ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
Years ended December 31, 2012 and 2011

This Management Discussion and Analysis ("MD&A"), dated March 30 2013, 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, 2012, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

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

Overview

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

Transaction with Advanced Primary Minerals

On November 9, 2012, the Corporation closed a Plan of Arrangement (the "Arrangement") with Advanced Primary Minerals Corp ("APM").

The Arrangement Agreement set out the terms of the statutory plan of arrangement involving Erdene, Advanced Primary Minerals ("APM"), Erdene Resources Inc. ("ERI"), and the securityholders of Erdene and APM whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, an entity that owned Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien Resources Corp ("Morien"), TSXV:MOX.

- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene created a new class of common shares ("Erdene New Shares") and exchanged with the Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene, resulting in 100% of the shares of Morien owned by Erdene being distributed to the Erdene shareholders.

The shares of the Corporation are widely held and there are no controlling blocks of shareholders or formal voting arrangements in place. Following the transaction, Erdene does not have any continuing interest in Morien. As a result, the transaction is accounted for as a distribution of assets to the shareholders of the Corporation in accordance with IFRIC 17: Distributions of non-cash assets to owners. Under IFRIC 17, the distribution of the net assets to the Corporation's shareholders is measured at the fair value of the net assets distributed and is recorded as a reduction in equity. Management determined the recoverable amount of the net assets to be distributed based on the fair value less costs to distribute, which were supported by a formal valuation of the range of values representing the fair market value of the assets acquired by APM, as outlined in the table below. The Corporation recorded an impairment charge of $2.7 million as a loss from discontinued operation in the Statement of Loss as a result of the transaction.

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

Project Summaries

Zuun Mod Molybdenum-Copper Project

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

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

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

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

In late 2011, a mobile-metal-ion ("MMI") soil survey was carried out over the Khuvyn Khar prospect and successfully identified copper and silver anomalies intersected in drilling. The 2012 exploration program at Khuvyn Khar included a review of technical data, an expanded MMI geochemical survey, reprocessing of geophysical data, as well as a review of surface and drill-hole geological data. This work has identified areas and criteria for a follow-up exploration program to be carried out in 2013 designed to test the mineral potential of the Khuvyn Khar prospect.

Altan Nar Gold Project - Mongolia

The Altan Nar prospect consists of a large area (1.5km by 5km) with coincident geochemical and gradient array IP chargeability anomalies hosting multiple prospects containing gold-bearing epithermal-style quartz veins and breccias. The first reported occurrence of gold mineralization was by Erdene in mid-2011 when initial drilling returned 11 metres of 9.0 g/t gold within broad zones containing up to 50 metres of over 1.0 g/t gold. Results to date have included the identification of an area approximately 400 metres by 150 metres, referred to as the Discovery Zone ("DZ") defined by significant gold-silver mineralization associated with epithermal quartz veins and breccias. The DZ is characterized by multiple, shallow (surface to ~200 metres depth) mineralized zones greater than 30 metres (apparent thickness) grading more than 1.0 g/t gold. The DZ is open along strike to the north and additional drilling will be required to determine the true vertical extent of the gold mineralization.

The 2012 exploration program at Altan Nar included close-spaced soil and rock geochemical sampling and IP gradient array and magnetic geophysical surveys. This work resulted in the identification of numerous exploration drill targets along the 5km strike length of the Altan Nar prospect, outside the area of the DZ. This work significantly expanded the potential of identifying additional gold-bearing epithermal mineralization on the Altan Nar property. To date, 27 scout holes (15 in 2011 and 12 in 2012) have been drilled across the Altan Nar prospect, outside of the DZ. Over half of these hole (14) returned intervals (1 to 19 metres) of 0.5 g/t gold or higher (up to 4.4 g/t over 9 metres) confirming the widespread nature of the Altan Nar mineralized epithermal system. In particular, results for two holes (TND-45 and 46) indicated a substantial new zone of gold-polymetallic mineralization is located approximately 1.3 kilometres northwest of the DZ. Drill hole TND-46 contains multiple high grade gold zones separated by post-mineralization dykes which, when included in the overall assay results, yielded an average grade of 1.3 g/t gold over 47 metres.

Other – Mongolia

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

The Corporation retains a royalty interest in the Galshar thermal coal project in Mongolia. The project is operated by Xanadu Coal Mongolia LLC ("Xanadu"), a 100% owned subsidiary of ASX listed Xanadu Mines Ltd. Xanadu has delineated a JORC compliant thermal coal resource of 70 Mt Indicated and 100 Mt Inferred. At Galshar, the basal seam, which contains a resource of 48 Mt Indicated and 53 Mt Inferred, is classified as medium to low ash, high moisture sub-bituminous coal suitable for power generation or Coal to Liquids (CTL) technologies. Xanadu has commenced the permit process to obtain a Mining License at Galshar. The project is subject to a royalty payable to Erdene, its successors and assigns, of US$1.50 for each tonne of the first 5 million tonnes of coal mined from the property and a royalty of US$0.75 per tonne for any additional tonnes of coal mined.

Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December 31	**2012**	**2011**	**2010**
Revenues	$ nil	$ nil	$ nil
Loss for the year attributable to equity holder of Erdene	$ 7,047	$ 11,861	$ 4,089
Basic and diluted loss per share	$ 0.15	$ 0.30	$ 0.10
Total assets	$ 13,315	$ 46,783	$ 57,025
Total long-term liabilities	$ 7	$ 5,354	$ 5,300
Cash dividends declared	Nil	Nil	Nil

Discussion of Operations

Years ended December 30, 2012 and 2011

In June 2012, the Corporation disposed of its real estate and associated royalty interest in the Granite Hill aggregate property. In November 2012, the Corporation completed the Arrangement discussed above; which resulted in the transfer of the North American assets to APM and subsequent distribution to shareholders. As a result, the cash flows and results of operations have been presented as discontinued operations for the year ended December 31, 2012 and prior years have been restated to show the discontinued operations separately from continuing operations.

The distribution of the assets to Erdene shareholders was recorded at the fair value of the assets distributed and recorded as a reduction of equity in Erdene. The Corporation recognized a net loss attributable to equity holders of $7,047,487, or $0.15 per share, in 2012 compared to a loss of $11,861,320, or $0.26 per share, in 2011.

Exploration expenses totaled $3,167,762 in 2012 compared to $4,098,634 in 2011. As explained in greater detail under "Exploration Results", the Corporation carried out the majority of its exploration programs on its Altan Nar prospect in 2012. The Corporation's 2012 coal exploration program was smaller in scale compared to 2011, so partner recoveries are lower than the prior year.

Exploration and Evaluation	**For the year ended December 31**	
	2012	**2011**
Depreciation & amortization	**$ 10,269**	$ 16,439
Employee benefit costs	**1,065,252**	1,092,199
Share-based payments	**101,511**	664,637
Direct costs	**2,139,748**	2,639,201
Partner recoveries	**(149,017)**	(313,841)
	$ 3,167,762	$ 4,098,634

Corporate & administrative expenses amounted to $1,678,298 for the year ended December 31, 2012 compared to $4,970,245 in 2011. Administrative costs are lower across all categories as management introduced expense reduction programs. The $2,959,863 decrease in share based payments accounts for the majority of the overall decrease.

Corporate & Administrative	**For the year ended December 31**	
	2012	**2011**
Depreciation & amortization	**$ 26,527**	$ 29,800
Employee benefit costs	**701,486**	765,164
Share-based payments	**186,559**	3,146,422
Direct costs	**763,726**	1,028,860
	$ 1,678,298	$ 4,970,245

In 2012, the Corporation also recognized a $252,434 gain on the sale of Nova Scotia aggregate interests.

The Corporation has reclassified the cash flows and results from operations associated with the Granite Hill Property, APM and Donkin CGU as discontinued operations as outlined in the table below.

Results of discontinued operations	**For the year ended December 31,**	
	2012	**2011**
Revenue	**$ 342,435**	$ 882,828
Cost of sales	**402,496**	1,448,854
	(60,061)	(566,026)
Exploration expenses	**16,432**	187,286
Corporate and administration	**272,679**	320,065
Impairment loss	**2,716,536**	3,917,790
Other expenses (income)	**-**	(100,436)
Gain on sale of assets	**(376,305)**	-
Foreign exchange loss	**449**	31,183
Loss from operating activities	**(2,689,852)**	(4,921,914)
Finance income	**505**	326
Finance expense	**(15,381)**	(37,230)
	(14,876)	(36,904)
Income tax expense	**-**	12,742
Net loss from discontinued operations	**$ (2,704,728)**	$ (4,971,559)

The Corporation recorded a total impairment loss of $2,795,942 including $79,406 related to the producing clay assets and shown in cost of sales, $2,435,485 related to the Donkin CGU shown under impairment loss and $281,051 related to Georgia lands shown under impairment loss.

Fourth Quarter

Reorganization

As outlined above, on November 9, 2012, the Corporation completed a Plan of Arrangement between Erdene, APM and ERI whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, being the entity that owned Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien.
- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene exchanged with Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene.

Financing

On December 21, 2012 the Corporation closed a private placement financing which resulted in the issuance of 5,882,353 Units at $0.17 per Unit generating gross proceeds of $1,000,000. Each Unit consisted of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at $0.25 until December 21, 2014. Share issues costs of $49,944 were paid in conjunction with the private placement resulting in net proceeds of $950,056.

