



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Third Quarter - September 30, 2010

This Management Discussion and Analysis of Erdene Resource Development Corporation (the "Company") provides analysis of the Company's financial results for the three and nine months ended September 30, 2010 and 2009 and its financial position as at September 30, 2010 and December 31, 2009. The following discussion and analysis includes financial information relating to the Company and its subsidiaries. The following subsidiaries 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") (59.7%), Erdene Resources Inc., and 6531954 Canada Limited, incorporated under the laws of Canada; Advanced Primary Minerals USA Corp (formerly Erdene Materials Corporation ("EMC")) (59.7%) 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 Company have been prepared by management, in Canadian dollars, in accordance with Canadian generally accepted accounting principles. The following information should be read in conjunction with the unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2010 and 2009, and the audited consolidated financial statements of the Company for the years ended December 31, 2009 and 2008, including all accompanying notes to the consolidated financial statements.

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

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

1.01 Date of MD&A

This MD&A is prepared as of November 10, 2010.

1.02 Nature of Business and Overall Performance

General

The Company is a resource exploration and development company listed on the Toronto Stock Exchange with four core projects, namely the Donkin Coal Project in Nova Scotia, the Zuun Mod Molybdenum Project in Mongolia, the Granite Hill Construction Aggregate Project in Georgia, USA and APM's kaolin operation in Georgia, USA.

In early 2010, mine development work began on the Granite Hill site with commercial production to begin as early as the fourth quarter 2011. Until resulting cash flows from Granite Hill or any of the Company's other projects increase substantially over current, the annual level of expenditures of the Company is dependent primarily on the issuance of share capital to finance its exploration and development programs.

The Company, through its controlled subsidiary APM, operates a clay processing plant in Dearing, Georgia, USA. APM is in the second year of a three year business plan with the aim of building a high value added specialty products operation projected to generate positive cash flows in 2011. On August 6, 2010, APM closed a private placement of 6,797,997 common shares of APM at \$0.15 per share for aggregate proceeds of \$1,019,700. The Company participated by investing \$350,000, leaving new monies of \$699,700 generated in the financing. Proceeds from the financing will be used in a capital expansion program at its plant in Dearing, GA with the installation of new product silos, bagging and classification equipment to accommodate increased sales and new product lines. APM has also begun work on a feasibility program to evaluate numerous expansion options and determine the optimal plan for permitting and development of APM's remaining McDuffie County resources.

The Company has minimal sources of income other than royalty income from its aggregate properties which are early stage, kaolin clay sales from its startup operations in Georgia, and interest earned on cash and GICs. It is therefore difficult to identify any meaningful trends or to develop an analysis from the Company's cash flows.

The Company is well-funded, with working capital to the date of this report of approximately \$9.3 million. The Company's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America.

Beta Acquisition

On February 27, 2009, the Company concluded a reverse takeover of Beta Minerals Inc. ("Beta") whereby the Company and Deepstep Kaolin Company LLC ("DKC") transferred to Beta all of the outstanding common shares of EMC, and certain debt owing to the Company, in exchange for common shares of Beta, giving the Company a controlling interest in Beta. In conjunction with the closing, Beta changed its name to Advanced Primary Minerals Corporation and on March 6, 2009 began trading on the TSX Venture Exchange ("Exchange") under the symbol APD. The transaction constituted an arms length "Reverse Takeover" under the applicable policies of the Exchange.

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing, EMC held only primary kaolin clay assets located in Georgia, U.S.A. Also prior to closing, DKC transferred all rights to undertake production operations of ceramic products using

the Company's clay, for 0.08542 of a share of EMC. On closing, the Company and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to the Company in exchange for the issuance by Beta of 81,000,000 common shares (71,000,000 to the Company and 10,000,000 to DKC). In addition, Beta agreed to issue 36,000,000 additional shares to the Company upon certain permits being obtained to allow production from certain of the clay assets, and if such permits are not obtained by February 27, 2012, the 36,000,000 shares will not be issued. Subsequent to the closing, the Company transferred 2,925,000 of its shares of Beta to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the transaction. Upon completion of the Transaction, EMC became a wholly-owned subsidiary of Beta (now Advanced Primary Minerals Corporation ("APMUSA")). EMC subsequently changed its name to Advanced Primary Minerals USA Corp.

To the date of this report, the Company holds 15,717,748 shares, or 59.7%, of APM.

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

Donkin Joint Venture

The Donkin Joint Venture ("DJV"), between the Company and Xstrata Coal Pty Limited, was formed to submit a proposal to the Province of Nova Scotia to secure the exclusive right to the Donkin Coal Project; namely, the project to explore, assess, study and, if feasible, develop the Donkin Coal Resource Block into an operating coal mine. On December 14, 2005, the Province of Nova Scotia announced that the DJV was the successful proponent.

On October 15, 2008, the Company and Xstrata Coal Donkin Limited ("XCDL") finalized the terms of a definitive joint venture agreement and a sales agency agreement. Xstrata holds a 75% interest in the joint venture and the Company holds a 25% ownership. The Company's interest in the DJV is held by 6531954 Canada Limited, a wholly owned subsidiary of Erdene Resources Inc., and Xstrata Coal Pty Limited's interest is held by XCDL. Xstrata Coal Donkin Management Limited, a related party to XCDL, is acting as manager for the Donkin Coal Project. If the Donkin Coal Project is approved to proceed to development, the manager will be responsible for mine development, including infrastructure, coal mining and processing, and coal distribution and sales programs.

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

Pursuant to the joint venture agreement, the Company funded \$10 million in qualifying Canadian Exploration Expenditures ("CEE") during the Exploration Program. The Company is responsible to fund 25% of expenditures above \$10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To September 30, 2010, the Company has advanced a total of \$13,344,051 in order to meet its commitment. Upon a positive development decision, the first \$10 million of the Company's capital obligations will be funded by XCDL.

On February 11, 2010, the Company announced that after a strategic review, the Donkin Coal Project will focus on export coking coal opportunities. Xstrata Coal Pty Limited indicated it was

also looking to obtain expressions of interest from potential strategic partners to invest in the project.

Strategic Alliance with Xstrata Coal Canada Limited

On February 14, 2006 the Company concluded an agreement with Xstrata Coal Canada Limited ("Xstrata") a subsidiary of Xstrata plc (London Stock Exchange: XTA.L; Zurich Stock Exchange: XTA.S), whereby Xstrata was granted a first option to enter into a joint venture and earn a 75% interest in any coal opportunity in Mongolia identified by the Company by funding all work through completion of a feasibility study. Should the Company elect to develop or pursue third party participation in any non-coal projects or properties in Mongolia or elsewhere, Xstrata has a 60 day right to review all supporting project information and, if it wishes to participate in the project, to negotiate the terms of its participation before the Company may dispose of or develop the property itself. As part of the agreement, Xstrata named a nominee to the Company's Board of Directors. The rights granted to Xstrata under the agreement expire if Xstrata does not maintain a 5% equity position in the Company, although parties' rights and obligations for any established joint venture survive. Under the agreement, Xstrata is entitled to participate in all future financings of the Company to allow them to hold up to 9.9% of the common shares of the Company. As of September 30, 2010 Xstrata has maintained their minimum ownership requirements.

