

Interim Consolidated Financial Statements of

ERDENE RESOURCE DEVELOPMENT CORPORATION

Second Quarter 2009

Three and six months ended June 30, 2009 and 2008
(unaudited)

Prepared by Management - See Notice to Reader

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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 June 30, 2009, the audited consolidated balance sheet as at December 31, 2008 and the unaudited interim consolidated statements of operations and deficit, comprehensive income (loss) and accumulated other comprehensive income (loss), and cash flows for the three and six months ended June 30, 2009 and 2008. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2009 and 2008 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
June 30, 2009 and December 31, 2008

	2009	2008
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,012,520	\$ 16,195,175
Marketable securities	154,163	1,984,074
Amounts receivable	383,094	238,511
Prepaid expenses	55,861	61,002
	<u>17,605,638</u>	<u>18,478,762</u>
Resource property interests (note 3)	34,190,224	34,307,635
Property, plant and equipment (note 4)	3,396,469	2,508,912
Reclamation bond	16,171	—
Goodwill	5,000,000	5,000,000
Deferred transaction costs	—	300,323
	<u>\$ 60,208,502</u>	<u>\$ 60,595,632</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 423,483	\$ 772,577
Future income taxes	5,764,420	5,764,420
Non-controlling interest (note 6)	533,779	—
Shareholders' equity:		
Share capital	78,405,471	78,405,471
Contributed surplus	6,005,344	5,877,904
Deficit	(30,957,995)	(30,160,422)
Accumulated other comprehensive income (loss)	34,000	(64,318)
	<u>53,486,820</u>	<u>54,058,635</u>
Nature of operations and going concern (note 1)		
	<u>\$ 60,208,502</u>	<u>\$ 60,595,632</u>

See accompanying Notes to the Interim Consolidated Financial Statements.

Approved on behalf of the Board:

_____ Director

_____ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Operations and Deficit
(unaudited)

	3 months ended June 30, 2009	3 months ended June 30, 2008	6 months ended June 30, 2009	6 months ended June 30 2008
Expenses:				
Exploration and operating expenses, net of partner recovery	\$ 681,862	\$ 222,477	\$ 1,103,331	\$ 886,872
Write down of resource property interests	960,986	75,723	977,112	75,723
	1,642,848	298,200	2,080,443	962,595
General and administrative expenses				
Administrative services	190,817	145,866	332,617	343,153
Depreciation	10,766	9,939	24,597	23,002
Investor relations and communications	19,455	76,610	70,576	125,248
Office and sundry	74,188	40,976	144,111	93,353
Professional fees	61,931	68,106	133,842	121,964
Regulatory compliance	65,987	106,525	137,087	153,790
Stock based compensation	99,120	–	99,120	464,475
Travel and accommodations	20,328	40,147	55,366	125,968
Other	9,026	9,972	13,733	16,287
	551,654	498,141	1,011,049	1,467,240
Other income (expenses)				
Interest revenue	71,315	68,484	150,307	164,635
Gain on sale of resource properties	75,000	–	75,000	–
Gain on sale of marketable securities	409,038	–	894,967	–
Foreign exchange	(16,808)	1,540	21,623	(3,460)
Other	47,544	1,746	89,258	(9,523)
Dilution gain on disposal of interest in subsidiary	–	–	879,869	–
	586,089	71,770	2,111,024	151,652
Non controlling interest (note 6)	129,617	–	182,895	–
Loss for the period	1,478,796	724,571	797,573	2,278,183
Deficit, beginning of period	29,479,199	26,883,350	30,160,422	25,329,738
Share issue costs	–	1,236,004	–	1,236,004
Deficit, end of period	\$ 30,957,422	\$ 28,843,925	\$ 30,957,995	\$ 28,843,925
Basic and diluted loss per share (note 5)	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.03
Weighted average number of common shares outstanding	89,230,877	71,551,750	89,230,877	71,551,750

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 June 30, 2009	3 months ended June 30, 2008	6 months ended June 30, 2009	6 months ended June 30 2008
Net loss for the period	\$ 1,478,796	\$ 724,571	\$ 797,573	\$ 2,278,183
Other comprehensive income, net of tax:				
Unrealized gain (loss) on available for sale Marketable securities	(377,817)	–	30,318	–
Comprehensive loss	\$ 1,856,613	\$ 724,571	\$ 767,255	\$ 2,278,183

June 30, 2009
(unaudited)

