



## **CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2017 and 2016

*(Canadian dollars)*

**KPMG LLP**

Suite 1500 Purdy's Wharf Tower I  
1959 Upper Water Street  
Halifax NS B3J 3N2  
Canada

Telephone (902) 492-6000  
Telefax (902) 492-1307  
[www.kpmg.ca](http://www.kpmg.ca)

## **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, 2017 and December 31, 2016, 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 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, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



**KPMG LLP**

Suite 1500 Purdy's Wharf Tower I  
1959 Upper Water Street  
Halifax NS B3J 3N2  
Canada

Telephone (902) 492-6000  
Telefax (902) 492-1307  
[www.kpmg.ca](http://www.kpmg.ca)

*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 2017 and 2016. The Corporation does not have sufficient capital to fund its operations and planned expenditures beyond the second quarter of 2018 without additional financing. 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 casts significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants  
March 26, 2018  
Halifax, Canada

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 3,225,202	\$ 1,071,209
Receivables	6	148,069	36,854
Prepaid expenses		47,479	39,743
		<b>3,420,750</b>	<b>1,147,806</b>
Non-current assets:			
Exploration and evaluation assets	7	11,394,843	3,066,211
Property, plant and equipment	8	130,283	79,418
		<b>11,525,126</b>	<b>3,145,629</b>
<b>TOTAL ASSETS</b>		<b>\$ 14,945,876</b>	<b>\$ 4,293,435</b>
<b>LIABILITIES</b>			
Current liabilities:			
Trade and other payables		\$ 191,600	\$ 182,644
		<b>191,600</b>	<b>182,644</b>
<b>TOTAL LIABILITIES</b>		<b>\$ 191,600</b>	<b>\$ 182,644</b>
<b>EQUITY</b>			
Shareholders' equity:			
Share capital	12	\$ 99,890,270	\$ 86,783,669
Contributed surplus		13,775,386	11,952,465
Accumulated comprehensive loss		(894,855)	(636,283)
Deficit		(98,016,525)	(93,989,060)
		<b>14,754,276</b>	<b>4,110,791</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 14,945,876</b>	<b>\$ 4,293,435</b>

Commitments (Note 9)

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)

			For the year ended December 31,	
	Notes		2017	2016
Exploration expenses	14	\$	1,631,628	\$ 2,171,792
Corporate and administration	15		2,450,152	1,446,888
Foreign exchange loss (gain)			37,190	(2,894)
Loss from operating activities			4,118,970	3,615,786
Finance income			91,505	11,955
Loss before the undernoted			4,027,465	3,603,831
Gain on the sale of net smelter royalty interest	7		-	623,028
Gain on the sale of marketable securities	7		-	481,064
Net loss		\$	4,027,465	\$ 2,499,739
Comprehensive loss:				
Foreign currency translation difference arising on translation of foreign subsidiaries			258,572	294,445
Total comprehensive loss		\$	4,286,037	\$ 2,794,184
Basic and diluted loss per share		\$	0.03	\$ 0.02
Basic and diluted weighted average number of shares outstanding			142,916,756	117,127,676

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Consolidated Statements of Changes in Equity

(Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
<b>Balance at January 1, 2016</b>		105,060,005	\$ 81,967,477	\$ 11,945,440	\$ (341,838)	\$ (91,489,321)	\$ 2,081,758
<b>Total comprehensive loss for the period:</b>							
Net loss		-	-	-	-	(2,499,739)	(2,499,739)
Other comprehensive income		-	-	-	(294,445)	-	(294,445)
Private placements, net of share issue costs	12	6,063,830	1,478,858	-	-	-	1,478,858
Warrants issued under private placement	12 & 13	1,801,475	252,207	-	-	-	252,207
Warrants exercised	12 & 13	13,564,721	3,016,502	(507,664)	-	-	2,508,838
Options exercised	12 & 13	320,000	68,625	(20,475)	-	-	48,150
Share-based compensation		-	-	535,164	-	-	535,164
<b>Total transactions with owners</b>		21,750,026	4,816,192	7,025	-	-	4,823,217
<b>Balance at December 31, 2016</b>		126,810,031	\$ 86,783,669	\$ 11,952,465	\$ (636,283)	\$ (93,989,060)	\$ 4,110,791
<b>Balance at January 1, 2017</b>		126,810,031	\$ 86,783,669	\$ 11,952,465	\$ (636,283)	\$ (93,989,060)	\$ 4,110,791
<b>Total comprehensive loss for the period:</b>							
Net loss		-	-	-	-	(4,027,465)	(4,027,465)
Other comprehensive loss		-	-	-	(258,572)	-	(258,572)
Private placements, net of share issue costs	12	18,465,555	12,925,316	-	-	-	12,925,316
Compensation options	12	-	-	322,597	-	-	322,597
Options exercised	12 & 13	687,500	181,285	(55,310)	-	-	125,975
Share-based compensation		-	-	1,555,634	-	-	1,555,634
<b>Total transactions with owners</b>		19,153,055	13,106,601	1,822,921	-	-	14,929,522
<b>Balance at December 31, 2017</b>		145,963,086	\$ 99,890,270	\$ 13,775,386	\$ (894,855)	\$ (98,016,525)	\$ 14,754,276

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Consolidated Statements of Cash Flows (Canadian dollars)

		For the year ended December 31,	
	Notes	2017	2016
<b>Cash flows from operating activities:</b>			
Net loss		\$ (4,027,465)	\$ (2,499,739)
Items not involving cash:			
Depreciation and amortization		18,285	14,909
Share-based compensation		1,555,634	535,164
Net finance income		(91,505)	(11,955)
Foreign exchange loss		37,190	3,341
Gain on sale of net smelter royalty interest	7	-	(623,028)
Gain on sale of marketable securities	7	-	(481,064)
Gain on wind-up of Barbados subsidiaries		(242)	-
Change in non-cash working capital		(70,469)	9,641
Cash flows from operating activities		(2,578,572)	(3,052,731)
<b>Cash flows from financing activities:</b>			
Issue of common shares and warrants for cash, net of issue costs	12	13,247,913	1,478,858
Proceeds on exercise of warrants	13	-	2,508,838
Proceeds on exercise of stock options	13	125,975	48,150
Cash flows from financing activities		13,373,888	4,035,846
<b>Cash flows from investing activities:</b>			
Expenditures on exploration and evaluation assets		(8,613,147)	(2,492,698)
Proceeds from sale of marketable securities received as proceeds of sale of net smelter royalty interest	7	-	1,981,064
Expenditures on property, plant and equipment		(77,025)	(71,495)
Interest received		91,505	11,955
Cash flows from investing activities		(8,598,667)	(571,174)
Effect of exchange rate changes on cash and cash equivalents		(42,656)	(16,522)
Increase in cash and cash equivalents		2,153,993	395,419
Cash and cash equivalents, beginning of period		1,071,209	675,790
Cash and cash equivalents, end of period		\$ 3,225,202	\$ 1,071,209

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 1. Nature 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, 2017 and 2016 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 exploration of precious and base 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 2017 and 2016 and has a deficit of \$98,016,525 at December 31, 2017. The Corporation had a net loss of \$4,027,465 for the year ended December 31, 2017 compared to a net loss of \$2,499,739 for the year ended December 31, 2016, representing a \$1,527,726 increase. The Corporation had working capital of \$3,229,150 at December 31, 2017, compared to \$965,162 at December 31, 2016, representing a \$2,263,988 increase. Management estimates current working capital is sufficient to fund the Corporation's planned expenditures until the end of the second quarter of 2018; which could be extended with the deferral of planned expenditures if deemed necessary. 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.



# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 3. Basis of presentation

#### a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2018.

#### 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. The Corporation's Mongolian subsidiaries have a functional currency of Mongolian Tugrik.

#### 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.

#### *Estimate of recoverability for non-financial assets (continued)*

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.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 3. Basis of presentation (continued)

Critical accounting estimates (continued)

#### *Share-based compensation*

Equity-settled share-based compensation issued to employees is 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 assessment that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

#### *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, 2017, management determined that no such reclassification was required.

### 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 year ended December 31, 2017, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC (Mongolia exploration companies). On February 6, 2017 the Corporation wound-up its Barbados holding companies Erdene Gold International Inc. and Erdene International Exploration Inc. resulting in a net gain on this transaction of \$242 which has been recorded as an offset to Corporate and Administration expenses.

For the year ended December 31, 2016, 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).

Erdene Gold International Inc. and Erdene Gold International Exploration Inc. have a Canadian dollar functional currency. Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC have a Mongolian Tugrik functional currency. All subsidiaries except Leader Exploration LLC are wholly owned.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

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

#### Basis of consolidation (continued)

##### 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.

#### 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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

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

#### Foreign Currency (continued)

- 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.

#### *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 receivables and cash.

Cash comprises cash on hand and demand deposits.

#### *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes levels to classify the inputs to valuation techniques used to measure fair value.

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts, volatility measurements used to value option contracts and observable credit default swap spreads to adjust for credit risk where appropriate), or inputs that are derived principally from or corroborated by observable market data or other means.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

---

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

Financial Instruments (continued)

*Fair value (continued)*

Level 3: Inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

#### 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. 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:

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

---

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

#### d) Exploration and evaluation assets (continued)

- 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*

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:

<b>Asset</b>	<b>Basis</b>	<b>Rate</b>
Vehicles & field equipment	Declining balance	30%
Equipment, furniture & fixtures	Declining balance	20%
Software & computers	Declining balance	33%

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

#### f) Impairment

##### *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.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 4. Summary of significant accounting policies (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

#### f) Impairment (continued)

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").

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.

#### 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 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.

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

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

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 the 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) Loss per share

The Corporation presents basic and diluted loss per share data for its common shares. Basic loss 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 loss 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 to loss per share. As a result, basic and diluted loss 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, 2017, and have not been applied in preparing these 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 is currently assessing the impact of adopting this standard on its consolidated financial statements.



# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 5. Future changes in accounting policies (continued)

#### IFRS 2 – Share-based Payments

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based

payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The amendments apply for annual periods beginning on or after January 1, 2018.

The Corporation is currently assessing the impact of adopting this standard on its consolidated financial statements.

#### IAS 12: Income taxes

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The Corporation intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2018. The Corporation doesn't expect the amendments to have a material impact on the financial statements.

#### IFRS 16 Leases: IFRS 16 will replace IAS 17 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

#### IFRIC 22: Foreign currency transactions and advance consideration

On December 8, 2016 the IASB issued IFRIC Interpretation 22. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2018. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

#### IFRIC 23: Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2019. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 6. Receivables

	December 31,	
	2017	2016
Management fee receivable	\$ 27,003	\$ 20,596
Employee advances and receivables	106,488	8,211
Other	14,578	8,047
	<b>\$ 148,069</b>	<b>\$ 36,854</b>

The Corporation has an agreement with Morien Resources Corp. ("Morien") for the provision of management services, office space and the recovery of overhead costs. For the twelve months ended December 31, 2017, the amounts charged to Morien totaled \$264,594 (2016 - \$277,814). The costs incurred by the Corporation net of recoveries earned from Morien are recorded as corporate and administrative expenses on the statement of comprehensive loss.

### 7. Exploration and evaluation assets

	Khundii Gold	Tsenkher Nomin Gold	Zuun Mod Moly/Copper	Other	Total
Balance, January 1, 2016	\$ 50,977	\$ 804,495	\$ 881,821	\$ 299	\$ 1,737,592
Additions	1,771,556	634,963	85,885	294	2,492,698
Sandstorm royalty	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	(36,338)	(11,215)	(239,542)	(12)	(287,107)
Balance, December 31, 2016	<b>\$ 1,786,195</b>	<b>\$ 551,271</b>	<b>\$ 728,164</b>	<b>\$ 581</b>	<b>\$ 3,066,211</b>
Balance, January 1, 2017	<b>\$ 1,786,195</b>	<b>\$ 551,271</b>	<b>\$ 728,164</b>	<b>\$ 581</b>	<b>\$ 3,066,211</b>
Additions	6,109,190	1,480,569	74,062	949,326	8,613,147
Effect of movements in exchange rates	(179,997)	(46,396)	(36,431)	(21,691)	(284,515)
Balance, December 31, 2017	<b>\$ 7,715,388</b>	<b>\$ 1,985,444</b>	<b>\$ 765,795</b>	<b>\$ 928,216</b>	<b>\$ 11,394,843</b>

The Corporation's mineral exploration and mining licenses in Mongolia are held by its subsidiaries, Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of twelve 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.

#### Khundii

The license is located in Bayankhongor province in Mongolia. The 4,514 hectare Khundii license includes the Bayan Khundii gold prospect and Altan Arrow gold prospect. The license has an annual renewal in April. At the beginning of the third quarter of 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to this, the Corporation only capitalized the license costs associated with Khundii.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 7. Exploration and evaluation assets (continued)

#### Tsenkher Nomin

The license is located in Bayankhongor province in Mongolia. The 4,669 hectare Tsenkher Nomin license includes the Altan Nar gold, silver, lead, zinc prospect and has an annual renewal in December. At the beginning of the first quarter of 2015, having received the initial resource estimate for the Altan Nar prospect, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to 2015, the Corporation only capitalized the license costs associated with Altan Nar.

#### Zuun Mod/Khuvyn Khar

The Zuun Mod property contains a molybdenum-copper resource. The property is located in Bayankhongor Province southwest of Ulaanbaatar. The 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). The Mining License is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms.

#### Ulaan

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license, situated immediately adjacent to its high-grade Bayan Khundii gold project, with the option to acquire up to 100%. The Ulaan exploration license covers an area of approximately 1,780 hectares. Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that currently owns the property, for US\$750,000. Provided Erdene spends a minimum of US\$600,000 on work expenditures on the property over three years, it has the right to acquire the remaining 49% of the shares of Leader or, at Erdene's option, a portion of the property, for the then fair market value of the property or the portion to be acquired. Erdene may extend the option beyond three years by spending a minimum of US\$100,000 per annum on work expenditures.

#### 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 Altai region of southwest Mongolia. Following the March 2017 acquisition of 543,478 shares for \$500,000, Teck has invested a total of \$3.0 million to December 31, 2017, thus fulfilling its investment commitment; and owned 8.7% of the outstanding shares of the Corporation at December 31, 2017 (2016 – 10.0%). Under the Teck Alliance, two licenses were staked in early 2015. Both are located in Govi-Altai province and total 1,552 hectares and both have June annual renewal dates. No major exploration work has been completed on these licenses to date.

#### Sandstorm Gold Ltd. Royalty Agreement

On April 21, 2016 the Corporation closed concurrent transactions with Sandstorm Gold Ltd. ("Sandstorm") for total consideration of \$2,500,000. In the first transaction Sandstorm was granted a 2% net smelter returns royalty ("NSR Royalty") on Erdene's Tsenkher Nomin and Khundii licenses in Exchange for 321,888 shares of Sandstorm with a value of \$1,500,000, the price being based on the 10 day volume weighted average price as at April 14, 2016. The second transaction was the issuance of 5 million Erdene shares from treasury to Sandstorm at \$0.20 per share for \$1,000,000 in cash consideration. The shares issued to Sandstorm were subject to an 18 month hold period that expired October 14, 2017. Erdene has a 3-year option to buy-back 50%

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 7. Exploration and evaluation assets (continued)

of the NSR Royalty for \$1.2 million, to reduce the NSR Royalty to 1.0% which expires April 21, 2019. Sandstorm has been given a right of first refusal on future stream and/or royalty financings related to the Khundii and/or Tsenkher Nomin licenses.

\$876,972 of the \$1.5 million in royalty consideration was credited against Altan Nar's balance of capitalized Exploration and Evaluation assets at the date of close of the transaction and the remaining \$623,028 recognized as a gain on the sale of net smelter royalty interest in the statement of loss for the period.

The Corporation sold the shares in Sandstorm in 2016 realizing gross proceeds of \$1,981,064 and recognized a gain of \$481,064.

### 8. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2016	\$ -	\$ 89,665	\$ 198,403	\$ 288,068
Additions	48,661	21,033	1,801	71,495
Effect of movements in exchange rates	(10,909)	(7,722)	(6,164)	(24,795)
Balance, December 31, 2016	\$ 37,752	\$ 102,976	\$ 194,040	\$ 334,768
Depreciation & depletion				
Balance, January 1, 2016	\$ -	\$ (76,502)	\$ (175,741)	\$ (252,243)
Depreciation	(4,319)	(3,845)	(6,745)	(14,909)
Effect of movements in exchange rates	544	5,751	5,507	11,802
Balance, December 31, 2016	\$ (3,775)	\$ (74,596)	\$ (176,979)	\$ (255,350)
Carrying amounts				
At January 1, 2016	\$ -	\$ 13,163	\$ 22,662	\$ 35,825
At December 31, 2016	\$ 33,977	\$ 28,380	\$ 17,061	\$ 79,418

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

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

	Field equipment	Equipment, furniture & fixtures	Software & computers	Total
<b>Cost</b>				
Balance, January 1, 2017	\$ 37,752	\$ 102,976	\$ 194,040	\$ 334,768
Additions	67,528	6,680	2,817	77,025
Effect of movements in exchange rates	(7,175)	(1,982)	(899)	(10,056)
Balance, December 31, 2017	\$ 98,105	\$ 107,674	\$ 195,958	\$ 401,737
<b>Depreciation &amp; depletion</b>				
Balance, January 1, 2017	\$ (3,775)	\$ (74,596)	\$ (176,979)	\$ (255,350)
Depreciation	(7,953)	(4,451)	(5,881)	(18,285)
Effect of movements in exchange rates	363	970	847	2,181
Balance, December 31, 2017	\$ (11,365)	\$ (78,077)	\$ (182,013)	\$ (271,454)
<b>Carrying amounts</b>				
At January 1, 2017	\$ 33,977	\$ 28,380	\$ 17,061	\$ 79,418
At December 31, 2017	\$ 86,740	\$ 29,597	\$ 13,945	\$ 130,283

### 9. Commitments

Operating lease rentals are payable as follows:

	December 31,	
	2017	2016
Less than 1 year	62,936	62,936
Between 1 and 5 years	41,957	104,893
<b>Total</b>	<b>\$ 104,893</b>	<b>\$ 167,829</b>

The Corporation has an operating lease for office space in Dartmouth, Nova Scotia that expires August 31, 2019.

