



ANNUAL REPORT | 2009

erdene



ERDENE'S CURRENT FINANCIAL POSITION COMBINED WITH AN EXPERIENCED MANAGEMENT TEAM AND EXCELLENT PROJECTS PLACES OUR COMPANY IN A VERY FAVOURABLE POSITION FOR GROWTH AND INCREASING SHAREHOLDER VALUE GOING FORWARD.

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► MESSAGE FROM THE PRESIDENT

Fellow Shareholders

It is with great pleasure that I write to you with a very optimistic outlook for our Company's growth. Our Donkin Coal Project is now moving forward with plans for the commercial development of a large metallurgical coal mine, while Mongolia has emerged as one of the premier mining investment regions in Asia. At the same time, metals and coal prices have rebounded to unanticipated levels from a year ago. We can now look back on the past year and see that staying the course was the right decision.

In the next few pages I will update you on the status of our core projects and outline our future plans for these projects and the Company as a whole.

2009 PROJECT REVIEW

DONKIN COAL PROJECT

Our Company holds a 25% interest in the Donkin Coal Project with our joint venture partner, Xstrata Coal Canada Limited. The project is located on tidewater in Eastern Canada and is strategically positioned for the transport of the high quality Donkin coal to international seaborne markets including the U.S., Europe and Asia. We continue to work towards the development of the Donkin coal resource, specifically the Harbour seam, which contains an indicated resource of 101 million tonnes and an inferred resource of 115 million tonnes classified as high volatile A bituminous, high-sulphur, medium-ash coal with very good coking coal properties.

In February 2010, Xstrata Coal Canada announced that it intends to move forward with the development of the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is expected to utilize four continuous miners added incrementally over the first three years of development. In addition, a coal wash plant will be constructed and it is proposed that coal will be shipped directly from the mine site using a barge-to-ship transport system. Under this revised development plan, the Donkin Coal Project is projected to produce approximately 2.75 million tonnes per annum of washed export-grade coking coal at full production. A pre-feasibility study for the revised Donkin Coal Project is currently underway and is expected to be finalized by mid 2010. We have budgeted approximately \$2.75 million for our 25% contribution to the joint venture's expenditures to take the project through to a bankable feasibility study by the end of 2010, following which the next \$40 million in development costs will be fully funded by Xstrata.

We have witnessed a 30% increase in annual coking coal sales into Asia in 2009, with both China and Russia seeking new supplies from the U.S. east coast, an indication of the tightening and globalization of the coking coal market. As high quality coal resources become increasingly scarce, it is anticipated that prices will continue to increase. In addition, an increasing number of new steel mills under development in Asia are being strategically located in coastal regions to take advantage of the growing supply of seaborne coking coal and iron ore resources. This shift lends further value to coastal coal deposits globally.

We look to the future development of the Donkin Coal Project with excitement as it is becoming increasingly rare to have undeveloped high quality coal resources adjacent to deep ocean water. This strategic advantage, coupled with the large tonnage, high energy and good coking characteristics, should make our Donkin coal resource more valuable as we move towards production.

ZUUN MOD MOLYBDENUM PROJECT

In August 2009, Erdene released an updated National Instrument 43-101 compliant resource estimate for the Company's Zuun Mod Molybdenum Project in Mongolia. The Zuun Mod molybdenum deposit has a measured and indicated resource of 98 million metric tonnes ("Mt") at an average grade of 0.062% molybdenum ("Mo"), at a cut-off grade of 0.05% Mo equating to 133.8 million pounds ("Mlbs") of contained Mo metal. In addition, there is 73 Mt of inferred resource at an average grade of 0.060% Mo equating to a further 97.1 Mlbs of contained Mo metal. This makes Zuun Mod one of the largest undeveloped molybdenum-copper deposits in the Asia region and shows that the Zuun Mod deposit is comparable to other porphyry molybdenum projects currently in production or under development, world-wide.

With the completion of the new Zuun Mod resource estimate, the Company's independent technical consultants, Minarco-MineConsult of Australia, are now conducting pit optimization and scheduling studies to combine with the previously completed work under a preliminary assessment level study initiated in 2008. Following completion of this work, it is anticipated that the information will be used to create a financial model on which to base decisions regarding the advancement of the project to the pre-feasibility stage.

During 2009, Erdene carried out work in preparation for conversion of the Zuun Mod exploration license to a mining license. This included work by

two Mongolian consulting companies that prepared technical reports in support of the mining license application. These reports have been finalized and submitted to the government authorities in Mongolia for approval. Once approved, the Company will apply for a mining license covering approximately 10,000 hectares. Under the Minerals Law of Mongolia, the initial term for a mining license is 30 years with an option for two 20-year extensions.

For 2010, we have budgeted approximately \$800,000 to finalize the mining license application, to advance the Zuun Mod project through both Mongolian feasibility studies and to initiate other engineering studies.

Zuun Mod sits on the doorstep of China, a country predicted to be responsible for half of the world's steel production by 2025. This will require a significant increase in the importation of several commodities, including molybdenum. With prices and demand strengthening and with Chinese companies seeking molybdenum resources globally, we are very optimistic that our Zuun Mod project will command the attention of those interested in a long term supply of molybdenum for the region.

REGIONAL METALS AND COAL EXPLORATION PROGRAM – MONGOLIA

Erdene started with a focus on metal exploration in Mongolia and for the past eight years that work has continued. Today, we have one of the most complete databases of mineral and coal occurrences in the country and have evaluated thousands of prospects in the field. During the past year we have elevated our grassroots exploration activities for both metals and coal. This regional exploration program has led to new discoveries for both coal and copper-gold-molybdenum. As a result, we have been conducting a property acquisition program since late 2009. To date, we have secured six exploration licenses covering over 420,000 hectares with additional acquisitions

planned. A program to explore these new licenses is about to commence with field camps mobilizing in early May. Expenditures in Mongolia are budgeted to be \$3.4 million in 2010 with over half of that amount funded by Xstrata Coal Canada under our Strategic Alliance agreement.

APM PRIMARY KAOLIN DEVELOPMENT

In February 2009, our Company completed the strategic spin-out of our primary kaolin assets in Georgia, U.S.A. Erdene exchanged its interest in the Sparta Kaolin Project for shares of TSX-Venture listed Beta Minerals Inc. ("Beta") giving the Corporation a controlling interest while Beta provided approximately \$2 million in funding to help develop new business opportunities for the Sparta primary kaolin. Beta changed its name to Advanced Primary Minerals Corporation ("APM") and trades under the symbol APD on the TSX-Venture Exchange.

APM's goal is to become North America's leading specialty primary kaolin producer. Initially, APM is targeting replacement of high value European primary clay imports which total approximately 25,000 tons per annum. APM has built a processing and testing facility in Dearing, Georgia, to produce primary kaolin products. The plant was officially opened in October 2009. At the present time the plant is processing clay from the Tudor property, one of a number of properties with high quality kaolin resources in the Dearing area. APM continues to build markets for its specialty primary kaolin products with product trials for a number of potential customers ongoing and through sales growth within its current customer base.

GRANITE HILL CONSTRUCTION AGGREGATE

Our Company owns the Granite Hill property in central Georgia, which is a former producing granite aggregate quarry. The 342-acre property hosts a resource in excess of 120 million-tons of in-situ granite and is situated on an existing rail

line. Our Company leased the property to Aggregates USA Sparta LLC ("ASUA") and granted it an exclusive right to mine, process, and sell aggregate from the Granite Hill property. The sale of all aggregate from the property is subject to an industry competitive royalty payable to the Company.

AUSA is designing a quarry and processing plant with an initial design capacity of three million tons per annum ("tpa") and projected production capacity in the first full year of operation of one million tpa for the Granite Hill quarry. The property is fully permitted. In February 2010, AUSA advised the Company that it is planning to make the Granite Hill Aggregate Project one of its top priority new developments. The Granite Hill site preparation was recently expanded from an area of approximately 19 acres for the pit to approximately 43 acres, including the plant, compound, and rail access areas. Site development is underway and our Company has been advised that projections are for mine development to begin by mid 2010 with production commencing late in 2011.

COMMUNITY DEVELOPMENT

Erdene's community 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 for families in the regions in which we work. In each of the past three years, our Company's community development program in Mongolia has been recognized at the Asia Mining Congress in Singapore by being shortlisted for their annual Sustainability Award. In Nova Scotia, we are proud to be the Presenting Sponsor of Catapult for the second consecutive year. Catapult is a non-profit camp in

Nova Scotia that focuses on enhancing leadership skills in young people before they start high school. The program is targeted toward teens who would otherwise be unlikely to have the opportunity to participate in this type of leadership training.

SUMMARY

Your Company is now poised to accelerate its growth through the development of several key projects. Our Donkin Coal Project provides an unrivalled development opportunity, combining a large high-quality coal resource with adjacent deep water while the seaborne coal market continues its significant growth. In Mongolia, our large Zuun Mod Molybdenum Project is strategically located near the China border. China is on track to produce 50 per cent of the world's steel by 2025 and they have been investing aggressively in steel related commodities globally.