	2009	2008
Accumulated Other Comprehensive Income		
Balance, beginning of period	\$ (64,318)	\$ –
Unrealized gain (loss) on available for sale marketable securities	30,318	(64,318)
Balance, end of period	\$ 34,000	\$ (64,318)

See accompanying Notes to the Interim Consolidated Financial Statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows (unaudited)

	3 months ended June 30, 2009	3 months ended June 30, 2008	6 months ended June 30, 2009	6 months ended June 30 2008
Cash provided by (used in):				
Operations:				
Loss for the period	\$(1,478,796)	\$ (724,571)	\$ (797,573)	\$ (2,278,183)
Item not involving cash:				
Depreciation	64,154	17,707	108,505	39,553
Stock-based compensation	127,440	–	127,440	794,418
Write down of resource properties	960,986	75,723	977,112	75,723
Gain on sale of marketable securities	(409,038)	–	(894,967)	–
Gain on sale of resource properties	(75,000)	–	(75,000)	–
Dilution gain on disposal of interest in subsidiary	–	–	(879,869)	–
Change in non-cash working capital	(258,204)	361,621	(340,083)	(541,544)
	(1,068,458)	(269,520)	(1,774,435)	(1,190,033)
Financing:				
Issue of common shares for cash	–	18,586,000	–	18,586,000
Share issue costs	–	(1,236,004)	–	(1,236,004)
Issue of common shares on exercise of options and warrants	–	51,600	–	248,713
	–	17,401,596	–	17,598,709
Investments:				
Resource property interests	(440,735)	(2,736,911)	(859,701)	(4,279,035)
Proceeds on sale of marketable securities	1,254,565	–	2,943,266	–
Purchase of property, plant and equipment	(422,168)	(8,792)	(996,062)	(13,292)
Cash acquired on purchase of Beta	–	–	1,504,277	–
	391,662	(2,745,703)	2,591,780	(4,292,327)
Increase (decrease) in cash	(676,796)	14,386,373	817,345	11,396,349
Cash, beginning of period	17,689,316	8,451,000	16,195,175	11,441,024
Cash, end of period	\$ 17,012,520	\$ 22,837,373	\$ 17,012,520	\$ 22,837,373

See accompanying Notes to the Interim Consolidated Financial Statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements
June 30, 2009
(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, 2008, 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
June 30, 2009
(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:

The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standard Section 3064 Goodwill and Intangible Assets effective January 1, 2009. Section 3064 replaces Section 3062, Goodwill and Other Intangibles and Section 3450, Research and Development. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles assets by profit-oriented enterprises.

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.

In January 2009 the Emerging Issues Committee ("EIC") issued EIC-173. EIC-173 suggests an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. Adoption by the Company on January 1, 2009 had no material impact on the classification or valuation of the Company's consolidated financial statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 3
June 30, 2009
(unaudited)

1. Summary of significant accounting policies (continued):

(b) Changes in accounting policies (continued):

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC-174, Mining exploration costs, which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. This guidance was adopted by the Company effective January 1, 2009 and did not have an impact on the Company's consolidated financial statements.

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. The sole assets of EMC at closing were primary kaolin clay assets located in Georgia, U.S.A., (collectively, "Clay Assets").

The Beta shareholders approved the transaction on February 20, 2009. The Beta shareholders also approved a change of name from Beta to Advanced Primary Minerals Corporation ("APM") at the same meeting.

The Transaction constituted an arms length "Reverse Takeover" under the applicable policies of the TSX Venture Exchange ("the "Exchange"). Shares of APM began trading on the TSX.V under the symbol "APD" on March 6, 2009.

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 Clay Assets. Also prior to closing, DKC transferred all rights it had pursuant to the DKC Agreement, to undertake production operations of ceramic products using the Company's clay, for 0.08542 of a share of the Company. 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 of APM. The shares were issued as to 71,000,000 to the Company and 10,000,000 to DKC. In addition, 36,000,000 shares are to be issued to the Company upon certain permits being obtained to allow production from certain Clay Assets and if such permits are not obtained within three years, the 36,000,000 shares will not be issued. Pursuant to the Transactions, The Company has transferred 2,925,000 shares of APM 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.

