ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
Second quarter – June 30, 2012

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

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

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 with two core projects: the Donkin Coal Project ("Donkin") in Nova Scotia and the Zuun Mod Molybdenum-Copper Project in Mongolia. The Corporation has numerous non-core projects including gold-copper exploration prospects in Mongolia and kaolin interests.

In the short term, management is focused on creating greater value in the Corporation by completing the proposed transaction outlined below.

Proposed transaction

On August 7, 2012, the Corporation entered into a definitive agreement with APM to exchange all of Erdene's North American property interests, comprised primarily of Erdene's interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for shares of APM. The transaction is being completed by way of a court-approved plan of arrangement (the "Arrangement").

Terms of the Arrangement

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

- Erdene will transfer all of the issued and outstanding shares of its subsidiary, ERI, a corporation formed under the federal laws of Canada and being the entity that owns or will own Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI will amalgamate to form Amalco.
- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) will receive one (1) common share of Amalco for every 7.85 shares of APM owned by such shareholder.
- Erdene will create a new class of common shares ("Erdene New Shares") and will distribute to the Erdene shareholders one-half of one Amalco share and one half of one Erdene New Share for each existing common share of Erdene.

Following the Arrangement, Erdene will have 47,901,450 Erdene New Shares outstanding and Amalco will have 49,255,990 shares outstanding, 47,901,450 (97.25%) of which will be held by the Erdene shareholders.

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

Related Party Transaction

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

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

Closing Conditions

A special meeting of the Erdene shareholders is expected to be held in Halifax, Nova Scotia in October 2012 to obtain the necessary shareholder approval. Completion of the Arrangement is also subject to satisfaction of certain conditions including the approval and acceptance of the Toronto Stock Exchange and the TSX Venture Exchange and approval of the APM disinterested shareholders and the Nova Scotia Supreme Court. The Arrangement may be terminated if certain conditions are not met, with a termination fee payable in certain circumstances.

It is currently anticipated that the Arrangement will be completed on or before October 31, 2012.

A copy of the Arrangement Agreement will be available under Erdene's profile on SEDAR at www.sedar.com. Full details of the proposed transaction will be described in detail in the notice of meeting and information circular describing the Arrangement, which will be mailed to the Erdene shareholders in due course.

Project Summaries

Donkin Coal Project – Nova Scotia, Canada

On April 26, 2012, the Corporation announced Xstrata Coal is seeking an operating coal company to assume its 75% interest in the Donkin Coal project. Xstrata Coal cited a change in their business strategy since first acquiring the project, one which now focuses on larger volume mining complexes, as the reason for the choosing to sell their interest in the project.

Xstrata has reported the sale process is anticipated to be concluded during 2012, with the selection of an entity with the mining experience, technical expertise and financial capability to operate this underground mine safely and efficiently. Erdene has a 60-day right of first refusal on the sale by Xstrata Coal of its interest in the Donkin project. The Corporation has entered into discussions with multiple parties to assess various options to participate in the Xstrata sale process including acting on its right of first refusal.

During the Xstrata sales process the project timelines are being maintained including the recent filing of the Environmental Impact Statement (“EIS”) for the Donkin Coal project with the Canadian Environmental Assessment Agency (“CEAA”) along with progression of engineering work and obtaining the necessary approvals for commencement of the underground exploration phase. The CEAA approval process is on track and full environmental approval is anticipated in the first half of 2013. It is estimated the Donkin mine will produce 2.75 million washed product tonnes per year and will directly employ about 300 people. Commencement of coal production is targeted for mid-2014.

Xstrata Coal, under the joint venture agreement, is committed to fund the first $10 million of Erdene’s development funding requirement. Xstrata Coal will bring forward up to $1 million of this to cover Erdene’s share of expenditure on the project during the sales process.

In June 2011, the Donkin Joint Venture (“DJV”) released a National Instrument 43-101 compliant Technical Report for the Donkin Coal Project prepared by Marston & Marston, Inc. of St. Louis, Missouri (the “Report”). The Report presents the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Xstrata Coal Donkin Limited (“Xstrata Coal”) and the reserves defined by the PFS.

The Report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concluded that Donkin had a $1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately $500 million and demonstrates the potential for first quartile operating costs.

