ANNUAL REPORT | 2007

erdene

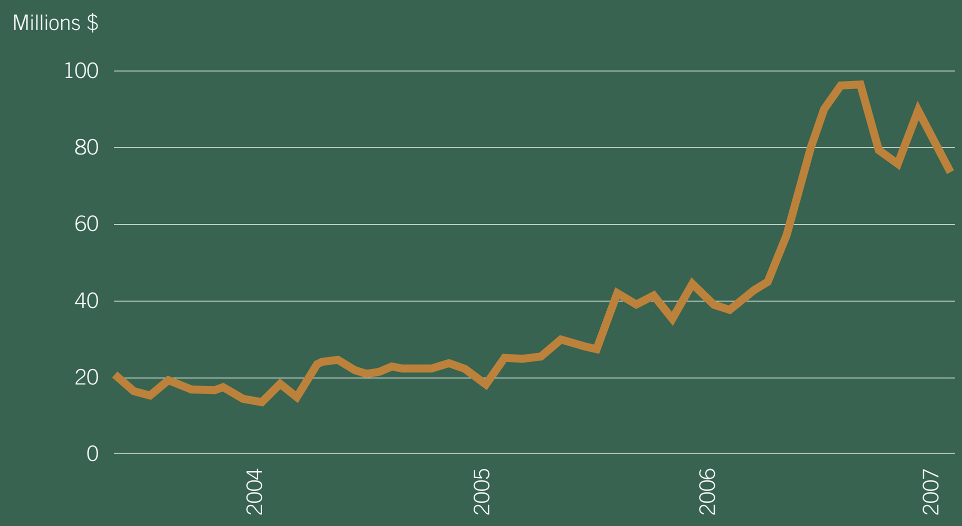
GROWING • DIVERSIFIED • EXPERIENCED

PURSUING OPPORTUNITIES

OUR MISSION AS A RESOURCE DEVELOPMENT COMPANY IS TO IDENTIFY AND DEVELOP UNIQUE OPPORTUNITIES THAT CREATE VALUE FOR OUR SHAREHOLDERS.

We have identified molybdenum and coal as two strategic commodities with strong, long term market fundamentals. These fundamentals are underpinned by the world's largest economy and the industrialization of large developing countries and their accelerating demand for energy and steel. We are advancing projects strategically located relative to markets in China and the U.S. Opportunities surround us and we are constantly preparing for and pursuing those opportunities to build value.

Growth in Market Capitalization since Initial Public Offering



Two Strong Commodities

Two Advanced Projects

ZUUN MOD MOLYBDENUM

Discovered and control new world-class molybdenum deposit

Located next to China, the world's fastest growing economy

Forecast shows market growth continuing over long-term led by China

DONKIN COAL

Project strategically located for expanding local and world coal markets

Over 200 million tonne high quality coal resource identified at Donkin

Partnered with Xstrata Coal, a leading global coal producer

Message from the President

Dear Shareholders,

I am very pleased to report on Erdene's progress during the past year and more importantly, why I feel strongly that the advancements we have made will create value for you as we move forward. We have focused our exploration and development efforts on commodities with positive, long-term outlooks serving markets with strong economic growth. With our two principal projects poised for development, you as shareholders are positioned to benefit from this strong market demand and excellent project fundamentals.

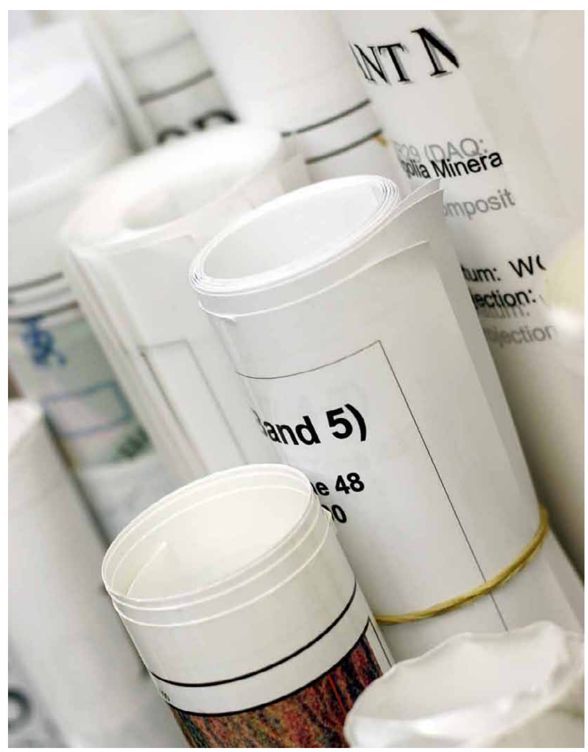
MOLYBDENUM-COPPER PROJECT – ZUUN MOD

Driven by increased consumption of specialty steel products, demand for molybdenum has grown at almost 8% per year since 2003 resulting in a supply deficit that has caused significant price increases and depletion of global inventories. Strong demand is expected to continue and new mines will be needed to meet growing demand as supply from traditional by-product sources is on the decline. China will lead that demand with its stainless steel production leading global growth. Over the past year the Company has carried out a phased resource delineation drilling program at our Zuun Mod molybdenum-copper project. Zuun Mod is located just 180 kilometres north of the Chinese border where a Chinese steel producer has built a rail line to the border and installed a major automated railcar loading facility.

The results of the 2007 delineation and exploration drilling exceeded expectations. I am writing you this letter at a time when the Company is poised to release an independent resource estimate for the deposits defined to date. In addition, the exploration program completed in late 2007 confirmed the Zuun Mod deposit remains open in several directions. A number of additional targets have also been identified within the very large porphyry molybdenum-copper system at Zuun Mod that require follow-up exploration. After the release of the initial resource estimate we will immediately complete a preliminary assessment which will lay the groundwork for commencement of a pre-feasibility study. The combination of unprecedented demand for molybdenum, the incredible pace of China's economic growth and the discovery of a new world-class molybdenum deposit at Zuun Mod provides an exceptional opportunity for increased value.

COAL PROJECTS – DONKIN AND GALSHAR

Our investment in coal exploration began in Mongolia in 2005 and led to our strategic alliance with Xstrata Coal in 2006. This was followed immediately by an acquisition in North America which included the Donkin coal project in eastern Canada where we are once again partnered with Xstrata Coal. With population growth and the industrialization of the world's most populous countries, the demand for coal is expanding significantly, fueling



Peter C. Akerley BSc Geology
PRESIDENT & CEO, DIRECTOR

Peter Akerley is a founding director of Erdene and has 20 years of experience as a geologist in the mineral resource industry internationally. As President and CEO, Peter oversees all company activities and operations and provides strong leadership for the Erdene team through clear communication, direction and enormous ambition for success.

approximately 40% of world electrical generation. We have strategically selected coal projects located near the growing coal markets in some of the world's most industrialized regions.

Located on the Atlantic Ocean in Eastern Canada, the Donkin coal project provides an exceptional opportunity to provide high quality product to markets domestically and to coastal urban centres of the U.S. Erdene has a 25% interest in the Donkin Coal Alliance which holds the rights to the Donkin coal project with our 75% managing partner Xstrata Coal Canada Ltd. (Xstrata Coal). During 2007 the alliance focused on preparing the twin tunnels, previously constructed at a cost of over $100M, for extensive testing of the coal seam. Drilling, currently underway will provide some of the last remaining technical information necessary to make a production decision anticipated in late 2008. An independent resource estimate received in 2007 identified an indicated resource of 101 million tonnes with an additional inferred resource of 115 million tonnes of high volatile "A" bituminous coal in the targeted Harbour coal seam. A preliminary assessment of the project completed in November 2007 was very positive and indicated a net present value of US$49 million for Erdene's 25% interest using a US$52/tonne coal price. Recent purchases in the thermal coal market have been quoted in excess of US$100/tonne.

In Mongolia we continue to be fully funded by Xstrata Coal with a focus on advancing the Galshar thermal coal project and acquiring and evaluating multiple opportunities proximal to China. We anticipate further drilling moving towards a resource estimate and scoping study for Galshar in 2008.

INDUSTRIAL MINERALS

In addition to our two most advanced projects the Company holds significant industrial mineral assets in the U.S. Production continues through a lease-royalty arrangement on our kaolin properties with KaMin LLC and product development is advancing with customer trials underway for ceramic kaolin products through our arrangement with Deepstep Kaolin Company LLC. In regards to crushed stone for the southeastern construction industry, U.S. Ready Mix (previously Rinker) continues to advance our Granite Hill project while we have been evaluating multiple other opportunities in eastern Canada and the south-eastern U.S.

SOCIAL DEVELOPMENT

Through our involvement in the Donkin Coal Alliance and our social development projects in Mongolia our Company has demonstrated a strong commitment to improving the lives of all of the project stakeholders. In Mongolia, we are committed to sustainable development in the communities in which we work with a philosophy of capacity building and providing resources to support capacity building. In a country where government programs face significant challenges, our efforts are having a very positive impact on the people and communities nearest our project areas.

CORPORATE

As we advance our key projects we are continuing to carefully evaluate merger and acquisition opportunities as well as restructuring. We have and continue to examine whether the energy, metals or industrial mineral divisions could provide greater value to shareholders as separate entities through division of the Company or through merger and acquisition transactions. During the past year we have increased our investor awareness campaigns through regular attendance at conferences, through the media and regular visits to the major investment centres of Asia, North America and Europe.

Erdene offers investors the diversity and stability associated with a mid-tier company combined with the high value impact potential of a small cap

FINANCE AND MARKET

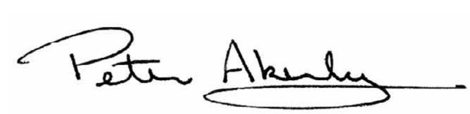
In 2007, our trading volume increased more than 100% year over year and our share price ended the year up 50% over the 2006 year end close. During the year it also reached its highest price to date, a 140% increase over the IPO price. In 2007 we raised in excess of $17 million which included our first bought deal for $10 million at the highest offering prices to date, an oversubscribed flow-through offering at a 40% premium to the market and a further private placement by Xstrata who remain our largest shareholder. We ended 2007 with $11.4 million in cash which places us in a strong position to move forward with our exploration and development plans.

SUMMARY

Whereas 2006 was a year of transition for the Company with a diversification of our resource projects, strengthening of our management team and bringing in significant new partners, the focus in 2007 was on advancing the Zuun Mod and Donkin coal projects. As a result of those efforts we are now advancing one of the largest molybdenum-copper deposits discovered in the China-Mongolia region in more than a decade and working jointly with the world's leading exporter of thermal coal to bring into production a major coal deposit strategically located in eastern Canada. We believe these projects have excellent fundamentals and have the potential to bring returns that far outweigh those reflected in our current market value. We have every confidence that with continued positive project developments we will ultimately see the true value reflected in the Company's market valuation.

I would like to thank our excellent team, our directors and partners, all of those stakeholders we work closely with in our project areas. I would also like to thank you, our shareholders, for continuing to support our goal of creating value through the discovery and development of world class opportunities in the resource sector.

Sincerely,



Peter C. Akerley
President and CEO

PETER AKERLEY, MICHAEL GILLIS,
KEN MACDONALD AND PETER DALTON
DISCUSSING EXPLORATION PLANS


EXPLANATION

ZUUN MOD | molybdenum

Location: Mongolia
Commodity: Molybednum
Ownership: 100% Erdene
Markets: Asia and Western Europe

Zuun Mod Molybdenum Market Options and Regional Molybdenum Consumption

J.C. (Chris) Cowan *PEng, MSc*

VICE PRESIDENT ASIA, DIRECTOR

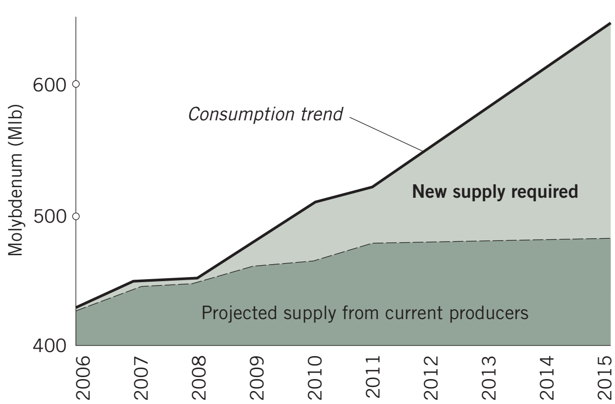
Chris Cowan has 45 years of experience globally in the mining and exploration industry in a variety of consulting, senior management and board positions. Chris heads Erdene's Mongolia team and oversees the Company's activities in Asia. Chris is passionate about the industry and his experience and strong leadership are cornerstones of the Company.

MARKET OVERVIEW

As an additive in steel, molybdenum enhances strength, corrosion resistance, hardness and weldability. These attributes are in high demand in the energy, construction, transportation and aerospace industries. Molybdenum bearing high quality steel products are used in desalination plants, nuclear reactors and to explore for, produce and transport oil and gas products. Higher oil and gas prices have spurred energy exploration and development projects in environments that are becoming increasingly more demanding. In addition, molybdenum is used in catalysts to sweeten sour oils, which are becoming a larger proportion of total oil supply.

The Chinese government has recently imposed export controls and taxes on molybdenum to try and maintain its domestic supply. Using conservative growth estimates of 6% for China's molybdenum consumption it is estimated that demand will exceed supply by the year 2012 and that the supply deficit will approach 30 million lbs over the following five years. This bodes well for the Company's Zuun Mod molybdenum project located just 180km north of the Chinese border.