Other than mentioned above, there were no unusual events or items during the fourth quarter of 2012 that affected the Corporation's financial condition, cash flows or results of operations in a material nature.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2012				Fiscal 2011			
	Q4 Dec-12	Q3 Sep-12	Q2 Jun-12	Q1 Mar-12	Q4 Dec-11	Q3 Sep-11	Q2 Jun-11	Q1 Mar-11
Revenue	nil	nil	nil	nil	nil	nil	nil	nil
Loss to equity holders	$1,391	$3,977	$896	$1,082	$4,166	$1,267	$1,790	$4,638
Basic and diluted loss per share	$0.03	$0.08	$0.02	$0.02	$0.11	$0.02	$0.05	$0.12
Total Assets	$13,315	$34,910	$44,084	$45,871	$46,783	$51,017	$51,260	$53,466

All financial data has been prepared in accordance with IFRS.

Subsequent to the sale of operating assets in the second quarter of 2012, and after the reorganization which closed on November 9, 2012, the Corporation's expenditures vary from quarter to quarter largely depending on the timing of its Mongolian exploration 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 $1,091,293 at December 31, 2012 compared to $3,387,452 at December 31, 2011, representing a $2,296,159 decrease.

The Corporation sold its non-core Granite Hill property and APM sold its underperforming clay processing plant generating cash proceeds of approximately $3.9 million in the second quarter of 2012. As part of the Arrangement with APM, the corporation distributed working capital of approximately $2.3 million to shareholders when they received shares of Morien. Subsequent to the close of the Arrangement, on November 19, 2012, Erdene received $550,000 from Morien in full repayment of a note receivable.

Current working capital is sufficient to fund the Corporation's budgeted expenditures until approximately the third quarter of 2013. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through expenditure reduction, asset sales, formation of alliance, option, and/or joint venture agreements or equity financing. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2012:

Contractual Obligations	Total	Less than one year	1-3 years years	4-5 years	More than 5 years
Office leases	$ 152,904	$ 78,648	$ 74,256	$ -	$ -
Finance leases	10,847	3,924	6,923	-	-
Accounts payable and accrued liabilities	628,252	628,252	-	-	-
	$ 792,003	$ 710,824	$ 81,179	$ -	$ -

Gallant Minerals Limited is entitled to a 1.5% net smelter return royalty on the Zuun Mod License, subject to a buy-down provision. There are no minimum work commitments for the Zuun Mod mining license.

Off-Balance Sheet Arrangements

As at December 31, 2012, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

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

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

Share-based payments

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

Fair value of financial instruments, including embedded derivatives

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

Provisions for site restoration

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

Taxation

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

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

Future changes in accounting policies

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

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

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

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets and requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. The Corporation has not early adopted IFRIC 20 as it does not have any assets in operation.

Financial Instruments and Other Risks

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

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

As part of the Arrangement, the Corporation's issued and outstanding shares were reorganized on a one-for-two basis and at November 9, 2012 totaled 47,902,947. On December 21, 2012 the Corporation closed a private placement financing which resulted in the issuance of 5,882,352 Units at $0.17 per Unit generating gross proceeds of $1,000,000. Each Unit consisted of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at $0.25 until December 21, 2014. Share issues costs of $49,944 were paid in conjunction with the private placement resulting in net proceeds of $950,056.

As of the date of this MD&A, the Corporation has 53,785,299 common shares issued and outstanding.

Stock Options

For the year ended 2012, the Corporation issued 885,000 options at a weighted average exercise price of $0.62, 175,000 options with a weighted average exercise price of $2.64 expired and

2,137,500 options with a weighted average exercise price of $2.4 were forfeited. As a result of the Arrangement, 2,376,500 forfeited options were exchanged for 2,376,500 Morien options.

As of the date of this MD&A, the Corporation has 2,376,500 outstanding stock options, all of which were exercisable.

Warrants

The December 19, 2012 private placement mentioned above included the issuance of 2,941,179 whole share purchase warrants with an exercise price of $0.25 and an expiry date of December 21, 2014.

Exploration Results

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

Zuun Mod Molybdenum Project

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

Since acquiring the Zuun Mod property, the Corporation has carried out a staged exploration program. This program has included a phased resource delineation drilling program which resulted in the identification of three mineralized zones (South Racetrack, North Racetrack and Stockwork) with potentially economic concentrations of molybdenum, with associated copper mineralization, within the 3.5km long area referred to as the South Corridor. The Corporation retained the services of Minarco-MineConsult ("Minarco"), part of the Runge Group, 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 and to provide more detailed information on areas of higher grade mineralization expected to be initially developed for mining.

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

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

Since 2009, the Corporation has been working on a number of technical and engineering studies on various aspects of the Zuun Mod project including an environmental and social economic baseline study, a geological report and resource estimate, for submission to the Mongolian Mineral Resource Council, hyrdro-geologic drilling to identify a source for process water, metallurgical test work, a 3D data compilation project and additional geophysical surveys. In 2012, the Corporation's independent technical consultant, Minarco, completed work on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study provides high level production scheduling, a review of operating and capital costs, and economic modeling. The study will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out as the project advances.

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

Khuvyn Khar

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

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

In late 2011, a mobile-metal-ion (“MMI”) soil survey was carried out over the Khuvyn Khar prospect to determine the effectiveness of this specialized geochemical survey at detecting anomalies at Khuvyn Khar. The MMI orientation survey successfully identified copper and silver anomalies intersected in drilling. This survey was expanded in 2012 to cover an area of one-square-kilometre using a 50 m grid spacing centered on KKMD-121, as well as a series of samples at 50 m intervals along two 3.5 km N-S and E-W lines, Analytical results from the 2012 MMI survey have outlined an number of multi-element anomalies that merit follow-up work.

In addition, the 2012 exploration program at Khuvyn Khar included a review of all technical data, reprocessing of geophysical data, as well as a review of surface and drill-hole geological data. The data review program at Khuvyn Khar is ongoing and is expected to continue in 2013 with completion of additional follow-up field work. The goal of this work is to identify targets for a follow-up drilling program.

Altan Nar Gold Project

In 2009 the Corporation acquired the Tsenkher Nomin property. Exploration work on this license has identified a number of previously unknown gold and base metal mineral occurrences. In 2012 the Corporation concentrated its exploration program on the Altan Nar gold-silver-polymetallic epithermal prospect. Two other prospects, Nomin Tal (copper-gold) and Oyut Khundii (copper) were not extensively explored in 2012 but will undergo additional evaluated in the future. A summary of results to date is provided below.

The Altan Nar prospect consists of a large area (1.5km by 5km) with coincident geochemical and gradient array IP chargeability anomalies hosting multiple prospects containing gold-bearing epithermal-style quartz veins and breccias. The first reported occurrence of gold mineralization was by Erdene in mid-2011 when initial drilling returned 11 metres of 9.0 g/t gold within broad zones containing up to 50 metres of over 1.0 g/t gold. Results to date have included the identification of an area approximately 400 metres by 150 metres, referred to as the Discovery Zone (“DZ”) defined by significant gold-silver mineralization associated with epithermal quartz veins and breccias. The DZ is characterized by multiple, shallow (surface to ~200 metres depth) mineralized zones greater than 30 metres (apparent thickness) grading more than 1.0 g/t gold. The DZ is open along strike to the north and additional drilling will be required to determine the true vertical extent of the gold mineralization.

The 2012 exploration program at Altan Nar included phased drilling programs in April and October that involved delineation drilling of the DZ (14 holes) and scout drilling (12 holes) designed to test targets across the Altan Nar prospect, outside the DZ. In addition, the 2012 exploration program included close-spaced soil and rock geochemical sampling and IP gradient array and magnetic geophysical surveys. This work has resulted in the identification of numerous exploration drill targets along the 5km strike length of the Altan Nar prospect.

Discovery Zone

To date, a series of 23 holes (9 in 2011 and 14 in 2012) have been drilled within an area referred to as the Discovery Zone ("DZ"), principally along 50 to 100-metre spaced lines over a 400 m strike length. The DZ is located in the central part of the Altan Nar prospect. Within the DZ gold mineralization appears to be structurally controlled within NNE to NE trending sub-parallel shear zones that are steeply dipping to sub-vertical. Gold-bearing zones are associated with multi-phase mineralization associated with epithermal quartz veins and breccias in a northeast-southwest trending, steeply northwest dipping, fault/breccia zone. Preliminary evidence suggests that andesite units, particularly near the contact with more competent silicified volcanic breccia units, act as a favourable host for mineralization.

The DZ results to date have included 29 m averaging 4.3 g/t gold and 24.1 g/t silver from drill hole TND-19 which was drilled to intersect a zone 50 m below the mineralization intersected in TND-09 (55 m of 1.02 g/t gold and 12 g/t silver). These holes are located in the southwestern end of the Discovery Zone. Results from two additional holes (TND-33 and -34) extended the depth of the mineralization in this area to 175 m; however, gold-silver mineralization in these holes was narrower and lower grade than previously encountered in TND-09 and 19, and may represent pinching or faulting of this portion of the zone, or perhaps truncation by fluid breccias. This conclusion is supported by the results of a 50 m step-out hole (to the southwest) where TND-43 intersected low grade gold mineralization (three, 2-m zones of 0.53 g/t to 0.60 g/t Au).