Zuun Mod Molybdenum-Copper Project – Mongolia

During the second quarter 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. Also during the second quarter, the Corporation's independent technical consultant, Minarco-MineConsult (“MMC”), part of the Runge Group, continued to carry out work on a pit optimization study. Once completed, this study will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2012/2013.

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

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

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

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

Other – Mongolia

The Altan Nar prospect consists of a broad (2km by 3km) polymetallic-gold-in-soil anomaly hosting multiple prospects containing gold-bearing epithermal-style quartz veins. In 2011, a series of 24 holes were drilled over a $1km^2$ area of the Altan Nar prospect and the presence of anomalous gold-bearing mineralized zones in 15 of the 24 holes confirmed the widespread nature of the Altan Nar mineralized system. The 2011 drilling also identified the ‘Discovery Zone’ an area where multiple shallow holes intersected mineralization over a 300m strike length. Results included 29 meters averaging 4.3g/t gold and 24.1g/t silver from hole TND-19 which was drilled

50 metres below the mineralization intersected in TND-09 (55 meters of 1.02g/t gold and 12g/t silver), indicating an increase in intensity of gold mineralization at depth.

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

Additional field work, including close-spaced soil and rock geochemical sampling and IP gradient array and magnetic geophysical surveys, was completed by late July. Analysis of rock chip samples has identified several new areas that returned significant new gold-silver mineralization on surface associated with epithermal-style quartz veining. In one area, 10 of 15 samples returned an average of 5.95 g/t gold as well as 23.1 g/t silver. Additional geochemical and geophysical results are pending.

A second prospect located 2.5 km east of Altan Nar, referred to as Nomin Tal, was drilled in 2011 and intersected copper-gold mineralization in a series of drill holes along a 750 meters strike length included 2.7g/t gold, 0.9% copper and 6g/t silver over 6 meters (48 to 54 meters) in TND-6, drilled under historic workings where mineralization is exposed on surface.

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.

Kaolin Clay Operations – Georgia, USA

The Corporation, through its controlled subsidiary APM, operated a kaolin processing plant in Dearing, Georgia, USA since 2009. Despite encouraging results from product trials, APM was unable to secure sufficient sales to generate sustained positive cash flows. On June 29, 2012, APM closed the sale of its operating assets and select real property in Georgia. The sale package includes all equipment and leaseholds connected with the Dearing processing facility, the 80 acre Tudor mine property and associated mineral resource. The agreement also provides for a royalty payable to APM on annual kaolin mined from the Tudor property in excess of 20,000 tons per year. The sale generated net cash proceeds of approximately $492,000 and reduced APM's liabilities by a further $422,000.

Aggregate – Georgia, USA

On June 29, 2012, the Corporation completed the sale of its real estate and associated royalty interest in the Granite Hill property located in Hancock County, Georgia, USA, to an arm's length, third party. The sale generated net cash proceeds of approximately $3,490,000.

Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

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

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

Discussion of Operations

Three months ended June 30, 2012 and 2011

The Corporation recognized revenue of $179,672 in the second quarter of 2012, compared to $232,950 in the second quarter of 2011. $43,709 of the decrease is due to lower clay sales driven by reduced orders compared to the prior year.

Cost of sales amounted to $232,568 for the three months ended June 30, 2012 compared to $310,269 for the same period in 2011. The decrease of $77,701 is mainly due to lower depreciation and amortization on assets which were held for sale in 2012. Sale of these assets closed on June 29, 2012.

Total exploration expenses for the three months ended June 30, 2012 amounted to $764,926 compared to $996,566 for the same period in 2011. The decrease is mainly due to a decrease in drilling in the second quarter of 2012 compared to the second quarter of 2011.

Corporate & administrative expenses amounted to $606,977 for the three months ended June 30, 2012 compared to $778,147 for the same period in 2011. The decrease is mainly due to bonuses paid in Q2 of 2011 while none were paid in 2012.

The net loss attributable to Erdene equity holders, for the three months ended June 30, 2012, was $895,993 compared to a loss of $1,789,810 for the same period in 2011.

Six months ended June 30, 2012 and 2011

The Corporation recognized revenue of $337,476 in the six months ended June 30, 2012, compared to $473,338 for the same period in 2011. The majority of the decrease, $123,587, is due to lower clay sales resulting from fewer orders in 2012 compared to 2011.

