# ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

*(Canadian dollars)*

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG

*Emphasis of Matter*

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Erdene Resource Development Corporation has experienced losses and negative cash flows from operations in 2014 and 2013 and does not expect to have sufficient working capital to fund its operations beyond the second quarter of 2015. These conditions, along with other matters as set forth in note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
March 25, 2015
Halifax, Canada

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Financial Position**
(Canadian dollars)

| | Notes | | December 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash | | $ | **136,824** | $ | 569,469 |
| Trade and other receivables | **7** | | **20,674** | | 59,198 |
| Prepaid expenses | | | **15,980** | | 12,629 |
| | | | **173,478** | | 641,296 |
| Non-current assets: | | | | | |
| Exploration and evaluation assets | **8** | | **10,676,010** | | 10,859,775 |
| Property, plant and equipment | **9** | | **62,160** | | 85,036 |
| | | | **10,738,170** | | 10,944,811 |
| **TOTAL ASSETS** | | **$** | **10,911,648** | **$** | 11,586,107 |
| **LIABILITIES & EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Trade and other payables | **10** | $ | **309,146** | $ | 158,233 |
| Current portion of obligations under finance leases | **11** | | **2,657** | | 4,265 |
| | | | **311,803** | | 162,498 |
| Non-current liabilities: | | | | | |
| Obligations under finance leases | **11** | | **-** | | 2,658 |
| | | | **-** | | 2,658 |
| **TOTAL LIABILITIES** | | $ | **311,803** | $ | 165,156 |
| **EQUITY** | | | | | |
| Shareholders' equity: | | | | | |
| Share capital | **15** | $ | **79,290,034** | $ | 77,497,474 |
| Contributed surplus | | | **11,487,249** | | 11,200,415 |
| Accumulated other comprehensive income (loss) | | | **(1,295,742)** | | (1,011,795) |
| Deficit | | | **(78,881,696)** | | (76,265,143) |
| | | | **10,599,845** | | 11,420,951 |
| **TOTAL LIABILITIES AND EQUITY** | | $ | **10,911,648** | $ | 11,586,107 |

Going concern (Note 2)
Commitments (Note 12)
Subsequent event (Note 22)
The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

*Signed "Peter C. Akerley"*
___________________________ Director

*Signed "John P. Byrne"*
___________________________ Director

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Comprehensive Loss**

(Canadian dollars)

| | Notes | For the year ended December 31, 2014 | 2013 |
|---|---|---|---|
| Exploration expenses | 18 | **$ 1,900,651** | $ 1,701,911 |
| Corporate and administration | 19 | **729,074** | 939,455 |
| Other income | | **(1,039)** | (1,370) |
| Foreign exchange gain | | **(9,615)** | (9,690) |
| Loss from operating activities | | **2,619,071** | 2,630,306 |
| Finance income | 20 | **2,936** | 8,790 |
| Finance expense | 20 | **(418)** | (1,550) |
| Net finance income | | **2,518** | 7,240 |
| Loss from continuing operations | | **2,616,553** | 2,623,066 |
| Loss from discontinued operations | 17 | **-** | 137,357 |
| Net loss | | **$ 2,616,553** | $ 2,760,423 |
| Other comprehensive loss: | | | |
| Foreign currency translation difference arising on translation of foreign subsidiaries | | **283,947** | 722,621 |
| Other comprehensive loss | | **283,947** | 722,621 |
| Total comprehensive loss | | **$ 2,900,500** | $ 3,483,044 |
| Basic and diluted loss per share: | | | |
| Continuing operations | | **$ 0.04** | $ 0.05 |
| Discontinued operations | | **-** | - |
| Basic and diluted loss per share | | **$ 0.04** | $ 0.05 |
| Basic and diluted weighted average number of shares outstanding | | **74,255,417** | 58,704,258 |

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Changes in Equity**

(Canadian dollars)

| | Share capital | Contributed surplus | Accumulated other comprehensive income | Deficit | Total equity |
|---|---|---|---|---|---|
| **Balance at January 1, 2013** | $ 75,975,162 | $ 10,631,949 | $ (426,531) | $ (73,504,720) | $ 12,675,860 |
| **Total comprehensive loss for the period:** | | | | | |
| Net loss | $ - | $ - | $ - | $ (2,760,423) | $ (2,760,423) |
| Other comprehensive loss | - | - | (722,621) | - | (722,621) |
| Private placements, net of share issue costs (note 15) | 1,450,346 | - | - | - | 1,450,346 |
| Warrants issued under private placement (note 15 & 16) | - | 195,950 | - | - | 195,950 |
| Change in share subscription receivable (note 21) | 66,966 | - | - | - | 66,966 |
| Issue of shares from DSU plan (note 15 & 16) | 5,000 | (5,000) | - | - | - |
| Share-based compenssation | - | 377,516 | - | - | 377,516 |
| **Total transactions with owners** | 1,522,312 | 568,466 | - | - | 2,090,778 |
| Recognition of cumulative translation adjustment in net loss upon windup of subsidiary (note 17) | - | - | 137,357 | - | 137,357 |
| **Balance at December 31, 2013** | $ 77,497,474 | $ 11,200,415 | $ (1,011,795) | $ (76,265,143) | $ 11,420,951 |
| Balance at January 1, 2014 | **$ 77,497,474** | **$ 11,200,415** | **$ (1,011,795)** | **$ (76,265,143)** | **$ 11,420,951** |
| **Total comprehensive loss for the period:** | | | | | |
| Net loss | **$ -** | **$ -** | **$ -** | **$ (2,616,553)** | **$ (2,616,553)** |
| Other comprehensive loss | **-** | **-** | **(283,947)** | **-** | **(283,947)** |
| Private placements, net of share issue costs (note 15) | **1,373,916** | **-** | **-** | **-** | **1,373,916** |
| Warrants issued under private placement (note 15 & 16) | **-** | **256,762** | **-** | **-** | **256,762** |
| Issue of shares from DSU plan (note 15 & 16) | **7,980** | **(7,980)** | **-** | **-** | **-** |
| Stock options exercised | **3,400** | **(1,000)** | **-** | **-** | **2,400** |
| Warrants exercised | **407,264** | **(116,361)** | **-** | **-** | **290,903** |
| Share-based compensation | **-** | **155,413** | **-** | **-** | **155,413** |
| **Total transactions with owners** | **1,792,560** | **286,834** | **-** | **-** | **2,079,394** |
| **Balance at December 31, 2014** | **$ 79,290,034** | **$ 11,487,249** | **$ (1,295,742)** | **$ (78,881,696)** | **$ 10,599,845** |

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Cash Flows**

(Canadian dollars)

| | Notes | For the year ended December 31, 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net loss | | **$ (2,616,553)** | $ (2,760,423) |
| Items not involving cash: | | | |
| Depreciation and amortization | | **20,314** | 29,087 |
| Share-based compensation | | **155,413** | 377,516 |
| Loss on disposal of exploration and evaluation assets | | **45,086** | 110,147 |
| Loss on windup of subsidiary | | **-** | 137,357 |
| Non-cash compensation expense | | **-** | 56,175 |
| Net finance income | | **(2,518)** | (7,240) |
| Foreign exchange gain | | **(7,494)** | (3,695) |
| (Gain) / loss on disposal of property, plant & equipment | | **(1,141)** | 545 |
| Change in non-cash working capital | | **188,960** | (320,920) |
| Cash flows from operating activities | | **(2,217,933)** | (2,381,451) |
| **Cash flows from financing activities:** | | | |
| Issue of common shares and warrants for cash, net of issue costs | | **1,630,678** | 1,646,296 |
| Proceeds on exercise of stock options | | **2,400** | - |
| Proceeds on exercise of share purchase warrants | | **290,903** | - |
| Proceeds on repayment of share subscription receivable | | **-** | 10,000 |
| Repayment of obligations under capital lease | | **(4,266)** | (3,924) |
| Interest paid | | **(418)** | (759) |
| Cash flows from financing activities | | **1,919,297** | 1,651,613 |
| **Cash flows from investing activities:** | | | |
| Expenditures on exploration and evaluation assets | | **(142,810)** | (214,205) |
| Proceeds from sale of property, plant and equipment | | **4,461** | - |
| Expenditures on property, plant and equipment | | **(2,152)** | - |
| Interest received | | **2,936** | 8,790 |
| Cash flows from investing activities | | **(137,565)** | (205,415) |
| Effect of exchange rate changes on cash and cash equivalents | | **3,556** | 1,833 |
| Decrease in cash and cash equivalents | | **(432,645)** | (933,420) |
| Cash and cash equivalents, beginning of period | | **569,469** | 1,502,889 |
| Cash and cash equivalents, end of period | | **$ 136,824** | $ 569,469 |

Cash flows from discontinued operations (Note 17)

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

**1. Nature of operations and continuance of operations:**

Erdene Resource Development Corporation (the "Corporation") is a corporation domiciled in Canada. The address of the Corporation's registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1. The consolidated financial statements of the Corporation as at and for the years ended December 31, 2014 and 2013 comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the discovery of significant base and precious metal deposits in Mongolia.

**2. Going concern:**

These consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will 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. However, in making its assessment, management is aware of material uncertainties related to events or conditions that cast significant doubt upon the Corporation'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 2014 and 2013. The Corporation had a working capital deficit of $138,325 at December 31, 2014 compared to working capital of $478,798 at December 31, 2013, representing a $617,123 decrease, and has a deficit. Subsequent to December 31, 2014, the Corporation received USD$250,000 on signing an agreement with Tian Poh Resources Limited (Note 22). Management estimates current working capital is only sufficient to fund the Corporation's planned expenditures until the second quarter of 2015. 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, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions 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 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 amounts of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

## 3. Basis of presentation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Board of Directors on March 25, 2015.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

Items included in the financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Erdene Resource Development Corporation.

c) Use of estimates and judgments

The preparation of the financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

Critical accounting estimates:

*Estimate of recoverability for non-financial assets*

When there are indicators that an asset may be impaired, the Corporation is required to estimate the asset's recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs of disposal and value in use.

Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditure.

**3. Basis of presentation (continued)**

Critical accounting estimates (continued):

*Share-based payments*

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

*Provisions for site restoration*

Management's assumption that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

The following accounting policies involve judgments or assessments made by management:

*Exploration and evaluation assets*

Management is required to apply judgment in whether a property or an exploration area's potential has been determined, in which case subsequent exploration and evaluation costs are capitalized.

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for resource properties. Once technical feasibility and commercial viability of a resource property can be demonstrated, exploration costs will be reclassified to property, plant and equipment and subject to different accounting treatment. As at December 31, 2014, management determined that no such reclassification was required.

*Taxation*

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

## 4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Basis of consolidation

For the years ended December 31, 2014 and 2013, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados holding companies); and Erdene Mongol LLC and Anian Resources LLC (Mongolia exploration companies). All subsidiaries are wholly owned.

On January 9, 2013, the Corporation wound up ERD Aggregate Corporation (Delaware), an inactive holding company (note 17).

i) Subsidiaries

Subsidiaries are those entities over which the Corporation has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Corporation controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Corporation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the parent Corporation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation and cease to be consolidated from the date on which control is transferred out of the Corporation. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

ii) Transactions eliminated on consolidation

Inter-corporation balances and transactions, and any unrealized income and expenses arising from inter-corporation transactions, are eliminated in preparing the consolidated financial statements.

**4. Summary of significant accounting policies (continued)**

b) Foreign currency

i) Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from cumulative translation account to profit or loss on repayment of the monetary items.

ii) Foreign operations

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each income statement presented are translated at monthly average exchange rates; and
- all resulting exchange differences are recognized as a separate component of equity ("cumulative translation account")

On the loss of control of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are recognized in the income statement as part of the gain or loss on sale.

c) Financial instruments

i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they originate. All other financial assets are recognized initially on trade date at which the Corporation becomes party to the contractual provision of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

**4. Summary of significant accounting policies (continued)**

c) Financial instruments (continued)

i) Financial assets (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash.

Cash comprises cash on hand and demand deposits.

*Fair value*

Fair value is determined based on current bid prices for all quoted investments.

ii) Financial liabilities

The Corporation initially recognizes other financial liabilities on the trade date at which the Corporation becomes party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Corporation derecognizes financial liabilities when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following non-derivative other financial liabilities: trade and other payables.