In 2018, minimum exploration expenditures of USD\$1.50 per hectare are required on the Corporation's Tsenkher Nomin and Khundii licenses (USD\$7,004 and USD\$6,771 respectively).

The Corporation must spend a total of USD\$600,000 over three years in order to have the right to purchase any or all of the remaining 49% of Leader (Ulaan). The Corporation can extend the option period beyond three years by spending an additional USD\$100,000 per year on exploration work.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 10. 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, 2017	December 31, 2016
Statutory tax rates	31%	31%
Income taxes (recovery) computed at the statutory rates	\$ (1,249,000)	\$ (775,000)
Benefit of temporary differences not recognized	577,000	487,000
Expenses not deductible for tax purposes	499,000	101,000
Effect of foreign tax rates	173,000	187,000
Provision for income taxes	\$ -	\$ -

The enacted tax rates in Canada 31% (31% in 2016) and Mongolia 25% (25% in 2016) where the Corporation operates are applied in the tax provision calculation.

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

	2017		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 14,983,000	\$ 1,620,000	\$ 16,603,000
Property, plant and equipment	222,000	-	222,000
Share issuance costs	1,214,000	-	1,214,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,569,000	14,306,000
	\$ 22,534,000	\$ 10,189,000	\$ 32,723,000
	2016		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 13,033,000	\$ 1,818,000	\$ 14,851,000
Property, plant and equipment	216,000	-	216,000
Share issuance costs	182,000	-	182,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,721,000	14,458,000
	\$ 19,546,000	\$ 10,539,000	\$ 30,085,000

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

### 10. Income taxes and deferred tax liability (continued)

As at December 31 2017, 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,	
	2017	2016
2017	\$ -	\$ 637,000
2018	424,000	439,000
2019	335,000	348,000
2020	384,000	394,000
2021	477,000	-
Thereafter	14,983,000	13,033,000
	<b>\$ 16,603,000</b>	<b>\$ 14,851,000</b>

### 11. 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 loans and equity attributable to common shareholders of the Corporation, which is comprised of share capital, contributed surplus, accumulated comprehensive 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 and 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 loans and equity to finance its operations and exploration.

	December 31,	
Capital Structure	2017	2016
Shareholders' Equity	\$ 14,754,276	\$ 4,110,791
<b>Total capital</b>	<b>\$ 14,754,276</b>	<b>\$ 4,110,791</b>

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 12. Share Capital

#### Share capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The changes in share capital during the years ended December 31, 2017 and 2016 were as follows:

	2017		2016	
	Shares	\$	Shares	\$
Issued and outstanding at January 1	126,810,031	86,783,669	105,060,005	81,967,477
Issued for cash	18,465,555	12,925,316	6,063,830	1,478,858
Exercise of warrants (note 13)	-	-	13,564,721	3,016,502
Exercise of stock options (note 13)	687,500	181,285	320,000	68,625
Issued on conversion of debenture (note 8)	-	-	1,801,475	252,207
Issued and outstanding at December 31	145,963,086	99,890,270	126,810,031	86,783,669

#### Issuance of common shares

##### *For the year ended 2017*

On February 23, 2017, the Corporation closed a bought deal common share private placement financing for gross proceeds to the Corporation of \$13.8 million. The offering was led by Paradigm Capital Inc., with a syndicate including Canaccord Genuity Corp. (collectively, the "Underwriters").

The Corporation issued an aggregate of 17,922,077 common shares at a price of \$0.77 per share, including the full exercise of the Underwriters 15% over-allotment option. In consideration for their services, the Underwriters received a cash commission of \$828,000 representing 6% of the gross proceeds and 1,075,324 compensation options representing 6% of the shares issued pursuant to the offering. Share issue costs of \$220,937 were paid on the private placement, resulting in net proceeds of \$12,751,063. Each compensation option entitles the holder to purchase one share for \$1.20 per share until February 22, 2019. The 1,075,324 compensation options were outstanding at December 31, 2017.

The fair value of \$322,597 related to these compensation options has been added to Contributed Surplus.

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

	February 23, 2017	
Share price at grant date	\$	0.82
Exercise price	\$	1.20
Risk-free interest rate		0.8%
Expected life		2.0 years
Expected volatility		87%
Expected dividends		0.0%
Weighted average grant date fair value	\$	0.30

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

On March 20, 2017 the Corporation closed a non-brokered private placement with Teck by issuing 543,478 shares at a price of \$0.92 for gross proceeds of \$500,000. Share issue costs of \$3,150 were paid in conjunction with the private placement resulting in net proceeds of \$496,850. This fulfills Teck's annual equity investment obligation pursuant to the agreement outlined in Note 7.



# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 12. Share Capital (continued)

The issuance of shares on exercise of warrants and options is outlined in note 13.

*For the year ended 2016*

On April 21, 2016 the Corporation closed a transaction with Sandstorm (see Note 6 for additional details). The transaction included the issuance of 5,000,000 shares of Erdene to Sandstorm at \$0.20 per share for gross cash proceeds of \$1,000,000. Sandstorm has committed to hold the shares for at least 18 months. Share issue costs of \$13,885 were paid in conjunction with the private placement resulting in net proceeds of \$986,115.

In June 2016, the Corporation closed a private placement financing with Teck Resources Limited which resulted in the issuance of 1,063,830 common shares at a price of \$0.47 per share generating gross proceeds of \$500,000. Share issue costs of \$7,257 were paid in conjunction with the private placement resulting in net proceeds of \$492,743.

### 13. 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).

During the year ended December 31, 2017, 3,845,324 options were granted at a weighted average exercise price of \$0.96. Also 687,500 options were exercised at an average price of \$0.18 generating proceeds of \$125,975.

The changes in stock options during the years ended December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	7,621,250	\$ 0.21	6,048,750	\$ 0.17
Granted	3,845,324	0.96	2,000,000	0.36
Expired	-	-	(107,500)	1.04
Exercised	(687,500)	0.18	(320,000)	0.15
Outstanding at December 31	10,779,074	\$ 0.47	7,621,250	\$ 0.21
Exercisable at December 31	10,779,074	\$ 0.47	7,621,250	\$ 0.21

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

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

#### (a) Stock Options (continued)

All stock options granted in 2017 and 2016 vested immediately and have a five-year term.

The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2017.

Expiry date	Outstanding	
	Number of Options	Exercise price
August 27, 2017	437,500	0.25
June 28, 2018	1,071,250	0.12
November 26, 2018	445,000	0.14
February 22, 2019	1,075,324	1.20
June 18, 2019	935,000	0.16
June 5, 2020	1,100,000	0.15
July 2, 2020	100,000	0.15
December 22, 2020	895,000	0.16
June 15, 2021	1,950,000	0.36
March 31, 2022	2,620,000	0.87
July 18, 2022	150,000	0.89
	<b>10,779,074</b>	<b>\$ 0.47</b>

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		Year Ended	
	December 31, 2017		December 31, 2016	
Share price at grant date	\$	0.88	\$	0.35
Exercise price	\$	0.87	\$	0.36
Risk-free interest rate		0.9%		0.5%
Expected life		3.7 years		3.8 years
Expected volatility		85%		88%
Expected dividends		0.0%		0.0%
Weighted average grant date fair value	\$	0.51	\$	0.21

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

#### (b) Warrants

No warrants were outstanding in 2017.

During the year ended December 31, 2016, 13,564,721 warrants were exercised at an average price of \$0.19 generating gross proceeds of \$2,527,163. Issue costs of \$18,325 were incurred resulting in net proceeds of \$2,508,838. During the year ended December 31, 2016, 46,626 warrants with an average exercise price of \$0.16 expired.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

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

#### (b) Warrants (continued)

The following table summarizes the continuity of the warrants for the years ended December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	-	\$ -	13,611,347	\$ 0.19
Issued	-	-	-	-
Exercised	-	-	(13,564,721)	0.19
Expired	-	-	(46,626)	0.16
Outstanding at December 31	-	\$ -	-	\$ -

#### (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, and the Corporation does not intend to cash settle awards under the plan, the plan is accounted for as an equity settled plan.

The following table summarizes information concerning DSUs at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	Number of DSUs	Number of DSUs
Outstanding at January 1	3,236,459	2,905,190
Granted	173,727	331,269
Outstanding at December 31	3,410,186	3,236,459

The fair value of the DSUs granted in the year ended December 31, 2017 was \$131,274 (2016 – \$112,165) and was charged to share based compensation.

	Year Ended December 31, 2017	Year Ended December 31, 2016
5 day volume weighted average price at grant date	\$ 0.76	\$ 0.34

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 14. Exploration expenses

	For the year ended December 31	
	2017	2016
Depreciation & amortization	\$ 11,747	\$ 7,201
Direct costs	719,183	1,403,190
Employee compensation costs	293,606	572,266
Share-based compensation	607,092	189,135
	<b>\$ 1,631,628</b>	<b>\$ 2,171,792</b>

### 15. Corporate and administration

	For the year ended December 31	
	2017	2016
Administrative services	\$ 572,692	\$ 369,095
Depreciation and amortization	6,504	7,748
Directors fees and expenses	146,141	161,333
Investor relations and marketing	267,171	175,583
Office and sundry	115,299	114,120
Professional fees	131,525	126,747
Regulatory compliance	139,108	68,183
Share-based compensation	948,542	346,029
Travel and accommodations	123,170	78,050
	<b>\$ 2,450,152</b>	<b>\$ 1,446,888</b>

### 16. 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,	
	2017	2016
Directors' fees	\$ 60,000	\$ 138,000
Share-based compensation to directors	528,250	240,054
Key management short-term benefits	523,536	372,939
Share-based compensation to key management	353,071	97,665
	<b>\$ 1,464,857</b>	<b>\$ 848,658</b>

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2017 and 2016

---

### 17. 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,	
	2017	2016
Cash and cash equivalents	\$ 3,225,202	\$ 1,071,209
Receivables	148,069	36,854
	<b>\$ 3,373,271</b>	<b>\$ 1,108,063</b>

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2017, \$113,555 or 4% of the balance of cash was held in banks outside Canada (2016 - \$90,637 or 8%).

Receivables include an amount from Morien. The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 18% of receivables at December 31, 2017 (2016 – 56%). 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 2018 and must obtain additional financing by the third quarter 2018 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

As of December 31, 2017, the Corporation has no interest-bearing debt 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 and cash equivalents 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 favorable rates in line with the Corporation's

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2017 and 2016

### 17. Financial instruments (continued)

#### Market Risk (continued):

budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

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

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 212,116	\$ 112,269
Trade and other receivables	7,424	-
Trade and other payables	(13,767)	(3,463)
	<b>\$ 205,773</b>	<b>\$ 108,806</b>

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 \$20,600 (2016 - \$10,900).

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

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 25,328	\$ 21,275
Trade and other receivables	7,158	7,319
Trade and other payables	(71,012)	(67,575)
	<b>\$ (38,526)</b>	<b>\$ (38,981)</b>

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$3,900 (2016 - \$3,900).

#### c) Price risk

The Corporation's financial instruments are 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, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	\$ 3,225,202	\$ -	\$ -	\$ 1,071,209	\$ -	\$ -



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year ended December 31, 2017

**Contents**

	Page No.
Fourth Quarter Highlights	3
Company Overview	6
Outlook and Strategy	8
Selected Annual Financial Information	9
Discussion of Operations	9
Fourth Quarter	11
Summary of Quarterly Results	11
Liquidity and Capital Resources	11
Outstanding Share Data	12
Project Summaries	13
Bayan Khundii Gold Project	13
Altan Nar Gold-Polymetallic Project	22
Altan Arrow Gold Project	31
Ulaan Copper-Gold Porphyry Project	32
Zuun Mod Molybdenum Project	33
Khuvyn Khar Copper-Silver Project	34
Contractual Obligations	35
Off-Balance Sheet Arrangements	35
Critical Accounting Estimates	35
Adoption of New Accounting Standards	36
Future Changes in Accounting Policies	36
Financial Instruments and Other Risks	38
Disclosure Controls and Internal Controls Over Financial Reporting	39
Qualified Person	40

*This Management Discussion and Analysis ("MD&A"), dated March 26, 2018, 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 years ended December 31, 2017 and 2016 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 (including, but not limited to, assumptions in connection with the continuance of the Corporation and its subsidiaries as a going concern, general economic and market conditions, mineral prices, and the accuracy of mineral resource estimate), 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, exploration and evaluation 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, 2017, a copy of which is available on the Corporation's SEDAR document page at [www.sedar.com](http://www.sedar.com).*

*Any financial outlook or future-oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of the Corporation as of the date of this MD&A. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such outlook or information should not be used for purposes other than for which it is disclosed in this MD&A.*

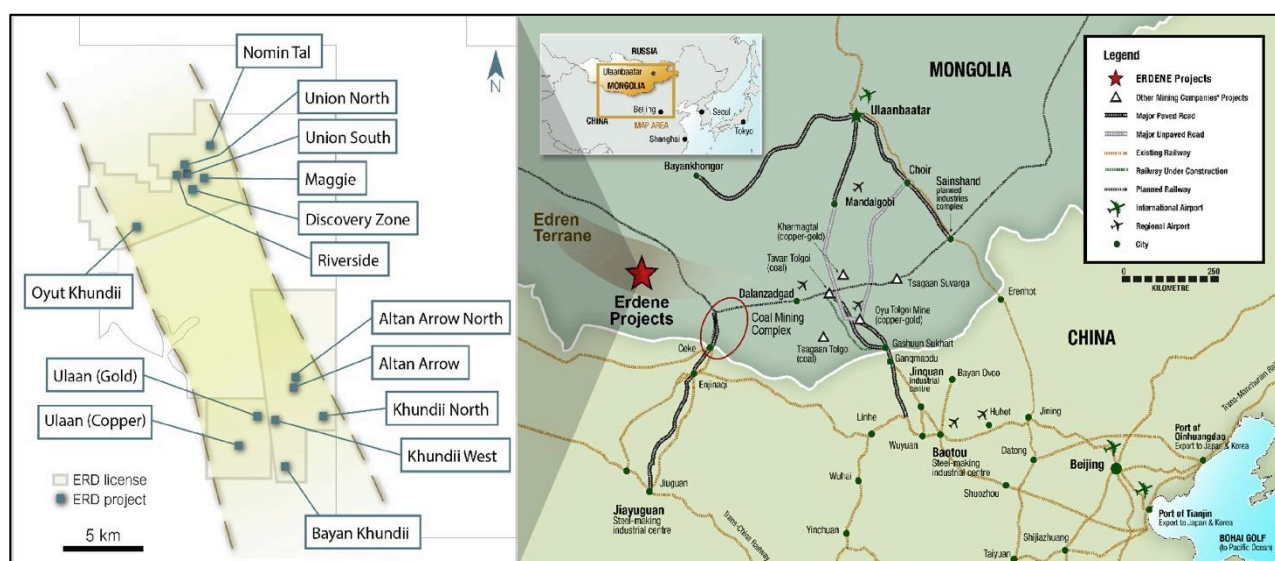


## Fourth Quarter Highlights

### Summary

- The Corporation has discovered multiple high-grade gold and base metal prospects and deposits in a previously unexplored region of southwest Mongolia now identified as the Khundii gold district.
- The Corporation's 2017 exploration programs concentrated on defining and expanding gold mineralized zones on its two, 100% owned, flagship projects, Bayan Khundii and Altan Nar (16 kilometres apart), while exploring for and testing additional gold targets within the surrounding district.
- Based on 2017 drill results the Corporation increased its 2017 drill program from 24,000 metres announced in April 2017, to 33,000 metres, announced in October 2017, to accommodate additional drilling at Bayan Khundii, Altan Nar, and its emerging Altan Arrow prospect 3.5 km north of Bayan Khundii.

Erdene's emerging Khundii Gold District in southwest Mongolia



### Bayan Khundii Gold Project – 100% Erdene

- In Q4 2017 the Corporation announced drill results at Bayan Khundii for 52 holes, totaling 9,705 metres (38,072 metres in 234 drill holes since first hole in Q4 2015).
- Drilling focused on: expanding the Midfield Zone to the north under younger, post-mineralization cover, including the testing of new high-grade, structural targets; expanding the Striker Zone down-dip; establishing continuity west of the Striker Zone; and testing new targets beneath younger cover rocks to the west, east and north.
- The 2017 drill program doubled the established continuity of significant gold mineralization over a 1.3 kilometre long trend that is locally up to 450 metres wide and remains open. Since the first drill hole, approximately 18% of holes have intersected greater than one ounce of gold per tonne over 1 metre intervals.
- Structural interpretation in Q4 2017 by Dr. Armelle Kloppenburg provided a greater understanding of controls on gold mineralization at Bayan Khundii and improved targeting of ultra high-grade zones.

