ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
First quarter – March 31, 2011

This Management Discussion and Analysis ("MD&A"), dated June 8, 2011, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2010, unaudited condensed interim consolidated financial statements for the period ended March 31, 2011, and notes thereto.

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

The consolidated financial statements of the Corporation have been prepared by management, in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS").

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

Overview

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

The Corporation has working capital to the date of this report of approximately $5.6 million. The Corporation's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits in Mongolia; and the development of its coal and industrial mineral interests in North America.

Donkin Coal Project – Nova Scotia, Canada

During the first quarter of 2011, the Donkin Joint Venture ("DJV") continued to advance the Donkin Coal Project based on sales into the coking coal market. On April 7, 2011, subsequent to the end of the quarter, the Donkin Coal Project manager, Xstrata Coal Donkin Management Limited ("Xstrata"), delivered its internal pre-feasibility study to both Erdene and Marston & Marston Inc. ("Marston"). An independent National Instrument 43-101 ("NI 43-101") compliant pre-feasibility study is being prepared by Marston for the revised Donkin coking coal project and is expected to be finalized by the end of the second quarter 2011.

Zuun Mod Molybdenum-Copper Project – Mongolia

During the first quarter of 2011, work continued to advance the Zuun Mod Molybdenum-Copper Project. In February, the Corporation announced the results of recent drilling at Zuun Mod which indicated higher molybdenum and copper grades in the South Racetrack deposit. A new NI 43-101 compliant report by independent technical consultants, Minarco MineConsult, was commissioned to provide an updated resource estimate. Subsequent to the end of the first quarter, the new resource estimate was issued which included an increase in the Measured and Indicated resources by 38 million tonnes as well as an increase in the average grade.

During the first quarter or 2011, the Corporation also applied for a Mining License for Zuun Mod property. Subsequent to the end of the quarter, a 30-year Mining License was granted by the Mongolian Government. The Zuun Mod Mining License covers an area of 6,041 hectares and contains the South Racetrack and North Racetrack deposits, which hosts all of the Measured and Indicated resources at Zuun Mod. The Mining License also contains the Khuvyn Khar copper prospect. Approval of an application for a second contiguous Mining License, south of the approved Mining License, is pending. This license application covers 358 hectares and contains the Stockwork deposit which hosts 17.8 percent of the Inferred resource at Zuun Mod.

Other – Mongolia

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

Preparations were underway during the first quarter for the 2011 coal and metals exploration programs in Mongolia, including plans to carryout drilling on the Nomin copper-gold project in southwestern Mongolia.

Kaolin Clay Operations – Georgia, USA

The Corporation, through its controlled subsidiary APM, operates a clay processing plant in Dearing, Georgia, USA. APM is in the final year of a three year business plan with the aim of building a line of primary kaolin products that are expected to begin generating positive cash flows in late 2011. APM continues to mine, process and sell primary kaolin products to customers in the ceramics industry. APM continues to build markets for its specialty primary kaolin products with product trials to target customers and through sales growth within its current customer base.

Aggregate – Georgia, USA

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

Discussion of Operations

The Corporation recognized revenue of $240,388 in the first quarter of 2011, compared to $129,082 in the first quarter of 2010. The kaolin operations in Georgia, USA generated revenue of $195,268 in the first quarter of 2011 compared to $109,575 for the same period the prior year. The increase is due to higher sales to existing customers as well as securing new customers for the Corporation's primary kaolin products.

Cost of sales has decreased even as kaolin output has increased. Although most of the variable costs associated with the operations (such as gas, electric, repairs and maintenance, and depletion) have increased over 2010, these were more than offset by the savings generated by the Corporation rationalizing its operations and eliminating unnecessary costs. The prior year cost of sales also included $94,800 in stock based compensation. The first quarter of 2011 didn't include any stock based compensation.

Total exploration expenses for the three months ended March 31, 2011, net of deferred expenditures and partner contributions, amounted to $881,976 compared to $239,394 for the same period in 2010. $600,970 of the increase is due to non-cash stock based compensation expensed in the first quarter of 2011 compared to nil the same period in the prior year.

Corporate & administrative expenses amounted to $3,753,849 for the three months ended March 31, 2011 compared to $633,262 for the same period in 2010. $3,012,548 of the increase is due to higher non-cash stock based compensation. Direct corporate & administrative costs increased by $107,326 over the prior year as a result of higher regulatory, investor relations and labour costs.

The net loss for the three months ended March 31, 2011 was $4,719,540 compared to a loss of $1,016,177 for the same period in 2010. As long as exploration results justify and allow further equity financing, reported losses will continue and will vary with the extent of exploration activity until such time as economically recoverable resources are identified that warrant development to generate sustainable positive cash flows.

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

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2011	Fiscal 2010				Fiscal 2009		
	Q1 Mar-11	Q4 Dec-10	Q3 Sep-10	Q2 Jun-10	Q1 Mar-10	Q4 Dec-09	Q3 Sep-09	Q2 Jun-09
Revenue	$240	$210	$133	$112	$129	$0	$0	$0
Loss	$4,720	$1,198	$834	$1,509	$1,016	($541)	$1,239	$1,479
Basic and diluted loss per share	$0.05	$0.01	$0.01	$0.01	$0.01	$0.00	$0.01	$0.01
Total Assets	$53,466	$54,251	$55,089	$55,299	$55,795	$57,025	$58,910	$60,209

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

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

Liquidity and Capital Resources

The Corporation had working capital of $7,141,420 at March 31, 2011, representing a decrease of $1,185,028 from the December 31, 2010 working capital position of $8,326,448.