Drilling in the northeastern part of the DZ (TND-40) intersected a broad mineralized zone that included 27 metres of 1.8 g/t gold, 11 g/t silver, 0.47% lead and 0.62% zinc and higher grade zones including four metres of 4.5 g/t gold, 56 g/t silver, 2.5% lead and 1.2% zinc. A 50-metre step-out hole (TND-50) confirmed the lateral extension of the DZ to the northeast, with the intersection of a broad zone of gold-polymetallic mineralization over a 94 metre interval. This zone averaged 0.45 g/t gold and was bounded by higher grade gold zones, including a five metre interval averaging 2.7 g/t gold (111 to 116 metres) and a 4.5 metre interval at the bottom of the hole (200 to 204.5 metres) averaging 2.4 g/t gold, 18.8 g/t silver, 2.8% lead and 0.86% zinc.

Drilling to date has confirmed lateral and vertical continuity of gold-silver mineralization within the Discovery Zone. The DZ remains open along strike to the north and additional drilling will be required to determine the true vertical extent of the gold mineralization. Drilling to date has tested to a vertical depth of 175 m (south) to 230 m (north).

Regional Reconnaissance Targets

The 2012 exploration program at Altan Nar included close-spaced soil and rock geochemical sampling and IP gradient array and magnetic geophysical surveys. This work resulted in the identification of numerous exploration drill targets along the 5 km strike length of the Altan Nar prospect, outside the area of the DZ. This work significantly expanded the potential of identifying additional gold-bearing epithermal mineralization on the Altan Nar property. To date, 27 scout holes (15 in 2011 and 12 in 2012) have been drilled across the Altan Nar prospect, outside of the DZ. Over half of these hole (14) returned intervals (1 to 19 metres) of 0.5 g/t gold or higher (up to 4.4 g/t over 9 metres) confirming the widespread nature of the Altan Nar mineralized epithermal system.

Results from two holes of these holes (TND-45 and 46) indentified a significant new gold-polymetallic mineralized zone located approximately 1.3 kilometres northwest of the DZ. Hole TND-46 intersected multiple high grade gold zones (including 8 m of 1.1 g/t gold, 2 m of 5.5 g/t gold and 9 m of 4.4 g/t gold) separated by post-mineralization dykes which, when included in the overall assay results, yielded an average grade of 1.3 g/t gold over 47 metres.

Hole TND-49 was drilled 100 metres to the west of the DZ and intersected a parallel zone to the main mineralization with multiple gold-bearing intervals ranging from one to four metres in width and from 0.5 to 2.7 g/t gold.

Hole TND-54, drilled to test a target located 2.6 kilometres from the original discovery site, intersected multiple zones of epithermal veins and breccia-bearing moderate sulfide mineralization including galena and sphalerite, with one zone containing two metres of 1.2 g/t gold. The hole ended in 15 metres of anomalous gold (>0.1g/t) and was terminated at a down hole depth of 126.5 metres.

Petrographic analysis of mineralized drill core from TND-46 indicates a strong correlation between gold-silver mineralization and pyrite. Disseminated pyrite is a strong conductor and show as a chargeability-high in IP surveys. Hole TND-46 was located within a large chargeability high extending over a distance of 1.2 km. The southern end of this chargeability anomaly has been drill-tested by three other scout holes (TND-29, 30 and 39) all of which returned anomalous results. A second similar but wider chargeability high is located 650 m to the west in an area buried under recent sediments, potentially masking any geochemical signature associated with any zones of mineralization. These targets, along with a number of additional, untested, coincident geochemical, geophysical and geological targets will be the focus of additional scout drilling expected to be carried out in the first half of 2013.

Additional Analytical Work

Analysis of results from the drilling completed to date continues. This work includes studies to characterize the ore mineralogy. Petrographic work has been carried out at SGS Lakefield while metallurgical work is being carried out by ALS Ammtec in Australia. Preliminary metallurgical results, on a high-grade gold sample, not considered representative of the Altan Nar gold mineralization as a whole, indicate that gold mineralization is principally refractory (associated with arsenopyrite) and that recoveries between 90% and 95% can be achieved from this type of Altan Nar mineralization using established processing techniques. Additional work will be required to confirm these results and to identify the most efficient and effective mineral processing methodology for the deposit as a whole.

This initial metallurgical test work was carried out on an arsenopyrite-rich sample of high-grade gold-silver-base metal epithermal quartz breccia collected from the DZ. Some low arsenic (i.e. arsenopyrite poor) gold-silver-base metal mineralized zones were also noted in the DZ, but at the time the initial sample was chosen, the extent and volumetric importance of this low-arsenic mineralization type was unknown. Subsequent drilling in late 2012 revealed that much of the gold-silver-base metal epithermal style mineralization outside the DZ is, in fact, of the low arsenic style of mineralization. This observation is supported by preliminary petrographic work which identified visible gold in three of six samples taken from TND-46. Additional metallurgical test work on samples representative of low-arsenic gold-silver-base metal epithermal mineralization will be carried out in Q2 2013.

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 December 31, 2012 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, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2012.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Outlook

General

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

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

Zuun Mod

During the third quarter 2012, the Corporation's independent technical consultant, Minarco, completed work on a pit optimization study. This study provides high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out as the project advances. Exploration is also expected to continue on the Khuvyn Khar copper prospect in 2013 with the goal of identifying drill targets through analysis of current and newly acquired geotechnical data.

Altan Nar

Results from the Corporation's drilling program on Altan Nar have delivered very encouraging results including confirming lateral and vertical continuity of gold-silver mineralization within the DZ as well as significant mineralization from reconnaissance drilling including a substantial new gold-polymetallic zone is located approximately 1.3 kilometres northwest of the DZ. The Corporation is completing analysis of all exploration data acquired to date and anticipates carrying out follow-up drilling and further geotechnical surveys in 2013 designed to better define the extent and nature of the gold-silver mineralization at Altan Nar.

Qualified Person

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

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

Other Information

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(Canadian dollars)

KPMG LLP
Chartered Accountants
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2012 and December 31, 2011 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Erdene Resource Development Corporation has no significant sources of revenue and does not have sufficient capital to fund its operations beyond the third quarter of 2013 unless it can secure additional equity financing or monetize assets. These conditions along with other matters set forth in note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that casts significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
Halifax, Canada
March 30, 2013

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash		$ **1,502,889**	$ 4,104,350
Trade and other receivables	**8**	**181,477**	242,851
Prepaid expenses		**39,103**	70,259
Inventory		**-**	14,830
		1,723,469	4,432,290
Non-current assets:			
Exploration and evaluation assets	**9**	**11,472,724**	32,313,187
Property, plant and equipment	**10**	**118,766**	5,037,361
Goodwill	**11**	**-**	5,000,000
		11,591,490	42,350,548
TOTAL ASSETS		**$ 13,314,959**	**$** 46,782,838
LIABILITIES & EQUITY			
Current liabilities:			
Trade and other payables		$ **628,252**	$ 1,036,247
Current portion of obligations under finance leases	**12**	**3,924**	8,591
		632,176	1,044,838
Non-current liabilities:			
Obligations under finance leases	**12**	**6,923**	333,209
Provision for restoration costs	**14**	**-**	104,751
Deferred tax liability	**15**	**-**	4,916,034
		6,923	5,353,994
TOTAL LIABILITIES		$ **639,099**	$ 6,398,832
EQUITY			
Shareholders' equity:			
Share capital	**17**	$ **75,975,162**	$ 75,186,822
Contributed surplus		**10,631,949**	10,500,956
Accumulated other comprehensive income (loss)		**(426,531)**	(360,078)
Deficit		**(73,504,720)**	(42,874,792)
		12,675,860	42,452,908
Non-controlling interest		**-**	(2,068,902)
TOTAL EQUITY		$ **12,675,860**	$ 40,384,006
TOTAL LIABILITIES AND EQUITY		$ **13,314,959**	$ 46,782,838

Going concern (Note 2)

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

Approved on behalf of the Board:

Signed "Kenneth W. MacDonald"

_________________________________ Director

Signed "David S.B. Carnell"

_________________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Loss
(Canadian dollars)

	Notes		For the year ended December 31, 2012		2011
Exploration expenses	**20**		**3,167,762**		4,098,634
Corporate and administration	**21**		**1,678,298**		4,970,245
Other expenses			**8,862**		10,670
Gain on the sale of assets			**(252,434)**		-
Foreign exchange loss			**131,150**		(16,877)
Loss from operating activities			**(4,733,638)**		(9,062,672)
Finance income	**22**		**96,382**		82,248
Finance expense	**22**		**(3,826)**		(3,211)
Net finance income			**92,556**		79,037
Income tax expense	**15**		**-**		(3,177)
Loss from continuing operations			**(4,641,082)**		(8,986,812)
Loss from discontinued operations	**19**		**(2,704,728)**		(4,771,559)
Net loss		**$**	**(7,345,810)**	$	(13,758,371)
Net loss attributable to:					
Equity holders of the Corporation			**(7,047,487)**		(11,861,320)
Non-controlling interest			**(298,323)**		(1,897,051)
		$	**(7,345,810)**	$	(13,758,371)
Basic and diluted loss attributable to equity holders		**$**	**(0.15)**	$	(0.26)
Basic and diluted loss per share:					
Continuing operations		**$**	**(0.09)**	$	(0.20)
Discontinued operations			**(0.06)**		(0.10)
Basic and diluted loss per share		**$**	**(0.15)**	$	(0.30)
Basic and diluted weighted average number of shares outstanding			**48,094,528**		45,363,318