- Step-out drilling north of the Midfield Zone, testing a structural target, returned the Corporation's highest grade to date with 2200 g/t gold over 1 metre, within 14 metres of 158 g/t gold (BKD-231), delineating an important new target area that will require additional, closer-spaced drilling in 2018.
- Additional drilling north of the Midfield Zone returned 22 metres of 8.3 g/t gold, within 36.5 metres of 5.6 g/t gold (BKD-232) and 120 metres of 1.14 g/t gold including 3 metres of 33 g/t gold (BKD-188).
- Drilling within the Midfield Zone returned 25 metres of 5.8 g/t gold within a 127.5 metre interval of 1.8 g/t gold (BKD-230).
- While most of the drilling in the Midfield Zone has focused on extending the northern limits of the mineralized zone, hole BKD-210, located 80 metres east of Midfield's eastern boundary, returned 43 metres of 1.8 g/t gold (BKD-210) and included gold values up to 44.8 g/t, establishing a new eastern extension to the Midfield Zone.
- Drilling between the Striker and Midfield Zones continued to return high-grade mineralization, with 128 metres of 1.14 g/t gold including 22 metres of 3.3 g/t gold (BKD-194), and 23 metres of 6.7 g/t gold, including 1 metre of 139 g/t gold (hole BKD-222).
- Striker Zone infill drilling returned 61 metres of 4.2 g/t gold, with multiple high-grade intervals including 1 metre of 111 g/t gold (hole BKD-227).
- Step-out drilling 250 metres west of the Striker Zone returned the Corporation's best intersection to date in this area with 15 metres of 9.2 g/t gold, including 1 metre of 116 g/t gold (hole BKD-220).
- In addition to drilling, the Corporation completed mapping, geochemical, and geophysical work over an 8 kilometre area north of Bayan Khundii, identifying several areas of intense alteration with associated gold anomalism for follow-up in 2018.
- The Corporation also completed additional metallurgical testing on two master composites that, similar to previous metallurgical results, indicate Bayan Khundii is free milling and amenable to conventional processing techniques, with recoveries now ranging from 91 to 99%.
- Various technical studies have been undertaken and many completed to support the permitting process and economic studies for both the Bayan Khundii and Altan Nar gold projects.
- A decision regarding when to commence an independent resource estimate will be influenced by drill results although it is anticipated that a resource study will be completed in 2018.

#### **Altan Arrow and Khundii North Gold Projects – 100% Erdene**

- In addition to drilling at Bayan Khundii, the Corporation completed significant exploration work during Q4 2017 within its 11.4 km long Bayan Khundii license, with a particular focus on its Altan Arrow and Khundii North target areas, 3.5 km north and 3.2 km northeast of Bayan Khundii, respectively.
- The Altan Arrow prospect has been further defined as a 0.5 by 1 km target area adjacent to a major northeast-trending extensional fault containing multiple zones of epithermal quartz veining with rock chip and trench results returning several samples in the 5 g/t to 57 g/t gold range, and recent reconnaissance drilling establishing continuity of high-grade zones at depth.
- Q4 2017 drilling at Altan Arrow returned the highest grades to date at this prospect with 70 g/t gold over 2 metres (AAD-12).
- Q4 2017 drilling of a new target area 300 metres west of AAD-12 returned 39 g/t gold over 1 metre, near-surface (AAD-11).

- The Khundii North target, 2.5 km east of Altan Arrow, has now been traced over 1 km through gold in soils and rock chips with values up to 22 g/t gold.

#### **Altan Nar Gold-Polymetallic Project – 100% Erdene**

- In Q4 2017 the Corporation announced drill results at Altan Nar for 22 holes, totaling 3,968 metres (total for project: 18,987 metres in 122 drill holes). Drilling focused on testing new targets and completing step-out drilling in areas adjacent to the Discovery Zone and Union North deposits where the Corporation previously reported a NI 43-101 mineral resource estimate.
- A high-grade zone within the central Discovery Zone was identified in Q4 2016 (TND-101: 15 metres of 56.9 g/t gold) and further delineated in Q2 2017 (TND-105: 14 metres of 9.5 g/t gold). In Q4 2017 the Corporation announced follow-up drill results from this zone that returned 5 metres of 29.7 g/t gold within a 20 metre interval of 10.3 g/t gold (11.8 g/t gold equivalent) at 97 metres depth (TND-110). This zone remains open at depth.
- Deep drilling in the Discovery Zone returned multiple mineralized zones with high-grade veins as deep as 382 metres returning up to 2.7 g/t gold, 49 g/t silver, 6.5% lead and 2.2% zinc (TND-129).
- Step-out drilling at Union North significantly extended mineralization, with 14.5 metres of 1.5 g/t gold equivalent (0.9 g/t gold, 7 g/t silver, 0.89% lead-zinc) in a 200 metre step-out hole from the 2015 resource boundary (TND-121) and 5 metres of 3.2 g/t gold equivalent (1.1 g/t gold, 29 g/t silver, 3.3% lead-zinc) in a 340 metre step-out hole from the 2015 resource boundary (TND-120).
- High-grade veins discovered 200 metres southeast of the Union North resource boundary returned 7% zinc, 2.6% lead, 23 g/t silver and 1.4 g/t gold over 1 metre (TND-122).
- Scout drilling in Q3 2017 at the Maggie prospect, 800 metres north of Discovery Zone, returned 5 metres of 4.8 g/t gold at 31 metres depth (TND-123). Follow-up drilling in Q4 2017 beneath TND-123 returned an average grade of 0.7 g/t AuEq (0.4 g/t gold, 4.2 g/t silver, and 0.46% combined lead-zinc) with individual gold values up to 4.8 g/t over 1 metre (TND-133).

#### **Ulaan Copper-Gold Porphyry Project**

- The Corporation announced in Q3 2017 that it had acquired a 51% interest, with the option to acquire up to 100%, in the Ulaan license, a 1,780 hectare exploration property, located immediately west of its Bayan Khundii license.
- In Q4 2017 the Corporation completed a detailed exploration program at Ulaan, consisting of geological mapping, prospecting, rock chip sampling, grid soil geochemical sampling, and an induced polarization survey.
- Ulaan hosts a very large, 3-kilometre diameter, intense alteration zone with characteristics thought to be related to a porphyry complex at depth.
- Ulaan has no history of drilling or trenching, however rock chip and stream sampling has identified multiple, highly anomalous concentrations of gold, copper and molybdenum in the surrounding area, and recently completed geophysical surveys have produced several drill targets.

#### **Teck Alliance**

- The Corporation continues to be active through its Alliance with Teck Resources Limited (“Teck”), Canada’s largest diversified mining company, in assessing regional base and precious metal opportunities in southwest Mongolia’s prolific Central Asian Orogenic Belt.

- The 2017 field program began in Q2 and was completed in Q4. The first phase consisted of detailed stream sediment sampling to follow up on anomalous results from the comprehensive regional stream program conducted over the entire Edren Terrane in 2016. The second phase of work consisted of ground-truthing stream sediment and ASTER anomalies, and additional work on previously identified target areas.
- The Alliance excludes the Corporation's Bayan Khundii, Altan Nar, Altan Arrow, Ulaan, Khuvyn Khar and Zuun Mod projects.

## Company Overview

Erdene is a mineral resource exploration and development corporation listed on the Toronto Stock Exchange (TSX:ERD). Over the past several years the Corporation has discovered a new gold district ("The Khundii Gold District") in southwest Mongolia which includes seven targets, three of which are considered significant prospects for development: Bayan Khundii, Altan Nar and Altan Arrow. Over the past two years, the Bayan Khundii prospect has advanced from the discovery of very high-grade gold samples collected at surface to the Corporation's flagship asset with 38,072 metres of diamond drilling from 234 holes. Drilling and surface exploration has also defined multiple targets in the surrounding areas adjacent to and further north on the Bayan Khundii license that have significant potential for additional gold resources. The near-term objectives of the Corporation are to complete the necessary drilling to allow for the completion of a maiden resource estimate at Bayan Khundii, complete an updated resource estimate for Altan Nar, and continue advancing exploration on various targets within the Khundii District, most importantly Altan Arrow, Khundii North and Ulaan.

The Corporation's 100%-owned Bayan Khundii ('Rich Valley') gold project was discovered in Q2 2015, with initial drill results reported in Q4 2015; the first hole returned 7 metres of 27.5 g/t gold at 14 metres depth. Bayan Khundii has become the highest priority project for the Corporation based on its high grades, proximity to surface, and favorable metallurgy. The Corporation has completed 38,072 metres of diamond drilling at Bayan Khundii to the end of Q4 2017, comprised of 234 diamond drill holes. Drilling to date has identified three main areas of very high grade gold mineralization with strong continuity, including the Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization Cretaceous cover. The high-grade gold zones within these three areas can be very wide, grading in excess of 5 g/t gold (up to 2200 g/t) and greater than 50 metres in width. Step-out drilling in 2017 has indicated that mineralization encountered in the Midfield Zone, located 200 metres northeast from Striker Zone, extends for at least 280 meters further to the northeast under younger cover. The Midfield and North Midfield Zones have returned some of the highest grades and the longest mineralized intervals intersected to date at Bayan Khundii; hole BKD-98 returned 80 metres of 6.0 g/t gold at 42 metres depth, and hole BKD-231 returned 14 metres of 158 g/t gold, including one metre of 2200 g/t gold.

The 100%-owned Altan Nar ('Golden Sun') project is located 16 kilometres northwest of Bayan Khundii, and hosts a total of 18 mineralized (gold, silver, lead and zinc) target areas within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, Discovery Zone ("DZ") and Union North ("UN"), are the most advanced targets, hosting wide zones of high-grade, near-surface mineralization, and were the focus of an initial NI 43-101 mineral resource estimate released by the Corporation in Q1 2015, as well as detailed metallurgical processing test-work, infill drilling and trenching completed in Q3 2015. In Q4 2016, the Corporation drill tested a structural intersection in DZ (hole TND-101) that returned consistent mineralization from surface to 170 metres depth, with high gold grades not previously observed at Altan Nar. This was an exploratory hole drilled perpendicular to a cross-cutting feature observed in geophysical surveys. Results from follow-up drilling of this new high-grade zone in Q2-Q4 2017 intersected several mineralized zones, with results including 5 metres of 29.7 g/t gold within a 20 metres of 10.3 g/t gold at 97 metres depth (hole

TND-110). The remaining 16 targets are either undrilled or scout-drilled and are considered by the Corporation to have good potential for hosting additional resources.

Various technical studies have been undertaken and many completed to support the permitting process and economic studies for both the Bayan Khundii and Altan Nar gold projects.

In addition to work being completed at Bayan Khundii and Altan Nar, the Corporation intends to continue its regional district-scale exploration program to identify additional high-grade precious and base metal projects and intends to seek to further consolidate the district with future acquisitions similar to the one made at the Ulaan property in Q3 2017. Through its Alliance with Teck, Erdene intends to also continue to assess regional opportunities for porphyry and porphyry-related mineralization within the larger Edren Terrane and intends to pursue acquisitions as opportunities arise in the Alliance's area of interest in southwest Mongolia. The Corporation's Bayan Khundii, Altan Nar, Altan Arrow, Ulaan, Khuvyn Khar and Zuun Mod properties are excluded from the Teck Alliance areas of interest.

## **Sandstorm Gold Ltd. Royalty Agreement**

On April 21, 2016 the Corporation closed concurrent transactions with Sandstorm Gold Ltd. ("Sandstorm") for total consideration of \$2,500,000. In the first transaction Sandstorm was granted a 2% net smelter returns royalty ("NSR Royalty") on Erdene's Tsenkher Nomin and Khundii licenses in Exchange for 321,888 shares of Sandstorm, at \$4.66 per share, for a total value of \$1,500,000, the price being based on the 10 day volume weighted average price as at April 14, 2016. The second transaction was the issuance of 5 million Erdene shares from treasury to Sandstorm at \$0.20 per share for \$1,000,000 in cash consideration. The shares issued to Sandstorm were subject to an 18-month hold period which expired October 14, 2017. Erdene has a 3-year option to buy-back 50% of the NSR Royalty for \$1.2 million, to reduce the NSR Royalty to 1.0%. Sandstorm was given a right of first refusal on future stream and/or royalty financings related to the Khundii and/or Tsenkher Nomin licenses.

\$876,972 of the \$1.5 million in royalty consideration was credited against Altan Nar's capitalized Exploration and Evaluation assets, being the balance at the date of close of the transaction. The remaining \$623,028 was recognized as a gain in the statement of loss for the period.

The Corporation sold all its shares in Sandstorm in 2016, generating proceeds of \$1.98 million and recognized a gain of \$481,064.

## **Alliance with Teck Resources Limited**

In April 2013, an alliance was formed by the signing of option and private placement agreements (collectively, "Agreements") with Teck Resources Limited ("Teck") to fund and explore the Corporation's mineral tenements in the Trans Altai region of southwest Mongolia. Under the terms of the Agreement, Teck agreed to subscribe to shares of Erdene by way of annual, non-brokered private placements, priced at a 10% premium to Erdene's then 10-day volume weighted average share price, until it invested \$3 million or acquired 19.9% of the outstanding shares of the Corporation, whichever occurred first. Eighty five percent of the proceeds from the private placements are committed to exploration work. In return, the Corporation agreed that once it spent 85% of the proceeds from the Teck financings on the initial program Teck would have the option to acquire up to 75% interest in designated projects through a two-stage option process by funding additional expenditures.

The following are details of the combined \$3.0 million in private placements completed with Teck between April 2013 and March 2017:

- April 2013: 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 to Erdene of \$1 million.

- November 2013 and April 2014: Teck purchased 2,142,857 shares at \$0.07 on November 7, 2013 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.
- April 2015: The Corporation closed a private placement with Teck on April 24, 2015, for \$392,857 at \$0.139 per share and received \$107,143 on the exercise of \$0.10 warrants for total consideration of \$500,000.
- April 2016: The Corporation agreed on April 22, 2016 to extend the optional subscription date for 2016 by 60 days to June 23, 2016. On June 3, 2016, the Corporation closed a private placement with Teck purchasing 1,063,830 shares at \$0.47 per share for cash consideration of \$500,000.
- On March 20, 2017, the Corporation closed a private placement with Teck purchasing 543,478 shares at \$0.92 per share for cash consideration of \$500,000.

The initial program is complete and no designated projects have been identified. Teck will continue to have the right, through to Q1 2020, to elect to enter into a joint venture agreement on new properties submitted by the Corporation and approved by Teck for acquisition.

## Outlook and Strategy

### General

Over the past several years the Corporation has discovered a new gold district (“The Khundii Gold District”) in southwest Mongolia. This includes seven targets, three of which are considered significant prospects for development: Bayan Khundii, Altan Nar and Altan Arrow. Over the past two years, the Bayan Khundii prospect has advanced from the discovery of very high-grade gold samples collected at surface to the Corporation’s flagship asset with 38,072 metres of diamond drilling including 234 holes. Drilling and surface exploration has also defined multiple targets in the surrounding areas adjacent to and further north on the Bayan Khundii license that have significant potential for additional gold resources. The near-term objectives of the Corporation are to establish a maiden resource estimate at Bayan Khundii, complete an updated resource estimate for Altan Nar, and continue advancing exploration on various targets within the Khundii District, most importantly Altan Arrow, Khundii North and Ulaan.

### 2018 Program

In Q2 2018, the Corporation expects to commence an approximate 5,000 metre drill program at Bayan Khundii to test high-grade gold targets for continuity and extension, as well as test target areas for potential expansion to the west, north and northeast of the main mineralized trend. The Corporation will also complete an additional 1,000 metres of drilling at its neighboring Altan Arrow project in Q2/Q3 2018 to follow-up on high-grade results intersected in Q4 2017. The next stage will be to define to a high confidence level the potential mineral resources for these projects. The Corporation expects to announce a global resource estimate for Bayan Khundii and Altan Nar in Q3 2018. Following the definition of resources and characterization of the deposits based on ore type and amenability to different mining and processing methods, preliminary economic assessments will be carried out which will progress through a series of increasingly more detailed assessments leading to an eventual feasibility decision that will potentially lead into mine and plant development and construction and onto initial commercial production. Regional exploration will continue; however, the Corporation’s immediate focus will continue to be the advancement of its Bayan Khundii, Altan Nar and Altan Arrow projects, and evaluation of prospects in the surrounding Khundii District.

## Selected Annual Financial 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.*

<b>Fiscal Year Ended December 31</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Revenues	\$ Nil	\$ Nil	\$ Nil
Loss for the year	\$ 4,027	\$ 2,500	\$ 12,608
Basic and diluted loss per share	\$ 0.03	\$ 0.02	\$ 0.14
Total assets	\$ 14,946	\$ 4,293	\$ 2,522
Total long-term liabilities	\$ Nil	\$ Nil	\$ Nil
Cash dividends declared	\$ Nil	\$ Nil	\$ Nil

## Discussion of Operations

### *Year ended December 31, 2017 and 2016*

The tables below show exploration and evaluation costs for the years ended December 31, 2017 and 2016, including those costs capitalized during the reporting periods. As explained in greater detail under "Project Summaries", exploration efforts have been focused primarily on the Khundii and Tsenkher Nomin licenses.