New Supplies of Moybdenum Required



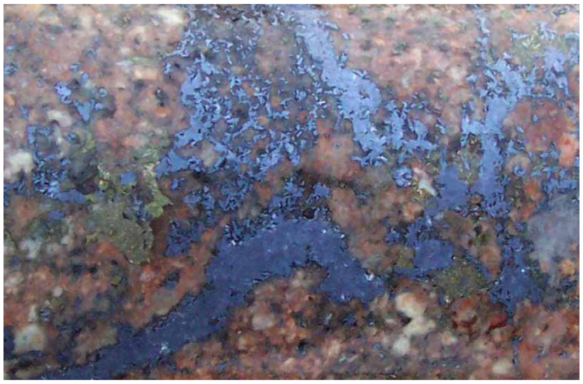
ZUUN MOD

Exploration in 2007 at the Zuun Mod Molybdenum project has resulted in the discovery of a much larger and more intensely mineralized molybdenum-copper porphyry system than previously recognized. Zuun Mod is located just 180 kilometres north of the Chinese border in an area where China is building up their infrastructure to access Mongolia's emerging mineral resources. Rising global demand coupled with Chinese government policy initiatives to maintain domestic molybdenum resources has resulted in a significant tightening of worldwide supply. The Zuun Mod project is ideally located to meet China's growing need for additional molybdenum resources.

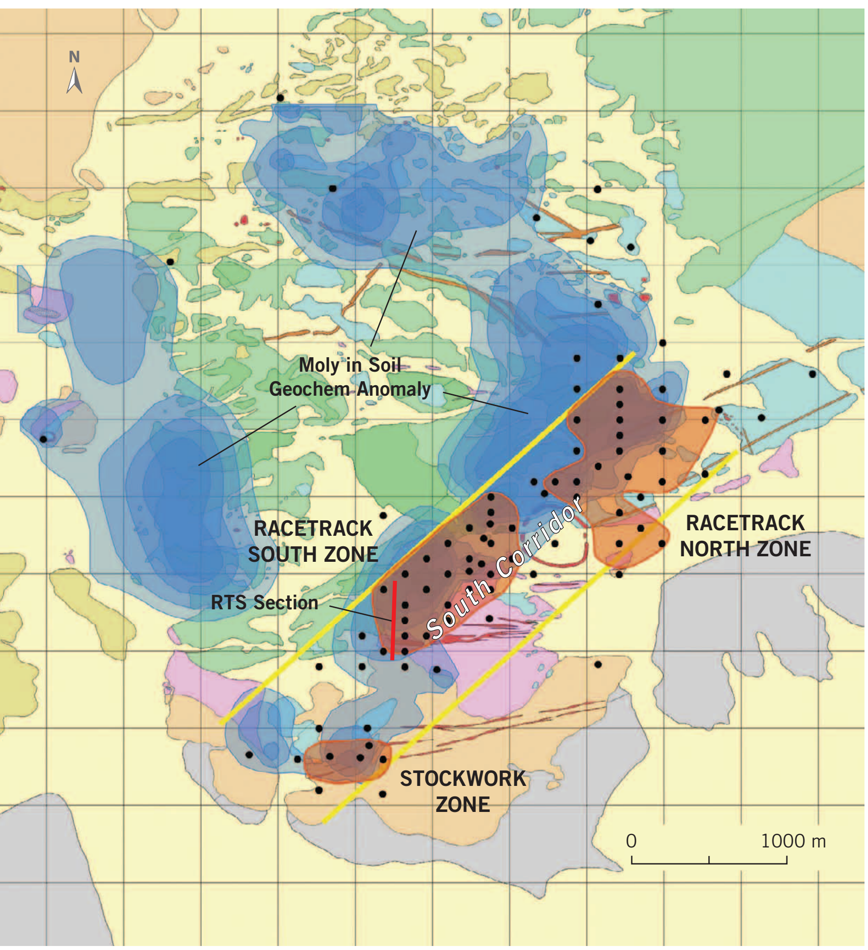
RESOURCE DELINEATION DRILLING

The 2007 phased resource delineation drilling program was concentrated within the South Corridor, a north-east trending structurally controlled zone approximately 3.6km long by 800m wide. The resource delineation drilling has resulted in the discovery of three zones with potentially economic concentrations of molybdenum and associated copper and rhenium mineralization. Each zone is defined by multiple drill holes.

DRILLING AT ZUUN MOD



MOLYBDENITE MINERALIZATION IN ZUUN MOD DRILL CORE



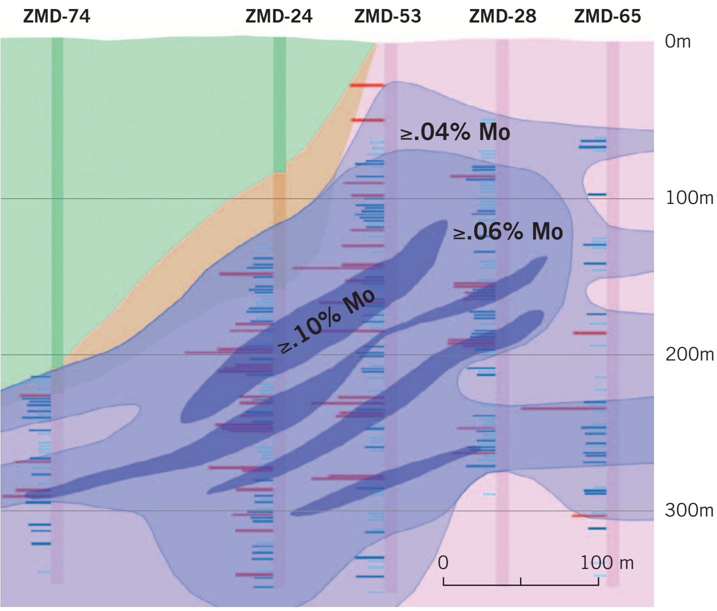
Zuun Mod Porphyry Complex Geology and Molybdenum Mineralization

The Racetrack South ("RTS") and Racetrack North ("RTN") zones are the largest and each is approximately 1.1km long by 400 to 600m wide. Multiple intersections with grades in the 0.05% to 0.07% Mo range over vertical thicknesses exceeding 200m and often open at depth below 350m have been returned from these areas. The zones locally come within 20m of surface and are open in multiple directions. The Phase II 100m spaced resource delineation drilling and 200m spaced step-out drilling program was completed in December 2007. This program was designed to increase the confidence level of the mineral resource and to determine the extent and continuity of these mineralized zones.

With diminishing supply from traditional secondary producers, new sources of molybdenum will need to be brought into production to meet ever growing demand associated with the industrialization of developing nations and the modernization of industrial facilities globally.

MINERAL RESOURCE ESTIMATE

Minarco-MineConsult, part of the Runge Group, ("Minarco") has been commissioned by the Company to prepare a Technical Report, as an independent technical review of the geological model, methodologies and mineral resource estimate for the Zuun Mod molybdenum project, in a manner consistent with Canada's National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101"). Their work is ongoing and will incorporate all data from the 2007 drilling program. It is anticipated that the Minarco report will be finalized in the second quarter 2008.



RTS Section – Molybdenum Mineralization

EXPANSION POTENTIAL

While exploration at Zuun Mod has identified significant molybdenum and associated copper and rhenium mineralization, drill programs have been primarily focused within the South Corridor. The remaining 90% of the Zuun Mod porphyry complex has undergone only limited exploration consisting of surface surveys and widely spaced drill holes. Recent rock and soil geochemical programs have identified significantly anomalous mineralization and the entire Zuun Mod property is considered to be highly prospective for the discovery of additional molybdenum and copper mineralization.

FUTURE DEVELOPMENT

It is anticipated that the Minarco NI 43-101 compliant mineral resource estimate report will conclude that exploration work to date has identified a significant mineral resource at Zuun Mod. It is also anticipated that this report will include recommendations for additional resource delineation drilling to further increase the extent and confidence level of the mineral resource. The molybdenum mineralization identified to date remains open in several areas, including west of the RTS zone, northeast of the RTN Zone and at depth.

Minarco has also been retained to undertake a preliminary assessment or scoping study into the potential economic viability of the Zuun Mod molybdenum deposit. This study will delve into such topics as metallurgy, marketing, mining and processing options, workforce requirements, environmental issues, capital and operating costs, and will culminate in a preliminary economic assessment of the Zuun Mod project.

Bayarmaa Bagabandi *MA International Economics*

ADMINISTRATION MANAGER

Bayarmaa Bagabandi worked and studied for a number of years internationally before returning to her native Mongolia. She is fluent in four languages; Mongolian, Russian, English and Korean. Bayarmaa manages administrative operations and is in charge of financial and management regulatory reporting for Erdene in Mongolia.

REVIEW OF OPERATIONS

DONKIN | coal

Location: Nova Scotia, Canada
Commodity: Coal
Ownership: 25% Erdene – 75% Xstrata
Markets: North America and Europe

Ken W. MacDonald BCom, CA
VICE PRESIDENT BUSINESS STRATEGY & CFO, DIRECTOR

Ken MacDonald has 30 years of financial and accounting experience in the resource industry. Ken brings his enthusiasm for and knowledge of the resource industry to his role as VP Business Strategy. In this role Ken identifies and evaluates business opportunities for Erdene from conceptual through to business operational stage.

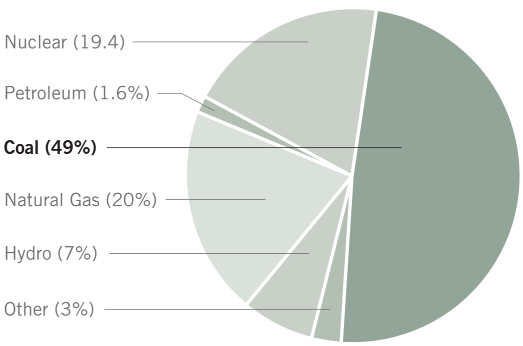
MARKET OVERVIEW

Expanding economies worldwide, led by China and India, have generated unprecedented demand for both thermal and metallurgical coal. Strong demand coupled with infrastructure constraints has resulted in a significant tightening of supply globally. As a result, in February 2008, coal price benchmarks hit all-time highs in the U.S., Europe and Asia.

China's unprecedented economic growth has significantly impacted all major commodity markets, including coal, and for the first time China is expected to become a net importer of coal in 2008. This represents an effective loss of more than 80 million tonnes or 12 per cent of the internationally traded market. This shortfall represents a significant opportunity for new coal mine developments, particularly in the border region of Mongolia where Erdene and Xstrata are working together to identify and develop large open pit resources.

Increased use of coal is not limited to developing nations. New coal-fired electrical generation plants under construction in the U.S. are expected to add 50 million tons of new coal demand a year. Coupled with declining resources in the eastern U.S. the demand for imported coal is expected to increase significantly. This will be the target market for anticipated thermal coal production from the Company's Donkin coal project in Nova Scotia.

U.S Electrical Generation by Energy Source, 2006



DONKIN COAL PROJECT

During the 1980s and 1990s the Canadian Federal Government through its crown corporation, Cape Breton Development Corporation (DEVCO) operated coal mining in Cape Breton, Nova Scotia. Prior to the closure of the regions coal production industry in 2001, DEVCO spent more than $100M evaluating the Donkin coal project. Work included offshore drilling, coal quality assessment, geological and geotechnical studies, and establishing two-3.5km long tunnels accessing the Harbour coal seam.

In 2006, the Donkin Coal Alliance (DCA) acquired the rights to the Donkin coal project. Erdene holds a 25% interest in the DCA with Xstrata Coal Canada Ltd. (Xstrata Coal) holding the remaining 75%. Based in Australia, but with coal resources worldwide, Xstrata Coal provides the experience and expertise needed for the safe and efficient production, marketing and transportation of the Donkin coal resources.

In 2007 the DCA received an independent resource estimate as well as a positive preliminary assessment study (PAS) for the Donkin project. The DCA has now moved the project to the pre-feasibility stage with completion expected during the second quarter. The final feasibility study is anticipated by the end of 2008 or early 2009, followed by a production decision. Projected strong demand for coal over the longer term and the recent surge in coal prices to more than double the US$52 base-case price used in the PAS, suggest a very positive future for the Donkin project. The project's location on the Atlantic Ocean will enable shipment of high-energy coal to international markets. In addition, two local coal-fired electrical generation plants represent a potentially significant domestic market.

THE RESOURCE

The resource estimate by McElroy Bryan Geological Services (MBGS) identified 227Mt (million metric tonnes) of indicated resource with an additional 254Mt in the inferred resource from three potentially mineable seams. The coal is categorized as high volatile A bituminous coal with approximately 14,000 BTU/lb, high sulphur, medium ash and low moisture. The Harbour seam is targeted for initial development and has an indicated resource of 101Mt and inferred resource of 115Mt.

PRELIMINARY ASSESSMENT STUDY

The Donkin PAS by Norwest Corporation is 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$195M (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 109 million tonnes of run-of-mine coal. The initial target market for this product will be domestic and export thermal coal for power generation.

Increased demand from emerging markets and the soaring cost of crude oil will contribute to increased use of coal globally in coming years. Energy needs are projected to grow by 55% between 2005 and 2030 with most new electrical generating plants utilizing coal.

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.