Beta is not considered to be a business for accounting purposes as outlined in EIC Abstract 124. As such, the transaction is considered to be a capital transaction whereby the Company effectively disposed of an interest in a subsidiary in exchange for cash.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 4
June 30, 2009
(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 XXX, and Anian Resources XXX. 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 its controlled subsidiary, Erdene Materials Corporation 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 June 30, 2009 and December 31, 2008 are as follows:

	January – June 2009	January - December 2008
Balance, beginning of period	\$ 34,307,635	\$ 27,176,538
Additions during period	91,455	60,465
Deferred exploration expenditures (Donkin)	600,022	3,917,644
Deferred exploration expenditures (Zuun Mod)	168,224	3,786,118
Write-downs	(977,112)	(616,907)
Exploration partner contributions	–	(16,223)
	<u>\$ 34,190,224</u>	<u>\$ 34,307,635</u>

4. Property, plant and equipment:

	January 1 – June 30, 2009		
	Cost	Accumulated depreciation	Net book value
Land	\$ 1,894,364	\$ –	\$ 1,894,364
Building	404,185	245,285	158,900
Equipment, furniture and fixtures	645,474	546,235	99,239
Plant equipment and leaseholds	1,213,963	80,059	1,133,904
Software and computer	185,522	117,749	67,773
Vehicles	68,522	26,233	42,289
	<u>\$ 4,412,030</u>	<u>\$ 1,015,561</u>	<u>\$ 3,396,469</u>

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 5
June 30, 2009
(unaudited)

4. Property, plant and equipment (continued):

	January 1 - December 31, 2008		
	Cost	Accumulated depreciation	Net book value
Land	\$ 1,894,364	\$ –	\$ 1,894,364
Building	404,185	237,032	167,153
Equipment, furniture and fixtures	643,210	541,560	101,650
Plant equipment and leaseholds	225,990	5,650	220,340
Software and computer	186,571	104,295	82,276
Vehicles	68,522	25,393	43,129
	<u>\$ 3,422,842</u>	<u>\$ 913,930</u>	<u>\$ 2,508,912</u>

5. 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.

6. Non-controlling interest:

The following details the non-controlling interest ("NCI") balance in APM from the acquisition date to June 30, 2009:

Non-controlling interest of APM at February 27, 2009	\$ 716,674
Non-controlling interest share of APM post acquisition loss	(182,895)
	<u>\$ 533,779</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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to the Interim Consolidated Financial Statements, page 6
June 30, 2009
(unaudited)

7. Segmented information:

The Company's executive office is located in Nova Scotia, Canada with resource properties and exploration and development activities in Canada, United States and Mongolia. The following table presents selected financial information by geographic origin (in thousands):

	June 30, 2009				December 31, 2008			
	Canada	USA	Mongolia	Total	Canada	USA	Mongolia	Total
Working capital	17,048	(18)	152	17,182	17,735	16	(45)	17,706
Property, plant and equipment	70	3,241	85	3,396	81	2,342	86	2,509
Resource properties	18,512	6,523	9,155	34,190	17,912	6,523	9,873	34,308
Total assets	40,853	9,825	9,531	60,209	41,616	8,891	10,089	60,596

8. Comparative figures:

Certain comparative financial data for 2008 has been reclassified to conform to the presentation adopted in the 2009 financial statements.



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Second Quarter – June 30, 2009

This Management Discussion and Analysis of Erdene Resource Development Corporation (the "Company") provides analysis of the Company's financial results for the three and six months ended June 30, 2009 and 2008 and its financial position as at June 30, 2009 and December 31, 2008. 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 ("APM") (65%), Erdene Resources Inc., and 6531954 Canada Limited, incorporated under the laws of Canada; Erdene Materials Corporation ("EMC") (65%) 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 (see note 1: Summary of Significant Accounting Policies). The following information should be read in conjunction with the unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2009 and 2008, and the audited consolidated financial statements of the Company for the years ended December 31, 2008 and 2007, 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. The information contained herein is stated as of August 12, 2009 and is subject to change after that date.

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 August 12, 2009.

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 two advanced exploration projects, namely the Donkin coal project in Nova Scotia and the Zuun Mod Molybdenum Project in Mongolia. Until a decision is made to proceed with commercial development of the coal and molybdenum projects and until resultant cash flows increase substantially over current, the annual level of exploration expenditures of the Company is dependent primarily on the issuance of share capital to finance its exploration programs.

The Company, through its controlled subsidiary APM, is completing construction of a new clay processing plant in Dearing, GA, USA. EMC has a two year business plan with the aim of building a high value, low tonnage, clay operation which is projected to generate positive cash flows within 24 months of startup.