Elsewhere in Mongolia, we have been selectively acquiring prospective coal and metals property and have secured over 400,000 hectares in recent months. In North America the economic recovery has been slower, however the construction market of the south eastern U.S. should rebound given population growth trends and this will benefit our strategically located construction aggregate projects in Georgia and Eastern Canada. In addition, our unique kaolin resources in Georgia are now under commercial development, producing products for both the paper and ceramic industries through our majority owned subsidiary, Advanced Primary Minerals.

Financially, we are in a very strong position due to prudent spending over the past 18 months and a strategic investment which, combined with the sale of non-core assets, brought in over \$1million in proceeds. At year-end, we had \$14 million in working capital which will enable us to advance our projects over the next 12 to 18 months. Our current financial position combined with an experienced management team and excellent projects places our company in a very favourable position for growth and increasing shareholder value going forward.

I would like to thank all of our employees, partners and stakeholders for their efforts to move us forward on time, within budget and with success. In addition, I would like to thank our Board of Directors for their guidance and valued advice throughout the year.

I extend my sincere thanks and appreciation to you, our shareholders, for your continued support and confidence. Our goal is to provide you with a stable platform from which we can create significant value through the development of our core projects and our proven track record of identifying under-valued opportunities.

Sincerely,

A handwritten signature in blue ink that reads "Peter Akerley". The signature is fluid and cursive, with a long horizontal line extending from the end.

Peter C. Akerley
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Years ended December 31, 2009 and 2008

This Management Discussion and Analysis of Erdene Resource Development Corporation (the "Company" or "Erdene") provides analysis of the Company's financial results for the years ended December 31, 2009 and 2008 and its financial position as at December 31, 2009 and December 31, 2008. The following discussion and analysis includes financial information relating to the Company and its subsidiaries. The following subsidiaries are wholly owned unless stated otherwise: Erdene Gold International Inc. and Erdene International Exploration Inc., both incorporated under the laws of Barbados; Tamerlane International Limited incorporated under the laws of Bermuda; Advanced Primary Minerals Corporation ("APM") (64%), Erdene Resources Inc., and 6531954 Canada Limited, incorporated under the laws of Canada; Advanced Primary Minerals USA Corp (formerly Erdene Materials Corporation ("EMC")) (64%) and ERD Aggregate Corporation, both incorporated under the laws of Delaware as well as Erdene Mongol XXK and Anian Resources XXK, incorporated under the laws of Mongolia. The consolidated financial statements of the Company have been prepared by management, in Canadian dollars, in accordance with Canadian generally accepted accounting principles. The following information should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2009 and 2008, including all accompanying notes to the consolidated financial statements.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities, budgeted financial results and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions. The information contained herein is stated as of March 29, 2010 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 29, 2010.

1.02 NATURE OF BUSINESS AND OVERALL PERFORMANCE

GENERAL

The Company is a resource exploration and development company listed on the Toronto Stock Exchange with three core projects, namely the Donkin Coal Project in Nova Scotia, the Zuun Mod Molybdenum Project in Mongolia, and APM's kaolin operation in Georgia, USA. 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 expenditures of the Company is dependent primarily on the issuance of share capital to finance its exploration and development programs.

The Company, through its controlled subsidiary APM, completed construction of a new clay processing plant in Dearing, Georgia, USA. APM has a three year business plan with the aim of building a high value added specialty products operation projected to generate positive cash flows in 2011. The ability of APM to execute this business plan is contingent upon APM securing funding of a minimum of US\$400,000 in addition to a US\$350,000 financing commitment from Erdene in March 2010.

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

The Company is well-funded, having raised \$17.3 million, net of issue costs, in June 2008 and has a cash balance of approximately \$13 million to the date of this report. The Company's long term focus remains the discovery and development of large tonnage, low cost, gold, copper, molybdenum, and coal deposits primarily in Mongolia; and the development of its coal and industrial mineral interests in North America.

BETA ACQUISITION

On February 27, 2009, the Company concluded a reverse takeover of Beta Minerals Inc. ("Beta") whereby the Company and Deepstep Kaolin Company LLC ("DKC") transferred to Beta all of the outstanding common shares of EMC, and certain debt owing to the Company, in exchange for common shares of Beta, giving the Company a controlling interest in Beta. In conjunction with the closing, Beta changed its name to Advanced Primary Minerals

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

Prior to the closing, EMC transferred its non-clay assets to ERD Aggregate Corp., such that at the time of closing EMC held only primary kaolin clay assets located in Georgia, U.S.A. Also prior to closing, DKC transferred all rights to undertake production operations of ceramic products using the Company's clay, for 0.08542 of a share of EMC. On closing, the Company and DKC transferred to Beta all of the issued and outstanding securities of EMC and certain debt owing by EMC to the Company in exchange for the issuance by Beta of 81,000,000 common shares (71,000,000 to the Company and 10,000,000 to DKC). In addition, Beta agreed to issue 36,000,000 additional shares to the Company upon certain permits being obtained to allow production from certain of the clay assets, and if such permits are not obtained by February 27, 2012, the 36,000,000 shares will not be issued. Subsequent to the closing, the Company transferred 2,925,000 of its shares of Beta to Toll Cross Securities Inc. in satisfaction of a success fee payable in connection with the transaction. Upon completion of the Transaction, EMC became a wholly-owned subsidiary of Beta (now Advanced Primary Minerals Corporation). EMC subsequently changed its name to Advanced Primary Minerals USA Corp. Refer to the Company's February 27, 2009 press release for further details of the transaction.

In August 2009, the Company converted US \$398,638 of the debt owed to it by APM for 7,924,529 shares of APM. Effective December 18, 2009, APM consolidated its share capital on the basis of each shareholder receiving one common share for each seven common shares held. As a result, the Company now holds 10,850,076 shares, or 64%, of APM.

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

DONKIN JOINT VENTURE

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

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

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

Pursuant to the joint venture agreement, the Company funded \$10 million in qualifying Canadian Exploration Expenditures ("CEE") during the Exploration Program. The Company is responsible to fund 25% of expenditures above \$10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2009, the Company has advanced a total of \$12,695,676 in order to meet its commitment. Upon a positive development decision, the first \$10 million of the Company's capital obligations will be funded by XCDL.

On February 11, 2010, the Company announced that after a strategic review, the Donkin Coal Project will focus on export coking coal opportunities. Xstrata Coal Pty Limited indicated it was also looking to obtain expressions of interest from potential strategic partners to invest in the project.

STRATEGIC ALLIANCE WITH XSTRATA COAL CANADA LIMITED

On February 14, 2006 the Company concluded an agreement with Xstrata Coal Canada Limited ("Xstrata") a subsidiary of Xstrata plc (London Stock Exchange: XTA.L; Zurich Stock Exchange: XTA.S), whereby Xstrata was granted a first option to enter into a joint venture and earn a 75% interest in any coal opportunity in Mongolia identified by the Company by funding all work through completion of a feasibility study. Should the Company elect to develop or pursue third party participation in any non-coal projects or properties in Mongolia or elsewhere, Xstrata has a 60-day right to review all supporting project information and, if it wishes to participate in the project, to negotiate the terms of its

participation before the Company may dispose of or develop the property itself. As part of the agreement, Xstrata named a nominee to the Company's board of directors. 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. 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. As of March 29, 2010 Xstrata has maintained its minimum ownership requirements.

1.03 SELECTED ANNUAL INFORMATION

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

Expressed in thousands of Canadian dollars except per share amounts.

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

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

1.04 RESULTS OF OPERATIONS

The Company had a loss of \$2,177,057 for the year ended December 31, 2009, compared to a loss of \$3,592,391 in 2008.

Total exploration and operating costs for the year ended December 31, 2009, net of deferred expenditures and partner contributions, amounted to \$2,386,308 compared to \$1,241,647 in 2008. Operating costs of \$1,140,113 (2008 – \$284,339) relate to APM's clay operations. This includes non cash expenses of \$252,594 (2008 - \$17,206) mainly for depreciation on plant equipment and leaseholds at the new Dearing, Georgia kaolin processing plant and depletion of APM's resource properties. Another \$76,124 (2008 – Nil) of the operating costs relates to mining and stripping costs at the newly opened Tudor pit. The Company wrote off \$1,183,323 in non performing Mongolian resource properties during the year ended December 31, 2009, compared to \$616,907 the prior year.

The Company charges all exploration costs to operations in the period incurred until such time as it has been determined the property has good potential to contain an economically recoverable resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. All direct costs related to the acquisition of resource property interests are capitalized as an asset. Total resource property additions for the year ended December 31, 2009 amounted to \$285,264 as compared with \$136,190 in 2008.

Beginning July 1, 2007, the Company's Zuun Mod Molybdenum Project met the Company's criteria to begin capitalizing exploration and development costs associated with the project. For the year ended December 31, 2009, the Company incurred \$876,619 in exploration and support costs directly related to the Zuun Mod project which were capitalized (2008 – \$3,710,393); and incurred \$834,576 on the Donkin Coal Project (2008 – \$3,917,644) which were capitalized.