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

	For the year ended December 31,	
	2012	**2011**
Net loss	**$ (7,345,810)**	$ (13,758,371)
Other comprehensive (loss)		
Foreign currency translation difference arising on translation of foreign subsidiaries	**(181,192)**	(296,867)
Other comprehensive loss	**(181,192)**	(296,867)
Total comprehensive loss	**$ (7,527,002)**	$ (14,055,238)
Total comprehensive loss attributable to:		
Equity holders of the Corporation	**(7,242,173)**	(12,244,069)
Non-controlling interest	**(284,829)**	(1,811,169)
	$ (7,527,002)	$ (14,055,238)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Attributable to equity holders of the Corporation					
	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Non-controlling interests	Total equity
Balance at December 31, 2010	$ 72,325,969	$ 7,012,557	$ 22,671	$ (31,012,681)	$ (256,942)	$ 48,091,574
Balance at January 1, 2011	72,325,969	7,012,557	22,671	(31,012,681)	(256,942)	48,091,574
Total comprehensive loss for the period:						
Net loss	$ -	$ -	$ -	$ (11,861,320)	$ (1,897,051)	$ (13,758,371)
Other comprehensive loss:	-	-	(382,749)	-	85,882	(296,867)
Private placement net of share issue costs	2,063,876	-	-	-	-	2,063,876
Change in share subscription receivable	14,677	-	-	-	-	14,677
Share-based payments	-	3,811,059	-	-	-	3,811,059
Stock options exercised	782,300	(322,660)	-	-	-	459,640
Total transactions with owners	2,860,853	3,488,399	-	-	-	6,349,252
Reduction in ownership of APM	-	-	-	(791)	(791)	(1,582)
Balance at December 31, 2011	$ 75,186,822	$ 10,500,956	$ (360,078)	$ (42,874,792)	$ (2,068,902)	$ 40,384,006
Balance at January 1, 2012	**$ 75,186,822**	**$ 10,500,956**	**$ (360,078)**	**$ (42,874,792)**	**$ (2,068,902)**	**$ 40,384,006**
Total comprehensive loss for the period:						
Net loss	**$ -**	**$ -**	**$ -**	**$ (7,047,487)**	**$ (298,323)**	**$ (7,345,810)**
Other comprehensive loss:	**-**	**-**	**(194,686)**	**-**	**13,494**	**(181,192)**
Private placement net of share issue costs (note 17)	**773,586**		**-**	**-**	**-**	**773,586**
Warrants issued under private placement (note 17 & 18)	**-**	**176,471**				**176,471**
Change in share subscription receivable (note 24)	**14,754**	**-**	**-**	**-**	**-**	**14,754**
Share-based payments	**-**	**288,069**	**-**	**-**	**-**	**288,069**
Total transactions with owners	**788,340**	**464,540**	**-**	**-**	**-**	**1,252,880**
Distribution to shareholders (note 6)	**-**	**(333,547)**	**128,233**	**(23,582,441)**	**2,353,731**	**(21,434,024)**
Balance at December 31, 2012	**$ 75,975,162**	**$ 10,631,949**	**$ (426,531)**	**$ (73,504,720)**	**$ -**	**$ 12,675,860**

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

	Notes		For the year ended December 31, 2012		2011
Cash flows from operating activities:					
Net loss		$	**(7,345,810)**	$	(13,758,371)
Item not involving cash:					
Depreciation and amortization			**37,555**		318,702
Depletion of resource property interest			**-**		39,840
Stock-based compensation			**288,070**		3,811,059
Impairment of property, plant & equipment and resource property interests	**10**		**360,457**		3,917,790
Impairment of exploration and evaluation assets distributed	**6**		**2,435,485**		-
Gain on sale of property, plant & equipment and resource property interests			**(544,487)**		(89,767)
Net finance income			**(77,680)**		(42,133)
Income tax expense			**-**		15,919
Income taxes paid			**-**		(15,919)
Foreign exchange loss (gain)			**124,200**		(2,403)
Change in non-cash working capital			**(381,777)**		675,798
Cash flows from operating activities			**(5,103,987)**		(5,129,485)
Cash flows from financing activities:					
Issue of common shares for cash, net of issue costs			**950,057**		2,063,876
Proceeds from exercise of stock options			**-**		459,640
Changes in ownership of subsidiary that do not result in a loss of control			**-**		(1,582)
Proceeds on repayment of share subscription receivable			**12,000**		12,000
Repayment of obligations under capital lease			**(16,453)**		(5,960)
Interest paid			**(6,005)**		(8,192)
Cash distributed to shareholders upon disposal of subsidiary	**6**		**(2,348,820)**		-
Transaction costs incurred on distribution	**6**		**(499,250)**		-
Cash flows from financing activities			**(1,908,471)**		2,519,782
Cash flows from investing activities:					
Expenditures on exploration and evaluation assets			**(307,926)**		(2,019,746)
Recovery of expenditures on exploration and evaluation assets			**328,775**		-
Proceeds on sale of property, plant and equipment			**486,868**		324,732
Proceeds on sale of resource property interests			**3,405,041**		-
Proceeds on repayment of loan to former subsidiary			**550,000**		-
Expenditures on property, plant and equipment			**(27,015)**		(66,310)
Interest received			**99,454**		82,574
Cash flows from investing activities			**4,535,197**		(1,678,750)
Effect of exchange rate change on cash and cash equivalents			**(124,200)**		13,573
Decrease in cash and cash equivalents			**(2,601,461)**		(4,274,880)
Cash and cash equivalents, beginning of period			**4,104,350**		8,379,230
Cash and cash equivalents, end of period		**$**	**1,502,889**	$	4,104,350

Cash flows from discontinued operations (Note 19)

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

1. Nature of operations and continuance of operations:

Erdene Resource Development Corporation (the "Corporation") is a Corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The consolidated financial statements of the Corporation as at and for the year ended December 31, 2011 and 2010 comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the discovery of large tonnage, low cost, gold, copper, molybdenum and coal deposits in Mongolia.

2. Going concern:

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

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

The Corporation experienced significant losses and negative cash flows from operations in 2012 and 2011. The Corporation had working capital of $1,091,293 at December 31, 2012 compared to $3,387,452 at December 31, 2011, representing a $2,296,159 decrease, and has a deficit. Management estimates current working capital is sufficient to fund the Corporation's budgeted expenditures only until approximately the third quarter of 2013. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

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

3. Basis of presentation and first-time adoption of IFRS

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

3. Basis of presentation and first-time adoption of IFRS (continued)

a) Statement of compliance (continued)

The consolidated financial statements were authorized for issue by the Board of Directors on March 30, 2013.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

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

c) Use of estimates and judgments

The preparation of the financial statements requires the Corporation'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. The more significant areas requiring the use of management estimates and assumptions are discussed below.

Critical accounting estimates:

Estimate of recoverability for non-financial assets

When there are indicators that an asset may be impaired, the Corporation is required to estimate the asset's recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill.

Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

3. Basis of presentation and first-time adoption of IFRS (continued)

Estimate of recoverability for non-financial assets (continued)

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditure.

Share-based payments

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

Provisions for site restoration

Management's assumption that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

The following accounting policies involve judgments or assessments made by management:

Exploration and evaluation assets

Management is required to apply judgment in whether a property or an exploration area's potential has been determined, in which case subsequent exploration and evaluation costs are capitalized.

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for resource properties. Once technical feasibility and commercial viability of a resource property can be demonstrated, exploration costs will be reclassified to property, plant and equipment and subject to different accounting treatment. As at December 31, 2012, management determined that no such reclassification was required.

Taxation

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

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by all subsidiaries of the Corporation.

a) Basis of consolidation

For the year ended December 31, 2011 and until November 9, 2012, the effective date of the Plan of Arrangement described in Note 6, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Tamerlane International Limited (Bermuda); Erdene Mongol XXK and Anian Resources XXK (Mongolia); Erdene Resources Inc., 6531954 Canada Limited and Advanced Primary Minerals Corporation (“APM”) (Canada) 60% (2010 – 60%); Advanced Primary Minerals USA Corp. (“APMUSA”) 60% (2010 – 60%) and ERD Aggregate Corporation (Delaware). All subsidiaries are wholly owned unless otherwise indicated.

Subsequent to August 7, 2012, the effective date for the windup of Tamerlane an inactive holding company, and subsequent to November 9, 2012, the effective date of the Plan of Arrangement described in Note 6, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Erdene Mongol XXK and Anian Resources XXK (Mongolia); and ERD Aggregate Corporation (Delaware). All subsidiaries are wholly owned.

i) Subsidiaries

Subsidiaries are those entities over which the Corporation has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Corporation controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Corporation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the parent Corporation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation and cease to be consolidated from the date on which control is transferred out of the Corporation. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

ii) Transactions eliminated on consolidation

Inter-corporation balances and transactions, and any unrealized income and expenses arising from inter-corporation transactions, are eliminated in preparing the consolidated financial statements.

4. Summary of significant accounting policies (continued)

b) Foreign currency

i) Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for: exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from cumulative translation account to profit or loss on repayment of the monetary items.

ii) Foreign operations

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each income statement presented are translated at monthly average exchange rates; and
- all resulting exchange differences are recognized as a separate component of equity (“cumulative translation account”)

On the loss of control of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are recognized in the income statement as part of the gain or loss on sale.

c) Financial instruments

i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they originate. All other financial assets are recognized initially on trade date at which the Corporation becomes party to the contractual provision of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

4. Summary of significant accounting policies (continued)

d) Financial instruments (continued)

i) Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash.

Cash comprises cash on hand and demand deposits.

Fair value

Fair value is determined based on current bid prices for all quoted investments.

ii) Financial liabilities

The Corporation initially recognizes other financial liabilities on the trade date at which the Corporation becomes party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Corporation derecognizes financial liabilities when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following non-derivative other financial liabilities: trade and other payables.