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

The Company is well-funded, having raised \$17,347,707, net of issue costs, prior to the recent downturn in the financial markets. The Company continues to review its exploration programs closely and will rationalize costs where appropriate given the uncertain outlook for the economy. 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 all of the outstanding common shares of the EMC, and certain debt owing to the ERD group of companies, in exchange for common shares of Beta, giving the Company a controlling interest in Beta. In conjunction with the close, Beta changed its name to Advanced Primary Minerals Corporation and on March 6, 2009 began trading on the TSXV exchange under the new ticker APD. The Transaction constituted an arms length "Reverse Takeover" under the applicable policies of the TSX Venture Exchange (the "Exchange").

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 clay Assets. Also prior to closing, DKC transferred all rights it had pursuant to the DKC Agreement, to undertake production operations of ceramic products using the Company's clay, for 0.08542 of a share of the Company. On closing, Erdene and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to Erdene in exchange for the issuance by Beta of 81,000,000 common shares of APM. The Shares were issued as to 71,000,000 to Erdene and 10,000,000 to DKC. In addition, 36,000,000 Shares are to be issued to Erdene upon certain permits being obtained to allow production from certain Clay Assets, and if such permits are not obtained within three years, the 36,000,000 Shares will not be issued. Pursuant to the Transactions, Erdene has agreed to transfer 2,925,000 Shares of APM 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.

Refer to the Company's February 27, 2009 press release for further details of the transaction.

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

Donkin Coal Alliance

The Donkin Coal Alliance ("DCA"), 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 DCA was the successful proponent. Xstrata holds a 75% interest in the DCA and the Company holds a 25% ownership.

The members of the DCA signed an agreement ("Alliance Agreement") effective March 11, 2005, and amending agreements dated April 23, 2006, October 26, 2006 and October 27, 2006. Pursuant to the April 23, 2006 amending agreement, the Company's interest in the DCA is held by 6531954 Canada Limited, a wholly owned subsidiary of Erdene Resources Inc., and Xstrata Coal Pty Limited's interest is held by Xstrata Coal Donkin Limited ("XCDL"). On October 15, 2008, the Company and XCDL finalized the terms of a definitive joint venture agreement and a sales agency agreement. 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 DCA 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 Alliance Agreement, the Company is committed to fund up to \$10,000,000 ("Initial Funding") of the expenditures incurred during the exploration program of the Donkin Coal Project provided such expenses qualify as Canadian Exploration Expenditures ("CEE"). XCDL agreed to pay any other costs up to a maximum of \$5,000,000 but if the Company only pays a portion of the Initial Funding, XCDL is only obliged to pay a corresponding portion of the \$5,000,000. The Company is responsible to fund 25% of any additional expenditures incurred in the exploration program if it is to maintain its 25% interest in the Donkin Coal Project. To June 30, 2009 a total of \$12,461,122 has been advanced in order to meet the Company's commitment toward total project expenditures of \$24,844,488 to the same date. Due to the Company's funding of expenditures during the evaluation program in excess of its proportionate interest, the first \$10 million of the Company's capital obligations upon a positive development decision will be funded by XCDL.

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 June 30, 2009 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	2008	2007	2006
Revenues	\$ -	\$ -	\$ -
Loss for the year	\$ 3,592	\$ 6,651	\$ 4,565
Basic and diluted loss per share	\$ 0.05	\$ 0.11	\$ 0.11
Total assets	\$ 60,660	\$ 47,015	\$ 34,181
Total long-term liabilities	\$ 5,764	\$ 4,367	\$ 2,899
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 June 30, 2009 and 2008

The Company had a loss of \$1,478,796 for the three months ended June 30, 2009, compared to a loss of \$724,571 during the same period in 2008.

Total exploration and operating costs for the period, net of deferred expenditures and partner contributions, amounted to \$1,642,848 compared to \$298,200 during the same period in 2008. In the second quarter of 2009, the Company wrote off the value of its Tsenkher Gol project in Mongolia, accounting for just under \$1 million of the loss in the quarter.

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 June 30, 2009 amounted to \$80,912 as compared with \$88,946 for the same period in 2008.

Beginning July 1, 2007 the Company's Zuun Mod molybdenum project met the Company's criteria to begin capitalizing exploration and development costs associated with the project. For the three months ended June 30, 2009, the Company incurred \$99,801 in exploration and

support costs directly related to the Zuun Mod project which were capitalized (2008 – \$641,321); and incurred \$260,022 on the Donkin project (2008 - \$2,006,644) which were capitalized. The Company wrote off \$960,986 in non performing Mongolian properties in the three months ended June 30, 2009 compared to a write off of \$75,723 in 2008.