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

d) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred. 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 a property, or an area's potential has been determined, as approved by the board, in which case subsequent exploration and evaluation costs are capitalized.

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

**4. Summary of significant accounting policies (continued)**

d) Exploration and evaluation assets (continued)

Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount, in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

e) Property, plant and equipment

*Recognition and measurement*

Land is stated at historical cost. All items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use.

*Subsequent costs*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

*Depreciation*

Depreciation of property, plant and equipment is calculated using the declining balance method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of certain leased plant and equipment, the shorter lease term at the following rates:

**4. Summary of significant accounting policies (continued)**

e) Property, plant and equipment

*Depreciation (continued)*

| Asset | Basis | Rate |
|---|---|---|
| Equipment, furniture & fixtures | Declining balance | 20% |
| Software & computers | Declining balance | 33% |
| Vehicles | Declining balance | 30% |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

*Resource properties*

Resource properties include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, and development assets also includes subsequent costs to develop the mine to the production phase.

Depletion of resource properties is calculated on the basis of units of production and commences when the mine starts commercial production. Depletion is based on assessments of measured and indicated resources and a proportion of mineral resources available to be mined by the current production equipment.

f) Impairment

i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

The carrying amounts of the Corporation’s non-financial assets, excluding exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset’s recoverable amount is estimated. For goodwill, the recoverable amount is estimated at least once each year at the same time.

**4. Summary of significant accounting policies (continued)**

f) Impairment (continued)

ii) Non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating-unit" or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

**4. Summary of significant accounting policies (continued)**

g) Income taxes (continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortization and depreciation on property, plant and equipment, tax losses carried forward and fair value adjustments on assets acquired in business combinations.

h) Share-based compensation

Equity-settled share-based awards to employees and others providing similar services are measured at fair value of the equity instruments at the date of grant. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no-true-up for differences between expected and actual outcomes.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

i) 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.

## 4. Summary of significant accounting policies (continued)

j) Earnings per share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares. All share options are currently anti-dilutive. As a result basic and diluted earnings per share are the same.

## 5. Future changes in accounting policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated statements:

(a) Amendments to IFRS 9 - Financial Instruments

The IASB has issued IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The Corporation intends to adopt IFRS 9 for the annual period beginning January 1, 2018, but does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Corporation's financial assets is not expected to change under IFRS 9 because of the nature of the Corporation's operations and the types of financial assets it holds.

(Canadian dollars)

## 6. Financial instruments

**Credit Risk:**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying Amount December 31, 2014 | 2013 |
|---|---|---|
| Cash | **$ 136,824** | $ 569,469 |
| Trade and other receivables | **20,674** | 59,198 |
| | **$ 157,498** | $ 628,667 |

The Corporation manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2014, $10,845 or less than 8% of the balance of cash was held in banks outside Canada (2013 - $3,495 or less than 1%).

Trade and other receivables include a receivable from Morien Resources Corporation ("Morien"). The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 78% of trade and other receivables at December 31, 2014 (2013 – 78%). Management believes the credit risk on amounts receivable is low.

**Liquidity Risk:**

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Corporation does not have sufficient working capital to carry out all budgeted programs in 2015 and must obtain additional financing by the second quarter 2015 to avoid disruption in planned expenditures (see Note 2).

**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.

**a) Interest rate risk**

The Corporation has no interest-bearing debt other than finance leases and is not exposed to any significant interest rate risk.

**b) Foreign currency risk**

The Corporation operates in Mongolia, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash balances are primarily held with high quality financial institutions in Canada. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Corporation's budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

(Canadian dollars)

## 6. Financial instruments (continued)

### b) Foreign currency risk (continued)

The Corporation's exposure to US dollar currency risk was as follows:

| | December 31, 2014 | 2013 |
|---|---|---|
| Cash | **$ 18,433** | $ 157,772 |
| Trade and other payables | **(27,684)** | (9,869) |
| | **$ (9,251)** | $ 147,903 |

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 $1,000 (2013 - $15,000).

The Corporation's exposure to Mongolian Tugrik currency risk was as follows:

| | December 31, 2014 | 2013 |
|---|---|---|
| Cash | **$ 6,005** | $ 3,327 |
| Trade and other receivables | **$ -** | $ 6,584 |
| Trade and other payables | **(51,481)** | (34,907) |
| | **$ (45,476)** | $ (24,996) |

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $4,500 (2013 - $2,500).

### c) Price risk

The Corporation is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

**Fair Value:**

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statements of financial position or disclosed in the notes to the financial statements is as follows:

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets measured at fair value: | | | | | | |
| Cash | **$ 136,824** | **$ -** | **$ -** | $ 569,469 | $ - | $ - |
| Trade and other payables | | **20,674** | **-** | - | 59,198 | - |
| Liabilities measured at fair value: | | | | | | |
| Trade and other payables | **$ -** | **$ 309,146** | **$ -** | $ - | $ 158,233 | $ - |
| Obligations under finance leases | **-** | **2,657** | **-** | - | 6,923 | - |

(Canadian dollars)

## 7. Trade and other receivables

| | December 31, 2014 | 2013 |
|---|---|---|
| Management fee receivable | **$ 16,100** | $ 46,446 |
| Employee advances and receivables | **4,574** | 9,024 |
| Other | **-** | 3,728 |
| | **$ 20,674** | $ 59,198 |

The Corporation has an agreement with Morien Resources Corp. for the provision of management services and office space and the recovery of overhead costs. For the twelve months ended December 31, 2014, these expenses and recoveries totaled $421,829 (2013 - $501,278). The costs and recoveries are charged to corporate and administrative expenses on the statement of comprehensive loss.

## 8. Exploration and evaluation assets

| | Zuun Mod Moly/Copper | Other | Total |
|---|---|---|---|
| Balance, January 1, 2013 | $ 11,279,877 | $ 192,847 | $ 11,472,724 |
| Additions | 177,285 | 36,920 | 214,205 |
| Disposals | - | (110,147) | (110,147) |
| Effect of movements in exchange rates | (696,661) | (20,346) | (717,007) |
| Balance, December 31, 2013 | $ 10,760,501 | $ 99,274 | $ 10,859,775 |
| | | | |
| Balance, January 1, 2014 | **$ 10,760,501** | **$ 99,274** | **$ 10,859,775** |
| Additions | **130,888** | **11,922** | **142,810** |
| Disposals | **-** | **(45,086)** | **(45,086)** |
| Effect of movements in exchange rates | **(277,375)** | **(4,114)** | **(281,489)** |
| Balance, December 31, 2014 | **$ 10,614,014** | **$ 61,996** | **$ 10,676,010** |

The Corporation's mineral exploration and mining licenses in Mongolia are held by its subsidiaries, Erdene Mongol LLC, and Anian Resources LLC. 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. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. These rights are held in good standing through the payment of an annual license fee.

Zuun Mod/Khuvyn Khar

The Zuun Mod property contains a molybdenum-copper resource and consists of two contiguous mining licenses. The property is located in Bayankhongor Province southwest of Ulaanbaatar. Beginning July 1, 2007, the Corporation's Zuun Mod molybdenum project met the Corporation's criteria to begin capitalizing exploration and evaluation costs associated with the project. One mining license was issued in 2011 (consisting of 6,041 hectares) and the second contiguous mining license was issued in the third quarter 2012 (consisting of 358 hectares).

(Canadian dollars)

## 8. Exploration and evaluation assets (continued)

Zuun Mod/Khuvyn Khar (continued)

Together these mining licenses contain all of the reported mineral resources at Zuun Mod. The Mining Licenses are valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. Subsequent to year end, the Corporation signed an agreement with Tian Poh Resources Ltd. See Subsequent event, Note 22.

Tskenher Nomin and Other Licenses

The Corporation has two exploration licenses located in Bayankhongor and Gobi Altai provinces in Mongolia covering 9,183 hectares. The 4,669 hectare Tshekher Nomin license includes the Altan Nar gold, silver, lead, zinc prospect. The license renewal dates are April and December 2015.

Disposals

The Corporation disposed of three licenses in 2014 with a book value of $45,086 (2013 – two licenses with a book value of $110,147).

Teck Alliance

In April 2013, the Corporation entered into an agreement with Teck Resources Limited ("Teck"), to fund and explore the Corporation's mineral tenements in the Trans Altay region of southwest Mongolia. Teck has the option to acquire additional shares of the Corporation until it has invested at least $3 million or has acquired 19.9% of the outstanding shares of the Corporation, whichever occurs first. Teck has invested $1.5 million to December 31, 2014, excluding the loan described in Note 10. Teck must subscribe to a minimum $500,000 on each anniversary to maintain its option.

## 9. Property, plant and equipment

| | Plant & field equipment | Equipment, furniture & fixtures | Software & computers | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance, January 1, 2013** | $ 43,334 | $ 102,878 | $ 197,980 | $ 344,192 |
| **Additions** | - | - | - | - |
| **Disposals** | - | (597) | (2,211) | (2,808) |
| **Effect of movements in exchange rates** | (4,327) | (4,222) | (2,845) | (11,394) |
| **Balance, December 31, 2013** | $ 39,007 | $ 98,059 | $ 192,924 | $ 329,990 |
| **Depreciation & depletion** | | | | |
| **Balance, January 1, 2013** | $ (11,595) | $ (73,347) | $ (140,484) | $ (225,426) |
| **Depreciation** | (4,162) | (7,743) | (17,182) | (29,087) |
| **Disposals** | - | 219 | 2,044 | 2,263 |
| **Effect of movements in exchange rates** | 1,419 | 3,526 | 2,351 | 7,296 |
| **Balance, December 31, 2013** | $ (14,338) | $ (77,345) | $ (153,271) | $ (244,954) |
| **Carrying amounts** | | | | |
| At January 1, 2013 | $ 31,739 | $ 29,531 | $ 57,496 | $ 118,766 |
| **At December 31, 2013** | $ 24,669 | $ 20,714 | $ 39,653 | $ 85,036 |

(Canadian dollars)

## 9. Property, plant and equipment (continued)

| | Plant & field equipment | Equipment, furniture & fixtures | Software & computers | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance, January 1, 2014** | **$ 39,007** | **$ 98,059** | **$ 192,924** | **$ 329,990** |
| **Additions** | **-** | **-** | **2,152** | **2,152** |
| **Disposals** | **(12,217)** | **(9,873)** | **(355)** | **(22,445)** |
| **Effect of movements in exchange rates** | **(1,610)** | **(1,802)** | **(1,088)** | **(4,500)** |
| **Balance, December 31, 2014** | **$ 25,180** | **$ 86,384** | **$ 193,633** | **$ 305,197** |
| **Depreciation & depletion** | | | | |
| **Balance, January 1, 2014** | **$ (14,338)** | **$ (77,345)** | **$ (153,271)** | **$ (244,954)** |
| **Depreciation** | **(2,617)** | **(5,900)** | **(11,797)** | **(20,314)** |
| **Disposals** | **6,312** | **12,505** | **308** | **19,125** |
| **Effect of movements in exchange rates** | **570** | **1,608** | **928** | **3,106** |
| **Balance, December 31, 2014** | **$ (10,073)** | **$ (69,132)** | **$ (163,832)** | **$ (243,037)** |
| **Carrying amounts** | | | | |
| At January 1, 2014 | $ 24,669 | $ 20,714 | $ 39,653 | $ 85,036 |
| **At December 31, 2014** | **$ 15,107** | **$ 17,252** | **$ 29,801** | **$ 62,160** |

**Leased equipment, furniture & fixtures:**

At December 31, 2014 the net carrying amount of leased equipment, furniture and fixtures was $4,936 (December 31, 2013: $6,978).

## 10. Trade and other payables

| | December 31, 2014 | 2013 |
|---|---|---|
| Trade payables and accruals | **$ 202,004** | $ 158,233 |
| Teck convertible loan | **107,142** | - |
| | **$ 309,146** | $ 158,233 |

On August 15, 2014, the Corporation signed a loan agreement with Teck. Proceeds of the loan were used for exploration programs under the Teck Alliance (see Note 8). Pursuant to the terms of a conversion feature, the loan will be settled either (a) with a variable number of shares of the Corporation based on the volume weighted average closing price (“VWAP”) of the shares over the ten day period prior to the conversion or (b) from the proceeds of the exercise of the 1,071,420 warrants held by Teck, which warrants have an exercise price of $0.10 per share and expire in November 2015. The loan is expected to be settled no later than November 2015.