Cost of sales totaled $388,325 for the six months ended June 30, 2012 compared to $624,532 for the same period in 2011. Approximately $165,000 of the decrease in cost of sales is related to lower depreciation on assets which were held for sale in 2012. The remainder of the decrease is due to lower repairs and maintenance and other cost cutting measures in advance of the sale of APM's operating assets.

Total exploration expenses for the six months ended June 30, 2012 amounted to $1,240,089 compared to $1,878,542 for the same period in 2011. The decrease is mainly due to a drop in share based payments which amounted to $22,892 for the six months ended June 30, 2012 (2011 - $587,262). The remaining decrease is due to less drilling costs in the first six months of 2012 as compared to the same period in 2011.

Corporate & administrative expenses amounted to $1,254,739 for the six months ended June 30, 2012 compared to $4,531,996 for the same period in 2011. If we exclude non-cash share based payments which amounted to $8,301 for the six months ended June 30, 2012 (2011 - $3,142,080), the Corporations corporate & administrative costs decreased by $143,478, or 10.3%, compared to the first six months of 2011.

The net loss attributable to Erdene equity holders, for the six months ended June 30, 2012, was $1,977,728 compared to a loss of $6,427,765 for the same period in 2011.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2012		Fiscal 2011				Fiscal 2010	
	Q2 Jun-12	Q1 Mar-12	Q4 Dec-11	Q3 Sep-11	Q2 Jun-11	Q1 Mar-11	Q4 Dec-10	Q3 Sep-10
Revenue	$180	$157	$187	$223	$233	$240	$211	$133
Loss to equity holders	$896	$1,082	$4,166	$1,267	$1,790	$4,638	$1,197	$633
Basic and diluted loss per share	$0.01	$0.01	$0.05	$0.01	$0.02	$0.05	$0.01	$0.01
Total Assets	$44,084	$45,871	$46,783	$51,017	$51,260	$53,466	$54,251	$56,507

All financial data has been prepared in accordance with IFRS.

The Corporation’s expenditures vary from quarter to quarter largely depending on the timing of its exploration and development programs. 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 $5,062,914 at June 30, 2012 compared to $3,387,452 at December 31, 2011, representing a $1,675,462 increase.

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

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

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

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2012:

Contractual Obligations	**Total**	**Less than one year**	**1-3 years years**	**4-5 years**	**More than 5 years**
Office lease	$ 169,897	$ 76,987	$ 92,910	$ -	$ -
Finance leases	$ 12,690	$ 3,764	$ 8,926	$ -	$ -
Accounts payable and accrued liabilities	$ 575,240	$ 575,240	$ -	$ -	$ -
	$ 757,827	$ 655,991	$101,836	$ -	$ -

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

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

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

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

Share-based payments

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

Fair value of financial instruments, including embedded derivatives

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

Provisions for site restoration

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

Taxation

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

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

Future changes in accounting policies

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

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

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

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

Financial Instruments and Other Risks

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

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

The Corporation hasn't issued any shares in fiscal 2012. The total issued and outstanding shares, as of the date of this MD&A, are 95,802,901.

Stock Options

During the six months ended June 30, 2012, 245,000 options with a weighted average exercise price of $1.13 were forfeit and 250,000 options with a weighted average exercise price of $1.39 expired.

On July 5, 2012, the Corporation issued 150,000 options at an exercise price of $0.30 and 150,000 options at an exercise price $0.45, leaving a total of 7,413,000 outstanding as of the date of this MD&A. Of this balance, 7,259,000 were exercisable.

Exploration Results

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

Donkin Coal Project – North America

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

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

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

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

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

On June 30, 2011, the Corporation announced the receipt of a NI 43-101 compliant technical report for the Donkin Project (the "Report") from Marston. The purpose of the Report is to present the results of the Pre-Feasibility Study ("PFS") on the Donkin Export Coking Coal Project prepared by Xstrata Coal and the reserves defined by the PFS. The Report assesses the viability of a multiple continuous miner ("CM") underground operation, producing approximately 3.5 million tonnes per year ("Mtpa") Run of Mine ("ROM") coal that would be subsequently washed to provide 2.75 Mtpa of product coal suitable for the international export coking and thermal coal markets and domestic thermal coal markets. The Report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concluded that Donkin had a $1.06 billion Net Present Value ("NPV") (8% discount rate) based on project development capital of approximately $500 million and demonstrates the potential for first quartile operating costs.