During the first quarter of 2011, the Corporation continued to advance its core properties and capitalized costs of $483,941 (2010 - $141,867) related to the Donkin project and $206,080 (2010 - $81,920) related to the Zuun Mod project. The Corporation also purchased $54,232 (2010 – 26,497) in property, plant and equipment, the largest single acquisition relating to the purchase of a vehicle to support the Corporation's exploration efforts in Mongolia.

For the three months ended March 31, 2011, the Corporation received proceeds of $456,640 (2010 – nil) on the exercise of employee stock options.

Current working capital is sufficient to fund the Corporation's budgeted expenditures through 2012. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration program and studies for the Donkin coal project.

The Corporation has minimal sources of income other than royalty income from its aggregate properties which are early stage, kaolin clay sales from its operations in Georgia, USA and interest earned on cash and GICs. It is therefore difficult to identify any meaningful trends or develop an analysis from the Corporation's cash flows. The Corporation is dependent primarily on the issuance of share capital to finance its exploration and development programs.

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

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at March 31, 2011:

Contractual Obligations	Total	Less than one year	1-3 years years	4-5 years	More than 5 years
Operating leases (1)	213,410	46,593	124,752	42,066	-
Capital leases (2)	311,882	4,553	2,658	304,671	-
Accounts payable and accrued liabilities	670,216	670,216	-	-	-
	1,195,508	721,362	127,410	346,737	-

(1) The Corporation has entered into operating leases for office space and office equipment.

(2) The Corporation, through its controlled subsidiary APMUSA, has entered into capital leases for certain assets associated with its kaolin processing operation.

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

Off-Balance Sheet Arrangements

As at March 31, 2011, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Share-based payments

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

Identification of functional currency

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

Fair value of financial instruments, including embedded derivatives

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

Taxation

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

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

Conversion to International Financial Reporting Standards ("IFRS")

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

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

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

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

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

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

- Business combination election – The election allows the Company to adopt IFRS 3(R) prospectively from the date of transition.
- Cumulative translation differences – The election enables the Company to deem the cumulative translation difference to be zero at the transition date.
- Arrangements containing a lease - The election allows the Company to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement
- Reassessment of lease determination – If the Company made the same determination of whether an arrangement contains a lease under Canadian GAAP (EIC-150) as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the election allows the Company to not reassess that determination for such arrangements when it adopts IFRS.

2) Presentation of expenses by function

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

3) Development assets

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

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

4) Share issue costs

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

5) Financial Instruments

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

6) Non-controlling interest

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

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

7) Flow-through shares

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

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

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

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

expense. Also at that time, the obligation is reduced and a corresponding income tax expense reduction is recorded.

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

8) Functional currency and foreign operations

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

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

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

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

9) Change in ownership of a subsidiary

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

Control Activities

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

Information Technology and Systems

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

Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. We note that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, we expect that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. We also note that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact our financial statements primarily in the areas of capitalization of exploration costs and disclosures. We have processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

Financial Instruments and Other Risks

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

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

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

Stock Options

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

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

Exploration Results

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

Donkin Coal Project – North America

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

In April 2007, the DJV received a National Instrument 43-101 compliant resource report for the Donkin Coal Project from McElroy Bryan Geological Services. The report identified a 227Mt Indicated and 254Mt Inferred high volatile A-bituminous (12,000-14,000 BTUs) 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 November 2007, the DJV received an independent Preliminary Assessment Study ("PAS") prepared by Norwest Corporation ("Norwest"). The PAS was a study into the business case for a continuous miner development and longwall ("LW") extraction thermal coal mine at the Donkin Coal Project.

In February 2010, Xstrata indicated that they intend to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is initially expected to utilize four continuous miners added incrementally over the first 18 months of production. In addition, a coal wash plant would be built on site and it is proposed that coal would be shipped from the mine site using a barge to ship system or by rail to Sydney Harbour. Under the revised development plan, the Donkin Coal Project is projected to produce approximately 2.75 million tonnes per annum of washed export grade coking coal at full production, pending the receipt of all government approvals.

Throughout 2010, a number of key elements of the project have been initiated including civil construction, engineering and pre-feasibility studies, environmental assessment studies and consultation with government officials. Mining consulting firm Marston has been 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 April 7, 2011, subsequent to the end of the quarter, the Donkin Coal Project manager, Xstrata Management, delivered its internal pre-feasibility study to both Erdene and Marston who are now in the process of completing the independent NI 43-101 compliant pre-feasibility study for the revised Donkin coking coal project. The report is expected to be finalized by the end of the second quarter 2011.

The DJV currently employs nine people, directly and through contracts, the majority of which are underground mine personnel. In association with recent developments on the Donkin Coal Project, Xstrata has appointed a Nova Scotia-based Environment/Community Liaison Officer. These individuals are leading the project team to advance the Donkin coal project into the next phase of development.