1.03 Selected Annual Information

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

Expressed in thousands of Canadian dollars except per share amounts.

| Fiscal Year Ended December 31 | 2009 | 2008 | 2007 |
|--------------------------------------|-------------|-------------|-------------|
| Revenues | \$ - | \$ - | \$ - |
| Loss for the year | \$ 2,177 | \$ 3,592 | \$ 6,651 |
| Basic and diluted loss per share | \$ 0.02 | \$ 0.04 | \$ 0.11 |
| Total assets | \$ 58,647 | \$ 60,497 | \$ 47,015 |
| Total long-term liabilities | \$ 5,895 | \$ 5,764 | \$ 4,367 |
| Cash dividends declared | Nil | Nil | Nil |

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

1.04 Results of Operations

Three months ended September 30, 2010 and 2009

The Company had a loss of \$362,771 for the three months ended September 30, 2010, compared to \$1,239,158 during the same period in 2009.

Total exploration and operating costs for the period, net of deferred expenditures and partner contributions, amounted to \$625,365 compared to \$1,037,854 during the same period in 2009.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined the property has good potential to contain an economically recoverable

resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. All direct costs related to the acquisition of resource property interests are capitalized as an asset. Total resource property additions for the three months ended September 30, 2010 was nil compared with \$5,469 in 2009.

The Company capitalizes exploration and development costs associated with its Zuun Mod molybdenum project and Donkin coal project. For the three months ended September 30, 2010, the Company incurred \$210,493 in exploration and support costs directly related to the Zuun Mod project which were capitalized (2009 – \$187,584); and incurred \$255,147 on the Donkin project (2009 - \$80,000) which were capitalized. The Company wrote off no resource properties in the three months ended September 30, 2010 or 2009.

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

General and administrative expenses amounted to \$452,403 for the three months ended September 30, 2010 compared to \$437,481 in the same period in 2009. Excluding non cash items, general and administrative costs increased \$58,169 in the third quarter of 2010 compared to the same period in 2009. The increase is primarily due to additional administrative, office and regulatory costs associated with managing APM.

Other income amounted to \$513,982 for the three months ended September 30, 2010, compared with \$162,522 in the same period in 2009. The majority of the increase is a dilution gain recognized as a result of the APM financing, a gain on the sale of the Company's Galshar coal property in Mongolia and higher clay sales as compared to the third quarter of 2009.

Nine months ended September 30, 2010 and 2009

The Company had a loss of \$2,670,429 for the nine months ended September 30, 2010, compared to a loss of \$2,036,731 during the same period in 2009.

Total exploration and operating costs for the period, net of deferred expenditures and partner contributions, amounted to \$2,088,281 for the nine months of 2010 compared to \$3,118,297

during the same period in 2009. In 2009, the Company wrote off the value of its Tsenkher Gol project in Mongolia accounting for almost \$1 million of the expense. Operating costs of \$1,033,985, for the nine months ended September 30, 2010, relate to APM's operations in Georgia, including non-cash expenses of \$250,480 for depreciation of plant equipment, depletion of resource properties and amortization of capital leases.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined the property has good potential to contain an economically recoverable resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. All direct costs related to the acquisition of resource property interests are capitalized as an asset. Total resource property additions for the nine months ended September 30, 2010 amounted to \$84,136 as compared with \$96,924 for the same period in 2009.

In the nine months ended September 30, 2010, the Company capitalized \$398,825 in exploration and support costs associated with its Zuun Mod molybdenum project (2009 - \$355,808); and \$648,375 on the Donkin project (2009 - \$680,022). The Company did not write off any properties in the nine months ended September 30, 2010 compared to \$1,066,851 in the same period in 2009.

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

General and administrative expenses amounted to \$1,913,315 for the nine months ended September 30, 2010 compared to \$1,448,530 for the same period in 2009, an increase of \$464,785. \$192,157 is an increase non-cash stock based compensation, of which, \$197,895 relates to APM. The remainder of the increase is largely higher investor relations and conference costs, additional administration and professional fees, and higher regulatory compliance costs. Since closing the Beta transaction in February 2009, the company is incurring general and administrative costs for another public entity, APM.

Other income amounted to \$927,064 for the nine months ended September 30, 2010, compared with \$2,273,546 for the same period in 2009. \$714,369 of the decrease was related to a large gain on the sale of marketable securities in the prior year. In 2009, the Company also recognized

an \$879,869 dilution gain on the disposal of an interest in its subsidiary EMC. In the nine months ended September 30, 2010, the Company has recognized \$347,958 in revenue from its Dearing plant and industrial lab compared to \$130,621 in the prior year.

Subsequent to closing of the Beta transaction, the company accounts for the interest in Advanced Primary Minerals it does not own. For the nine months ended September 30, 2010, non controlling interest's portion of the consolidated loss was \$404,103, compared to \$256,550, in the prior year.

1.05 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

| | Fiscal 2010 | | | Fiscal 2009 | | | Fiscal 2008 | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q3 Sep-10 | Q2 Jun-10 | Q1 Mar-10 | Q4 Dec-09 | Q3 Sep-09 | Q2 Jun-09 | Q1 Mar-09 | Q4 Dec-08 |
| Revenue | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Loss | \$363 | \$1,449 | \$858 | \$140 | \$1,239 | \$1,479 | (\$681) | \$427 |
| Basic and diluted loss per share | \$0.00 | \$0.02 | \$0.01 | \$0.00 | \$0.01 | \$0.01 | \$0.00 | \$0.01 |
| Total Assets | \$56,507 | \$56,632 | \$57,558 | \$58,647 | \$58,910 | \$60,209 | \$61,965 | \$60,497 |

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

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

1.06 Liquidity and Capital Resources

The Company had working capital at September 30, 2010 of \$10,733,526, a decrease of \$3,258,213 from the December 31, 2009 working capital position of \$13,991,739. Most of the working capital was used in the normal operations of the Company carrying out its exploration programs, general and administrative costs in support of the program, as well as the operation of its kaolin processing plant in Dearing Georgia, USA.

Current working capital is sufficient to fund the Company's budgeted expenditures through 2011. The timing and availability of additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration program and decisions based on results from ongoing studies for the Donkin Coal Project.

During the nine months ended September 30, 2010, \$84,136 was expended on additions to resource property interests, compared to 2009 additions of \$96,924, offset by write downs of nil and 1,183,323 respectively. The Company deferred expenditures totaling \$1,047,200 compared to \$1,035,830 in 2009.

During the nine months ended September 30, 2010, the Company spent \$104,386 on property, plant and equipment compared to \$1,341,437 during the same period in 2009. The majority of the

additions in 2009 were the purchase of kaolin processing equipment and leaseholds for APM's new kaolin processing operation.

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

1.07 Contractual Obligations

As of September 30, 2010 the Company is committed to the following obligations:

- The Company has entered into an operating lease for office space until August 31, 2014 representing total payments of \$230,847 until expiry. The Company has the right to terminate the lease by giving six months notice prior to each annual anniversary date.
- The Company leases office equipment at its head office until November, 2012 representing total payments of \$9,490.
- The Company, through its controlled subsidiary APMUSA, has entered into capital leases for certain assets associated with its kaolin processing operation. At September 30, 2010, total obligations under these leases totaled \$386,666.
- The Company, through APMUSA, owns outright or has entered into lease agreements for primary kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is US \$30,118. These agreements also provide that APMUSA will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. To date, APMUSA has not any mined clay subject to a royalty.
- Gallant Minerals Limited ("Gallant") is entitled to a net smelter return royalty on certain Mongolian properties ranging from 1% to 1.5%, subject to a buy-down provision.

1.08 Off-Balance Sheet Arrangements

As at September 30, 2010, the Company 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 Company.

1.09 Critical Accounting Estimates

Critical accounting estimates used in the preparation of the Company's consolidated financial statements include the Company's estimate of the recoverable value of its resource properties,

the value attributed to stock-based compensation and future taxes. These estimates could be significantly affected by factors beyond the Company's control.