UNDERGROUND IN-SEAM DRILLING AT DONKIN

FUTURE DEVELOPMENT

The tunnel dewatering and refurbishing program at Donkin was completed in late 2007. A series of studies continue as part of the pre-feasibility evaluation for the Donkin Coal project. A 10,000 metre in-seam drilling program is underway to determine the methane liberation rate, an important factor in ventilation systems design work. Harbour seam samples are being analyzed to determine the best mining horizon and coal treatment to meet market requirements. In addition, market evaluations for both thermal and metallurgical grade coal, and surface and underground infrastructure design studies are continuing. The pre-feasibility study is expected before the end of the second quarter, 2008. Completion of a feasibility study is anticipated by the end of 2008 or early 2009 which will form the basis of a production decision.

COAL IN MONGOLIA

Erdene and Xstrata Coal have entered into an Alliance Agreement on exploration in Mongolia, a country with vast mineral and coal deposits bordering resource hungry China. In Mongolia, the Alliance partners are evaluating numerous prospective metallurgical and high quality thermal coal deposits. An extensive database on coal deposits, occurrences and prospective sedimentary basins has been developed by Erdene. This database forms the basis for prioritizing exploration targets and identifying potential acquisition opportunities. All of Erdene's coal exploration in Mongolia is being fully funded by Xstrata through to completion of a feasibility study which gives them the right to earn a 75% interest.

One of the priority targets identified to date is the Galshar coal property. Galshar lies 63 kilometres from the nearest rail link and 250 kilometres from the Mongolia-China border. First stage resource delineation drilling was completed in 2007. This program was successful in expanding the coal resource to the west and constraining the deposit structure and continuity to the east, north and northeast.

MONGOLIAN COAL ABOARD CHINESE TRAINS AT CEKE BORDER STATION

In 2008, additional detailed resource drilling will be carried out at Galshar to further define the parameters of the coal resources and provide additional data towards a resource estimate. In addition to the Galshar project, Erdene continues to evaluate other coal opportunities in central, southern and south-eastern Mongolia recognizing the opportunity to supply China's growing demand for coal.

Michael X. Gillis *BSc (Hons) Geology*

DIRECTOR OF BUSINESS OPERATIONS

Michael Gillis has worked for over 20 years in the mineral exploration industry in both Canada and internationally. Mike is responsible for making sure the Company meets regulatory reporting requirements for all technical information while ensuring the smooth functioning of the internal business operations of the company.

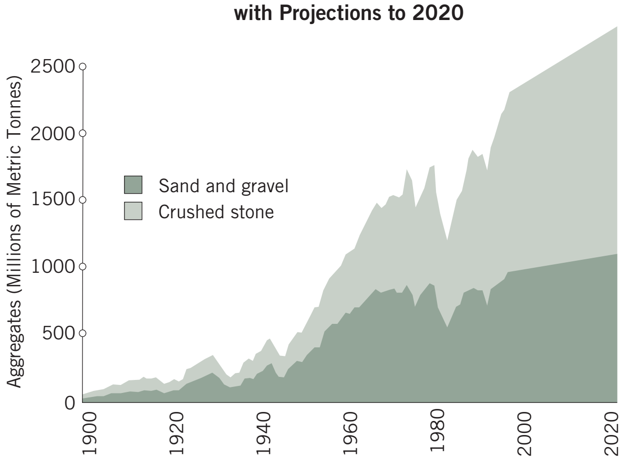
ERDENE MATERIALS | industrial minerals

Location: Georgia, United States
Commodities: Construction Aggregate, Kaolin
Ownership: 100% Erdene
Markets: South-eastern United States

MARKET OVERVIEW

Crushed stone valued at US$14 billion was produced in the U.S. in 2007 with the average price per ton rising 8.7%. Erdene is focused on market opportunities in the south-eastern U.S. where population growth and resultant urban sprawl has increased demand and decreased supply. A recent study by the State of Florida highlighted the critical shortage of quality permitted aggregate resources in Florida's 150 million ton per year market, which is the third largest market by state in the U.S. The study stated "known in-state aggregate reserves to produce 150 million tons per year do not appear to be adequate for a 5-10 year growth period and beyond". Local zoning regulations and land-development alternatives are making permitting of new aggregate operations increasingly more difficult. Florida's diminishing aggregate resources represent a significant opportunity to bring in high quality construction aggregate from neighboring States like Georgia and from offshore.

National Aggregates Production in the U.S. with Projections to 2020



INDUSTRIAL MINERALS

With increasing demand and diminishing local supply of construction aggregate, particularly in the south-eastern U.S., Erdene's management recognized an opportunity to expand its interest in this growing sector by adding to the industrial mineral assets it acquired in 2006. In August 2007, Erdene appointed Mark Davies as Vice President of Erdene Materials Corporation (Erdene Materials) and established a satellite office in West Palm Beach, Florida. Mr. Davies has over 20 years of experience in the construction aggregate business, most recently focused in the growing south-eastern U.S. market. Mr. Davies is aggressively exploring business opportunities in the eastern U.S. and Canada.

GRANITE HILL PROJECT

Erdene Materials owns the surface and mineral rights to the Granite Hill property, a 342-acre property in Hancock County, Georgia. The Granite Hill project is being developed by Ready Mix USA (RMU) (a subsidiary of Cemex S.A.B. de C.V.) as a

KAOLIN MINING AT THE COMPANY'S LUCKY DEPOSIT IN GEORGIA

granite quarry, primarily to serve the southeastern US markets by rail. The sale of all aggregate is subject to an industry competitive royalty payable to Erdene. Granite Hill has an estimated start-up production of one million tonnes of granite aggregate per year with a proposed design capacity of four million tonnes and an expected lifespan of at least 20 years.

The quarry mining plan, processing plant and facility design and environmental impact plan are complete. RMU has also acquired additional land adjacent to the Granite Hill property to secure rail access to the site. Mine permitting work is ongoing and has entered the final Federal and State approval stages with no impediments to approval anticipated. Issuance of the mining permit is expected in 2008. The construction phase is expected to take nine to twelve months following a production decision. RMU is responsible for fully funding the development program.

PRIMARY KAOLIN PROJECT

Erdene controls a 27.4 million ton high brightness primary kaolin resource in Georgia. Portions of Erdene's resource have been mined under a royalty lease agreement for the past two years by KaMin LLC (formed by IMin Partners who purchased the kaolin business unit of Huber Engineered Materials). Since 2005, KaMin has commercially produced a light-weight coater product named HuberPrime™ from Erdene's primary kaolin deposits.

In August 2007, Erdene Materials entered into an Option Agreement with Deepstep Kaolin Company LLC (DKC), of Georgia, USA. The purpose of the agreement is to jointly develop a new product line for Erdene's primary kaolin resources. DKC is providing technical and marketing experience while Erdene is providing the raw material and start up production facility. Upon a DKC full production decision, Erdene will have the option of directly participating in the ownership of the production company and will be paid a royalty for any of the Company's kaolin mined for the development of these products.

Mark R. Davies PG, BSc, MBA

VICE PRESIDENT OF ERDENE MATERIALS

Mark Davies has over 20 years of experience in the construction aggregate business, most recently focused in the growing south-eastern U.S. market. Mark is working toward expanding Erdene's interests in the construction aggregate industry through aggressively exploring business opportunities in the eastern U.S. and Canada.

COMMUNITY DEVELOPMENT OFFICER
BARBARA LEONARD AND LOCAL WOMEN
IN CRAFTING WORKSHOP

By acting ethically and responsibly and supporting the needs of communities, our investors, governments, our employees and others, Erdene has been able to build lasting relationships with our stakeholders and make positive contributions to communities in which we operate.

Corporate Social Responsibility

Erdene's sustainable development program is based on company policies derived from the philosophy of providing resources that support capacity building in the communities in which the Company works, particularly those in rural Mongolia. Priority funding categories in Erdene's community development program include education, health and secure livelihoods with the goal of improving the quality of life in remote regions of Mongolia.

The Company employs a community development officer (CDO) who coordinates the distribution of resources made available to communities located proximal to the Company's exploration projects. The CDO meets with representatives from these communities to determine the areas where the Company's funding initiatives will be most beneficial. An evaluation of effective capacity building based on observation and interviews with those affected by the intervention is conducted annually.

ENVIRONMENT

Erdene is committed to the highest standards of environmental stewardship and our objective is to minimize our environmental footprint. Erdene files an environmental protection and reclamation plan with the Governor of each district in which we operate in Mongolia, and we work to ensure those plans exceed requirements. In North America we are working with our partners to ensure best practices are met and exceeded for all environmental concerns regarding our development projects and that the communities in which these projects are located benefit from the sustainable economic development our projects generate.

CHILDREN IN GUCHIN US SOUM
AFTER RECEIVING A COMPUTER
FOR THEIR CLASSROOM

Management's Discussion and Analysis of Operating Results

YEAR ENDED DECEMBER 31, 2007

This Management Discussion and Analysis of Erdene Gold Inc. (the "Company") provides analysis of the Company's financial results for the years ended December 31, 2007 and 2006 and its financial position as at December 31, 2007 and December 31, 2006. The following discussion and analysis provides a summary of selected consolidated financial information for the years ended December 31, 2007 and 2006 and includes financial information relating to the Company and its wholly owned subsidiaries, 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, Erdene Resources Inc. and its wholly owned subsidiary 6531954 Canada Limited, both incorporated under the laws of Canada, Erdene Materials Corporation (formerly Sparta Kaolin Corporation), incorporated under the laws of Delaware as well as Erdene Mongol XXK, Erdene Energy 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 audited consolidated financial statements of the Company for the years ended December 31, 2007 and 2006, 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. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. The information contained herein is stated as of March 25, 2008 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 March 25, 2008.

1.02 NATURE OF BUSINESS & OVERALL PERFORMANCE

General

The Company is a resource exploration company listed on the Toronto Stock Exchange which has two advanced-stage 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 has minimal sources of income other than revenue from an industrial lab in Eatonton, Georgia, royalty income from its aggregate properties which are early stage, and interest earned on cash and short-term money market instruments. It is therefore difficult to identify any meaningful trends or develop an analysis from the Company's cash flows.

The Company is well-funded with its focus on 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 with near term cash flow potential. At December 31, 2007 the Company held 35 mineral licenses in Mongolia representing 10 projects covering approximately 521,288 hectares.

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

Donkin Coal Alliance

The Donkin Coal Alliance was formed by or on behalf of Xstrata Coal Pty Limited (66%), Kaoclay Resources Inc. ("Kaoclay") (20%), American Transbridge Technologies LLC (9.33%) and PDC Resources Corporation (4.67%) 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 Donkin Coal Alliance was the successful proponent. Effective June 12, 2006, Kaoclay amalgamated with Erdene Resources Inc., a wholly-owned subsidiary of the Company, under a court approved Plan of Arrangement and Kaoclay is now a wholly-owned subsidiary of the Company operating under the name of Erdene Resources Inc. On April 23, 2007 the Company concluded agreements with minority partners to increase its ownership in the Donkin Coal Alliance from 20% to 25% in exchange for cash consideration of $10,625 (paid in fiscal 2006) and 360,000 common shares of the Company which were issued on April 23, 2007 with a fair value of $529,200 giving a total consideration of $539,825 for the additional 5% interest in the Donkin Coal Alliance. Under the agreements, Xstrata Coal Donkin Limited ("XCDL"), a related party to Xstrata Coal Pty Limited has also increased its interest in the Donkin Coal Alliance from 66% to 75% in exchange for cash.

The members of the Donkin Coal Alliance 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 Donkin Coal Alliance 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. The Company and XCDL are presently negotiating 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.

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

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 Expenses ("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. The total budget for the Exploration Program is approximately $17,200,000. A prefeasibility report is expected to be complete in the second quarter of 2008 with a final feasibility report expected by the end of 2008.

To December 31, 2007 $7,943,456 million was advanced to Xstrata Coal Donkin Management Limited to fund the Company's commitment.

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), pursuant to which Xstrata subscribed for 3,000,000 common shares of the Company at $1.00/share.

Under the agreement, 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 a result of share issuances since the agreement was concluded, Xstrata Coal's equity position was reduced. Effective

Michael A. O'Keefe CMA, MBA

DIRECTOR OF FINANCE

Mike O'Keefe has 12 years experience in senior finance positions working for both private and publicly listed companies. As Director of Finance, Mike supports the work of the CFO and is responsible for regulatory financial and management reporting for Erdene.

December 19, 2007 Xstrata Coal acquired an additional one million common shares of the Company at a subscription price of $1.05 per share for total proceeds to the Company of $1,054,930, in order to increase its ownership to approximately 6%.

Agreement with Gallant Minerals Limited

On March 1, 2005 the Company entered into an agreement with Gallant Minerals Limited ("Gallant") to acquire certain uranium property licenses and license applications in Mongolia, obtain possession and control of certain assets and geological data pertaining to Mongolia and an exclusive and irrevocable option to acquire 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 it's wholly owned subsidiary Anian Resources XXK.

On February 28, 2007, the Company made a final payment of US$150,000 and issued 700,000 shares meeting all conditions of the agreement and has acquired 100% ownership of Tamerlane. Gallant is entitled to a net smelter return royalty on certain properties ranging from 1% to 1.5%, subject to a buy-down provision.

Joint Venture Agreement with Denison Mines Corporation

On June 14, 2005, pursuant to an April 4, 2005 Memorandum of Understanding with International Uranium Corporation ("IUC"), now Denison Mines Corporation, the Company granted International Uranium Mongolia Ltd. ("IUM") the exclusive right and option to acquire a 65% interest in its uranium properties. IUM must spend $6,000,000 of eligible expenditures on the properties over a period of up to four years. The Company and IUM have also formed a strategic alliance for the purpose of staking additional ground in Mongolia for the exploration of uranium over a three year period. In addition, IUC purchased one million common shares of the Company at a price of $1.00 per share by way of a private placement. A finder's fee totaling $60,000 was paid in connection with this transaction.

