



ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2012 and 2011

(Canadian dollars)
(Unaudited)

Prepared by Management – See Notice to Reader

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect. These unaudited condensed interim consolidated financial statements have been prepared by management of the Company. Management have compiled the unaudited condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at March 31, 2012 and December 31, 2011 and the unaudited condensed interim consolidated statements of loss, comprehensive loss and cash flows for the three months ended March 31, 2012 and 2011. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 31, 2012 and 2011 condensed interim consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Canadian dollars)

(Unaudited)

Note	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
	\$ 2,636,638	\$ 4,104,350
	131,960	242,851
	65,116	70,259
	8,623	14,830
5	892,791	-
	3,735,128	4,432,290
Non-current assets:		
	32,941,443	32,313,187
	4,194,695	5,037,361
	5,000,000	5,000,000
	42,136,138	42,350,548
TOTAL ASSETS	\$ 45,871,266	\$ 46,782,838
LIABILITIES & EQUITY		
Current liabilities:		
	\$ 919,616	\$ 1,036,247
	3,687	8,591
5	422,421	-
	1,345,724	1,044,838
Non-current liabilities:		
	10,771	333,209
	-	104,751
	4,916,034	4,916,034
	4,926,805	5,353,994
TOTAL LIABILITIES	\$ 6,272,529	\$ 6,398,832
EQUITY		
Shareholders' equity:		
	\$ 75,190,503	\$ 75,186,822
	10,523,030	10,500,956
	(62,266)	(360,078)
	(43,956,528)	(42,874,792)
	41,694,739	42,452,908
Non-controlling interest	(2,096,002)	(2,068,902)
TOTAL EQUITY	\$ 39,598,737	\$ 40,384,006
TOTAL LIABILITIES AND EQUITY	\$ 45,871,266	\$ 46,782,838

Going concern (Note 2)

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

Approved on behalf of the Board:

Signed "Kenneth W. MacDonald"

Director

Signed "David S.B. Carnell"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Loss

(Canadian dollars)

(Unaudited)

	Note	For the three months ended	
		2012	March 31, 2011
Continuing operations			
Revenue		\$ 44,795	\$ 45,663
Cost of sales		25,154	-
		19,641	45,663
Exploration expenses		474,991	881,976
Corporate and administration		638,685	3,744,619
Foreign exchange loss		5,558	25,017
Loss from operating activities		(1,099,593)	(4,605,948)
Finance income		8,596	22,762
Finance expense		-	(684)
Net finance income		8,596	22,078
Net loss from continuing operations		\$ (1,090,996)	\$ (4,583,870)
Loss from discontinued operation	6	(35,022)	(135,670)
Net loss		\$ (1,126,018)	\$ (4,719,540)
Net loss attributable to:			
Equity holders of the Corporation		(1,081,736)	(4,637,955)
Non-controlling interest		(44,282)	(81,585)
		\$ (1,126,018)	\$ (4,719,540)
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Basic and diluted earnings per share		\$ (0.01)	\$ (0.05)
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Basic and diluted weighted average number of shares outstanding		95,802,901	90,057,721

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Loss

(Canadian dollars)

(Unaudited)

	For the three months ended	
	March 31,	
	2012	2011
Net loss	\$ (1,126,018)	\$ (4,719,540)
Other comprehensive income (loss)		
Foreign currency translation difference		
arising on translation of foreign subsidiaries	314,994	20,602
Other comprehensive income (loss)	314,994	20,602
Total comprehensive loss	\$ (811,024)	\$ (4,698,938)
Total comprehensive loss attributable to:		
Equity holders of the Corporation	(783,924)	(4,570,936)
Non-controlling interest	(27,100)	(128,002)
	\$ (811,024)	\$ (4,698,938)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