Zuun Mod Molybdenum Project - Mongolia

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in Bayankhongor Province, Mongolia, approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The railhead is located 20 kilometres south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of a Mining License totaling 6,041 hectares and a pending Mining License application totaling 358 hectares. The Mining License is registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

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

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

In the first quarter 2011, the Corporation released the final results of the 2010 drilling program. These included the expansion of higher grade molybdenum and copper zones within the

Racetrack deposits, 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 metres (362 to 480 metres) of 0.106% Mo and 0.098% Cu. Overall ZMD-51 averaged 0.061% Mo and 0.072% Cu over the 432-metre mineralized section (68 to 500 metres). 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. Subsequent to the end of the first quarter, the Corporation released the new May 2011 Zuun Mod molybdenum-copper deposit NI 43-101 compliant resource estimate which has a Measured and Indicated ("M&I") resource of 218 million tonnes ("Mt") at an average grade of 0.057% molybdenum ("Mo"), and 0.069% copper ("Cu") at a cut-off grade ("cog") of 0.04% Mo. This equates to 273.5 million pounds ("M lbs") of contained Mo metal and 330.7 M lbs of contained Cu metal. In addition, there is a 168 Mt Inferred Resource at an average grade of 0.052% Mo and 0.065% Cu, equating to a further 191.8 M lbs of contained Mo metal and 240.5 M lbs of contained Cu metal.

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

Since 2009, the Corporation has been working on a number of technical and engineering studies on various aspects of the Zuun Mod project including an environmental and social economic baseline study, a geological report and resource estimate, for submission to the Mongolian Mineral Resource Council, hyrdro-geologic drilling to identify a source for process water, a 3D data compilation project and additional geophysical surveys. The Corporation's independent technical consultant, Minarco, carried out work on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study in ongoing and will provide high level production scheduling, a review of operating and capital costs, and economic modeling and will be used to determine the parameters of additional pre-feasibility level studies expected to be carried out in 2011.

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

The Zuun Mod property covers a large porphyry system and while the majority of the work to date has concentrated on defining the main molybdenum-copper deposit, the Corporation has continued to evaluate exploration targets on the remainder of the property. One such target is the

Khuvyn Khar copper prospect located 2.2 kilometres northwest of the Zuun Mod deposit and located within the boundaries of the new Mining License.

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

Regional Coal and Metals Exploration Programs - Mongolia

Coal Project

The Corporation is involved in a comprehensive coal generative program in cooperation with Xstrata Coal,evaluating numerous prospective metallurgical and high quality thermal coal deposits throughout Mongolia. All the Corporation's coal exploration in Mongolia is fully funded by Xstrata and is being carried out in consultation with Xstrata personnel.

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

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

Metals Project – Copper-Gold-Molybdenum

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

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

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

During the first quarter, Wave Geophysics LLC for Colorado USA was contracted to re-process and create a 3D model of the geophysical data from the Nomin property to assist in the identification of drill targets. An exploratory drilling program is planned for June 2011 to test a number of geochemical and geophysical targets on this property. In 2011, the Corporation will continue 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.

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

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

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

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

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

Throughout 2010, APM continued to build markets for its specialty primary kaolin products with product trials for a number of target customers ongoing and through sales growth within its current customer base.

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

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

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

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

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

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

Disclosure Controls and Internal Controls over Financial Reporting

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at March 31, 2011 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Financial Officer, the Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Outlook

The Corporation has the working capital necessary to meet its budgeted expenditures through 2012 and remains optimistic about the potential demonstrated by its core projects: The Donkin Coal Project and Zuun Mod Molybdenum Project.

Donkin

On April 7, 2011, Xstrata Coal delivered its internal pre-feasibility study to both Erdene and Marston. An independent NI 43-101 compliant pre-feasibility study is being prepared by Marston for the revised Donkin coking coal project and is expected to be finalized by the end of the second quarter 2011.

The Corporation will continue to work with its operating partner to complete feasibility and permitting requirements with the intent to begin initial development mining by 2013 and bring the project to full production by 2014/2015.

Zuun Mod

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

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

Qualified Person

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

Other Information

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2011 and 2010

(Canadian dollars)
(Unaudited)

Prepared by Management - See Notice to Reader

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect. These unaudited condensed interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at March 31, 2011 and December 31, 2010 and the unaudited condensed interim consolidated statements of income, comprehensive income and cash flows for the three months ended March 31, 2011 and 2010. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 31, 2011 and 2010 condensed interim consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Unaudited – Canadian dollars)

	March 31, 2011	December 31, 2010 (Note 11)	January 1, 2010 (Note 11)
ASSETS			
Current assets:			
Cash and cash equivalents	**$ 7,520,326**	$ 8,379,230	$ 13,764,186
Available-for-sale financial assets	**-**	-	232,437
Trade and other receivables	**239,011**	800,221	403,027
Inventory	**28,901**	-	-
Prepaid expenses	**23,398**	69,837	80,728
	7,811,636	9,249,288	14,480,378
Non-current assets:			
Exploration & evaluation assets	**31,774,570**	30,882,674	30,679,866
Property, plant & equipment	**8,879,895**	9,118,646	6,851,770
Reclamation bond	**-**	-	12,625
Goodwill	**5,000,000**	5,000,000	5,000,000
	45,654,465	45,001,320	42,544,261
TOTAL ASSETS	**$ 53,466,101**	$ 54,250,608	$ 57,024,639
LIABILITIES & EQUITY			
Current liabilities:			
Trade and other payables	**$ 665,663**	$ 918,252	$ 483,511
Current portion of obligations under finance leases	**4,553**	4,588	6,465
	670,216	922,840	489,976
Non-current liabilities:			
Obligations under finance leases	**311,882**	320,160	384,018
Deferred tax liability	**4,916,034**	4,916,034	5,295,182
	5,227,916	5,236,194	5,679,200
TOTAL LIABILITIES	**$ 5,898,132**	$ 6,159,034	$ 6,169,176
EQUITY			
Shareholders' equity:			
Share capital	**$ 73,107,031**	$ 72,325,969	$ 71,965,457
Contributed surplus	**10,408,410**	7,012,557	6,155,222
Cumulative translation account	**89,690**	22,671	-
Available-for-sale reserve	**-**	-	136,603
Deficit	**(35,651,427)**	(31,012,681)	(27,442,521)
	47,953,704	48,348,516	50,814,761
Non-controlling interests	**(385,735)**	(256,942)	40,702
TOTAL EQUITY	**$ 47,567,969**	$ 48,091,574	$ 50,855,463
TOTAL LIABILITIES AND EQUITY	**$ 53,466,101**	$ 54,250,608	$ 57,024,639

