilling program at Zuun Mod which consists of additional resource delineation drilling designed to test the mineralization at depth and in areas where mineralization remains open along strike. In addition, exploration drilling will be carried out designed to test a number of prospective molybdenum and copper target identified outside the area of the main deposit. In late 2007, a detailed surface exploration geochemical (rock and soil) and geophysical (gradient Induced Polarization and Dipole) program was carried out across the entire Zuun Mod porphyry complex. This detailed surface program was expanded in the second quarter to cover an area of approximately 40 square kilometres surrounding the main Zuun Mod deposit. The 2007 program identified broad zones of anomalous molybdenum and copper mineralization in addition to precious metal targets as described below.

West Corridor Target

The West Corridor target lies on the western side of the Zuun Mod porphyry complex and is a 3km long zone that includes zones of argillic and silica altered granodiorite with local massive quartz stockworks, with significant copper, molybdenum and gold in soil anomalies coincident with a well defined high induced polarization and dipole-dipole chargeability anomalies.

Racetrack North Zone (east side)

Limited drilling has taken place in the eastern and northeastern area of the Racetrack North Zone. Recent surface geochemical results identify this as a high probability target for the discovery of near surface higher grade molybdenum mineralization. An intense soil geochemical anomaly identified throughout this area remains open to the east.

Copper Target

In the northern portion of Zuun Mod porphyry complex, two previously drilled holes intersected broad copper zones averaged 0.11% to 0.15% Cu over 135 metres and 160 metres respectively, and included higher grade zones exceeding 0.3% Cu over 10 metres. These holes are located on the periphery and were angled away from a newly identified strong surface copper geochemical anomaly. This anomaly measures approximately 1.0 by 1.7 kilometres and averages 246 ppm copper in soil with values up to 3040 ppm Cu. This newly defined copper anomaly, which remains open to the north, represents a significant new target for the identification of additional mineralized zones within the Zuun Mod porphyry complex.

Drilling is currently underway to test these and any newly identified geochemical and geophysical targets identified within the Zuun Mod porphyry complex.

Energy Project – Coal

The Company is involved in a comprehensive coal generative program in cooperation with Xstrata Coal Canada Limited (“Xstrata”) evaluating numerous prospective metallurgical and high quality thermal coal deposits throughout Mongolia. The Company’s technical staff has compiled an extensive database on coal deposits, occurrences and prospective sedimentary basins allowing for a prioritization of targets. All the Company’s coal exploration in Mongolia is being fully funded by Xstrata (see section 1.02 “Strategic Alliance with Xstrata Coal Canada Limited”) and is being carried out in consultation with Xstrata personnel.

One of the priority targets identified to date is the Galshar coal property located 300km southeast of Ulaanbaatar, 63km from the nearest rail link and 250km from the Mongolia-China border. Three exploration licenses totaling 37,824 hectares make up the Galshar coal property. The licenses are 100% owned by the Corporation and are registered in the name of the Erdene Mongol XXK, a wholly owned subsidiary.

The 2007 drill program was successful in expanding the coal resource to the west and constraining the deposit structure and continuity to the east, north and northeast of drill hole CDD-01. A total of five diamond drill holes and three poly-crystaline diamond (PCD} holes, extending over a 1.8km^2 area, intersected a 12.8 to 15.3m thick, homogenous coal seam. Visual coal quality field determinations, together with down-hole geophysics, indicate similar coal quality to that of hole CDD-01. The average thickness and depth of the coal seam within this 1.8km^2 area is 15m and 90m, respectively.

In the second quarter 2008, the Company continued with a property evaluation and acquisition program designed to identify and secure access to additional exploration licenses in Mongolia with the potential to host large tonnage thermal and metallurgical coal resources. This program is expected to continue throughout the year. Field work is being carried out as part of the property evaluation process and exploration work will be carried out on acquired projects.

North American Projects

The Company’s North American project portfolio includes a 25% interest in the Donkin coal project as well as two notable industrial mineral projects in Georgia, USA (see section 1.02). The industrial mineral opportunities include the Sparta kaolin project which is operated by KaMin LLC (formed by IMin Partners who purchased the kaolin business unit of Huber Engineered Materials) and the Granite Hill Aggregate project, a royalty project managed by Ready Mix USA (successor to Rinker Materials).

Subsequent to the end of the quarter, the Company announced on July 17 that it entered into a binding letter agreement (the "Agreement") with Beta Minerals Inc. ("Beta") (TSXV:BMI) and Deepstep Kaolin Company LLC ("Deepstep") whereby Erdene will exchange all of the outstanding common shares of its wholly owned US subsidiary, Erdene Materials Corporation ("EMC"), for common shares of Beta (the "Transaction"), giving Erdene a controlling interest in Beta. EMC currently holds all of the Company's kaolin and aggregate assets in Georgia. However, prior to the Transaction, EMC will transfer all of its "non-clay assets", consisting primarily of its construction aggregate assets, to another company owned by Erdene (see Subsequent Event note 13 to the undaudited interim consolidated June 30, 2008 financial statements)

Donkin Coal Project

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

In April 2007, the DCA received an independent technical report on the Donkin Coal resource from McElroy Bryan Geological Services Pty Ltd ("MBGS"). The report included a compilation of all historical information on the Donkin coal project and an updated model of the deposit. The report identified an indicated resource of 227Mt (million metric tons) and an inferred resource of 254Mt of "High Volatile A Bituminous Coal" within the confines of the Donkin coal resource block.