Attributable to equity holders of the Corporation

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Non-controlling interests	Total equity
Balance at January 1, 2011	\$ 72,325,969	\$ 7,012,557	\$ 22,671	\$ (31,012,681)	\$ (256,942)	\$ 48,091,574
Total comprehensive loss for the period:						
Net loss	-	-	-	(4,637,955)	(81,585)	\$ (4,719,540)
Other comprehensive income (loss)	-	-	67,019	-	(46,417)	\$ 20,602
Change in share subscription receivable	3,662	-	-	-	-	3,662
Share-based payments	-	3,716,613	-	-	-	3,716,613
Stock options exercised	777,400	(320,760)	-	-	-	456,640
Total transactions with owners	781,062	3,395,853	-	-	-	4,176,915
Reduction in ownership of APM	-	-	-	(791)	(791)	(1,582)
Balance at March 31, 2011	\$ 73,107,031	\$ 10,408,410	\$ 89,690	\$ (35,651,427)	\$ (385,735)	\$ 47,567,969
Balance at January 1, 2012	75,186,822	10,500,956	(360,078)	(42,874,792)	(2,068,902)	40,384,006
Total comprehensive loss for the period:						
Net loss	\$ -	\$ -	\$ -	\$ (1,081,736)	\$ (44,282)	\$ (1,126,018)
Other comprehensive income (loss)	-	-	297,812	-	17,182	314,994
Change in share subscription receivable	3,681	-	-	-	-	3,681
Share-based payments	-	22,074	-	-	-	22,074
Total transactions with owners	3,681	22,074	-	-	-	25,755
Balance at March 31, 2012	\$ 75,190,503	\$ 10,523,030	\$ (62,266)	\$ (43,956,528)	\$ (2,096,002)	\$ 39,598,737

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

(Canadian dollars)

(Unaudited)

For the three months ended
March 31,

2012 2011

Cash flows from operating activities:

Net loss	\$	(1,126,018)	\$	(4,719,540)
Item not involving cash:				
Depreciation and amortization		9,471		85,934
Depletion of resource property interest		-		10,091
Stock-based compensation		22,074		3,716,613
Net finance income		(849)		(14,447)
Foreign exchange loss		-		24,287
Change in non-cash working capital		3,493		326,159
Cash flows from operating activities		(1,091,829)		(570,903)

Cash flows from financing activities:

Proceeds from exercise of stock options		-		456,640
Changes in ownership of subsidiary that do not result in a loss of control		-		(1,582)
Proceeds on repayment of share subscription receivable		3,000		3,000
Repayment of obligations under capital lease		(1,195)		(1,115)
Interest paid		(7,748)		(7,653)
Cash flows from financing activities		(5,943)		449,290

Cash flows from investing activities:

Expenditures on exploration and evaluation assets		(357,456)		(690,021)
Expenditures on property, plant and equipment		(27,013)		(54,232)
Interest received		9,277		22,762
Cash flows from investing activities		(375,192)		(721,491)

Effect of exchange rate change on cash and cash equivalents		5,252		(15,800)
Decrease in cash and cash equivalents		(1,467,712)		(858,904)
Cash and cash equivalents, beginning of period		4,104,350		8,379,230
Cash and cash equivalents, end of period	\$	2,636,638	\$	7,520,326

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three months ended March 31, 2012 and 2011

1. Nature of operations and continuance of operations

Erdene Resource Development Corporation (the "Corporation" or "Erdene") is a Corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the discovery of large tonnage, low cost, gold, copper, molybdenum and coal deposits primarily in Mongolia; and the development of coal and industrial mineral interests in North America.

2. Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, as described in the following paragraphs.

The Corporation is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Corporation experienced significant losses and negative cash flows from operations in 2012, 2011 and 2010. The Corporation had working capital of \$2,389,404 at March 31, 2012 compared to \$3,387,452 at December 31, 2011, representing a \$998,048 decrease. Current working capital is sufficient to fund the Corporation's budgeted expenditures until approximately the third quarter of 2012. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

These condensed interim consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying values of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34").

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three months ended March 31, 2012 and 2011

3. Statement of compliance (continued)

The policies applied in these condensed interim consolidated financial statements are consistent with the policies disclosed in Notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2011 with the exception of the significant accounting policies described in Note 4. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2011.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 14, 2012.

4. Significant accounting policies

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Corporation's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, and deferred tax assets, if any, which continue to be measured in accordance with the Corporation's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the Statement of Loss. Gains are not recognized in excess of any cumulative impairment loss.

Discontinued operations

A discontinued operation is a component of the Corporation's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statements of loss and comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative period.