(Canadian dollars)

## 11. Finance leases

Finance lease liabilities are payable as follows:

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than 1 year | **$ 2,732** | **$ 75** | **$ 2,657** | $ 4,683 | $ 418 | $ 4,265 |
| Between 1 and 5 years | **-** | **-** | **-** | 2,732 | 74 | 2,658 |
| **Total** | **$ 2,732** | **$ 75** | **$ 2,657** | $ 7,415 | $ 492 | $ 6,923 |

## 12. Commitments

Operating lease rentals are payable as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Less than 1 year | **66,666** | 54,453 |
| Between 1 and 5 years | **44,444** | - |
| **Total** | **$ 111,110** | $ 54,453 |

The Corporation has an operating lease for office space in Dartmouth, Nova Scotia until August 31, 2016.

## 13. Income taxes and deferred tax liability

The Corporation's provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to income (loss) before income taxes as a result of the following:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Statutory tax rates | | 31% |
| Income taxes (recovery) computed at the statutory rates | **$ (805,878)** | $ (856,000) |
| Benefit of tax assets not recognized | **488,108** | 652,406 |
| Expenses not deductible for tax purposes | **50,200** | 119,000 |
| Effect of foreign tax rates | **171,555** | 102,899 |
| Tax deductible expenses charged to retained earnings | **(20,551)** | (12,000) |
| Other | **116,566** | (6,305) |
| Provision for income taxes | **$ -** | $ - |

The enacted tax rates in Canada 31% (31% in 2013), USA 39% (39% in 2013) and Mongolia 25% (25% in 2013) where the Corporation operates are applied in the tax provision calculation.

(Canadian dollars)

**13. Income taxes and deferred tax liability (continued)**

The following temporary differences, non-capital losses and capital losses have not been recognized in the consolidated financial statements.

| | | | **2014** |
|---|---|---|---|
| | **Canada** | **Mongolia** | **Total** |
| **Non-capital losses carried forward** | **$ 12,924,225** | **$ 4,329,552** | **$ 17,253,777** |
| **Property, plant and equipment** | **197,050** | **-** | **197,050** |
| **Share issuance costs** | **122,317** | **-** | **122,317** |
| **Intangible assets** | **377,650** | **-** | **377,650** |
| **Exploration and evaluation assets** | **1,210,729** | **4,125,303** | **5,336,032** |
| | **$ 14,831,971** | **$ 8,454,855** | **$ 23,286,826** |

| | | | 2013 |
|---|---|---|---|
| | Canada | Mongolia | Total |
| Non-capital losses carried forward | $ 12,116,000 | $ 5,558,000 | $ 17,674,000 |
| Property, plant and equipment | 162,000 | - | 162,000 |
| Share issuance costs | 113,000 | - | 113,000 |
| Intangible assets | 351,000 | - | 351,000 |
| Exploration and evaluation assets | 1,210,000 | 3,301,828 | 4,511,828 |
| | $ 13,952,000 | $ 8,859,828 | $ 22,811,828 |

As at December 31 2014, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

| | **For the year ended December 31,** | |
|---|---|---|
| | **2014** | **2013** |
| 2014 | **$ -** | $ 2,018,000 |
| 2015 | **4,017,445** | 4,110,000 |
| 2016 | **946,084** | 988,000 |
| 2017 | **725,245** | 968,000 |
| 2018 | **551,869** | - |
| Thereafter | **11,013,134** | 9,590,000 |
| | **$ 17,253,777** | $ 17,674,000 |

(Canadian dollars)

## 14. Capital management

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can continue to finance its ongoing exploration and development programs and ensure the Corporation remains in sound financial position. The Corporation defines capital that it manages as the aggregate of its obligations under finance leases and equity attributable to common shareholders of the Corporation, which is comprised of share capital, contributed surplus, accumulated other comprehensive income (loss), and deficit.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust the capital structure, the Corporation (upon approval from its Board of Directors, as required) may issue additional capital, primarily through equity financings. The Board of Directors reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions, major investments, as well as annual capital and operating budgets. The Corporation is not subject to externally imposed capital requirements.

The Corporation utilizes a combination of finance leases and equity to finance its operations and exploration.

| | | | December 31, | |
|---|---|---|---|---|
| **Capital Structure** | **Interest rate** | **Maturity** | **2014** | **2013** |
| Shareholders' Equity | | | **$ 10,609,295** | $ 11,420,951 |
| Teck convertible loan (Note 10) | 0.00% | November 2015 | **107,142** | - |
| Obligations under finance leases | 8.36% | July 2015 | **2,657** | 6,923 |
| **Net capital** | | | **$ 10,719,094** | $ 11,427,874 |

## 15. Share Capital

Share capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The number of common shares outstanding at year-end is as follows:

| | **2014** | **2013** |
|---|---|---|
| On issue at January 1 | **68,621,503** | 53,785,299 |
| Issued for cash | **11,009,143** | 14,797,514 |
| Exercise of stock options (note 15) | **20,000** | - |
| Exercise of warrants (note 15) | **2,909,030** | - |
| Issued from deferred share unit plan (note 15) | **76,557** | 38,690 |
| On issue at December 31 | **82,636,233** | 68,621,503 |

Issuance of common shares

In April 2014, the Corporation closed private placement financing with Teck Resources Limited which resulted in the issuance of 2,000,000 common shares at a price of $0.175 per share generating gross proceeds of $350,000. Share issue costs of $3,537 were paid in conjunction with the private placement resulting in net proceeds of $346,463.

## 15. Share Capital (continued)

Issuance of common shares (continued)

In April 2014, the Corporation closed a private placement financing which resulted in the issuance of 4,284,500 Units at $0.16 per Unit generating gross proceeds of $685,520. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.24 for a 24-month period. Share issue costs of $30,577 were paid in conjunction with the private placement resulting in net proceeds of $654,943. The Black-Scholes fair value of the warrants was $160,669 and recorded in contributed surplus. All issued shares are fully paid.

In November 2014, the Corporation closed a private placement financing which resulted in the issuance of 4,724,643 Units at $0.14 per Unit generating gross proceeds of $661,450. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.21 for a 24-month period. Share issue costs of $32,178 were paid in conjunction with the private placement resulting in net proceeds of $629,272. The Black-Scholes fair value of the warrants was $96,093 and recorded in contributed surplus. All issued shares are fully paid.

In November 2013, the Corporation closed a private placement financing which resulted in the issuance of 9,797,514 Units at $0.07 per Unit generating gross proceeds of $685,826. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.10 for a 24-month period. Share issue costs of $20,588 were paid in conjunction with the private placement resulting in net proceeds of $665,238. The Black-Scholes fair value of the warrants was $195,950 and recorded in contributed surplus. All issued shares are fully paid.

In April 2013, the Corporation closed private placement financing with Teck Resources Limited which resulted in the issuance of 5,000,000 common shares at a price of $0.20 generating gross proceeds of $1,000,000. Share issue costs of $18,942 were paid in conjunction with the private placement resulting in net proceeds of $981,058.

## 16. Stock options, warrants and deferred share units

### (a) Stock Options

The Corporation has a rolling 10% incentive stock option plan (the “Plan”) under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. 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 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 Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

(Canadian dollars)

## 16. Stock options, warrants and deferred share units (continued)

### (a) Stock Options (continued)

The changes in stock options during the years ended December 31, 2014 and 2013 were as follows:

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Outstanding at January 1 | **3,704,250** | **$** | **0.25** | 2,376,500 | $ | 0.37 |
| Granted | **1,115,000** | | **0.16** | 1,781,250 | | 0.12 |
| Expired | **(652,500)** | | **0.27** | (453,500) | | 0.38 |
| Exercised | **(20,000)** | | **0.12** | - | | - |
| Outstanding at December 31 | **4,146,750** | **$** | **0.23** | 3,704,250 | $ | 0.25 |
| Exercisable at December 31 | **4,146,750** | **$** | **0.23** | 3,704,250 | $ | 0.25 |

The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2014:

| | Outstanding | | |
|---|---|---|---|
| Expiry date | Number of Options | | Exercise price |
| April 15, 2015 | 373,000 | | 0.48 |
| October 8, 2015 | 200,000 | | 0.48 |
| March 22, 2016 | 107,500 | | 1.04 |
| August 27, 2017 | 610,000 | | 0.25 |
| June 28, 2018 | 1,296,250 | | 0.12 |
| November 26, 2018 | 445,000 | | 0.14 |
| June 18, 2019 | 1,115,000 | | 0.16 |
| | **4,146,750** | **$** | **0.23** |

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

| | Year Ended December 31, 2014 | | Year Ended December 31, 2013 | |
|---|---|---|---|---|
| Share price at grant date | **$** | **0.16** | $ | 0.11 |
| Exercise price | **$** | **0.16** | $ | 0.12 |
| Risk-free interest rate | | **1.3%** | | 1.6% |
| Expected life | | **3.6 years** | | 4.4 years |
| Expected volatility | | **91%** | | 97% |
| Expected dividends | | **0.0%** | | 0.0% |
| Weighted average grant date fair value | **$** | **0.09** | $ | 0.08 |

Expected volatility is estimated by considering historic average share price volatility.

(Canadian dollars)

### 16. Stock options, warrants and deferred share units (continued)

#### (b) Warrants

As described in Note 15, two private placements of Units were completed during the year ended December 31, 2014. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with 2,142,250 whole common share purchase warrants entitling the holder to purchase one common share of the Corporation at a price of $0.24 for a 24-month period; and 2,402,320 whole common share purchase warrants entitling the holder to purchase one common share of the Corporation at a price of $0.21 for a 24-month period.

A private placement of Units was also completed during the year ended December 31, 2013. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.10 for a 24-month period.

The following table summarizes the continuity of the warrants for the years ended December 31, 2014 and 2013:

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | | Number of warrants | Weighted average exercise price | |
| Outstanding at January 1 | **7,839,939** | **$** | **0.16** | 2,941,179 | $ | 0.25 |
| Issued | **4,544,570** | | **0.22** | 4,898,760 | | 0.10 |
| Exercised | **(2,909,030)** | | **0.10** | - | | - |
| Expired | **(2,941,179)** | | **0.25** | - | | - |
| Outstanding at December 31 | **6,534,300** | **$** | **0.19** | 7,839,939 | $ | 0.16 |

The fair value of each warrant was estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

| | Year Ended December 31, 2014 | | Year Ended December 31, 2013 | |
|---|---|---|---|---|
| Share price at grant date | **$** | **0.15** | $ | 0.09 |
| Exercise price | **$** | **0.22** | $ | 0.10 |
| Risk-free interest rate | | **1.0%** | | 1.1% |
| Expected life | | **2.0 years** | | 2.0 years |
| Expected volatility | | **95%** | | 78% |
| Expected dividends | | **0.0%** | | 0.0% |
| Weighted average grant date fair value | **$** | **0.05** | $ | 0.04 |

Expected volatility is estimated by considering historic average share price volatility.

(Canadian dollars)

## 16. Stock options, warrants and deferred share units (continued)

### (c) Deferred Share Units

In 2013, the Corporation adopted a deferred share unit ("DSU") plan to align the long-term incentive compensation of certain officers, directors and senior management with the drivers of long-term shareholder value. Under the Erdene DSU plan, the Corporation may grant DSUs to eligible plan members in such number and at such times as is determined by the Board of Directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, DSUs vest immediately and plan members are credited with the DSUs granted to them. Upon termination or death of the plan member, the Corporation pays the then market value of the plan member's shares either in cash or in shares, at the sole discretion of the Corporation. Since the type of payout is at the discretion of the Corporation, the plan is accounted for as an equity settled plan.

