



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Second quarter – June 30, 2011

This Management Discussion and Analysis ("MD&A"), dated August 8, 2011, 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, 2010, unaudited condensed interim consolidated financial statements for the period ended June 30, 2011, and notes thereto.

The following discussion and analysis includes consolidated financial information relating to the following subsidiaries which are wholly owned unless stated otherwise: Erdene Gold International Inc. and Erdene International Exploration Inc., both incorporated under the laws of Barbados; Tamerlane International Limited incorporated under the laws of Bermuda; Advanced Primary Minerals Corporation ("APM") (60%), Erdene Resources Inc., and 6531954 Canada Limited, incorporated under the laws of Canada; Advanced Primary Minerals USA Corp ("APMUSA") (60%) and ERD Aggregate Corporation, both incorporated under the laws of Delaware as well as Erdene Mongol XXK and Anian Resources XXK, incorporated under the laws of Mongolia.

The consolidated financial statements of the Corporation have been prepared by management, in Canadian dollars, in accordance with 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

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

The Corporation's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits in Mongolia; and the development of its coal and industrial mineral interests in North America.

Donkin Coal Project – Nova Scotia, Canada

During the second quarter of 2011, the Corporation announced, on behalf of the Donkin Joint Venture ("DJV"), the receipt of a National Instrument 43-101 compliant Technical Report for the Donkin Coal Project prepared by Marston & Marston, Inc. of St. Louis, Missouri. The report presents the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Xstrata and the reserves defined by the PFS. The Report assesses the viability of a multiple continuous miner ("CM") underground operation, producing approximately 3.5 million tonnes per year ("Mtpa") Run of Mine ("ROM") coal that would be subsequently washed to provide 2.75 Mtpa of coal with a product split of approximately 75% coking coal and 25% thermal coal. The coal is suitable for the international export coking and thermal coal markets and domestic thermal coal markets. The report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concludes that Donkin has a \$1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately \$500 million and demonstrates the potential for first quartile operating costs.

Zuun Mod Molybdenum-Copper Project – Mongolia

During the second quarter of 2011, the Corporation announced the receipt of an updated resource estimate for the Zuun Mod project by independent technical consultants Minarco MineConsult. Their revised resource estimate included an increase in the Measured and Indicated resources by 38 million tonnes as well as an increase in the average grade.

Also during the second quarter, the Corporation was granted a 30-year Mining License for the Zuun Mod project by the Mongolian Government. The Zuun Mod Mining License covers an area of 6,041 hectares and contains the South Racetrack and North Racetrack deposits, which hosts all of the Measured and Indicated resources at Zuun Mod. The Mining License also contains the Khuvyn Khar copper prospect. Approval of an application for a second contiguous Mining License, south of the approved Mining License, is pending. This license application covers 358 hectares and contains the Stockwork deposit which hosts 17.8 percent of the Inferred resource at Zuun Mod.

Other – Mongolia

During the second quarter the Corporation carried out follow-up exploration drilling on the Khuvyn Khar copper prospect, located on the Zuun Mod property, 2.2 km to the northwest of the main deposit. This prospect was indentified in late 2010 by an exploratory drill hole (ZMD-121) that returned an average grade of 1.3% copper and 9.24 g/t silver over 34m, from 308m to 342m. The follow-up drilling program carried out in the second quarter was successful in defining a very large copper mineralized zone trending over 900m with multiple zones in three drill holes in excess of 0.2% copper. This zone remains untested to the south where it trends under cover.

Drilling was also initiated on the Nomin copper-gold project in south-western Mongolia. A six-hole drilling program, designed to test geophysical and geological targets, was successful in identifying narrow, steeply dipping, parallel zones of high-grade gold, silver and copper bearing massive sulphide. This mineralization occurs along a north-south strike length of approximately 150m and to a vertical depth between 30m to 60m below previously identified ancient workings.

Kaolin Clay Operations – Georgia, USA

The Corporation, through its controlled subsidiary APM, operates a kaolin processing plant in Dearing, Georgia, USA. APM is near the end of the second year of a three year business plan

with the aim of building commitments for a line of primary kaolin products that are budgeted to begin generating positive cash flows in late 2011. The Company is still hopeful of meeting this goal, although to date, despite encouraging results from product trials, due to the slowdown in the US economy, securing new customers has been slower than initially forecast resulting in sales levels that are below the targeted budget. APM continues to seek additional market commitments for its specialty primary kaolin products with numerous product trials to target customers ongoing and through sales growth within its current customer base.

Aggregate – Georgia, USA

Aggregates USA (Sparta), LLC ("AUSA"), continued development work on the Granite Hill aggregate quarry after making a production decision in 2010. The Granite Hill property is under long term lease to AUSA and the Corporation earns a royalty on sales. During the second quarter, site preparation continued with installation of plant equipment and construction of a railway underpass to link the property to the existing rail-line.

Discussion of Operations

Three months ended June 30, 2011 and 2010

The Corporation recognized revenue of \$232,950 in the second quarter of 2011, compared to \$112,204 in the second quarter of 2010. The kaolin operations in Georgia, USA generated revenue of \$179,519 in the second quarter of 2011 compared to \$108,547 for the same period the prior year. The increase is due to higher sales to existing customers as well as securing new customers for the Corporation's primary kaolin products.

Cost of sales has increased only marginally even as kaolin output has increased. Although most of the variable costs associated with the operations (such as repairs and maintenance, gas, electric, and depletion) have increased over 2010, these were almost entirely offset by the savings generated by the Corporation eliminating unnecessary costs.

Total exploration expenses for the three months ended June 30, 2011, net of deferred expenditures and partner contributions, amounted to \$996,566 compared to \$567,094 for the same period in 2010. As mentioned elsewhere, the Corporation carried out exploration drilling at its Khuvyn Khar and Nomin projects in Mongolia during the second quarter of 2011 accounting for most of the increase over the prior year.

Corporate & administrative expenses amounted to \$778,147 for the three months ended June 30, 2011 compared to \$752,850 for the same period in 2010. Direct corporate & administrative costs increased by \$149,734 over the prior year as a result of higher salaries, investor relations, and travel costs.

The net loss for the three months ended June 30, 2011 was \$1,876,582 compared to a loss of \$1,508,585 for the same period in 2010.

Six months ended June 30, 2011 and 2010

The Corporation recognized revenue of \$473,338 for the six months ended June 30, 2011, compared to \$241,285 for the same period in 2010. The kaolin operations in Georgia, USA generated revenue of \$374,787 in first six months of 2011 compared to \$218,122 for the same period in 2010. The increase is due to higher sales to existing customers as well as securing new customers for the Corporation's primary kaolin products.

Cost of sales in the first six months decreased compared to the prior year. \$94,800 of the decrease is due to share based payments recognized in the prior year while no share based payments were charged to cost of sales in 2011. Although most of the variable costs associated with the operations in Georgia (such as repairs and maintenance, gas, electric, and depletion) have increased over 2010, these were more than offset by the savings generated by the Corporation rationalizing its operations and eliminating unnecessary costs.

Total exploration expenses for the six months ended June 30, 2011, net of deferred expenditures and partner contributions, amounted to \$1,878,542 compared to \$806,489 for the same period in 2010. \$336,842 of the increase is non-cash share based payments. The majority of the increase is due to exploration and drilling carried out on the company's Khuvyn Khar and Nomin projects in the second quarter of 2011.