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

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

In June 2011, a draft Project Description document was filed with Federal and Provincial regulators. This is the initial step in the Environmental Assessment ("EA") process. The document seeks approval for the 2.75 Mtpa export coking and thermal coal underground mine. On November 14, 2011, the Canadian Environmental Assessment Agency (“CEAA”) announced their decision that the Donkin Export Coking Coal Project is to undergo a comprehensive-study-type environmental assessment. CEAA prepared and released draft Environmental Impact Statement (“EIS”) Guidelines for the project which will guide the EIS preparation and identify minimum information requirements. The public was invited to submit comments to CEAA by December 29, 2011. CEAA prepared draft Environmental Impact Statement (“EIS”) guidelines and invited public comment. In early February 2012, CEAA issued final EIS Guidelines for the project to Xstrata Management. The EIS guidelines provide minimum information requirements for the preparation of the EA documents.

The EIS for the Donkin Project was filed on July 16, 2012, subsequent to the end of the second quarter, with CEAA by Stantec Inc., on behalf of Xstrata Management. The EA process now enters a review and public consultation period. It is anticipated that the EA process will conclude by the second quarter, 2013 with a decision from the federal and provincial environment ministers.

The feasibility stage will include the initial phase of mining, referred to as the exploration phase. The intent is to deploy one CM section in the Harbour Seam one year after securing an off-take agreement for the ROM coal. The exploration phase will provide the opportunity to collect multiple Harbour Seam bulk samples for testing the coal quality, geotechnical information on the roof, floor and coal, data on structures and gas desorption and underground drilling from the Harbour Seam will allow for collection of data for all categories within the Hub Seam. The additional geological and geotechnical information as well as the results of bulk sample testing by potential customers, will provide information necessary to finalize the mine and plant design and the ultimate production including an evaluation of the viability of using longwall mining equipment. Included in this study would be continued work on the studies, plans, permits and licenses necessary to start construction and operate the mine. The feasibility study is estimated to cost $94.2 million and is forecasted to be conducted over a 24-month period. The estimated cost includes tunnel rehabilitation, exploration mining along with the cost of the mining equipment and the study. The schedule for this initial development is partially dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the feasibility study and receipt of all government approvals.

On April 26, 2012, the Corporation announced Xstrata Coal is seeking an operating coal company to assume its 75% interest in the Donkin Coal project. Xstrata Coal cited a change in their business strategy since first acquiring the project, one which now focuses on larger volume mining complexes, as the reason for the choosing to sell their interest in the project. It is anticipated that the sale process will be concluded during 2012, with the selection of an entity with the mining experience, technical expertise and financial capability to operate this underground mine safely and efficiently. Erdene has a 60-day right of first refusal on the sale by Xstrata Coal of its interest in the Donkin project. The Corporation has entered into discussions with multiple parties to assess various options to participate in the Xstrata sale process including acting on its right of first refusal.

Zuun Mod Molybdenum Project – Mongolia

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

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

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

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

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

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

Since 2009, the Corporation has been working on a number of technical and engineering studies on various aspects of the Zuun Mod project including an environmental and social economic baseline study, a geological report and resource estimate, for submission to the Mongolian Mineral Resource Council, hyrdro-geologic drilling to identify a source for process water, metallurgical test work, a 3D data compilation project and additional geophysical surveys. The Corporation's independent technical consultant, Minarco, is carrying out work on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. Once completed this study will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2012/2013.

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

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

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

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

The 2012 exploration program at Khuvyn Khar will include a review of all technical data, the expanded MMI geochemical survey, reprocessing of geophysical data, as well as a review of all surface and drill-hole geological data. This program commenced in early June. The goal of this work it to identify targets for a follow-up drilling program expected to be carried out later in the year.

Regional Coal and Metals Exploration Programs - Mongolia

Coal Project

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

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

Metals Project – Gold-Silver-Copper

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

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

In 2011, the Corporation continued to expand its program of regional exploration to identify areas, principally in southern Mongolia, with the potential to host porphyry related copper-gold-molybdenum mineralization.

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

The Altan Nar prospect consists of a broad polymetallic-gold-in-soil anomaly identified during a regional soil survey The soil sampling program at Altan Nar has outlined a 3km by 2km area with highly anomalous values for gold (up to 1.5g/t) and lead (up to 2.6%) and associated anomalies for zinc, molybdenum, silver and copper. Follow-up mapping and rock-chip geochemistry has confirmed the presence of multiple prospects, containing gold-bearing epithermal-style quartz veins, within the large soil anomaly at Altan Nar. Geophysical surveys (magnetic and IP dipole-dipole and gradient array) over the Altan Nar prospect outlined anomalies proximal to polymetallic-gold-in-soil anomalies and epithermal veins at surface that were used to guide the initial scout-drilling program.