The following table summarizes information concerning DSUs at December 31, 2014 and 2013:

| | December 31, 2014<br>Number of DSUs | December 31, 2013<br>Number of DSUs |
|---|---|---|
| Outstanding at January 1 | **2,090,451** | - |
| Granted | **370,858** | 2,129,141 |
| Shares issued from DSU | **(76,557)** | (38,690) |
| Outstanding at December 31 | **2,384,752** | 2,090,451 |

The fair value of the DSUs granted in the year ended December 31, 2014 was $51,363 (2013 – $238,073) and was charged to share based payments.

| | Year Ended December 31, 2014 | Year Ended December 31, 2013 |
|---|---|---|
| 5 day VWAP at grant date | **$ 0.14** | $ 0.11 |

## 17. Discontinued operations

The $137,357 loss recognized in 2013 is the non-cash cumulative translation adjustment related to the windup of ERD Aggregate Corporation (Delaware) in 2012, which has been cycled through the statement of loss.

## 18. Exploration expenses

| | For the year ended December 31<br>2014 | 2013 |
|---|---|---|
| Depreciation & amortization | **$ 6,010** | $ 9,250 |
| Employee benefit costs | **678,706** | 772,787 |
| Share-based compensation | **65,178** | 151,890 |
| Direct costs | **1,150,757** | 779,445 |
| Partner recoveries | **-** | (11,461) |
| | **$ 1,900,651** | $ 1,701,911 |

(Canadian dollars)

### 19. Corporate and administration

| | For the year ended December 31 2014 | 2013 |
|---|---|---|
| Depreciation & amortization | **$ 14,304** | $ 19,837 |
| Employee benefit costs | **232,090** | 331,368 |
| Share-based compensation | **90,235** | 225,626 |
| Direct costs | **392,445** | 362,624 |
| | **$ 729,074** | $ 939,455 |

### 20. Finance income and expense

| | For the year ended December 31 2014 | 2013 |
|---|---|---|
| Interest income | **$ 2,936** | $ 8,790 |
| | **$ 2,936** | $ 8,790 |
| Interest expense - finance leases | **$ (418)** | $ (759) |
| Interest expense - other | **-** | (791) |
| | **$ (418)** | $ (1,550) |
| | **$ 2,518** | $ 7,240 |

### 21. Related Parties

**Compensation of key management personnel:**

The total remuneration of the Directors and other key management personnel were as follows:

| | Year ended December 31, 2014 | 2013 |
|---|---|---|
| Directors' fees | $ 17,000 | $ 26,000 |
| Share-based compensation to directors | 60,864 | 69,500 |
| Key management short-term benefits | 355,125 | 476,793 |
| Share-based compensation to key management | 35,750 | 221,744 |
| | $ 468,739 | $ 794,037 |

**Balances with director:**

An unsecured loan granted to a director and officer, with a balance of $28,300, was forgiven in 2013 as a form of cash compensation.

A share subscription loan from a director and officer, with a balance of $56,175, was forgiven in 2013 in lieu of cash compensation. The remaining balance of the outstanding share subscription loan was recorded as a reduction of share capital. Payments on the loan of $66,966 in 2013 were added back to share capital as disclosed in the Consolidated Statement of Changes in Equity.

**22. Subsequent event**

On February 12, 2015, the Corporation announced it granted Tian Poh Resources Ltd. ("Tian Poh") a period of exclusivity to exercise an option to acquire an interest in the Corporation's Zuun Mod molybdenum-copper project ("Project"). Tian Poh can acquire and retain a 51% interest in the Project for US$4.8 million in cash and equity in Tian Poh, and by meeting certain work commitments (the "Transaction").

<u>Significant Terms of the Transaction</u>

Consideration for Exclusivity Period:

1. Non-refundable exclusivity fee of US$50,000.
2. Receipt of cash of US$200,000 pursuant to a non-interest bearing debenture ("Debenture") issued by Erdene. If Tian Poh does not exercise its option by June 9, 2015, the principal amount will be converted into common shares of the Corporation at CDN$0.14/share. If Tian Poh exercises its option, the Debenture will be deemed to be redeemed and the funds applied to the amount due on closing, which is expected to be on or about June 11, 2015 ("Closing").

Additional Consideration to Acquire and Retain a 51% Interest

In order to acquire a 51% interest in the Project, Tian Poh must deliver on Closing, US$250,000 of shares and US$200,000 by the deemed redemption of the Debenture. In order to retain its 51% interest, Tian Poh must make further cash payments and issue shares of Tian Poh to Erdene and incur certain work expenditures, as defined in the agreement, as follows:

Cash Payments and Share Issuances

- On the 1st anniversary of the Closing, US$200,000 cash and US$500,000 of shares;
- On the 2nd anniversary of the Closing, US$200,000 cash and US$500,000 of shares;
- On the 3rd anniversary of the Closing, US$200,000 cash and US$750,000 of shares;
- On the 4th anniversary of the Closing, US$200,000 cash and US$750,000 of shares; and
- On the 5th anniversary of the Closing, US$1,000,000 of shares.

Work Expenditures

- US$1,500,000 within 30 months of Closing or an additional payment of US$250,000 is due.
- US$10,000,000 on or before the 6th anniversary of the Closing.

If Tian Poh does not meet these obligations, its interest in the Project will be diluted pro rata to the value of the cash paid, shares issued and expenditures incurred and the Corporation will have the option to buy back Tian Poh's interest in the Project for an amount equal to 50% of Tian Poh's total consideration paid and work expenditures incurred.

**22. Subsequent event (continued)**

Additional Terms

1. Tian Poh will have the right:
    - (a) to secure a 70% interest in the Project by incurring work expenditures totalling US$20,000,000.
    - (b) to secure a 90% interest in the Project by incurring work expenditures totalling US$30,000,000; and
    - (c) to increase its interest in the Project to 100% at any time by paying to the Corporation the amount of US$10,000,000, payable in cash and/or shares of Tian Poh plus 50% of any remaining amount of the 51% earn-in consideration.
2. If Tian Poh exercises its option, Erdene shall be granted a 1% net smelter return royalty ("NSR"), payable after Tian Poh receives a return of the value of its consideration paid and work expenditures made. Once Tian Poh has fulfilled all of its obligations to earn its 51% interest, it shall have the right to reduce Erdene's NSR:
    - (i) from 1.0% to 0.5% for consideration of US$1,500,000 of cash and/or shares of Tian Poh, at any time; and
    - (ii) from 0.5% to 0 for consideration of US$2,000,000 of cash and/or shares of Tian Poh, at any time.
3. Tian Poh is required to maintain the Project licences in good standing.
4. Tian Poh will assume responsibility to pay the existing royalty payable to Gallant Minerals Limited in connection with the Project.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Management's Discussion and Analysis
## Years ended December 31, 2014 and 2013

*This Management Discussion and Analysis ("MD&A"), dated March 25, 2015, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Company" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2014, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").*

*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 Corporation expects, are forward-looking statements. Although the Corporation 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 risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2014, a copy of which is available on the Corporation's SEDAR document page at www.SEDAR.com.*

## 2014 Highlights

### Initial Resource Established at the Altan Nar Gold-Polymetallic Project

The 2014 exploration program on the Altan Nar Gold Base Metal project has resulted in the establishment of an initial resource for the Altan Nar Gold-Polymetallic project and established sixteen additional mineralized targets within the 5.6 km target area.

- Gold equivalent ("AuEq") Indicated Resource of 147,000 ounces ("oz") gold averaging 2.5 g/t AuEq and AuEq Inferred Resource of 102,000 oz gold averaging 2.1 g/t AuEq, at a 1.0 g/t AuEq cut-off
- An Indicated Resource of 1.8 million tones ("Mt") with a gold grade of 1.7 g/t and an Inferred Resource of 1.5 Mt with a gold grade of 1.5 g/t, equating to 102,000 oz gold and 72,000 oz gold respectively
- In addition to the gold, the Indicated Resource includes 24.7 million pounds ("Mlbs") zinc, 22.1 Mlbs lead and 657,000 oz silver, while the Inferred Resource contains 17.7 Mlbs zinc, 12.8 Mlbs lead and 498,000 oz silver

**Zuun Mod Molybdenum Project Activity**

- The Corporation granted Tian Poh Resources Ltd. a period of exclusivity to exercise an option to acquire an interest in the Corporation's Zuun Mod molybdenum-copper project (Khuvyn Khar Mining Licenses).

**Teck Alliance**

- The Corporation continued to evaluate opportunities through its alliance with Teck Resources Limited, focused on regional exploration for base and precious metal targets. Subsequent to year-end the Corporation initiated an acquisition program under the alliance.

**Financing & Corporate**

- Overall reduction in overhead and administrative costs of $949,224 since 2012, a 56.6% decrease.
- The Corporation secured funding of approximately $2.0 million in 2014 during challenging market conditions.

## Company Overview and Strategy

Erdene is a resource exploration and development corporation listed on the Toronto Stock Exchange (TSX:ERD) focused on base and precious metals exploration in Mongolia. The Corporation's projects include the Altan Nar Gold-Polymetallic project, the Zuun Mod/KhuvynKhar Molybdenum-Copper project, as well as other early stage prospects. The current focus is the exploration and development of the Altan Nar Gold-Polymetallic property. This 100% owned property includes 20 gold and base metal targets identified to date, and of those, only two, the Discovery Zone and Union North, have been subject to detailed exploration.

Subsequent to year-end, an independent National Instrument 43-101 technical report outlining the initial resource estimate at Altan Nar for the Discovery Zone and Union North deposits was completed and is available on SEDAR. The Altan Nar resource includes a gold equivalent ("AuEq") Indicated Resource of 147,000 ounces ("oz") gold averaging 2.5 g/t AuEq and AuEq Inferred Resource of 102,000 oz gold averaging 2.1 g/t AuEq, at a 1.0 g/t AuEq cut-off. The Indicated Resource totals 1.8 Mt with a gold grade of 1.7 g/t and the Inferred Resource totals 1.5 Mt with a gold grade of 1.5 g/t, equating to 102,000 oz gold and 72,000 oz gold respectively. In addition to the gold, the Indicated Resource includes 24.7 million pounds ("Mlbs") zinc, 22.1 Mlbs lead and 657,000 oz silver, while the Inferred Resource contains 17.7 Mlbs zinc, 12.8 Mlbs lead and 498,000 oz silver.

With the initial resource established, the Company will look towards the completion of a scoping study in the first half of 2015 which will consider options for development including evaluating the concept of producing a potentially high value gold, silver, lead and zinc concentrate(s) to be sold into China (rail link 175 km to the south) for final processing. This option has the potential to have relatively low capital and operating costs during start up and for the generation of early cash flow.

Simultaneously, in the first half of 2015, the Company will be completing additional evaluation of the remaining target areas to assist in determining the high priority areas for defining additional near-surface resources at Altan Nar.

In addition to the Altan Nar Project, the Company is active through its alliance with Teck Resource Limited in assessing regional opportunities and acquiring new licences through the Alliance's area of interest in southwestern Mongolia particularly now that the Mongolian exploration licencing system has re-opened.

Subsequent to year-end, the Company announced the granting to Tian Poh Resources Limited ("Tian Poh") of a period of exclusivity to exercise an option to acquire an interest in the Zuun Mod Khuvyn Khar mining licenses (the "ZM Property"). On the exercise of the option, Tian Poh will acquire a 51% interest in the ZM Property for US$200,000 cash and US$250,000 of shares of Tian Poh and may retain this interest for US$4.3 million in cash and equity in Tian Poh (over 6 years) and by meeting certain work commitments (See "Agreement with Tian Poh Resources Limited" for further details). If Tian Poh exercises its option and meets milestones to retain its 51% interest in the ZM Property it will have the right to increase its interest to up to 100% through additional cash and/or equity payments. Erdene will retain a 1% net smelter return royalty, which will be subject to certain buy-down provisions. The exclusivity and option period expires on June 9, 2015.

## Alliance with Teck Resources Limited

In April 2013, an alliance was formed by the signing of option and private placement agreements (collectively, "Agreement") with Teck Resources Limited ("Teck") to fund and explore the Corporation's mineral tenements in the Trans Altay region of southwest Mongolia. Under the terms of the Agreement, Teck agreed to subscribe for up to $3 million of Erdene shares by way of a non-brokered private placement. The initial tranche, which closed on April 22, 2013, resulted in the issuance of five million shares priced at $0.20 per share for aggregate proceeds of $1 million. Eighty five percent of the proceeds from the private placement were committed to exploration work.

On November 7, 2013, Teck purchased an additional 2,142,857 shares at $0.07, for cash consideration of $150,000 and on April 21, 2014, Teck purchased 2,000,000 shares at $0.175 for cash consideration of $350,000.