Corporate & administrative expenses amounted to \$4,531,996 for the six months ended June 30, 2011 compared to \$1,121,625 for the same period in 2010. \$2,885,345 of the increase is due to higher non-cash stock based compensation. Direct corporate & administrative costs increased by \$257,060 over the prior year as a result of higher salaries, investor relations and travel costs.

The net loss for the six months ended June 30, 2011 was \$6,596,122 compared to a loss of \$2,524,765 for the same period in 2010.

As long as exploration results justify and allow further equity financing, losses will continue and will vary with the extent of exploration activity until such time as economically recoverable resources are identified that warrant development to generate sustainable positive cash flows.

The exploration and development of natural resources is a highly speculative activity that involves a high degree of financial risk. These risks should be taken into account in assessing the Corporation's activities. The Corporation has minimal sources of income other than royalty payments from its Granite Hill project, which is early stage, and kaolin clay sales from its operations in Georgia. The Corporation is therefore dependent on the issuance of share capital to finance its exploration and development programs. The Corporation can give no assurances it will be able to obtain the additional financing required to proceed with planned developments. Some of the factors that will have an impact on the Corporation's planned developments and its ability to raise the required financing are: commodity prices, geological results, transportation costs, foreign currency exchange rates, capital expenditures, environmental rehabilitation, revenues and taxes.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2011		Fiscal 2010				Fiscal 2009	
	Q2 Jun-11	Q1 Mar-11	Q4 Dec-10	Q3 Sep-10	Q2 Jun-10	Q1 Mar-10	Q4 Dec-09	Q3 Sep-09
Revenue	\$233	\$240	\$196	\$133	\$112	\$129	\$0	\$0
Loss	\$1,876	\$4,720	\$1,198	\$834	\$1,509	\$1,016	(\$541)	\$1,239
Basic and diluted loss per share	\$0.02	\$0.05	\$0.01	\$0.01	\$0.01	\$0.01	\$0.00	\$0.01
Total Assets	\$51,260	\$53,466	\$54,251	\$56,507	\$56,632	\$57,558	\$57,025	\$58,910

Certain financial data for 2009 are reported under Canadian generally accepted accounting principles and have not been adjusted for any IFRS conversion effect.

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

Liquidity and Capital Resources

The Corporation had working capital of \$4,991,718 at June 30, 2011, a decrease of \$3,334,730 from the December 31, 2010 working capital position of \$8,326,448.

During the first six months of 2011, the Corporation carried out drilling on two prospects: the Khuvyn Khar copper project and the Nomin copper-gold project. The Corporation also continued to advance its core properties and capitalized costs of \$559,728 (2010 - \$393,228) related to the Donkin project and \$450,838 (2010 - \$188,332) related to the Zuun Mod project. The Corporation also purchased \$61,504 (2010 - \$64,112) in property, plant and equipment, the largest single acquisition relating to the purchase of a vehicle to support the Corporation's exploration efforts in Mongolia.

For the six months ended June 30, 2011, the Corporation received proceeds of \$459,640 (2010 - nil) on the exercise of employee stock options.

Current working capital is sufficient to fund the Corporation's budgeted expenditures for at least the next twelve months. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration program and studies for the Donkin coal project.

The Corporation has minimal sources of income other than royalty income from its aggregate properties which are early stage, kaolin clay sales from its operations in Georgia, USA and interest earned on cash and GICs. It is therefore difficult to identify any meaningful trends or develop an analysis from the Corporation's cash flows. The Corporation 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 two advanced stage projects (being the Donkin Coal Project and Zuun Mod Molybdenum-Copper Project), exploration and development programs on its resource properties and its ability to obtain sufficient equity financing.

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2011:

Contractual Obligations	Total	Less than one year	1-3 years	4-5 years	More than 5 years
Operating leases ⁽¹⁾	210,278	62,427	130,103	17,749	-
Capital leases ⁽²⁾	313,440	4,594	308,846	-	-
Accounts payable and accrued liabilities	756,591	756,591	-	-	-
	<u>1,280,309</u>	<u>823,612</u>	<u>438,949</u>	<u>17,749</u>	<u>-</u>

- (1) The Corporation has entered into operating leases for office space and office equipment.
- (2) The Corporation, through its controlled subsidiary APMUSA, has entered into capital leases for certain assets associated with its kaolin processing operation.

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

Off-Balance Sheet Arrangements

As at June 30, 2011, 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

Share-based payments

The Company issues equity-settled share-based payments to certain employees and third parties outside the Company. Equity-settled share-based payments 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 dividend yields based on information available at the time the fair value is measured.

Identification of functional currency

The functional currency for each entity in the Group is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgment. The Group reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determine their primary economic environment.

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.

Taxation

The Company'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 expenditure, 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.

Conversion to International Financial Reporting Standards (“IFRS”)

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

IFRS is based on a conceptual framework that is similar to Canadian GAAP, however, significant differences exist in certain areas of presentation, recognition, measurement and disclosure. While the adoption of IFRS did not have a material impact on reported cash flows, it did have a material impact on the statements of financial position and statements of comprehensive loss. The impact of these differences on the January 1, 2010 opening statement of financial position, as well as the June 30, 2010 and December 31, 2010 statements of financial position have been disclosed in the condensed interim consolidated financial statements. In addition, the impact of these differences on the statements of comprehensive loss for the period ended June 30, 2010 and year ended December 31, 2010 have been disclosed in the condensed interim consolidated financial statements.

Impact of IFRS on the Statements of Financial Position, Loss and Comprehensive Loss

The following is a discussion of the accounting standards that had a significant financial statement impact on the Company’s opening statement of financial position and statements of loss and comprehensive loss.

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

IFRS 1 – First-time adoption of IFRS sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards applied are retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010.

- Business combination election – The election allows the Company to adopt IFRS 3(R) prospectively from the date of transition.
- Cumulative translation differences – The election enables the Company to deem the cumulative translation difference to be zero at the transition date.

- Arrangements containing a lease - The election allows the Company to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement
- Reassessment of lease determination – If the Company made the same determination of whether an arrangement contains a lease under Canadian GAAP (EIC-150) as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the election allows the Company to not reassess that determination for such arrangements when it adopts IFRS.

2) Presentation of expenses by function

In preparing its IFRS statement of comprehensive income for the year-ended December 31, 2010 and for the three and six months ended June 30, 2010, the Company made various reclassifications to present expenses by function rather than by nature as presented under Canadian GAAP.

3) Development assets

Under IFRS, where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a development asset in property, plant and equipment.

The Company's APM clay project was determined to be in the development stage in 2009 and has been reclassified to property, plant and equipment at January 1, 2010. The Company's Granite Hill aggregate project reached the development stage in February 2010 and is included in property, plant and equipment at June 30, 2010 and December 31, 2010.

4) Share issue costs

Under IFRS, share issue costs are recorded as a deduction against share capital. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense. Under Canadian GAAP, share issue costs were recorded through retained earnings.

5) Financial Instruments

Under IFRS, there is no special recognition requirements for related party transactions, therefore loans between related parties are subject to the requirements of IAS 39.1. The Company has a loan to a director that is required to be recognized at fair value under IAS 39. Under Canadian GAAP, this loan was measured at the exchange amount. For presentation purposes, the loan is recorded as a reduction to share capital as the loan is related to the exercise of warrants.