<b>Year ended December 31, 2017</b>	<b>Khundii</b>	<b>Tsenkher Nomin</b>	<b>Zuun Mod</b>	<b>Ulaan &amp; Other</b>	<b>Total</b>
<b>Exploration expenditures</b>					
Drilling, trenching, sampling and assaying	4,083,662	933,422	2,697	90,751	5,110,532
License costs	5,464	5,331	74,062	949,326	1,034,183
Geological services, camp and field	1,867,297	438,134	45,226	450,879	2,801,536
Travel and other	152,767	103,682	80	153,477	410,006
Share-based compensation	-	-	-	607,092	607,092
Mongolian office costs	-	-	-	281,426	281,426
Total exploration expenditures	6,109,190	1,480,569	122,065	2,532,951	10,244,775
Capitalized expenditures	(6,109,190)	(1,480,569)	(74,062)	(949,326)	(8,613,147)
<b>Expensed exploration costs 2017</b>	-	-	48,003	1,583,625	1,631,628
<b>E&amp;E assets, January 1, 2017</b>	\$ 1,786,195	\$ 551,271	\$ 728,164	\$ 581	\$ 3,066,211
Additions	6,109,190	1,480,569	74,062	949,326	8,613,147
Effect of movements in exchange rates	(179,997)	(46,396)	(36,431)	(21,691)	(284,515)
<b>E&amp;E assets, December 31, 2017</b>	\$ 7,715,388	\$ 1,985,444	\$ 765,795	\$ 928,216	\$ 11,394,843

<b>Year ended December 31, 2016</b>	<b>Khundii</b>	<b>Tsenkher Nomin</b>	<b>Zuun Mod</b>	<b>Other</b>	<b>Total</b>
<b>Exploration expenditures</b>					
Drilling, trenching, sampling and assaying	1,975,871	292,055	3,800	55,215	2,326,941
Licence costs	3,790	5,535	85,885	294	95,504
Geological services, camp and field	1,021,042	284,905	65,512	341,176	1,712,635
Travel and other	80,566	52,468	623	50,298	183,955
Share-based compensation	-	-	-	189,135	189,135
Mongolian office costs	-	-	-	156,320	156,320
Total exploration expenditures	3,081,269	634,963	155,820	792,438	4,664,490
Capitalized expenditures	(1,771,556)	(634,963)	(85,885)	(294)	(2,492,698)
<b>Expensed exploration costs 2016</b>	<b>1,309,713</b>	<b>-</b>	<b>69,935</b>	<b>792,144</b>	<b>2,171,792</b>

<b>E&amp;E assets, January 1, 2016</b>	<b>\$ 50,977</b>	<b>\$ 804,495</b>	<b>\$ 881,821</b>	<b>\$ 299</b>	<b>\$ 1,737,592</b>
Additions	1,771,556	634,963	85,885	294	2,492,698
Sandstorm royalty proceeds	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	(36,338)	(11,215)	(239,542)	(12)	(287,107)
<b>E&amp;E assets, December 30, 2017</b>	<b>\$ 1,786,195</b>	<b>\$ 551,271</b>	<b>\$ 728,164</b>	<b>\$ 581</b>	<b>\$ 3,066,211</b>

Corporate and administrative expenses were \$2,450,152 for the twelve months ended December 31, 2017 compared to \$1,446,888 for the same period in 2016, a \$1,003,264 increase (see table below). \$602,513 of the increase is due to non-cash share based compensation. The Corporation granted approximately 2.8 million options to directors, officers and employees of the Corporation in Q2 2017 (Q2 2016 – 2.0 million options). With the 800,000 increase in the number of options granted, and the appreciation in the share price since the 2016 grant, the calculated fair value of the 2017 options is significantly higher than 2016. Additional management services were required to manage the large exploration and evaluation programs in 2017. The Corporation also increased the level of its investor relations activities in order to communicate results to stakeholders.

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Administrative services	\$ 572,692	\$ 369,095	\$ 203,597
Depreciation and amortization	6,504	7,748	(1,244)
Directors fees and expenses	146,141	161,333	(15,192)
Investor relations and marketing	267,171	175,583	91,588
Office and sundry	115,299	114,120	1,179
Professional fees	131,525	126,747	4,778
Regulatory compliance	139,108	68,183	70,925
Share-based compensation	948,542	346,029	602,513
Travel and accommodations	123,170	78,050	45,120
	<b>\$ 2,450,152</b>	<b>\$ 1,446,888</b>	<b>\$ 1,003,264</b>



## Fourth Quarter

### Exploration and Evaluation

The Corporation carried out field programs into early December 2017. As a result, the Corporation spent approximately \$1.9 million in the fourth quarter on exploration and evaluation activities. \$1.3 million was directed to drilling, assaying, camp, geophysics and technical consulting on the Khundii license (Bayan Khundii and Altan Arrow) while approximately \$220,000 was spent on drilling, assaying and logistics on the Tsenkher Nomin license (Altan Nar). The remaining increase of \$380,000 was mainly due to travel and other costs as well as continued work on the Ulaan property (see "Project Summaries" for more details).

Other than that mentioned above, there were no unusual events or items during the fourth quarter of 2017 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 2017				Fiscal 2016			
	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	\$649	\$713	\$2,069	\$596	\$492	\$73	\$1,423	\$512
Basic and diluted loss per share	\$0.00	\$0.01	\$0.02	\$0.00	\$0.00	\$0.00	\$0.01	\$0.01
Total Assets	\$14,946	\$15,592	\$16,730	\$17,208	\$4,293	\$3,872	\$4,044	\$2,504

For the three months ended December 31, 2017, the Corporation recognized a net loss of \$649,434 compared to a loss of \$492,569 for the same period in 2016.

For the year ended December 31, 2017, the Corporation recognized a net loss of \$4,027,465, or \$0.03 per share, compared to a loss of \$2,499,739, or \$0.02 per share for the same period in 2016.

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 the date of this MD&A, the Corporation had approximately \$2.3 million in working capital.

On February 23, 2017, the Corporation closed a bought deal common share financing for gross proceeds to the Corporation of \$13.8 million. On March 20, 2017, the Corporation closed a non-brokered private placement with Teck for gross proceeds of \$500,000. (See Outstanding Share Data for complete details on all common share issuances).

Funds raised have been used to advance the Corporations projects in Mongolia and cover overhead and administrative costs in support of those programs (see Project Summaries and Discussion of Operations).

Current working capital is expected to fund the Corporation's budgeted expenditures to the end of the second quarter of 2018. 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 alliances, 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.

## **Outstanding Share Data**

### **Issued and Outstanding Share Capital**

On February 23, 2017, the Corporation closed a bought deal common share financing for gross proceeds to the Corporation of \$13.8 million. The offering was led by Paradigm Capital Inc., with a syndicate including Canaccord Genuity Corp. (collectively, the "Underwriters"). The Corporation issued an aggregate of 17,922,077 common shares at a price of \$0.77 per share, including the full exercise of the Underwriters 15% over-allotment option. In consideration for their services, the Underwriters received a cash commission of \$828,000 representing 6% of the gross proceeds and 1,075,324 compensation options representing 6% of the shares issued pursuant to the offering. Each compensation option entitles the holder to purchase one share for \$1.20 per share until February 22, 2019.

On March 20, 2017, the Corporation closed a non-brokered private placement with Teck by issuing 543,478 shares at a price of \$0.92 per share for gross proceeds of \$500,000.

As of the date of this MD&A, the Corporation had 146,400,586 shares issued and outstanding.

### **Stock Options**

On April 1, 2017, 2,620,000 options were granted to certain officers, directors and employees of the Corporation. Each option is exercisable at \$0.87 per share until March 31, 2022 and has an average fair value of \$0.51 per option. On July 18, 2017, 150,000 options were granted to an employee of the Corporation. Each option is exercisable at \$0.89 per share until July 31, 2022 and has an average fair value of \$0.51 per option.

During the twelve months ended December 31, 2017, the Corporation received \$125,975 on the exercise of 687,500 share purchase options at an average price of approximately \$0.18 per share.

As of the date of this MD&A, the Corporation had 10,591,574 outstanding stock options with a weighted average exercise price of \$0.49, all of which are exercisable.

### **Compensation options**

In conjunction with the Paradigm financing described in more detail under Issued and Outstanding Share Capital, the Corporation issued 1,075,324 compensation options. Each compensation option entitles the holder to purchase one share for \$1.20 per share until February 22, 2019 and had a fair value of \$322,597 (\$0.30 per compensation option).

As of the date of this MD&A, the Corporation had 1,075,324 outstanding compensation options with an exercise price of \$1.20, all of which are exercisable.

## Deferred Stock Units

During the twelve months ended December 31, 2017, the Corporation granted certain officers, directors and employees of the Corporation an aggregate of 173,727 deferred stock units (“DSUs”) at a weighted average price of approximately \$0.76.

As of the date of this MD&A, the Corporation had a balance of 3,410,186 deferred stock units DSUs outstanding which will be settled in shares.

## Project Summaries

The Corporation’s gold projects are located in the Edren Terrane, part of the Central Asian Orogenic Belt, which is host to some of the world’s largest gold and copper-gold deposits. Although epithermal gold and porphyry copper-gold deposits are well documented across the border in China and along the westward trend, limited exploration has taken place in southwest Mongolia due to its isolation, both geographically and politically, until the mid-1990’s. Exploration since that time in southeast 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 decade. This work has resulted in the discovery of a new gold district (the “Khundii District”) comprised of multiple gold and copper occurrences, including the discoveries at Bayan Khundii, Altan Nar, and Altan Arrow projects, over an approximately 25 kilometre trend. The Khundii District, although still in its infancy in regards to modern exploration, is now known to host the full spectrum of arc-related base and precious metal systems, including copper-gold porphyries, intermediate sulphidation / carbonate base metal gold deposits, and low sulphidation epithermal gold and gold-silver systems.

The following is a summary of the exploration programs carried out on the Corporation’s properties in this region.

### Bayan Khundii Gold Project (located on the Khundii license)

The Bayan Khundii (“Rich Valley”) gold project is located on Erdene’s 100%-owned, 4,514 hectare, Khundii exploration license in southwest Mongolia, 16 kilometres south of the Corporation’s Altan Nar gold-polymetallic project. The license is in its seventh year of a maximum 12-year term and 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.

#### Discovery and Deposit Style

Bayan Khundii is a low-sulphidation epithermal gold system that was discovered by Erdene in Q2 2015 during a regional reconnaissance program, where 20% of the initial rock chip/grab samples returned values in excess of 3.0 g/t gold (up to 4,380 g/t gold), at areas now known as the Striker Zone and Gold Hill Zone. To date, the Corporation has identified gold mineralization in six separate prospect areas (Striker, Midfield, North Midfield, Gold Hill, West Striker and Northeast zones) over a 1.3 kilometre area that is locally up to 400 metres wide, and remains open to the north, west, and east. In regards to depth potential, the 2200 g/t gold intersection announced by the Corporation in Q1 2018 was the deepest ultra-high grade zone intersected to date and recent drilling in the newly defined Striker West area also provided high grades at previously unseen depths within altered host rock that remains open at depth. Additionally, the areas tested at the furthest northeast extent of the Bayan Khundii system have also displayed intense alteration and mineralization at depths that remain open in the preferred host rock. The deposit is characterized by structurally-controlled, high-grade gold veins hosted within intensely silicified and illite-altered Devonian volcanic units that contain low to moderate gold grades, locally over very wide intervals that are overlain in part by younger, post-mineralization Cretaceous and Quaternary units.

Bayan Khundii has similarities to other global low-sulphidation deposits including Ishikari (Japan), Kupol (Russia) and Round Mountain (USA).

### Drilling Summary

Since drilling the first hole in Q4 2015 to the end of the last drill program in Q3 2017, the Corporation has completed 234 diamond drill holes (45 to 90 degree angles) at Bayan Khundii totaling 38,072 metres, with the majority of holes intersecting anomalous gold mineralization.

### Striker Zone

The first drill hole at Bayan Khundii was completed at the Striker Zone in Q4 2015 (BKD-01: 7 metres of 27.5 g/t gold at 14 metres depth; northern Striker Zone), and since that time, the Striker Zone has received more than 60 drill holes with approximately 70% intersecting intervals of greater than 10 g/t gold. The Corporation has identified very good continuity of multiple, near-surface, high-grade gold zones, including both very high concentrations of gold (e.g. 306 g/t gold over 1 metre; hole BKD-77), wide intervals of high-grade gold (e.g. 5.3 g/t gold over 63 metres; hole BKD-17), and broad, lower grade intervals surrounding the high-grade mineralization (ex. 1.2 g/t gold over 112 metres; hole BKD-51).

### West Striker Zone

The Corporation has completed a total of 27 holes in the area west of the Striker Zone at 20 to 80 metres spacing, over a 375 by 250 metre area. The depth of drilling has ranged from 97 to 340 metres vertical depth, with an average of 223 metres. Of the 27 holes, 26 have intersected anomalous gold mineralization, with 13 returning high-grade intervals of greater than 10 g/t gold. In Q4 2017, the Corporation announced results for three holes (BKD-219 to 221), including the highest-grade intersection to date within this zone, with 116 g/t gold over 1-metre within 15 metres averaging 9.2 g/t gold in hole BKD-220, located 250 metres west of the Striker zone. These results further establish the potential that exists at West Striker to identify additional significant high-grade zones.

### Striker-Midfield connection

In Q2 2017, the Corporation completed several holes at 40-metre centres along the northern end of Striker to test between the very high-grade Striker and Midfield Zones. Additional drilling in Q3/Q4 2017, including the extension of several previous holes, confirmed the continuity of mineralization between Striker and Midfield zones, including a 128 metre wide zone of mineralization in BKD-194 that averaged 1.1 g/t gold, including a 22 metre wide interval that averaged 3.3 g/t gold. This recent drilling has begun to define a new near-surface, high-grade zone between Striker and Midfield. Hole BKD-222, announced in Q4 2017, intersected 23 metres of 6.7 g/t gold with individual 1 metre samples up to 139 g/t gold within 50 metres of surface. Two earlier holes, north and south of this intersection (BKD-153 and BKD-86), returned individual samples of 94.8 g/t gold and 31.4 g/t gold, respectively, within wider mineralized intervals, again within 50 metres of surface. Prior to the 2017 exploration season, limited drilling had taken place in a 200-metre wide zone separating Striker from Midfield.

### Midfield Zone

Drilling within the Midfield Zone in 2017 extended the area of gold mineralization down dip to the south and strengthened the continuity of the high gold grades reported previously in the central Midfield area. Results included: 80 metres of 6.0 g/t gold at 42 metres depth, including 8 metres of 51 g/t gold (hole BKD-98); 56 metres of 6.1 g/t gold (BKD-99); 17 metres of 8.2 g/t gold within 131 metres of 1.8 g/t gold (BKD-150); and 25 metres of 5.8 g/t gold (BKD-230). The results support the observation that this area contains some of the most intense hydrothermal activity and the most pervasive gold mineralization at Bayan Khundii.

In Q4 2017, the Corporation intersected a new extension to the east of Midfield. While most of the drilling in Midfield has focused on pushing the northern limits of the gold mineralized zone, hole BKD-210, located 80 metres east of Midfield's eastern boundary, returned 43 metres of 1.8 g/t gold and included gold values

up to 44.8 g/t, establishing a new eastern extension to the Midfield Zone that justifies further follow-up drilling.

#### North Midfield Zone

In 2017 the Corporation completed a series of 20 to 80 metre spaced holes north of the Midfield Zone. The majority of these holes intersected the gold-bearing host silicified and illite-altered Devonian volcanic units, extending mineralization for up to 280 metres north of Midfield Zone, doubling the length of the known mineralized trend under younger, post-mineralization cover. Results included: 108 metres of 2.8 g/t gold, including 20 metres of 7.2 g/t gold (BKD-110); 55 metres of 2.9 g/t gold, including 25 metres of 5.3 g/t gold (BKD-111); 60 metres of 1.5 g/t gold including 18 metres of 3.0 g/t gold (BKD-140); and 72 metres of 1.6 g/t gold, including 19 metres of 4.6 g/t gold (BKD-178); 40 metres of 3.3 g/t gold including 9 metres of 12.5 g/t gold (BKD-179); 39 metres of 2.1 g/t gold, including 9 metres of 8.2 g/t gold (BKD-182); and 93 metres of 1.5 g/t gold including 3 metres of 8.2 g/t gold (BKD-228).

Subsequent to the end of the fourth quarter, the Corporation announced results for two holes (BKD-231 and BKD-232) completed in the North Midfield Zone that tested the down-dip extension of previously intersected high-grade gold intervals in this area.