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

d) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time a property, or an area's potential has been determined, in which case subsequent exploration and evaluation costs are capitalized.

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

4. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

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 resource property in property, plant and equipment.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount, in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

e) Property, plant and equipment

Recognition and measurement

Land is stated at historical cost. All items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation of property, plant and equipment is calculated using the declining balance method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of certain leased plant and equipment, the shorter lease term at the following rates:

4. Summary of significant accounting policies (continued)

e) Property, plant and equipment

Depreciation (continued)

Asset	Basis	Rate
Equipment, furniture & fixtures	Declining balance	20%
Software & computers	Declining balance	33%
Vehicles	Declining balance	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Resource properties

Resource properties include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, and development assets also includes subsequent costs to develop the mine to the production phase.

Depletion of resource properties is calculated on the basis of units of production and commences when the mine starts commercial production. Depletion is based on assessments of measured and indicated resources and a proportion of mineral resources available to be mined by the current production equipment.

f) Impairment

i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

The carrying amounts of the Corporation’s non-financial assets, excluding exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset’s recoverable amount is estimated. For goodwill, the recoverable amount is estimated at least once each year at the same time.

4. Summary of significant accounting policies (continued)

f) Impairment (continued)

ii) Non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the “cash-generating-unit” or “CGU”). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Corporation’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

g) Provisions for site restoration

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost

h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

4. Summary of significant accounting policies (continued)

h) Income taxes (continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortization and depreciation on property, plant and equipment, tax losses carried forward and fair value adjustments on assets acquired in business combinations.

i) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at fair value of the equity instruments at the date of grant. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no-true-up for differences between expected and actual outcomes.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

j) Revenue

The Corporation recognizes revenue when the amount of revenue and costs associated with the transaction can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue is recognized when the risks and rewards of ownership are transferred and when the entity no longer has any managerial involvement over goods. Consequently sales are recognized when the Corporation has delivered products to the customer and collectability of the related receivables is reasonably assured. Revenue is reported net of discounts and pricing adjustments.

4. Summary of significant accounting policies (continued)

k) Discontinued operations

A discontinued operation is a component of the Corporation's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statements of loss and comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative period.

l) Earnings per share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares. All share options are currently anti-dilutive. As a result basic and diluted earnings per share are the same.

5. Future changes in accounting policies

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

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

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

5. Future changes in accounting policies (continued)

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets and requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. The Corporation has not early adopted IFRIC 20, but does not expect them to have a significant effect on the consolidated financial statements.

6. Plan of Arrangement

On November 9, 2012 the Corporation completed a Plan of Arrangement (the “Arrangement”) with Advanced Primary Minerals Corporation (“APM”) to exchange all of Erdene’s North American property interests, comprised primarily of Erdene’s interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for shares of APM and to distribute all of the APM shares owned by the Corporation to its shareholders. On the completion of the transaction, the shares of both companies commenced trading. The shares of Morien Resources Corp. (formerly Advanced Primary Minerals Corporation) are listed on the TSX Venture Exchange under the symbol "MOX". Erdene continues under the same name and trading symbol.

Terms of the Arrangement

The Arrangement Agreement set out the terms of the statutory plan of arrangement involving Erdene, APM, Erdene Resources Inc. ("ERI"), and the securityholders of Erdene and APM whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, an entity that owned Erdene’s North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien Resources Corp. ("Morien").
- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene created a new class of common shares ("Erdene New Shares") and exchanged with the Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene, resulting in 100% of the shares of Morien owned by Erdene being distributed to the Erdene Shareholders.

Following the Arrangement, Erdene had 47,902,947 Erdene New Shares outstanding and Morien has 49,255,990 shares outstanding, 47,901,450 (97.25%) of which are held by the Erdene shareholders.

The shares of the Corporation are widely held and there are no controlling blocks of shareholders or formal voting arrangements in place. Following the transaction, Erdene will not have any continuing interest in Morien. As a result, the transaction is accounted for as a distribution of assets to the shareholders of the Corporation in accordance with IFRIC 17: Distributions of non-cash assets to owners.

(Canadian dollars)

6. Plan of Arrangement (continued)

Under IFRIC-17, the distribution of the net assets to the Corporation's shareholders is measured at the fair value of the net assets distributed and is recorded as a reduction in equity. Management determined the recoverable amount of the net assets to be distributed based on the fair value less costs to distribute, which was supported by a formal valuation of the range of values representing the fair market value of the assets acquired by APM, as outlined in the table below. The Corporation recorded an impairment charge of $2.7 million as a loss from discontinued operation in the Statement of Loss as a result of the transaction. The following table presents the carrying value of assets and liabilities distributed.

Cash	$	2,293,465
Restricted cash		55,355
Prepaid expenses		239,504
Exploration and evaluation assets		20,945,901
Property, plant and equipment		508,658
Goodwill		5,000,000
Note payable to Erdene Resource Development		(550,000)
Trade and other payables		(206,590)
Deferred tax liability		(4,916,034)
		23,370,259
Transaction costs		499,250
Less: impairment		(2,435,485)
Fair value of assets and liabilities distributed	$	21,434,024

7. Financial instruments

Credit Risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount December 31, 2012	Carrying Amount December 31, 2011
Cash	**$ 1,502,889**	$ 4,104,350
Trade and other receivables	**181,477**	242,851
	$ 1,684,366	$ 4,347,201

The Corporation manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2012, less than 4% of the balance of cash was held in banks outside Canada (2011 - 3%).

Trade and other receivables include exploration partner recovery which was concentrated with a single company, Xstrata Coal, a large multinational mining conglomerate. Xstrata accounted for 32% of trade and other receivables in 2012 (2011 – 57%). Management believes the credit risk on amounts receivable is low. Other receivables include amounts receivable from employees and an officer and director of the Corporation and are considered to be low risk.

(Canadian dollars)

7. Financial instruments (continued)

Liquidity Risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Corporation does not have sufficient working capital to carry out all budgeted programs in 2013 and must finance by the third quarter 2013 to avoid disruption in planned expenditures (see Note 2).

Market Risk:

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

a) Interest rate risk

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

b) Foreign currency risk

The Corporation operates in Mongolia, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash are primarily held with high quality financial institutions in Canada. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Corporation's budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

The Corporation's exposure to US dollar currency risk was as follows:

	December 31, 2012	December 31, 2011
Cash	**$ 315,515**	$ 375,536
Trade and other receivables	**-**	157,920
Trade and other payables	**(54,198)**	(62,411)
Finance leases	**-**	(327,342)
	$ 261,317	$ 143,703

Sensitivity to a plus or minus 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately $26,000 (2011 - $14,370).

The Corporation's exposure to Mongolian Tugrik currency risk was as follows:

	December 31, 2012	December 31, 2011
Cash	**$ 60,411**	$ 92,100
Trade and other receivables	**-**	12,493
Trade and other payables	**(70,332)**	(65,230)
	$ (9,921)	$ 39,363

(Canadian dollars)

7. Financial instruments (continued)

b) Foreign currency risk (continued)

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $1,000 (2011 - $3,740).

c) Price risk

The Corporation is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

Fair Value

Cash, consisting of bank balances, shown in the consolidated statement of financial position as at December 31, 2012 and 2011 are measured at fair value on a recurring basis using level 1 inputs. The fair value of the financial assets and liabilities at December 31, 2012 and 2011, using level 2 and 3 inputs, was nil. During the years ended December 31, 2012 and 2011, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

8. Trade and other receivables

	December 31, 2012	December 31, 2011
Trade receivables	**$ 56,004**	$ 18,835
Exploration partner recovery	**57,945**	139,085
Employee advances and receivables	**39,324**	49,585
Sales tax receivable	**27,246**	27,386
Other	**958**	7,960
	$ 181,477	$ 242,851

Employee advances and receivables are non-interest bearing and repayable on demand. All employee loans were repaid subsequent to year-end with the exception of $30,300 (December 31, 2011 - $32,700) receivable from a director and officer of the Corporation, the terms of which are disclosed in note 24.

(Canadian dollars)

9. Exploration and evaluation assets

	North America		Mongolia		
	Donkin Coal	Nova Scotia Aggregate	Zuun Mod Molybdenum	Other	Total
Balance, January 1, 2011	$ 19,846,028	$ -	$ 10,803,732	$ 232,914	$ 30,882,674
Additions	1,176,213	-	774,056	69,477	2,019,746
Effect of movements in exchange rates	-	-	(567,379)	(21,854)	(589,233)
Balance, December 31, 2011	$ 21,022,241	$ -	$ 11,010,409	$ 280,537	$ 32,313,187
Balance, January 1, 2012	**$ 21,022,241**	**$ -**	**$ 11,010,409**	**$ 280,537**	**$ 32,313,187**
Additions	**-**	**252,435**	**392,247**	**66,023**	**710,705**
Recovery of expenditures	**(328,775)**	**-**	**-**	**-**	**(328,775)**
Disposal	**-**	**-**	**-**	**(150,361)**	**(150,361)**
Effect of movements in exchange rates	**-**	**-**	**(122,779)**	**(3,352)**	**(126,131)**
Distribution under Plan of Arrangment (note 6)	**(20,693,466)**	**(252,435)**	**-**	**-**	**(20,945,901)**
Balance, December 31, 2012	**$ -**	**$ -**	**$ 11,279,877**	**$ 192,847**	**$ 11,472,724**

Donkin:

The Corporation's interest in the Donkin Coal Project was distributed to shareholders in November 2012 under the Plan of Arrangement described in Note 6.