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Income

(Unaudited – Canadian dollars)

	Notes	Three months ended March 31, 2011	March 31, 2010
Revenue		**$ 240,388**	$ 129,082
Cost of sales	**6**	**314,263**	424,320
		(73,875)	(295,238)
Exploration expenses	**7**	**881,976**	239,394
Corporate & administration	**8**	**3,753,849**	633,262
Other expenses		**-**	29,753
Foreign exchange loss		**24,287**	12,393
Loss from operating activities		**(4,733,987)**	(1,210,040)
Finance income		**22,762**	202,944
Finance expense		**(8,315)**	(9,081)
Net finance income		**14,447**	193,863
Net loss		**$ (4,719,540)**	$ (1,016,177)
Net loss attributable to:			
Equity holders of the Company		**$ (4,637,955)**	$ (871,348)
Non-controlling interest		**(81,585)**	(144,829)
		$ (4,719,540)	$ (1,016,177)
Basic and diluted loss per share		**$ (0.05)**	$ (0.01)
Basic and diluted weighted average number of shares outstanding		**90,057,721**	89,230,877

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited – Canadian dollars)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Net loss	**$ (4,719,540)**	$ (1,016,177)
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities recognized in income	**-**	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries	**20,602**	(140,169)
Other comprehensive income (loss)	**20,602**	(276,772)
Total comprehensive loss	**$ (4,698,938)**	$ (1,292,949)
Total comprehensive loss attributable to:		
Equity holders of the Company	**$ (4,570,936)**	$ (1,084,459)
Non-controlling interest	**(128,002)**	(208,490)
	$ (4,698,938)	$ (1,292,949)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited – Canadian dollars)

	Attributable to equity holders of the Company								
	Number of shares	Share capital	Contributed surplus	Cumulative translation account	Available-for-sale reserve	Deficit	Total	Non-controlling interests	Total equity
Balance at January 1, 2010	89,230,877 $	71,965,457 $	6,155,222 $	- $	136,603 $	(27,442,521) $	50,814,761 $	40,702 $	50,855,463
Total comprehensive loss for the period:									
Net loss	-	-	-	-	-	(871,348)	(871,348)	(144,829)	(1,016,177)
Other comprehensive income (loss):									
Foreign currency translation adjustment	-	-	-	(76,508)	-	-	(76,508)	(63,661)	(140,169)
Available-for-sale reserve recognized	-	-	-	-	(136,603)	-	(136,603)	-	(136,603)
Total other comprehensive loss	-	-	-	(76,508)	(136,603)	-	(213,111)	(63,661)	(276,772)
Total comprehensive loss for the period	-	-	-	(76,508)	(136,603)	(871,348)	(1,084,459)	(208,490)	(1,292,949)
Transactions with owners, recognized directly in equity:									
Change in share subscription receivable	-	643	-	-	-	-	643	-	643
Stock-based compensation	-	-	197,895	-	-	-	197,895	-	197,895
Disposition of interest without change of control	-	-	-	-	-	12,727	12,727	31,273	44,000
Total transactions with owners	-	643	197,895	-	-	12,727	211,265	31,273	242,538
Balance at March 31, 2010	89,230,877 $	71,966,100 $	6,353,117 $	(76,508) $	- $	(28,301,142) $	49,941,567 $	(136,515) $	49,805,052
Balance at January 1, 2011	89,688,377 $	72,325,969 $	7,012,557 $	22,671 $	- $	(31,012,681) $	48,348,516 $	(256,942) $	48,091,574
Total comprehensive loss for the period:									
Net loss	-	-	-	-	-	(4,637,955)	(4,637,955)	(81,585)	(4,719,540)
Other comprehensive income (loss):									
Foreign currency translation adjustment	-	-	-	67,019	-	-	67,019	(46,417)	20,602
Total other comprehensive income (loss)	-	-	-	67,019	-	-	67,019	(46,417)	20,602
Total comprehensive loss for the period	-	-	-	67,019	-	(4,637,955)	(4,570,936)	(128,002)	(4,698,938)
Transactions with owners, recognized directly in equity:									
Change in share subscription receivable	-	3,662	-	-	-	-	3,662	-	3,662
Stock-based compensation	-	-	3,716,613	-	-	-	3,716,613	-	3,716,613
Stock options exercised	625,000	777,400	(320,760)	-	-	-	456,640	-	456,640
Disposition of interest wothout							-		
change of control	-	-	-	-	-	(791)	(791)	(791)	(1,582)
Total transactions with owners	625,000	781,062	3,395,853	-	-	(791)	4,176,124	(791)	4,175,333
Balance at March 31, 2011	90,313,377 $	73,107,031 $	10,408,410 $	89,690 $	- $	(35,651,427) $	47,953,704 $	(385,735) $	47,567,969