6) Non-controlling interest

Under Canadian GAAP, non-controlling interests in the statement of financial position are presented between liabilities and shareholders' equity. Under IFRS, non-controlling interests

in the consolidated statement of financial position are classified as equity but are presented separately from the parent shareholder's equity.

Non-controlling interest in income of subsidiaries is included in the determination of net income and other comprehensive income reported by an entity under Canadian GAAP. Under IFRS, net income and each component of other comprehensive income is attributed to the owners of the parent and to the non-controlling interests.

Amendments to IAS 27, Consolidated and Separate Financial Statements, were made in 2008 in for annual periods beginning on or after 1 July 2009. The amendment for attributing total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance are to be applied prospectively. Therefore, an entity shall not restate any profit or loss attribution for reporting periods before the amendment is applied.

7) Flow-through shares

Under Canadian GAAP, the future tax effect of renouncing qualifying exploration expenditures is recorded on the date the Company files its renunciation documents as a reduction of shareholders' equity provided there is reasonable assurance that the expenditures will be made.

Under IFRS, at the time of share issuance, the proceeds must be allocated between share capital and the obligation to deliver the tax deduction. The allocation is based on the difference between the quoted price of the Company's non-flow through shares and the amount the investor pays for the flow-through shares (given no other differences between the securities).

For expenditures that are capitalized, there is an accounting policy choice that determines the date of recognition of the deferred tax liability as follows:

- If renunciation is under general method: in the year of share issuance when expenditures are made, assuming there is an expectation of renouncing qualifying exploration expenditures. The entity records a deferred tax liability and corresponding income tax expense. The obligation is reduced and a corresponding tax reduction is recorded.
- If renunciation is under look-back method: if the expenditures are made (i.e. not upon renouncement), the entity records a deferred tax liability and a corresponding income tax expense. Also at that time, the obligation is reduced and a corresponding income tax expense reduction is recorded.

Prior to January 1, 2010, the Company had renounced qualifying expenditures on flow-through shares. As a result, share capital and accumulated deficit are both reduced for the previously unrecognized tax deduction.

8) Functional currency and foreign operations

IFRS requires that the functional currency of each entity in the consolidated Company be determined separately in accordance with IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's presentation currency is the Canadian dollar (CAD).

Under IFRS, the results and financial position of all Company entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at the average rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity.

As a result of the application of the translation rules contained in IAS 21, non-monetary assets, which includes property, plant and equipment and exploration and evaluation assets, will decrease with a corresponding adjustment to the foreign currency translation reserve.

9) Change in ownership of a subsidiary

Under IFRS, once a parent has obtained control of a subsidiary, changes in ownership interests in that subsidiary that do not affect control are accounted for as equity transactions, and, therefore, no gain or loss is recognized in the consolidated income statement. When such a change in ownership occurs, the carrying amount of the non-controlling interest is adjusted to reflect its new ownership level, and any difference between the adjustment and the fair value of the consideration paid or received is recognized in equity.

Control Activities

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any changes have been implemented. In addition, controls over the IFRS changeover process have been implemented, as necessary. Erdene has identified and implemented the required accounting process changes that resulted from the application of IFRS accounting policies and these changes were not significant. Erdene has completed the design, implementation and documentation of the internal controls over accounting process changes resulting from the application of IFRS accounting policies. Erdene applied its existing control framework to the IFRS changeover process. All accounting policy changes and transitional financial position impacts were subject to review by senior management and the Audit Committee of the Board of Directors

Information Technology and Systems

The IFRS transition project did not have a significant impact on our information systems for the convergence periods; although the Company is in the process of implementing an integrated enterprise resource planning software system.

Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. We note that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, we expect that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. We also note that the International Accounting Standards Board is currently working on an

extractive industries project, which could significantly impact our financial statements primarily in the areas of capitalization of exploration costs and disclosures. We have processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

Future changes in accounting policies

IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company 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 Company 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 and IFRS 12 Disclosure of Interests in Other Entities. The Company 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.

Financial Instruments and Other Risks

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

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

During the quarter ended March 31, 2011, Erdene issued 625,000 shares, for proceeds of \$456,640, on the exercise of incentive stock options. Subsequent to March 31, 2011, the Corporation issued an additional 10,000 shares pursuant to the exercise of incentive stock options, for proceeds of \$3,000, bringing the total issued and outstanding shares as of the date of this MD&A to 90,323,377.

Stock Options

During the quarter ended March 31, 2011, the Corporation granted 4,150,000 options, with an exercise price of \$1.26, to certain officers, directors and employees of the Corporation. During the same period, 625,000 options with a weighted average exercise price of \$0.73 were exercised and 40,000 options with a weighted average exercise price of \$1.37 expired, leaving a total of 7,528,000 options issued and outstanding at March 31, 2011. Of this balance, 7,420,000 were exercisable.

Subsequent to March 31, 2011, 10,000 options were exercised generating proceeds of \$3,000 and leaving a balance as of the date of this MD&A of 7,518,000 options issued and outstanding.

Exploration Results

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

Donkin Coal Project – North America

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

In April 2007, the DJV received a National Instrument 43-101 compliant resource report for the Donkin Coal Project from McElroy Bryan Geological Services. The report identified a 227Mt Indicated and 254Mt Inferred high volatile A-bituminous (12,000-14,000 BTUs/lb) coal. The processed Donkin coal also has many excellent coking coal properties including low ash, medium sulphur, low phosphorus, high CSN (crucible swell number) and high fluidity.

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

In February 2010, Xstrata indicated that they intend to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is initially expected to utilize four continuous miners added incrementally over the first 18 months of production. In addition, a coal wash plant would be built on site and it is proposed that coal would be shipped from the mine site using a barge to ship system or by rail to Sydney Harbour.

Throughout 2010, a number of key elements of the project have been initiated including civil construction, engineering and pre-feasibility studies, environmental assessment studies and consultation with government officials. Mining consulting firm Marston & Marston Inc ("Marston") was engaged to complete an independent NI 43-101 compliant review of the pre-feasibility study of the revised project scope. Marston is an international full-service mine consulting firm headquartered in St. Louis, Missouri with extensive experience in open pit and underground coal mines.

At the end of the second quarter, the Corporation announced the receipt of a NI 43-101 compliant technical report for the Donkin Project ("the Report"). The purpose of the Report is to present the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Xstrata and the reserves defined by the PFS. The Report assesses the viability of a multiple continuous miner ("CM") underground operation, producing approximately 3.5 million tonnes per year ("Mtpa") Run of Mine ("ROM") coal that would be subsequently washed to provide 2.75 Mtpa of product coal suitable for the international export coking and thermal coal markets and domestic thermal coal markets. The Report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concludes that Donkin has a \$1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately \$500 million and demonstrates the potential for first quartile operating costs.

The coal quality of the Harbour Seam is characterized by low ash, high energy, high vitrinite content, high fluidity, high crucible swell number ("CSN") and elevated levels of sulfur. Subject to further coal testing, approximately 75% of product coal from Donkin is targeted to be marketed as a coking coal blend into international coking coal markets with the remaining 25% expected to be marketed to domestic and international thermal coal markets.