Subsequent to December 31, 2007, Denison elected not to renew their option under the agreement. As a consequence, the value of licenses associated with all but one of the Company's uranium properties has been removed from resource properties and charged to operations in 2007 (see note 5 d to the Company's December 31, 2007 audited consolidated financial statements).

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 Dec 31	**2007**	2006	2005
	$	$	$
Revenues	**267**	250	-
Loss for the year	**6,651**	4,565	4,981
Basic and diluted loss per share	**0.11**	0.11	0.19
Total assets	**47,015**	34,181	6,649
Total long-term liabilities	**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

The Company had a loss of $6,651,063 for the year ended December 31, 2007, net of deferred expenditures, as compared to a loss of $4,565,028 during the same period last year.

Erdene Material's industrial lab in Eatonton, Georgia generated $186,129 in revenue during the year compared to $165,916 during the period of June 13th to December 31st the previous year (the Kaoclay acquisition closed on June 12, 2006).

Total exploration costs for the year ended December 31, 2007 amounted to $13,826,792 compared to $3,930,894 during the same period in 2006. The Company carried out a more robust exploration program in 2007 compared to 2006 primarily due to expanded programs at the Donkin and Zuun Mod projects and as a result exploration costs were higher than the prior year. Excluding capitalized or deferred exploration expenditures the exploration and operating expenses charged to operations were $4,146,178 during the year ended 2007 compared to $2,854,951 in 2006.

The following schedule summarizes the exploration and operating expenses as well as the resources property interests and deferred expenditures capitalized to the end of 2007 and 2006.

YEAR ENDED DECEMBER 31, 2007	NORTH AMERICA		MONGOLIA			
	Industrial Minerals	Donkin Coal	Zuun Mod Molybdenum	Coal	Other	Total
EXPLORATION AND OPERATING EXPENSES	$	$	$	$	$	$
Year ended December 31, 2007						
Assaying and Analytical	47,210	12,814	227,330	19,127	137,376	443,857
Data Analysis and Testing	-	386,571	-	-	-	386,571
Dewatering/Refurbishment of Tunnels	-	4,204,247	-	-	-	4,204,247
Drilling/Testing	117,205	320,921	2,524,544	466,733	611,878	4,041,281
Engineering	-	354,349	-	-	-	354,349
Environmental	-	97,947	-	-	-	97,947
Geological Services	304,652	859,287	830,322	186,467	223,530	2,404,258
Geo-technical Surveys	-	260,469	30,278	55,147	61,620	407,514
Logistical and Field Support	74,299	-	478,749	110,109	243,994	907,151
Professional fees	60,741	-	-	-	-	60,741
Travel	24,780	-	56,962	69,627	17,084	168,453
Write off of resource properties	-	-	-	-	1,032,310	1,032,310
Other	-	45,374	4,535	721	12,824	63,454
Exploration partner contributions	-	-	-	(745,341)	-	(745,341)
Total exploration expenses	**628,887**	**6,541,979**	**4,152,720**	**162,590**	**2,340,616**	**13,826,792**
Deferred expenditures	-	(6,541,979)	(3,438,202)	-	-	(9,980,181)
Lab operating expenses	299,567	-	-	-	-	299,567
Expenses incurred in 2007	**928,454**	**-**	**714,518**	**162,590**	**2,340,616**	**4,146,178**
Expensed to December 31, 2006	325,534	-	1,740,808	395,678	7,994,850	10,456,870
Cumulative expenses to December 31, 2007	**1,253,988**	**-**	**2,455,326**	**558,268**	**10,335,466**	**14,603,048**
RESOURCE PROPERTIES						
Balance, December 31, 2006	6,522,558	6,923,602	1,155,746	71,973	2,080,852	16,754,731
Resource property additions	-	529,200	308,987	94,158	612,908	1,545,253
Deferred expenditures	-	6,541,979	3,438,202	-	-	9,980,181
Write off of resource properties	-	-	-	-	(1,032,310)	(1,032,310)
Exploration partner contributions	-	-	-	(71,317)	-	(71,317)
Resource Properties at December 31, 2007	**6,522,558**	**13,994,781**	**4,902,935**	**94,814**	**1,661,450**	**27,176,538**

YEAR ENDED DECEMBER 31, 2006	NORTH AMERICA		MONGOLIA			
	Industrial Minerals	Donkin Coal	Zuun Mod Molybdenum	Coal	Other	Total
EXPLORATION AND OPERATING EXPENSES	$	$	$	$	$	$
Year ended December 31, 2006						
Assaying and Analytical	-	6,176	6,865	14,902	138,429	166,372
Data Analysis and Testing	-	107,044	-	-	-	107,044
Dewatering/Refurbishment of Tunnels	-	1,039,611	-	-	-	1,039,611
Drilling/Testing	-	-	-	211,762	573,782	785,544
Engineering	-	18,187	-	-	-	18,187
Environmental	-	142,954	-	-	-	142,954
Geological Services	-	87,505	32,405	434,451	524,843	1,079,204
Geo-technical Surveys	-	-	-	10,014	80,850	90,864
Logistical and Field Support	-	-	64,717	86,059	262,575	413,351
Professional fees	-	-	-	45,589	-	45,589
Travel	-	-	11,518	90,674	39,816	142,008
Write off of resource properties	-	-	-	62,901	397,277	460,178
Other	-	-	-	2,055	662	2,717
Exploration partner contributions	-	-	-	(562,729)	-	(562,729)
Total exploration expenses	**-**	**1,401,477**	**115,505**	**395,678**	**2,018,234**	**3,930,894**
Deferred expenditures	-	(1,401,477)	-	-	-	(1,401,477)
Lab operating expenses	231,967	-	-	-	-	231,967
Amortization of intangibles	93,567	-	-	-	-	93,567
Expenses incurred in 2006	**325,534**	**-**	**115,505**	**395,678**	**2,018,234**	**2,854,951**
Expensed to December 31, 2005	-	-	1,625,303	-	5,976,616	7,601,919
Cumulative expenses to December 31, 2006	**325,534**	**-**	**1,740,808**	**395,678**	**7,994,850**	**10,456,870**
RESOURCE PROPERTIES						
Balance, December 31, 2005	-	-	499,250	61,457	1,441,001	2,001,708
Acquired via plan of arrangement	6,488,000	5,511,500	-	-	-	11,999,500
Resource property additions	34,558	10,625	656,496	113,199	1,037,128	1,852,006
Deferred expenditures	-	1,401,477	-	-	-	1,401,477
Write off of resource properties	-	-	-	(62,901)	(397,277)	(460,178)
Exploration partner contributions	-	-	-	(39,782)	-	(39,782)
Resource Properties at December 31, 2006	**6,522,558**	**6,923,602**	**1,155,746**	**71,973**	**2,080,852**	**16,754,731**

All financial data has been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined that a 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 year ended December 31, 2007 amounted to $1,545,253 as compared with $1,852,006 in 2006. 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. To December 31, 2007 the Company has incurred $3,438,202 in exploration and support costs directly related to the Zuun Mod project which were capitalized. In addition to Zuun Mod, the Company capitalized $6,541,979 in costs associated with the Donkin Coal project during the year, giving a total of $9,980,181 in deferred exploration costs in 2007 compared to $1,401,477 in the prior year. The Company wrote off $1,032,310 in resource properties in 2007 compared to a write off of $460,178 in 2006.

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 resource will not be economically recoverable.

General and administrative expenses amounted to $2,427,062 in 2007 compared to $2,350,644 in 2006 representing an increased of $76,418, or 3%, in 2007 compared to 2006. The bulk of the increase is attributed to an increase of $143,898 in non-cash stock based compensation. On a cash basis, overall general and administrative costs have decreased $75,923 from 2006.

Other expenses amounted to $1,157,127 in 2007 compared with other income of $390,391 in 2006. The other expenses in 2007 are mainly due to a write down of intangible assets and goodwill (see note 7 to the December 31, 2007 financial statements). Taxes include Part XII.6 tax. Since the Company used the look-back rule to renounce Canadian Exploration Expenses to subscribers in 2006, it is required to pay a tax under Part XII.6, calculated on the portion of flow through funds which were unspent after February of 2007. These expenses were partially offset by a one time gain on the sale of marketable securities and higher interest income in 2007.

1.05 SUMMARY OF QUARTERLY RESULTS

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2007				Fiscal 2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Dec-07	Sep-07	Jun-07	Mar-07	Dec-06	Sep-06	Jun-06	Mar-06
	$	$	$	$	$	$	$	$
Revenue	**98**	**62**	**74**	**33**	(205)	301	110	44
Loss	**2,331**	**986**	**3,081**	**253**	1,199	1,504	1,185	677
Basic and diluted loss per share	**0.03**	**0.02**	**0.05**	**0.01**	0.03	0.03	0.03	0.02
Total Assets	**47,015**	**42,973**	**43,623**	**34,245**	34,177	39,170	34,944	10,345

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 at December 31, 2007 of $7,901,350 representing an increase of $4,635,936 from the December 31, 2006 working capital position of $3,265,414. This working capital does not include the $2,713,644 in 2007 and $4,598,523 in 2006 of flow through cash the Company had at year end. The flow-through funds are restricted to incur qualifying Canadian Exploration Expenditures and are therefore excluded from working capital. The increase in working capital is primarily due to the April 12, 2007 agreement with National Bank Financial and syndicate partner Wellington West Capital whereby 10 million shares of the Company were issued on a private placement basis at $1.00 per share resulting in gross proceeds to Erdene of $10,000,000. On December 24, 2007 the Company also received $1,054,930 on the private placement of one million shares with Xstrata Coal. Throughout 2007 the Company received $1,276,700 on the exercise of warrants and options and received proceeds of $704,568 on the sale of marketable securities. These inflows were partially offset by expenditures related to Company's 2007 exploration program and general and administrative costs in support of the program.

The year end working capital of $7,901,350 will enable the Company to fund its 2008 exploration program and meet its property and contractual obligations for the next 24 months. The timing for additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration program and decisions based on the pre-feasibility and feasibility studies for the Donkin Coal project scheduled for release in 2008.

During the year ended December 31, 2007, $1,545,253 was expended on additions to resource property interests offset by a write down of resource properties of $1,032,310. This compares to additions of $1,852,006 in 2006, offset by a write down of $460,178. The Company deferred expenditures totalling $9,980,181 in 2007 compared to $1,401,477 in 2006. Of the $9,980,181 deferred in 2007, $6,541,979 was advanced to the Donkin project manager Xstrata Coal Donkin Management Limited to fund qualifying CEE on behalf of the Company and the remaining $3,438,202 was exploration and support costs associated with the Company's Zuun Mod molybdenum project.

During the year ended December 31, 2007, the Company expended $76,350 on capital assets compared to $774,238 in 2006. The majority of the capital asset additions in the prior year were for the purchase of land containing kaolin resource in McDuffie County, Georgia, 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 either 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 December 31, 2007 the Company is committed to the following obligations:

- The Company has entered into an operating lease for office space until August 31, 2011 representing total payments of $216,892 to the end of the lease. The Company has the right to terminate the lease by giving notice prior to the annual anniversary date.
- The Company, through its subsidiary Erdene Materials Corporation (formerly Sparta Kaolin Corporation), has entered into lease agreements and exploration agreements with options to lease kaolin properties in the United States. The aggregate commitment associated with the cancelable agreements over the next twelve months is US $46,000.
- Pursuant to the Alliance Agreement with Xstrata Coal Donkin Limited (see section 1.02 "Donkin Coal Alliance") the Company is committed to fund up to $10,000,000 of the expenditures incurred during the Exploration and Evaluation Program of the Donkin Coal Project provided such expenses qualify as Canadian Exploration Expenditures.

1.08 OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2007, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

1.09 FOURTH QUARTER

During the fourth quarter, the Company received a total of $5,777,629 on the issue of common shares of which $4,657,100 was related to the issue of flow through shares to fund the Company's commitment under the Donkin Alliance (see section 1.02 – "Donkin Coal Alliance"). Another $1,054,930 was proceeds from the private placement of one million shares with Xstrata Coal announced on December 24, 2007. The remaining $65,600 was received on the exercise of warrants and options.

The Company wrote off $1,123,433 in intangible assets and $800,079 of goodwill in the fourth quarter. These intangible assets and goodwill were mainly the value of relationships and contracts with two partners which have agreements to develop the Company's clay and aggregate assets in Georgia, USA. At December 31, 2007, these two companies are in the process, or have undergone, a change in control.

The Company recognized a future income tax recovery of $812,000 in the fourth quarter. The recovery is due to changes in future income tax rates which decline each year from 38.12% in 2008 to 30% in 2012.

Other than those mentioned above, there were no unusual events or items during the fourth quarter of 2007 that affected the Company's financial condition, cash flows or results of operations in a material nature.

1.10 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 $27,176,538 on the Company's balance sheet at December 31, 2007.

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 use an expected volatility rate of 90% in 2007 (80% in 2006). 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. Although the actual cost of stock-based compensation can vary materially from the estimated cost recorded in the Company's financial statements, it represents a non-cash expense and, as such, has no impact on the Company's financial position or liquidity. The $1,863,000 the Company determined in 2007 as stock-based compensation was charged as follows: $910,218 to general and administrative expenses, $703,782 to geological services, and $249,000 to issue costs. This compared to a 2006 total of $2,780,006 which was charged as follows: $766,320 to general and administrative expenses, $127,593 to geological services, $141,362 to issue costs and $1,744,731 in purchase consideration associated with the Kaoclay acquisition.