The acquisition cost of resource properties are recorded as an asset on the balance sheet under the caption resource property interests until such time as the related property (ies) commence commercial production, at which time it will be depleted against related mine revenue from the property(ies) or when the Company determines the carrying value of a property cannot be recovered, in which case the carrying value will be written off or down to its recoverable value. Since the Company charges all exploration costs to operations when incurred, with the exception of expenditures related to the Donkin coal project and the Zuun Mod molybdenum project, and ultimately to deficit, until potential for an economically recoverable resource has been identified, management feels confident that the recoverable value of its resource properties equals or exceeds its carrying value of \$36,246,781 on the Company's balance sheet at September 30, 2010.

Stock-based compensation is calculated using the Black-Scholes model, a recognized option/warrant valuation formula, which is highly dependent on the expected volatility of the market price of the Company's common shares. The Company is using an expected volatility rate of 88% in 2010 (77% in 2009). This is an estimate only based on using past share trading data to predict future volatility, and actual volatility may be different from the estimate used in the valuation formula. Stock-based compensation represents a non-cash expense and, as such, has no impact on the Company's financial position or liquidity. The Company issued 1,030,000 options during the nine months ended September 30, 2010 with an ascribed value of \$417,768 and charged as follows: \$139,932 to general and administrative and \$277,836 to exploration and operating. This compares to \$238,590 for the same period in 2009 charged as follows: \$145,670 to general and administrative and \$92,920 to exploration and operating.

The share purchase options issued by APM had an ascribed value of \$197,895. APM used an expected volatility rate of 97% in 2010 (80% in 2009).

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

1.10 Changes in Accounting Policies

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces section 1851 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standards IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace

section 1600, Consolidated Financial Statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards (“IFRS”)

In February, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the mandatory changeover date to International Financial Reporting Standards (“IFRS”) for Canadian profit-oriented publicly accountable entities. The AcSB requires IFRS compliant financial statements for annual and interim financial statements commencing on or after January 1, 2011. The Company’s first unaudited interim financial statements under IFRS will be for the quarter ended March 31, 2011, with IFRS compliant comparative financial information for the quarter ended March 31, 2010.

The Company is engaged in an assessment and conversion process which includes consultations with the Company’s external auditor and expects to be ready for the conversion to IFRS in advance of the January 1, 2011 deadline. The initial stage of the IFRS conversion project was to train and educate senior finance personnel on IFRS. The Company offered IFRS specific training to senior financial staff and participation in peer group meetings on IFRS readiness organized by an external consulting firm.

The next phase of the Company’s IFRS project was to perform an impact assessment, whereby management reviewed each of the significant areas of difference between Canadian Generally Accepted Accounting Principles (“CGAAP”) and IFRS. To this end, in the fourth quarter of 2009 the Company engaged its external auditor to perform a review of the key areas of financial statement impact with the conversion to IFRS. This report was delivered to the Company in November 2009 and presented to the Company’s audit committee.

The following is a discussion of some of the accounting standards identified as most likely to have a significant financial statement impact on the Company.

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

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of January 1, 2010, the date of the first comparative balance sheet presented under IFRS. However, IFRS 1 provides entities adopting IFRS for the first time a number of optional exemptions and mandatory exemptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition. The following are the optional exemptions which the Company is considering:

- Business combination election – The election allows the Company to adopt IFRS 3(R) prospectively from the date of transition. The Company expects to take this election.
- Fair value or revaluation as deemed cost election – The Company may elect on transition to record certain items of property, plant and equipment at fair value. The Company does not expect to take this election.

- Share-based payments election – The election enables the Company to adopt IFRS 2, from the date of transition to IFRS. The Company expects to take this election.

2) IFRS 6, Exploration for and Evaluation of Mineral Resources

IFRS 6, applies to expenditures incurred on properties in the exploration and evaluation (E&E) phase. The E&E phase begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E&E expenditures are capitalized and which are expensed. Our project team is developing a policy that includes defining the E&E phase and accounting for E&E expenditures. The Company expects to establish an accounting policy to expense, as incurred, all costs, except acquisition costs, relating to E&E until such time as it is determined that a property in the opinion of management has documented evidence of economically recoverable resources. On adoption of IFRS, the Company does not expect an adjustment related to the adoption of IFRS 6; although a reclassification on the statement of financial position is expected related to properties in the development stage.

3) IAS 16, Property, plant and equipment

The Company expects the carrying value of certain property, plant and equipment may decrease upon conversion to IFRS compared to the carrying value under Canadian GAAP. The decrease may result from increased depreciation expense due to asset componentization. Asset componentization, which may result in increased depreciation expense, involves breaking down an asset by identifying significant individual components and separately depreciating those individual components over their useful lives.

4) IAS 36, Impairment of assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36 uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows). This may potentially result in write-downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This difference could lead to income statement and earnings volatility in future periods.

Impairment testing under Canadian GAAP allows cash flows to be projected for the remaining useful life of the primary asset, and does not limit the cash flow forecast period. Impairment testing under IAS 36, provides that cash flow forecasts should cover a maximum of 5 years unless a longer period can be justified. Thereafter, cash flow projections generally are extrapolated over the useful life of the primary asset using a steady or declining growth rate. The Company is in the process of assessing the carrying value of its assets in accordance with IAS 36 as at the date of transition, January 1, 2010.

5) IFRS 2, Share-based payments

Canadian GAAP allows for forfeitures to be accounted for as they occur as an accounting policy choice. Under IFRS 2, the Company will have to estimate forfeitures on grant date and adjust to actual periodically. The Company is in the process of estimating forfeiture rates.

The timing and recognition of stock based compensation may also differ, depending on the vesting provisions at the grant date. IFRS 2 requires stock-based compensation to be recognized using a graded vesting schedule and the grant date fair value will have to be based on Black Scholes method for each vesting tranche of grant. This is not expected to impact the Company significantly at this time as the stock option plan provides for immediate vesting of stock options unless otherwise determined by the Board of Directors.

6) IAS 21, The Effects of Changes in Foreign Exchange Rates

Under Canadian GAAP, functional currency is determined for the reporting entity based on the evaluation of a number of factors. Each subsidiary is then evaluated to determine if they are integrated with the parent or self-sustaining and the appropriate foreign currency translation methods are followed based on that determination. Under Canadian GAAP, the Company's subsidiaries were considered integrated and non-monetary assets and liabilities were recorded at the historical rate. Any gains or losses on the translation of monetary assets and liabilities were recorded in the Statement of Loss and Comprehensive Loss

Under IFRS, each entity has a functional currency which is determined based on the evaluation of primary factors and if those do not provide conclusive evidence then secondary factors are evaluated. A presentation currency is determined and all subsidiaries with functional currencies different than the presentation currency are translated using a method similar to the method used for translating self-sustaining entities under Canadian GAAP; whereby, assets and liabilities are translated at the current rate with any exchange gains and losses recorded as Cumulative Translation Adjustment in Shareholders' Equity. This will result in greater volatility in the recorded amount of assets and liabilities.

The Company has made significant progress in its IFRS conversion project and in October 2010 engaged a consultant to lead the IFRS conversion process. Members of the IFRS conversion team have completed two and half days of a four day workshop with the Company's external auditor. The sessions are intended to support the Company through the conversion process from assisting in the identification and assessment of IFRS accounting differences, completion of gap analysis, IFRS conversion planning, through to the creation of the first set of IFRS financial statements.