The DCA announced in August 2007 that an internal evaluation for the Donkin coal project had been completed and approval given to advance the project towards the feasibility stage. A number of options, focused mainly on mining and transportation variables, were evaluated involving production of up to 5.3 million tonnes per annum ("Mtpa") of high energy, high sulphur thermal coal for the local and export markets. The DCA also announced that Norwest Corporation ("Norwest"), an independent engineering firm based in Calgary, Alberta, had been contracted to provide an independent preliminary assessment on the Donkin project.

In November 2007, the DCA received a positive independent preliminary assessment study ("PAS") into the business case for a continuous miner development and longwall extraction coal mine at Donkin from Norwest. In the Norwest PAS the proposed mine plan utilizes a longwall face mining system and three continuous miner sections to develop the longwall panels. The capital budget required to bring the mine to longwall production was $313M and includes a 10% contingency as to supply costs while labour costs have had a 15% contingency applied. The proposed mine has a projected life of 30-plus years, over which time it is expected that approximately 108 million tonnes of run-of-mine coal would be produced. The initial target market for this product was assumed to be domestic and export thermal coal power generation. Total cash costs for coal production, transportation to the port and loading into the ocean-going vessels, and royalties, are estimated to be $23.13/tonne under these assumptions. Under base case assumptions, the project provides a net present value ("NPV") of $195 million or a 16% internal rate of return on an after tax basis. The NPV of the Company's 25% interest equated to $48.75M. Under all sensitivity extremes, the after tax NPV remains positive, indicating project potential as being relatively strong under various cost related increases or revenue decreases.

The information made available to Norwest has enabled calculations and estimates to be made to an accuracy of plus or minus 30%. Given the data available at the time the Norwest PAS was prepared, the estimates presented in the report are considered reasonable. However, they should be accepted with the understanding that additional data and analysis available subsequent to the date of the estimates may necessitate revision. These revisions may be material.

The Norwest PAS should be considered preliminary in nature based on the inclusion of inferred resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Until there is additional information to upgrade the inferred resources to the higher measured and indicated categories, there can be no certainty that the preliminary assessment will be realized. There is no guarantee that all or any part of the estimated coal resources will be recoverable.

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 in 2007. This represented a major milestone in the project's development and clears the way for direct access to the Harbour coal seam. Subsequently, a large channel sample was taken from the exposed Harbour seam coal face and sent to Australia for testing and analysis. Extensive testing of the Harbour seam via a 10,000m in-seam drilling program to determine the methane liberation rate, an important factor in ventilation systems design work was completed in the first quarter 2008. Data from these two programs is now being processed. In addition, the in-seam drilling is now complete and information collected for gas desorption rates and samples for coal quality evaluation are now being processed.

During the second quarter of 2008 Erdene announced that the Donkin Coal Alliance ("DCA"), having completed an evaluation of further studies on the Donkin coal project, has committed to funding a feasibility study of an Evaluation and Development Program ("Program") at Donkin. The Program, utilising a continuous miner, is an interim step in the development path leading towards establishing a large scale underground longwall mining operation.

The feasibility study regarding the Program is expected to be complete by the end of 2008 at a budgeted cost of $3.8 million for the period of May through December 2008. The Program will focus on gaining greater certainty of the geological, geotechnical and mining conditions of the proposed operation. Furthermore, coal extracted from the site during the Program will be marketed domestically and internationally in order to establish a customer base for future levels of forecast production. It is anticipated that during the estimated 18 month duration of the Program the DCA will be able to decide on the progression of the project into a feasibility study of the proposed large scale underground longwall mining operation, thereby maintaining a production decision timeline consistent with the preliminary assessment report.

Sparta Kaolin Project

One of the assets acquired through the plan of arrangement with Erdene Resources Inc. (formerly Kaoclay Resources Inc.) is a large primary kaolin resource in Georgia, USA. Due to an aggressive exploration and acquisition program by Kaoclay in the late 1990s, the Company now controls a large high brightness primary clay resource through its wholly owned subsidiary, Erdene Materials Corporation (formerly Sparta Kaolin Corporation). The Company's in-ground, "premium" quality, primary kaolin resource in Georgia amounts to 21.9 million tons. For the project's development stage, Erdene Resources Inc. partnered with industry leader Huber

Engineered Materials (Huber), a subsidiary of J.M. Huber Corporation, a diversified multi-national company and one of the world's largest kaolin producers. In the first quarter 2008, the kaolin business of Huber Engineered Materials was purchased by IMin Partners who formed KaMin LLC (KaMin) to operate the kaolin business.