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.

1.11 CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted recommendations of CICA handbook sections 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated marketable securities as available-for-sale securities. Such securities are measured at fair value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold, or otherwise disposed of, gains or losses are included in net earnings (loss). The Company designated cash, accounts receivable, cash flow through funds and accounts payable and accrued liabilities as held-for-trading, which is measured at fair market value,

Section 3251 of the CICA Handbook requires the separate presentation of the components of equity (retained earnings, accumulated other comprehensive income, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves) and the changes in equity arising from each of these components.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

Except as noted above, the accounting policies applied in the preparation of the December 31, 2007 audited consolidated financial statements did not differ from those applied in the preparation of the December 31, 2006 audited financial statements. A detailed summary of the Company's accounting policies and any estimates derived therefrom is described in Note 1 of the December 31, 2007 audited consolidated financial statements.

The Canadian Institute of Chartered Accountants issued new accounting standards: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation. These new standards will be effective on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure will be required for the Company once the new standard becomes effective.

Section 3862 and 3863 will replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by the Company and the disclosure already in place, it is not expected that the revised section will have any impact on the financial statements.

1.12 FINANCIAL INSTRUMENTS & OTHER RISKS

The Company's financial instruments consist of cash, marketable securities, accounts receivable, and accounts payable and accrued liabilities. The Company does not have to the date of this MD&A, nor has it ever had any of its cash invested in asset backed commercial paper. Management 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 Mongolia. 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.

1.13 OUTSTANDING SHARE DATA

See Note 8 to the December 31, 2007 audited consolidated financial statements for detail as to the change in the issued and outstanding common shares, warrants and options of the Company during the years ended and as at December 31, 2007 and 2006.

Issued and Outstanding Share Capital

During the year ended December 31, 2007, the Company issued a total of 17,149,812 shares as follows:

- On February 28, 2007 the Company issued 700,000 shares to Gallant Minerals Limited as part of the final payment concluding the agreement signed on March 1, 2005 (see section 1.02 "Agreement with Gallant Minerals Limited").
- In March 2007, the Company issued 360,000 shares of the Company as partial consideration to increase its ownership in the Donkin project (see section 1.02 "Donkin Coal Alliance").
- On April 12, 2007, the Company concluded an agreement with National Bank Financial and syndicate partner Wellington West Capital who acted as underwriters, on a private placement bought deal basis, on the issuance of 10 million shares of the Company at $1.00 per share.
- In December 2007, the Company issued 3,326,500 flow through shares at $1.40/share to fund it's obligation under the Donkin Alliance.
- On December 24, 2007 the Company concluded a private placement of 1,000,000 shares, at $1.05, to Xstrata Coal.
- The Company issued 1,763,312 shares throughout the year on the exercise of warrants and options.

During the period January 1, 2008 to March 25, 2008 the Company issued 329,938 shares on the exercise of warrants bringing the total shares outstanding to the date of this MD&A to 70,530,877.

Warrants

During the year ended December 31, 2007, 600,000 broker warrants were issued as part of the $10 million financing mentioned above, 1,215,812 warrants were exercised at an average price of $0.70 per share for gross proceeds of $856,137, and 600,000 warrants expired.

During the period January 1, 2008 to March 25, 2008 329,938 warrants were exercised at an average price of $0.60 for gross proceeds of $197,113 and 70,000 warrants expired. This brings the outstanding warrants at March 25, 2008 to 4,849,975.

Stock Options

During the year ended December 31, 2007, 1,650,000 options were granted to certain directors, employees and contractors of the Company, 547,500 options were exercised at an average price of $0.77 for gross proceeds of $420,563 and 5,000 options expired.

During the period January 1, 2008 to March 25, 2008, 850,000 options were granted and 10,000 options expired bringing the outstanding options at March 25, 2008 to 5,196,500.

1.14 EXPLORATION RESULTS

During the year the Company carried out exploration programs on a number of its Mongolian mineral projects. The Company's Zuun Mod molybdenum project was the focus of much of the exploration work in 2007 with an extensive resource delineation drilling program that has resulted in the discovery of three areas with potentially economic concentrations of molybdenum (with copper and rhenium) mineralization. Wide drill intersections of molybdenum mineralization (0.04% to 0.10%Mo) were identified to a depth of 350m with mineralization open at depth in many holes. Minarco MineConsult, an independent mine engineering firm, part of the Runge Group of Sydney Australia, have been contracted to provide a National Instrument 43-101 compliant resource estimate report for the Zuun Mod molybdenum deposit.

At the Galshar coal project, a first-stage resource evaluation program was carried out and has identified a homogenous coal seam extending over a 1.8km2 area. The average thickness and depth of the coal seam within this area is 15m and 90m, respectively. Exploration drilling programs were also carried out on several other projects including the Erdenet Ikh Tal copper project, the Biger copper-gold-PGE project, and the Mogoit/Tsagaan Ovoo copper-gold project.

In North America, significant progress was made on the Donkin Coal Project in which the Company holds a 25% interest. In April 2007, an independent resource estimate was received from McElroy Bryan Geological Services that identified an indicated resource of 227Mt (million metric tons) and an inferred resource of 254Mt of "High Volatile A Bituminous Coal" within the confines of the Donkin coal resource block. Dewatering and refurbishing of the two access tunnels was completed in August providing access to the targeted Harbour coal seam. In November 2007, the Donkin Coal Alliance received a positive independent preliminary assessment into the business case for a continuous miner development and longwall extraction coal mine from Norwest Corporation. Work on the project is now proceeding towards completion of a feasibility study.

In Georgia, USA, pre-development and permitting activities continued on the Granite Hill aggregate project, under the management of Ready Mix USA, while Huber Engineered Materials continued mining operations on the Company's Lucky Strike kaolin property. The Company also signed an option agreement with Deepstep Kaolin Company LLC in October to jointly develop a new product line for the ceramics industry with the Company's primary kaolin resources. The following is an overview of the programs carried out on the Company's principal properties in 2007.

Mongolia

Zuun Mod Molybdenum Project

The Zuun Mod project is a porphyry molybdenum-copper-rhenium deposit located in Bayankhongor Province approximately 950km southwest of Ulaanbaatar and 215km from railhead on the Mongolia-China border at Ceke, Mongolia located 20km south of the Nariin Sukhait coal mine. 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 the discovery of three areas with potentially economic concentrations of molybdenum, with associated copper and rhenium mineralization.

In early 2007, the Company retained Minarco MineConsult ("Minarco") to evaluate strategic options and advise on project planning for the Zuun Mod molybdenum project. Minarco's review indicated the Zuun Mod molybdenum project has the potential to host reserves of similar tonnage to other major molybdenum projects being currently developed elsewhere in the world with average grades equal to or greater than 0.05% Mo. Minarco recommended a two-phase drilling program. Drilling of the Phase I program started in early May and was completed in early August. This program consisted of 29, 200-metre spaced drill holes in the area of the Racetrack and Stockwork zones within the 3.5km long South Corridor. The Phase I drilling program significantly extended the area of known mineralization in the area of the Racetrack Zone.

Between August and the end of December an additional 35 Phase II drill holes (both infill and step-out drill holes) were completed to further delineate the mineralized zones identified in the Phase I program within the South Corridor. The resource delineation drilling has resulted in the discovery of three areas with potentially economic concentrations of molybdenum, with associated copper and rhenium mineralization. The Racetrack South ("RTS") and Racetrack North ("RTN") zones are the largest and each is approximately 1.1 km long by 400 to 600m wide. These two zones are only 300m apart, separated by what has been interpreted as a late stage intrusion. Resource delineation drilling shows that these areas are underlain by thick zones (averaging 185m and 151m, respectively) of molybdenum mineralization (averaging approximately 0.05% Mo, including multiple higher grade intervals). The third zone (Stockwork) is located 600m south of the RTS zone, is approximately 500m long by 300m wide.

Erdene has retained the services of Minarco to carry out an independent resource estimate for the Zuun Mod molybdenum project. Their report will include geological modeling, geostatistical analysis, grade modeling and a mineral resource estimate for the Zuun Mod molybdenum deposit. The final report is anticipated in the second quarter 2008.

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. The Company's technical staff has compiled an extensive database on coal deposits, occurrences and prospective sedimentary basins allowing for a prioritization of targets. 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.

One of the priority targets identified to date is the Galshar coal property located 300km southeast of Ulaanbaatar, 63km from the nearest rail link and 250km from the Mongolia-China border. Three exploration licenses totaling 37,824 hectares make up the Galshar coal property. The licenses are 100% owned by the Corporation and are registered in the name of the Erdene Mongol XXK, a wholly owned subsidiary.

Wide spaced drilling in 2005 and 2006 resulted in the identification of coal units extending northeast 3.6km from the discovery hole CDD-01 that returned a 21.8m section of greater than 10,000 BTU/lb coal with low ash (6%) and low sulfur (0.4%). A second hole located 2.2km northeast of hole CDD-01 intersected a 17.4m section of the main coal seam that averaged greater than 8,000 BTU/lb.

In August 2007, the Company completed a first stage resource delineation drilling program at Galshar. A total of six diamond and 15 poly-crystaline diamond (PCD) holes, totalling 2,287m were completed over the Galshar deposit area with a drill spacing of 500m to 1km. The diamond holes were cored and 256 samples were selected and sent for analysis. The analytical results for these samples are pending. All holes were tested with down-hole geophysics consisting of natural gamma, density, resistivity, and calliper which results in the identification of the coal seam and an indication of coal seam continuity.

The 2007 drill program was successful in expanding the coal resource to the west and constraining the deposit structure and continuity to the east, north and northeast of drill hole CDD-01. A total of five diamond drill holes and three PCD holes, extending over a 1.8km2 area, intersected a 12.8 to 15.3m thick, homogenous coal seam. Visual coal quality field determinations, together with down-hole geophysics, indicate similar coal quality to that of hole CDD-01. The average thickness and depth of the coal seam within this 1.8km2 area is 15m and 90m, respectively.

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 (see section 1.02). The industrial mineral opportunities include the Sparta Kaolin project which is operated by J.M. Huber Corporation and the Granite Hill Aggregate project, a royalty project managed by Ready Mix USA (successor to Rinker Materials).

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.

In April 2007, the DCA received an independent technical report on the Donkin Coal resource from McElroy Bryan Geological Services Pty Ltd ("MBGS"). The report included a compilation of all historical information on the Donkin Coal project and an updated model of the deposit. The report identified an indicated resource of 227Mt (million metric tons) and an inferred resource of 254Mt of "High Volatile A Bituminous Coal" within the confines of the Donkin coal resource block.

The DCA announced in August 2007 that an internal evaluation for the Donkin coal project had been completed and approval given to advance the project towards the feasibility stage. A number of options, focused mainly on mining and transportation variables, were evaluated involving production of up to 5.3 million tonnes per annum ("Mtpa") of high energy, high sulphur thermal coal for the local and export markets. The DCA also announced that Norwest Corporation ("Norwest"), an independent engineering firm based in Calgary, Alberta, had been contracted to provide an independent preliminary assessment on the Donkin project.

In November 2007, the DCA received a positive independent preliminary assessment study ("PAS") into the business case for a continuous miner development and longwall extraction coal mine at Donkin from Norwest. In the Norwest PAS the proposed mine plan utilizes a longwall face mining system and three continuous miner sections to develop the longwall panels. The capital budget required to bring the mine to longwall production is $313M and includes a 10% contingency as to supply costs while labour costs have had a 15% contingency applied. The proposed mine has a projected life of 30-plus years, over which time it is expected that approximately 108 million tonnes of run-of-mine coal will be produced. The initial target market for this product will be domestic and export thermal coal power generation. Total cash costs for coal production, transportation to the port and loading into the ocean-going vessels, and royalties, are estimated to be $23.13/tonne. Under base case assumptions, the project provides a net present value ("NPV") of $195 million or a 16% internal rate of return on an after tax basis. The NPV of the Company's 25% interest equated to $48.75M. Under all sensitivity extremes, the after tax NPV remains positive, indicating project potential as being relatively strong under various cost related increases or revenue decreases.

The information made available to Norwest has enabled calculations and estimates to be made to an accuracy of plus or minus 30%. Given the data available at the time the Norwest PAS was prepared, the estimates presented in the report are considered reasonable. However, they should be accepted with the understanding that additional data and analysis available subsequent to the date of the estimates may necessitate revision. These revisions may be material.

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 the higher measured and indicated categories, there can be no certainty that the preliminary assessment will be realized. There is no guarantee that all or any part of the estimated coal resources will be recoverable.

Work at the Donkin project site continued throughout the year. 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. A large channel sample was taken from the exposed Harbour seam coal face and sent to Australia for testing and analysis. Extensive testing of the Harbour seam will take place via a 10,000m in-seam drilling program that was initiated in early 2008. Areas of focus for the next stage of the project's development include:

- Underground drilling program to better define structure, gas regime and greenhouse gas footprint and associated strategies;
- Engineering and design for the product transportation alternatives which include delivery to the domestic market via rail and to the export market either via rail through the Sydney International Pier or via a newly constructed berth near the Donkin Mine site;
- Underground design inclusive of equipment scoping;
- Detailed operating costs assessments;
- Product specification and marketing factors;
- Environmental assessment approval conditions for the project; and,
- Capital cost estimates to be improved via detailed engineering.