The Company is in the process of completing technical papers to address all significant GAAP differences, which are being provided to the Company's auditors for review as the papers are completed. The Company is also in the process of quantifying the impact of all adjustments to the opening balance sheet and is developing new IFRS-compliant accounting policies, which the Company expects to have completed by the end of the fourth quarter of 2010.

The Company has completed a preliminary review of the above areas of potential difference on its information systems and has commenced the evaluation of improved accounting and reporting software, with a plan to complete implementation by the end of the first quarter of 2011.

As the review of accounting policies is completed and the new information systems are implemented, the Company will monitor the impact on internal controls over financial reporting

and disclosure controls. The Company will ensure appropriate changes, as required, are made throughout this process to ensure the integrity of internal controls over financial reporting and disclosure controls.

1.11 Financial Instruments and Other Risks

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

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

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

1.12 Outstanding Share Data

Issued and Outstanding Share Capital

There has been no change to the issued and outstanding common shares in the nine months ended September 30, 2010, or to the date of this report.

Stock Options

In the nine months ended September 30, 2010, 1,350,000 options with a weighted average exercise price of \$0.99 expired or were cancelled.

On April 15, 2010, 1,030,000 options with an exercise price of \$0.58 were granted to certain officers, directors and employees of the Company. On October 8, 2010, 700,000 options with an exercise price of \$0.58 were granted to certain directors of the company leaving a total of 4,504,000 options issued and outstanding to the date of this report.

1.13 Exploration Results

Summary

During the third quarter 2010, Xstrata Coal continued to advance the Donkin Coal Project with on-going pre-feasibility level engineering and marketing studies in support of the development of the project based on sales into the coking coal market. The pre-feasibility study by Marston for the revised Donkin coking coal project is expected to be finalized before the end of the fourth quarter, 2010.

In Mongolia work continued to advance the Zuun Mod Molybdenum Project towards a mining license and pre-feasibility level studies. In July, the Zuun Mod molybdenum-copper deposit was officially registered with the Mongolian Minerals Resource Council, a prerequisite to applying for a mining license. Subsequent to the end of the third quarter the Company announced plans to carry out a 4,000m drilling program on the Zuun Mod property to acquire additional information on the Zuun Mod molybdenum-copper deposit and to test the Khuvyn Khar copper prospect 2.5km to the north of the main deposit. In addition, geophysical, hydro-geological and pit optimization studies for Zuun Mod are underway. The 2010 coal and metals exploration programs in Mongolia continued throughout the quarter with additional exploration work being carried out on significant new coal and metals discoveries identified in southwestern Mongolia.

In Georgia, U.S.A., the Company, through its controlled subsidiary APM, continued to mine 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 for a number of target customers ongoing and through sales growth within its current customer base.

Also in Georgia, Aggregates USA (Sparta), LLC ("AUSA") continued development work on the Granite Hill aggregate quarry after making a production decision in the second quarter. Work during the third quarter included clearing a 47 acres site where the start-up quarry and processing plant will be located, stripping of overburden in the area of the pit, and final approval from the Georgia Department of Transportation to construct a railway underpass on Highway 16 to link the property to the existing rail-line.

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

Mongolia

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum (with copper and rhenium) 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 20km south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of a single license totaling 49,538 hectares. The licenses are registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Company. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

The Zuun Mod Molybdenum Project has been under exploration and evaluation since 2002. Subsequent to signing an agreement with Gallant Minerals Limited in March 2005 to acquire the license, the Company carried out extensive exploration that has resulted in establishing Zuun Mod as one of the largest and most advanced pre-development molybdenum projects in the North Asia Region.

In 2007, a phased resource delineation drilling program resulted in the identification of three mineralized zones with potentially economic concentrations of molybdenum, with associated copper and rhenium mineralization, within the 3.5-kilometre long area referred to as the South Corridor. The Company retained the services of Minarco to carry out an independent resource estimate for the Zuun Mod Molybdenum Project. In May 2008, the Company received the first NI 43-101 compliant resource report for the project from Minarco.

Following the release of the resource estimate, additional drilling was carried out in 2008 at Zuun Mod to test for high-grade mineralization at depth, to explore areas peripheral to the deposit and to better define localized zones of higher grade mineralization, particularly those nearer surface. Thirty-two (32) new holes were completed and eight holes were deepened, totaling 10,785 metres.

The 2008 program was successful in defining localized higher grade zones and enlarging the overall deposit, both vertically and laterally. The deposit was confirmed to extend to depths exceeding 500 metres over a minimum strike length of 1.7 kilometres while locally coming to within 22 metres of surface. Drilling confirmed several continuous intersections exceeding 350 metres of 0.06% Molybdenum ("Mo") and multiple high grade zones exceeding 50 metres of 0.10% Mo.

In the first half of 2009, Minarco carried out work to incorporate the 2008 drilling results into the May 2008 resource estimate with a focus on higher-grade zones. Minarco's updated Zuun Mod molybdenum deposit mineral resource estimate, dated June 2009, has a Measured and Indicated ("M&I") Resource of 98 million metric tonnes ("Mt") at an average grade of 0.062% Mo, at a cut-off grade ("cog") of 0.05% Mo equating to 133.8 million pounds ("Mlbs") of contained Mo metal. In addition, there is a 73 Mt Inferred Resource at an average grade of 0.060% Mo equating to a further 97.1 Mlbs of contained Mo metal.

Following the release of Minarco's June 2009 Zuun Mod Resource Report, additional drilling was carried out at Zuun Mod. The 2009 drill program was designed to evaluate the Zuun Mod deposit at depth. Two previously drilled holes were deepened to a maximum depth of 851.9m. This program was successful in determining that mineralized lithologies extend at depth with similar grades to the main Zuun Mod deposit. Though it is unlikely that the mineralization at depths of 700 to 800m will be economic, it does demonstrate the large size of the Zuun Mod porphyry system and is an indication of the potential for additional discoveries at Zuun Mod.

In late 2008, the Company contracted two Mongolian consulting companies to assist with the application to convert the Zuun Mod exploration license into a mining license. Under the Minerals Law of Mongolia the initial term for a mining license is 30 years with an option for two 20-year extensions. Ecotrade XXK, a Mongolian company, prepared an environmental and social economic baseline study required as part of an application for the mining license. Their final report, for submission to the Ministry of Environment and Tourism, was received in early May 2009. Another Mongolian consulting company, AMC XXK, was commissioned to carry out a detailed topographic survey, a hydro geological study of the Zuun Mod site and a geological report and resource estimate for submission to the Mongolian Mineral Resource Council, a requirement for the granting of a mining license. Work on the geological report and resource estimate has been completed and they were submitted to the Minerals Resource Council following a review by technical experts appointed by the Minerals Resource Council.

Early in the third quarter, the Zuun Mod molybdenum-copper deposit was officially registered by the Mongolian Minerals Resource Council. The Company will now proceed with an application for a mining license for the Zuun Mod project. The Company will be applying for a mining license of approximately 10,000 hectares, a reduction from the current 49,538 hectare exploration license.

In early 2010, the Company contracted Wave Geophysics, LLC to provide a model and interpretation of all geological, geochemical and geophysical data from the Zuun Mod project with a focus on identifying additional exploration targets in the vicinity of the Zuun Mod Mo-Cu deposit. This study was received during the second quarter.

In early November, subsequent to the end of the third quarter, the Company announced plans for a 4,000m drilling program focused on two target areas on the Zuun Mod property. The first target is within the area of the Zuun Mod molybdenum-copper deposit. This drilling program is designed to provide more detailed information on an area expected to be initially developed for mining and to expand resources in the higher grade zones in the North Racetrack deposit area. Drilling will include additional holes in an area where previous drilling intersected 412 metres averaging 0.061% Mo and 0.067% Cu beginning at 38m. Two high-grade zones within this hole include a 66m intercept grading 0.10% Mo and 0.10% Cu beginning at 212m and a second 58m intercept starting at 338m that returned 0.12% Mo and 0.08% Cu. This hole remains open at depth and to the southeast and is untested for approximately 300m to the west.