Mongolian properties:

The Corporation's mineral exploration and mining licenses in Mongolia are held by its subsidiaries, Erdene Mongol XXK, and Anian Resources XXK. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of nine years, subject to minimum work requirements. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. These rights are held in good standing through the payment of an annual license fee.

Zuun Mod

The Zuun Mod property is a molybdenum-copper deposit and consists of two contiguous mining licenses. The property is located in Bayankhongor Province southwest of Ulaanbaatar. Beginning July 1, 2007, the Corporation's Zuun Mod molybdenum project met the Corporation's criteria to begin capitalizing exploration and evaluation costs associated with the project. One mining license was issued in 2011 (consisting of 6,041 hectares) and the second contiguous mining license was issued in the third quarter 2012 (consisting of 358 hectares). Together these mining licenses contain all of the reported mineral resources at Zuun Mod. The Mining Licenses are valid for an initial 30-year term with provision to renew the license for two additional 20-year terms.

Other Licenses

The Corporation has four metals exploration licenses located in Bayankhongor and Gobi Altai provinces in Mongolia. The license renewal dates are in April, November and December 2013.

(Canadian dollars)

9. Exploration and evaluation assets (continued)

Mongolian properties (continued):

Disposals

The Corporation disposed of three coal licenses in 2012 with a book value of $150,361.

10. Property, plant and equipment

	Land & buildings	Plant & field equipment	Equipment, furniture & fixtures	Software & computer	Resource properties	Total
Cost						
Balance, January 1, 2011	$ 2,342,563	$ 1,393,413	$ 635,636	$ 181,142	$ 6,040,491	$ 10,593,245
Additions	-	41,349	15,876	24,961	104,751	186,937
Disposals	(400,015)	(19,465)	(372,525)	(12,735)	-	(804,740)
Transfer of assets to inventory	-	-	-	-	(25,250)	(25,250)
Write-offs	-	1,855	-	2,445	-	4,300
Effect of movements in exchange rates	31,944	27,284	(10,662)	(1,821)	140,901	187,646
Balance, December 31, 2011	$ 1,974,492	$ 1,444,436	$ 268,325	$ 193,992	$ 6,260,893	$ 10,142,138
Balance, January 1, 2012	**$ 1,974,492**	**$ 1,444,436**	**$ 268,325**	**$ 193,992**	**$ 6,260,893**	**$ 10,142,138**
Additions	**-**	**-**	**2,195**	**24,820**	**-**	**27,015**
Disposals	**(1,435,683)**	**(1,391,053)**	**(166,683)**	**(20,313)**	**(6,259,752)**	**(9,273,484)**
Distribution under Plan of Arrangment (note 6)	**(508,658)**					**(508,658)**
Effect of movements in exchange rates	**(30,151)**	**(10,049)**	**(959)**	**(519)**	**(1,141)**	**(42,819)**
Balance, December 31, 2012	**$ -**	**$ 43,334**	**$ 102,878**	**$ 197,980**	**$ -**	**$ 344,192**
Depreciation & depletion						
Balance, January 1, 2011	$ (281,922)	$ (398,302)	$ (456,112)	$ (121,614)	$ (216,649)	$ (1,474,599)
Depreciation & depletion	(36,245)	(225,542)	(36,463)	(20,452)	(39,840)	(358,542)
Disposals	235,490	6,163	344,587	6,040	9,566	601,846
Impairment	(343,333)	(452,574)	(98,370)	(2,699)	(3,020,814)	(3,917,790)
Effect of movements in exchange rates	10,639	23,409	15,043	1,892	(6,675)	44,308
Balance, December 31, 2011	$ (415,371)	$ (1,046,846)	$ (231,315)	$ (136,833)	$(3,274,412)	$ (5,104,777)
Balance, January 1, 2012	**$ (415,371)**	**$ (1,046,846)**	**$ (231,315)**	**$ (136,833)**	**$(3,274,412)**	**$ (5,104,777)**
Depreciation & depletion	**-**	**(4,481)**	**(9,599)**	**(23,475)**	**-**	**(37,555)**
Disposals	**767,534**	**1,047,754**	**166,683**	**19,377**	**3,274,412**	**5,275,760**
Impairment	**(352,163)**	**(8,294)**				**(360,457)**
Effect of movements in exchange rates	**-**	**272**	**884**	**447**	**-**	**1,603**
Balance, December 31, 2012	**$ -**	**$ (11,595)**	**$ (73,347)**	**$ (140,484)**	**$ -**	**$ (225,426)**
Carrying amounts						
At January 1, 2011	$ 2,060,641	$ 995,111	$ 179,524	$ 59,528	$ 5,823,842	$ 9,118,646
At December 31, 2011	$ 1,559,121	$ 397,590	$ 37,010	$ 57,159	$ 2,986,481	$ 5,037,361
At December 31, 2012	**$ -**	**$ 31,739**	**$ 29,531**	**$ 57,496**	**$ -**	**$ 118,766**

(Canadian dollars)

10. Property, plant and equipment (continued)

a) Impairment loss

The Corporation's former subsidiary, APM, had been undercapitalized since operations began in 2009 and has been operating during the weakest US economy in recent years. In the current year, APM financed its working capital deficits through the sale of non-core assets and a line of credit with Erdene. Obtaining sales agreements with new customers had been slower than anticipated and in December 2011, sales to an existing key customer declined significantly. The lower than budgeted sales combined with the lack of success in having the McDuffie land permitted caused the Corporation to assess the recoverable amount of the non-financial assets related to the cash generating unit (APM clay operations). The APM clay operations were part of the operating segment USA.

In 2011, the recoverable amount of the cash-generating unit was estimated based on the fair value less costs to sell. The fair value less costs to sell for non-producing assets (McDuffie land that is not permitted for producing clay) was based on appraised value of land. For the producing assets, fair value less costs to sell was based on a non-binding offer from an interested party associated with the operations, which represented the best available information. Based on the assessment in 2011, the recoverable amount of the cash-generating unit was approximately $1,350,000 resulting in an impairment loss of $3,917,790 recorded in loss from discontinued operations in the Statement of Loss. In 2012, the Corporation further assessed the recoverable amount of the remaining land, based on an informal market analysis, and recorded and additional impairment of $281,051 in loss from discontinued operations in the Statement of Loss. A further $79,406 impairment is recorded in loss from discontinued operations in the Statement of Loss related to the producing assets, upon disposal of the assets.

b) Disposal of assets

On June 29, 2012, the Corporation closed the sale of its Dearing, Georgia clay processing operations and select real estate. Details of the sale are as follows:

Cash sale price	$	500,573
Assumed liabilities		422,421
Total consideration		922,994
Book value of net assets	$	(964,132)
Costs to sell		(38,268)
Loss on sale of clay assets	$	(79,406)

The loss on sale of clay assets is recorded in the Consolidated Statement of Loss in loss from discontinued operations.

(Canadian dollars)

10. Property, plant and equipment (continued)

b) Disposal of assets

On June 29, 2012, the Corporation completed the sale of its real estate and associated royalty interest in the Granite Hill property to AUSA. Details of the sale are as follows:

Cash sale price	$	3,443,986
Recognition of prepaid royalty	$	84,252
Costs to sell	$	(38,945)
Book value of assets	$	(3,112,988)
Gain on sale of aggregate assets	$	376,305

The gain is recorded in the Consolidated Statement of Loss in loss from discontinued operations.

c) Leased land and building:

At December 31, 2012 the net carrying amount of leased land and buildings was nil (December 31, 2011: $315,270).

d) Leased plant & field equipment:

At December 31, 2012 the net carrying amount of leased plant and field equipment was nil (December 31, 2011: $24,013).

e) Leased equipment, furniture & fixtures:

At December 31, 2012 the net carrying amount of leased equipment, furniture and fixtures was $9,865 (December 31, 2011: $13,947).

11. Goodwill

For the purpose of impairment testing, goodwill is allocated to the Corporation's cash-generating unit which represents the lowest level within the Corporation at which the goodwill is monitored for internal management purposes, which is not higher than the Corporation's operating segments. For the purpose of impairment testing, the entire amount of goodwill was allocated to the Donkin project which is part of the Operating Segment Canada.

The goodwill was disposed as part of the Plan of Arrangement described in note 6.

(Canadian dollars)

12. Finance leases

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	December 31, 2012			**December 31, 2011**		
Less than 1 year	**$ 4,683**	**$ 759**	**$ 3,924**	$ 40,764	$ 32,173	$ 8,591
Between 1 and 5 years	**7,416**	**493**	**6,923**	421,241	88,032	333,209
Total	**$ 12,099**	**$ 1,252**	**$ 10,847**	$ 462,005	$ 120,205	$ 341,800

13. Operating leases

Operating lease rentals are payable as follows:

	December 31, 2012	2011
Less than 1 year	**78,648**	76,727
Between 1 and 5 years	**74,256**	133,296
Total	**$ 152,904**	$ 210,023

The Corporation has the following operating leases:

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

14. Provision for restoration costs

A provision of $104,751 was made in 2011 in respect of the Corporation's obligation for site restoration costs related to the APM clay operations in Georgia, USA. The provision was calculated based on an estimated 30 year mine life discounted based on a risk free rate of 3.36% with an assumed inflation rate of 2.5%.

On June 29, 2012, the Corporation closed the sale of its Dearing, Georgia clay processing operations and select real estate. The sale included an assumption of any obligations associated with restoration costs for the mining site by the buyer. Details regarding the sale of the APM clay processing operations are contained in Note 10(b).