Sparta Kaolin Project

One of the assets acquired through the plan of arrangement with Erdene Resources Inc. (formerly Kaoclay Resources Inc.) is a large primary kaolin resource in Georgia, USA. Due to an aggressive exploration and acquisition program by Kaoclay in the late 1990s, the Company now controls a large high brightness primary clay resource through its wholly owned subsidiary, Erdene Materials Corporation (formerly Sparta Kaolin Corporation). The Company's in-ground, "premium" quality, primary kaolin resource in Georgia amounts to 21.9 million tons. For the project's development stage, Erdene Resource Inc. partnered with industry leader Huber Engineered Materials (Huber), a subsidiary of J.M. Huber Corporation, a diversified multi-national company and one of the world's largest kaolin producers.

In October 2003, Erdene Resources Inc. entered into an agreement with Huber for prepaid tonnage of crude kaolin. Huber conducted a due diligence evaluation program of the Sparta kaolin resource and performed an extensive product development program. This led to the successful commercialization of a light-weight coater product, in late 2004. Commercial production by Huber from the Company's primary kaolin deposits began in 2005 under the product name HuberPrimeTM, a high quality light-weight coater product.

At the end of October 2007, Erdene Materials Corporation announced that it had entered into an Option Agreement with Deepstep Kaolin Company LLC ("DKC"), of Georgia, USA. The purpose of the agreement is to jointly develop a new product line for the Company's primary kaolin resources. The greatest demand for kaolin-based pigments comes from the paper industry but it is also used in paints, plastic, rubber and ceramics where it provides brightness, colour and particle shape properties. The initial focus of the venture with DKC will be the production and sale of kaolin products to the ceramic industry.

The Company and DKC have been working with manufacturers over the past 24 months testing various raw material sources in different ceramic and glazing clay applications. The relationship with DKC is now in a trial production period during which the Company will contribute the raw material and the product manufacturing facility and DKC will cover the necessary capital and operating costs. Following the Phase I development program, estimated to take eight months, if DKC decides to take the project to production the Company will have the option of directly participating in the ownership of up to 50% of the production company and will be paid a royalty for any of the Company's kaolin mined for the development of these products.

Granite Hill Project

In 2001 Rinker Materials Corporation ("Rinker"), was granted an exclusive right by the Company via a lease agreement to mine, process, and sell aggregate from the Company's Granite Hill property in Georgia. In August 2007 Rinker was acquired by Cemex S.A.B. de C.V. ("Cemex"), a leading worldwide producer of cement, ready-mix concrete and aggregates. Cemex later transferred its rights under the lease to a subsidiary, Ready Mix USA, LLC ("RMU") which has assumed Rinker's position as lessee. The sale of all aggregate is subject to an industry competitive royalty payable to the Company.

The Granite Hill project is in the final stage of issuance of Federal, State and local operating permits to enable development as a granite quarry, primarily to serve the southeastern US markets by rail. Granite Hill has an estimated start-up production rate of one million tonnes of granite aggregate per year with a design capacity of four million tonnes. Based on current production projections, the Granite Hill quarry would have a lifespan of at least 20 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. Mine permitting work is ongoing and has entered the final Federal and State approval stages with no impediments to approval anticipated. The construction phase is expected to be completed nine to twelve months after receipt of all permits and a production decision by RMU. RMU is responsible for fully funding the development and operating program.

1.15 DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2007, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Multilateral Instrument would have been known to them.

1.16 OUTLOOK

The Company continues to be optimistic about the potential demonstrated by its two advanced stage projects, the Zuun Mod molybdenum and Donkin Coal projects. A National Instrument 43-101 compliant resource estimate for Zuun Mod is expected to be complete and released during the second quarter of 2008 followed by a Preliminary Assessment Report within 60 days of the resource estimate. At Donkin, the pre-feasibility report is expected to be released by the end of the second quarter 2008 and the final feasibility report is anticipated by the end of 2008 with a production and development decision expected by the first quarter of 2009. Positive results from the reports for the Zuun Mod and Donkin projects and success from the efforts of the Company's 2007 and future exploration programs on any of its properties will result in an expanded program on the relevant property or properties relative to the significance of the results. Conversely, if anticipated results are not forthcoming on a particular property, a disciplined review and evaluation program will be in place to ensure expenditures are scaled back where management feels they may not be warranted.

1.17 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.

1.18 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.

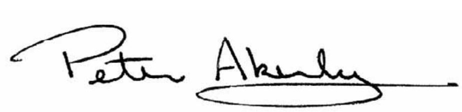
Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Where appropriate, these financial statements reflect management's best estimates and judgments based on currently available information.

Internal systems of financial and operating controls, which include effective controls to provide reasonable assurance that relevant and reliable financial information is produced, are the responsibility of management. Management believes it maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records are maintained.

The board of directors is responsible for ensuring that management fulfills its financial reporting and internal control responsibilities, which it does primarily through the audit committee. The audit committee meets periodically with management and the Company's external auditors to discuss internal controls over the financial reporting process, the consolidated financial statements, management's discussion and analysis, the results of the annual audit and the auditors' report to shareholders. The audit committee reports its findings to the board of directors before submitting the audited consolidated financial statements to the Board for approval.

The Company's external auditors, KPMG LLP, are appointed by the shareholders to conduct an independent audit in accordance with Canadian generally accepted auditing standards. The external auditors have established their independence from, and have full and free access to, management and the audit committee.



Peter Akerley
President & Chief Executive Officer

Ken MacDonald
Vice-President Business Strategy & Chief Financial Officer

March 17, 2008

Auditors' Report

We have audited the consolidated balance sheets of Erdene Gold Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

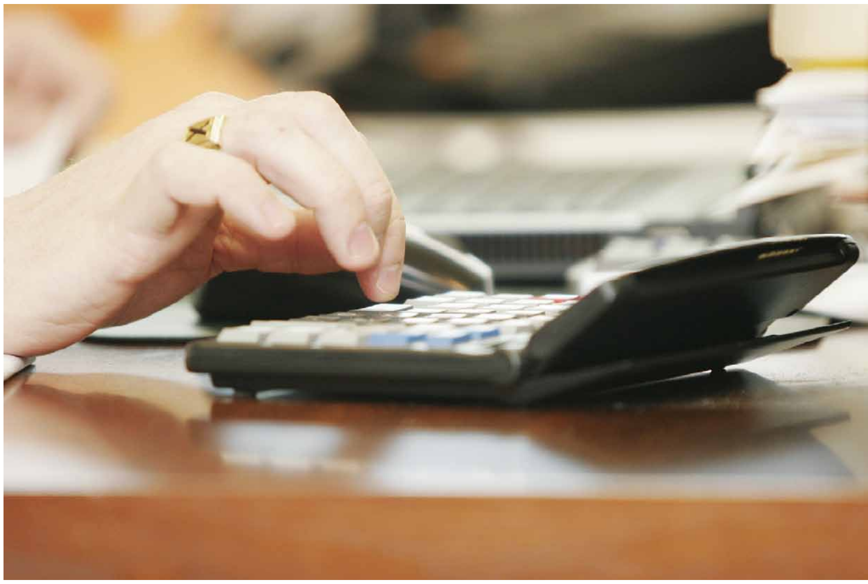
We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Halifax, Canada
March 17, 2008



Consolidated Balance Sheets

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents (note 12)	$ 8,727,380	$ 3,047,970
Marketable securities	–	164,333
Accounts receivable (note 4)	1,078,416	367,136
Prepaid expenses	33,435	43,719
	9,839,231	3,623,158
Cash – flow-through funds (notes 3 and 12)	2,713,644	4,598,523
Resource property interests (note 5)	27,176,538	16,754,731
Capital assets (note 6)	2,285,810	2,281,140
Intangible assets (note 7)	–	1,123,433
Goodwill	5,000,000	5,800,079
	$ 47,015,223	**$ 34,181,064**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,937,881	$ 357,744
Future income taxes (note 11)	4,367,290	2,899,290
Shareholders' equity		
Share capital (note 8)	60,926,339	44,611,619
Contributed surplus (note 9)	5,113,451	3,753,241
Deficit	(25,329,738)	(17,440,830)
	40,710,052	30,924,030
Commitments (note 16)		
	$ 47,015,223	**$ 34,181,064**

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

Stuart P. Rath, Director

Ken W. MacDonald, Director

Consolidated Statements of Operations and Deficit

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUE		
Lab services	$ 186,129	$ 165,916
Royalties	81,175	84,260
	267,304	250,176
EXPENSES		
Exploration and operating expenses, net of recovery (note 5)	4,146,178	2,854,951
General and administrative		
Administrative services	482,261	472,140
Depreciation	49,952	41,509
Investor relations and communications	235,692	246,226
Office and sundry	215,009	194,385
Professional fees	213,741	216,366
Regulatory compliance	132,020	204,418
Stock based compensation	910,218	766,320
Travel and accommodations	161,234	196,008
Other	26,935	13,272
	2,427,062	2,350,644
Other income (expenses)		
Interest revenue	412,481	303,462
Gain on sale of resource property	70,666	113,667
Gain on the sale of marketable securities	469,569	–
Loss on impairment of intangible assets and goodwill	(1,923,512)	–
Foreign exchange loss	(100,151)	(19,946)
Taxes	(107,714)	(23,200)
Other	21,534	16,408
	(1,157,127)	390,391
Loss before income taxes	7,463,063	4,565,028
Future income tax recovery	(812,000)	–
Loss for the year	6,651,063	4,565,028
Deficit, beginning of year	17,440,830	12,203,623
Share issue costs	1,237,845	672,179
Deficit, end of year	**$ 25,329,738**	**$ 17,440,830**
Basic and diluted loss per share (note 10)	$ 0.11	$ 0.11
Weighted average number of common shares outstanding	**62,380,463**	**42,374,640**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Loss

YEAR ENDED DECEMBER 31, 2007

	2007
Net loss for the year	$ 6,651,063
Other comprehensive income, net of tax:	
Reclassification of gain from accumulated other comprehensive income to net income	(290,036)
Comprehensive loss	**$ 6,361,027**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash provided by (used in)		
Operations		
Loss for the year	$ (6,651,063)	$ (4,565,028)
Items not involving cash		
Depreciation	71,680	54,948
Loss on impairment of intangible assets and goodwill	1,923,512	–
Amortization of intangible assets	–	93,567
Stock-based compensation	1,614,000	893,913
Write down of resource properties	1,032,310	460,178
Future income tax recovery	(812,000)	–
Gain on sale of resource property	(70,666)	(113,667)
Gain on sale of marketable securities	(469,569)	–
Change in non-cash operating working capital	879,141	(357,846)
	(2,482,655)	(3,533,935)
Financing		
Issue of common shares for cash	15,712,030	9,000,000
Share issue costs	(988,845)	(530,817)
Issue of common shares on exercise of options and warrants	1,276,700	999,588
	15,999,885	9,468,771
Investing		
Resource property interests	(10,350,917)	(1,766,725)
Proceeds on sale of marketable securities	704,568	–
Purchase of capital assets	(76,350)	(774,238)
Cash acquired on acquisition	–	(17,371)
	(9,722,699)	(2,558,334)
Increase (decrease) in cash and cash equivalents	3,794,531	3,376,502
Cash and cash equivalents, beginning of year	7,646,493	4,269,991
Cash and cash equivalents, end of year	**$ 11,441,024**	**$ 7,646,493**
Cash is defined as:		
Cash and cash equivalents	8,727,380	3,047,970
Cash – flow-through funds	2,713,644	4,598,523
	$ 11,441,024	**$ 7,646,493**

Supplemental cash flow information (note 12)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nature of business
Erdene Gold Inc. (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, coal and uranium deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America with near-term cash flow potential. To date the Company has not yet earned any significant operating revenues and is considered to be in the exploration and development stage.

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 wholly-owned subsidiaries Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Tamerlane International Limited (Bermuda); Erdene Mongol XXK, Erdene Energy XXK and Anian Resources XXK (Mongolia); Erdene Resources Inc. (formerly Kaoclay Resources Inc ("Kaoclay")) and 6531954 Canada Limited (Canada); and Erdene Materials Corporation (Delaware) (formerly Sparta Kaolin Corporation ("Sparta")). Inter-company accounts and transactions have been eliminated.

b) Changes in accounting policies
On January 1, 2007, the Company adopted recommendations of CICA handbook sections 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated marketable securities as available-for-sale securities. Such securities are measured at fair value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold, or otherwise disposed of, gains or losses are included in net earnings (loss). The Company designated cash, accounts receivable, cash flow through funds and accounts payable and accrued liabilities as held-for-trading, which is measured at fair market value.

Section 3251 of the CICA Handbook requires the separate presentation of the components of equity (retained earnings, accumulated other comprehensive income, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves) and the changes in equity arising from each of these components.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

c) Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant estimates and assumptions relate to the recoverability of resource property interests and the calculation of stock-based compensation. While management believes that these estimates and assumptions are reasonable, actual results could differ.

d) Cash and cash equivalents
The Company considers deposits in banks and highly liquid investments with remaining maturities of three months or less at the date of acquisition as cash and cash equivalents.

e) Resource property interests

All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has good potential for an economically recoverable resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. When a resource property is brought into commercial production, the capitalized costs of that property will be depleted over the estimated economic life of the property.

Gains or losses are recognized on property dispositions when the value of the consideration received exceeds or is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the costs, the excess is credited to operations. The aggregate costs related to abandoned properties are charged to operations.