On August 29, 2014 the Corporation received a $107,142 loan from Teck to fund ongoing exploration programs under the Agreement. The loan carries no interest and will be settled with equity at a later date. The number of shares issued to settle the loan will be determined based on the market value of Erdene shares at that date or the $0.10 per share exercise price of the 1,071,420 warrants held by Teck.

Teck has the option to acquire additional shares of Erdene, until it has invested $3 million or acquired through subscriptions 19.9% of the outstanding shares of Erdene, whichever occurs first. A minimum of $500,000 is to be subscribed on each anniversary date of the closing of the initial tranche. To the date of this MD&A, Teck owns 11.1% of the Corporation's issued and outstanding common shares.

## Agreement with Tian Poh Resources Limited

On February 12, 2015, the Corporation announced that it had granted Tian Poh Resources Ltd a period of exclusivity to exercise an option to acquire an interest in the Corporation's Zuun Mod molybdenum-copper project ("Project"). Tian Poh can acquire and retain a 51% interest in the

Project by paying Erdene US$4.8 million in cash and equity in Tian Poh, and by meeting certain work commitments (the "Transaction").

Significant Terms of the Transaction

Consideration for Exclusivity Period:

1. Non-refundable exclusivity fee of US$50,000 paid on signing.
2. US$200,000 paid on signing pursuant to a non-interest bearing debenture ("Debenture") issued by Erdene. If Tian Poh does not exercise its option by June 9, 2015, the principal amount of the Debenture will be converted into common shares of the Company at CDN$0.14/share. If Tian Poh exercises its option, the Debenture will be deemed to be redeemed and the funds applied to the amount due on closing, which is expected to be on or about June 11, 2015 ("Closing").

Consideration to Acquire and Retain 51% Interest

In order to acquire a 51% interest in the Project, Tian Poh must deliver on Closing, US$250,000 of shares of Tian Poh, listed on the Australian Stock Exchange, and US$200,000 by the deemed redemption of the Debenture. In order to retain its interest, Tian Poh must make further cash payments and issue shares of Tian Poh to Erdene and incur certain work expenditures, as defined in the agreement, as follows:

Cash Payments and Share Issuances

- On the 1st anniversary of the Closing, US$200,000 cash and US$500,000 of shares;
- On the 2nd anniversary of the Closing, US$200,000 cash and US$500,000 of shares;
- On the 3rd anniversary of the Closing, US$200,000 cash and US$750,000 of shares;
- On the 4th anniversary of the Closing, US$200,000 cash and US$750,000 of shares; and
- On the 5th anniversary of the Closing, US$1,000,000 of shares.

Work Expenditures

- US$1,500,000 within 30 months of Closing or an additional payment of US$250,000 is due; and
- US$10,000,000 on or before the 6th anniversary of the Closing.

Additional Terms

1. Tian Poh will have the right;
   (a) to secure a 70% interest in the Project by incurring work expenditures totaling US$20,000,000;
   (b) to secure a 90% interest in the Project by incurring work expenditures totaling US$30,000,000; and
   (c) to increase its interests in the Project to 100% at any time by paying to the Company the amount of US$10,000,000, payable in cash and/or shares of Tian Poh plus 50% of any remaining amount of the 51% earn-in consideration;
2. If Tian Poh exercises its option, Erdene shall be granted a 1% net smelter return royalty (“NSR”), payable after Tian Poh receives a return of the value of its consideration paid and work expenditures made. Once Tian Poh has fulfilled all of its obligations to earn its 51% interest, it shall have the right to reduce Erdene’s NSR:
   (i) from 1.0% to 0.5% for consideration of US$1,500,000 of cash and/or shares of Tian Poh, at any time; and
   (ii) from 0.5% to 0 for consideration of US$2,000,000 of cash and/or shares of Tian Poh, at any time.

3. Tian Poh is required to maintain the Project licences in good standing.
4. Tian Poh will assume responsibility to pay the existing royalty payable to Gallant Minerals Limited in connection with the Project.

## Project Summaries

The following is a summary of the exploration programs carried out on the Corporation's properties.

The Altan Nar ("Golden Sun") prospect is located on Erdene's Tsenkher Nomin exploration license located in southwestern Mongolia. The exploration license is in its sixth year of a maximum 12-year term. The license can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. The 4,669 hectare Tsenkher Nomin license is 100% owned by Erdene and is not subject to any royalty agreements.

The Altan Nar Property is located in the Tian Shan Gold Belt, part of the Central Asian Orogeny and host to some of the world's largest gold deposits. Although epithermal gold and porphyry copper deposits are well documented across the border in China and along the westward trend, limited exploration has taken place in southwestern Mongolia due to its isolation, geographically and politically, until the early 1990's. Exploration since that time in southeastern Mongolia has resulted in the discovery of the world-class Oyu Tolgoi gold-copper deposit containing over 60 million ounces of gold. However, systematic regional exploration in the southwest part of Mongolia has been largely absent with the exception of the work undertaken by Erdene over the past five years which has resulted in the discovery of multiple gold and copper occurrences including the discovery at Altan Nar.

Altan Nar is predominantly an intermediate sulfidation, carbonate base metal gold system, a style of deposit which has close magmatic relationships often being base metal rich and locally associated with porphyry deposits. This style of gold mineralization represents the most prolific style of gold mineralization in the southeast Asia region and includes the Kelian mine in Indonesia, (now closed but formerly operated by Rio Tinto) and Porgera gold mine Papua New Guinea operated by Barrick Gold Corporation, and elsewhere in the world, Fruta del Norte, Ecuador, operated by Lundin Gold Inc., Cripple Creek & Victor Gold Mine, Colorado operated by AngloGold Ashanti and Rosia Montana, Romania operated by Rosia Montana Gold Corporation and in Mexico five of the world's top silver producing mines including Penasquito, operated by Goldcorp Inc. They are often associated with breccia pipes (diatremes) and can extend vertically for greater than 1 kilometre. The Kelian open pit, for example, is 500 metres deep.

Exploration carried out by Erdene over the past three years has established Altan Nar as a significant new epithermal gold-silver-lead-zinc mineralized system. Exploration, specifically the 2013 and 2014 trenching programs and 2014 surface mapping, geochemical and geophysical surveys and a multi-stage scout and resource delineation drilling program, has greatly expanded the areas of known mineralization with 20 targets areas now documented over a 6 km x 10 km area with the main structural trend and primary location of carbonate, gold-silver-base metal mineralization being approximately 5.6 km x 1.5 km.

The Altan Nar prospect hosts multi-phase epithermal gold-silver-lead-zinc mineralization dominated by an intermediate carbonate, base metal gold phase within Late Paleozoic (Devonian-Carboniferous) andesitic volcanic rocks. Mineralization is associated with comb quartz and chalcedony veins, quartz breccias, sulfide matrix breccia and quartz-poor breccia zones with associated phyllic alteration zones (quartz-sericite-pyrite), and locally potassic altered zones, all within widespread propylitic (epidote-chlorite-montmorillonite/illite) alteration of host trachy-andesite, andesite and andesite tuff units.

Discovery Zone and Union North

Resource Estimate

Subsequent to year-end, an independent National Instrument 43-101 technical report ("Altan Nar Report") outlining the initial resource estimate at Altan Nar for the Discovery Zone ("DZ") and Union North ("UN") deposits was completed and is available on SEDAR.

Table 2 below shows the Indicated and Inferred Mineral Resource ("Mineral Resource") estimate for the Discovery Zone and Union North prospects as at February 19, 2015. The Mineral Resource was completed by RungePincockMinarco ("RPM") in accordance with the recommended guidelines of the CIM Definition Standards references in National Instrument 43-101 ("NI 43-101"). The Mineral Resources are provided at a number of AuEq cut-offs, however RPM suggests reporting the Mineral Resource at a 1.0 g/t AuEq cut-off. The 0.6 g/t AuEq and 1.4 g/t AuEq cut-off grade Mineral Resources are provided for illustrative purposes.

Table 2 - Altan Nar Project –Mineral Resource Estimate Summary as at February 19, 2015

| AuEq Cut-off g/t | Classification | Tonnes Mt | Au g/t | Ag g/t | Zn % | Pb % | AuEq g/t | Au kOz | Ag kOz | Zn Mlbs | Pb Mlbs | AuEq kOz |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.6 | Indicated | 3.4 | 1.0 | 9.4 | 0.57 | 0.47 | 1.7 | 112 | 1,014 | 42.4 | 34.8 | 185 |
| 0.6 | Inferred | 3.0 | 0.8 | 9.4 | 0.51 | 0.35 | 1.4 | 83 | 913 | 33.9 | 23.5 | 139 |
| **1.0** | **Indicated** | **1.8** | **1.7** | **11.1** | **0.61** | **0.54** | **2.5** | **102** | **657** | **24.7** | **22.1** | **147** |
| **1.0** | **Inferred** | **1.5** | **1.5** | **10.4** | **0.54** | **0.39** | **2.1** | **72** | **498** | **17.7** | **12.8** | **102** |
| 1.4 | Indicated | 1.3 | 2.3 | 12.1 | 0.61 | 0.58 | 3.1 | 92 | 486 | 16.8 | 15.9 | 124 |
| 1.4 | Inferred | 1.0 | 2.0 | 10.8 | 0.53 | 0.40 | 2.6 | 63 | 342 | 11.5 | 8.6 | 83 |

*Notes:*

*1. The Statement of Estimates of Mineral Resources has been compiled under the supervision of Mr. Jeremy Clark who is a full-time employee of RPM and a Member of the Australian Institute of Geoscientists. Mr. Clark has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.*

*2. All Mineral Resources figures reported in the table above represent estimates as at 19$^{th}$ February, 2015. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.*

*3. Mineral Resource grades are reported in accordance with the CIM Standards.*

*4. Mineral Resources reported on a dry in-situ basis.*

*5. Totals may differ due to rounding*

To assist in reporting the Mineral Resources in a transparent manner, Erdene requested that RPM report a AuEq value in an effort to express the combined value of gold, silver, lead and zinc as a percentage of gold, and is provided for illustrative purposes only. No allowances have been made for recovery losses that may occur should mining eventually result. Calculations use metal prices of US $1,200/oz gold, US $18/oz silver, and US $0.90/lb for lead and zinc.

The Mineral Resource was completed by RPM using ordinary kriging and inverse distance squared interpolation methods. The Mineral Resource is reported using a cut-off grade which is deemed appropriate for the style of mineralization and the current state of the Mineral Resources. Of importance for mine planning, the model accommodates in situ and contact dilution but excludes mining dilution. Block size (25 x 5 x 5 m, sub-blocked to 3.25 x 1.25 x 1.25 m) is similar to the expected small-mining units conventionally used in this type of deposit, and appropriate for an open pit mine.

Exploration Work

Drilling to date at the DZ has identified a minimum strike length of 500 m. Thirty-one, mostly shallow (<150 m vertical extent) drill holes, on nominal 50 m to 100 m spacing along strike with some local areas infilled with a single hole on several 25 m spaced section line., and five trenches across zones of surface mineralization, have demonstrated vertical and lateral continuity of gold, silver, lead and zinc mineralization. Exploration work has identified north-northeast trending, sub-vertical zones of gold and silver mineralization over variable widths (up to 50 m apparent width) averaging in excess of 1 g/t gold, including intervals up to 29 m averaging 4.3 g/t gold and 24.1 g/t silver in Discovery Zone South. During the fourth quarter 2014, drilling at Discovery Zone North returned the highest grade intersection to date in TND-70, 30 m of 4.2 g/t gold, 21 g/t silver and 1.2% combined lead and zinc including 8 m of 11.4 g/t gold with 63 g/t silver and 1.5% combined lead and zinc.

Within the DZ, gold mineralization appears to be both structurally controlled and related to an andesite porphyry stock with associated hydrothermal breccia zones that are steeply dipping to sub-vertical. The DZ remains open along strike to the north and at depth. Drilling has tested the mineralization to a vertical depth of 175 m (Discovery Zone South) to 230 m (Discovery Zone North). The deepest hole on the Altan Nar property (TND-58) intersected 6 m of 4.8 g/t gold, 9.3 g/t silver and 1.4% combined lead and zinc near the bottom of the hole.