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 Project have been capitalized because, in the opinion of management, the projects have good potential to contain an economically recoverable resource. Further exploration and development costs will continue to be capitalized unless it is determined, at a future date, the resources will not be economically recoverable.

General and administrative expenses amounted to \$2,040,955 for the year ended December 31, 2009 compared to \$2,306,334 in 2008. Excluding non cash expenses such as depreciation and stock based compensation, total general and administrative costs increased \$17,401, or less than 1% compared to the previous year. Throughout 2009, the Company sustained its cost cutting and rationalization measures implemented late in 2008. The effectiveness of the administrative cost reduction initiative was demonstrated by holding virtually even year over year despite \$224,814 new 2009 expenditures incurred to administer its subsidiary APM, another public company (TSXV:APD), following the close of the Beta reverse takeover and excluding intercompany transactions.

Other income amounted to \$2,464,213 for the year ended December 31, 2009, compared with \$572,497 in 2008. A few items of note under other income are:

- \$934,947 of the increase over the prior year was related to a gain on the sale of marketable securities.
- The Company recognized an \$878,595 dilution gain on the disposal of a portion of its interest in its subsidiary EMC (now Advanced Primary Minerals USA Corp.).
- The Company generated \$167,957 in revenue from APM's industrial lab and clay sales from its Dearing, Georgia, plant.
- \$137,205 of the increase were gains recognized on the disposal of two properties: \$75,000 on the disposal of APM's Yellow Giant property in British Columbia (acquired as part of the Beta reverse takeover transaction) and \$62,205 on the sale of the Galshar coal property in Mongolia.
- Interest income was \$259,789 lower than the prior year because of lower cash balances and significantly lower interest rates.

Subsequent to closing of the Beta reverse takeover, the Company accounts for the interest in APM it does not own as Non-Controlling Interest ("NCI"). For the year ended December 31, 2009, the NCI portion of the consolidated loss was \$500,078, compared to nil in the prior year.

The following tables supply a continuity of exploration and operating expenses and resource property interests as at December 31, 2009 and 2008.

Year ended December 31, 2009	NORTH AMERICA			MONGOLIA			Total
	Industrial Minerals	Donkin Coal	Other	Zuun Mod Molybdenum	Coal	Other	
EXPLORATION & OPERATING EXPENSES							
Assaying and Analytical	\$ 2,067	\$ 1,038	\$ —	\$ 35,372	\$ 17,582	\$ 74,410	\$ 130,469
Dewatering/Refurbishment/Maintenance of Tunnels	—	231,255	—	—	—	—	231,255
Drilling/Testing	—	—	—	135,533	—	—	135,533
Engineering/Technical Consultants	—	52,181	—	—	—	—	52,181
Environmental	—	51,593	—	—	—	—	51,593
Geological Services	291,490	330,958	2,739	395,679	331,687	164,569	1,517,122
Geo-technical Surveys	—	—	—	—	63,581	—	63,581
Logistical and Field Support	32,756	58,675	137,191	268,161	320,116	295,760	1,112,659
Professional fees	69,382	23,130	4,115	—	—	—	96,627
Travel	27,718	75,501	—	41,714	147,776	16,268	308,977
Write off of resource properties	—	—	—	—	16,652	1,166,671	1,183,323
Other	3,543	10,245	—	160	1,363	1,243	16,554
Exploration partner contributions	—	—	—	—	(759,161)	—	(759,161)
Total exploration expenses	426,956	834,576	144,045	876,619	139,596	1,718,921	4,140,713
Deferred expenditures	—	834,576	—	(876,619)	—	—	(1,711,195)
Clay processing, plant and lab operating expenses	1,140,113	—	—	—	—	—	1,140,113
Expenses incurred in 2009	1,567,069	—	144,045	—	139,596	1,718,921	3,569,631
Expensed to December 31, 2008	2,029,240	—	—	2,455,326	910,860	11,066,176	16,461,602
Cumulative expenses to December 31, 2009	\$ 3,596,309	\$ —	\$ 144,045	\$ 2,455,326	\$ 1,050,456	\$ 12,785,097	\$ 20,031,233
RESOURCE PROPERTY INTERESTS							
Balance, December 31, 2008	\$ 6,522,558	\$ 17,912,425	\$ —	\$ 8,689,053	\$ 16,652	\$ 1,166,947	\$ 34,307,635
Resource property additions	—	—	—	86,222	182,567	16,475	285,264
Depletion of resource properties	(917)	—	—	—	—	—	(917)
Deferred expenditures	—	834,576	—	876,619	—	—	1,711,195
Write off of resource properties	—	—	—	—	(16,652)	(1,166,671)	(1,183,323)
Exploration partner contributions	—	—	—	—	—	—	—
Resource Properties at December 31, 2009	\$ 6,521,641	\$ 18,747,001	\$ —	\$ 9,651,894	\$ 182,567	\$ 16,751	\$ 35,119,854

Year ended December 31, 2008	NORTH AMERICA			MONGOLIA			Total
	Industrial Minerals	Donkin Coal	Other	Zuun Mod Molybdenum	Coal	Other	
EXPLORATION & OPERATING EXPENSES							
Assaying and Analytical	\$ —	\$ —	\$ —	\$ 263,280	\$ 34,872	\$ 28,946	\$ 327,098
Data Analysis and Testing	—	390,412	—	—	—	—	390,412
Dewatering/Refurbishment of Tunnels	—	1,529,223	—	—	—	—	1,529,223
Drilling/Testing	19,249	438,768	—	1,555,341	671,381	68,847	2,753,586
Engineering/Technical Consultants	—	621,148	—	—	—	—	621,148
Environmental	—	143,016	—	—	—	—	143,016
Geological Services	383,886	518,057	—	1,154,199	278,834	37,781	2,372,757
Geo-technical Surveys	—	10,479	—	72,877	110,039	—	193,395
Logistical and Field Support	27,506	—	—	567,466	191,174	63,348	849,494
Professional fees	31,456	138,268	—	7,687	—	—	177,411
Travel	28,816	116,475	—	86,757	38,568	117	270,733
Write off of resource properties	—	—	—	—	12,830	604,077	616,907
Other	—	11,798	—	2,786	2,490	5,824	22,898
Exploration partner contributions	—	—	—	—	(1,065,826)	—	(1,065,826)
Total exploration expenses	490,913	3,917,644	—	3,710,393	274,362	808,940	9,202,252
Deferred expenditures	—	(3,917,644)	—	(3,710,393)	—	—	(7,628,037)
Operating and lab expenses	284,339	—	—	—	—	—	284,339
Expenses incurred in 2008	775,252	—	—	—	274,362	808,940	1,858,554
Expensed to December 31, 2007	1,253,988	—	—	2,455,326	636,498	10,257,236	14,603,048
Cumulative expenses to December 31, 2008	2,029,240	—	—	2,455,326	910,860	11,066,176	16,461,602
RESOURCE PROPERTY INTERESTS							
Balance, December 31, 2007	\$ 6,522,558	\$ 13,994,781	\$ —	\$ 4,902,935	\$ 16,611	\$ 1,739,653	\$ 27,176,538
Resource property additions	—	—	—	75,725	29,094	31,371	136,190
Deferred expenditures	—	3,917,644	—	3,710,393	—	—	7,628,037
Write off of resource properties	—	—	—	—	(12,830)	(604,077)	(616,907)
Exploration partner contributions	—	—	—	—	(16,223)	—	(16,223)
Resource Properties at December 31, 2008	\$ 6,522,558	\$ 17,912,425	\$ —	\$ 8,689,053	\$ 16,652	\$ 1,166,947	\$ 34,307,635

1.05 SUMMARY OF QUARTERLY RESULTS

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2009				Fiscal 2008			
	Q4 Dec-09	Q3 Sep-09	Q2 Jun-09	Q1 Mar-09	Q4 Dec-08	Q3 Sep-08	Q2 Jun-08	Q1 Mar-08
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	0	0	0	0	0	0	0	0
Loss	140	1,239	1,479	(681)	427	887	724	1,554
Basic and diluted loss per share	0.00	0.01	0.01	0.00	0.01	0.01	0.01	0.02
Total Assets	58,647	58,910	60,209	61,965	60,497	61,133	61,870	45,077

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

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

1.06 LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$13,990,402 at December 31, 2009, representing a decrease of \$3,617,609 from the December 31, 2008 working capital position of \$17,608,010. The Company acquired \$1,502,221 in cash, net of acquisition costs, on close of the Beta reverse takeover transaction on February 27, 2009 (see section 1.02). The Company also received \$3,000,874 in proceeds on the sale of marketable securities, recognizing a gain of \$934,947. These inflows were more than offset by costs associated with the normal operations of the Company in carrying out its exploration programs, general and administrative costs in support of the program, as well as the construction and operation of its kaolin processing plant in Dearing, Georgia, USA.