Contributions from exploration partners to fund exploration expenses are recorded on the accrual basis as a reduction of exploration expenses.

The Company reviews the carrying values of its resource property interests on a regular basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results. When the carrying value of a property exceeds its estimated net recoverable amount, an impairment provision is made.

f) Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives at the following annual rates and methods:

Asset	Basis	Rate
Building	Declining balance	10%
Equipment, furniture and fixtures	Declining balance	20%
Software and computers	Declining balance	33%
Vehicles	Declining balance	30%

g) Foreign currency translation

Integrated subsidiaries are financially or operationally dependent on the parent company. The accounts of Erdene Gold International Inc., Erdene International Exploration Inc., Tamerlane International Limited, Erdene Mongol XXK, Erdene Energy XXK, Anian Resources XXK, Erdene Resources Inc. (formerly Kaoclay Resources Inc.), 6531954 Canada Limited, and Erdene Materials Corporation (formerly Sparta Kaolin Corporation) which are considered to be integrated operations use the temporal method to translate their financial statements. Under this method monetary items are translated at exchange rates in effect at the balance sheet date, non-monetary assets and liabilities are translated at historical exchange rates, and revenues and expenses are translated at average exchange rates for the period.

Realized and unrealized exchange gains and losses are included in earnings.

h) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is provided when it is more likely than not that a future tax asset will not be recognized.

i) Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 8. The Company accounts for all stock-based payments to non-employees and employee awards that are direct awards of stock using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Under the fair value based method, compensation cost attributable to awards to employees is measured at fair value at the grant date. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable at the grant date.

j) Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares. As permitted under the Income Tax Act (Canada), the tax attributes of eligible expenditures incurred with the proceeds of flow-through share issuances are renounced to subscribers. On the date that the Company files the renouncement documents with the tax authorities, a future income tax liability is recognized and shareholders' equity is reduced, for the tax effect of expenditures renounced to subscribers.

k) Intangible assets
Intangible assets represent the value of certain customer relationships and contracts, as well as the brand value of an acquired subsidiary, and are amortized on a straight-line basis over their estimated useful lives of 15 years.

l) Impairment of long-lived assets
Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The asset and liabilities of a disposed group classified as held for sales would be presented separately in the appropriate asset and liability sections of the balance sheet.

m) Goodwill
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is tested for impairment annually. The fair value of each reporting unit that includes goodwill is compared to the total carrying amount (including goodwill) of that reporting unit. If the fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value is less than the carrying value, the fair values of the assets and liabilities within the reporting unit are estimated. The difference between the fair value of the assets and liabilities within the reporting unit and the fair value of the entire reporting unit represents the deemed fair value of the goodwill of the reporting unit. When the carrying value of goodwill exceeds the deemed fair value, the excess is charged to earnings in the period in which the impairment is determined.

n) Future accounting changes
The Canadian Institute of Chartered Accountants issued new accounting standards: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation. These new standards will be effective on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. Further disclosure will be required for the Company once the new standard becomes effective.

Section 3862 and 3863 will replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Based on the financial instruments currently held by the Company and the disclosure already in place, it is not expected that the revised section will have any impact on the financial statements.

2. ACQUISITION
On June 12, 2006 the Company concluded by way of Plan of Arrangement pursuant to the Canada Business Corporations Act, the acquisition of Kaoclay Resources Inc. (incorporated under the laws of Canada) now Erdene Resources Inc., and its wholly owned subsidiaries, Sparta Kaolin Corporation (incorporated under the laws of Delaware) now Erdene Materials Corporation and 6531954 Canada Limited (incorporated under the laws of Canada). Based in Halifax, Nova Scotia, Kaoclay, through its subsidiaries, controlled three advanced-stage projects including an interest in coal assets in Nova Scotia and kaolin clay and aggregate assets in Georgia and South Carolina, USA. Under the Plan of Arrangement the Company issued 1.65 common shares and a half warrant for each Kaoclay share (14,816,917 shares and 4,489,975 warrants of the Company for the 8,979,950 Kaoclay shares outstanding). Each warrant entitles the holder to purchase one common share of the Company for $1.60 per share until June 15, 2009. The purchase price was determined to be $18,346,143, including acquisition costs of $125,000.

The purchase has been accounted for using the purchase method, whereby the purchase consideration was allocated to the fair values of the assets acquired and liabilities assumed at the effective date of the purchase.

Net assets acquired		
Cash and cash equivalents	$	107,629
Non-cash working capital, net		(115,152)
Resource property interests		11,999,500
Capital assets		1,438,070
Intangible assets		1,217,000
Goodwill		5,800,079
Future income taxes		(2,100,983)
	$	18,346,143

Purchase price		
Common shares issued	$	16,476,412
Warrants issued		1,744,731
Acquisition costs		125,000
	$	18,346,143

3. CASH – FLOW-THROUGH FUNDS

On July 12, 2006 and on December 7, 2007 the Company completed two flow through financings for $6,000,000 and $4,657,100 respectively for a total of $10,657,100 to fund its commitment under the Donkin Coal Alliance (see note 5) regarding the exploration and evaluation of the Donkin Coal Resource Block located in Cape Breton, Nova Scotia. The use of these funds is restricted to qualifying Canadian Exploration Expenditures ("CEE") under the Income Tax Act (Canada) and is therefore shown separately. To December 31, 2007 all of the original $6,000,000 funds raised and $1,943,456 of the $4,657,100 was advanced to the project manager Xstrata Coal Donkin Management Limited, leaving a balance of $2,713,644 at December 31, 2007.

4. ACCOUNTS RECEIVABLE

		2007		2006
Trade receivables	$	22,633	$	47,392
Exploration partner recovery		645,285		251,149
GST/HST		347,319		3,989
Other		63,179		64,606
	$	1,078,416	$	367,136

Other receivables includes an amount receivable of $42,300 (2006 - $44,700) from a director and officer, which is non-interest bearing and repayable on demand.

5. 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, Erdene Energy 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 exploration licenses in Georgia are held by its subsidiary, Erdene Materials Corporation (formerly "Sparta Kaolin 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 December 31, 2007 and 2006 and cumulative exploration expenses for the years then ended are as follows:

YEAR ENDED DECEMBER 31, 2007	NORTH AMERICA		MONGOLIA			
	Industrial Minerals	Donkin Coal	Zuun Mod Molybdenum	Coal	Other	Total
EXPLORATION AND OPERATING EXPENSES	$	$	$	$	$	$
Year ended December 31, 2007						
Assaying and Analytical	47,210	12,814	227,330	19,127	137,376	443,857
Data Analysis and Testing	-	386,571	-	-	-	386,571
Dewatering/Refurbishment of Tunnels	-	4,204,247	-	-	-	4,204,247
Drilling/Testing	117,205	320,921	2,524,544	466,733	611,878	4,041,281
Engineering	-	354,349	-	-	-	354,349
Environmental	-	97,947	-	-	-	97,947
Geological Services	304,652	859,287	830,322	186,467	223,530	2,404,258
Geo-technical Surveys	-	260,469	30,278	55,147	61,620	407,514
Logistical and Field Support	74,299	-	478,749	110,109	243,994	907,151
Professional fees	60,741	-	-	-	-	60,741
Travel	24,780	-	56,962	69,627	17,084	168,453
Write off of resource properties	-	-	-	-	1,032,310	1,032,310
Other	-	45,374	4,535	721	12,824	63,454
Exploration partner contributions	-	-	-	(745,341)	-	(745,341)
Total exploration expenses	**628,887**	**6,541,979**	**4,152,720**	**162,590**	**2,340,616**	**13,826,792**
Deferred expenditures	-	(6,541,979)	(3,438,202)	-	-	(9,980,181)
Lab operating expenses	299,567	-	-	-	-	299,567
Expenses incurred in 2007	**928,454**	**-**	**714,518**	**162,590**	**2,340,616**	**4,146,178**
Expensed to December 31, 2006	325,534	-	1,740,808	395,678	7,994,850	10,456,870
Cumulative expenses to December 31, 2007	**1,253,988**	**-**	**2,455,326**	**558,268**	**10,335,466**	**14,603,048**
RESOURCE PROPERTIES						
Balance, December 31, 2006	6,522,558	6,923,602	1,155,746	71,973	2,080,852	16,754,731
Resource property additions	-	529,200	308,987	94,158	612,908	1,545,253
Deferred expenditures	-	6,541,979	3,438,202	-	-	9,980,181
Write off of resource properties	-	-	-	-	(1,032,310)	(1,032,310)
Exploration partner contributions	-	-	-	(71,317)	-	(71,317)
Resource Properties at December 31, 2007	**6,522,558**	**13,994,781**	**4,902,935**	**94,814**	**1,661,450**	**27,176,538**

YEAR ENDED DECEMBER 31, 2006	NORTH AMERICA		MONGOLIA			
	Industrial Minerals	Donkin Coal	Zuun Mod Molybdenum	Coal	Other	Total
EXPLORATION AND OPERATING EXPENSES	$	$	$	$	$	$
Year ended December 31, 2006						
Assaying and Analytical	-	6,176	6,865	14,902	138,429	166,372
Data Analysis and Testing	-	107,044	-	-	-	107,044
Dewatering/Refurbishment of Tunnels	-	1,039,611	-	-	-	1,039,611
Drilling/Testing	-	-	-	211,762	573,782	785,544
Engineering	-	18,187	-	-	-	18,187
Environmental	-	142,954	-	-	-	142,954
Geological Services	-	87,505	32,405	434,451	524,843	1,079,204
Geo-technical Surveys	-	-	-	10,014	80,850	90,864
Logistical and Field Support	-	-	64,717	86,059	262,575	413,351
Professional fees	-	-	-	45,589	-	45,589
Travel	-	-	11,518	90,674	39,816	142,008
Write off of resource properties	-	-	-	62,901	397,277	460,178
Other	-	-	-	2,055	662	2,717
Exploration partner contributions	-	-	-	(562,729)	-	(562,729)
Total exploration expenses	**-**	**1,401,477**	**115,505**	**395,678**	**2,018,234**	**3,930,894**
Deferred expenditures	-	(1,401,477)	-	-	-	(1,401,477)
Lab operating expenses	231,967	-	-	-	-	231,967
Amortization of intangibles	93,567	-	-	-	-	93,567
Expenses incurred in 2006	**325,534**	**-**	**115,505**	**395,678**	**2,018,234**	**2,854,951**
Expensed to December 31, 2005	-	-	1,625,303	-	5,976,616	7,601,919
Cumulative expenses to December 31, 2006	**325,534**	**-**	**1,740,808**	**395,678**	**7,994,850**	**10,456,870**
RESOURCE PROPERTIES						
Balance, December 31, 2005	-	-	499,250	61,457	1,441,001	2,001,708
Acquired via plan of arrangement	6,488,000	5,511,500	-	-	-	11,999,500
Resource property additions	34,558	10,625	656,496	113,199	1,037,128	1,852,006
Deferred expenditures	-	1,401,477	-	-	-	1,401,477
Write off of resource properties	-	-	-	(62,901)	(397,277)	(460,178)
Exploration partner contributions	-	-	-	(39,782)	-	(39,782)
Resource Properties at December 31, 2006	**6,522,558**	**6,923,602**	**1,155,746**	**71,973**	**2,080,852**	**16,754,731**

All financial data has been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

a) Industrial Minerals

The Company, through its subsidiary Erdene Materials, has entered into long-term lease agreements for kaolin properties in the United States. The commitment associated with the cancelable agreements over the next twelve months is US $46,000. These agreements also provide that the Company will pay a royalty based on either the production of finished product or crude tons mined from the related properties. The applicable royalty rate per dry processed ton of product is $2.00 per ton and the royalty per ton mined ranges from $0.35 to $0.50 per ton. The majority of the payments to land-owners pursuant to these agreements are creditable against future royalty payments.

The Maddox property, which is owned by Erdene Materials, is under long term lease to Ready Mix USA LLC and is in the process of permit approval for a commercial aggregate quarry.

b) Donkin

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.

In April 2007, the DCA received an independent technical report on the Donkin Coal resource from McElroy Bryan Geological Services Pty Ltd (“MBGS”). The report included a compilation of all historical information on the Donkin Coal project and an updated model of the deposit.

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 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 December 31, 2007 the Company has raised a total of $10,657,100 to fund its commitment and a total of $7,943,456 has been advanced to the project manager.

c) Mongolian properties

Zuun Mod

The Zuun Mod property is a molybdenum/copper occurrence and consists of one license totaling 49,538 hectares. It is located in Bagarkhongor Province approximately 950km southwest of Ulaanbaatar. The licenses renewal date is May 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.

Coal

The Galshar coal property is located 300km southeast of Ulaanbaatar and consists of three exploration licenses totaling 37,824 hectares. The license renewal dates are May and December 2008.

Other properties

Tsenkher Gol

The Tsenkher Gol gold exploration property is located in Khentii Province, 180km east of Ulaanbaatar. The property consists of two contiguous licenses totaling 7,982 hectares. The licenses renewal dates are May 2008.

Ikh Tal (Erdenet)

The Erdenet-Ikh Tal property consists of two contiguous exploration licenses adjacent to the Erdenet copper/molybdenum mine property in northern Mongolia. The property is approximately 250km northwest of Ulaanbaatar and adjacent to the town of Erdenet and covers 7,195 hectares. The licenses renewal dates are December 2008.

Biger

The Biger property consists of a single 12,522 hectare license. The property is being explored for its copper and platinum group metals potential and is located approximately 780km southwest of Ulaanbaatar and 100km southeast from the provincial centre of Altai in govi-Altai Province. The license renewal date is July 2008.