The Report restates the coal resources for the Hub and Harbour Seams at Donkin with no change from previously reported resource estimates. The Report also classified a portion of the resources for the Hub and Harbour Seams as reserves. The Indicated Resources for the Hub and Harbour Seams are 73 million tonnes ("Mt") and 101 Mt respectively, for a total Indicated Resource of 174 Mt. Included in these resource numbers are 28 Mt and 30 Mt of Probable Reserves from the Hub and Harbour Seams, respectively, for a total of 58 Mt of Probable Reserves. The effective date for the resource and reserve estimates is May 2011. There are sufficient Reserves at Donkin for the first 20 years of mining. These form the basis of the economic analysis. No Inferred tonnages are included in the economic analysis.

Also during the quarter, a draft Project Description document was filed with Federal and Provincial regulators. This is the initial step in the Environmental Assessment ("EA") process. The document seeks approval for the 2.75 Mtpa export coking coal project. The regulators will now review and provide comment prior to the final document being approved and filed as a public document. This final document and any alterations by regulators will guide the comprehensive environmental assessment study as well as the preparation of the feasibility study and the project design.

The feasibility stage will include the initial phase of mining, referred to as the exploration phase. The intent is to deploy one CM section in the Harbour Seam one year after securing an off-take agreement for the ROM coal. The exploration phase will provide the opportunity to collect multiple Harbour Seam bulk samples for testing the coal quality, geotechnical information on the roof, floor and coal, data on structures and gas desorption and underground drilling from the Harbour Seam will allow for collection of data for all categories within the Hub Seam. The additional geological

and geotechnical information as well as the results of bulk sample testing by potential customers, will provide information necessary to finalize the mine and plant design and the ultimate production including an evaluation of the viability of using longwall mining equipment. Included in this study would be continued work on the studies, plans, permits and licenses necessary to start construction and operate the mine. The Feasibility Study is estimated to cost \$94.2 million and is forecast to be conducted over a 24-month period. The estimated cost includes tunnel rehabilitation, exploration mining along with the cost of the mining equipment and the study. The schedule for this initial development is dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the Feasibility Study and receipt of all government approvals.

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 a Mining License totaling 6,041 hectares and a pending Mining License application totaling 358 hectares. The Mining License is registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation and has 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 Minarco MineConsult (Runge Limited) (“Minarco”) to carry out an independent resource estimate for the Zuun Mod Molybdenum Project. In May 2008, the Corporation received the first NI 43-101 compliant resource report for the project from Minarco and established Zuun Mod as one of the largest and most advanced pre-development molybdenum projects in the North Asia Region.

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 Minarco 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 the first quarter 2011, the Corporation released the final results of the 2010 drilling program. These included the expansion of higher grade molybdenum and copper zones within the Racetrack deposits 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 118m (362m to 480m) of 0.106% Mo and 0.098% Cu. Overall ZMD-51 averaged 0.061% Mo and 0.072% Cu over the 432m mineralized section (68m to 500m). 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. During the second quarter, the Corporation released the new May 2011 Zuun Mod molybdenum-copper deposit NI 43-101 compliant resource estimate which has a Measured and Indicated ("M&I") resource of 218 million tonnes ("Mt") at an average grade of 0.057% molybdenum ("Mo"), and 0.069% copper ("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 Measured and Indicated 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 Measured and Indicated 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, hydro-geologic drilling to identify a source for process water, a 3D data compilation project and additional geophysical surveys. The Corporation's independent technical consultant, Minarco, carried out work on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study is ongoing and will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2011.

In 2010, the Zuun Mod molybdenum-copper deposit was officially registered by the Mongolian Minerals Resource Council, a prerequisite for applying for a mining license. During the first quarter 2011, the Corporation applied for a Mining License for Zuun Mod property and in the second quarter a Mining License was granted by the Mongolian Government. The Zuun Mod Mining License covers an area of 6,041 hectares and contains the South Racetrack and North Racetrack deposits, which hosts all of the Measured and Indicated resources at Zuun Mod. The Mining License is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. Approval of an application for a second contiguous Mining License, south of the approved Mining License, is awaiting a decision by the Government of Mongolia on the definition of the boundaries of a water protection area overlapping the license area. This license application covers 358 hectares and contains the Stockwork deposit which hosts 17.8% of the Inferred resource at Zuun Mod.

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 new Mining License.

In the first quarter, 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 308m to 342m testing a geophysical target. This drill hole is located within an area that exhibits intense alteration and

copper geochemical anomalies on surface and in previous intersections from limited drilling in the vicinity. During the second quarter 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 900m 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.

Regional Coal and Metals Exploration Programs - Mongolia

Coal Project

The Corporation is involved in a comprehensive coal generative program, in cooperation with Xstrata Coal, 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 and is being carried out in consultation with Xstrata personnel.

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

In the first half 2011, the Corporation continued its program of monitoring and evaluating opportunities to acquire new coal projects in Mongolia on behalf of the Alliance.

Metals Project – Copper-Gold-Molybdenum

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

Throughout 2010, the Corporation expanded the regional exploration program started in 2009, assessing large areas of Mongolia for their potential to host porphyry related mineral deposits. Field work for the metals exploration program focused on evaluating newly acquired exploration licenses, follow-up of anomalous results from the 2009 regional exploration program and expansion of the southwest regional porphyry evaluation program. In 2011, the Corporation continues to expand its program of regional exploration to identify areas, principally in southern Mongolia, with the potential to host porphyry related copper-gold-molybdenum mineralization.

One of the exploration licenses acquired in 2009 included the Nomin copper-gold project in southwestern Mongolia. The Nomin prospect is a new discovery; however, previously undocumented ancient workings (shallow pits) have been found on the property. Samples from these pits returned an average of 2.2% copper and 1.7g/t gold from several samples taken over a strike length of 250m. A sample from a second similar occurrence, 1.2km south-southwest of the main occurrence, returned assays of 1.6% copper and 1.15g/t gold. Geophysical surveys (magnetic and IP dipole-dipole) have been completed over the area of the mineral occurrences.

During the second quarter an exploratory drilling program was carried out on the Nomin property consisting of six diamond drill holes totaling 1,023m. Four holes, TND-02, 04, 05 and 06, were

drilled to test the down-dip extension of the mineralization within the historic workings. The holes were all drilled at -50 degrees and were spaced approximately 50m apart along a strike length of 150m. Two vertical holes were drilled to test geophysical anomalies; one adjacent to the ancient pits (TND-01) and one testing a prospect located 1.2km to the west (TND-03).

Subsequent to the end of the quarter, the Corporation announced that the drilling at Nomin identified narrow, steeply dipping, parallel zones of high-grade gold, silver and copper bearing massive sulphide along a north-south strike length of approximately 150m to a vertical depth between 30m to 60m below the ancient pits. Assay results included 2.7 g/t gold, 0.9% copper and 6 g/t silver over 6m in the northern most hole (TND-06), 0.2g/t Au, 3.2% Cu and 8g/t Ag over 3m in the most southerly hole (TND-05) and 0.7g/t Au, 1.8% Cu and 5 g/t Ag over 8m in the central part of the zone (TND-02). The intersection in TND-02 was the thickest and also the deepest at approximately 60m vertical depth.

Erdene is finalizing plans for additional drilling at Nomin including targeting the Cu-Au-Ag mineralization along strike and at depth. In addition, property-wide geochemical, detailed geological mapping and prospecting surveys are underway. The results of these surveys will be used in conjunction with previously completed magnetic and IP geophysical surveys to define additional drill targets.