Current working capital is sufficient to fund the Company's budgeted expenditures through 2011 including providing additional working capital of \$350,000 to APM in March 2010. The timing and availability of additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration program and decisions based on results from ongoing studies for the Donkin coal project.

During the year ended December 31, 2009, \$285,264 was expended on additions to resource property interests, offset by write downs of \$1,183,323, compared to additions of \$136,190 for 2008, offset by partner recovery of \$16,223 and write downs of \$616,907. The Company deferred expenditures totaling \$1,711,195 in 2009 compared to \$7,628,037 in 2008. The higher deferral in 2008 is mainly associated with the Donkin Coal Project in-seam drilling, and associated costs, in the first half of 2008.

During the year ended December 31, 2009, the Company spent \$1,439,625 on property, plant and equipment compared to \$309,738 in 2008. The majority of the additions in 2009 were the purchase of kaolin processing equipment and leaseholds for APM's kaolin processing operation.

Other than as discussed herein, the Company is not aware of any trends, demands, commitments, events or uncertainties that may result in the Company's liquidity or capital resources materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Company's liquidity and capital resources will be substantially determined by the success or failure of the Company's three advanced stage projects being APM's kaolin clay operation, the Zuun Mod Molybdenum 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, 2009 the Company is committed to the following:

- The Company has entered into an operating lease for office space until August 31, 2014 representing total payments of \$272,609 until expiry. The Company has the right to terminate the lease by giving six months notice prior to each annual anniversary date after August 31, 2010.
- The Company leases office equipment at its head office until November 2012 representing total payments of \$12,775.
- The Company, through its controlled subsidiary APMUSA, has entered into capital leases for certain assets associated with its kaolin processing operation. At December 31, 2009, total obligations under these leases totalled \$384,018.
- The Company, through APMUSA, owns outright or has entered into lease agreements for primary kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is US \$30,118. These agreements also provide that APMUSA will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. To date, APMUSA has not any mined clay subject to a royalty.
- On February 28, 2007, the Company met all the conditions of an agreement with Gallant Minerals Limited ("Gallant") to acquire certain resource properties, assets and geological data pertaining to Mongolia and acquired all of the issued and outstanding shares of Gallant's wholly-owned subsidiary, Tamerlane, which controls 100% ownership of mineral properties in Mongolia through its wholly owned subsidiary Anian Resources XXX. Gallant is entitled to a net smelter return royalty on certain properties ranging from 1% to 1.5%, subject to a buy-down provision.

1.08 OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2009, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Company.

1.09 FOURTH QUARTER

During the fourth quarter, the Company recognized a future income tax recovery of \$469,238 related to the writeoff of certain resource properties acquired as part of the Gallant agreement in 2007.

Other than mentioned above, there were no unusual events or items during the fourth quarter of 2009 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, goodwill, 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 \$35,119,854 on the Company's balance sheet at December 31, 2009.

Stock-based compensation is calculated using the Black-Scholes model, a recognized option/warrant valuation formula, which is highly dependent on the expected volatility of the market price of the Company's common shares. The Company is using an expected volatility rate of 77% in 2009 (105% in 2008). This is an estimate only based on using past share trading data to predict future volatility, and actual volatility may be different from the estimate used in the valuation formula. Stock-based compensation represents a non-cash expense and, as such, has no impact on the Company's financial position or liquidity. The \$277,318 the Company determined in 2009 as stock based compensation was charged as follows: \$184,398 to general and administrative and \$92,920 to exploration and operating. This compared to the 2008 total of \$806,001 which was charged as follows: \$467,423 to general and administrative expenses and \$338,578 to geological services.

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

1.11 CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants issued new accounting standard Section 3064 Goodwill and Intangible Assets which was effective January 1, 2009. Section 3064 replaces Section 3062, Goodwill and Other Intangibles and Section 3450, Research and Development. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles assets by profit-oriented enterprises. Adoption by the Company on January 1, 2009 had no material impact on the consolidated financial statements.

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

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

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

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

In 2009, the CICA issued amendments to CICA handbook section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk asso-

ciated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. These amendments had minimal impact on the company's disclosure as the Company's financial instruments are classified within level 1 of the fair value hierarchy such that quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("CASB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities. The CASB requires IFRS compliant financial statements for annual and interim financial statements commencing on or after January 1, 2011. The Company's first unaudited interim financial statements under IFRS will be for the quarter ended March 31, 2011, with IFRS compliant comparative financial information for the quarter ended March 31, 2010.

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

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

Initial scoping has identified a number of areas where the Company expects differences:

- IFRS 1 sets out all transitional requirements and exemptions available on first-time adoption of IFRS as well as additional disclosures/reconciliations required. The Company intends to take the available exemption which permits it to not restate prior acquisitions in accordance with IFRS 3.
- Property, Plant and Equipment – The Company will need to analyze and componentize specific assets, which are largely made up of assets purchased for APM's kaolin processing facility. The Company is in the process of reviewing its fixed asset subledger to ensure compliance with IFRS accounting.
- Stock Based Compensation - The timing and recognition of stock based compensation may differ under IFRS depending on the vesting provisions at the grant date. The Company is evaluating software for calculating and tracking stock based payments under IFRS.
- Under IFRS, there is also significantly more disclosure required.

By the second quarter of 2010, the Company intends to evaluate the various elections and exemptions available upon initial adoption of IFRS. The Company will evaluate and document its information systems and data collection methods to ensure it can smoothly transition to IFRS while meeting all financial reporting obligations.

1.12 FINANCIAL INSTRUMENTS AND OTHER RISKS

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

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

At this stage in the Company's development, it relies on equity financing for its long-term working capital and capital requirements to fund its exploration and development programs. Future equity financing could be adversely or positively affected by many factors outside the Company's control such as market or commodity price changes, changes

in the value of the Canadian dollar against the US dollar and/or the Mongolian Tugrig, general economic conditions, exploration results or political or economic changes in the jurisdictions in which the Company operates. The Company does not have sufficient funds to put any of its properties into commercial production from its current financial resources. There is no assurance that such financing will be available to the Company when required, or that it will be available on acceptable terms.

1.13 OUTSTANDING SHARE DATA

ISSUED AND OUTSTANDING SHARE CAPITAL

There has been no change to the issued and outstanding common shares for the year ended December 31, 2009, or to the date of this report.

WARRANTS

On June 16, 2009, 4,489,975 warrants with an exercise price of \$1.60 expired leaving a balance of nil at December 31, 2009.

STOCK OPTIONS

During the year ended December 31, 2009, the Company issued 1,660,000 options, with an exercise price of \$0.30, to certain officers, directors and employees of the Company. During the same period, 2,261,000 options with an average exercise price of \$1.01 expired or were cancelled, leaving a total 4,124,000 options issued and outstanding at December 31, 2009.

Subsequent to year end, 1,300,000 options have expired or were cancelled, leaving the total options issued and outstanding to the date of this report of 2,824,000.

1.14 EXPLORATION AND DEVELOPMENT 2009

SUMMARY

During the year the Company continued to advance the Zuun Mod Molybdenum Project in Mongolia. In August, 2009, the Company released an updated National Instrument 43-101 ("NI 43-101") compliant resource estimate report for the Zuun Mod molybdenum deposit prepared by independent consultants, Minarco MineConsult ("Minarco"), a mine engineering firm which is part of the Runge Group, worldwide mining consultants headquartered in Brisbane, Australia. Work was also carried out by Mongolian consulting firms on reports required to convert the exploration license at Zuun Mod to a long-term mining license. In addition, a deep drilling program was carried out on the Zuun Mod deposit extending two previously drilled holes 300 metres to a maximum depth of 851.9 metres.

The Company also carried out regional exploration programs for metals and coal that culminated in the identification of a number of areas of interest. As a result the Company staked a number of new exploration licenses totaling in excess of 400,000 hectares.

In North America, work continued on the evaluation of the Donkin Coal Project in Nova Scotia, in which the Company holds a 25% interest.

In Georgia, U.S.A., the Company, through its controlled subsidiary APM, completed construction of a processing facility in Dearing, Georgia, designed to produce primary kaolin products for the North American market. The plant was officially opened in October 2009. At the present time, the plant is processing clay from the Tudor property. APM received a mining permit to develop the Tudor primary kaolin deposit in April 2009. KaMin LLC, through a royalty agreement with APMUSA, continued mining operations on the Lucky Main kaolin deposit.

Also in Georgia, pre-development and permitting activities were completed on the Company's Granite Hill construction aggregate project, under the management of Ready-Mix USA, pursuant to a mining lease with the Company. Subsequent to year end, in February 2010, the operation of the Granite Hill Project came under the control of SPO Partners ("SPO"), a private California based investment company. As a result of the acquisition, Aggregates USA (Sparta), LLC ("AUSA") is now party to the mining lease agreement with the Company in the place of Ready-Mix USA. AUSA has advised the Company that SPO is planning to make the Granite Hill Project one of its top priority new developments. The Granite Hill site preparation was recently expanded from an area of approximately 19 acres for the pit to approximately 43 acres, which includes the plant, compound, and rail access areas. Site development is underway and the Company has been advised that projections are for mine development to begin by mid 2010 with production commencing late in 2011.