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited – Canadian dollars)

		Three months ended March 31, 2011		March 31, 2010
Cash flows from operating activities:				
Net loss	**$**	**(4,719,540)**	$	(1,016,177)
Item not involving cash:				
Depreciation and amortization		**85,934**		96,073
Depletion of development properties		**10,091**		899
Share-based payments		**3,716,613**		197,895
Loss on sale of property, plant & equipment		**-**		1,253
Net finance income		**(14,447)**		(193,863)
Foreign exchange loss		**24,287**		23,362
Change in non-cash working capital		**326,159**		(30,138)
Cash flows from operating activities	**$**	**(570,903)**	$	(920,696)
Cash flows from financing activities:				
Issue of common shares upon exercise of stock options	**$**	**456,640**	$	-
Disposition of interest without change in control		**(1,582)**		44,000
Cash received on repayment of share subscription receivable		**3,000**		-
Repayment of obligations under capital lease		**(1,115)**		(1,367)
Interest paid		**(7,653)**		(8,438)
Cash flows from financing activities	**$**	**449,290**	$	34,195
Cash flows from investing activities:				
Proceeds on sale of available-for-sale financial assets	**$**	**-**	$	276,432
Additions to exploration & evaluation assets		**(690,021)**		(226,454)
Purchase of property, plant & equipment		**(54,232)**		(26,497)
Interest received		**22,762**		22,347
Cash flows from investing activities	**$**	**(721,491)**	$	45,828
Effect of exchange rate changes on cash and cash equivalents	**$**	**(15,800)**	$	(23,362)
Decrease in cash and cash equivalents	**$**	**(858,904)**	$	(864,035)
Cash and cash equivalents, beginning of period	**$**	**8,379,230**	$	13,764,186
Cash and cash equivalents, end of period	**$**	**7,520,326**	$	12,900,151

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 "Company") is a company domiciled in Canada. The address of the Company's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The consolidated financial statements of the Company as at and for the three months ended March 31, 2011, comprise the Company and its subsidiaries. The principal business of the Company is the exploration and development of mineral deposits. The Company is primarily focused on the discovery of large tonnage, low cost, gold, copper, molybdenum and coal deposits primarily in Mongolia; and the development of coal and industrial mineral interests in North America.

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

2. Basis of preparation and first-time adoption of IFRS

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 11. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods at the date of transition under IFRS.

The policies applied in these consolidated financial statements are presented in Note 3 and are based on the IFRS expected to be applicable as of December 31, 2011. The date the Board of Directors approved the financial statements is June 8, 2011.

b) Basis of measurement

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

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

2. Basis of preparation and first-time adoption of IFRS (continued)

c) Use of estimates and judgments

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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 Company’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 expenditure. 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.

2. Basis of preparation and first-time adoption of IFRS (continued)

c) Use of estimates and judgments (continued)

Share-based payments

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

Identification of functional currency

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

Fair value of financial instruments, including embedded derivatives

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

Taxation

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

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

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The exemptions the Company has taken in applying IFRS for the first time are set out in note 11.

a) Basis of consolidation

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.

i) Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Acquisitions on or after January 1, 2010 (continued)

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

ii) Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transitions with equity holders in their capacity as equity holders. Therefore, no goodwill is recognized as a result of such transactions. Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. Summary of significant accounting policies (continued)

a) Basis of consolidation (continued)

iii) Subsidiaries

Subsidiaries are all those entities over which the Company 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 Company controls another entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. 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.

iv) Transactions eliminated on consolidation

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

b) Foreign currency

i) Foreign currency transactions

In preparing the financial statements of each individual Company 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 all Company entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- shareholders’ equity are translated at historical rates of exchange at the reporting date;
- assets and liabilities are translated at the closing rate at the date of that statement of financial position;

3. Summary of significant accounting policies (continued)

b) Foreign currency (continued)

iii) Foreign operations (continued)

- 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 Company are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in the cumulative translation account in equity.

c) Financial instruments

i) Financial assets

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

The Company 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.

The Company has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

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 and cash equivalents.

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less on the date they are acquired by the Company.

3. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

i) Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. The Company's investments in the equity securities of other entities are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Fair value

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

ii) Financial liabilities

The Company initially recognizes other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument.

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

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

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.

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 as it has been determined that a property in the opinion of management has documented evidence of economically recoverable resources, 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

3. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

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.

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

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 Company 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:

Asset	**Basis**	**Rate**
Building	Declining balance	10%
Equipment, furniture & fixtures	Declining balance	20%
Plant equipment and leaseholds	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.

3. Summary of significant accounting policies (continued)

e) Property, plant and equipment (continued)

Development assets

Development assets 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 development assets 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 to the extent that such resources are considered to be economically recoverable.

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.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. Impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

ii) Non-financial assets

The carrying amounts of the Company’s non-financial 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.