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 effective July 1, 2007, 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 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 \$551,654 for the three months ended June 30, 2009 compared to \$498,141 in the same period in 2008. The increase is mainly due to \$99,120 in non cash stock based compensation expensed in the quarter.

Other income amounted to \$586,089 for the three months ended June 30, 2009, compared with \$71,770 the same period in 2008. \$409,038 of the increase was related to a gain on the sale of marketable securities. Another \$75,000 of the increase was a gain recognized on the disposal of the Yellow Giant property in British Columbia, a property acquired as part of the Beta transaction.

Subsequent to closing of the Beta transaction, the company accounts for the interest in Advanced Primary Minerals it does not own. For the three months ended June 30, 2009, non controlling interest's portion of the consolidated loss was \$129,617, compared to nil in the prior year.

Six months ended June 30, 2009 and 2008

The Company had a loss of \$797,573 for the six months ended June 30, 2009, compared to a loss of \$2,278,183 during the same period in 2008.

Total exploration and operating costs for the period, net of deferred expenditures and partner contributions, amounted to \$2,080,443 for the first six months of 2009 compared to \$962,595 during the same period in 2008. The Company wrote off the value of its Tsenkher Gol project in Mongolia in the second quarter of 2009, accounting for just under \$1 million of the loss for the first six months of 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 six months ended June 30, 2009 amounted to \$91,455 as compared with \$94,490 for the same period in 2008.

Beginning July 1, 2007 the Company's Zuun Mod molybdenum project met the Company's criteria to begin capitalizing exploration and development costs associated with the project. For the six months ended June 30, 2009, the Company incurred \$168,224 in exploration and support costs directly related to the Zuun Mod project which were capitalized (2008 – \$1,027,901); and incurred \$600,022 on the Donkin project (2008 - \$3,156,644) which were capitalized. In 2008, the Donkin project incurred costs associated with the in-seam drilling program. The Company wrote off \$977,112 in non performing Mongolian properties in the six months ended June 30, 2009 compared to a write off of \$75,723 in 2008.

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 effective July 1, 2007, 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 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 \$1,011,049 for the six months ended June 30, 2009 compared to \$1,467,240 in the same period in 2008. \$356,355 of the decrease is due to a drop in stock based compensation. Since closing the Beta transaction, the company is incurring general and administrative costs for another public entity, Advanced Primary Minerals. In spite of these added costs, the Company's costs cutting program has reduced total administrative costs when compared to the prior year.

Other income amounted to \$2,111,024 for the six months ended June 30, 2009, compared with \$151,652 the same period in 2008. \$894,967 of the increase was related to a gain on the sale of marketable securities. The Company recognized an \$879,869 dilution gain on the disposal of interest in its subsidiary EMC. Another \$75,000 of the increase was a gain recognized on the disposal of the Yellow Giant property in British Columbia, a property acquired as part of the Beta transaction.

Subsequent to closing of the Beta transaction, the company accounts for the interest in Advanced Primary Minerals it does not own. For the six months ended June 30, 2009, non controlling interest's portion of the consolidated loss was \$182,895, compared to nil in the prior year.

1.05 Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2009		Fiscal 2008				Fiscal 2007	
	Q2 Jun-09	Q1 Mar-09	Q4 Dec-08	Q3 Sep-08	Q2 Jun-08	Q1 Mar-08	Q4 Dec-07	Q3 Sep-07
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loss (income) Basic and diluted loss per share	\$1,479	(\$681)	\$427	\$887	\$724	\$1,554	\$5,665	\$986
Total Assets	\$60,209	\$61,965	\$60,660	\$61,133	\$61,870	\$45,077	\$47,015	\$42,973

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

1.06 Liquidity and Capital Resources

The Company had working capital of \$17,182,155 at June 30, 2009, representing a decrease of only \$524,030 from the December 31, 2008 working capital position of \$17,706,185, and a decrease of \$5,370,733 compared to the June 30, 2008 working capital of \$22,552,888. The Company acquired additional cash on close of the beta transaction on February 27, 2009 (see 1.02). The Company also received \$2,943,266 in proceeds on the sale of marketable securities, recognizing a gain of \$879,869. These inflows were offset by costs associated with the normal operations of the Company in carrying out its exploration program and general and administrative costs in support of the program.

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 scheduled for release in 2009.