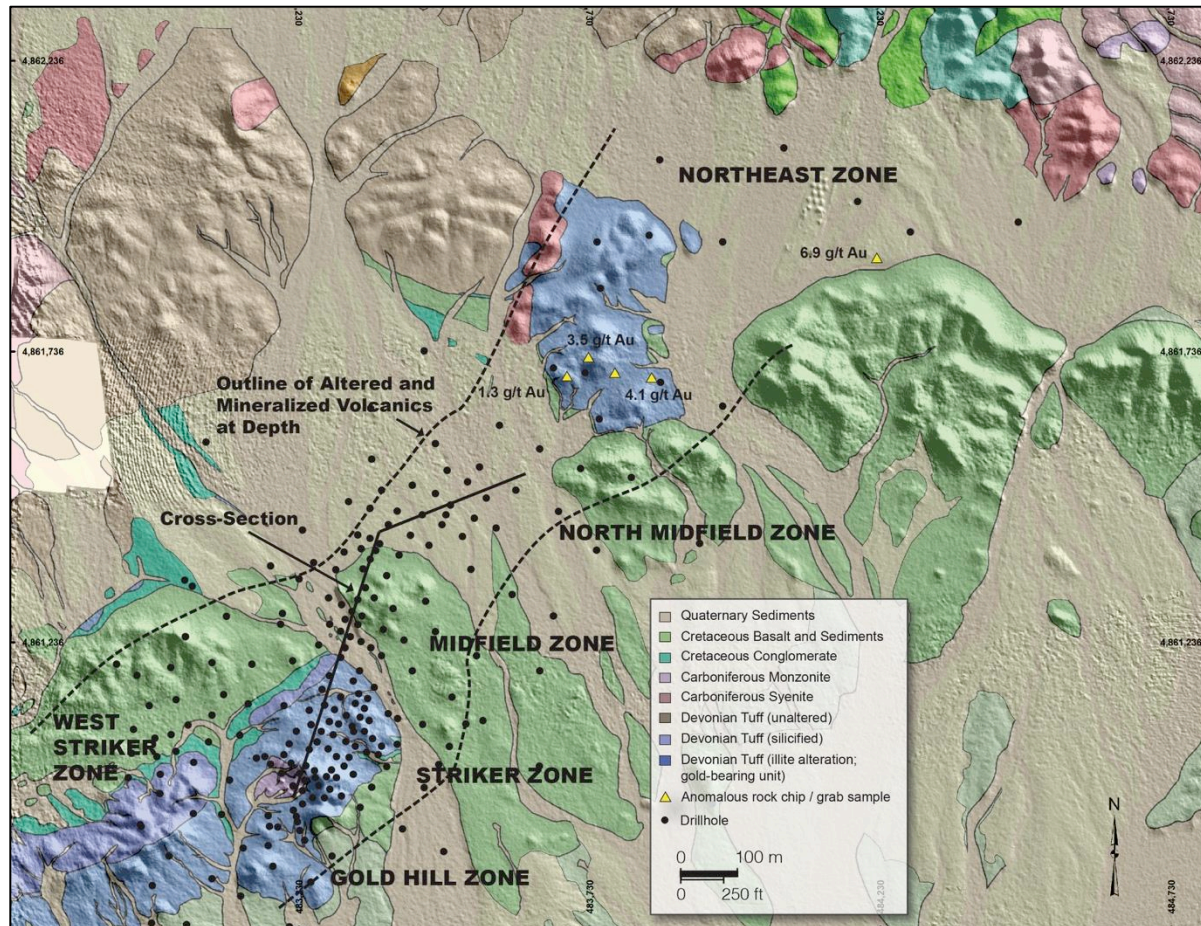
Hole BKD-231 intersected the highest gold grade at Bayan Khundii to date, with one metre of 2,200 g/t gold (including 948 g/t silver) within a 14 metre interval of 158 g/t gold at 140 metres vertical depth. The mineralization was hosted by multi-phase quartz-adularia-chalcedony-specularite veins and hematite breccia with abundant fine-grained visible gold. The 14 metre interval is enveloped by a 112 metre wide interval of gold mineralization starting at 118 metres depth, ranging from 0.1 to 2.8 g/t gold. This high-grade intersection confirms strong continuity down-dip from earlier holes, including BKD-110, 30 metres north, which intersected 1 metre of 115 g/t gold and 1 metre of 108 g/t gold, and BKD-111, 30 metres northwest, which intersected 1 metre of 44 g/t gold and 1 metre of 33 g/t gold. The discovery of this high-grade vein represents an important new structural target area that will require additional, closer-spaced drilling in 2018.

Hole BKD-232 was completed approximately 65 metres north of BKD-231 and 100 metres north of the Midfield Zone, within an area that previously had 80-metre hole spacing and relatively lower grade results. This hole returned 22 metres of 8.3 g/t gold, and included multiple zones grading over 10 g/t gold. The top of the mineralized interval was intersected at 90.5 metres depth (74 metres vertical depth).

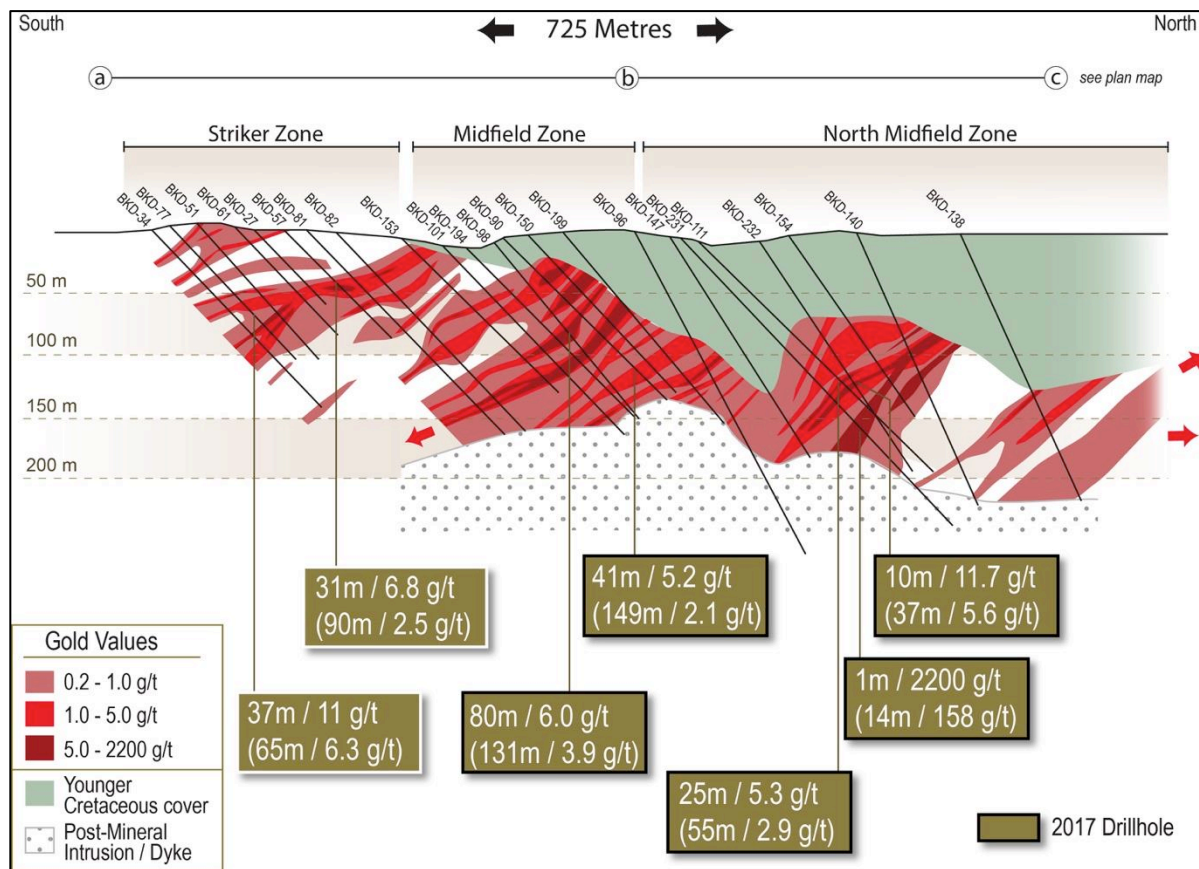
## Northeast Zone

The Corporation has completed eight holes in the Northeast Zone over a 600 metre by 400 metre area. Hole BKD-122, on the southern boundary of the Northeast Zone (500 metres northeast of Midfield), returned 14 metres of 0.75 g/t gold from surface, including 2 metres of 4.4 g/t gold, and 21 metres of 0.72 g/t gold at 65 metres depth. Two rock chip samples collected 600 metres northeast of hole BKD-122 returned gold assay values of 6.9 g/t and 0.4 g/t gold.

Bayan Khundii Plan Map and Cross-Section Showing 2017 Expansion Drilling







## Geology

Bayan Khundii is located in the Edren Terrane of southwest Mongolia, within the Central Asian Orogenic Belt that extends from Uzbekistan in the west through Tajikistan, Kyrgyzstan, into northwestern China and southern Mongolia. The belt is host to numerous world-class deposits, including Rio Tinto's Oyu Tolgoi copper-gold mine in southeast Mongolia, and Centerra Gold's Kumtor gold mine in Kyrgyzstan.

Bayan Khundii is interpreted as a low sulfidation epithermal gold system hosted within a package of Devonian volcanoclastic units. The Devonian host rocks are only observed at surface in two erosional windows through the overlying Cretaceous and Quaternary units. These exposed areas, which include the Striker and Gold Hill Zones to the south and an area referred to as the Northeast Zone, comprise approximately 20% of the total target area. The two exposures are approximately 600 metres apart. All of the primary tuffaceous lithologies at Bayan Khundii have been pervasively altered by multi-stage, locally intense, silica and illite alteration. Geological, structural, petrographic, clay spectral and fluid inclusion investigations have been completed and support the low sulphidation epithermal interpretation for the mineralization. The gold mineralization in the host tuffs is associated with quartz  $\pm$  adularia veins, quartz breccias, within hematite-specularite veins and fractures including along margins (alteration selvages) of quartz veins and disseminated within the altered host rocks, often, but not always, associated with disseminated hematite-specularite mineralization. Visible gold has been identified in several drill holes as irregular-shaped grains and is generally observed to be fine grained. With the exception of very minor finely disseminated pyrite in a few drill holes, and pyrite-rich zones within a few drill holes including BKD-32 located northwest of the Striker Zone, Bayan Khundii is mostly devoid of sulphide minerals.

### Independent Consultants

As part of the Corporation's 2017 exploration program, it commissioned several independent studies at Bayan Khundii, including hyperspectral analysis of core and surface samples, evaluation by an expert in epithermal gold systems, geophysical interpretation, structural analysis, development of a 3-D model, and through this combined evaluation, examined the ideal approach to drilling in regards to both exploration targeting and eventual resource categorization. Studies included:

- Dr. Jeffrey Hedenquist, an Ottawa-based, independent consultant and one of the world's leading experts on epithermal gold systems who visited Bayan Khundii in 2016, re-visited the project with the objective of reviewing results from Q3-Q4 2016 and Q2 2017 drilling to assist with on-going geological interpretation and drill targeting efforts;
- Dr. Armelle Kloppenburg, a Netherlands-based independent consultant with structural geological expertise, visited the Bayan Khundii, Altan Nar and Altan Arrow projects in Q3 2017 to complete a comprehensive structural interpretation of the Khundii District and assist in drill targeting of high grade zones. Dr. Kloppenburg's work has provided a greater understanding of controls on gold mineralization at the Corporation's projects, including Bayan Khundii, and improved targeting of ultra high-grade zones and district-scale targets;
- Ms. Khashagerel Bat-Erdene and Mr. Imants Kavalieris of Plus Minerals LLC, who specialize in alteration studies of epithermal and porphyry systems, completed evaluations of drill core from Q3-Q4 2016 and Q2 2017 programs to identify alteration zonation within the hydrothermal systems to assist with future drill targeting;
- Mr. Anthony Coote, of Applied Petrologic Services & Research in New Zealand, completed petrographic analysis on drill core samples from Bayan Khundii to help interpret the hydrothermal environment and controls on the distribution of gold mineralogy and overall deposit paragenesis;
- Terrane Geoscience Inc. completed a 3-D model of the multiple mineralized zones to assist with drill targeting. The model incorporated all geological, drilling, structural, spectral, geochemical and geophysical data;
- Mr. Chet Lide of Zonge International completed data processing and quality control analysis of all magnetic and induced polarization (IP) data; and
- RungePincockMinarco Limited is providing an independent review of all results to date with the objective of recommending optimal drill hole spacing in advance of future resource definition drilling.

### Geophysics

Between Q4 2015 and Q3 2017, the Corporation completed extensive geophysical programs over the 1.8 by 2.0 kilometre Bayan Khundii target area, consisting of gradient IP (covering a 2 x 2 kilometre area at 100 metre line spacing), dipole-dipole (29.4 line kilometres at 100 metre line spacing using 50 metre dipole spacing), and ground magnetics (20 m spaced lines over 2.05 by 1.8 kilometre area). Previous mapping and geophysical surveys support the extension of the zones of intense alteration, and presumably mineralization, both to the south, and to the north, northeast and east from the Striker and Midfield zones under Cretaceous cover.

A strong positive resistivity anomaly (>1,000 ohm metres) in the gradient array data corresponds very closely to the exposed, intensely silicified and illite-altered volcanic rocks and is thought to mostly reflect intense silicification. The observed resistivity high response in the gradient array data extends for several hundred metres to the east, in an area mapped as unaltered basalt, indicating the alteration zone extends beneath the volcanic cover, as also suggested by magnetic data and confirmed by drilling. The dipole-dipole data provide additional insight into the probable extensions of the highly resistive alteration beneath



both the younger Cretaceous units to the south and to the north. The combined gradient and dipole-dipole surveys suggest that the silicified zone is located at the apex of broad IP anomaly that extends to the north and east under younger cover, at relatively shallow depths (<100 metres) and to the south under Cretaceous sediments and volcanics. Drilling in Q2-Q3 2017 revealed that some of the IP resistivity high dipole-dipole responses also correspond to post-mineral syenite intrusions.

The magnetic data also provide insight into the geology of Bayan Khundii. The analytical signal of the total magnetic field provides the magnetic response for near-surface rock units and outlines the distribution of both altered lithologies at the Southwest and Northeast prospects with low magnetic response presumably reflecting magnetite destruction within zones of quartz/illite alteration and unaltered basalt to the north and east. Broad areas of low magnetic response to the north of Midfield-Striker and east of Northeast Zones are interpreted as either areas with intense magnetite destruction, presumably from widespread alteration, or post-mineral syenite intrusions below surface Cretaceous rocks. Recent drilling has confirmed the presence of both rock types with these magnetic low response areas. Areas with moderate magnetic response near Striker and Gold Hill zones, and in the Northeast Zone, are interpreted as reflecting magnetite-bearing post-mineral monzonite intrusions.

### Metallurgy

A metallurgical testing program designed to provide an initial scoping level characterization of both gravity and cyanide leach recovery techniques was completed by Blue Coast Research Ltd. ("BCR") of Parksville, British Columbia for two composite samples from the initial drill program (15 holes drilled within 50 m of surface) at Bayan Khundii (high-grade, 24.9 g/t gold head-grade, and low-grade, 0.7 g/t gold head-grade, samples). The high-grade composite had a high response to gravity separation, with recoveries of 71% for gold, which is considered to be good gravity amenability. The gravity gold response curve indicates a large portion of the gravity-recoverable gold is present in the finer size fractions. The high-grade gravity concentrate represents 1.2% of the original sample mass and contains 1381 g/t gold and 200 g/t silver. The low-grade composite sample displayed a low to average gravity response for gold.

Standard bottle roll tests were completed on the gravity tails of each composite, with very high gold recoveries noted in both the high-grade and low-grade composites (95% and 86% Au recoveries respectively). A combined flowsheet employing both gravity concentration and cyanidation of the gravity tails yields very good overall gold recoveries for both the high-grade (99%) and low-grade (92%) composites.

These results suggest that gold from Bayan Khundii is free milling and amenable to conventional processing techniques.

The Corporation initiated a second phase of metallurgical work in Q2 2017, including variability testing of composites, grindability testing and heap leach amenability. Metallurgical results from two master composites indicate the gold from Bayan Khundii is free milling and amenable to conventional processing techniques. BK-16-03 (4.3 g/t gold): Gold recovery after 48-hours from composite BK-16-03 was 96% whereas the 96-hour gold recovery was 97% with a grind size of 80% passing 60 micron, with 40% solids and 1.0 g/L NaCN. Composite sample BK-16-04, which had a 4.47 g/t gold head grade, received full optimization test work, including variation on grind size, residence time, and sodium cyanide dosage (consumption) as well as assessing the impact on overall recoveries when initial gravity recovery was applied. Gold recoveries, using a target grind size of 80% passing 60 micron, ranged from 91% to 93.4% after 48-hours with overall gold recovery of 95% after 96-hours. A single cyanidation test was completed on sample BK-16-01 as a 96-hour leach test with a grind size of 80% passing 170 micron, 40% solids and 1.0 g/L NaCN. Gold recovery after 48-hours was 94% whereas the 96-hour gold recovery was 95%, indicating a 48-hour period will recover most of the available gold. It is notable that this test was done at a grind coarser grind size than master composite BK-16-03 but had comparable recovery of gold indicating additional tests are required to determine optimal grind size.

Grindability studies reported a Bond Rod Mill Work Index of 17.8 kWh/tonne and a Bond Ball Mill Work Index of 16.1 kWh/tonne. Phase II testing, focused on material in the 1.5 g/t to 3 g/t range, will continue through 2018.

#### De-Risking the Project and Preparing the Path to Development

A series of studies have been undertaken and many completed to support the permitting process and economic studies for both the Bayan Khundii and Altan Nar gold projects.

#### Baseline Studies

In May 2016, paleontological and archaeological surveys were conducted by the Mongolian Academy of Science and Mongolian National University respectively on both the Tsenkher Nomin (Altan Nar) and Khundii (Bayan Khundii, Altan Arrow) license areas. The surveys examined the area for potential paleontological and archaeological relics. In the official survey reports, no paleontological or archaeological findings were identified by the independent experts, citing the scarcity of surface water and lack of historical grazing in the area as detriments to historical human habitation.