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

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

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

The goal of APM is to be North America's leading specialized kaolin producer. APM's primary kaolin products meet or exceed the quality of comparable foreign imports and domestic sources. APM looks to develop its unique, high quality primary clay deposits to focus on small to moderate-volume opportunities with high-margin specialty products. Proximity to domestic markets and elimination of foreign exchange risk add a strong competitive advantage over comparable foreign imports. Kaolin is used in the manufacture of value-added products for the ceramics, paint, paper, coatings and catalytic industries as well as specialty applications.

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

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

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

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

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

In the second half of 2010, construction work at the Granite Hill was started and included clearing of the property where the quarry and processing plant will be located. Phase I plant equipment, including primary and secondary crushers, conveyors and stalkers were delivered and installed to enable crushing of aggregate for construction of roads and rail bed.

During the first half of 2011, installation of plant equipment continued and construction was well underway on the railway underpass on Highway 16 to link the property to the existing rail-line. Mine development is now well advanced with commercial production forecast to commence in late 2011.

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

Disclosure Controls and Internal Controls over Financial Reporting

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at June 30, 2011 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Financial Officer, the Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Outlook

The Corporation has the working capital necessary to meet its budgeted expenditures for at least the next twelve months and remains optimistic about the potential demonstrated by its core projects: The Donkin Coal Project and Zuun Mod Molybdenum Project.

Donkin

During the second quarter of 2011, the Corporation received a National Instrument 43-101 compliant Technical Report for the Donkin Coal Project prepared by Marston & Marston, Inc. of St. Louis, Missouri. The report presents the results of the PFS on the Donkin Export Coking Coal Project prepared by Xstrata and the reserves defined by the PFS. The report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concludes that Donkin has a \$1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately \$500 million and demonstrates the potential for first quartile operating costs.

A full feasibility study is estimated to cost \$94.2 million and is forecast to be conducted over a 24-month period. The estimated cost includes tunnel rehabilitation, exploration mining along with the cost of the mining equipment and the study. The schedule for this initial development is dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the Feasibility Study and receipt of all government approvals.

Zuun Mod

On June 2, 2011, the Corporation released the results of a new NI 43-101 compliant report by independent technical consultants, Minarco MineConsult. The report included an increase in the Measured and Indicated resources by 38 million tonnes as well as an increase in the average grade.

In 2011, Erdene will be carrying out additional technical and economic studies, components of an overall project economic evaluation study.

Qualified Person

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

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

Three and six months ended June 30, 2011 and 2010

(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 condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at June 30, 2011 and December 31, 2010, the condensed interim consolidated statements of income and comprehensive income for the three and six months ended June 30, 2011 and 2010, the condensed interim consolidated statement of changes in equity as at June 30, 2011 and 2010, and the condensed interim consolidated statements cash flows for the six months ended June 30, 2011 and 2010. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2011 and 2010 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

(Unaudited – Canadian dollars)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,734,082	\$ 8,379,230
Trade and other receivables	898,426	800,221
Inventory	23,429	-
Prepaid expenses	96,966	69,837
	<u>5,752,903</u>	<u>9,249,288</u>
Non-current assets:		
Exploration & evaluation assets	31,775,887	30,882,674
Property, plant & equipment	8,731,236	9,118,646
Goodwill	5,000,000	5,000,000
	<u>45,507,123</u>	<u>45,001,320</u>
TOTAL ASSETS	\$ 51,260,026	\$ 54,250,608
LIABILITIES & EQUITY		
Current liabilities:		
Trade and other payables	\$ 756,591	\$ 918,252
Current portion of obligations under finance leases	4,594	4,588
	<u>761,185</u>	<u>922,840</u>
Non-current liabilities:		
Obligations under finance leases	308,846	320,160
Deferred tax liability	4,916,034	4,916,034
	<u>5,224,880</u>	<u>5,236,194</u>
TOTAL LIABILITIES	\$ 5,986,065	\$ 6,159,034
EQUITY		
Shareholders' equity:		
Share capital	\$ 73,115,598	\$ 72,325,969
Contributed surplus	10,432,947	7,012,557
Cumulative translation account	(353,488)	22,671
Deficit	(37,441,237)	(31,012,681)
	<u>45,753,820</u>	<u>48,348,516</u>
Non-controlling interests	(479,859)	(256,942)
TOTAL EQUITY	\$ 45,273,961	\$ 48,091,574
TOTAL LIABILITIES AND EQUITY	\$ 51,260,026	\$ 54,250,608

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Income

(Unaudited – Canadian dollars)

	Notes	Three months ended		Six months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenue		\$ 232,950	\$ 112,204	\$ 473,338	\$ 241,285
Cost of sales	6	310,269	306,907	624,532	731,227
		(77,319)	(194,703)	(151,194)	(489,942)
Exploration expenses	7	996,566	567,094	1,878,542	806,489
Corporate & administration	8	778,147	752,850	4,531,996	1,386,112
Other expenses		9,972	5,300	9,972	35,053
Foreign exchange loss (gain)		6,098	(3,261)	30,385	9,133
Loss from operating activities		(1,868,102)	(1,516,686)	(6,602,089)	(2,726,729)
Finance income		16,517	16,867	39,279	219,811
Finance expense		(8,101)	(8,766)	(16,416)	(17,847)
Net finance income		8,416	8,101	22,863	201,964
Income tax expense		16,896	-	16,896	-
Net loss		\$ (1,876,582)	\$ (1,508,585)	\$ (6,596,122)	\$ (2,524,765)
Net loss attributable to:					
Equity holders of the Company		\$ (1,789,810)	(1,387,801)	(6,427,765)	(2,259,152)
Non-controlling interest		(86,772)	(120,784)	(168,357)	(265,613)
		\$ (1,876,582)	\$ (1,508,585)	\$ (6,596,122)	\$ (2,524,765)
Basic and diluted loss per share		\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.03)
Basic and diluted weighted average number of shares outstanding		90,321,377	89,230,877	90,193,021	89,230,877

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited – Canadian dollars)

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2011	2010	2011	2010
Net loss	\$ (1,876,582)	\$ (1,508,585)	\$ (6,596,122)	\$ (2,524,765)
Other comprehensive income				
Unrealized gain (loss) on available-for-sale securities recognized in income	-	-	-	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries	(450,530)	428,429	(429,928)	288,260
Other comprehensive income (loss)	(450,530)	428,429	(429,928)	151,657
Total comprehensive loss	\$ (2,327,112)	\$ (1,080,156)	\$ (7,026,050)	\$ (2,373,108)
Total comprehensive loss attributable to:				
Equity holders of the Company	\$ (2,232,988)	\$ (1,027,185)	\$ (6,803,924)	\$ (2,111,647)
Non-controlling interest	(94,124)	(52,971)	(222,126)	(261,461)
	\$ (2,327,112)	\$ (1,080,156)	\$ (7,026,050)	\$ (2,373,108)