In 2011, a 24-hole, 3,713 meters scout drilling program was carried out at Altan Nar. The presence of anomalous gold-bearing mineralized zones in 15 of the 24 holes, many located within wider zones of lead and zinc mineralization, confirmed the widespread nature of the Altan Nar mineralized system. The 2011 drilling also identified the ‘Discovery Zone’ an area where multiple shallow holes intersected mineralization over a 300m strike length. Mineralization within the Discovery Zone consists of quartz veins and breccia zones (up to 50 metres wide) with comb quartz and chalcedony textures and associated phyllic alteration, within broad zones (up to 150 metres wide) of base metal mineralization and associated propyllitic alteration.

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

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

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

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

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

All holes with the exception of TND-39 were drilled within the Discovery Zone. That hole, 400 metres northwest of the Discovery Zone returned several anomalous zones, the most significant being narrow (1 metre), high grade polymetallic, vein hosted mineralization with up to 1.5g/t gold, 13g/t silver, 2.1% lead and 5.24% zinc.

Additional field work, including extensive rock and close-spaced soil geochemical sampling along with IP gradient array and magnetic geophysical surveys, was completed by late July. Analysis of rock chip samples has identified several new areas that returned significant new gold-silver mineralization on surface associated with epithermal-style quartz veining. In one area, 10 of 15 samples returned an average of 5.95 g/t gold as well as 23.1 g/t silver. Additional geochemical and geophysical results are pending.

Ongoing work for the Altan Nar project includes a review of all technical data in preparation for additional drilling planned for later in 2012. In addition, metallurgical and petrographic studies are currently being carried out to determine characterization the ore mineralogy

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

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

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

The Corporation, through its controlled subsidiary Advanced Primary Minerals (“APM”), operated a kaolin processing plant in Dearing, Georgia, USA since 2009. Despite encouraging results from product trials, APM was unable to secure sufficient sales to generate sustained positive cash flows. On June 29, 2012, APM closed the sale of its operating assets and select real property in Georgia. The sale package included all equipment and leaseholds connected with the Dearing processing facility, the 80 acre Tudor mine property and associated mineral resource, The agreement also provides for a royalty payable to APM on annual kaolin mined from the Tudor property in excess of 20,000 tons per year.

APM has retained the rights to all other mineral leases and real-estate and associated mineral rights.

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

The Granite Hill project (also known as the “Sparta Quarry”) is a producing granite aggregate quarry in central Georgia. The property was owned by the Corporation, through its subsidiary ERD Aggregate Corp, and under long-term lease to Aggregates USA (Sparta), LLC ("AUSA"). AUSA commenced commercial production of the Sparta Quarry in early January 2012. On June 29, 2012, the Corporation completed the sale of its real estate and associated royalty interest in the Granite Hill property for US$ 3.35 million cash on closing to an arm's length, third party.

Disclosure Controls and Internal Controls over Financial Reporting

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

Outlook

General

The Corporation has working capital sufficient to meet its budgeted expenditures until the second quarter of 2013. The ability of the Corporation to continue beyond this is contingent upon reduction of expenditures, monetizing assets, equity financing or a combination of the three.

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

Management’s short term focus is to complete the reorganization outlined above whereby APM will acquire all of Erdene's North American interests for share consideration and subsequent distribution of APM shares to Erdene shareholders.

The objective of this proposed transaction is to maximize shareholder value by creating two strategically-positioned public companies, one focused on Donkin and the other focused on Mongolia minerals exploration and development.

Donkin

On April 26, 2012, the Corporation announced Xstrata Coal is seeking an operating coal company to assume its 75% interest in the Donkin Coal project. Xstrata Coal cited a change in their business strategy since first acquiring the project, one which now focuses on larger volume mining complexes, as the reason for the choosing to sell their interest in the project.

Xstrata has reported the sale process is expected to be concluded during 2012, with the selection of an entity with the mining experience, technical expertise and financial capability to operate this underground mine safely and efficiently. Erdene has a 60-day right of first refusal on the sale by Xstrata Coal of its interest in the Donkin project. The Corporation has entered into discussions with multiple parties to assess various options to participate in the Xstrata sale process including acting on its right of first refusal.