The following is an overview of the programs carried out on the Company's principal properties in 2009.

MONGOLIA

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum (with copper and rhenium) deposit located in Bayankhongor Province, Mongolia, approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The railhead is located 20km south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of a single license totaling 49,538 hectares. The licenses are registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Company. This project was acquired from Gallant Minerals Limited and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

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

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

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

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

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

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

Upon registration of the Zuun Mod resource by the Minerals Resource Council, the Company will have all necessary documentation to apply for a mining license for the Zuun Mod project. The Company will be applying for a mining license of approximately 10,000 hectares, a reduction from the current 49,538 hectare exploration license.

Following the release of Minarco's June 2009 Zuun Mod Resource Report additional drilling was carried out at Zuun Mod. The 2009 drill program was designed to evaluate the Zuun Mod deposit at depth. Two previously drilled holes, ZMD-52 and ZMD-59, were deepened by 300 m to 701.6m and 851.9m respectively, for a total of 607m of new drilling. ZMD-52

intersected 607.6m (from 94 to 701.6m) averaging 0.04% Mo and ZMD-57 intersected 706m (from 146 to 852m) averaging 0.04% Mo. Both holes included higher grade intervals of 0.06% Mo. The 2009 drilling program was successful in determining that mineralized lithologies extend at depth with similar grades to the main Zuun Mod deposit. Though it is unlikely that the mineralization at depths of 700 to 800m will be economic, it does demonstrate the large size of the Zuun Mod porphyry system and is an indication of the potential for additional discoveries at Zuun Mod.

Regional Metals Exploration Program

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

Energy Project – Coal

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

Since 2006, the Company has visited over one hundred coal sites throughout Mongolia under the strategic alliance agreement with Xstrata and has compiled an extensive database on coal deposits, occurrences, prospective stratigraphy and sedimentary basins allowing for a prioritization of targets. The Company carried out due-diligence work on behalf of the alliance and completed the fieldwork portion of the 2009 exploration program. This work culminated in the identification of several new coal occurrences in highly prospective sedimentary basins. Eight new coal exploration licenses were acquired in 2009 totaling 407,211 hectares including areas covering these prospective areas.

NORTH AMERICAN PROJECTS

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

Donkin Coal Project

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

In April 2007, the DJV received a National Instrument 43-101 compliant resource report for the Donkin Coal Project from McElroy Bryan Geological Services. The report identified a 227Mt Indicated and 254Mt Inferred high volatile A bituminous coal with approximately 14,000 BTUs, high sulphur, low ash and low moisture.

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

In November 2007, the DJV received an independent Preliminary Assessment Study ("PAS") by Norwest Corporation ("Norwest"). The PAS was a study into the business case for a continuous miner development and longwall ("LW") extraction thermal coal mine at the Donkin Coal Project. The PAS's base case scenario returned a net present value (NPV) for the project of US\$194M (or US\$49M for the Company's 25% interest) using a coal price of US\$52/tonne. Under the PAS, the projected life of the proposed mine is 30-plus years, producing approximately 108 million tonnes of run-of-mine coal. The initial target market for this product was to be domestic and export thermal coal for power generation.

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

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

On February 10, 2010, Xstrata Coal indicated that they intend to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is expected to utilize four continuous miners added incrementally over the first three years of production. No longwall mining will be used. In addition, a coal wash plant will be built on site and it is proposed that coal will be shipped from the mine site using a barge-to-ship system. These revised plans will require modifications to the Environmental Assessment report including Federal Environmental Assessment approval for the barge-to-ship transport system. Under the revised development plan, the Donkin Coal Project is projected to produce approximately 2.75 million tonnes per annum of washed export grade coking coal at full production, pending the receipt of all approvals. Xstrata is also looking to obtain expressions of interest from potential strategic partners to contribute to the project. A pre-feasibility study for the revised Donkin coking coal project is currently underway and expected to be finalized by mid 2010.

Sparta Kaolin Project (Advanced Primary Minerals Corporation)

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

For the project's initial development stage, EMC partnered with industry leader KaMin LLC (formerly Huber Engineered Materials ("Huber")). Commercial production from the Company's primary kaolin deposits began in 2005 under the product name HuberPrime™, a high quality light-weight coater product, sold by KaMin. KaMin continues to mine from the Company's Lucky Main property and to the end of 2009 has mined over 752,000 tons.

In July 2008, the Company moved forward with its business plan to create a dedicated vehicle for its primary kaolin operations by initiating a reverse takeover of Beta Minerals Inc. ("Beta"), a TSX Venture Exchange-listed company. In February 2009, the reverse takeover of Beta was concluded. Beta changed its name to Advanced Primary Minerals Corporation ("APM") and is listed on the TSX Venture Exchange (TSXV:APD) with the Company as 64% majority shareholder. See section 1.02 for details.

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

During the year, APM completed construction of a processing and testing facility in Dearing, Georgia, to produce primary kaolin products for the U.S. market. The plant was officially opened in October 2009. At the present time, the plant is processing clay from the Tudor primary kaolin deposit which was permitted for mining in April 2009. APM continues to build markets for its specialty primary kaolin products with product trials for a number of target customers ongoing and through sales growth within its current customer base.

Granite Hill Project

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

In February, 2010, subsequent to year end, through the acquisition of Ready-Mix USA and Aggregates USA, the operation of the Granite Hill Project came under the control of SPO Partners ("SPO"), a private California based investment company. As a result of the acquisition, Aggregates USA (Sparta), LLC ("AUSA") is now party to the mining lease agreement with the Company in the place of Ready-Mix USA. AUSA has advised the Company that SPO is planning to make the Granite Hill Project one of its top priority new developments. The Granite Hill site clearing and preparation was recently expanded from an area of approximately 19 acres for the pit to approximately 43 acres, which includes the plant, compound, and rail access areas. Site development is underway and the Company has been advised that projections are for mine development to begin by mid 2010 with production commencing late in 2011.

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

1.15 DISCLOSURE CONTROLS AND PROCEDURES

An evaluation of the design and effectiveness of the operation of the Company's disclosure controls and procedures has been conducted by management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2009, the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings), are effective to ensure information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

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

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of internal controls over financial reporting. Based on this evaluation, the CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2009.

There has been no change in the Company's internal control over financial reporting that occurred during the year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

1.16 OUTLOOK

The general downturn in commodities prices and general uncertainty in the financial markets through much of 2009 makes predictions of future performance difficult. However, improving commodity prices late in 2009 and into 2010, specifically for coal and molybdenum, have buoyed the outlook for the Company's key projects.

As mentioned earlier, the Company has the working capital necessary to meet its budgeted expenditures through to 2011 and remains optimistic about the potential demonstrated by its three core projects: The Zuun Mod Molybdenum Project, Donkin Coal Project and APM's Kaolin Operation.

ZUUN MOD

The Company has submitted a report on the Zuun Mod deposit detailing exploration work completed, the geology of the deposit, mineralization, composition and technical features, hydro-geology, mineral resources, mining conditions, environmental reporting and production to the Mongolian Mineral Resource Council for review in connection with the registration of the Zuun Mod Resource. Registering the resource is a prerequisite towards applying for a mining license for the Zuun Mod property. Upon registration of the Zuun Mod resource by the Minerals Resource Council, the Company will have all necessary documentation to apply for a mining license for the Zuun Mod project. The Company will be applying for a mining license of approximately 10,000 hectares, a reduction from the current 49,538 hectare exploration license, with an annual fee of approximately US\$150,000, before the May 2010 expiry date of the exploration license.

Following receipt of the mining license, the Company will continue working with Minarco-Mineconsult on studies, including a pit optimization and scheduling study, to combine with previously completed preliminary assessment study level work initiated in 2008. It is anticipated that the information will be applied to create a financial model on which to base decisions on advancing the project to the prefeasibility level.

In addition, the Company will be carrying out work on the exploration license adjacent to the Zuun Mod deposit to assess additional targets identified through evaluation programs including a recently completed compilation of geo-physical, geological and geochemical data into a 3D modeling program. It is anticipated that this work will culminate in a drilling program to test these new target areas.

DONKIN

On February 10, 2010, subsequent to year end, Xstrata indicated that it intends to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is expected to produce approximately 2.7 million tonnes per annum of washed export grade coking coal at full production, pending the receipt of all approvals. Xstrata is also looking to obtain expressions of interest from potential strategic partners to contribute to the project. A pre-feasibility study for the revised Donkin Coal Project is currently underway and expected to be finalized by mid 2010.

ADVANCED PRIMARY MINERALS KAOLIN OPERATION

APM's goal is to become North America's leading specialty primary kaolin producer. Initially, APM is targeting replacement of high value European primary clay imports which is estimated by APM to be approximately 20,000 tons per annum. At the present time, the Dearing plant is processing clay from the Tudor property and is in the process of permitting the remaining primary clay properties in McDuffie County, Georgia on land owned by APM. APM expects to complete the permitting process by the end of 2010. APM is projecting sales of primary kaolin products to be 9,000 tons in 2010, 21,000 tons in 2011, and 34,000 tons in 2012, and is anticipating positive cash flows in 2011.