In October 2003, Erdene Resources Inc. entered into an agreement with KaMin to receive payment for prepaid royalties of crude kaolin. KaMin conducted a due diligence evaluation program of the Sparta kaolin resource and performed an extensive product development program. This led to the successful commercialization of a light-weight coater product, in late 2004. Commercial production by KaMin from the Company's primary kaolin deposits began in 2005 under the product name HuberPrime™, a high quality light-weight coater product.

At the end of October 2007, Erdene Materials Corporation announced that it had entered into an Option Agreement with Deepstep Kaolin Company LLC ("DKC"), of Georgia, USA. The purpose of the agreement is to jointly develop a new product line for the Company's primary kaolin resources. The greatest demand for kaolin-based pigments comes from the paper industry but it is also used in paints, plastic, rubber and ceramics where it provides brightness, colour and particle shape properties. The initial focus of the venture with DKC will be the production and sale of kaolin products to the ceramic industry.

The Company and DKC have been working with manufacturers over the past 24 months testing various raw material sources in different ceramic and glazing clay applications. The relationship with DKC is now in a trial production period during which the Company will contribute the raw material and the product manufacturing facility and DKC will cover the necessary capital and operating costs. Following the Phase I development program, estimated to take eight months, if DKC decides to take the project to production the Company will have the option of directly participating in the ownership of up to 49% of the production company and will be paid a royalty for any of the Company's kaolin mined for the development of these products.

Subsequent to the end of the quarter, the Company announced on July 17 that it entered into a binding letter agreement (the "Agreement") with Beta Minerals Inc. ("Beta") (TSXV:BMI) and Deepstep Kaolin Company LLC ("Deepstep") whereby the Company will exchange all of the outstanding common shares of its wholly owned US subsidiary, Erdene Materials Corporation ("EMC"), for common shares of Beta (the "Transaction"), giving the Company a controlling interest in Beta. EMC currently holds all of the Company's kaolin and aggregate assets in Georgia. However, prior to the Transaction, EMC will transfer all of its "non-clay assets", consisting primarily of its construction aggregate assets, to a newly incorporated wholly owned subsidiary of the Company (see Subsequent Event note 13 to the undaudited interim consolidated June 30, 2008 financial statements)

Granite Hill Project

In 2001 Rinker Materials Corporation ("Rinker"), was granted an exclusive right by the Company via a lease agreement to mine, process, and sell aggregate from the Company's Granite Hill property in Georgia. In August 2007 Rinker was acquired by Cemex S.A.B. de C.V. ("Cemex"), a leading worldwide producer of cement, ready-mix concrete and aggregates. Cemex later transferred its rights under the lease to a subsidiary, Ready Mix USA, LLC ("RMU") which has assumed Rinker's position as lessee. The sale of all aggregate is subject to an industry competitive royalty payable to the Company. The Granite Hill project is in the final stage of issuance of Federal, State and local operating permits to enable development as a granite quarry, primarily to serve the southeastern US markets by rail. Granite Hill has an estimated start-up production rate of one million tonnes of granite aggregate per year with a proposed design capacity of four million tonnes. Based on current production projections, the Granite Hill quarry would have a lifespan of at least 20 years.

RMU has designed a quarry mining plan, processing plant and facilities, and produced an environmental impact plan. RMU has also acquired additional land adjacent to the Granite Hill property to secure rail access to the site. Mine permitting work is ongoing and has entered the final Federal and State approval stages with no impediments to approval anticipated. Receipt by RMU of all required operating permits is expected in 2008. The construction phase is expected to be completed nine to twelve months following a production decision by RMU. RMU is responsible for fully funding the development and operating program.

1.15 Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2008, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Multilateral Instrument would have been known to them.

1.16 Outlook

The Company continues to be optimistic about the potential demonstrated by its two advanced stage projects, the Zuun Mod molybdenum and Donkin coal projects. A National Instrument 43-101 compliant resource estimate for Zuun Mod was completed and released during the second quarter of 2008. A Preliminary Assessment Report is expected before the end of 2008. At Donkin, a continuous miner evaluation and development program feasibility decision is expected before the end of 2008. Positive results from the reports for the Zuun Mod and Donkin projects and success from the efforts of the Company's past and future exploration programs on any of its properties will result in an expanded program on the relevant property or properties relative to the significance of the results. Conversely, if anticipated results are not forthcoming on a particular property, a disciplined review and evaluation program will be in place to ensure expenditures are scaled back where management feels they may not be warranted.

1.17 Qualified Person

J. Christopher Cowan, P.Eng., serves as the qualified person under National Instrument 43-101 and supervises all of the Company's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS

Laboratory, Central Geological Laboratory and ALS Chemex, the Company incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

1.18 Other Information

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