Environmental and social baseline data collection for the Altan Nar and Bayan-Khundii project began in May 2016. EcoTrade LLC, a specialized Mongolian contractor permitted to undertake environmental impact assessments of mining projects, compiled field-based and secondary source information. Baseline data covers the key areas of land use conditions, air quality, flora and fauna, water, cultural heritage, and socio-economic conditions. Based on the initial data collection, the Corporation contracted additional baseline survey work through EcoTrade starting in July 2017 to deepen its understanding around water, biodiversity and land use conditions. The Corporation will work with its contractor to update the baseline survey to fulfill Mongolian regulatory requirements for registering mineral resources at Altan Nar and Bayan Khundii. The current work underway will also result in a complete land condition audit report, required by the Government of Mongolia before mine development. Moving forward, the Corporation plans to initiate a gap analysis of baseline data with a view to working towards compliance with international performance standards for managing the potential environmental and social impacts of future mine development and operation at Altan Nar and Bayan Khundii.

#### Energy

Mongolia, including the Oyu Tolgoi copper-gold processing operation, is dependent on its neighboring countries for peak and base load electricity supply. The Corporation has initiated an assessment of the viability of procuring electricity from the Central Energy System through a dedicated, new grid connection. The grid viability assessment is designed to inform future mine planning and enable the Corporation to benefit from early integration of optimal energy supply solutions.

Through an initiative of the International Finance Corporation, the Corporation agreed to participate and co-finance the study of renewable energy supply options at Altan Nar and Bayan Khundii projects. The renewable energy study is expected to result in a preliminary, site-specific business case for renewable energy as well as the potential co-benefits of integrating renewables into a future mine in terms of supporting the country's pledges towards the Sustainable Development Goals.

#### HSEC (Community)

The Corporation's licenses continue to be in good standing for environmental management with the relevant Mongolian authorities.

There have been zero reported fatalities and lost-time injuries this quarter from the Corporation's personnel and contractors.

The Corporation continued to advance its local stakeholder engagement through both formal regulatory channels, such as local environmental inspection, as well as ongoing dialogue with a range of individuals.

In 2017, the Corporation has approved contributions for over ten different initiatives at the county and province levels focused on improving local livelihoods, basic education and public health. In accordance with Mongolian legislative requirements for minerals license holders, the Corporation finalized and executed a cooperation agreement with Bayankhongor province that establishes a framework for community participation and information sharing around the Corporation's exploration activities and voluntary contributions for community development.

### Hydrogeology

Regarding future sources of water for mine and process usage, the location of both the Bayan Khundii and Altan Nar projects in the northwest corner of the Gobi desert and the southwest extent of several large basins draining the Altai mountain system, provides potential for deep aquifers. A water resource capable of supporting a >50,000 tonne per day flotation processing operation was previously identified by the Corporation approximately 70 km to the northeast of Bayan Khundii for the Zuun Mod molybdenum-copper project. In 2017, the Corporation, through a Mongolian hydrogeological consulting company, carried out a water exploration program in two basins in the vicinity of the Bayan Khundii and Altan Nar projects. This work included the collection of geophysical data (VES and TEM) used to identify possible exploration targets as well as a series of widely spaced drill holes. The Corporation was successful in identifying a preliminary (or inferred) water resource approximately 15 km from Altan Nar and 32 km from Bayan Khundii. A potential groundwater source with a 57 liters/second supply potential was approved by Mongolia's Ministry of Environment and Tourism in late December 2017. This newly identified water resource is believed to be sufficient to meet the processing needs of both projects.

Work will be required in 2018-19 to better define the water resource and secure extraction permits and the impact of any surface water on the open pit mining developments. Recognizing the importance of water to the local communities of Mongolia's Gobi, the Corporation has become a signatory to the International Finance Corporation's Voluntary Code of Practice on Water Resource Management and regularly works to support local Herder well rehabilitation and improvement in proximity to project sites. In addition, the Corporation carries out research and development of new water sources with local provinces.

### Engineering/Geotechnical

Erdene has engaged with several consulting firms in preparation for an anticipated resource estimate and preliminary economic studies, mining license application, and geological modeling and targeting for the Bayan Khundii project.

### Conclusion

The Corporation's 2017 drilling campaign has successfully established a gold mineralized body spread over a 1.4 kilometre long trend that is locally up to 400 metre wide and up to 250 metres deep. This area is characterized by a multitude of gold-bearing veins and shoots of very high gold grades (greater than 30 g/t gold), locally exposed at surface, with good continuity. These high-grade zones are enveloped in a halo of low to moderate gold grades with widths often in the 10's of metres. Management believes these characteristics result in a significant open pit target with comparatively very high grades relative to industry averages for open pit developments. The Corporation's near-term objective at Bayan Khundii is to establish the limits of several ultra-high-grade zones in Q2 2018, followed by the completion of a global independent resource estimate that will include a maiden resource estimate at Bayan Khundii, and a revised resource estimate for Altan Nar.

Data verification and exploration information for the Bayan Khundii section can be found in the following documents filed by the Corporation on Sedar:

- Technical report dated March 26, 2018, entitled “Bayan Khundii Gold Project (Khundii Exploration License), Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Technical Report”. Note that there is no resource estimate included in the report, which was prepared by the Corporation in support of disclosure to be used within its Annual Information Form.
- Press Release dated February 16, 2016, “Erdene Reports 99% Gold Recovery from its New High-Grade Bayan Khundii Gold Discovery”.
- Press Release dated March 28, 2017, “Erdene Provides Project Review and Year-End Financial Results; Announces 24,000 Metre Drill Program for Bayan Khundii and Altan Nar Gold Projects”.
- Press Release dated June 29, 2017, “Erdene Steps Out 280m from Midfield with Multiple Mineralized Holes; 60m of 1.5 g/t Gold; Bayan Khundii Strike Now Exceeding 1.3km; Strengthens Down-Dip of Midfield with 24m of 6.5 g/t Gold”
- Press Release dated July 17, 2017, “Erdene Provides Exploration Update on Southwest Mongolia Gold Exploration; Continues to Expand Western Gold Zone at Bayan Khundii”
- Press Release dated August 14, 2017, “Erdene Intersects 40 Metres of 3.3 g/t Gold and 72 Metres of 1.6 g/t Gold in Step-Out Drilling North of Midfield Zone at Bayan Khundii Gold Project”
- Press Release dated September 12, 2017, “Erdene Continues to Define New Zone North of Midfield; Intersects 120 Metres of 1.14 g/t Gold Including 3 Metres of 33 g/t Gold at Bayan Khundii Gold Project”
- Press Release dated September 14, 2017, “Erdene Receives Positive Metallurgical Results for its Bayan Khundii Gold Project”
- Press Release dated October 31, 2017, “Erdene Expands Bayan Khundii Mineralization with 43m of 1.8 g/t Gold East of Midfield, including 1m of 45 g/t Gold, and 20m of 2.8 g/t Gold West of Striker, Including 1m of 51 g/t Gold”
- Press Release dated December 6, 2017, “Erdene Intersects 61 Metres of 4.2 g/t Gold at Striker Zone and 15 Metres of 9.2 g/t Gold in Step-Out Hole, 250 Metres West of Striker at Bayan Khundii Gold Project”
- Press Release dated January 10, 2018, “Erdene Drilling Intersects Multiple High-Grade Gold Zones Including Highest Grade Result to Date With 2,200 g/t Gold Over 1 Metre at Bayan Khundii Gold Project”

#### **Altan Nar Gold-Polymetallic Project (located on the Tsenkher Nomin license)**

The Altan Nar (“Golden Sun”) project is located on the Corporation’s Tsenkher Nomin exploration license in southwest Mongolia, 16 kilometres northwest of Bayan Khundii. The exploration license is in its eighth year of a maximum 12-year term and 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.

#### **Summary**

Exploration carried out by Erdene over the past six years has established Altan Nar as a significant new epithermal gold-silver-lead-zinc mineralized system. Exploration, specifically the 2013 through 2016 programs, which included geological mapping, geochemical and geophysical survey programs, and a multi-stage scout and resource delineation drilling program, has greatly expanded the areas of known mineralization, with 18 mineralized gold-silver-base metal target areas identified within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, the Discovery Zone (“DZ”) and Union North (“UN”), are the most advanced targets, hosting wide zones of high-grade, near-surface mineralization, and

were the focus of an initial NI 43-101 resource estimate released by Erdene in Q1 2015 (see below for details). The remaining 16 targets are either undrilled or scout-drilled and are considered by Erdene to have good potential for hosting additional high-grade mineralized zones.

The Corporation completed 5,744 metres of drilling at Altan Nar in 2017; 1,326 metres in Q2, 3,968 metres in Q3, and 450 metres in Q4. As outlined below, the drill programs were successful in testing and identifying new targets and completing step-out drilling in areas adjacent to the Discovery Zone and Union North deposits, where Erdene previously reported a NI 43-101 mineral resource estimate. Of particular focus was the establishment of continuity in a newly discovered high-grade core in the central Discovery Zone where drilling has recently returned up to 20 metres of 10.3 g/t gold (TND-110), announced in Q4.

#### Discovery and Deposit Style

Altan Nar was discovered by the Corporation in Q3 2011 during a regional reconnaissance sampling and mapping program. The project is interpreted as 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 one of the most prolific styles 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 in Ecuador, (operated by Lundin Gold), Cripple Creek & Victor Gold Mine in Colorado (operated by AngloGold Ashanti), Rosia Montana in 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.). This type of deposit is often associated with breccia pipes (diatremes) and can extend vertically for greater than 1 kilometre. The Kelian open pit, for example, was developed to a depth of 500 metres.

#### Drilling Summary – Discovery Zone

Drilling to date at the DZ has identified a minimum strike length of 500 metres. The majority of drilling to date has consisted of shallow drill holes (i.e. <150 metre true vertical depth), on 20 to 100 metre spacing along strike, that has demonstrated vertical and lateral continuity of gold, silver, lead and zinc mineralization. Mineralization is structurally controlled, north-northeast trending, and associated with epithermal breccia zones that are steeply dipping to sub-vertical.

Over the past 10 months the Corporation has identified a previously un-tested high-grade core in the central portion of the DZ that remains open at depth. The new discovery is located at the intersection of major structures and provides strong support for additional drilling at DZ, and throughout the larger 5.6 kilometre long Altan Nar trend. The discovery was made subsequent to the establishment of a NI 43-101 mineral resource for the DZ that was based on pre-2015, near-surface drilling (less than 150 metres depth), which included a low-grade central core. The table below displays results from the most recent drilling, completed in Q4 2016, Q2 2017 and Q3 2017.

Hole No.	Date Reported	Intersection Depth (m)	Interval (m) <sup>(1)</sup>	Gold (g/t)	Silver (g/t)	Copper (%)	Lead (%)	Zinc (%)	Gold Equiv. (g/t) <sup>(2)</sup>
TND-90	Oct-15-2015	92 m	5.8 m	5.4	53.1	0.03	0.51	0.97	7.0
TND-101 <sup>(3)</sup>	Dec-19-2016	96 m	15 m	52.3	125	0.69	2.49	2.87	56.9
TND-104	May-20-2017	133 m	8 m	6.21	91.6	0.04	1.15	1.29	8.84
TND-105	May-20-2017	100 m	14 m	7.92	43.7	0.23	0.67	1.16	9.52
TND-110	Oct-10-2017	97 m	20 m	10.3	37.5	0.13	0.79	0.93	11.8

(1) Reported intervals are not true width. At this time, there is insufficient data with respect to the shape of the mineralized zones to calculate true orientations in space.

(2) Gold equivalent ("AuEq") has been used 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 \$1200/oz gold, \$18/oz silver, and \$0.90/lb for lead and zinc.

(3) Hole TND-101 was an exploratory hole drilled at a low, oblique angle to the mineralized Discovery Zone trend, and was oriented perpendicular to a cross-cutting structure observed in geophysical surveys. See Erdene's Dec 19, 2016 news release for additional technical information on TND-101 (click [here](#)).

Outside of the central DZ, exploration work has identified north-northeast trending, sub-vertical zones of mineralization over variable widths (up to 53 metre apparent width) averaging in excess of 1 g/t gold, including intervals up to 19 metres averaging 5.8 g/t gold (7.8 g/t gold equivalent ("AuEq")) in DZ North. During Q4 2014, drilling at DZ North returned 30 metres of 4.2 g/t gold (5.1 g/t AuEq) including 8 metres of 11.4 g/t gold (13.6 g/t AuEq) (TND-70). In October 2015 the Corporation announced results from infill drilling at DZ; hole TND-92, located in DZ South, returned 9 metres of 7.3 g/t gold (9.2 g/t AuEq) within a 38 metres interval of 2.0 g/t gold (2.8 g/t AuEq), from 43 to 81 metres depth; and hole TND-90, also located in DZ South, returned a 53 metre interval of 2.0 g/t AuEq (1.4 g/t gold, 20 g/t silver and 0.68 combined lead and zinc), from 78 to 131 metres depth. The DZ remains open along strike to the northeast and at depth.

#### *Q2 2017 – DZ Drilling Summary*

On May 30, 2017, the Corporation reported results for six holes (total of 1,326 metres) drilled in the central part of the DZ, with the objective of establishing continuity of the high-grade gold-polymetallic zone identified in Q4-2016. The six holes were drilled at 45-degree angles to the southeast, perpendicular to the interpreted trend of the mineralized zone. The results include up to 14 metres of 9.5 g/t AuEq (7.9 g/t gold, 43.7 g/t silver, and 1.83% combined lead-zinc) at 100 metre depth in hole TND-105, and 37 metres of 3.1 g/t AuEq (2.2 g/t gold, 29.7 g/t silver, and 0.76% combined lead-zinc) at 126 metre depth in hole TND-104 (see table below). The results suggest an increase in intensity of the gold-polymetallic mineralization at depth within the central DZ with increased copper content. Mineralization remains open at depth.

#### *Q3 & Q4 2017 – DZ Drilling Summary*

On October 12, 2017, the Corporation reported results for recent drilling in the central DZ and extensions of the DZ. Hole TND-110, further increased Erdene's understanding of the high-grade core to the Discovery Zone and supported the carbonate base metal deposit model given the elevated concentrations of base and precious metals, including copper. In addition to the post-resource high-grade gold intervals reported in the table below, hole TND-110 also intersected elevated base metal veins containing up to 6.2% lead, 3.8% zinc, and up to 0.85% copper. The high-grade precious and base metal intercepts identified at the Discovery Zone remain open at depth and demonstrate exceptional down-dip potential at this new high-grade zone, which will be further defined through detailed drilling.

Eight holes totalling 1,645 metres were completed within and along potential extensions and subsidiary structures at the DZ, and all holes were successful in expanding mineralization and identifying follow-up drill targets.

A new parallel structure was discovered 100 metres northwest of the DZ with two holes (TND-113 and -114) intersecting high-grade gold and base metal mineralization, including individual 1-metre samples with up to 14.6 g/t gold, 2.4% zinc and 3.8% lead, within 20 metres of 1.1 g/t gold at 79 metres depth (TND-113), and up to 17 metres of 1.0 g/t gold at 91 metres depth (TND-114).

Exploration at the northern extension of the DZ had previously identified mineralization as plunging at depth to the north, however results from recent drilling now also show a bifurcation of the mineralized area to the northeast. Drill holes TND-111, -112, -116 and -117 all intersected zones of gold-polymetallic mineralization, adding approximately 150 metres of additional strike length to the DZ. Multiple high-grade veins were intersected with results from 1-metre samples returning up to 7.6 g/t gold, 37 g/t silver, 3.3% lead and 8.8% zinc in hole TND-111 and 0.6 g/t gold, 126 g/t silver, 0.3% copper, 3.6% lead, and 3.1% zinc in hole TND-117. These high-grade veins were intersected within broad phyllic alteration zones that returned up to 145 metres of 0.41 g/t AuEq (0.2 g/t gold, 3 g/t silver, 0.36% lead-zinc) in hole TND-111 and 80 metres of 0.53 g/t AuEq (0.4 g/t gold, 2 g/t silver, and 0.2% lead-zinc) in hole TND-116. All intersections within this area were within 132 metres vertical depth.

A single deep hole (TND-129) was drilled under the DZ to a depth of 450 metres (390 metres vertical depth). TND-129 intersected multiple mineralized zones including 1-metre intervals up to 2.7 g/t gold, 49 g/t silver, 6.5% lead and 2.2% zinc at 382 metres depth (331 metres vertical). One previous deep hole tested the Discovery Zone at depths similar to TND-129; hole TND-31 was extended from 190 to 450 metres in late 2016 and confirmed that high-grade precious and base metal mineralization extends below the depths previously tested. TND-31 returned 1-metre samples up to 18.3 g/t AuEq at 370 metres depth (320 metres vertical depth) and up to 6.9 g/t AuEq at 401 metres depth (347 metres vertical depth).