3. 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 Company'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 recognized directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to the goodwill and then to the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

Exploration assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment loss is recognized for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. Where the assets are not associated with a specific cash generating unit, the recoverable amount is assessed using fair value less cost to sell for the specific exploration area.

g) Lease payments

Determining whether an arrangement is, or contains a lease, is based on the substance of the arrangement, and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to control the asset.

Leases where the lessee assumes substantially all of the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the lower of the estimated present value of the

3) Summary of significant accounting policies (continued)

g) Lease payments (continued)

underlying lease payments and the fair value of the asset. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding.

The corresponding rental obligations, net of finance charges, are included in other long-term and short-term payables, respectively. The interest element is expensed to the income statement, as a finance expense, over the lease period.

The property, plant and equipment acquired under finance leasing contracts is amortized in terms of the Company accounting policy limited to the lease contract term.

Leases of assets under which substantially all the benefits and risks of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the life of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

h) Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares. As permitted under the Income Tax Act (Canada), the tax attributes of eligible expenditures incurred with the proceeds of flow-through share issuances were renounced to subscribers.

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

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

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

i) 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.

3) Summary of significant accounting policies (continued)

i) Income taxes (continued)

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.

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.

j) 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 Company'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.

3. Summary of significant accounting policies (continued)

k) Revenue

The Company 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 risk and reward of ownership are transferred and when the entity no longer has any managerial involvement over goods. Consequently sales are recognized when a Company entity has delivered products to the customer and collectability of the related receivables is reasonably assured. Revenue is reported net of discounts and pricing adjustments.

l) Finance income and expenses

Finance income comprises interest income on funds invested and gains on the disposal of available-for-sale financial assets. Interest income is recognized in earnings as it accrues, using the effective interest method. Finance expense comprise interest expense of borrowings.

Borrowing costs are capitalized when such costs are attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. Other borrowing costs that are not directly attributable to qualifying assets are expensed in the period incurred.

m) Earnings per share

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

4. Future changes in accounting policies

IFRS 9 Financial instruments (“IFRS 9”) was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

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

5. Equity

(a) Stock Options

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

The changes in stock options during the three months ended March 31, 2011 and year ended December 31, 2010 were as follows:

	March 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	4,043,000	$ 0.60	4,124,000	$ 0.73
Granted	4,150,000	1.26	1,780,000	0.58
Exercised	(625,000)	0.73	(457,500)	0.45
Expired/Forfeited	(40,000)	1.37	(1,403,500)	0.98
Closing balance	7,528,000	$ 0.95	4,043,000	$ 0.60
Exercisable	7,420,000	$ 0.95	4,043,000	$ 0.60

The following table summarizes information concerning outstanding and exercisable options at March 31, 2011:

	Outstanding		Exercisable		
Expiry date	Number of Options	Exercise price $	Number of Options	Exercise price $	Remaining Contractual Life (Years)
August 23, 2011	110,000	0.85	110,000	0.85	0.40
May 11, 2012	125,000	1.35	125,000	1.35	1.12
May 25, 2012	125,000	1.43	125,000	1.43	1.15
October 1, 2012	100,000	1.14	100,000	1.14	1.51
April 4, 2013	125,000	0.91	125,000	0.91	2.01
October 10, 2012	27,000	0.35	27,000	0.35	2.53
June 26, 2014	900,000	0.30	900,000	0.30	3.24
September 21, 2014	355,000	0.30	355,000	0.30	3.48
April 15, 2015	811,000	0.58	811,000	0.58	4.04
October 8, 2015	700,000	0.58	700,000	0.58	4.53
March 22, 2016	4,150,000	1.26	4,042,000	1.26	4.98
	7,528,000	**0.95**	**7,420,000**	**0.95**	**4.26**

5. Equity (continued)

(a) Stock Options (continued)

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

		Three months ended March 31, 2011
Share price at grant date	$	1.30
Exercise price	$	1.26
Risk-free interest rate		2.0%
Expected life		4.4 years
Expected volatility		98.0%
Expected dividends		0.0%

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

6. Cost of Sales

	For the three months ended			
		March 31, 2011		**March 31, 2010**
Depletion	**$**	**10,091**	$	899
Depreciation & amortization		**73,625**		84,437
Share-based payments		**-**		94,800
Direct costs		**230,547**		244,184
	$	**314,263**	$	424,320

7. Exploration expenses

	For the three months ended			
		March 31, 2011		**March 31, 2010**
Depreciation & amortization	**$**	**1,413**	$	1,453
Share-based payments		**600,970**		-
Direct costs		**279,593**		237,941
	$	**881,976**	$	239,394

8. Corporate & administration

	For the three months ended			
		March 31, 2011		**March 31, 2010**
Depreciation & amortization	**$**	**10,896**	$	10,183
Share-based payments		**3,115,643**		103,095
Direct costs		**627,310**		519,984
	$	**3,753,849**	$	633,262

9. Segmented information

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

The following table's present selected financial information by segment:

For the three months ended March 31, 2011

	Canada	USA	Mongolia	Corporate	Total
External Revenue	-	240,388	-	-	240,388
Segment profit (loss) before tax	34,892	187,918	733,041	3,753,849	4,709,700
Reportable segment assets	25,336,816	8,852,730	11,927,381	7,349,174	53,466,101

For the three months ended March 31, 2010

	Canada	USA	Mongolia	Corporate	Total
External Revenue	-	129,081	-	-	-
Segment profit (loss) before tax	13,166	352,567	168,899	633,262	1,167,894
Reportable segment assets	23,892,572	9,524,296	9,330,062	13,048,523	55,795,453

Reconciliation of reportable segment profit or loss for the three months ended March 31:

	2011	2010
	$	$
Total profit or loss for reportable segments	4,709,700	1,167,894
Foreign exchange loss	24,287	12,393
Other income	-	29,753
Finance income	(22,762)	(202,944)
Finance expense	8,315	9,081
Profit before tax	4,719,540	1,016,177

10. Subsequent events

Subsequent to March 31, 2011, the Company received a Mining License for the Zuun Mod molybdenum-copper project in Southwest Mongolia from the Government of Mongolia.