During the six months ended June 30, 2009, \$91,455 was expended on additions to resource property interests, offset by write downs of \$977,112, compared to additions of \$94,490 in the same period in 2008, offset by write downs of \$75,723. The Company deferred expenditures totalling \$768,246 in the first six months of 2009 compared to \$4,184,545 in 2008. The higher deferral in the prior year is mainly associated with Donkin project inseam drilling, and associated costs, in the first half of 2008.

During the six months ended June 30, 2009, the Company spent \$996,062 on property, plant and equipment compared to \$13,292 during the same period in 2008. The majority of the additions in the first half of 2009 were the purchase of kaolin processing equipment and leaseholds for a new plant being constructed in Dearing, GA, USA.

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 two advanced stage projects being the Zuun Mod molybdenum and Donkin coal projects, exploration and development programs on its resource properties and its ability to obtain sufficient equity financing.

1.07 Contractual Obligations

As of June 30, 2009 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 \$326,693 over the next five years. The Company has the right to terminate the lease by giving six months notice prior to each annual anniversary date after August 31, 2010.
- The Company, through its subsidiary APM, owns outright or has entered into lease agreements for kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is approximately US \$38,000. These agreements also provide that the Company will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. The applicable royalty rate per dry processed ton of product is \$2.00 per ton and the royalty per ton of crude kaolin mined ranges from \$0.35 to \$0.50 per ton.
- On February 28, 2007, the Company met all the conditions of an agreement with Gallant Minerals Limited ("Gallant") to acquire certain property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and acquired all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane International Limited ("Tamerlane") which controls 100% ownership of mineral properties in Mongolia through its wholly owned subsidiary Anian Resources XXK. Gallant is entitled to a net smelter return royalty on certain properties ranging from 1% to 1.5%, subject to a buy-down provision.

1.08 Off-Balance Sheet Arrangements

As at June 30, 2009, 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 \$34,190,224 on the Company's balance sheet at June 30, 2009.

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 77% in 2009 (105% in 2008). 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 \$127,440 the Company determined as stock based compensation in the first six months of 2009 was charged as follows: \$99,120 to general and administrative and \$28,320 to exploration and operating. This compared to the 2008 total of \$794,418 which was charged in the same period in 2008 as follows: \$464,475 to general and administrative expenses and \$329,943 to geological services.

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 Canadian Institute of Chartered Accountants issued new accounting standard Section 3064 Goodwill and Intangible Assets which will be effective January 1, 2009. Section 3064 replaces Section 3062, Goodwill and Other Intangibles and Section 3450, Research and Development. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles assets by profit-oriented enterprises.

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.

In January 2009 the Emerging Issues Committee ("EIC") issued EIC-173. EIC-173 suggests an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. Adoption by the Company on January 1, 2009 had no material impact on the classification or valuation of the Company's consolidated financial statements.

On March 27, 2009, the Emerging Issues Committee of the CICA issued EIC-174, Mining exploration costs, which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. This guidance was adopted by the Company effective January 1, 2009 and did not have an impact on the Company's consolidated financial statements.

International Financial Reporting Standards ("IFRS")

On February 13, 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.

An evaluation of IFRS conversion requirements that pertain to the Company will be conducted by the third quarter of 2009, which will lead to the development of an implementation plan to transition the Company's financial reporting process to IFRS.

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 involve 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 six months ended June 30, 2009, nor to the date of this report.

Warrants

On June 16, 2009, 4,489,975 warrants with an exercise price of \$1.60 expired.

Stock Options

During the first six months of 2009, the Company issued 900,000 options, with an exercise price of \$0.30, to certain officers and directors of the Company. During the same period, 647,500 options with an average exercise price of \$0.86 expired, leaving a total 4,977,500 options issued and outstanding to the date of this report.

1.13 Exploration Results

During the second quarter the Company continued to advance the Zuun Mod molybdenum project in Mongolia. The Company's independent consultants, Minarco MineConsult ("Minarco"), a mine engineering firm from Sydney Australia, continued work on an updated National Instrument 43-101 compliant resource estimate report for the Zuun Mod molybdenum deposit expected to be released in August, 2009. Work was also carried out by Mongolian consulting firms on reports required to convert the exploration license at Zuun Mod to a long-term mining license. A license-wide exploration program was initiated in the second quarter. This program is designed to test for mineralization in the area surrounding the main deposit area.