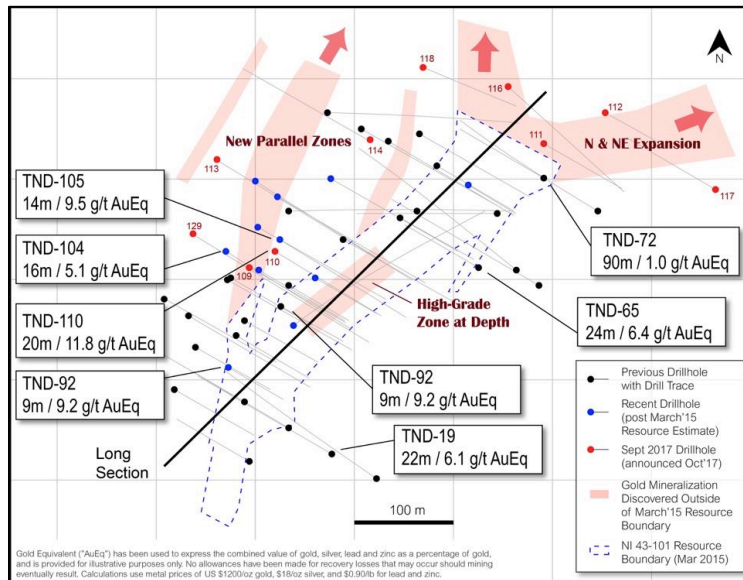
Altan Nar Project - Q2 & Q3 Drill Highlights

Drill Hole	From (m)	To (m)	Interval (m) <sup>(1)</sup>	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold Eq. (g/t) <sup>(2)</sup>
TND-103	139	169	30	0.25	3.2	0.26	0.49	0.68
TND-104	126	163	37	2.22	29.7	0.31	0.45	3.05
incl	126	142	16	3.65	50.5	0.63	0.77	5.13
incl	137	140	3	10.1	155	1.32	2.12	14.2
TND-105	100	114	14	7.92	43.7	0.67	1.16	9.52
incl	107	113	6	14.88	65.3	0.68	0.94	16.7
incl	111	112	1	40.0	87	1.72	1.87	43.2
TND-106	132	151	19	1.01	11.9	0.21	0.42	1.51
TND-108	120	145	25	1.29	16.6	0.51	0.76	2.20
incl	135	138	3	5.81	55.0	1.63	1.69	8.34
TND-109	162	170	8	2.71	10.6	0.11	0.32	3.09
TND-110	62	63	1	0.16	16	6.18	3.80	5.54
and	97	117	20	10.3	37.5	0.79	0.93	11.8
incl	106	111	5	29.7	44.6	0.86	1.85	31.8
incl	106	107	1	101.0	84	2.01	3.26	105.0

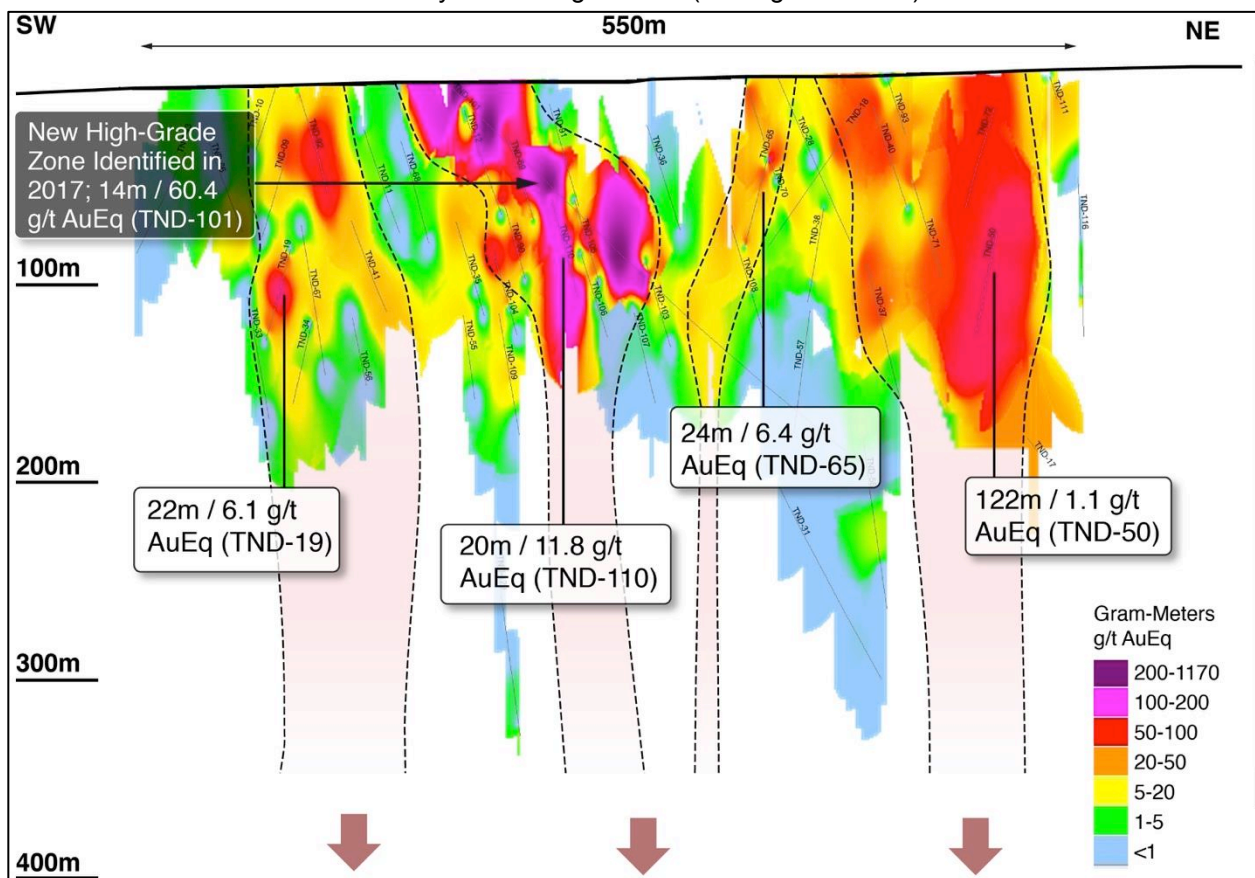
(1) Reported intervals are not true width. At this time, there is insufficient data with respect to the shape of the mineralized zones to calculate true orientations in space.

(2) Gold Eq. ("gold equivalent") has been used 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 \$1200/oz gold, \$18/oz silver, and \$0.90/lb for lead and zinc.

Discovery Zone Plan Map



Discovery Zone Long-Section (looking Northwest)



### Drilling Summary – Union North

In addition to DZ, one of the early discoveries at Altan Nar was Union North ("UN"), 1.3 kilometres north of the DZ. At UN, a series of 8 trenches and 20 drill holes, at 50 to 200 metre 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 UN that intersected 47 metres of 1.3 g/t gold, including 9 metres of 5.4



g/t AuEq (4.4 g/t gold, 11.6 g/t silver and 1.7% combined lead and zinc). Infill drilling in Q3 2015 returned multiple, near-surface, high-grade mineralized zones from the central resource area, including hole TND-82 (within 38 metres from surface), which returned 5 metres of 10.9 g/t AuEq (7.2 g/t Au, 29.8 g/t Ag, 2.64% Pb, 3.62% Zn) within a 12 metre interval of 5.3 g/t AuEq (3.6 g/t Au, 14.4 g/t Ag, 1.15% Pb, 1.76% Zn). Trenching in Q3 significantly expanded the deposit's mineralized zone; trench ANT-41, located approximately 200 metres east of the current UN resource boundary, returned 8 metres of 4.1 g/t AuEq (3.5 g/t Au, 5.0 g/t Ag, 0.70% Pb, 3.26% Zn) within a 28.5 metres interval of 2.5 g/t AuEq (1.9 g/t Au, 4.3 g/t Ag, 0.78% Pb, 0.35% Zn).

#### *Q4 2016 – UN Drilling Summary*

The latest Q4-2016 drill program significantly expanded the size potential of the UN mineralized system. Step-out hole TND-97, located 155 metres east of the Corporation's Q1-2015 UN mineral resource boundary, returned 22 metres of 1.57 g/t AuEq (1.08 g/t Au, 5 g/t Ag and 0.81% combined lead-zinc) starting at 34 metres depth, under trench ANT-41 that had previously returned 28.5 metres of 2.5 g/t AuEq (1.88 g/t Au, 4.3 g/t Ag and 1.13% combined lead-zinc). The total strike length of UN is now 600 metres and remains open to the northeast, east, and south, and at depth, and will require additional drilling by the Corporation in advance of any revised resource estimate for UN.

#### *Q3 2017 – UN Drilling*

Three holes were completed along a 400 metre eastern extension target in the most recent drill program (TND-119 to 121) and one hole completed 200 metres southeast of Union North that intersected high-grade base metal veins (TND-122) (see table below). The three, eastern step-out holes clearly demonstrate that Union North mineralization expands significantly to the east and remains open. This area will receive additional drilling in advance of a revised resource estimate for the deposit.

Drill Highlights from Union North

Drill Hole	From (m)	To (m)	Interval (m) <sup>(1)</sup>	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)	Gold Eq. (g/t) <sup>(2)</sup>
TND-119	38.4	42	3.6	0.06	5.3	0.44	0.78	0.76
TND-120	36.9	42	5.1	1.08	29.4	1.05	2.25	3.22
incl	39	40	1	2.43	55	1.70	3.10	5.72
TND-121	89.5	104	14.5	0.93	6.8	0.47	0.42	1.49
TND-122	105	132	27	0.14	3.0	0.19	0.53	0.56
incl	128	129	1	1.36	23.0	2.60	6.98	6.63

(1) (2) See Footnotes under table above.

#### Drilling Summary – Regional Targets

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 18 highly prospective targets within the 5.6 kilometre Altan Nar trend. With the exception of DZ and UN the 16 remaining targets are relatively un-tested. The Corporation has completed limited scout drilling (2011-2012, Q4 2016), trenching (2013, Q3 2014) and target drilling (Q2, Q4 2014, Q3 2015, and Q4 2016) to test a number of high priority targets. With additional drill testing, these target zones have the potential to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar.

### *Q3 & Q4 2017 – Maggie Prospect Drilling*

The Maggie prospect is located 800 metres north of the Discovery Zone and 600 metres southeast of Union North. Drilling targeted the extension of a magnetic low feature that was previously drill-tested approximately 100 metres to the southeast (TND-64). Maggie has only received three drill holes and one trench since discovery in 2013. Hole TND-123 is located at the northeast edge of a large phyllic alteration zone, associated with anomalous rock chip results that include up to 15.4 g/t gold. Results from TND-123 included 5 metres of 5.3 g/t AuEq (4.8 g/t gold, 10.4 g/t silver, and 0.8% lead-zinc) at 31 metres depth, including 1 metre of 23.8 g/t AuEq (22.3 g/t gold). Hole TND-133 was drilled beneath TND-123 to test possible down-dip extension of mineralization. Excluding 25 metres of barren dykes the zone in TND-133 returned an average grade of 0.7 g/t AuEq (0.4 g/t gold, 4.2 g/t silver, and 0.46% combined lead-zinc) with individual gold values up to 4.8 g/t over 1 metre. The initial drill hole at Maggie (TND-64) returned 22 metres of 1.1 g/t gold at 38 metres depth. The nearest drill hole to these three scout holes is located at Union North, 450 metres to the west. A follow-up program for Maggie is being designed.

### *Q3 2017 - Junction Prospect Drilling*

The Junction prospect is located 600 metres east of the Discovery Zone and is characterized by anomalous rock chip samples (up to 11.2 g/t gold) and soil geochemistry within a 350 by 450 metre area overlying a large gradient IP chargeability anomaly. Hole TND-127 is the first drill hole completed at Junction and intersected strongly silicified volcanic breccias cut by chalcopyrite mineralized, sheeted and stockwork quartz veins, returning 12 metres of 0.3% copper, 0.14 g/t gold and 7.5 g/t silver at 150 metres depth. Multiple targets in this prospect remain untested. The increased concentration of copper in this, and the adjacent Southgate target areas (up to 4.4% copper over a 1-metre interval in TND-48), suggests this region of Altan Nar may represent a higher temperature portion of the broader mineralized zone. This new zone will be a priority for the Corporation in future drill programs.

### Geology

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

### Resource Estimate - Discovery Zone and Union North Deposits

During Q1-2015, an independent National Instrument 43-101 technical report entitled “Altan Nar Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report” dated March 24, 2015 (“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.

The table 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 gold equivalent (“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.

Altan Nar Project – Mineral Resource Estimate Summary as of February 19, 2015

AuEq Cut-off g/t	Classifi- cation	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
<b>1.0</b>	<b>Indicated</b>	<b>1.8</b>	<b>1.7</b>	<b>11.1</b>	<b>0.61</b>	<b>0.54</b>	<b>2.5</b>	<b>102</b>	<b>657</b>	<b>24.7</b>	<b>22.1</b>	<b>147</b>
<b>1.0</b>	<b>Inferred</b>	<b>1.5</b>	<b>1.5</b>	<b>10.4</b>	<b>0.54</b>	<b>0.39</b>	<b>2.1</b>	<b>72</b>	<b>498</b>	<b>17.7</b>	<b>12.8</b>	<b>102</b>
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<sup>th</sup> 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, Erdene requested that RPM report an 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 metres, sub-blocked to 3.25 x 1.25 x 1.25 metres) is similar to the expected small-mining units conventionally used in this type of deposit, and appropriate for an open pit mine.

### Resource Expansion Potential

During Q3-Q4 2016, and Q2-Q4 2017, the Corporation completed drilling and trenching programs over the DZ-UN mineral resource areas and reconnaissance drilling in an effort to expand the current resource and to provide future growth potential at Altan Nar. The DZ-UN program achieved the Corporation's objective of increasing confidence in the near-surface mineralized zones, returning multiple, significant intersections and, as noted above, identified several extensions to DZ, UN and Maggie prospect. The reconnaissance drilling increased the Corporation's confidence in the potential for these target areas, outside of the DZ-UN resource boundaries, to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar.

### Geophysical Surveys

The aerial extent of ground geophysical surveys at Altan Nar was expanded in 2014, with 20 line kilometres of induced polarization ("IP") dipole-dipole surveys completed along 100 metre 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 metres 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 structural dilation zones. The Q2 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 metres.

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.

A high-resolution ground magnetic orientation study using 10 metre spaced survey lines was completed over a 500 by 500 metre portion of the main Discovery Zone in Q4 2016. The results of this survey successfully outlined the main mineralized zones and associated white-mica alteration zones in the survey area. In Q2 2017 a high-resolution ground magnetic survey was completed over the entire Altan Nar project area, using 10 metre line spacing, with a total of 1,000 survey line kilometres.

In Q2 2017 a six-line induced polarization (IP) dipole-dipole survey was completed with 150-metre dipole spacing. The survey lines were oriented at 135 degrees and were centred over the DZ and were 2,850 metre in length. The objective of this survey was to identify any significant chargeability anomalies that could represent sulphide mineralization.

The results from the Q2 magnetic and IP surveys were used to guide drill targeting for the Q2-Q3 drill program outlined above and the Q4 2017 drill program that tested several of the 16 targets outside of DZ and UN.

### Metallurgical Testing

During Q3 2015 the Corporation completed metallurgical test-work on representative drill core composites from DZ North and Union North. The test-work program was completed by Blue Coast Research Ltd. ("BCR") of Parksville, British Columbia, and was designed to provide a preliminary metallurgical evaluation of Altan Nar and included cyanidation, flotation, gravity separation, and heavy liquid separation.

Metallurgical test-work at DZ North returned 88% gold recovery from direct cyanidation (ground to 80% passing 75 microns), indicating the gold is free milling and does not contain a significant refractory component. The test was conducted as a standard 48-hour bottle roll at 40% solids, with a cyanide concentration maintained at 1.0 g/L NaCN, while the pH was maintained between 10.5 and 11.0. Dissolved oxygen levels were maintained above 5 mg/L. Both cyanide (0.96 kg/t) and lime (1.51 kg/t) consumptions were moderate, indicating relatively low reagent consumable costs.

The flotation results indicated that high-grade gold-lead-silver concentrates (229 g/t gold, 62% lead, 1,029 g/t silver) could be produced with reasonable overall recoveries (75% gold, 74% lead, 64% silver) using conventional lead-zinc differential flotation.

A single cyanidation test and a single cleaner flotation test were both completed on UN drill core composites under similar conditions to those employed for the DZ North test-work. The results of the cyanidation test indicated a gold recovery of 68%. In the flotation test, the gold associated with the UN sample displayed a higher affinity for recovery to the sulphide concentrate (24% gold recovery), and less of an affinity for recovery to the lead concentrate (45% gold recovery) versus the DZ North material. No optimization work was performed on the UN composite.

BCR specializes in flowsheet development, from conceptual through prefeasibility to full feasibility level studies as well as in-plant consulting services supporting the start-up and optimization of production plants. Their metallurgists have significant experience with polymetallic base and precious metal concentrates globally.

### Conclusions and Recommendations

Drilling completed subsequent to the Q1 2015 resource estimate has increased the Corporation's confidence in the potential to expand the current resource estimates at DZ and UN, and to significantly expand the areas of known gold-polymetallic mineralization outside of the DZ-UN resource boundaries.

The Q2 and Q3, 2017 exploration drill programs focused on establishing continuity of the new high-grade zone in the central DZ, situated at the intersection of major structures, and explored areas where zones of

structural dilation, or offset, may have provided a favorable setting for the concentration of metal-rich solutions over wider intervals. The results from a high-resolution magnetic survey completed at Altan Nar in 2017 are being used to evaluate the potential for similar cross-cutting structures, as observed at DZ, at the 17 other target areas within the 5.6 kilometre long mineralized corridor. A structural study was completed for Altan Nar in Q3 2017 and results from this work will also be used for future drill targeting.