11. Transition to IFRS

As stated in note 2(a), these are the Company's first interim consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial statements for the three months ended March 31, 2011, the comparative information presented in these financial statements for both the three months ended March 31, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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

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

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

- Business combination election – The election allows the Company to adopt IFRS 3(2008) prospectively from the date of transition.
- Cumulative translation differences – The election enables the Company to deem the cumulative translation difference to be zero at the transition date.
- Arrangements containing a lease – The election allows the Company to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement.
- Reassessment of lease determination – If the Company made the same determination of whether an arrangement contains a lease under Canadian GAAP (EIC-150) as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the election allows the Company to not reassess that determination for such arrangements when it adopts IFRS.

11. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS
January 1, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets:				
Cash and cash equivalents		13,764,186	-	13,764,186
Available-for-sale financial assets		232,437	-	232,437
Trade and other receivables		403,027	-	403,027
Prepaid expenses		80,728	-	80,728
		14,480,378	-	14,480,378
Non-current assets:				
Exploration & evaluation assets	a, f	35,119,854	(4,439,988)	30,679,866
Property, plant & equipment	a, f	4,033,776	2,817,994	6,851,770
Reclamation bond		12,625	-	12,625
Goodwill		5,000,000	-	5,000,000
		44,166,255	(1,621,994)	42,544,261
		58,646,633	(1,621,994)	57,024,639
Current liabilities:				
Trade and other payables		483,511	-	483,511
Current portion of obligations under finance leases		6,465	-	6,465
		489,976	-	489,976
Non-current liabilities				
Obligations under finance leases	f	384,018	-	384,018
Deferred tax liability		5,295,182	-	5,295,182
		5,679,200	-	5,679,200
Non-controlling interests	d	215,815	(215,815)	-
Shareholders' equity:				
Share capital	b, c, e	78,307,296	(6,341,839)	71,965,457
Contributed surplus		6,155,222	-	6,155,222
Available-for-sale reserve		136,603	-	136,603
Deficit	b, c, e, f	(32,337,479)	4,894,958	(27,442,521)
		52,261,642	(1,446,881)	50,814,761
Non-controlling interests	d, f	-	40,702	40,702
		52,261,642	(1,406,179)	50,855,463
		58,646,633	(1,621,994)	57,024,639

11. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS
March 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets:				
Cash and cash equivalents		12,900,151	-	12,900,151
Trade and other receivables		225,111	-	225,111
Prepaid expenses		111,374	-	111,374
		13,236,636	-	13,236,636
Non-current assets:				
Exploration & evaluation assets	a, f	35,345,409	(7,305,787)	28,039,622
Property, plant & equipment	a, f	3,962,947	5,543,624	9,506,571
Reclamation bond		12,625	-	12,625
Goodwill		5,000,000	-	5,000,000
		44,320,981	(1,762,163)	42,558,818
		57,557,617	(1,762,163)	55,795,454
Current liabilities:				
Trade and other payables		306,104	-	306,104
Current portion of obligations under finance leases		6,465	-	6,465
		312,569	-	312,569
Non-current liabilities				
Obligations under finance leases	f	382,651	-	382,651
Deferred tax liability		5,295,182	-	5,295,182
		5,677,833	-	5,677,833
Non-controlling interests	d	102,259	(102,259)	-
Shareholders' equity:				
Share capital	b, c, e	78,307,296	(6,341,196)	71,966,100
Contributed surplus		6,353,117	-	6,353,117
Cumulative translation account	f	-	(76,508)	(76,508)
Deficit	b, c, e, f	(33,195,457)	4,894,315	(28,301,142)
		51,464,956	(1,523,389)	49,941,567
Non-controlling interests	d, f	-	(136,515)	(136,515)
		51,464,956	(1,659,904)	49,805,052
		57,557,617	(1,762,163)	55,795,454

11. Transition to IFRS (continued)

Reconciliation of equity as reported under Canadian GAAP and IFRS
December 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets:				
Cash and cash equivalents		8,379,230	-	8,379,230
Trade and other receivables		800,221	-	800,221
Prepaid expenses		69,837	-	69,837
		9,249,288	-	9,249,288
Non-current assets:				
Exploration & evaluation assets	a, f	37,938,676	(7,056,002)	30,882,674
Property, plant & equipment	a, f	3,806,075	5,312,571	9,118,646
Goodwill		5,000,000	-	5,000,000
		46,744,751	(1,743,431)	45,001,320
		55,994,039	(1,743,431)	54,250,608
Current liabilities:				
Trade and other payables		918,252	-	918,252
Current portion of obligations under finance leases		4,588	-	4,588
		922,840	-	922,840
Non-current liabilities				
Obligations under finance leases	f	320,160	-	320,160
Deferred tax liability		4,916,034	-	4,916,034
		5,236,194	-	5,236,194
Non-controlling interests	d	62,279	(62,279)	-
Shareholders' equity:				
Share capital	b, c, e	78,665,207	(6,339,238)	72,325,969
Contributed surplus		7,012,557	-	7,012,557
Cumulative translation account	f	-	22,671	22,671
Deficit	b, c, e, f	(35,905,038)	4,892,357	(31,012,681)
		49,772,726	(1,424,210)	48,348,516
Non-controlling interests	d, f	-	(256,942)	(256,942)
		49,772,726	(1,681,152)	48,091,574
		55,994,039	(1,743,431)	54,250,608