In North America, work continued on finalizing the feasibility study into the Evaluation and Development Program for the Donkin Coal Project in which the Company holds a 25% interest. On the industrial minerals side, the Company, through its controlled subsidiary APM, continued to produce product for the ceramic industry while working towards the last stages of installation of the process equipment. The following is an overview of the programs carried out on the Company's principal properties in the first half of 2009.

Mongolia

Zuun Mod Molybdenum Project

The Zuun Mod project is a porphyry molybdenum (with copper and rhenium) deposit located in Bayankhongor Province 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 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 a NI 43-101 compliant resource report for the project from Minarco. The Zuun Mod resource includes 110Mt in the measured and indicated resource categories with an average grade of 0.06%Mo. This equating to 148 M lbs of contained Mo metal.

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. A total of 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% Mo and multiple high grade zones exceeding 50 metres of 0.10% Mo.

In the second quarter, 2009, Minarco carried out work to incorporate the 2008 drilling results into the May 2008 resource estimate with a focus on higher-grade zones. The updated Minarco mineral resource estimate is expected to be release in August 2009.

In addition, the Company has signed contracts with two Mongolian consulting companies to assist with the application to convert the current 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. The topographic survey and hydro geology study, including the completion of a 25-centimetre diameter drill hole for pump tests and water sampling, were completed in the first quarter 2009. Work on the geological report and resource estimate began in the first quarter and is expected to be completed by the end of September 2009.

The Company initiated a license-wide exploration program consisting of stream sediment and rock chip geochemical surveys along with geological and alteration mapping. Much of the field work was completed by the end of June. Preliminary results include a newly identified molybdenum in rock geochemical anomaly 4km northeast of the main deposit area. The geochemical results for this area are of the same magnitude as those overlying the main deposit area. Anomalous gold values (up to 1.3 g/t) were also identified to the southwest of the main deposit, approximately 2.5km from a previously identified Au in soil geochemical anomaly.

Energy Project – Coal

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 being 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. During the second quarter, Erdene carried due-diligence work on behalf of the alliance, was granted new coal exploration licenses and began the fieldwork portion of the 2009 exploration season.

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, USA. The industrial mineral opportunities include the Company’s interest in Advanced Primary Minerals and their primary kaolin project, and the Granite Hill Aggregate project, a royalty project managed by Ready Mix USA.

Donkin Coal Project

The Company is a 25% joint venture partner in the Donkin Coal Alliance (“DCA”) with Xstrata Coal Donkin Limited. The DCA 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 markets on North America’s east coast and Europe. The Donkin coal project is being evaluated as a 4Mtpa underground longwall operation with both domestic and export markets. The project is within 35 kilometers of a coal-fired electrical generating plant and a deep-water coal loading facility.

In April 2007, the DCA 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 DCA 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 coal mine at the Donkin project. The PAS's base case scenario returned a net present value (NPV) for the project of US\$194M (or US\$49M for Erdene's 25% interest) using a coal price of US\$52/tonne. The proposed mine has a projected life of 30-plus years, producing approximately 108 million tonnes of run-of-mine coal. The initial target market for this product will 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 DCA 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, is an interim step in the development path leading towards establishing a large scale underground longwall mining operation. The project partners endorsed this interim step in the project to obtain further information deemed critical to the assessment of the feasibility of the large scale underground mining options under consideration.

During the latter part of 2008 and first half of 2009 work progressed on the feasibility study for the Program with requests for pricing issued for the long lead time items and major contracts associated with the project. The feasibility study for the Program will be finalized upon receipt of sales agreements. The project currently employs 10 fulltime or part time site personnel.

Sparta Kaolin Project (Advanced Primary Minerals)

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 25.5 million tons (Measured and Indicated).

For the project's initial development stage, EMC partnered with industry leader KaMin LLC (formerly Huber Engineered Materials ("Huber")). Commercial production from the Company's primary kaolin deposits began in 2005 under the product name HuberPrime™, a high quality light-weight coater product, sold by KaMin. KaMin continues to mine from the Company's Lucky Main deposit.

In 2007, EMC announced that it had entered into an Option Agreement with Deepstep Kaolin Company LLC ("Deepstep"), of Georgia, USA. Since that time EMC and Deepstep have worked to jointly develop a new product line for the Company's primary kaolin resources with a focus on

casting and glazing products for the ceramic industry.

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-listed company. During the first quarter 2009 the deal with Beta was concluded. Beta changed its name to Advanced Primary Minerals Corporation (“APM”) and is listed on the TSX Venture Exchange (TSXV:APD) with the Company as majority shareholder. Details of the transaction are outlined in section 1.02.