During the Xstrata sales process the project timelines are being maintained including the recent filing of the EIS for the Donkin Coal project with CEAA along with progression of engineering work and obtaining the necessary approvals for commencement of the underground exploration phase. The CEAA approval process is on track and full environmental approval is anticipated in the first half of 2013.

Zuun Mod

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

Qualified Person

J. Christopher Cowan, P.Eng., is a qualified person under NI 43-101 and supervises all of the Corporation’s exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar or ALS Chemex in

Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

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

Other Information

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2012 and 2011

(Canadian dollars)
(Unaudited)

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Canadian dollars)
(Unaudited)

	Note	June 30, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents		$ **5,309,117**	$ 4,104,350
Restricted cash	**4**	**55,355**	-
Trade and other receivables		**209,883**	242,851
Prepaid expenses		**67,563**	70,259
Inventory		**-**	14,830
		5,641,918	4,432,290
Non-current assets:			
Exploration and evaluation assets		**32,490,223**	32,313,187
Property, plant and equipment		**951,876**	5,037,361
Goodwill		**5,000,000**	5,000,000
		38,442,099	42,350,548
TOTAL ASSETS		**$ 44,084,017**	**$** 46,782,838
LIABILITIES & EQUITY			
Current liabilities:			
Trade and other payables		$ **575,240**	$ 1,036,247
Current portion of obligations under finance leases		**3,764**	8,591
		579,004	1,044,838
Non-current liabilities:			
Obligations under finance leases		**8,926**	333,209
Provision for restoration costs		**-**	104,751
Deferred tax liability		**4,916,034**	4,916,034
		4,924,960	5,353,994
TOTAL LIABILITIES		$ **5,503,964**	$ 6,398,832
EQUITY			
Shareholders' equity:			
Share capital		$ **75,194,189**	$ 75,186,822
Contributed surplus		**10,535,372**	10,500,956
Accumulated other comprehensive loss		**(99,397)**	(360,078)
Deficit		**(44,852,520)**	(42,874,792)
		40,777,644	42,452,908
Non-controlling interest		**(2,197,591)**	(2,068,902)
TOTAL EQUITY		$ **38,580,053**	$ 40,384,006
TOTAL LIABILITIES AND EQUITY		$ **44,084,017**	$ 46,782,838

Going concern (Note 2)
Subsequent event (Note 6)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

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

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Revenue	**$ 179,672**	$ 232,950	**$ 337,476**	$ 473,338
Cost of sales	**232,568**	310,269	**388,325**	624,532
	(52,896)	(77,319)	**(50,849)**	(151,194)
Exploration expenses	**764,926**	996,566	**1,240,089**	1,878,542
Corporate and administration	**606,977**	778,147	**1,254,739**	4,531,996
Other (income) / expenses	**(376,266)**	9,972	**(376,266)**	9,972
Foreign exchange loss	**1,438**	6,098	**7,426**	30,385
Loss from operating activities	**(1,049,971)**	(1,868,102)	**(2,176,837)**	(6,602,089)
Finance income	**79,303**	16,517	**87,899**	39,279
Finance expense	**(8,207)**	(8,101)	**(15,955)**	(16,416)
Net finance income	**71,096**	8,416	**71,944**	22,863
Income tax expense	**-**	(16,896)	**-**	(16,896)
Net loss	**$ (978,875)**	$ (1,876,582)	**$ (2,104,893)**	$ (6,596,122)
Net loss attributable to:				
Equity holders of the Corporation	**(895,992)**	(1,789,810)	**(1,977,728)**	(6,427,765)
Non-controlling interest	**(82,883)**	(86,772)	**(127,165)**	(168,357)
	$ (978,875)	$ (1,876,582)	**$ (2,104,893)**	$ (6,596,122)
Basic and diluted earnings per share	**$ (0.01)**	$ (0.02)	**$ (0.02)**	$ (0.07)
Basic and diluted weighted average number of shares outstanding	**95,802,901**	90,321,377	**95,802,901**	90,193,021