The second target area on the Zuun Mod property is the Khuvyn Khar copper prospect located 2.5km northwest of the Zuun Mod deposit. The Khuvyn Khar copper target measures approximately 2km in diameter and is defined by coincident geophysical and copper geochemical anomalies within a zone of moderate to intense porphyry copper-molybdenum related alteration. Previous drilling along the periphery of the newly defined chargeability anomalies has identified significant copper mineralization. Three of the four holes in the area intercepted low-grade copper values (0.1% to 0.2% Cu) associated with intense potassic alteration over intervals of 20m to 172m. One drill hole intersected a 12m interval that returned 0.30% Cu, 0.02% Mo and 2.2g/t Ag, coincident with the edge of the targeted chargeability anomaly. The Khuvyn Khar prospect remains untested below 250m depth and for over 1km north of this hole and approximately 2km to the southwest where the chargeability anomaly intensifies.

In addition to the drilling program, other work on the Zuun Mod molybdenum-copper deposit is underway including engineering studies, hydro-geologic drilling to identify the source for process water and a CSAMT (Controlled Source Audio-frequency Magnetotelluric) geophysical survey designed to test for resistive bodies under pediment in the Zuun Mod area. The Company's independent technical consultant, Minarco Mineconsult (Runge), is currently completing Stage II of a pit optimization study to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study is expected to be completed in mid-December and will provide high level production scheduling, a review of operating and capital costs, and economic modeling,

Regional Coal and Metals Exploration Program

In 2009, the Company 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 has resulted in the identification of a number of new copper-gold-molybdenum porphyry targets.

In addition, the Company is involved in a comprehensive coal generative program in cooperation with Xstrata Coal Canada Limited ("Xstrata"), evaluating numerous prospective metallurgical and high quality thermal coal deposits throughout Mongolia. All the Company's coal exploration in Mongolia is fully funded by Xstrata (see section 1.02 "Strategic Alliance with Xstrata Coal Canada Limited") and is being carried out in consultation with Xstrata personnel.

Since 2006, the Company has visited over one hundred coal sites throughout Mongolia under the strategic alliance agreement with Xstrata and has compiled an extensive database on coal deposits, occurrences, prospective stratigraphy and sedimentary basins allowing for a prioritization of targets. The Company carried out due diligence work on behalf of the alliance and completed the fieldwork portion of the 2009 exploration program. This work culminated in the identification of several new coal occurrences in highly prospective sedimentary basins.

During the second quarter, field work was started for both the coal and metals exploration programs. The coal exploration program is focused on evaluating the potential of several large basins (Zarman and Nomin) in southwestern Mongolia to host coal deposits. Work to date has identified coal bearing lithologies outcropping discontinuously over a strike length of 60km along the northern edge of the Zarman basin. During the third quarter exploration field work included completion of geophysical surveys (magnetic and seismic), and a nine hole, 2,339m, reconnaissance drilling program. Data from this work is under review with results pending.

The Company is in the process of assessing large areas of Mongolia for their potential to host porphyry related mineral deposits including the area to the west and northwest of Zuun Mod porphyry deposit where field evaluation of prospective areas is ongoing. The 2010 metals exploration program has focused on evaluating newly acquired exploration licenses, follow-up of anomalous results from the 2009 regional exploration program and expansion of the regional porphyry evaluation program.

During the third quarter the company announced early stage copper-gold results for the Nomin 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, 1.2km south-southwest of the main occurrence, returned assays of 1.6% copper and 1.15g/t gold. Additional prospecting in the area has identified additional mineralized occurrences 4km to the SSW and 7km to the SW. Magnetic and induced polarization (IP) dipole-dipole surveys have been initiated over the area of the initial mineral occurrences. Results are pending.

North American Projects

The Company's North American project portfolio includes a 25% interest in the Donkin Coal Project as well as two notable industrial mineral projects in Georgia, U.S.A. The industrial mineral opportunities include the Company's controlling interest in Advanced Primary Minerals Corporation and its primary kaolin project, and the Granite Hill Aggregate project, being a royalty interest in a granite aggregate quarry development.

Donkin Coal Project

The Company is a 25% joint venture partner in the Donkin Joint Venture (“DJV”) with Xstrata Coal Donkin Limited (“Xstrata”). 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 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, 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 coal with approximately 14,000 BTUs, high sulphur, low ash and low moisture.

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 represents 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”) 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. The PAS’s base case scenario returned a net present value (NPV) for the project of US\$194M (or US\$49M for the Company’s 25% interest) using a coal price of US\$52/tonne. Under the PAS, the projected life of the proposed mine is 30-plus years, producing approximately 108 million tonnes of run-of-mine coal. The initial target market for this product was to be domestic and export thermal coal for power generation.

The Norwest PAS should be considered preliminary in nature based on the inclusion of inferred resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Until there is additional information to upgrade the inferred resources to a higher category, there can be no certainty that the preliminary assessment will be realized.

In May, 2008 the DJV announced a commitment to fund a feasibility study of an Evaluation and Development Program (“Program”) for the Donkin Coal Project. The Program, utilizing a continuous miner, was to be an interim step in the development path leading towards establishing a large scale underground longwall mining operation.

In February 2010, Xstrata Coal indicated that they intend to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is expected to utilize four continuous miners added incrementally over the first three year of production. In addition, a coal wash plant will be built on site and it is proposed that coal will be shipped from the mine site using a barge to ship system. These revised plans will require modifications to the Environmental Assessment report including Federal Environmental Assessment approval for the barge-to-ship transport system. 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 approvals.

In April of this year, the Company provided an update on the Donkin Coal Project announcing that 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.

Site development commenced with the awarding of the access road construction contract. Municipal Ready Mix Ltd, located in Sydney, Nova Scotia, completed the construction of the 2.5-kilometre long road early in the third quarter.

Xstrata Coal initiated studies by Sedgeman, GW Engineering/Kellogg Brown & Root Pty Ltd and Sandwell to add a wash plant to the coal handling facility and to prepare prefeasibility level studies on transportation system options. Mining consulting firm, Marston (Missouri), has been engaged to complete a 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.

During the third quarter 2010, most of the information for completion of the prefeasibility study was delivered to Marston for incorporation into the pre-feasibility report. Outstanding are the marketing report and transportation study. Wood MacKenzie, one of the most respected advisors to the coal industry over the past 30 years has been selected to complete the marketing report. The evaluation of the transportation alternatives has taken longer than expected as more detail was required on the associated costs and stakeholder input to select the preferred transportation option going forward. These remaining studies are expected to be completed shortly and the Marston pre-feasibility report is expected to be released before the end of the year.

The joint-venture 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 Coal has appointed a Project Manager and 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.

Sparta Kaolin Project (Advanced Primary Minerals Corporation)

As a result of an aggressive exploration and acquisition program in the late 1990s, the Company acquired a large high brightness primary kaolin (clay) resource through its U.S. subsidiary, Erdene Materials Corporation ("EMC"). EMC's in-ground, "premium" quality, primary kaolin resource in Georgia has a total NI 43-101 compliant resource of 22.9 million tons (Measured and Indicated).

In July 2008, the Company 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 APM and is listed on the TSX Venture Exchange (TSXV:APD) with the Company as 59.7% majority shareholder. See section 1.02 for details.