11. Transition to IFRS (continued)

Reconciliation of loss and comprehensive loss
For the three months ended March 31, 2010

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		129,082		129,082
Cost of sales		424,320	-	424,320
		(295,238)	-	(295,238)
Exploration expenses		239,394	-	239,394
Corporate & administration		633,262	-	633,262
Other expenses		29,753	-	29,753
Foreign exchange loss		12,393	-	12,393
Dilution gain on disposal of interest in subsidiary	g	(12,727)	12,727	-
Loss from operating activities		(1,197,313)	(12,727)	(1,210,040)
Finance income		202,944	-	202,944
Finance expense		(8,438)	(643)	(9,081)
Net finance income (expense)		194,506	(643)	193,863
Non-controlling interest	d	(144,829)	144,829	-
Net loss		(857,978)	(158,199)	(1,016,177)
Other comprehensive loss:				
Unrealized loss on marketable securities recognized in income		(136,603)	-	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries	f	-	(140,169)	(140,169)
Total comprehensive loss		(994,581)	(298,368)	(1,292,949)

11. Transition to IFRS (continued)

Reconciliation of loss and comprehensive loss
For the year ended December 31, 2010

	Note			
Revenue		584,629	-	584,629
Cost of sales		1,410,842	-	1,410,842
		(826,213)	-	(826,213)
Exploration expenses		1,460,781	-	1,460,781
Corporate & administration		2,599,751	-	2,599,751
Other expenses		24,493	-	24,493
Other income		(105,858)	-	(105,858)
Foreign exchange loss		43,274	-	43,274
Dilution gain on disposal of interest in subsidiary	g	(139,372)	139,372	-
Loss from operating activities		(4,709,282)	(139,372)	(4,848,654)
Finance income		270,535	-	270,535
Finance expense	c	(32,682)	(2,601)	(35,283)
Net finance income (expense)		237,853	(2,601)	235,252
Income tax expense		(38,285)		(38,285)
Future income tax recovery		379,148	-	379,148
Net tax recovery (expense)		340,863	-	340,863
Non-controlling interest	d	(563,007)	563,007	-
Net loss		(3,567,559)	(704,980)	(4,272,539)
Other comprehensive loss:				
Unrealized loss on marketable securities recognized in income		(136,603)	-	(136,603)
Foreign currency translation difference arising on translation of foreign subsidiaries	f	-	(121,437)	(121,437)
Total comprehensive loss		(3,704,162)	(826,417)	(4,530,579)

11. Transition to IFRS (continued)

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

(a) Development assets

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

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

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated Statement of Financial Position			
Exploration & evaluation assets	(3,346,641)	(6,520,742)	(6,573,176)
Property, plant & equipment	3,346,641	6,520,742	6,573,176

(b) Share issue costs

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

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated Statement of Financial Position			
Share Capital	(5,033,836)	(5,033,836)	(5,033,836)
Deficit	(5,033,836)	(5,033,836)	(5,033,836)

11. Transition to IFRS (continued)

(c) Financial Instruments

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

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated Statement of Financial Position			
Share Capital	8,823	8,180	6,222
Deficit	(8,823)	(8,180)	(6,222)

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

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated Statement of Comprehensive Income			
Finance expense		643	2,601
Net loss		(643)	(2,601)

(d) Non-controlling interest

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

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

(e) Flow-through shares

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

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

11. Transition to IFRS (continued)

(e) Flow-through shares (continued)

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

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

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

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated Statement of Financial Position			
Share capital	(1,299,180)	(1,299,180)	(1,299,180)
Deficit	(1,299,180)	(1,299,180)	(1,299,180)

(f) Functional currency and foreign operations

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

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

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

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

11. Transition to IFRS (continued)

(f) Functional currency and foreign operations (continued)

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

The impact arising from the change is summarized as follows:

	January 1, 2010	March 31, 2010	December 31, 2010
Consolidated Statement of Financial Position			
Exploration & evaluation assets	(1,093,347)	(785,045)	(482,826)
Property, plant & equipment	(528,647)	(977,118)	(1,260,605)
Cumulative translation account	-	76,508	(22,671)
Deficit	1,446,881	1,446,881	1,446,881
Non-controlling interests	175,113	238,774	319,221
Consolidated Statement of Comprehensive Loss			
Foreign currency translation adjustment	-	(140,169)	(121,437)

(g) Change in ownership of a subsidiary

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

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

	March 31, 2010	December 31, 2010
Consolidated Statement of Financial Position		
Deficit	12,727	139,372
Consolidated Statement of Comprehensive Loss		
Dilution gain on disposal of interest in subsidiary	(12,727)	(139,372)