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

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

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net loss	**$ (978,875)**	$ (1,876,582)	**$ (2,104,893)**	$ (6,596,122)
Other comprehensive income (loss)				
Foreign currency translation difference arising on translation of foreign subsidiaries	**(55,837)**	(450,530)	**259,157**	(429,928)
Other comprehensive income (loss)	**(55,837)**	(450,530)	**259,157**	(429,928)
Total comprehensive loss	**$ (1,034,712)**	$ (2,327,112)	**$ (1,845,736)**	$ (7,026,050)
Total comprehensive loss attributable to:				
Equity holders of the Corporation	**(977,405)**	(2,232,988)	**(1,717,047)**	(6,803,924)
Non-controlling interest	**(57,307)**	(94,124)	**(128,689)**	(222,126)
	$ (1,034,712)	$ (2,327,112)	**$ (1,845,736)**	$ (7,026,050)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

	Attributable to equity holders of the Corporation					
	Share capital	**Contributed surplus**	**Accumulated other comprehensive income**	**Deficit**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2011	$ 72,325,969	$ 7,012,557	$ 22,671	$ (31,012,681)	$ (256,942)	$ 48,091,574
Total comprehensive loss for the period:						
Net loss	-	-	-	(6,427,765)	(168,357)	$ (6,596,122)
Other comprehensive income (loss)	-	-	(376,159)		(53,769)	$ (429,928)
Change in share subscription receivable	7,329	-	-	-	-	7,329
Share-based payments	-	3,743,050	-	-	-	3,743,050
Stock options exercised	782,300	(322,660)	-	-	-	459,640
Total transactions with owners	789,629	3,420,390	-	-	-	4,210,019
Reduction in ownership of APM	-	-	-	(791)	(791)	(1,582)
Balance at June 30, 2011	$ 73,115,598	$ 10,432,947	$ (353,488)	$ (37,441,237)	$ (479,859)	$ 45,273,961
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	-	-	-	(1,977,728)	(127,165)	(2,104,893)
Other comprehensive income (loss)	-	-	260,681	-	(1,524)	259,157
			-			
Change in share subscription receivable	7,367	-	-	-	-	7,367
Share-based payments	-	34,416	-	-	-	34,416
Total transactions with owners	7,367	34,416	-	-	-	41,783
Balance at June 30, 2012	$ 75,194,189	$ 10,535,372	$ (99,397)	$ (44,852,520)	$ (2,197,591)	$ 38,580,053

ERDENE RESOURCE DEVELOPMENT CORPORATION

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

	For the six months ended June 30, 2012	2011
Cash flows from operating activities:		
Net loss	**$ (2,104,893)**	$ (6,596,122)
Item not involving cash:		
Depreciation and amortization	**19,553**	180,271
Depletion of resource property interest	**-**	21,331
Stock-based compensation	**34,416**	3,743,050
Net finance income	**(71,944)**	(22,863)
Foreign exchange loss	**4,663**	23,577
Gain on sale of resource property interests	**(376,266)**	-
Loss on disposal of property, plant and equipment	**57,811**	-
Change in non-cash working capital	**(446,020)**	(294,739)
Cash flows from operating activities	**(2,882,680)**	(2,945,495)
Cash flows from financing activities:		
Proceeds from exercise of stock options	**-**	459,640
Changes in ownership of subsidiary that do not result in a loss of control	**-**	(1,582)
Proceeds on repayment of share subscription receivable	**6,000**	6,000
Repayment of obligations under capital lease	**(4,162)**	(2,219)
Interest paid	**(15,955)**	(15,090)
Cash flows from financing activities	**(14,117)**	446,749
Cash flows from investing activities:		
Proceeds on sale of resource property interests	**3,489,293**	-
Proceeds on sale of property, plant and equipment	**492,099**	-
Expenditures on exploration and evaluation assets	**(210,836)**	(1,103,001)
Recovery of expenditures on exploration and evaluation assets	**328,775**	-
Expenditures on property, plant and equipment	**(27,015)**	(61,504)
Increase in restricted cash	**(55,355)**	-
Interest received	**89,266**	39,279
Cash flows from investing activities	**4,106,227**	(1,125,226)
Effect of exchange rate change on cash and cash equivalents	**(4,663)**	(21,176)
Increase (decrease) in cash and cash equivalents	**1,204,767**	(3,645,148)
Cash and cash equivalents, beginning of period	**4,104,350**	8,379,230
Cash and cash equivalents, end of period	**$ 5,309,117**	$ 4,734,082