The goal of APM is to be North America’s leading specialized kaolin producer. Much of the premium kaolin clay deposits in Georgia and the UK have been depleted over the past century. APM’s primary kaolin products meet or exceed the quality of comparable foreign imports and domestic sources. APM looks to take advantage of that situation with its unique, high quality primary clay deposits and modern processing facilities to focus on small to moderate-volume opportunities and 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 and paper industries. APM is producing kaolin products for its customers in the ceramics industry as well as continuing trials with potential customers. It is in the final stages of installing the process equipment in its new state-of-the-art kaolin processing facility in Dearing, Georgia that is scheduled to begin commercial production in the third quarter of 2009.

Granite Hill Project

The Company’s Granite Hill project is a former producing granite aggregate quarry in central Georgia. The Company owns the 342-acre property, which holds in excess of a 120 million-ton resource and is situated on an existing rail line. Ready Mix USA (“RMU”) holds, through a lease with the Company, an exclusive right to mine, process, and sell aggregate Granite Hill property. The sale of all aggregate from the property is subject to an industry competitive royalty payable to the Company.

RMU’s quarry development plan provides for an estimated start-up production rate of one million tons of granite aggregate per year, with a design capacity of up to 2.5 million tons. Based on current production projections, the Granite Hill quarry will have an estimated lifespan in excess of 30 years. RMU has designed a quarry mining plan, processing plant and facilities, and produced an environmental impact plan. RMU has also acquired additional land adjacent to the Granite Hill property to secure rail access to the site. The construction phase is expected to be completed nine to twelve months after a production decision by RMU. RMU is responsible for fully funding the development and operating program.

1.14 Disclosure Controls and Procedures

An evaluation of the design and effectiveness of the operation of the Company’s disclosure controls and procedures has been conducted by management, under the supervision of the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based on this evaluation, the CEO and CFO have concluded that, as of June 30, 2009, the Company’s disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings), are effective to ensure information required to be disclosed in reports

filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company, and its subsidiaries, to disclose material information otherwise required to be set forth in the Company's periodic reports. Further, projections of any evaluation of effectiveness to future periods are subject to the risk controls may become inadequate because of a change in conditions, or the degree of compliance with the policies and procedures may deteriorate.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of internal controls over financial reporting. Based on this evaluation, the CEO and CFO have concluded that internal controls over financial reporting were effective as of June 30, 2009.

There has been no change in the Company's internal control over financial reporting that occurred during the period ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

1.15 Outlook

The current downturn in commodities prices and general uncertainty in the financial markets makes predictions of future performance difficult. As mentioned earlier in this report, the Company has the working capital necessary to meet its budgeted expenditures through to 2011. The Company remains optimistic about the potential demonstrated by its two advanced stage projects, the Zuun Mod molybdenum and Donkin coal projects.

Zuun Mod

Resource evaluation, environmental and hydrogeologic studies will be carried out in the first half of 2009 at Zuun Mod. The current focus is on revising the May 2008 resource estimate by incorporating the 2008 drilling data and developing all necessary data and supporting information for a Mining License application required to secure tenure for Zuun Mod over the longer term. Drilling has defined at least two areas where mineralization begins within 50 metres of surface, with grades in the 0.07% to 0.09% Mo range over intervals between 60 and 80 metres. These zones display good horizontal and vertical continuity. Management expects to develop initial mine plans in these two areas before moving into higher-volume operations at grades of 0.05% to 0.06% Mo based on molybdenum prices higher than current levels.

Evaluations of the economics of such a plan are being carried out in 2009 and based on acceptable returns; a prefeasibility program will be conducted. During this period, molybdenum and steel markets will be evaluated to assess the proper time to more aggressively advance the project through to feasibility. Expenditures for the Zuun Mod project in 2009 will be limited to those needed to advance the project through these stages and provide the necessary information for the mining license application.

Donkin

The feasibility study on the Evaluation and Development Program ("Program") at the Donkin coal project is expected to be complete in 2009. The Program will focus on gaining greater certainty of

the geological, geotechnical and mining conditions of the proposed operation. It is expected the Program will commence within a year of obtaining all requisite external and internal approvals with coal generated from the Program to be marketed domestically and internationally in order to establish a customer base for future levels of production.

During the estimated 18 month duration of the Program, the DCA will use the information generated from the Program to decide on the progression of the project into a feasibility study of the proposed large scale underground longwall mining operation.

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.