Virgin (Ongon)

The Virgin property is a copper/gold porphyry prospect and consists of six contiguous licenses and covers 62,606 hectares. The property is located approximately 500km southeast of Ulaanbaatar in Sukhbaatar and Dorngovi provinces. The licenses renewal dates are between May and October 2008.

Mogoit

The Mogoit copper property consists of four licenses covering 92,427 hectares and is located 460 kilometres southwest of the Ulaanbaatar. Licenses renewal dates are in November 2008.

d) Resource property write offs

	2007	2006
Erdenet	$ 247,250	$ –
Uranium licenses	78,230	62,901
Licenses acquired from Gallant	457,193	–
Virgin	–	67,134
Other	249,637	330,143
	$ 1,032,310	$ 460,178

6. CAPITAL ASSETS

			2007
	Cost	Accumulated depreciation	Net book value
Land	$ 1,894,364	$ –	$ 1,894,364
Building	386,830	220,077	166,753
Equipment, furniture and fixtures	637,409	509,767	127,642
Software and computer	146,063	81,956	64,107
Vehicles	48,438	15,494	32,944
	$ 3,113,104	$ 827,294	$ 2,285,810

			2006
	Cost	Accumulated depreciation	Net book value
Land	$ 1,874,766	$ –	$ 1,874,766
Building	386,830	202,305	184,525
Equipment, furniture and fixtures	631,661	483,480	148,181
Software and computer	117,096	59,354	57,742
Vehicles	27,267	11,341	15,926
	$ 3,037,620	$ 756,480	$ 2,281,140

7. INTANGIBLE ASSETS

			2007
	Cost	Accumulated amortization/write off	Net book value
Customer relationships and contracts	$ 984,500	$ 984,500	$ –
Brand	232,500	232,500	–
	$ 1,217,000	$ 1,217,000	$ –

			2006
	Cost	Accumulated amortization	Net book value
Customer relationships and contracts	$ 984,500	$ 85,817	$ 898,683
Brand	232,500	7,750	224,750
	$ 1,217,000	$ 93,567	$ 1,123,433

The Company performed the annual impairment test of goodwill and intangible assets as of June 30, 2007 and it was determined the carrying values of the goodwill and intangible assets associated with relationships associated with kaolin clay and construction aggregate resources recorded as a result of the acquisition of Kaoclay Resources Inc. in June, 2006 was not impaired. After the impairment test was completed, it was determined the two companies which have agreements to develop the acquired clay and aggregate assets are both in the process of or have undergone a change of control. It was determined the carrying value of the goodwill and intangible assets at December 31, 2007 of $1,923,511 that relates to the clay and aggregate assets was largely attributable to the relationships with these companies and the balance was written off accordingly.

8. SHARE CAPITAL

Authorized and issued

	2007 Number of shares	2007 $	2006 Number of shares	2006 $
Authorized				
Unlimited number of common shares without par value				
Issued				
Balance, beginning of period	53,051,127	44,611,619	27,269,635	17,372,074
Issued for cash	11,000,000	11,054,930	3,000,000	3,000,000
Flow through shares issued	3,326,500	4,657,100	6,000,000	6,000,000
Issued pursuant to option agreement	700,000	574,000	500,000	535,000
Issued on exercise of options and warrants	1,763,312	1,779,490	1,464,575	1,228,133
Issued on buyout of minority partners	360,000	529,200	–	–
Tax effect of renunciation (Note 11)	–	(2,280,000)	–	–
Issued on purchase of subsidiary	–	–	14,816,917	16,476,412
Total	70,200,939	60,926,339	53,051,127	44,611,619

On February 28, 2007 the Company made a final payment of US$150,000 and issued 700,000 shares with a fair value of $574,000 meeting all conditions of the agreement with Gallant Minerals and acquired 100% ownership of Tamerlane. On April 23, 2007 the Company issued 360,000 common shares with a fair value of $529,200 as partial consideration for the buyout of minority partners in the Donkin project, increasing its ownership from 20% to 25%. In 2006, the company issued 14,816,917 shares with a fair value of $16,476,412 on as partial consideration for the purchase of Kaoclay Resources (see note 2).

Warrants

The following table summarizes the continuity of the warrants for 2007 and 2006:

	2007 Number of Warrants	2007 Weighted average exercise price	2006 Number of Warrants	2006 Weighted average exercise price
Opening balance	6,465,725	$1.33	2,589,275	$0.70
Issued	600,000	1.15	4,885,725	1.55
Exercised	(1,215,812)	0.70	(1,008,575)	0.77
Expired	(600,000)	0.96	(700)	0.85
Closing balance	5,249,913	$1.50	6,465,725	$1.33

The following is a summary of the warrants outstanding as of December 31, 2007:

Weighted Average Exercise Price	Year of Expiration	Number of Warrants
$ 0.90	2008	759,938
1.60	2009	4,489,975
$ 1.50		5,249,913

On April 12, 2007 the Company issued 600,000 broker warrants with a fair value of $249,000 as part of an agreement with National Bank Financial and Wellington West Capital to purchase, on a private placement bought deal basis, 10,000,000 shares of the Company at $1.00 per share.

The Company estimates the fair value of warrants at the date of grant using the Black-Scholes model, recognized over the vesting period with the following assumptions:

	2007	2006
Dividend yield	0%	0%
Risk-free interest rate	4.15%	5.0%
Expected volatility	90%	80%
Expected life	1 year	2 year

Stock Options

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

The following table summarizes the continuity of the stock options for 2007 and 2006.

	2007 Number of options	2007 Weighted average exercise price	2006 Number of options	2006 Weighted average exercise price
Opening balance	3,259,000	$0.80	2,330,000	0.69
Granted	1,650,000	1.34	1,470,000	0.87
Exercised	(547,500)	0.77	(456,000)	0.48
Expired	(5,000)	1.05	(85,000)	0.81
Closing balance	4,356,500	$1.01	3,259,000	$0.80

The following is a summary of the options outstanding and exercisable as of December 31, 2007, all of which are exercisable:

Weighted Average Exercise Price	Year of expiration	Number of options
$ 0.43	2008	291,500
$ 0.85	2009	720,000
$ 0.78	2010	335,000
$ 0.88	2011	1,360,000
$ 1.34	2012	1,650,000
$ 1.01		4,356,500

Stock Based Compensation

As of December 31, 2007 there were 4,356,500 share purchase options outstanding. During the year ended December 31, 2007, 1,650,000 options (2006 – 1,470,000) were granted to certain directors, officers, employees and consultants of the Company. The fair value of the options on the date granted was $0.9782 per option (2006 - $0.6081 per option) which represents a total of $1,614,000 (2006 - $893,913) 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 given the options vest immediately, with the following assumptions:

	2007	2006
Dividend yield	0%	0%
Risk-free interest rate	4.15%	5.0%
Expected volatility	90%	80%
Expected life	5 years	5 years

9. CONTRIBUTED SURPLUS

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

	2007	2006
Opening balance	$ 3,753,241	$ 1,201,779
Warrants/options relating to issue costs	249,000	141,362
Warrants relating to purchase of subsidiary	–	1,744,731
Warrants/options exercised	(502,790)	(228,544)
Options expensed	1,614,000	893,913
	$ 5,113,451	$ 3,753,241

10. 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.

11. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2007 and 2006 are presented below:

	2007	2006
Future tax assets		
Non-capital loss carry forwards	$ 2,651,938	$ 2,375,968
Deferred expenses - Mongolia	2,306,029	2,096,041
Share issue costs	452,953	422,231
Intangible assets	676,732	–
Other	229,776	443,675
	6,317,428	5,309,885
Less valuation allowance	(6,317,428)	(5,309,885)
Net future tax asset	$ –	$ –
Future tax liabilities:		
Resource properties and deferred exploration costs	$ (4,367,290)	$ (2,899,290)

Included in the determination of total gross tax assets are Canadian non-capital loss carry-forwards of approximately $7,951,762 which expire substantially between 2008 and 2016, and US loss carry-forwards of approximately $467,229 which expire in 2026 and 2027. Deferred expenses for tax purposes of $7,687,583 can be used to reduce future taxable income in Mongolia.

Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 38.12% (2006 - 38.12%) to loss before taxes as follows:

	2007	2006
Loss before taxes	$ 7,463,063	$ 4,565,028
Computed expected tax recovery	$ (2,844,920)	$ (1,740,189)
Effects of foreign exchange translation	463,170	(119,406)
Increase in valuation allowance	1,007,543	1,828,457
Expenses not deductible for tax purposes	919,552	443,454
Effect of different foreign tax rates	25,435	124,971
Tax deductible expenses charged to retained earnings	(376,948)	(202,347)
Opening adjustment related to acquisition	–	(331,486)
Other	(5,834)	(3,454)
Net income tax recovery	$ (812,000)	$ –

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2007	2006
Non-cash investing and financing activities:		
Issue of shares on purchase of subsidiary	$ –	$ 16,476,412
Issue of warrants as a share issue cost	249,000	141,362
Issue of common shares for investment in resource property interests	1,103,200	535,000
Cash consists of:		
Cash on hand, held in trust by third parties and in banks	$ 276,763	$ 192,728
Temporary money market instruments	8,450,617	2,855,242
Total cash and cash equivalents	8,727,380	3,047,970
Temporary money market instruments (flow-through funds)	2,713,644	4,598,523
	$ 11,441,024	$ 7,646,493

13. FINANCIAL INSTRUMENTS

a) Fair values
The fair values of the Company's financial assets and liabilities included in current assets and liabilities approximate their carrying values at each period-end.

b) Credit risks
The Company places its cash and cash equivalents with high-quality financial institutions and public companies and believes that no significant concentration of credit risk exists with respect to cash and cash equivalents. None of the reported cash balances are invested in asset backed commercial paper.

14. FOREIGN CURRENCY RISKS

The Company operates in Mongolia and the United States, giving rise to foreign exchange risk, primarily related to the Mongolian Tugrig. To limit the Company's exposure to this risk, cash and cash equivalents are primarily held in Canadian and U.S. dollar bank accounts.

15. 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):

				2007				2006
	Canada	USA	Mongolia	Total	Canada	USA	Mongolia	Total
Working capital	7,863	60	(21)	7,901	3,122	118	25	3,265
Capital assets	62	2,132	92	2,286	68	2,145	68	2,281
Resource properties	13,995	6,523	6,659	27,177	6,924	6,523	3,308	16,755
Total assets	31,525	8,716	6,774	47,015	19,873	10,751	3,557	34,181

16. COMMITMENTS

The Company has an operating lease for office premises until August 31, 2011. The Company has the right to terminate the lease by giving notice prior to each anniversary date. Annual payments are as follows:

2008	$	57,563
2009		58,715
2010		59,889
2011		40,725
	$	216,892

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

		2007
Opening balance	$	–
Adjustment to opening balance on adoption of new accounting policy		290,036
Reclassification of earnings on available for sale marketable securities		(290,036)
	$	–

18. COMPARATIVE FIGURES

Certain comparative financial data for 2006 has been reclassified to conform to the presentation adopted in the 2007 financial statements.

CORPORATE INFORMATION

DIRECTORS, OFFICERS & SENIOR MANAGEMENT

PETER C. AKERLEY
President and CEO; Director

J.C. (CHRIS) COWAN
Vice-President Asia; Director

KEN W. MACDONALD
Vice-President Business Strategy and CFO; Director

WILLIAM B. BURTON
Director
President and CEO – MagIndustries Corp.

JOHN P. BYRNE
Director
President – Petroleum Corporation of Canada Exploration Ltd.

DAVID S. B. CARNELL
Director

JAMIE M. FRANKCOMBE
Director
General Manager of the Americas for Xstrata Coal

STUART P. RATH
Director
President – Stuco Holdings Limited

PHILIP L. WEBSTER
Director
President – Imperial Windsor Group Inc.

D. SUZAN FRAZER
Corporate Secretary
Partner – McInnes Cooper

MARK R. DAVIES
Vice-President Erdene Materials Corporation

MICHAEL X. GILLIS
Director of Business Operations

MICHAEL A. O'KEEFE
Director of Finance

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SHAREHOLDER INFORMATION

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Chartered Accountants
Halifax, Nova Scotia

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Computershare Trust Company of Canada
Halifax, Nova Scotia;
Toronto, Ontario

LEGAL COUNSEL
McInnes Cooper, Halifax
Lynch and Mahoney, Mongolia

STOCK EXCHANGE LISTING
TSX : ERD

WEBSITE
www.erdene.com

ANNUAL MEETING
The Annual Meeting of Erdene Gold Inc. will be held at the Halifax Marriott Harbourfront, 1919 Upper Water Street, Halifax, Nova Scotia on May 28, 2008 commencing at 5:30pm

FINANCIAL HIGHLIGHTS

AS AT DECEMBER 31, 2007

Working Capital and Flow-through	$ 11.4 Million
Shares Issued and Outstanding	70.2 Million
Shares Fully Diluted	79.8 Million

www.erdene.com

FORWARD LOOKING STATEMENT
Certain information regarding Erdene Gold Inc. ("Erdene") contained herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although Erdene believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Erdene cautions that actual performance will be affected by a number of factors, many of which are beyond Erdene's control, and that future events and results may vary substantially from what Erdene currently foresees. 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. Erdene's forward-looking statements are expressly qualified in their entirety by this cautionary statement. The information contained herein is stated as of the current date and subject to change after that date.

DESIGN: BLUEWATER GEOMATICS & DESIGN

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