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

(Unaudited – Canadian dollars)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Number of shares	Share capital	Contributed surplus	Cumulative translation account	Available-for-sale reserve	Deficit	Total		
Balance at January 1, 2010	89,230,877 \$	71,965,457 \$	6,155,222 \$	- \$	136,603 \$	(27,442,521) \$	50,814,761 \$	40,702 \$	50,855,463
Total comprehensive loss for the period:									
Net loss	-	-	-	-	-	(2,259,152)	(2,259,152)	(265,613)	(2,524,765)
Other comprehensive income (loss):									
Foreign currency translation adjustment	-	-	-	284,109	-	-	284,109	4,151	288,260
Available-for-sale reserve recognized	-	-	-	-	(136,603)	-	(136,603)	-	(136,603)
Total other comprehensive loss	-	-	-	284,109	(136,603)	-	147,506	4,151	151,657
Total comprehensive loss for the period	-	-	-	284,109	(136,603)	(2,259,152)	(2,111,646)	(261,462)	(2,373,108)
Transactions with owners, recognized directly in equity:									
Change in share subscription receivable	-	1,291	-	-	-	-	1,291	-	1,291
Share-based payments	-	-	615,663	-	-	-	615,663	-	615,663
Disposition of interest without change of control	-	-	-	-	-	12,727	12,727	(12,727)	-
Total transactions with owners	-	1,291	615,663	-	-	12,727	629,681	(12,727)	616,954
Balance at June 30, 2010	89,230,877 \$	71,966,748 \$	6,770,885 \$	284,109 \$	- \$	(29,688,946) \$	49,332,796 \$	(233,487) \$	49,099,309
Balance at January 1, 2011	89,688,377 \$	72,325,969 \$	7,012,557 \$	22,671 \$	- \$	(31,012,681) \$	48,348,516 \$	(256,942) \$	48,091,574
Total comprehensive loss for the period:									
Net loss	-	-	-	-	-	(6,427,765)	(6,427,765)	(168,357)	(6,596,122)
Other comprehensive income (loss):									
Foreign currency translation adjustment	-	-	-	(376,159)	-	-	(376,159)	(53,769)	(429,928)
Total other comprehensive income (loss)	-	-	-	(376,159)	-	-	(376,159)	(53,769)	(429,928)
Total comprehensive loss for the period	-	-	-	(376,159)	-	(6,427,765)	(6,803,924)	(222,126)	(7,026,050)
Transactions with owners, recognized directly in equity:									
Change in share subscription receivable	-	7,329	-	-	-	-	7,329	-	7,329
Share-based payments	-	-	3,743,050	-	-	-	3,743,050	-	3,743,050
Stock options exercised	635,000	782,300	(322,660)	-	-	-	459,640	-	459,640
Disposition of interest without change of control	-	-	-	-	-	(791)	(791)	(791)	(1,582)
Total transactions with owners	635,000	789,629	3,420,390	-	-	(791)	4,209,228	(791)	4,208,437
Balance at June 30, 2011	90,323,377 \$	73,115,598 \$	10,432,947 \$	(353,488) \$	- \$	(37,441,237) \$	45,753,820 \$	(479,859) \$	45,273,961

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited – Canadian dollars)

	Six months ended	
	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Net loss	\$ (6,596,122)	\$ (2,524,765)
Item not involving cash:		
Depreciation and amortization	180,271	189,825
Depletion of development properties	21,331	2,134
Share-based payments	3,743,050	615,663
Loss on sale of property, plant & equipment	-	1,253
Net finance income	(22,863)	(201,964)
Foreign exchange loss (gain)	23,577	(3,692)
Change in non-cash working capital	(294,739)	(290,713)
Cash flows from operating activities	\$ (2,945,495)	\$ (2,212,259)
Cash flows from financing activities:		
Issue of common shares upon exercise of stock options	\$ 459,640	\$ -
Disposition of interest without change in control	(1,582)	-
Cash received on repayment of share subscription receivable	6,000	-
Repayment of obligations under capital lease	(2,219)	(2,526)
Interest paid	(15,090)	(16,556)
Cash flows from financing activities	\$ 446,749	\$ (19,082)
Cash flows from investing activities:		
Proceeds on sale of available-for-sale financial assets	\$ -	\$ 276,432
Additions to exploration & evaluation assets	(1,103,001)	(665,695)
Purchase of property, plant & equipment	(61,504)	(64,112)
Interest received	39,279	39,213
Cash flows from investing activities	\$ (1,125,226)	\$ (414,162)
Effect of exchange rate changes on cash and cash equivalents	\$ (21,176)	\$ (13,185)
Decrease in cash and cash equivalents	\$ (3,645,148)	\$ (2,658,688)
Cash and cash equivalents, beginning of period	\$ 8,379,230	\$ 13,764,186
Cash and cash equivalents, end of period	\$ 4,734,082	\$ 11,105,498

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

1. Nature of operations and continuance of operations:

Erdene Resource Development Corporation (the “Company”) is a company domiciled in Canada. The address of the Company’s registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The consolidated financial statements of the Company as at and for the three and six months ended June 30, 2011, comprise the Company and its subsidiaries. The principal business of the Company is the exploration and development of mineral deposits. The Company is primarily focused on the discovery of large tonnage, low cost, gold, copper, molybdenum and coal deposits primarily in Mongolia; and the development of coal and industrial mineral interests in North America.

The Company is in the process of exploring its projects and has not yet determined whether the projects contain mineral reserves that are economically recoverable. The Company’s continuing operations and the underlying value and recoverability of the amounts shown for exploration and evaluation and property plant and equipment is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the properties, obtaining the necessary permits to mine, and on the future profitable production or proceeds from the disposition of the properties.

2. Basis of presentation and adoption of International Financial Reporting Standards

a) Statement of compliance

These condensed interim consolidated financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”). The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles (“GAAP”) to IFRS are included in Note 10.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (“IFRS 1”). Subject to certain transition elections disclosed in Note 11 to the condensed interim consolidated financial statements for the three months ended March 31, 2011, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these condensed interim consolidated financial statements are consistent with the policies described in Notes 2 and 3 of the condensed interim consolidated financial statements for the three months ended March 31, 2011 and are based on IFRS expected to be in applicable as of December 31, 2011. These financial statements were approved by the Board of Directors on August 12, 2011.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company’s condensed consolidated interim financial statements for the three months ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

2. Basis of presentation and adoption of International Financial Reporting Standards (continued)

b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets and share-based payments measured at fair value.

- c) Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Erdene Resource Development Corporation. Use of estimates and judgments

The preparation of the financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the condensed interim consolidated financial statements as at and for the three months ended March 31, 2011.

3. Summary of significant accounting policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those described by the Company in its condensed interim consolidated financial statements as at and for the three months ended March 31, 2011.

4. Future changes in accounting policies

IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company 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 Company 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* and IFRS 12 *Disclosure of Interests in Other Entities*. The Company 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

5. Equity

(a) 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 terms and conditions of each grant of options are determined by the Board of Directors. If there are no terms specified upon grant, 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 changes in stock options during the six months ended June 30, 2011 and year ended December 31, 2010 were as follows:

	June 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	4,043,000	\$ 0.60	4,124,000	\$ 0.73
Granted	4,150,000	1.26	1,780,000	0.58
Exercised	(635,000)	0.72	(457,500)	0.45
Expired/Forfeited	(40,000)	1.37	(1,403,500)	0.98
Closing balance	7,518,000	\$ 0.95	4,043,000	\$ 0.60
Exercisable	7,410,000	\$ 0.95	4,043,000	\$ 0.60

The following table summarizes information concerning outstanding and exercisable options at June 30, 2011:

Expiry date	Outstanding		Exercisable		Remaining Contractual Life (Years)
	Number of Options	Exercise price \$	Number of Options	Exercise price \$	
August 23, 2011	110,000	0.85	110,000	0.85	0.15
May 11, 2012	125,000	1.35	125,000	1.35	0.87
May 25, 2012	125,000	1.43	125,000	1.43	0.9
October 1, 2012	100,000	1.14	100,000	1.14	1.26
April 4, 2013	125,000	0.91	125,000	0.91	1.76
October 10, 2012	27,000	0.35	27,000	0.35	2.25
June 26, 2014	900,000	0.30	900,000	0.30	2.99
September 21, 2014	345,000	0.30	345,000	0.30	3.23
April 15, 2015	811,000	0.58	811,000	0.58	3.79
October 8, 2015	700,000	0.58	700,000	0.58	4.28
March 22, 2016	4,150,000	1.26	4,042,000	1.26	4.73
	7,518,000	0.95	7,410,000	0.95	4.01

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

5. Equity (continued)

(a) Stock Options (continued)

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

Six months ended June 30, 2011	
Share price at grant date	\$ 1.30
Exercise price	\$ 1.26
Risk-free interest rate	2.0%
Expected life	4.4 years
Expected volatility	98.0%
Expected dividends	0.0%

Expected volatility is estimated by considering historic average share price volatility.

6. Cost of Sales

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Depletion	\$ 11,240	\$ 1,235	\$ 21,331	\$ 2,134
Depreciation & amortization	69,716	81,377	143,341	165,814
Share-based payments	-	-	-	94,800
Direct costs	229,313	224,295	459,860	468,479
	\$ 310,269	\$ 306,907	\$ 624,532	\$ 731,227

7. Exploration expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Depreciation & amortization	\$ 10,578	\$ 1,099	\$ 11,991	\$ 2,552
Share-based payments	13,708	277,836	614,678	277,836
Direct costs	972,280	288,160	1,251,873	526,101
	\$ 996,566	\$ 567,095	\$ 1,878,542	\$ 806,489

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

8. Corporate & administration

	For the three months ended		For the six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	\$	\$	\$	\$
Depreciation & amortization	14,043	11,276	24,939	21,459
Share-based payments	12,729	139,932	3,128,372	243,027
Direct costs	751,375	601,642	1,378,685	1,121,626
	\$ 778,147	\$ 752,850	\$ 4,531,996	\$ 1,386,112

9. Segmented information

The Company has four reportable segments: Canada, United States, Mongolia and Corporate, based on the geographic regions of the exploration and development projects. 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 maker.

The following table presents reportable segment assets:

Reportable segment assets

	Canada	USA	Mongolia	Corporate	Total
As at June 30, 2011	25,520,688	8,699,337	11,620,430	5,419,571	51,260,026
As at June 30, 2010	24,225,916	9,783,108	9,766,864	11,522,694	55,298,582

The following tables present selected financial information for the three months ended June 30, 2011 and 2010:

For the three months ended June 30, 2011

	Canada	USA	Mongolia	Corporate	Total
External Revenue	-	232,951	-	-	232,951
Segment loss before tax	92,059	119,590	862,236	778,147	1,852,032

For the three months ended June 30, 2010

	Canada	USA	Mongolia	Corporate	Total
External Revenue	-	112,204	-	-	112,204
Segment loss before tax	26,109	251,077	484,613	752,850	1,514,649

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

9. Segmented information (continued)

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

	2011	2010
	\$	\$
Total loss for reportable segments	1,852,032	1,514,649
Foreign exchange loss/(gain)	6,098	(3,260)
Other expenses	9,972	5,300
Finance income	(16,517)	(16,867)
Finance expense	8,101	8,766
Income tax expense	16,896	-
Net Loss	1,876,582	1,508,588

The following tables present selected financial information for the six months ended June 30, 2011 and 2010:

For the six months ended June 30, 2011

	Canada	USA	Mongolia	Corporate	Total
External Revenue	-	473,338	-	-	473,338
Segment loss before tax	126,951	307,508	1,595,277	4,531,996	6,561,732

For the six months ended June 30, 2010

	Canada	USA	Mongolia	Corporate	Total
External Revenue	-	241,285	-	-	241,285
Segment loss before tax	39,275	603,644	653,512	1,386,112	2,682,543

Reconciliation of reportable segment profit or loss for the six months ended June 30:

	2011	2010
	\$	\$
Total loss for reportable segments	6,561,732	2,682,543
Foreign exchange loss	30,385	9,133
Other expenses	9,972	35,053
Finance income	(39,279)	(219,811)
Finance expense	16,416	17,847
Income tax expense	16,896	-
Net Loss	6,596,122	2,524,765

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS

In preparing its IFRS statement of financial position as at June 30, 2010, and its statements of income and comprehensive income for the three and six months ended June 30, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing its IFRS statements of comprehensive income for the three and six months ended June 30, 2010, the Company made various reclassifications to present expenses by function rather than by nature as presented under Canadian GAAP.

The transition from Canadian GAAP to IFRS has had no effect upon the reported cash flows generated by the Company. The reconciling items between the Canadian GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS June 30, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets:				
Cash and cash equivalents		11,105,498	-	11,105,498
Trade and other receivables		660,897	-	660,897
Prepaid expenses		146,194	-	146,194
		11,912,589	-	11,912,589
Non-current assets:				
Exploration & evaluation assets	a, f	35,783,416	(7,155,631)	28,627,785
Property, plant & equipment	a, f	3,923,686	5,821,896	9,745,582
Reclamation bond		12,625	-	12,625
Goodwill		5,000,000	-	5,000,000
		44,719,727	(1,333,735)	43,385,992
		56,632,316	(1,333,735)	55,298,581
Current liabilities:				
Trade and other payables		516,133	-	516,133
Current portion of obligations under finance leases		6,465	-	6,465
		522,598	-	522,598
Non-current liabilities				
Obligations under finance leases		381,492	-	381,492
Deferred tax liability		5,295,182	-	5,295,182
		5,676,674	-	5,676,674
Shareholders' equity:				
Share capital	b, c, e	78,307,296	(6,340,548)	71,966,748
Contributed surplus		6,770,885		6,770,885
Cumulative translation account	f	-	284,109	284,109
Deficit	b, c, d, e, f	(34,645,137)	4,956,191	(29,688,946)
		50,433,044	(1,100,248)	49,332,796
Non-controlling interests	d, f	-	(233,487)	(233,487)
		50,433,044	(1,333,735)	49,099,309
		56,632,316	(1,333,735)	55,298,581

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

Reconciliation of loss and comprehensive loss

For the three months ended June 30, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		112,204		112,204
Cost of sales		306,907	-	306,907
		(194,703)	-	(194,703)
Exploration expenses		567,094	-	567,094
Corporate & administration		752,850	-	752,850
Other expenses		5,300	-	5,300
Foreign exchange loss		(3,261)	-	(3,261)
Loss from operating activities		(1,516,686)	-	(1,516,686)
Finance income		16,867	-	16,867
Finance expense	c	(8,118)	(648)	(8,766)
Net finance income (expense)		8,749	(648)	8,101
Non-controlling interest	d	(58,259)	(62,525)	(120,784)
Net loss		(1,449,678)	61,877	(1,387,801)
Other comprehensive loss:				
Unrealized loss on marketable securities recognized in income		-	-	-
Foreign currency translation difference arising on translation of foreign subsidiaries	f	-	428,429	428,429
Total comprehensive loss		(1,449,678)	490,306	(959,372)