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. The plant was officially opened in October 2009. At the present time, the plant is processing clay from its Tudor primary kaolin mine which was permitted for mining in April 2009.

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

Granite Hill Project

The Company's Granite Hill project is a former producing granite aggregate quarry in central Georgia. The Company, through its subsidiary ERD Aggregate Corp, owns the 342-acre property, which holds a resource in excess of 120 million tons and is 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 ("AUSA") is now party to the mining lease agreement with the Company in the place of Ready-Mix USA. AUSA has advised the Company that SPO is planning to make the Granite Hill Project one of its top priority new developments. SPO made a production decision earlier this year. Mine development has begun with commercial production forecast to commence in fourth quarter 2011.

During the third quarter the Granite Hill site-clearing was completed on a 47 acres portion of the property where the start-up quarry and processing plant will be located. The contract for the stripping of overburden in the area of the pit was awarded and this work started in mid August. The Georgia Department of Transportation approved the construction of the railway underpass on Highway 16 to link the property to the existing rail-line. This work will be started shortly and is expected to be completed in the first half 2011. Phase I plant equipment, including primary and secondary crushers, has been ordered and is scheduled to be delivered to the site before the end of the year to begin crushing for road construction and rail bed needs.

Under the mining lease, the Company has granted an exclusive right to AUSA to mine, process, and sell aggregate from the Granite Hill property. AUSA as operator 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 Company.

1.14 Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure.

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that

material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to permit timely decisions regarding public disclosure and to provide reasonable assurance that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

1.15 Outlook

As mentioned earlier, the Company has the working capital necessary to meet its budgeted expenditures through to 2012 and remains optimistic about the potential demonstrated by its four core projects: The Zuun Mod Molybdenum Project, Donkin Coal Project, Granite Hill Construction Aggregate Project and APM's Kaolin Operation.

Zuun Mod

The Zuun Mod molybdenum-copper deposit was officially registered by the Mongolian Minerals Resource Council in July 2010. The Company is now proceeding with the application for a mining license for the Zuun Mod project. The Company will be applying for a mining license of approximately 10,000 hectares, a reduction from the current 49,538 hectare exploration license.

In early November, the Company announced plans for a 4,000m drilling program focused on two target areas on the Zuun Mod property. The first target is within the area of the Zuun Mod molybdenum-copper deposit. This drilling program is designed to provide more detailed information on an area expected to be initially developed for mining and to expand resources in the higher grade zones in the North Racetrack deposit area.

The second target area on the Zuun Mod property is the Khuvyn Khar copper prospect located 2.5km northwest of the Zuun Mod deposit. Previous drilling along the periphery of the newly defined chargeability anomalies has identified significant copper mineralization. This prospect remains untested below 250m, for over 1km to the north and for approximately 2km to the southwest where the chargeability anomaly intensifies.

In addition to the drilling program, other work on the Zuun Mod molybdenum-copper deposit is underway including engineering studies and hydro-geologic drilling to identify the source for process water. The Company's independent technical consultant, Minarco Mineconsult (Runge), is currently completing Stage II of a pit optimization study to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study is expected to be completed in mid-December.

Donkin

On February 10, 2010, Xstrata indicated that it intends to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is expected to produce approximately 2.75 million tonnes per annum of washed export grade coking coal at full production, pending the receipt of all approvals. Xstrata is also looking to obtain expressions of interest from potential strategic partners to contribute to the project. A preliminary assessment study for the revised Donkin Coal Project is currently underway and expected to be finalized in Q4 2010.

Advanced Primary Minerals Kaolin Operation

APM's goal is to become North America's leading specialty primary kaolin producer. Initially, APM is targeting replacement of high value European primary clay imports which is estimated by APM to be approximately 20,000 tons per annum. The Dearing plant is currently processing clay from its Tudor mine and is in the process of permitting the remaining primary clay properties in McDuffie County, Georgia on land owned by APM. The financing which closed on August 6, 2010 will enable APM to continue with its business plan (see section 1.02).

Granite Hill

Since a production decision was made by AUSA, the Company is encouraged by the pace of development achieved on the Granite Hill site. Commercial production could begin as early as the fourth quarter of 2011 and development plans suggest the Company could be earning royalties over and above annual minimum payments beginning in 2012.

1.16 Qualified Person

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

1.17 Other Information

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

Interim Consolidated Financial Statements of

ERDENE RESOURCE DEVELOPMENT CORPORATION

Third Quarter 2010

Three and nine months ended September 30, 2010 and 2009
(unaudited)

Prepared by Management - See Notice to Reader

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November 10, 2010

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. These interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited interim consolidated balance sheet of Erdene Resource Development Corporation as at September 30, 2010, the audited consolidated balance sheet as at December 31, 2009 and the unaudited interim consolidated statements of operations and deficit, comprehensive income (loss) and accumulated other comprehensive income (loss), and cash flows for the nine months ended September 30, 2010 and 2009. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2010 and 2009 consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Balance Sheets

September 30, 2010 and December 31, 2009

| | 2010 | 2009 |
|-----------------------------------------------------|----------------------|----------------------|
| | (unaudited) | (audited) |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,540,938 | \$ 13,764,186 |
| Marketable securities | — | 232,437 |
| Amounts receivable | 712,994 | 403,027 |
| Prepaid expenses | 138,078 | 80,728 |
| | <u>11,392,010</u> | <u>14,480,378</u> |
| Resource property interests (note 3) | 36,246,781 | 35,119,854 |
| Property, plant and equipment | 3,855,358 | 4,033,776 |
| Reclamation bond | 12,625 | 12,625 |
| Goodwill | 5,000,000 | 5,000,000 |
| | <u>\$ 56,506,774</u> | <u>\$ 58,646,633</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 653,121 | \$ 483,511 |
| Current portion of obligations under capital leases | 5,363 | 5,128 |
| | <u>658,484</u> | <u>488,639</u> |
| Obligations under capital leases | 381,303 | 385,355 |
| Future income taxes | 5,295,182 | 5,295,182 |
| Non-controlling interest (note 4) | 198,688 | 215,815 |
| Shareholders' equity: | | |
| Share capital (note 5) | 78,307,296 | 78,307,296 |
| Contributed surplus (note 6) | 6,770,885 | 6,155,222 |
| Deficit | (35,105,064) | (32,337,479) |
| Accumulated other comprehensive income (loss) | — | 136,603 |
| | <u>49,973,117</u> | <u>52,261,642</u> |
| | <u>\$ 56,506,774</u> | <u>\$ 58,646,633</u> |