1.17 QUALIFIED PERSON

J. Christopher Cowan, PEng., 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, including the Company's annual information form, 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 25, 2010

▶ AUDITORS' REPORT

We have audited the consolidated balance sheets of Erdene Resource Development Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income (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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in dark ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

Chartered Accountants

Halifax, Canada
March 25, 2010

► CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,764,186	\$ 16,195,175
Marketable securities	232,437	1,984,074
Amounts receivable (note 3)	403,027	140,336
Prepaid expenses	80,728	61,002
	14,480,378	18,380,587
Resource property interests (note 4)	35,119,854	34,307,635
Property, plant and equipment (note 5)	4,033,776	2,508,912
Reclamation bond	12,625	–
Goodwill	5,000,000	5,000,000
Deferred transaction costs	–	300,323
	\$ 58,646,633	\$ 60,497,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 483,511	\$ 772,577
Current portion of obligations under capital leases (note 6)	6,465	–
	489,976	772,577
Obligations under capital leases (note 6)	384,018	–
Future income taxes (note 7)	5,295,182	5,764,420
Non-controlling interest (note 8)	215,815	–
Shareholders' equity		
Share capital (note 9)	78,307,296	78,307,296
Contributed surplus (note 10)	6,155,222	5,877,904
Deficit	(32,337,479)	(30,160,422)
Accumulated other comprehensive income (loss)	136,603	(64,318)
	52,261,642	53,960,460
Nature of operations and going concern (note 1)		
Commitments (note 15)		
	\$ 58,646,633	\$ 60,497,457

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board



Dave Carnell, Director



Ken MacDonald, Director

► CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2009 and 2008

	2009	2008
Expenses		
Exploration and operating expenses, net of partner recovery	\$ 2,386,308	\$ 1,241,647
Write down of resource property interests	1,183,323	616,907
	3,569,631	1,858,554
General and administrative expenses		
Administrative services	617,766	633,420
Depreciation	52,997	52,752
Investor relations and communications	243,689	279,550
Office and sundry	279,918	221,877
Professional fees	268,940	209,347
Regulatory compliance	222,489	198,819
Stock based compensation	184,398	467,423
Travel and accommodations	124,622	212,081
Other	46,136	31,065
	2,040,955	2,306,334
Other income (expenses)		
Interest revenue	223,355	483,144
Royalties	86,482	80,612
Gain on sale of resource properties	137,205	–
Gain on sale of marketable securities	934,947	–
Foreign exchange	53,502	70,229
Lab and plant revenue	167,957	–
Taxes	(54,839)	(88,297)
Other	66,870	26,809
Interest expense	(29,861)	–
Dilution gain on disposal of interest in subsidiary (note 2)	878,595	–
	2,464,213	572,497
Loss before taxes and non-controlling interest	3,146,373	3,592,391
Future income tax recovery (note 7)	(469,238)	–
Loss before non-controlling interest	2,677,135	3,592,391
Non-controlling interest (note 8)	(500,078)	–
Loss for the year	2,177,057	3,592,391
Deficit, beginning of year	30,160,422	25,329,738
Share issue costs	–	1,238,293
Deficit, end of year	\$ 32,337,479	\$ 30,160,422
Basic and diluted loss per share (note 11)	\$ 0.02	\$ 0.04
Weighted average number of common shares outstanding	89,230,877	80,439,892

See accompanying notes to consolidated financial statements.

► CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2009 and 2008

	2009	2008
Loss for the year	\$ (2,177,057)	\$ (3,592,391)
Other comprehensive income:		
Unrealized gain (loss) on available for sale marketable securities, net of tax of \$32,043 (2008 - \$15,087)	136,603	(64,318)
Comprehensive loss for the year	\$ (2,040,454)	\$ (3,656,709)
Accumulated Other Comprehensive Income (loss)		
Balance, beginning of year	\$ (64,318)	\$ –
Unrealized gain (loss) on available for sale marketable securities	136,603	(64,318)
Unrealized loss on available for sale marketable securities recognized in income during the year	64,318	–
Balance, end of year	\$ 136,603	\$ (64,318)

See accompanying notes to consolidated financial statements.

► CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in)		
Operations		
Loss for the year	\$ (2,177,057)	\$ (3,592,391)
Item not involving cash:		
Depreciation and amortization	316,215	86,636
Depletion of resource property interest	917	–
Stock-based compensation	277,318	806,001
Write down of resource properties	1,183,323	616,907
Gain on sale of marketable securities	(934,947)	–
Gain on sale of resource properties	(137,205)	–
Future income tax recovery	(469,238)	–
Loss on disposal of property, plant and equipment	3,226	–
Dilution gain on disposal of interest in subsidiary	(878,595)	–
Non controlling interest	500,078	–
Change in non-cash working capital	(1,335,822)	(352,966)
	(3,651,787)	(2,435,813)
Financing		
Issue of common shares for cash	–	18,586,000
Share issue costs	–	(1,238,293)
Issue of common shares on exercise of options and warrants	–	248,713
	–	17,596,420
Investing		
Purchase of marketable securities	–	(2,048,392)
Proceeds on sale of marketable securities	3,000,874	–
Additions to resource property interests	(1,996,459)	(7,748,004)
Proceeds on sale of resource property interests	137,205	–
Purchase of property, plant and equipment	(1,439,625)	(309,738)
Proceeds on sale of property, plant and equipment	16,582	–
Deferred transaction costs	–	(300,323)
Cash acquired on purchase of Beta	1,502,221	–
	1,220,798	(10,406,457)
Increase (decrease) in cash and cash equivalents	(2,430,989)	4,754,151
Cash and cash equivalents, beginning of year	16,195,175	11,441,024
Cash, and cash equivalents, end of year	\$ 13,764,186	\$ 16,195,175
Supplementary cash flow information		
Interest paid	\$ 29,861	\$ –
Taxes paid	\$ 54,839	\$ 88,297

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION

These consolidated financial statements are presented in Canadian dollars and include the accounts of the Company and its subsidiaries. All subsidiaries are wholly owned unless otherwise indicated: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados); Tamerlane International Limited (Bermuda); Erdene Mongol XXK and Anian Resources XXK (Mongolia); Erdene Resources Inc., 6531954 Canada Limited and Advanced Primary Minerals Corporation ("APM") (Canada) (64%); Advanced Primary Minerals USA Corp. ("APMUSA") (formerly Erdene Materials Corporation ("EMC")) (64%) and ERD Aggregate Corporation (Delaware). Inter-company accounts and transactions have been eliminated.

B) CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standard Section 3064, Goodwill and Intangible Assets effective January 1, 2009. Section 3064 replaces Section 3062, Goodwill and Other Intangibles and Section 3450, Research and Development. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. Adoption by the Company on January 1, 2009 had no material impact on the consolidated financial statements.

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

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

In 2009, the CICA issued amendments to CICA handbook section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. These amendments had minimal impact on the company's disclosure as the Company's financial instruments are classified within level 1 of the fair value hierarchy such that quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

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, goodwill and the calculation of stock-based compensation. While management believes that these estimates and assumptions are reasonable, actual results could differ.

D) FINANCIAL INSTRUMENTS

The Company's financial instruments are 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 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. Held-to-maturity financial assets, loans and receivables and other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost.

The following is a summary of the classification of the Company's financial assets and liabilities:

- (i) Cash and cash equivalents, consisting of deposits in banks, money market instruments and GICs are classified as held-for-trading and are measured at fair value.
- (ii) Amounts receivable are classified as loans and receivables, which are measured at amortized cost.
- (iii) Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.
- (iv) Marketable securities are classified as available for sale and are carried at fair value with gains and losses recognized in comprehensive income or through the income statement if the loss is considered to be other than temporary.

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) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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%
Plant equipment and leaseholds	Declining balance	20%
Software and computers	Declining balance	33%
Vehicles	Declining balance	30%

G) FOREIGN CURRENCY TRANSLATION

All of the Company's foreign subsidiaries are financially or operationally dependent on the parent company. The financial statements of all such integrated foreign subsidiaries are translated using the temporal method. 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 9. 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 were renounced to subscribers. On the date that the Company filed the renouncement documents with the tax authorities, a future income tax liability was recognized and shareholders' equity reduced, for the tax effect of expenditures renounced to subscribers.

K) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment, 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.

L) 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.

M) FUTURE ACCOUNTING CHANGES

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

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

2. ACQUISITION

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

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

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

In August 2009, the Company converted US\$398,638 of the debt owed to it by APM for 7,924,529 shares of APM. Effective December 18, 2009, APM consolidated its share capital on the basis of each shareholder receiving one common share for each seven common shares held. As a result the Company now holds 10,850,076 shares, or and 64%, of APM.