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

1. Nature of operations and continuance of operations

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

2. Going concern

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

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

The Corporation experienced significant losses and negative cash flows from operations in 2012 and 2011. The sale of non-core assets in the second quarter of 2012 has raised approximately $3.9 million in cash. The Corporation had working capital of $5,062,914 at June 30, 2012 compared to $3,387,452 at December 31, 2011, representing an increase of $1,675,462. Current working capital is sufficient to fund the Corporation's budgeted expenditures until approximately the second quarter of 2013. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing or monetizing assets beyond this point (see note 6). The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

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

3. Statement of compliance

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

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

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

4. Restricted cash

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

(Canadian dollars)

5. Operating segments

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

The following table presents reportable segment assets:

Reportable segment assets

	Canada	USA	Mongolia	Corporate	Total
As at June 30, 2012	25,700,296	1,375,457	11,927,847	5,080,417	44,084,017
As at June 30, 2011	25,520,688	8,699,337	11,620,430	5,419,571	51,260,026

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

For the three months ended June 30, 2012

	Canada	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 179,672	$ -	$ -	$ 179,672
Segment income/(loss) before tax	$ (1,129)	$ 228,821	$ (674,675)	$ (601,550)	$ (1,048,533)

For the three months ended June 30, 2011

	Canada	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 232,950	$ -	$ -	$ 232,950
Segment loss before tax	$ 92,059	$ 119,590	$ 862,236	$ 778,147	$ 1,852,032

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

	2012	2011
Loss before tax and finance income for reportable segments	$ (1,048,533)	$ (1,852,032)
Foreign exchange loss	(1,438)	(6,098)
Other income/(expenses)	-	(9,972)
Finance income	79,303	16,517
Finance expense	(8,207)	(8,101)
Income tax expense	-	(16,896)
Net Loss	$ (978,875)	$ (1,876,582)

(Canadian dollars)

5. Operating segments

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

For the six months ended June 30, 2012

	Canada	USA	Mongolia	Corporate	Total
External Revenue	$ -	$ 337,476	$ -	$ -	$ 337,476
Segment loss/(income) before tax	$ 2,396	$ (147,016)	$ 902,905	$ 1,411,126	$ 2,169,411

For the six months ended June 30, 2011

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

Reconciliation of external revenue and segment profit or loss for the six months ended June 30:

	2012	2011
Loss before tax and finance income for reportable segments	$ (2,169,411)	$ (6,561,732)
Foreign exchange loss	(7,426)	(30,385)
Other income/(expenses)	-	(9,972)
Finance income	87,899	39,279
Finance expense	(15,955)	(16,416)
Income tax expense	-	(16,896)
Loss from continuing operations	$ (2,104,893)	$ (6,596,122)

6. Subsequent event

On August 7, 2012 the Corporation entered into a definitive agreement with APM to exchange all of Erdene's North American property interests, comprised primarily of Erdene's interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for shares of APM. The transaction is being completed by way of a court-approved plan of arrangement (the "Arrangement").

Terms of the Arrangement

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

6. Subsequent event (continued):

- Erdene will transfer all of the issued and outstanding shares of its subsidiary, ERI, a corporation formed under the federal laws of Canada and being the entity that owns or will own Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI will amalgamate to form Amalco.
- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) will receive one (1) common share of Amalco for every 7.85 shares of APM owned by such shareholder.
- Erdene will create a new class of common shares ("Erdene New Shares") and will distribute to the Erdene shareholders one-half of one Amalco share and one half of one Erdene New Share for each existing common share of Erdene.

Following the Arrangement, Erdene will have 47,901,450 Erdene New Shares outstanding and Amalco will have 49,255,990 shares outstanding, 47,901,450 (97.25%) of which will be held by the Erdene shareholders.

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

Related Party Transaction

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

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

Closing Conditions

A special meeting of the Erdene shareholders is expected to be held in Halifax, Nova Scotia in October 2012 to obtain the necessary shareholder approval. Completion of the Arrangement is also subject to satisfaction of certain conditions including the approval and acceptance of the Toronto Stock Exchange and the TSX Venture Exchange and approval of the APM disinterested shareholders and the Nova Scotia Supreme Court. The Arrangement may be terminated if certain conditions are not met, with a termination fee payable in certain circumstances.

It is currently anticipated that the Arrangement will be completed on or before October 31, 2012.