See accompanying Notes to the Interim Consolidated Financial Statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Operations and Deficit
(unaudited)

| | 3 months ended Sept 30, 2010 | 3 months ended Sept 30, 2009 | 9 months ended Sept 30, 2010 | 9 months ended Sept 30 2009 |
|----------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Expenses: | | | | |
| Exploration and operating expenses, net of partner recovery | \$ 625,365 | \$ 948,115 | \$ 2,088,281 | \$ 2,051,446 |
| Write down of resource property interests | – | 89,739 | – | 1,066,851 |
| | 625,365 | 1,037,854 | 2,088,281 | 3,118,297 |
| General and administrative expenses | | | | |
| Administrative services | 151,094 | 135,371 | 522,369 | 467,988 |
| Depreciation and amortization | 10,863 | 7,560 | 32,322 | 32,157 |
| Investor relations and communications | 67,164 | 80,193 | 223,583 | 150,769 |
| Office and sundry | 89,248 | 62,217 | 238,766 | 206,328 |
| Professional fees | 55,916 | 41,637 | 214,366 | 175,479 |
| Regulatory compliance | 30,677 | 22,890 | 207,431 | 159,977 |
| Stock based compensation | – | 46,550 | 337,827 | 145,670 |
| Travel and accommodations | 41,256 | 22,881 | 112,145 | 78,247 |
| Other | 6,185 | 18,182 | 24,506 | 31,915 |
| | 452,403 | 437,481 | 1,913,315 | 1,448,530 |
| Other income (expenses) | | | | |
| Clay sales and lab revenue | 129,836 | 65,134 | 347,958 | 130,621 |
| Interest revenue | 25,756 | 37,138 | 64,969 | 187,445 |
| Gain on sale of resource properties | 105,858 | – | 105,858 | 75,000 |
| Gain on sale of marketable securities | – | – | 180,598 | 894,967 |
| Foreign exchange | (20,802) | (1,878) | (29,935) | 19,745 |
| Other | 11,516 | 62,128 | (373) | 87,173 |
| Interest expense | (8,178) | – | (24,734) | – |
| Dilution gain on disposal of interest in subsidiary | 269,996 | – | 282,723 | 878,595 |
| | 513,982 | 162,522 | 927,064 | 2,273,546 |
| Non controlling interest (note 4) | (201,015) | (73,655) | (404,103) | (256,550) |
| Loss for the period | 362,771 | 1,239,158 | 2,670,429 | 2,036,731 |
| Deficit, beginning of period | 34,645,137 | 30,957,995 | 32,337,479 | 30,160,422 |
| Share issue costs | 97,156 | – | 97,156 | – |
| Deficit, end of period | \$ 35,105,064 | \$ 32,197,153 | \$ 35,105,064 | \$ 32,197,153 |
| Basic and diluted loss per share (note 7) | \$ 0.00 | \$ 0.01 | \$ 0.03 | \$ 0.02 |
| Weighted average number of common shares outstanding | 89,230,877 | 89,230,877 | 89,561,877 | 89,230,877 |

See accompanying notes to the interim Consolidated Financial Statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)
(unaudited)

| | 3 months ended Sept 30, 2010 | 3 months ended Sept 30, 2009 | 9 months ended Sept 30, 2010 | 9 months ended Sept 30 2009 |
|-----------------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Net loss for the period | \$ 362,771 | \$ 1,239,158 | \$ 2,670,429 | \$2,036,731 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gain (loss) on available for sale Marketable securities | – | 91,225 | – | 122,543 |
| Comprehensive loss | \$ 371,971 | \$ 1,147,933 | \$ 2,670,429 | \$1,914,188 |

September 30, 2010 and December 31, 2009
(unaudited)

| | 2010 | 2009 |
|---------------------------------------------------------------------------------------------------------------|------------|-------------|
| Accumulated Other Comprehensive Income | | |
| Balance, beginning of period | \$ 136,603 | \$ (64,318) |
| Unrealized gain (loss) on available for sale marketable securities | – | 136,603 |
| Unrealized (gain) loss on available for sale marketable securities recognized in income during the year | (136,603) | 64,318 |
| Balance, end of period | \$ – | \$ 136,603 |

See accompanying Notes to the Interim Consolidated Financial Statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows (unaudited)

| | 3 months ended Sept 30, 2010 | 3 months ended Sept 30, 2009 | 9 months ended Sept 30, 2010 | 9 months ended Sept 30 2009 |
|-----------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Cash provided by (used in): | | | | |
| Operations: | | | | |
| Loss for the period | \$ (362,771) | \$(1,239,158) | \$(2,670,429) | \$(2,036,731) |
| Item not involving cash: | | | | |
| Depreciation | 91,354 | 81,203 | 281,551 | 189,708 |
| Depletion of resource properties | 2,275 | – | 4,409 | – |
| Stock-based compensation | – | 111,150 | 615,663 | 238,590 |
| Write down of resource properties | – | 89,739 | – | 1,066,851 |
| Gain on sale of marketable securities | – | – | (180,598) | (894,967) |
| Gain on sale of resource properties | (105,858) | – | (105,858) | (75,000) |
| Loss on disposal of PPE | – | 2,627 | 1,253 | 2,627 |
| Dilution gain on disposal of interest in subsidiary | (269,996) | – | (282,723) | (878,595) |
| Non controlling interest | 201,015 | 73,655 | 404,103 | 256,550 |
| Change in non-cash working capital | (309,296) | (756,005) | (1,005,913) | (1,278,201) |
| | (753,277) | (1,636,789) | (2,938,542) | (3,409,168) |
| Financing: | | | | |
| Repayment of obligations under capital leases | (1,291) | – | (3,817) | – |
| Issue of APM common shares for cash | 669,699 | – | 669,699 | – |
| Issue costs | (97,156) | – | (97,156) | – |
| | 571,252 | – | 568,726 | – |
| Investing: | | | | |
| Additions to resource property interests | (465,367) | (273,052) | (1,131,336) | (1,132,753) |
| Proceeds on sale of resource properties | 105,858 | 75,000 | 105,858 | 75,000 |
| Proceeds on sale of marketable securities | – | – | 276,432 | 2,943,266 |
| Proceeds on sale of PPE | – | 16,327 | – | 16,327 |
| Purchase of property, plant and equipment | (23,026) | (345,375) | (104,386) | (1,341,437) |
| Cash acquired on purchase of Beta | – | – | – | 1,502,221 |
| | (382,535) | (527,100) | (853,432) | 2,062,624 |
| Increase (decrease) in cash | (564,560) | (2,163,889) | (3,223,248) | (1,346,544) |
| Cash, beginning of period | 11,105,498 | 17,012,520 | 13,764,186 | 16,195,175 |
| Cash, end of period | \$ 10,540,938 | \$ 14,848,631 | \$ 10,540,938 | \$ 14,848,631 |

See accompanying Notes to the Interim Consolidated Financial Statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements

Six months ended September 30, 2010
(unaudited)

Nature of operations and going concern:

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

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies as those described in note 1 to the Company's audited consolidated financial statements for the year ended December 31, 2009, except as outlined in note 1 below. Generally accepted accounting principles for interim consolidated financial statements do not conform in all respects to the disclosures required for annual consolidated financial statements and, accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes. In the opinion of management, all adjustments necessary for the fair presentation of results for the periods presented have been reflected in these unaudited interim consolidated financial statements. These adjustments consist only of normal recurring adjustments.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts different from those recorded in these consolidated financial statements.

The ability of the Company to continue as a going concern and the recoverability of amounts shown for resource property interests are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development, and the future profitable production or proceeds from disposition of such properties. These consolidated financial statements do not give effect to adjustments necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. All of these outcomes are uncertain and taken together cast substantial doubt over the ability of the Company to continue as a going concern.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 2

Nine months ended September 30, 2010
(unaudited)

1. Summary of significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements are presented in Canadian dollars and include the accounts of the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated.

(b) Changes in accounting policies and presentation:

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that public companies will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The conversion to IFRS will require the Company to change certain accounting policies, systems, internal controls over financial reporting and disclosure controls.

Business Combinations, consolidations and non controlling interest

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3 – Business Combinations. The Section applies prospectively to business combinations. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements. The preceding sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 3

Nine months ended September 30, 2010
(unaudited)

2. Acquisition:

On February 27, 2009, the Company concluded the reverse takeover of Beta Minerals Inc. ("Beta") whereby the Company and Deepstep Kaolin Company LLC ("DKC") exchanged all of the outstanding common shares of Erdene Materials Corporation ("EMC"), and certain debt owing by EMC to the Company, for common shares of Beta giving the Company a controlling interest in Beta.