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

Net assets acquired	
Cash and cash equivalents	\$ 1,906,846
Non-cash working capital, net	92,266
Acquisition costs	(404,624)
	\$ 1,594,488

Accounting for transaction (net of acquisition costs)	
Dilution gain	\$ 878,595
Non-controlling interest	715,893
	\$ 1,594,488

3. AMOUNTS RECEIVABLE

	2009	2008
Trade receivables	\$ 35,681	\$ 7,390
Exploration partner recovery	301,099	66,228
GST/HST	10,581	18,224
Other	55,666	48,494
	\$ 403,027	\$ 140,336

Other receivables includes an amount receivable of \$37,500 (2008 - \$39,900) from a director and officer, which is non-interest bearing and repayable on demand.

4. RESOURCE PROPERTY INTERESTS

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

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

The cost of resource property interests as at December 31, 2009 and 2008 are as follows:

Year ended December 31, 2009	NORTH AMERICA		MONGOLIA			Total
	Industrial Minerals	Donkin Coal	Zuun Mod Molybdenum	Coal	Other	
RESOURCE PROPERTIES						
Balance, December 31, 2008	\$ 6,522,558	\$ 17,912,425	\$ 8,689,053	\$ 16,652	\$ 1,166,947	\$ 34,307,635
Resource property additions	—	—	86,222	182,567	16,475	285,264
Depletion of resource properties	(917)	—	—	—	—	(917)
Deferred expenditures	—	834,576	876,619	—	—	1,711,195
Write off of resource properties	—	—	—	(16,652)	(1,166,671)	(1,183,323)
Exploration partner contributions	—	—	—	—	—	—
Resource Properties at December 31, 2009	\$ 6,521,641	\$ 18,747,001	\$ 9,651,894	\$ 182,567	\$ 16,751	\$ 35,119,854

Year ended December 31, 2008	NORTH AMERICA		MONGOLIA			Total
	Industrial Minerals	Donkin Coal	Zuun Mod Molybdenum	Coal	Other	
RESOURCE PROPERTIES						
Balance, December 31, 2007	\$ 6,522,558	\$ 13,994,781	\$ 4,902,935	\$ 16,611	\$ 1,739,653	\$ 27,176,538
Resource property additions	—	—	75,725	29,094	31,371	136,190
Deferred expenditures	—	3,917,644	3,710,393	—	—	7,628,037
Write off of resource properties	—	—	—	(12,830)	(604,077)	(616,907)
Exploration partner contributions	—	—	—	(16,223)	—	(16,223)
Resource Properties at December 31, 2008	\$ 6,522,558	\$ 17,912,425	\$ 8,689,053	\$ 16,652	\$ 1,166,947	\$ 34,307,635

A) INDUSTRIAL MINERALS

As outlined in Note 2, on February 27, 2009, the Company concluded the reverse takeover of Beta.

The Company, through APMUSA (formerly Erdene Materials Corporation), owns outright or has entered into lease agreements for primary kaolin properties in the United States. The commitment associated with the cancelable lease agreements over the next twelve months is US \$30,118. These agreements also provide that the Company will pay a royalty based on either the production of finished product or crude tons extracted from the related properties. To date, the Company has not mined clay subject to a royalty.

In 2009, APMUSA completed construction of a kaolin processing plant in Dearing, Georgia and has since entered commercial production of primary kaolin products.

The Granite Hill property, which prior to the closing of the Beta reverse takeover was transferred to ERD Aggregate Corp., is under long term lease to Aggregates USA (Sparta), LLC ("AUSA").

B) DONKIN

The Company is a 25% joint venture partner in the Donkin Joint Venture ("DJV") with Xstrata Coal Donkin Limited ("XCDL"). The DJV was formed to secure the rights to the Donkin Coal Project and to explore, assess, study and, if feasible, develop the high-grade Donkin coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia.

Pursuant to the joint venture agreement, the Company funded \$10 million in qualifying Canadian Exploration Expenditures ("CEE") during the exploration program of the Donkin Coal Project. The Company is responsible to fund 25% of expenditures above \$10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2009, the Company has advanced a total of \$12,695,676 in order to meet its commitment. The first \$10 million of the Company's capital obligation, upon a positive development decision, will be funded by XCDL.

C) MONGOLIAN PROPERTIES

Zuun Mod

The Zuun Mod property is a molybdenum/copper deposit and consists of one license. It is located in Bayankhongor Province southwest of Ulaanbaatar. 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. The Company has submitted a report on the Zuun Mod deposit detailing exploration work completed, the geology of the deposit, mineralization, composition and technical features, hydrogeology, mineral resources, mining conditions, environmental reporting and production to the Mongolian Mineral Resource Council for review in connection with the registration of the Zuun Mod Resource. Registering the resource is a prerequisite towards applying for a mining license for the Zuun Mod property. Upon registration of the Zuun Mod resource by the Minerals Resource Council, the Company will have all necessary documentation to apply for a mining license for the Zuun Mod project.

Coal

The Company has eight coal exploration licenses located in Bayankhongor, Gobi Altai and Sukhbaatar provinces in Mongolia. The license renewal dates are in February, March, May, November and December 2010. A number of applications for additional coal exploration licenses are pending final approval by the Mineral and Petroleum Resource Authority of Mongolia (MPRAM).

In December 2008, the Company optioned its 100% interest in the Galshar property to a private Mongolian company and received partial cash consideration of US\$100,000 with two additional payments of US\$50,000 due in June and December of 2010. The Company is also entitled to a royalty of US\$1.50 per tonne of coal for each tonne of the first five million tonnes of coal mined from the property and a royalty of US\$ 0.75 per tonne for any additional tonnes of coal mined from the property in excess of five million tonnes.

D) RESOURCE PROPERTY WRITE OFFS

	2009	2008
Tsenkher Gol	\$ 1,047,994	\$ –
Erdenet	100,966	89,413
Biger	–	129,247
Ongon	–	330,876
Other	34,363	67,371
	\$1,183,323	\$ 616,907

5. PROPERTY, PLANT AND EQUIPMENT

			2009
	Cost	Accumulated amortization	Net book value
Land	\$ 1,894,364	\$ –	\$ 1,894,364
Building	404,185	253,131	151,054
Equipment, furniture and fixtures	713,868	473,464	240,404
Plant equipment and leaseholds	1,501,287	209,119	1,292,168
Software and computer	190,246	127,076	63,170
Vehicles	40,975	13,790	27,185
	4,744,925	1,076,580	3,668,345
Plant equipment under capital lease	27,867	3,716	24,151
Land under capital lease	70,813	–	70,813
Building under capital lease	295,055	24,588	270,467
	393,735	28,304	365,431
	\$ 5,138,660	\$ 1,104,884	\$ 4,033,776

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

6. OBLIGATIONS UNDER CAPITAL LEASES

The Company entered into a renewable five year lease agreement on March 1, 2009 for a parcel of land and building (the “Property”) for APM’s kaolin clay processing facility. The Company intends to purchase the Property from the landlord on or before the first renewal period in 2014 for an agreed amount equal to the appraised value at the time of purchase.

The Company has also entered into a lease agreement for certain plant equipment which is considered a capital lease.

Capital lease repayments are due as follows:

	2009	2008
Year ending December 31		
2010	\$ 41,871	–
2011	41,871	–
2012	41,871	–
2013	41,871	–
2014	397,530	–
Total minimum lease payments	565,014	–
Less amount representing interest (rates ranging from 6%-10%)	174,531	–
Present value of net minimum capital lease payments	390,483	–
Current portion of obligations under capital leases	6,465	–
	\$ 384,018	–

Interest of \$29,861 relating to capital lease obligations has been included in interest expense.

7. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2009 and 2008 are presented below:

	2009			
	Canada	United States	Mongolia	Total
Future tax assets:				
Non-capital loss carry forwards	\$ 3,536,207	\$ 740,296	\$ –	\$ 4,276,503
Deferred expenses - Mongolia	682,608	106,274	2,198,587	2,987,469
Share issue costs	403,432	–	–	403,432
Intangible assets	123,217	436,247	–	559,464
Other	33,291	156,654	–	189,945
	4,778,755	1,439,471	2,198,587	8,416,813
Less valuation allowance	(4,778,755)	(1,439,471)	(2,198,587)	(8,416,813)
Net future tax asset	\$ –	\$ –	\$ –	\$ –
Future tax liabilities:				
Resource properties and deferred exploration costs	\$ (3,589,199)	\$ (1,708,983)	\$ –	\$ (5,295,182)
	2008			
	Canada	United States	Mongolia	Total
Future tax assets:				
Non-capital loss carry forwards	\$ 2,878,180	\$ 461,463	\$ –	\$ 3,339,643
Deferred expenses - Mongolia	6,523	223,408	2,987,480	3,217,411
Share issue costs	578,146	–	–	578,146
Intangible assets	109,320	559,866	–	669,186
Other	70,059	166,849	–	236,908
	3,642,228	1,411,586	2,987,480	8,041,294
Less valuation allowance	(3,642,228)	(1,411,586)	(2,987,480)	(8,041,294)
Net future tax asset	\$ –	\$ –	\$ –	\$ –
Future tax liabilities:				
Resource properties and deferred exploration costs	\$ (4,055,437)	\$ (1,708,983)	\$ –	\$ (5,764,420)