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

Reconciliation of loss and comprehensive loss

For the six months ended June 30, 2010

	Note			
Revenue		241,285	-	241,285
Cost of sales		731,227	-	731,227
		(489,942)	-	(489,942)
Exploration expenses		806,489	-	806,489
Corporate & administration		1,386,112	-	1,386,112
Other expenses		35,053	-	35,053
Other income		-	-	-
Foreign exchange loss		9,133	-	9,133
Dilution gain on disposal of interest in subsidiary	g	(12,727)	12,727	-
Loss from operating activities		(2,714,002)	(12,727)	(2,726,729)
Finance income		219,811	-	219,811
Finance expense	c	(16,556)	(1,291)	(17,847)
Net finance income (expense)		203,255	(1,291)	201,964
Non-controlling interest	d	(203,088)	(62,525)	(265,613)
Net loss		(2,307,659)	48,507	(2,259,152)
Other comprehensive loss:				
Unrealized loss on marketable securities recognized in income		(136,603)	-	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries	f	-	288,260	288,260
Total comprehensive loss		(2,444,262)	336,767	(2,107,495)

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

Details of the material adjustments to the statements of financial position, loss and comprehensive loss:

(a) Development assets

Under IFRS, where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a development asset in property, plant and equipment.

The Company's APM clay project was determined to be in the development stage in 2009 and was reclassified to property, plant and equipment at January 1, 2010. The Company's Granite Hill aggregate project reached the development stage in February 2010 and was reclassified to property, plant and equipment at that time.

The impact arising from the change is summarized as follows:

	June 30, 2010
Consolidated Statement of Financial Position	
Exploration & evaluation assets	(6,519,507)
Property, plant & equipment	<u>6,519,507</u>

(b) Share issue costs

Under IFRS, share issue costs are recorded as a deduction against share capital. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense. Under Canadian GAAP, share issue costs were recorded through retained earnings.

The impact arising from the change is summarized as follows:

	June 30, 2010
Consolidated Statement of Financial Position	
Share Capital	(5,033,836)
Deficit	<u>5,033,836</u>

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

(c) Financial Instruments

Under IFRS, there are no special recognition requirements for related party transactions, therefore loans between related parties are subject to the requirements of IAS 39. The Company has an interest-free loan to a director that is required to be recognized at fair value under IAS 39. Under Canadian GAAP, this loan was measured at the exchange amount. Consistent with Canadian GAAP, for presentation purposes, the loan is recorded as a reduction to share capital as the loan is related to the exercise of warrants.

The impact arising from the change is summarized as follows:

	June 30, 2010
Consolidated Statement of Financial Position	
Share Capital	(7,532)
Deficit	7,532

The impact arising from the recognition of interest expense on the loan is summarized as follows:

	Three months ended June 30, 2010	Six months ended June 30, 2010
Consolidated Statement of Comprehensive Income		
Finance expense	648	1,291
Net loss	(648)	(1,291)

(d) Non-controlling interest

Under Canadian GAAP, non-controlling interests in the statement of financial position are presented between liabilities and shareholders' equity. Under IFRS, non-controlling interests in the statement of financial position are classified as equity but are presented separately from the parent shareholder's equity.

Non-controlling interest in income of subsidiaries is included in the determination of net income and other comprehensive income reported by an entity under Canadian GAAP. Under IFRS, net income and each component of other comprehensive income is attributed to the owners of the parent and to the non-controlling interests.

Amendments to IAS 27, Consolidated and Separate Financial Statements, were made in 2008 in for annual periods beginning on or after 1 July 2009. The amendment for attributing total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance are to be applied prospectively. Therefore, an entity shall not restate any profit or loss attribution for reporting periods before the amendment is applied.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

(d) Non-controlling interest

The impact arising from the change, being an attribution of loss even if it results in the non-controlling interests having a deficit balance, is summarized as follows:

	June 30, 2010
Consolidated Statement of Financial Position	
Non-controlling interest	(62,525)
Deficit	<u>62,525</u>

(e) Flow-through shares

Under Canadian GAAP, the future tax effect of renouncing qualifying exploration expenditures is recorded on the date the Company files its renunciation documents as a reduction of shareholders' equity provided there is reasonable assurance that the expenditures will be made.

Under IFRS, at the time of share issuance, the proceeds must be allocated between share capital and the obligation to deliver the tax deduction. The allocation is based on the difference between the quoted price of the Company's non-flow through shares and the amount the investor pays for the flow-through shares (given no other differences between the securities).

For expenditures that are capitalized, the date of recognition of the deferred tax liability is as follows:

- If renunciation is under general method: in the year of share issuance when expenditures are made, assuming there is an expectation of renouncing qualifying exploration expenditures. The entity records a deferred tax liability and corresponding income tax expense. The obligation is reduced and the corresponding income is recorded.
- If renunciation is under look-back method: if the expenditures are made (i.e. not upon renouncement), the entity records a deferred tax liability and a corresponding income tax expense. Also at that time, the obligation is reduced and the corresponding income is recorded.

Prior to January 1, 2010, the Company had renounced qualifying expenditures on flow-through shares. As a result, share capital and accumulated deficit are both reduced for the previously unrecognized tax deduction.

The impact arising from the change is summarized as follows:

	June 30, 2010
Consolidated Statement of Financial Position	
Share capital	(1,299,180)
Deficit	<u>1,299,180</u>

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

(f) Functional currency and foreign operations

In accordance with IFRS 1, the Company has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.

IFRS requires that the functional currency of each entity in the consolidated Company be determined separately in accordance with IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The Company’s presentation currency is the Canadian dollar (CAD).

Under IFRS, the results and financial position of all Company entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Company’s presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at the average rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity.

As a result of the application of the translation rules contained in IAS 21, non-monetary assets, which includes property, plant and equipment and exploration and evaluation assets, will decrease with a corresponding adjustment to the foreign currency translation reserve.

The impact arising from the change is summarized as follows:

	June 30, 2010
Consolidated Statement of Financial Position	
Exploration & evaluation assets	(636,124)
Property, plant & equipment	(697,611)
Cumulative translation account	284,109
Deficit	(1,446,882)
Non-controlling interests	<u>(170,962)</u>

The impact arising from the recognition of interest expense on the loan is summarized as follows:

	June 30, 2010	June 30, 2010
Consolidated Statement of Comprehensive Income		
Foreign currency translation adjustment	<u>428,429</u>	<u>288,260</u>

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited – Canadian dollars)

For the three and six months ended June 30, 2011 and 2010

10. Transition to IFRS (continued)

(g) Change in ownership of a subsidiary

Under IFRS, once a parent has obtained control of a subsidiary, changes in ownership interests in that subsidiary that do not affect control are accounted for as equity transactions, and, therefore, no gain or loss is recognized in the consolidated income statement. When such a change in ownership occurs, the carrying amount of the non-controlling interest is adjusted to reflect its new ownership level, and any difference between the adjustment and the fair value of the consideration paid or received is recognized in equity.

The impact arising from the change, being a reversal of the previously recognized dilution gain, which is recorded directly in deficit, is summarized as follows:

	<u>June 30, 2010</u>
Consolidated Statement of Financial Position	
Deficit	<u>12,727</u>
	Three and six months ended <u>June 30, 2010</u>
Consolidated Statement of Comprehensive Loss	
Dilution gain on disposal of interest in subsidiary	<u>12,727</u>