(Canadian dollars)

15. Income taxes and deferred tax liability

The Corporation's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to income (loss) before income taxes as a result of the following:

		December 31, 2012		December 31, 2011
Statutory tax rates		**31%**		33%
Income taxes (recovery) computed at the statutory rates	**$**	**(2,277,201)**	$	(4,471,470)
Effects of foreign exchange translation		**(17,532)**		254,024
Benefit of tax losses not recognized		**4,297,615**		1,170,034
Dilution gain on disposal of interest in subsidiary		**-**		-
Expenses not deductible for tax purposes		**(2,065,634)**		1,245,135
Effect of foreign tax rates		**488,390**		17,644
Write down of resource properties		**-**		1,428,372
Tax deductible expenses charged to retained earnings		**(131,559)**		-
Effect of change in enacted tax rates		**(45,798)**		-
Other		**(248,281)**		372,180
Provision for income taxes	**$**	**-**	$	15,919

The enacted tax rates in Canada (31% in 2011), USA (39% in 2011) and Mongolia (25%) where the company operates are applied in the tax provision calculation. The combined Canadian federal and provincial statutory rate has decreased from the prior period due to a scheduled enacted rate reduction. This decrease has not materially affected the measurement of deferred tax obligations arising from temporary differences as these scheduled reductions were enacted at December 31, 2011. Provision for income taxes consists of the following:

	For the year ended December 31, 2012			2011
Current income tax expense	**$**	**-**	$	15,919

The following table the Corporation's reflects deferred income tax assets (liabilities):

		December 31, 2012		December 31, 2011
Resource properties and deferred exploration costs	**$**	**-**	$	(4,916,034)
Deferred income tax liability	$	-	$	(4,916,034)

The deferred income tax liability was related to the Canadian tax jurisdiction.

(Canadian dollars)

15. Income taxes and deferred tax liability (continued)

The following temporary differences, non-capital losses and capital losses have not been recognized in the consolidated financial statements.

				2012
	Canada	**Mongolia**	**United States**	**Total**
Non-capital losses carried forward	**$ 14,520,574**	**$ 6,686,156**	**$ 10,347**	**$ 21,217,077**
Capital losses carried forward	**7,163,280**	**-**	**-**	**7,163,280**
Property, plant and equipment	**173,756**	**-**	**-**	**173,756**
Share issuance costs	**116,718**	**-**	**-**	**116,718**
Intangible assets	**377,650**	**-**	**-**	**377,650**
Exploration and evaluation assets	**1,210,729**	**-**	**-**	**1,210,729**
	$ 23,562,707	**$ 6,686,156**	**$ 10,347**	**$ 30,259,210**

				2011
	Canada	Mongolia	United States	Total
Non-capital losses carried forward	$ 14,620,785	$ 5,601,865	$ 4,077,097	$ 24,299,747
Capital losses carried forward	-	-	-	-
Property, plant and equipment	21,043	-	1,366,345	1,387,388
Share issuance costs	422,521	-	-	422,521
Intangible assets	400,684	-	898,838	1,299,522
Exploration and evaluation assets	139,631	-	907,982	1,047,613
	$ 15,604,664	$ 5,601,865	$ 7,250,262	$ 28,456,791

As at December 31 2012, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	For the year ended December 31, 2012	2011
2012	**$ -**	$ 1,062,034
2013	**1,006,011**	991,178
2014	**3,004,346**	3,163,285
2015	**4,110,331**	4,463,161
2016	**2,078,387**	-
Thereafter	**11,018,002**	14,620,089
	$ 21,217,077	$ 24,299,747

As of December 31, 2012, the Corporation has capital losses of $7,163,280 to be carried forward and applied against capital gains of future periods.

(Canadian dollars)

16. Capital management

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can continue to finance its ongoing exploration and development programs and ensure the Corporation remains in sound financial position. The Company defines capital that it manages as the aggregate of its obligations under finance leases and equity attributable to common shareholders of the Corporation, which is comprised of share capital, contributed surplus, accumulated other comprehensive income (loss), and deficit.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust the capital structure, the Corporation (upon approval from its Board of Directors, as required) may issue additional capital, primarily through equity financings. The Board of Directs reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions, major investments, as well as annual capital and operating budgets. The Company is not subject to externally imposed capital requirements.

The Company utilizes a combination of finance leases and equity to finance its operations and exploration.

			December 31,	
Capital Structure	**Interest rate**	**Maturity**	**2012**	**2011**
Shareholders' Equity			**$ 12,675,860**	$ 40,384,006
Obligations under finance leases	8.36%	July 2015	**10,847**	341,800
Net capital			**$ 12,686,707**	$ 40,725,806

17. Share Capital

<u>Share capital</u>

The Corporation has an unlimited number of common shares authorized for issue without par value. The number of common shares outstanding at year-end is as follows:

	2012	**2011**
On issue at January 1	**47,901,451**	44,844,189
Issued for cash	**5,883,848**	2,739,762
Exercise of stock options	**-**	317,500
On issue at December 31	**53,785,299**	47,901,451

The Plan of Arrangement more fully described in note 6 resulted in Erdene shareholders receiving one-half of one Morien share and one-half of one Erdene New Share in exchange for each Erdene share held at the time of the transaction. This effectively resulted in a share consolidation on November 9, 2012. The exercise price and the number of common shares issuable under any of the Company's outstanding warrants and stock option plans prior to the effective date of the transaction have been proportionately adjusted. The number of shares and per share calculations has been retroactively restated in these financial statements and notes to financial statements.

17. Share Capital (continued)

Share capital (continued)

Reducing the dollar value of share capital is the balance of a share subscription receivable (see note 25). At December 31, 2012, this receivable amounted to $66,966 (2011 - $74,630). Repayments of this share subscription receivable are added back to share capital each period and can been seen in the Consolidated Statement of Changes in Equity.

Issuance of common shares

In November and December 2011, the Corporation closed a private placement financing which resulted in the issuance of 2,739,762 shares at $0.40 per share generating gross proceeds of $2,191,814. Share issue costs of $127,938 were paid in conjunction with the private placement resulting in net proceeds of $2,063,876.

Additionally, for the year ended December 31, 2011, 317,500,000 common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of $0.1.44 per option. All issued shares are fully paid.

In December 2012, the Corporation closed a private placement financing which resulted in the issuance of 5,882,352 Units at $0.17 per Unit generating gross proceeds of $1,000,000. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.25 for a 24-month period. Share issue costs of $49,943 were paid in conjunction with the private placement resulting in net proceeds of $950,057. The Black-Scholes fair value of $176,471 was allocated to the warrants and recorded in contributed surplus. All securities issued are subject to a hold period of four months and one day from the date of issuance. All issued shares are fully paid.

18. Stock options and warrants

(a) Stock Options - Erdene

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

(Canadian dollars)

18. Stock options and warrants (continued)

(b) Stock Options – Erdene (continued)

The changes in stock options during the years ended December 31, 2012 and 2011 were as follows:

	December 31, 2012			December 31, 2011		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding at January 1	**3,804,000**	**$**	**1.20**	2,021,500	$	1.20
Granted	**885,000**		**0.62**	2,175,000		2.46
Exercised	**-**		**-**	(317,500)		1.44
Expired	**(175,000)**		**2.64**	(20,000)		2.74
Forfeited	**(2,137,500)**		**2.40**	(55,000)		1.70
Options relinquished for new options as part of the Arrangement	**(2,376,500)**		**0.90**	-		-
New options granted as part of the Arrangement	**2,376,500**		**0.37**	-		-
Outstanding at December 31	**2,376,500**	**$**	**0.37**	3,804,000	$	1.20
Exercisable at December 31	**2,367,000**	**$**	**0.37**	3,688,500	$	1.90

As a result of the Plan of Arrangement described in Note 6, outstanding options to acquire Erdene Shares were exchanged for one-half of one Morien Option and one-half of one new option of Erdene. The aggregate exercise price of the replacement options were equal to the Erdene Options they replace, and were allocated based on the volume weighted average trading prices of the shares of Erdene and Morien following the closing of the Arrangement which resulted in a new exercise price of 41.26% of the original price attributable to the one-half of one new option of Erdene. In addition, the expiry term for certain options were modified based on the employees continuing involvement with the respective Company/projects.

The options relinquished as part of the Plan of Arrangement were fully vested on the date of relinquishment and the majority of the replacement options granted were fully vested at the issue date and no payments were made to the holders as a result of the modifications. As such, the relinquished options were treated as cancelled and there is no further accounting for the replacement options.

The weighted average share price at the date of exercise for stock options exercised in 2011 was $1.43 on a pre share consolidation basis.