5. Non-current assets and liabilities held for sale

The Corporation's subsidiary, Advanced Primary Minerals ("APM"), has been undercapitalized since operations began in 2009 and has been operating during the weakest US economy in recent years. In the current period and prior year, APM has financed its working capital deficits through the sale of non-core assets and a secured line of credit with Erdene. Obtaining sales agreements with new customers has been slower than anticipated and in December 2011, sales to an existing key customer declined significantly. These lower than budgeted sales combined with the lack of success in having the McDuffie land permitted caused the Corporation to assess the recoverable amount of the non-financial assets related to the cash generating unit (APM clay operations) at December 31, 2011.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three months ended March 31, 2012 and 2011

5. Non-current assets and liabilities held for sale (continued)

The recoverable amount of the cash-generating unit was estimated based on the fair value less costs to sell. The fair value less costs to sell for non-producing assets (McDuffie land that is not permitted for producing clay) was based on appraised value of land. For the producing assets, fair value less costs to sell was based on a non-binding offer from an interested party associated with the operations, which represented the best available information. Based on the assessment in 2011, the carrying amount of the cash-generating unit was approximately \$1,350,000 resulting in an impairment loss of \$3,917,790 recorded in cost of sales in the Statement of Loss in the fourth quarter of 2011. The assumptions used to estimate the impairment are subject to further change which could lead to further write downs or the reversal of previously recognized impairments.

In the first quarter of 2012, following APM management's decision to sell APM's clay operations, the assets and liabilities associated with the disposal group were presented as non-current assets and liabilities held for sale. The APM clay operations are part of the operating segment USA. Efforts to sell the disposal group have commenced and a sale is expected within the next twelve months. At March 31, 2012, the disposal group comprised assets of \$892,791 less liabilities of \$422,421.

Non-current assets held for sale

Property plant and equipment	\$	892,791
	\$	892,791

Property plant and equipment reclassified to non-current assets held for sale is primarily comprised of land, buildings, plant equipment and resource property interests related to the APM clay operations.

Non-current liabilities held for sale

Obligations under finance leases	\$	319,727
Provision for restoration costs		102,694
	\$	422,421

6. Discontinued operation

In the first quarter of 2012, following APM management's decision to sell the clay operations, the non-current assets and liabilities associated with the disposal group were presented as assets and liabilities held for sale. The APM clay operations are part of the operating segment USA and represent a separate significant line of business and geographical area of operation. As such, the net loss and cash flows related to the disposal group held for sale were presented as a discontinued operation. The disposal group was not a discontinued operation or classified as held for sale as at March 31, 2011 or December 31, 2011 and the comparative statements of loss and comprehensive loss have been re-presented to show discontinued operations separately from continuing operations.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three months ended March 31, 2012 and 2011

6. Discontinued operation (continued)

	For the three months ended	
	March 31,	
	2012	2011
Results of discontinued operation		
Revenue	\$ 113,009	\$ 194,725
Cost of sales	130,604	314,263
	(17,595)	(119,538)
Exploration expenses	172	-
Corporate and administration	9,077	9,230
Foreign exchange loss	430	(730)
Loss from operating activities	(27,274)	(128,039)
Finance expense	(7,748)	(7,631)
Net loss from discontinued operation	\$ (35,022)	\$ (135,670)

	For the three months ended	
	March 31,	
	2012	2011
Cash flows used in discontinued operation		
Net cash used in operating activities	\$ (27,274)	\$ (43,680)
Net cash used in financing activities	(7,748)	(7,631)
Net cash used in discontinued operation	\$ (35,022)	\$ (51,311)

	Continuing operations	Discontinued operation	Total
For the three months ended March 31, 2012			
Net loss attributable to:			
Equity holders of the Corporation	\$ (1,060,838)	\$ (20,898)	\$ (1,081,736)
Non-controlling interest	(30,158)	(14,124)	(44,282)
	\$ (1,090,996)	\$ (35,022)	\$ (1,126,018)
For the three months ended March 31, 2011			
Net loss attributable to:			
Equity holders of the Corporation	\$ (4,557,001)	\$ (80,954)	\$ (4,637,955)
Non-controlling interest	(26,869)	(54,716)	(81,585)
	\$ (4,583,870)	\$ (135,670)	\$ (4,719,540)

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three months ended March 31, 2012 and 2011

7. Operating segments:

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

Information about reportable segments:

Canada	USA	Mongolia	Corporate	TotalE
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