At UN, a series of six trenches and 10 drill holes, at 50 m to 100 m spacing, have identified mineralization associated with a structural dilation zone on a large northeast-southwest trending structure, that hosts wide, parallel zones of intensely altered and mineralized breccias. Previous drilling (2012) included a single hole (TND-46) at Union North which intersected 47 m of 1.3 g/t gold, including 9 m of 4.3 g/t gold, 12 g/t silver, and 1.7% combined lead-zinc. Drilling during the second quarter 2014 returned the widest zone of higher grade mineralization to date and an indication of intensifying grades at depth, including 22 m of 2.1 g/t gold and 25 m vertically below expanding to 24 m of similar grade with a high grade core of 12 m of 4 g/t gold, 10 g/t silver and 2.5% combined lead and zinc. Trenching in Q3, designed to test a geophysical anomaly located 170 m southeast of the main Union North target area returned multiple mineralized zones. Trench ANT-37, positioned over the eastern-most portion of the geophysical anomaly, where soil geochemistry returned high gold and base metal values, uncovered multiple zones of alteration and mineralization averaging greater than 1 g/t gold equivalent over a combined length of 22 m, with one section returning 12 m of 3.7 g/t gold. The western portion of the anomaly trends under a deeper drainage basin and bedrock is beyond the depth accessible through trenching. Union North remains open to the north, south (Union South prospect) and at depth.

Outside of the DZ and UN, scout drilling (2011-2012), trenching (2013, Q3 2014) and target drilling (Q2 and Q4 2014) have been carried out over a 5.0 km portion of the Altan Nar property to test a number of high priority targets. See "*Priority Target Summaries*" below.

<u>Geophysical Survey</u>

The aerial extent of ground geophysical surveys at Altan Nar was expanded in 2014, with 20 line kilometres of induced polarization ("IP") dipole surveys completed along 100 m spaced lines over an area covering the North Bow, South Bow, Riverside, Union North, Union South and Maggie prospect areas. To date, high chargeability anomalism has been an important guide for successful targeting of the gold mineralized zones. A previous IP gradient-array survey identified a series of high chargeability anomalies, up to 190 m wide that are interpreted as representing broad zones of sulphide mineralization. Many of these IP anomalies have corresponding surface geochemical anomalies (in both rock and soil). The morphology of these IP anomalies, coupled with the geometry of the lineaments evident on satellite imagery, suggests mineralization may be associated with dilation zones. The second quarter 2014 survey results show the presence of multiple, locally intense, chargeability high anomalies, extending from near-surface to depth, often continuing below the IP survey detection limit of approximately 150 m. Anomalies beneath the North Bow/South Bow and Union North, Union South target areas are particularly intense. The majority of these geophysical targets have yet to be drill tested.

Geochemical Soil Survey

A total of 858 soil samples were collected at 12.5 m intervals along 50 m spaced infill lines over a 1.0 square km area at Altan Nar. The objective of the soil program was to provide greater definition of gold, base-metal and associated alteration-element soil anomalies, which have proven to be very effective in identifying mineralized trends. Approximately 15% of the samples collected (128 samples) returned values greater than 10 ppb gold and are considered to be anomalous based on a regional average of 2.3 ppb gold. One soil sample collected over the Maggie prospect returned a highly anomalous value of 1.04 g/t (1,040 ppb) gold. The new soil data has been compiled and integrated with other geochemical data as well as geophysical and geological data sets and new targets generated (see below).

Geologic Mapping and Prospecting

Based on a better understanding of the surface expression of the mineralized zones, (low relief with thin cover and very limited quartz or iron-oxide rubble) the geotechnical team has refined its mapping techniques, resulting in the discovery of new zones and expansion of the known zones of mineralization. Sampling of quartz rubble material has confirmed these mineralized trends in several new locations. To date, numerous rock chip samples have returned gold values between 1.0 g/t and 41.3 g/t across the 5.6 km by 1.5 km overall target area.

Surface Exploration Results

The characterization of high-grade gold, silver, lead and zinc mineralization in drill holes and trenches has provided an improved understanding of mineralization at Altan Nar and therefore improved targeting utilizing mapping, geochemical and geophysical data. Higher-grade zones are typically associated with broad zones of hydrothermal and sulfide matrix breccia with intense phyllic alteration (quartz-sericite-pyrite) that result in IP chargeability highs and magnetic lows. These zones of alteration are mostly preferentially weathered, resulting in little or no surface expression. Even the remnants of highly resistive quartz breccia zones may be reduced to rubble. The combination of detailed surface mapping, geochemical analysis of soil and rock samples, along with IP and magnetic geophysical surveys has resulted in the identification of 20 highly prospective targets within the Altan Nar license, 18 of which are within the Altan Nar main trend. With the exception of the DZ and UN these targets remain relatively un-tested. These target zones have the potential to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar.

Priority Target Summaries

Maggie

Located 1 km north of the Discovery Zone and 700 m east of the Union North prospect, the Maggie target area is a 500 m x 400 m triangular shaped area at the intersection of a major NE structure and bounded to the east by a large granite sill/stock. This target is characterized by a 10 to 40 m wide linear phyllic alteration zone with gold, silver, lead and zinc mineralization traced for over 300 m on a NE trend through the center of the target. Approximately 50% of the target area is under recent sedimentary cover. Trenching uncovered a well mineralized zone, 38 m wide and hosted by an altered andesite cut by two barren post-mineral dykes (7 m and 2 m wide). Excluding the 9 m of post mineralization dyke, the central mineralized zone returned 17 m of 3.4 g/t gold, 4.9 g/t silver and 1.41% combined lead-zinc. Drilling of this target during the Q2 2014 program returned two narrower zones with mineralization apparently displaced by a post-mineral porphyry dyke. These two zones, 3 m and 5 m wide and located on either side of the dyke, returned greater than 1 g/t gold, and up to 36 g/t silver and 1.5% combined lead and zinc. North and southeast of the trench and drill hole, extensive gold, lead, zinc and locally molybdenum soil anomalism occurs and in the southern most portion, a coincident chargeability high and transitional vertically plunging resistivity feature exists. Two new trenches completed in Q3 tested northeast and southwest of the previous trench and drill hole and established a 120 m strike length that remains open. Results included 8 m of 2 g/t gold equivalent to the northeast and 5 m of 1.2 g/t gold equivalent to the southwest.

North Bow

The North Bow target area is located 600 m to the west of Union North. Northbow, extends 600 m on a NE trend and adjoining the South Bow prospect located to the south. The target is characterized by two or more parallel zones of phyllicly altered volcanics/hydrothermal breccias traced over 400 m and open. The main alteration zone has been tested by two trenches which are approximately 100 m apart along the NE trend testing an area of quartz vein rubble at surface returning up to 9 m of 1.3 g/t gold and 1.3% combined lead and zinc. Large portions of the target area are under cover. The priority area remaining to be tested is the NE extension from the trenched areas over a strike length of approximately 200 m. A large soil anomaly, up to 200 m wide, is present in this area with high gold, up to 0.2 g/t, and highly anomalous molybdenum (up to 0.7%). Molybdenum has proven to be a good pathfinder element for the highest intensity gold mineralization. In addition, evidence of phyllic alteration and quartz veining in the surface rubble and evidence of a structural flexure support the high priority assigned to this target area. The recently completed induced polarization study displays moderate chargeability and resistivity anomalies coming to surface through low resistivity cover and broadening and intensifying significantly moving north and at depth. A magnetic low anomaly is located on the east side of the target area. Q3 Trenching in the North Bow area, identified broad zones of mineralization, with four zones, totaling 34 m, returning an average of 0.4 g/t gold equivalent, while approximately 300 m to the south, a second trench returned 10 m of 0.75 g/t gold equivalent.

Junction

The Junction target area is located adjacent and to the northeast of the DZ. This 400 m by 400 m area has been largely defined by very intense soil anomalism including gold, lead, zinc and locally molybdenum. It is also characterized by a complex dyke swarm. In the center of the target area multiple quartz veins and vein-rubble areas are evident and, at the southernmost extent, rock samples have returned up to 11.2 g/t gold. However, much of the area is in low relief with recent sedimentary cover. Geophysical surveys indicate a structural break near the centre of the target area with a coincident magnetic low, gradient resistivity high and moderate chargeability high. In the western portion of the target, under recent sedimentary cover, the Q2 IP dipole study identified a vertically plunging resistivity low with adjacent high chargeability with lower chargeability at depth, similar in nature to the cupola feature identified at DZ North.

Quartz/breccia rubble is present in an area of gold, lead, zinc soil anomalism along the eastern side of the covered drainage area. Trenching in Q3 tested the northeast portion of this target area and intersected a broad zone of base metal mineralization that included 4 m of 3.7% zinc, 1.2% lead, 16 g/t silver, and 0.1 g/t gold, within a 26 m interval of 0.8% zinc and 0.5% lead. This target has not been drill tested.

South Bow

The South Bow target area is a 600 m long target extending south from North Bow where the most southerly trench returned 9 m of 1.3 g/t gold, 6.6 g/t silver and 1.32% combined lead-zinc. Continuing south from the trench, the North Bow / South Bow targets are overlain by recent sedimentary cover which buries the most intense chargeability anomaly on the property. One area of minor quartz rubble in the central portion of the South Bow target area is coincident with zinc soil anomalism. Although soil values are very low in this area of thick cover, there are still a few gold, molybdenum and zinc anomalies along the trend of the gradient chargeability high anomaly. Given the intensity of chargeability anomaly and known relationship between high chargeability and areas of mineralization, the subtle geochemical anomaly's poking through cover and evidence of a structural break, the South Bow target is highly ranked. Trenching will be attempted along the entire trend; however, the depth to bedrock is unknown at this point.

Union South

This target area is largely a linear N-S feature which continues over 700 m from just south of TND-30 to the north banks of the E-W drainage adjoining the Union North target. Underlying the main trend there are zones of intense dipole chargeability highs extending to surface that are most pronounced in the north portion of the target area (near the south end of the Union North target) where there is evidence of a structural offset. Gold values up to 15.4 g/t have been returned from rock samples from this area associated with an area of strong phyllic alteration. In the southern portion, drilling has identified two parallel, 10 m wide zones, with 1.5 g/t and 2.3 g/t gold equivalent ($1250 per ounce gold/$18 per ounce silver and $0.90 per pound lead and zinc). High grade mineralization was also discovered in trenching (ANT-24) in the southern area with 10 m of 4.46 g/t gold, 8.9 g/t silver and 2.2% lead. However, continuity has not been well established albeit with limited drilling (four holes in south and one in north). Although one hole (TND-52) has tested the eastern portion of the northern part of the target area, it was targeting a parallel zone of near surface mineralization which did not extend to depth and this drill hole was not long enough to reach the main Union South target located further west. Trenching is planned for both the southern and northern portions of the target area.

Riverside

This target area is characterized by an 800 m long gradient IP and geochemical anomaly that follows the trend of phyllic alteration, quartz/breccia rubble fields and porphyry dykes which follow the same structural pathway. The northern portion exhibits multiple quartz veins in andesite although much of the target area is covered by recent sediments. Trenching in this area, located approximately 200 m south of Union North, returned 6 m of 3 g/t gold. A single hole (TND-51) tested this area of the target and returned anomalous gold and base metals in multiple zones (32 m of 0.3 g/t gold equivalent). At the southern end of the target, drill hole TND-45 returned 19 m of 1 g/t gold equivalent. The induced polarization study completed during the second quarter 2014 indicates moderate chargeability at depth although increasing in the northern portion of the target area and an intense magnetic low feature in the northern half trending into Union North. Although exploration to date has failed to confirm continuity of higher grade mineralization, the target still ranks in the top eight of the 20 identified to date and additional trenching work is expected to be completed in 2015.

Other Target areas

Of the remaining 12 targets, two are outside the main mineralized trend and are of different styles of mineralization albeit with high grades of copper and gold mineralization over narrow widths. Within the main mineralized trend, a number of other targets are at a low level of understanding and may improve in ranking as additional data is generated; however, all display evidence of gold and base metal mineralization at surface.