(Canadian dollars)

18. Stock options and warrants (continued)

(b) Stock Options – Erdene (continued)

The following table summarizes information concerning outstanding and exercisable options at December 31, 2012:

	Outstanding		Exercisable
Expiry date	**Number of Options**	**Exercise price**	**Number of Options**
April 4, 2013	15,000	$ 0.76	15,000
November 9, 2013	275,000	0.33	275,000
October 10, 2013	13,500	0.29	13,500
June 26, 2014	425,000	0.25	425,000
September 21, 2014	172,500	0.25	172,500
April 15, 2015	390,500	0.48	390,500
October 8, 2015	250,000	0.48	250,000
March 22, 2016	150,000	1.04	140,500
August 27, 2017	685,000	0.25	685,000
	2,376,500	**$ 0.37**	**2,367,000**

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:

	Year Ended December 31, 2012	**Year Ended December 31, 2011**
Share price at grant date	**$ 0.21**	$ 1.27
Exercise price	**$ 0.31**	$ 1.23
Risk-free interest rate	**1.3%**	2.0%
Expected life	**4.5 years**	4.3 years
Expected volatility	**97%**	98%
Expected dividends	**0.0%**	0.0%

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

(c) Warrants - Erdene

As described in Note 17, a private placement of Units was completed during the year ended December 31, 2012. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.25 for a 24-month period. The following table summarizes the continuity of the warrants for the years ended December 31, 2012 and 2011:

(Canadian dollars)

18. Stock options and warrants (continued)

(c) Warrants – Erdene (continued)

	December 31, 2012		December 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	**-**	**$ -**	-	$ -
Issued	**2,941,179**	**0.25**	-	-
Outstanding at December 31	**2,941,179**	**$ 0.25**	-	$ -
Exercisable at December 31	**2,941,179**	**$ 0.25**	-	$ -

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

	Year Ended December 31, 2012
Share price at grant date	**$ 0.17**
Exercise price	**$ 0.25**
Risk-free interest rate	**1.1%**
Expected life	**2.0 years**
Expected volatility	**84%**
Expected dividends	**0.0%**

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

(c) Warrants - APM

The following table summarizes the continuity of the warrants for the years ended December 31, 2012 and 2011 were as follows:

	December 31, 2012		December 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	**244,666**	**$ 0.15**	252,666	$ 0.15
Exercised	**-**	**-**	(8,000)	0.15
Expired	**(244,666)**	**0.15**	-	-
Outstanding at December 31	**-**	**$ -**	244,666	$ 0.15
Exercisable at December 31	**-**	**$ -**	244,666	$ 0.15

The share price on the date of exercise was $0.26. All remaining warrants expired unexercised prior to the completion of the Plan of Arrangement described in Note 6.

(Canadian dollars)

19. Discontinued operations

During the year-ended December 31, 2012, the Corporation sold its real estate and associated royalty interest in the Granite Hill property (see note 10). As a result, the cash flows and results of operations have been presented as discontinued operations for the year ended December 31, 2012. In November 2012, the Corporation completed the Arrangement as discussed in Note 6; which resulted in the transfer of the Donkin cash generating unit ("CGU") to APM in exchange for shares of APM and the distribution of all the shares of APM to Erdene's shareholders. As a result, the cash flows and results from operations of the Donkin CGU and APM have been presented as discontinued operations at December 31, 2012. The operations were not discontinued operations or classified as held for distribution at December 31, 2011 and the comparative statement of loss and comprehensive loss has been re-presented to show the discontinued operations separately from continuing operations.

	For the year ended December 31, 2012	2011
Results of discontinued operations		
Revenue	**$ 342,435**	$ 882,828
Cost of sales	**402,496**	1,248,854
	(60,061)	(366,026)
Exploration expenses	**16,432**	187,286
Corporate and administration	**272,679**	320,065
Impairment loss (note 6 and 10)	**2,716,536**	3,917,790
Other expenses (income)	**-**	(100,436)
Gain on sale of assets (note 10)	**(376,305)**	-
Foreign exchange loss (gain)	**449**	31,183
Loss from operating activities	**(2,689,852)**	(4,721,914)
Finance income	**505**	326
Finance expense	**(15,381)**	(37,230)
	(14,876)	(36,904)
Income tax expense	**-**	12,742
Net loss from discontinued operations	**$ (2,704,728)**	$ (4,771,559)

Total impairments associated with discontinued operations were $2,795,942 including $79,406 related to the producing assets and shown in cost of sales, $2,435,485 related to the Donkin CGU shown under impairment loss and $281,051 related to Georgia lands shown under impairment loss.

(Canadian dollars)

19. Discontinued operations (continued)

	Continuing operations	Discontinued operation	Total
For the year ended December 31, 2012			
Net loss attributable to:			
Equity holders of the Corporation	**$ (4,641,082)**	**$ (2,406,405)**	**$ (7,047,487)**
Non-controlling interest	**-**	**(298,323)**	**(298,323)**
	$ (4,641,082)	**$ (2,704,728)**	**$ (7,345,810)**
For the year ended December 31, 2011			
Net loss attributable to:			
Equity holders of the Corporation	$ (8,986,812)	$ (2,874,508)	$ (11,861,320)
Non-controlling interest	-	(1,897,051)	(1,897,051)
	$ (8,986,812)	$ (4,771,559)	$ (13,758,371)

Cash flows (used in) provided by discontinued operation	For the year ended December 31, 2012	2011
Net cash (used in) provided by operating activities	**$ (452,749)**	$ (735,334)
Net cash provided by (used in) investing activities	**(2,944,920)**	(1,072,436)
Net cash (used in) provided by financing activities	**3,623,715**	1,622,863
Net cash used in discontinued operation	**$ 226,046**	$ (184,906)

20. Exploration expenses

	For the year ended December 31 2012	2011
Depreciation & amortization	**$ 10,269**	$ 16,439
Employee benefit costs	**1,065,252**	1,092,199
Share-based payments	**101,511**	664,637
Direct costs	**2,139,748**	2,639,201
Partner recoveries	**(149,017)**	(313,841)
	$ 3,167,762	$ 4,098,634

21. Corporate and administration

	For the year ended December 31 2012	2011
Depreciation & amortization	**$ 26,527**	$ 29,800
Employee benefit costs	**701,486**	765,164
Share-based payments	**186,559**	3,146,422
Direct costs	**763,726**	1,028,860
	$ 1,678,298	$ 4,970,245

(Canadian dollars)

22. Finance income and expense

	For the year ended December 31 2012	2011
Interest income	**$ 96,382**	$ 82,248
	$ 96,382	$ 82,248
Interest expense - finance leases	**$ (1,072)**	$ (534)
Interest expense - other	**(2,754)**	(2,677)
	$ (3,826)	$ (3,211)

23. Operating segments

The Corporation had four reportable segments: Canada, United States, Mongolia and Corporate, based on the geographic regions of the exploration and evaluation assets and resource properties until the Plan of Arrangement was completed on November 9, 2012 as described in Note 6. The corporate segment includes corporate growth activities and the groups that provide administrative, technical, financial and other support to the exploration and development segments. The information reported for segments is based on information provided to the Chief Executive Officer and Chief Financial Officer, the chief operating decision makers.

Information about reportable segments:

For the year ended December 31, 2012

	Mongolia	Corporate	Continuing Operations	Discontinued Operations	Total
External Revenue	$ -	$ -	$ -	$ 342,435	$ 342,435
Interest revenue	2,930	93,452	96,382	505	96,887
Interest expense	-	3,826	3,826	15,381	19,207
Depreciation and amortization	10,269	27,286	37,555	-	37,555
Segment loss before tax and finance income	$ 3,055,340	$ 1,678,298	$ 4,733,638	$ 2,689,852	$ 7,423,490
Other material non-cash items:					
Impairment loss	-	-	-	2,716,536	2,716,536
Gain (loss) on sale of assets	-	252,434	252,434	376,305	628,739
Capital expenditures	$ 307,926	$ -	$ 307,926	$ -	$ 307,926
Reportable segment assets	$ 11,602,429	$ 1,712,530	$ 13,314,959	$ -	$ 13,314,959
Reportable segment liabilities	$ 69,083	$ 570,016	$ 639,099	$ -	$ 639,099

(Canadian dollars)

23. Operating segments (continued)

For the year ended December 31, 2011

	Mongolia	Corporate	Continuing Operations	Discontinued Operations	Total
External Revenue	$ -	$ -	$ -	$ 882,828	$ 882,828
Interest revenue	3,271	78,977	82,248	326	82,574
Interest expense	-	3,211	3,211	37,230	40,441
Depreciation and amortization	1,930	44,309	46,239	312,303	358,542
Segment loss before tax and finance income	$ 4,092,427	$ 4,970,245	$ 9,062,672	$ 4,721,914	$ 13,784,586
Other material non-cash items:					
Impairment of property, plant & equipment	$ -	$ -	$ -	$ 3,917,790	$ 3,917,790
Capital expenditures	$ 878,757	$ 21,213	$ 899,970	$ 1,186,086	$ 2,086,056
Reportable segment assets	$ 11,523,241	$ 4,313,210	$ 15,836,451	$ 30,946,387	$ 46,782,838
Reportable segment liabilities	$ 1,774,213	$ 845,816	$ 2,620,029	$ 3,778,803	$ 6,398,832

24. Related Parties

Compensation of key management personnel:

The total remuneration of the Directors and other key management personnel were as follows:

	Year ended December 31, 2012	2011
Directors' fees	$ 162,000	$ 55,000
Share-based payments to directors	70,000	1,410,000
Key management short-term benefits	685,081	784,698
Share-based payments to key management	70,000	1,363,000
	$ 987,081	$ 3,612,698

Balances with director:

The balance of an unsecured loan granted to a director and officer amounted to $30,300 as at December 31, 2012 (December 31, 2011: $32,700). No interest is payable by the director and the loan is repayable upon demand.

The share subscription receivable is from a director and officer. The loan is non-interest bearing and is evidenced by a promissory note due in March 2014. The loan requires minimum monthly payments of $1,000 which began May 2010. The balance of the share subscription receivable was $66,175 as at December 31, 2012 (December 31, 2011: $74,630). The balance of the outstanding share subscription receivable is a reduction of share capital. Payments on the loan are added back to share capital each period as disclosed in the Consolidated Statement of Changes in Equity.