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing it was only holding the primary kaolin assets located in Georgia, USA, (collectively, "Clay Assets"). Also prior to closing, DKC transferred all rights to undertake production operations of ceramic products using the Company's clay, for 0.08542 of a share of EMC. On closing, the Company and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to the Company in exchange for the issuance by Beta of 81,000,000 common shares (71,000,000 to the Company and 10,000,000 to DKC). In addition, Beta agreed to issue 36,000,000 additional shares to the Company upon certain permits being obtained to allow production from certain of the clay assets and if such permits are not obtained by February 27, 2012, the 36,000,000 shares will not be issued. Following the closing, the Company has transferred 2,925,000 of its shares of Beta to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the Transaction.

Upon completion of the Transaction, EMC became a wholly-owned subsidiary of APM. EMC subsequently changed its name to "Advanced Primary Minerals USA Corporation".

Effective December 18, 2009, APM consolidated its share capital on the one-for-seven basis.

In accounting for the transaction, Beta was not considered a business for accounting purposes as outlined in EIC Abstract 124. The transaction was considered to be a capital transaction whereby the Company effectively disposed of an interest in a subsidiary in exchange for cash, as follows:

Net assets acquired:

| | | |
|-------------------------------|----|------------------|
| Cash and cash equivalents | \$ | 1,906,846 |
| Non-cash working capital, net | | 92,266 |
| Acquisition costs | | <u>(404,624)</u> |
| | \$ | <u>1,594,488</u> |

Accounting for transaction (net of acquisition costs):

| | | |
|--------------------------|----|------------------|
| Dilution gain | \$ | 878,595 |
| Non-controlling interest | | <u>715,893</u> |
| | \$ | <u>1,594,488</u> |

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 4

Nine months ended September 30, 2010
(unaudited)

3. Resource property interests:

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

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

The cost of resource property interests as at September 30, 2010 and December 31, 2009 are as follows:

| | January – September 2010 | January - December 2009 |
|----------------------------------------------|-----------------------------|----------------------------|
| Balance, beginning of period | \$ 35,119,854 | \$ 34,307,635 |
| Resource Property Additions | 84,136 | 285,264 |
| Depletion of resource properties | (4,409) | (917) |
| Deferred exploration expenditures (Donkin) | 648,375 | 834,576 |
| Deferred exploration expenditures (Zuun Mod) | 398,825 | 876,619 |
| Write off of resource properties | – | (1,183,323) |
| | <u>\$ 36,246,781</u> | <u>\$ 35,119,854</u> |

4. Non-controlling interest:

The following details the non-controlling interest ("NCI") balance in APM from December 31, 2009 to September 30, 2010:

| | |
|------------------------------------------------------|-------------------|
| Non-controlling interest of APM at December 31, 2009 | \$ 215,815 |
| Change in NCI on issuance of APM shares | 386,976 |
| Non-controlling interest share of APM loss in 2010 | (404,103) |
| | <u>\$ 198,688</u> |

The NCI represents the minority shareholder's ownership in APM which is not controlled by the Company. The movement in the NCI reflects its share of APM's net loss since acquisition on February 27, 2009. APM closed a financing on August 4, 2010 raising \$1,019,700, of which \$350,000 was invested by the Company, leaving \$669,700 of new money. This financing changed the Company's ownership interest in APM and the corresponding value of NCI.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 6

Nine months ended September 30, 2010

(unaudited)

5. Share capital:

Stock Options for Erdene

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 are assumed to vest immediately on the grant date. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Company and no one person may receive in excess of 5% of the outstanding common shares of the Company at the time of grant (on a non-diluted basis).

The following table summarizes the continuity of the stock options for 2010 and 2009.

| | September 30, 2010 | | December 31, 2009 | |
|-----------------|--------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Opening balance | 4,124,000 | \$0.73 | 4,725,000 | \$1.01 |
| Granted | 1,030,000 | 0.58 | 1,660,000 | 0.30 |
| Expired | (1,350,000) | 0.99 | (2,261,000) | 1.01 |
| Closing balance | 3,804,000 | \$0.60 | 4,124,000 | \$0.73 |

The following is a summary of the options outstanding and exercisable as of September 30, 2010:

| Weighted Average Exercise Price | Year of expiration | Number of options |
|---------------------------------|--------------------|-------------------|
| \$ 0.92 | 2011 | 375,000 |
| \$ 1.34 | 2012 | 415,000 |
| \$ 0.83 | 2013 | 324,000 |
| \$ 0.30 | 2014 | 1,660,000 |
| \$ 0.58 | 2015 | 1,030,000 |
| \$ 0.60 | | 3,804,000 |

Stock Options for APM:

APM has a stock option plan, whereby it can grant options to employees, officers, directors and consultants of APM to acquire up to 10% of the outstanding shares of at the time of grant. The board of directors of APM shall determine the exercise price, term and vesting provisions of options granted. Under APM's stock option plan, the exercise price of each option may not be

less than the market price of its shares at the date of grant less a discount permitted by the TSX-V.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 7

Nine months ended September 30, 2010
(unaudited)

5. Share capital (continued):

Stock Options for APM (continued):

Options granted under the APM plan will have a term not to exceed 5 years so long as APM is classified as a Tier 2 issuer by the TSX-V.

The following is a summary of the APM options outstanding and exercisable as of September 30, 2010:

| Weighted Average Exercise Price | Year of expiration | Number of options |
|---------------------------------|--------------------|-------------------|
| \$ 0.87 | 2012 | 28,571 |
| \$ 0.16 | 2015 | 1,670,000 |
| \$ 0.17 | | 1,698,571 |

Stock Based Compensation for Erdene:

As of September 30, 2010 there were share purchase options outstanding. In the nine months ended September 30, 2010, 1,030,000 options (2009 – 1,485,000) were issued to certain directors, officers, employees and consultants of the Company. The fair value on the date granted was \$0.4056 per option (2009 - \$0.1607) which represents a total of \$417,768 (2009 - \$238,590) expensed as stock based compensation and geological services and recorded as contributed surplus. The Company estimates the fair value of stock based incentives at the date of grant using the Black-Scholes model, recognized on the grant date, with the following assumptions:

| | 2010 | 2009 |
|-------------------------|---------|---------|
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 3.0% | 2.4% |
| Expected volatility | 88% | 77% |
| Expected life | 5 years | 5 years |

Stock Based Compensation for APM:

As of September 30, 2010 there were 1,698,571 share purchase options outstanding. During the nine months ended September 30, 2010, 1,670,000 options (2009 – nil) were granted to certain directors, officers, employees and consultants of APM. The fair value of the options on the date granted was \$0.1185 per option which represents a total of \$197,895 (2009 – nil) expensed as stock-based compensation and recorded as contributed surplus. APM estimates the fair value of

stock based incentives at the date of grant using the Black-Scholes model, recognized on the grant date, with the following assumptions:

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 8

Nine months ended September 30, 2010
(unaudited)

5. Share capital (continued):

Stock Based Compensation for APM (continued):

| | 2010 | 2009 |
|-------------------------|---------|---------|
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 3.0% | 2.75% |
| Expected volatility | 97% | 80% |
| Expected life | 5 years | 5 years |

6. Contributed surplus:

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

| | September 30 2010 | December 31 2009 |
|---------------------------|----------------------|---------------------|
| Opening balance | \$ 6,155,222 | \$ 5,877,904 |
| Options exercised | — | — |
| Options granted in Erdene | 417,768 | 277,318 |
| Options granted in APM | 197,895 | — |
| Closing balance | \$ 6,770,885 | \$ 6,155,222 |

7. Basic and diluted loss per share:

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