Metallurgical Testing

Two series of metallurgical tests have been carried out on drill core from the Altan Nar property. Bottle roll cyanide leach testing was completed in 2013 on a series of drill core composites from drill holes from across the Altan Nar property. Excluding two high-As samples, 12 samples returned an average gold recovery of 81% after a 24 hr cyanide leach test. Future testing will be required to maximize recoveries through additional grind size and retention time studies. Samples representing the high-As material underwent five separate sample preparation / acid digestion procedures designed to characterize the gold mineralization and identify processing options. The test work indicated that recovered gold is mostly associated with arsenopyrite and that recovery rates of greater than 90%, possibly up to 95%, are achievable for this type of high arsenopyrite-gold mineralization using established, albeit more complex, processing techniques.

Summary

The 2014 exploration program on the Altan Nar Gold Base Metal project has resulted in the establishment of an initial resource for the two most advanced prospects, Discovery Zone and Union North, established continuity of these zones and expanded their known size**.** The Altan Nar resource includes an Indicated Resource of 1.8 million tonnes ("Mt") averaging 2.5 g/t AuEq (147,000 oz gold) and an Inferred Resource of 1.5 Mt averaging 2.1 g/t AuEq, (102,000 oz gold) at a 1.0 g/t AuEq cut-off.

In addition, drilling and trenching of a number of other target areas, including Maggie and Union South prospects, confirmed continuity of mineralization at depth from trenches, established significant strike lengths and returned very encouraging results. In addition, the greater detail in data provided by the surface program has allowed for identification of new targets and better definition of existing targets. Given the multitude of targets, Altan Nar has now been established as a very significant new gold, silver and base metal discovery. Altan Nar's location relative to China, where plant and operating equipment can be accessed and where potential final processing facilities are located, has advantages for moving rapidly to initial production.

Expenditures on the Altan Nar project licenses for the 12 months ended December 31, 2014 are as follows:

| | Budget | Actual | Variance $ | Variance % |
|---|---|---|---|---|
| Drilling, Trenching, Sampling and Assaying | 878,650 | 550,711 | 327,939 | 37.3% |
| License renewals | 5,686 | 5,354 | 332 | 5.8% |
| Geological services, camp and field | 438,276 | 438,930 | (654) | -0.1% |
| Travel and other | 132,269 | 112,066 | 20,204 | 15.3% |
| Total | 1,454,881 | 1,107,060 | 347,821 | 23.9% |

**Zuun Mod Molybdenum Project**

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in Bayankhongor Province, Mongolia, approximately 950 km southwest of Ulaanbaatar and 215 km from railhead on the Mongolia-China border at Ceke. The railhead is located 50 km south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of two contiguous mining licenses totaling 6,399 hectares. The mining licenses are registered in the name of Anian Resources LLC**,** a wholly owned subsidiary of the Corporation and have an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

In early June, 2011, the Corporation released the May 2011 Zuun Mod molybdenum-copper deposit National Instrument 43-101 compliant resource estimate which has a measured and indicated resource of 218 million tonnes ("Mt") at an average grade of 0.057% molybdenum, and 0.069% copper at a cut-off grade ("cog") of 0.04% molybdenum. This equates to 273.5 million pounds ("M lbs") of contained molybdenum metal and 330.7 M lbs of contained copper metal. In addition, there is a 168 Mt Inferred Resource at an average grade of 0.052% molybdenum and 0.065% copper, equating to a further 191.8 M lbs of contained molybdenum metal and 240.5 M lbs of contained copper metal. All of the reported Zuun Mod molybdenum and copper resources lie within the boundaries of the two contiguous mining licenses.

Recent market demand and pricing conditions for molybdenum have been generally depressed although the price of molybdenum oxide exceeded US$14 per pound in June 2014. Improvement in the molybdenum market is an important factor in the advancement of the Zuun-Mod molybdenum-copper deposit. Subsequent to year-end, the Corporation announced the granting to Tian Poh Resources Limited ("Tian Poh") a period of exclusivity to exercise an option to acquire an interest in the Zuun Mod mining licenses ("Zuun Mod"). Tian Poh can acquire and retain a 51% interest in Zuun Mod for US$4.8 million in cash and equity in Tian Poh, and by meeting certain work commitments. (See "Agreement with Tian Poh Resources Limited" for further details). If Tian Poh exercises its option and meets milestones to retain its 51% interest in Zuun Mod it will have the right to increase its interest to up to 100% through additional cash and/or equity payments. Erdene will retain a 1% net smelter return royalty, which will be subject to certain buy-down provisions. The exclusivity and option period expires on June 9, 2015.

In 2014, while limited work was completed by the Corporation on the Zuun-Mod molybdenum-copper deposit, exploration work was carried out elsewhere on the property, in particular, on the Khuvyn Khar copper prospect located 2.2 km NW of the main deposit. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

*Khuvyn Khar*

The Khuvyn Khar copper prospect is located on the Zuun Mod property which covers a large porphyry system. Exploration work at Khuvyn Khar has included geochemical sampling, geophysical surveys as well as wide spaced drilling. Hole ZMD-121, which was drilled to test a geophysical target, intersected 34 m of 1.3% copper and 9.24 g/t silver from 308 m to 342 m. Additional drilling on the Khuvyn Khar prospect has defined a very large copper mineralized zone trending over 900 m with multiple zones in three drill holes in excess of 0.2% copper over significant widths (12 m to 42 m).

In 2013, the Corporation partnered with Teck Resources Limited (See "Alliance with Teck Resources Limited") to carry out exploration in the Trans Altai region, including additional exploration of the Khuvyn Khar prospect. The 2013 exploration program carried out at Khuvyn Khar included a property-wide gravity survey, an expansion of the mobile-metal-ion (“MMI”) geochemical survey, re-logging of all drill holes and alteration mapping, including spectral analysis of drill core. This program resulted in the identification and prioritization of seven porphyry copper drill targets, three of which are considered high-priority with strong probability of intersecting copper porphyry mineralization at relatively shallow depths.

2014 Exploration Program

In 2014, work on the Zuun Mod / Khuvyn Khar project included rock chip sampling, geophysical modeling, detailed vein and alteration mapping of high priority areas and a 1,532 m trenching program designed to identify the geology, alteration and mineralization in area of poor outcrop exposure located within high priority target areas. The data collected from this exploration work has provided further definition and confidence in the modelling of potential mineralization at Khuvyn Khar. The 2014 work program has culminated in the identification of new, partially buried high priority drill target in the north-central Khuvyn Khar area as well as a new target in the western portion of the Khuvyn Khar property. The ongoing exploration program continues to confirm the potential for copper-rich porphyry style mineralization within the Khuvyn Khar target area. This conclusion is supported by high-grade copper-silver mineralization intersected by Erdene in previous drilling (34 m of 1.34% copper and 9.24 g/t silver).

The 2014 exploration program on the Zuun Mod – Khuvyn Khar property met the objectives of the program, namely, to better define high-priority drill targets for follow-up exploration on the Khuvyn Khar copper porphyry target and to complete work on the Zuun Mod molybdenum-copper deposit required to maintain the mining licenses in good standing, including annual license payments, ongoing environmental review requirements and community development work.

Expenditures (including capitalized costs) related to the Zuun Mod, Khuvyn Khar and general programs for the 12 months ended December 31, 2014 are as follows:

| | Budget | Actual | Variance $ | Variance % |
|---|---|---|---|---|
| Drilling, Trenching, Sampling and Assaying | 87,870 | 57,555 | 30,315 | 34.5% |
| License renewals | 121,694 | 112,472 | 9,222 | 7.6% |
| Geological services, camp and field | 576,463 | 568,877 | 7,586 | 1.3% |
| Travel and other | 158,669 | 197,497 | (38,828) | -24.5% |
| Total | 944,697 | 936,401 | 8,296 | 0.9% |

## Outlook

### General

Management’s long term focus remains the discovery and development of significant precious and base metal deposits in Mongolia.

The Corporation has working capital sufficient to meet its budgeted expenditures until approximately the second quarter 2015. The ability of the Corporation to continue beyond this point is contingent upon equity financing, entering joint venture agreement(s), reduction of expenditures, asset sales, or a combination thereof.

**Altan Nar**

The Corporation's exploration program on Altan Nar has resulted in the establishment of an initial resource for the DZ and Union North prospects includes an Indicated Resource of 1.8 million tonnes ("Mt") averaging 2.5 g/t AuEq (147,000 oz gold) and an Inferred Resource of 1.5 Mt averaging 2.1 g/t AuEq, (102,000 oz gold) at a 1.0 g/t AuEq cut-off.

With the completion of the initial mineral resource for Altan Nar the Company intends to evaluate near-term development options and advance the project based on the outcome of this work.

The 2015 exploration program has been designed to both advance the project towards initial development through the completion of a scoping study and initiation of environmental review and permitting and expand mineral resources in the area of the DZ and Union North while identifying the highest priority targets for resource drilling in the remaining 18 targets. Initial work includes:

- Studies to further characterize the ore and establish a metallurgical and process framework.
- Desktop and field evaluations to improve our understanding of the structural controls of the greater Altan Nar target area with a focus on the DZ and UN areas focussed on improving drill targeting
- Petrographic/mineralogic and fluid inclusion studies to improve our understanding of the style of mineralization(depth of emplacement etc) providing insight into focussing exploration
- Compile and interpret all data producing a recommended expansion drill and regional exploration program

The completion of this initial work will lead to decisions on the next phase that could include one or both of preliminary development work and/or the exploration expansion phase. Estimated costs for the remainder of 2015 are outlined in the table below. Costs associated with the Expansion phase would be dictated by results from the studies above.

**Development Phase**

1. Metallurgical Study: Flotation (base and precious metal concentrate) and leaching
2. Infill drilling with 35m spacing to move the inferred material into indicated
3. Hi-level Scoping Study
4. Environmental and Permitting Programs

**Expansion Phase**

1. Extension drilling of DZ and UN
2. Resource drilling of other targets
3. Further scout drilling to identify new areas

The budget for the 2015 program is outlined below. Implementation of the budget will be contingent on the Corporation securing additional financing. See “Outlook - General“.

| | |
|---|---|
| Drilling Program | $700,000 |
| Structural/Epithermal Assessment | 30,000 |
| Metallurgy | 100,000 |
| Field Program /Technical Support | 180,000 |
| Community | 50,000 |
| Scoping Study | 75,000 |
| Environmental/Permitting | 150,000 |
| License Renewals | 25,000 |
| TOTAL | $1,310,000 |

**Zuun Mod/Khuvyn Khar**

Management believes that the Zuun Mod molybdenum-copper deposits have significant potential for development with improved molybdenum prices. The Corporation will continue to complete evaluations towards optimizing project economics as new information is received in regards to technology and/or additional exploration information. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits. In 2014, high priority targets were subjected to detailed surface mapping and geophysical characterization studies and trenching. Several high-priority drill targets have been identified as a result of this work.

If Tian Poh exercises its option to acquire an interest in the Zuun Mod property by the June 9, 2015 deadline, they are required to complete US$1.5 million in work expenditures within the first 30 months or make an additional payment of US$250,000 and carry out work required to maintain the licenses in good standing. Total work expenditures of US $10 million are required by Tian Poh on or before the 6$^{th}$ anniversary of the closing in order to retain a 51% interest. It is anticipated that if Tian Poh exercises its option to acquire an interest in the Zuun Mod property they will carry out work in 2015 towards the next stage of development namely a pre-feasibility study.

**Regional Exploration**

Regional exploration, designed to identify additional porphyry and porphyry related mineralization in south-western Mongolia is ongoing and has been designed to be a multi-year program. This program is being funded through the alliance with Teck Resources Limited. The budget for the 2015 exploration program is $306,000, contingent on securing financing. The 2014 regional exploration program in south-western Mongolia has identified prospects have been recommended for acquisition. Subsequent to year-end the Mongolian mineral license staking system re-opened after a 5-year hiatus. At the present time, designated areas in the western half of Mongolia are available for staking. To date, the Corporation has had one exploration license application accepted with the issuance of an exploration license pending final regulatory approval.