The continued drilling success at the new discovery in central DZ provides strong support for additional drilling. Upcoming work at Altan Nar is also expected to include various technical studies in support of a mining license application, including hydrogeological, archaeological, paleontological, and environmental base line studies.

Data verification and exploration information for the Altan Nar section can be found in the following documents filed by the Corporation on Sedar:

- Technical report dated March 2015, "Altan Nar Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report" dated March 2015
- Press Release dated Sep 16, 2015, "Metallurgical Testing at Erdene's Altan Nar Project Returns 88% Gold Recovery; Commissions Independent Strategic Options Analysis with RungePincockMinarco"
- Press Release dated Sep 29, 2015, "Erdene Drills 12 m of 5.3 g/t Gold Equivalent at Union North, and 200 m Step-Out Trench Returns 28 m of 2.5 g/t Gold Equivalent"
- Press Release dated Oct 15, 2015, "Erdene Reports Multiple High-Grade Gold-Polymetallic Intersections at Altan Nar Discovery Zone, Including 9 m of 9.2 g/t Gold Equivalent"
- Press Release dated Nov 16, 2015, "Erdene Provides Project Review and Quarterly Financial Results"
- Press Release dated Dec 19, 2016, "Erdene Intersects 110 Metres of 9.3 g/t Gold at Altan Nar Project"
- Press Release dated October 12, 2017, "Erdene Intersects 20 Metres of 10.3 g/t Gold at Altan Nar Project and Expands Bayan Khundii and Altan Nar Drilling Program to 33,000 Metres"
- Press Release dated January 24, 2018, "Erdene Provides Regional Exploration Update; High-Grade Gold Intersected at Altan Arrow, 70 g/t over 2 metres, 3.4 Kilometres North of Bayan Khundii"

### **Altan Arrow Gold Project (located on the Khundii license)**

During 2017, the Corporation completed significant exploration work north of the Bayan Khundii project, and identified numerous zones of siliceous and vuggy residual quartz, intense argillic and advanced argillic alteration, and anomalous gold within a 3 by 6 kilometre area spanning the central part of the Khundii license. Particular focus was placed on the Altan Arrow gold-silver project and the Khundii North gold prospect, 3.4 kilometres and 3.2 kilometres north of the Corporation's Bayan Khundii project, respectively.

Previous exploration by the Corporation at Altan Arrow in 2013 confirmed the presence of high-grade gold within epithermal quartz veins and breccias, and the potential for broader mineralized zones; up to 57 g/t gold in hand samples and 1 metre of 31.4 g/t gold and 6 metres of 4.5 g/t gold in trenching. In H2 2017, the Corporation further defined Altan Arrow as a 0.5 by 1 kilometre target area adjacent to a major northeast-trending extensional fault containing multiple zones of high-grade epithermal quartz veining.

The Corporation's Q4 2017 exploration program at Altan Arrow included one hole testing a new, highly anomalous gold-in-soil anomaly extending over a 200 metre area to the south of the main northeast-trending structure. Follow-up surface sampling and geological mapping of the soil anomaly in Q3-2017 resulted in the discovery of surface quartz vein rubble that returned 27 g/t gold along an east-west trending

structure. A single hole, AAD-11, tested this new prospect at depth and intersected multiple, anomalous gold zones spread over the 100 metre length of the hole (45 degree angle), including a shallow gold-bearing epithermal vein at 11 metres vertical depth that returned 1 metre of 39 g/t gold and 8 g/t silver. Anomalous gold (0.1 to 0.3 g/t) was intersected surrounding this high-grade vein over a 14 metre wide zone of quartz-sericite altered Devonian andesite cut by quartz veins.

Prior to the Q4-2017 drill program, the only hole completed along this east-west structure was AAD-03, approximately 300 metres east of AAD-11. AAD-03 intersected 2 metres of 23.5 g/t gold at 50 metres vertical depth. Hole AAD-12 was a 150 metre deep hole drilled to test the continuity of that intersection at depth, and returned 2 metres of 70.1 g/t gold and a second intersection of 2 metres of 1.3 g/t gold within 100 metres of surface.

#### Khundii North Prospect

The Khundii North prospect is located 2.5 kilometres east of Altan Arrow and 3.2 kilometres north of Bayan Khundii. The northeast-trending faults running through Bayan Khundii and Altan Arrow are part of a larger network of regional northeast-trending extensional faults that are present throughout the larger Khundii District. The thoroughgoing structure at Bayan Khundii can be traced northeast to the untested Khundii North prospect where areas of quartz stockwork, chalcedonic quartz with hematite breccia clasts have been traced over 1 kilometre, returning 5 rock samples greater than 0.5 g/t gold and up to 22.7 g/t gold.

#### Q3 2017 Regional Surveys

A program of detailed geological mapping, prospecting and rock chip sampling, covering the entire Khundii license, was completed in Q3 2017. In addition, an in-fill soil geochemical program was completed in Q3 2017 for the area of the Khundii license extending north from the Bayan Khundii project to the northern edge of the license (approximately 10 kilometres), with samples collected on 100 metre and 200 metre grid spacing. Geophysical surveys were also completed in Q3 over a 22 square kilometre area of the Khundii license, extending from the Bayan Khundii project to north of the Altan Arrow prospect. These included a 900 line kilometre magnetic survey with 25 metre line spacing and a 53 line kilometre induced polarization dipole-dipole survey, with 150 metre dipole spacing. Results from these regional surveys are being used to identify potential drill targets for 2018.

Data verification and exploration information for the Altan Arrow section can be found in the following documents filed by the Corporation on Sedar:

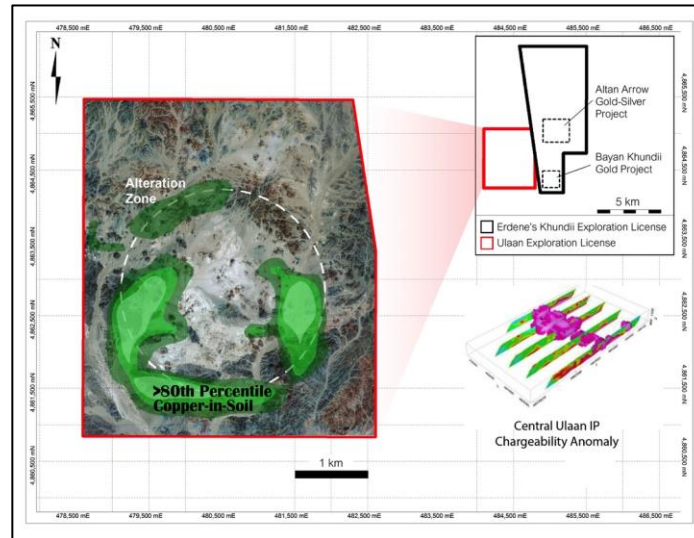
- Press Release dated Dec 19, 2016, "Erdene Intersects 110 Metres of 9.3 g/t Gold at Altan Nar Project".
- Press Release dated January 24, 2018, "Erdene Provides Regional Exploration Update; High-Grade Gold Intersected at Altan Arrow, 70 g/t over 2 metres, 3.4 Kilometres North of Bayan Khundii"

#### **Ulaan Copper-Gold Porphyry Project – Recent Acquisition**

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license ("Ulaan Property"), situated immediately west of its high-grade Bayan Khundii gold project (see figure below), with the option to acquire up to 100%. The Ulaan Property covers an area of approximately 1,780 hectares, and hosts a very large, 3-kilometre diameter, intense alteration zone with characteristics thought to be related to a porphyry intrusion at depth. Although the Ulaan Property has no history of drilling or trenching, rock chip and stream sediment geochemical sampling has identified anomalous concentrations of gold, copper and molybdenum in the surrounding area, and recently completed geophysical surveys have produced a number of follow-up targets. Under the terms of the Agreement, Erdene has acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that currently owns the Ulaan Property, from Erdenechuluun.Z and Erdenekhuyag.Z for US\$750,000. Provided Erdene spends a minimum of US\$600,000 on work expenditures on the Ulaan Property over the next three years, it has the

right to acquire the remaining 49% of the shares of Leader from Erdenechuluun.Z or, at Erdene's option, a portion of the Property, for the then fair market value of the Ulaan Property or the portion to be acquired. Erdene may extend the option beyond three years by spending a minimum of US\$100,000 per annum on work expenditures.

#### Map of Ulaan License Showing Intense, 3 km Alteration Zone Adjacent to Bayan Khundii License



Exploration programs completed over the entire Ulaan license in Q3 and early Q4, 2017 included detailed geological mapping, prospecting and rock chip sampling, a 1,739 sample soil survey with 100 metre grid spacing, and an 89 line kilometer induced polarization pole-dipole survey using 200 metre dipole spacing. Results from this work are being evaluated and will guide future exploration work, including a drill program anticipated in 2018.

Data verification and exploration information for the Ulaan Project section can be found in the following documents filed by the Corporation on Sedar:

- Press Release dated August 22, 2017, "Erdene to Acquire Majority Interest and Right to Purchase 100% of Exploration License Adjacent to its Bayan Khundii Gold Project Halifax, Nova Scotia"
- Press Release dated August 30, 2017, "Erdene Expands Land Position in Bayan Khundii Gold District; Closes Ulaan Project Acquisition"
- Press Release dated January 24, 2018, "Erdene Provides Regional Exploration Update; High-Grade Gold Intersected at Altan Arrow, 70 g/t over 2 metres, 3.4 Kilometres North of Bayan Khundii"

#### **Zuun Mod Molybdenum Project (located on the Khuvyn Khar license)**

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in southwest Mongolia, approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The railhead is located 50 kilometres south of the Nariin Sukhait and Ovoot Tolgoi coal mines. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC, a wholly owned subsidiary of the Corporation, and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter returns royalty of 1.5%, subject to a buy-down provision.

In Q2 2011, the Corporation released a National Instrument 43-101 compliant resource estimate for Zuun Mod containing 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 (40 Mt measured resource at 0.056% molybdenum and 0.064% copper and 178 Mt indicated resource at 0.057% molybdenum and 0.07% copper). 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 mining license.

Management believes that the Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. Recent market demand for molybdenum has been depressed, with the price of molybdenum oxide at approximately US\$7.25 per pound on December 31, 2017, down significantly from the US\$40 per pound values reached in 2004 and 2005. Improvement in the molybdenum market is an important factor in the advancement of the Zuun-Mod molybdenum-copper deposit. The Corporation will continue to complete evaluations towards optimizing project economics as new information is received regarding 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.

Data verification and exploration information for the Zuun Mod section can be found in the following documents filed by the Corporation on Sedar:

- "Technical Report Zuun Mod Porphyry Molybdenum-Copper Project, South-Western Mongolia, National Instrument 43-101 Independent Technical Report" dated June 2011

#### **Khuvyn Khar Copper-Silver Project (located on the Khuvyn Khar license)**

The Khuvyn Khar copper-silver project is located on the Zuun Mod property, approximately 2.2 kilometres northwest of the Zuun Mod molybdenum-copper porphyry deposit (discussed above). Exploration work at Khuvyn Khar has included geological mapping, vein density mapping, geochemical sampling, geophysical surveys, and wide spaced drilling. Previous drilling completed by the Corporation to test a geophysical target, intersected 34 metres of 1.3% copper and 9.24 g/t silver from 308 to 342 metres (hole ZMD-121). Additional drilling on the Khuvyn Khar prospect has defined a very large copper mineralized zone trending over 900 metres with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 to 42 metres).

The previous exploration programs have confirmed the potential for copper porphyry style mineralization within the Khuvyn Khar target area.

The Corporation will continue to complete necessary work on the Zuun Mod molybdenum-copper deposit and Khuvyn Khar copper-silver project, as required to keep the mining license in good standing, including annual license payments, ongoing environmental review requirements and community development work. No exploration is budgeted in 2018 for the Khuvyn Khar Copper-Silver Project.

Data verification and exploration information for the Khuvyn Khar section can be found in the following document filed by the Corporation on Sedar:

- Press Release dated Nov 16, 2015, "Erdene Provides Project Review and Quarterly Financial Results"



## Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2017:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than one year</b>	<b>1-3 years</b> <b>years</b>	<b>4-5</b> <b>years</b>	<b>More than 5 years</b>
Office leases	\$ 104,893	\$ 62,936	\$41,957	\$ -	\$ -
Accounts payable and accrued liabilities	191,600	191,600	-	-	-
	<u>\$ 296,493</u>	<u>\$254,536</u>	<u>\$41,957</u>	<u>\$ -</u>	<u>\$ -</u>

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 exploration work commitments for the Zuun Mod mining license.

Sandstorm Gold Ltd. is entitled to a 2.0% net smelter return royalty on the Tsenkher Nomin and Khundii licenses. The royalty is subject to a buy-down provision.

In 2017, minimum exploration expenditures of USD\$1.50 per hectare are required on the Corporation's Tsenkher Nomin and Khundii licenses (USD\$7,004 and USD\$6,771 respectively).

The Corporation must spend a total of USD\$600,000 over three years in order to have the right to purchase any or all of the remaining 49% of Leader Exploration LLC (Ulaan license). The Corporation can extend the option period beyond three years by spending an additional USD\$100,000 per year on exploration work.

## Off-Balance Sheet Arrangements

As at December 31, 2017, the Corporation had no 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 the carrying amount exceeds the 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. The Corporation recognized a total of \$1,555,634 in non-cash share-based compensation in the twelve months ended December 31, 2017 (2016 - \$535,164).

### **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.

No changes have been made the Corporation's critical accounting estimates in the past two years.

## **Adoption of New Accounting Standards**

The accounting policies applied in the consolidated financial statement for the period ended December 31, 2017 are consistent with those used in the Corporation's Consolidated Financial Statements for the year ended December 31, 2016.

## **Future Changes in Accounting Policies**

The following new standards, and amendments to standards and interpretations under IFRS and have not been applied in preparing the December 31, 2017 consolidated financial 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 but does not expect IFRS 9 to have a material impact on the financial statements.

### **IAS 12 - Income Taxes**

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The Corporation intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2018. The Corporation doesn't expect the amendments to have a material impact on the financial statements.

### **IFRS 2 – Share-based Payments**

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The amendments apply for annual periods beginning on or after January 1, 2018.

The Corporation is currently assessing the impact of adopting this standard on its consolidated financial statements.

### **IFRS 16 Leases: IFRS 16 will replace IAS 17 Leases**

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

### **IFRIC 22: Foreign currency transactions and advance consideration**

On December 8, 2016 the IASB issued IFRIC Interpretation 22. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2018. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

### **IFRIC 23: Uncertainty over income tax treatments**

On June 7, 2017 the IASB issued IFRIC Interpretation 23. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2019. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

## Financial Instruments and Other Risks

### Financial Instruments

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes levels to classify the inputs to valuation techniques used to measure fair value.

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: Inputs are unobservable (supported by little or no market activity).

### Fair Value

During the periods ended December 31, 2017 and December 31, 2016, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	December 31, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	\$ 3,225,202	\$ -	\$ -	\$ 1,071,209	\$ -	\$ -
Receivables	-	148,069	-	-	36,854	-

### Risks

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.

### 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, 2017	December 31, 2016
Cash and cash equivalents	\$ 3,225,202	\$ 1,071,209
Receivables	148,069	36,854
	\$ 3,373,271	\$ 1,108,063

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with a Canadian Schedule I bank, where management believes the risk of loss to be low. At December 31, 2017, \$113,555 or 4% of the balance of cash and cash equivalents was held in banks outside Canada (December 31, 2016 - \$90,637 or 8%).

Receivables include an amount from Morien. The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 18% of receivables at December 31, 2017 (December 31, 2016 – 56%). 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. As of December 31, 2017, the Corporation had a cash and cash equivalents balance of \$3,225,202 (December 31, 2016 - \$1,071,209) to settle current liabilities of \$191,600 (December 31, 2016 - \$182,644).

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.

Current working capital of \$2.3 million is expected to fund the Corporation's budgeted expenditures to the end of second quarter of 2018. 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 alliances, 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.

## **Foreign Currency Risk**

The Corporation operates in Mongolia, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash and cash equivalents 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 favorable rates in line with the Corporation's budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

The Corporation's exposure to US dollar currency risk was \$205,773 as at December 31, 2017 (December 31, 2016 - \$108,806). 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 \$20,600 (December 31, 2016 - \$10,900).

The Corporation's exposure to Mongolian Tugrik currency risk was \$38,526 as at December 31, 2017 (December 31, 2016 - \$38,981). Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$3,900 (December 31, 2016 - \$3,900).

## **Price Risk**

The Corporation's financial instruments are 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.

## **Disclosure Controls and Internal Controls over Financial Reporting**

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Erdene's disclosure controls and procedures as of December 31, 2017 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

The Management of Erdene, with the participation of the CEO and CFO (collectively “Management”), is responsible for establishing and maintaining adequate internal controls over financial reporting. Erdene’s internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”).

Management evaluated the design and effectiveness of Erdene’s internal controls over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report “Internal Control – Integrated Framework (2013). This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management’s evaluation, the CEO and the CFO have concluded that as of December 31, 2017, Erdene’s internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

## **Qualified Person**

Michael A. MacDonald, P. Geo. (Nova Scotia) 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, Blue Coast Research Ltd in Parksville British Columbia, Canada, 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, field and laboratory splits and blanks.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation’s properties has been reviewed and approved by Michael A. MacDonald, P. Geo, 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](http://www.sedar.com) and on the Corporation’s website at [www.erdene.com](http://www.erdene.com).