Included in the determination of total gross tax assets are Canadian non-capital loss carry-forwards of approximately \$11,405,245 which expire substantially between 2010 and 2030, and US loss carry-forwards of approximately \$1,903,074 which expire between 2027 and 2030. Deferred expenses for tax purposes of \$10,176,414 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 35.0% (2008 – 35.5%) to loss before taxes as follows:

	2009	2008
Loss before taxes	\$ 3,146,373	\$ 3,592,391
Computed expected tax recovery	\$ (1,101,231)	\$ (1,275,300)
Effects of foreign exchange translation	1,029,655	(332,460)
Change in valuation allowance	(638,585)	1,723,866
Dilution gain on disposal of interest in subsidiary	(307,508)	–
Expenses not deductible for tax purposes	216,011	331,210
Effect of different foreign tax rates	84,414	110,235
Write down of resource properties	(469,238)	–
Tax deductible expenses charged to retained earnings	–	(439,594)
Effect of change in tax rates	700,589	138,785
Other	16,654	(256,742)
Net income tax recovery	\$ (469,238)	\$ –

8. NON-CONTROLLING INTEREST

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

Non-controlling interest of APM at February 27, 2009	\$	715,893
Non-controlling interest share of APM post acquisition loss		(500,078)
	\$	215,815

The NCI represents the minority shareholder's ownership in APM which is not controlled by the Company. The movement in the NCI reflects its share of APM's net loss since February 27, 2009.

9. SHARE CAPITAL

AUTHORIZED AND ISSUED

	2009		2008	
	Number of shares	\$	Number of shares	\$
Authorized				
Unlimited number of common shares without par value				
Issued				
Balance, beginning of period	89,230,877	78,405,471	70,200,939	60,926,339
Issued for cash	–	–	18,586,000	18,586,000
Issued on exercise of options and warrants	–	–	443,938	290,262
Tax effect of renunciation (note 10)	–	–	–	(1,397,130)
	89,230,877	78,705,471	89,230,877	78,405,471
Share subscription receivable	–	(98,175)	–	(98,175)
Total	89,230,877	78,307,296	89,230,877	78,307,296

The share subscription receivable is from a director and officer. The loan is non-interest bearing and is evidenced by a promissory note due in March 2013. The loan requires minimum monthly payments of \$1,000 beginning May 2010.

WARRANTS

The following table summarizes the continuity of the warrants for 2009 and 2008:

	2009		2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Opening balance	4,489,975	\$ 1.60	5,249,913	\$ 1.50
Exercised	–	–	(329,938)	0.60
Expired	(4,489,975)	1.60	(430,000)	1.08
Closing balance	–	\$ –	4,489,975	\$ 1.60

STOCK OPTIONS

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

The following table summarizes the continuity of the stock options for 2009 and 2008.

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	4,725,000	\$ 1.01	4,356,500	\$ 1.01
Granted	1,660,000	0.30	1,150,000	0.90
Exercised	–	–	(114,000)	0.45
Expired	(2,261,000)	1.01	(667,500)	0.92
Closing balance	4,124,000	\$ 0.73	4,725,000	\$ 1.01

The following is a summary of the options outstanding and exercisable as of December 31, 2009:

Weighted Average Exercise Price	Year of expiration	Number of options
\$ 0.72	2010	150,000
\$ 0.88	2011	925,000
\$ 1.34	2012	765,000
\$ 0.88	2013	624,000
\$ 0.30	2014	1,660,000
\$ 0.73		4,124,000

STOCK BASED COMPENSATION

As of December 31, 2009 there were 4,124,000 share purchase options outstanding. During the year ended December 31, 2009, 1,660,000 options (2008 – 1,150,000) were granted to certain directors, officers, employees and consultants of the Company. The fair value of the options on the date granted was \$0.167 per option (2008 – \$0.70 per option) which represents a total of \$277,318 (2008 – \$806,001) expensed as stock-based compensation and geological services and recorded as contributed surplus. The Company estimates the fair value of stock based incentives at the date of grant using the Black-Scholes model, recognized on the grant date, with the following assumptions:

	2009	2008
Dividend yield	0%	0%
Risk-free interest rate	2.40%	3.15%
Expected volatility	77%	105%
Expected life	5 years	5 years

10. CONTRIBUTED SURPLUS

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

	2009	2008
Opening balance	\$ 5,877,904	\$ 5,113,451
Options exercised	–	(41,548)
Options granted	277,318	806,001
Closing balance	\$ 6,155,222	\$ 5,877,904

11. 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.

12. FINANCIAL RISK MANAGEMENT

CREDIT RISK

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash and cash equivalents consist mainly of GICs and bank deposits. The Company manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2009, less than 2% of the balance of cash and cash equivalents was held in banks outside Canada.

Amounts receivable includes exploration partner recovery which was concentrated with a single company, Xstrata Coal, a large multi-national mining conglomerate. Management believes the credit risk on amounts receivable is low. Other receivables include amounts receivable from an officer and director of the Company and are considered to be low risk.

LIQUIDITY RISK

The Company's liquidity risk is limited to its ability to discharge liabilities when due. At December 31, 2009, the Company had current assets of \$14,480,378 (2008 - \$18,380,587) available to settle current liabilities of \$489,976 (2008 - \$772,577). The Company's GIC's have a guaranteed interest rate for one year, but are cashable all, or in part, without penalty after 30 days.

MARKET RISK

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

The Company has no interest-bearing debt and is not exposed to any significant interest rate risk.

Foreign currency risk

The Company operates in Mongolia and the United States, giving rise to foreign exchange risk. To limit the Company's exposure to this risk, cash and cash equivalents are primarily held in Canadian dollar bank accounts. Based on the timing of the Company's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Company's budgets, otherwise the Company does not use any form of hedging against fluctuations in foreign exchange.

At December 31, 2009, the Company held foreign currencies equivalent to \$1,018,253 Canadian (US\$940,120 and MNT 28,512,369). Sensitivity to a plus or minus 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit

by approximately \$99,643. Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$2,095.

Price risk

The Company holds marketable securities which expose it to equity price risks. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. At December 31, 2009, sensitivity to a plus or minus 10% change in the value of marketable securities would affect comprehensive loss and accumulated other comprehensive income (loss) by approximately \$23,044.

13. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, stock options and warrants. The primary objective of managing the Company's capital is to ensure there is sufficient available capital to support the Company's ongoing exploration and development programs and joint venture obligations, and ensure the Company remains in sound financial position. This is done primarily through equity financings. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds as they are required in the future.

The Company is taking a cautious approach towards its future spending. The availability and timing of future financings is uncertain. As a result, the Company is continuing to advance its core programs while focusing on capital preservation and maintaining sufficient working capital to carry the company through to 2012.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

14. 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):

	2009				2008			
	Canada	USA	Mongolia	Total	Canada	USA	Mongolia	Total
Working capital	13,848	(4)	146	13,990	17,637	16	(45)	17,608
Property, plant and equipment	55	3,914	65	4,034	81	2,342	86	2,509
Resource properties	18,747	6,522	9,851	35,120	17,912	6,523	9,873	34,308
Total assets	38,032	10,545	10,070	58,647	41,517	8,891	10,089	60,497

15. COMMITMENTS

The Company has the following operating leases:

- Office premises in Dartmouth, Nova Scotia until August 31, 2014. The Company has the right to terminate the lease by giving six months notice prior to each anniversary after August 31, 2010.
- Office equipment until November 1, 2012.

Annual payments, including operating costs, are as follows:

2010	\$	60,063
2011		61,176
2012		62,515
2013		60,255
2014		41,375
	\$	285,384

16. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

DIRECTORS, OFFICERS AND 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
Executive General Manager Americas –
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 ERD Aggregate Corp.

MICHAEL X. GILLIS
Director of Business Operations

MICHAEL A. O'KEEFE
Director of Finance

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SHAREHOLDER INFORMATION

AUDITOR
KPMG LLP
Chartered Accountants
Halifax, Nova Scotia

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

LEGAL COUNSEL
McInnes Cooper, Halifax
Lynch Mahoney, Mongolia

STOCK EXCHANGE LISTING
TSX : ERD

WEBSITE
www.erdene.com

ANNUAL MEETING

The Annual Meeting of Erdene Resource Development Corporation will be held at Purdy's Wharf Tower II, Suite 1300, 1969 Upper Water Street, Halifax, Nova Scotia on May 20, 2010 commencing at 5:30pm

2009 FINANCIAL HIGHLIGHTS

As at December 31, 2009

Working Capital	\$14.0 Million
Shares Issued and Outstanding	89.2 Million
Shares Fully Diluted	93.3 Million

The technical information provided in this annual report was prepared under the supervision of J. Christopher Cowan, P.Eng., a qualified person under National Instrument 43-101. For more detailed information, please see our most recent Annual Information Form filed on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENT

Certain information regarding Erdene Resource Development Corporation ("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.

Erdene Resource Development Corporation

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