## Selected Annual Information

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

*Expressed in thousands of Canadian dollars except per share amounts.*

| Fiscal Year Ended December 31 | 2014 | 2013 | 2012 |
|---|---|---|---|
| Revenues | $ Nil | $ Nil | $ Nil |
| Loss for the year attributable to equity holders of Erdene | $ 2,617 | $ 2,760 | $ 7,345 |
| Basic and diluted loss per share | $ 0.04 | $ 0.05 | $ 0.15 |
| Total assets | $ 10,912 | $ 11,586 | $ 13,315 |
| Total long-term liabilities | $ Nil | $ 3 | $ 7 |
| Cash dividends declared | Nil | Nil | Nil |

## Discussion of Operations

2012 has been included in the expense analysis comparison to highlight management's focus on reducing overhead costs and managing exploration costs to maximize expenditures on work in the field.

### *Years ended December 31, 2014, 2013 and 2012*

For the year ended December 31, 2014, the Corporation recognized a net loss of $2,616,553, or $0.04 per share compared to a loss of $2,760,423 or $0.05 per share in 2013.

Exploration expenses totaled $1,900,651 in 2014 compared to $1,701,911 in 2013. As explained in greater detail under "Project Summaries", most of the 2014 exploration expenditures were on its Altan Nar prospect and on programs under the alliance with Teck Resources Limited.

| **Exploration and Evaluation** | **For the year ended December 31** | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Depreciation & amortization | **$ 6,010** | $ 9,250 | $ 10,269 |
| Employee benefit costs | **678,706** | 772,787 | 1,065,252 |
| Share-based payments | **65,178** | 151,890 | 101,511 |
| Direct costs | **1,150,757** | 779,445 | 2,139,748 |
| Partner recoveries | **-** | (11,461) | (149,017) |
| | **$ 1,900,651** | $ 1,701,911 | $ 3,167,763 |

Corporate & administrative expenses amounted to $729,074 for the year ended December 31, 2014 compared to $939,455 in 2013 and $1,678,298 in 2012. Management has been successful in reducing administrative costs by $949,224 or 56.6% since 2012. Cash costs have been reduced by $840,677 or 57.4% during the same period.

| **Corporate & Administrative** | **For the year ended December 31** | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Depreciation & amortization | **$ 14,304** | $ 19,837 | $ 26,527 |
| Employee benefit costs | **232,090** | 331,368 | 701,486 |
| Share-based payments | **90,235** | 225,626 | 186,559 |
| Direct costs | **392,445** | 362,624 | 763,726 |
| | **$ 729,074** | $ 939,455 | $ 1,678,298 |

In the first quarter of 2013, the Corporation recognized a $137,357 loss related to the windup of its subsidiary ERD Aggregate Corp. The loss is non-cash cumulative translation adjustment on this foreign subsidiary which has been cycled through the statement of loss.

## Fourth Quarter

### Financing

In November 2014, the Corporation closed a private placement financing which resulted in the issuance of 4,724,643 Units at $0.14 per Unit generating gross proceeds of $661,450. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.21 for a 24-month period. Share issues costs of $32,178 were paid in conjunction with the private placement resulting in net proceeds of $629,272.

### Exploration

The Corporation completed a drill program on its Altan Nar project in the fourth quarter (see "Project Summaries"). Drilling costs amounted to approximately $288,000 and represented 45% of the approximately $634,000 of exploration expenditures in the fourth quarter.

Other than that mentioned above, there were no unusual events or items during the fourth quarter of 2014 that affected the Corporation's financial condition, cash flows or results of operations in a material nature.

## Summary of Quarterly Results

*Expressed in thousands of Canadian dollars except per share amounts*

| | Fiscal 2014 | | | | Fiscal 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 Dec | Q3 Sep | Q2 Jun | Q1 Mar | Q4 Dec | Q3 Sep | Q2 Jun | Q1 Mar |
| Revenue | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Net Loss | $733 | $535 | $930 | $419 | $721 | $606 | $758 | $675 |
| Basic and diluted loss per share | $0.01 | $0.01 | $0.01 | $0.01 | $0.01 | $0.01 | $0.02 | $0.01 |
| Total Assets | $10,912 | $10,763 | $10,812 | $10,932 | $11,586 | $11,315 | $12,908 | $12,527 |

*All financial data has been prepared in accordance with IFRS.*

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

## Liquidity and Capital Resources

At December 31, 2014, the Corporation had a working capital deficit of $138,325 compared to working capital of $478,798 at December 31, 2013, representing a $617,123 decrease. Excluding the Teck loan, which will be settled with equity at a future date (see "Alliance with Teck Resources"), the working capital deficit was $31,183.

During the 2014 fiscal period, the Corporation closed three non-brokered private placements totaling $1,630,678, net of cash share issue costs. The Corporation also received $293,303 on the exercise of stock options and warrants and $107,142 on signing a loan agreement with Teck. The primary use of these funds was for Teck Alliance programs on the Corporation's Khuvyn Khar project as well as technical programs, largely drill programs on the Corporation's Altan Nar project (see Project Summaries, above).

Subsequent to year end, on February 12, 2015, the Corporation received a payment of US$250,000 (approximately CAD$310,000) on signing an exclusivity and option agreement (See "Agreement with Tian Poh Resources Ltd.").

Current working capital is only sufficient to fund the Corporation's budgeted expenditures until approximately the second quarter of 2015. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliance, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

The Corporation has minimal sources of income. It is therefore difficult to identify any meaningful trends or develop an analysis from the Corporation's cash flows. The Corporation is dependent primarily on the issuance of share capital to finance its exploration and development programs.

Other than as discussed herein, the Corporation is not aware of any trends, demands, commitments, events or uncertainties that may result in the Corporation's liquidity or capital resources materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Corporation's liquidity and capital resources will be substantially determined by the success or failure of the Corporation's Mongolian exploration and development programs and its ability to obtain sufficient equity financing.

## Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2014:

| **Contractual Obligations** | **Total** | **Less than one year** | **1-3 years years** | **4-5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Office leases | $ 111,110 | $ 66,666 | $ 44,444 | $ - | $ - |
| Finance leases | 2,657 | 2,657 | - | - | - |
| Accounts payable and accrued liabilities | 192,554 | 192,554 | - | - | - |
| Due to Teck Resources | 107,142 | 107,142 | - | - | - |
| | $ 413,463 | $ 369,019 | $ 44,444 | $ - | $ - |

Gallant Minerals Limited is entitled to a 1.5% net smelter return royalty on the Zuun Mod License, subject to a buy-down provision. There are no minimum work commitments for the Zuun Mod mining license.

The Teck Resources loan will be settled with equity at a future date. Pursuant to the terms of a conversion feature, the loan will be settled either (a) with a variable number of shares of the Corporation based on the volume weighted average closing price ("VWAP") of the shares over the ten day period prior to the conversion or (b) from the proceeds of the exercise of the 1,071,420 warrants held by Teck, which warrants have an exercise price of $0.10 per share and expire in November 2015. The loan is expected to be settled no later than November 2015.

## Off-Balance Sheet Arrangements

As at December 31 2014, the Corporation 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 Corporation.

## Critical Accounting Estimates

**Estimate of recoverability for non-financial assets**

Events or changes in circumstances, may give rise to significant impairment charges or reversals of impairment in a particular year.

In accordance with the Corporation’s accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditures. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

**Share-based payments**

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

**Fair value of financial instruments, including embedded derivatives**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**Provisions for site restoration**

The Corporation records provisions which include various estimates, including the Corporation's best estimate of the future costs associated with settlement of the obligation, and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change.

**Taxation**

The Corporation's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditures, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

## Adoption of New Accounting Standards

The accounting policies applied in the consolidated financial statements for the year ended December 31, 2014 are consistent with those used in the Corporation's Consolidated Financial Statements for the year ended December 31, 2013**,** with the exception of the following accounting policies adopted on January 1, 2014:

Amendments to IAS 32 – Offsetting Financial Assets and Liabilities

The amendments to IAS 32 clarify that an entity has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

There was no impact on the Corporation's consolidated financial statements upon the adoption of this interpretation.

IFRIC 21, Levies

IFRIC 21 provides guidance on accounting for levies in accordance with the requirement of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms an entity recognizes a liability for a levy only when the triggering event in specified legislation occurs.

There was no impact on the Corporation's consolidated financial statements upon the adoption of this interpretation.

Amendments to IAS 36 – Impairment of Assets

The amendments to IAS 36 address the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

There was no impact on the Corporation's consolidated financial statements upon the adoption of this interpretation.

## Future Changes in Accounting Policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing the consolidated statements:

Amendments to IFRS 9 - Financial Instruments

The IASB has issued IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The Corporation intends to adopt IFRS 9 for the annual period beginning January 1, 2018, and does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Corporation's financial assets is not expected to change under IFRS 9 because of the nature of the Corporation's operations and the types of financial assets it holds.

## Financial Instruments and Other Risks

The Corporation's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, accrued liabilities and obligations under finance leases. Management does not believe these financial instruments expose the Corporation 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 Corporation 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 Corporation's control. In addition to the normal and usual risks of exploration and mining, the Corporation works in remote locations that lack the benefit of infrastructure and easy access.

At this stage in the Corporation's development, it relies on equity financing for its 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 Corporation'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 Tugrik, general economic conditions, exploration results or political or economic changes in the jurisdictions in which the Corporation operates. The Corporation 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 Corporation when required, or that it will be available on acceptable terms.

## Outstanding Share Data

### Issued and Outstanding Share Capital

During the year ended December 31, 2014, the Corporation issued 20,000 shares at $0.12 per share on the exercise of employee options for total proceeds of $2,400.

During the year ended December 31, 2014, the Corporation issued 76,557 shares from its DSU plan to plan members whose employment was terminated.

During the year ended December 31, 2014, 2,909,030 shares were issued on the exercise of warrants with an exercise price of $0.10.

On April 21, 2014 the Corporation closed a non-brokered private placement financing with the issuance of 2,000,000 shares to Teck Resources Limited at a price of $0.175 for gross proceeds of $350,000.

On May 13, 2014 the Corporation closed a non-brokered private placement with the issuance of 4,284,500 units at a price of $0.16 per unit for gross proceeds of $685,520. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of $0.24 until May 9, 2016.

On November 14, 2014, the Corporation closed a non-brokered private placement with the issuance of 4,724,643 units at a price of $0.14 per unit for gross proceeds of $661,450. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of $0.21 until November 14, 2016.

As of the date of this MD&A, 82,636,233 common shares were issued and outstanding.

### Stock Options

During 2014, 652,500 options with an average exercise price of $0.27 expired and 20,000 options were exercised at $0.12.

On June 18, 2014, 1,115,000 options with an exercise price of $0.16 and a fair value of $144,050 were granted to certain officers, directors and employees of the Corporation.

As of the date of this MD&A, the Corporation has 4,146,750 outstanding stock options, all of which are exercisable.

### Warrants

In conjunction with a May 13, 2014 private placement, 2,142,250 whole share purchase warrants were issued. Each whole warrant has an exercise price of $0.24 and an expiry date of May 13, 2016.

In conjunction with a November 14, 2014 private placement, 2,402,320 whole share purchase warrants were issued. Each whole warrant has an exercise price of $0.21 and an expiry date of November 14, 2016.

During 2014, 2,909,030 warrants with an exercise price of $0.10 were exercised, for gross proceeds of $290,903.

To the date of this MD&A, the Corporation has 6,534,300 outstanding warrants with an average exercise price of $0.19.

### Deferred Share Units

For the year ended December 31, 2014, the Corporation granted to certain officers, directors and employees of the Corporation an aggregate of 370,858 DSUs at a weighted average price of $0.14 per share.

During the year ended December 31, 2014, 76,557 shares were issued from the DSU plan upon termination of plan members.

To the date of this MD&A, the Corporation has a balance of 2,384,752 DSUs outstanding.

## Disclosure Controls and Internal Controls over Financial Reporting

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the updated *Internal Control–Integrated Framework* (2013 Framework) in May 2013. COSO announced that the 2013 Framework will supersede the original 1992 Framework. The Corporation has not yet adopted the new framework and used the 1992 Framework in 2014. The Corporation intends to adopt the new framework in 2015.

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at December 31, 2014 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2014.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## Qualified Person

J. Christopher Cowan, P.Eng., is a qualified person under NI 43-101 and supervises all of the Corporation'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 Corporation incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation's properties has been reviewed by J. Christopher Cowan, P.Eng., who is not independent of the Corporation.

## Other Information

Additional information regarding the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com and on the Corporation's website at www.erdene.com.