



# **ERDENE RESOURCE DEVELOPMENT CORPORATION**

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2017 and 2016

*(Canadian dollars)*  
*(Unaudited)*

Prepared by management – See Notice to Reader

## **NOTICE TO READER**

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Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect. These unaudited condensed interim consolidated financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at June 30, 2017 and December 31, 2016 and the unaudited condensed interim consolidated statements of comprehensive loss, changes in equity and cash flows for the three and six months ended June 30, 2017 and 2016. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2017 and 2016 unaudited condensed interim consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Financial Position

(Canadian dollars)

(Unaudited)

	Notes	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
Current assets:			
Cash		\$ 9,426,586	\$ 1,071,209
Receivables		110,688	36,854
Prepaid expenses		114,028	39,743
		<b>9,651,302</b>	<b>1,147,806</b>
Non-current assets:			
Exploration and evaluation assets	3	6,934,371	3,066,211
Property, plant and equipment		144,251	79,418
		<b>7,078,622</b>	<b>3,145,629</b>
<b>TOTAL ASSETS</b>		<b>\$ 16,729,924</b>	<b>\$ 4,293,435</b>
<b>LIABILITIES &amp; EQUITY</b>			
Current liabilities:			
Trade and other payables		\$ 533,755	\$ 182,644
<b>TOTAL LIABILITIES</b>		<b>\$ 533,755</b>	<b>\$ 182,644</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6	\$ 99,780,290	\$ 86,783,669
Contributed surplus		13,661,444	11,952,465
Accumulated other comprehensive income (loss)		(591,708)	(636,283)
Deficit		(96,653,857)	(93,989,060)
		<b>16,196,169</b>	<b>4,110,791</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 16,729,924</b>	<b>\$ 4,293,435</b>

Commitments (Note 4)

Comparative figures (Note 8)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"

Director

Signed "John P. Byrne"

Director

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Comprehensive Loss

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended		For the six months ended	
		June 30,		June 30,	
		2017	2016	2017	2016
Exploration expenses		\$ 820,435	\$ 1,385,029	\$ 970,977	\$ 1,664,403
Corporate and administration	5	1,264,294	699,149	1,725,192	932,140
Foreign exchange loss		19,008	3,858	17,781	4,541
Loss from operating activities		2,103,737	2,088,036	2,713,950	2,601,084
Finance income		34,540	3,370	49,153	4,460
Gain on sale of marketable securities		-	38,164	-	38,164
Gain on the sale of net smelter royalty		-	623,028	-	623,028
Net loss		\$ 2,069,197	\$ 1,423,474	\$ 2,664,797	\$ 1,935,432
Other comprehensive income (loss):					
Unrealized gain on available-for-sale marketable securities, net of tax		-	107,189	-	107,189
Foreign currency translation difference arising on translation of foreign subsidiaries		(41,067)	108,372	44,575	(115,967)
Other comprehensive income (loss)		(41,067)	215,561	44,575	(8,778)
Total comprehensive loss		\$ 2,110,264	\$ 1,207,913	\$ 2,620,222	\$ 1,944,210
Basic and diluted loss per share		\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Basic and diluted weighted average number of shares outstanding		145,478,251	116,607,806	139,830,791	111,257,292

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

	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		-	-	-	-	(1,935,432)	(1,935,432)
Other comprehensive loss		-	-	-	(8,778)	-	(8,778)
Private placements, net of share issue costs	6	6,063,830	1,478,359	-	-	-	1,478,359
Shares issued on conversion of debenture	6	1,801,475	246,781	-	-	-	246,781
Warrants exercised	6	7,910,682	1,735,420	(301,698)	-	-	1,433,722
Options exercised	6	205,000	44,350	(12,950)	-	-	31,400
Share-based compensation		-	-	479,600	-	-	479,600
<b>Total transactions with owners</b>		15,980,987	3,504,910	164,952	-	-	3,669,862
<b>Balance at June 30, 2016</b>		121,040,992	\$ 85,472,387	\$ 12,110,392	\$ (350,616)	\$ (93,424,753)	\$ 3,807,410
<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		-	-	-	-	(2,664,797)	(2,664,797)
Other comprehensive income		-	-	-	44,575	-	44,575
Private placements, net of share issue costs	6	18,465,555	12,925,316	322,597	-	-	13,247,913
Options exercised	6	275,000	71,305	(21,055)	-	-	50,250
Share-based compensation	6	-	-	1,407,437	-	-	1,407,437
<b>Total transactions with owners</b>		18,740,555	12,996,621	1,708,979	-	-	14,705,600
<b>Balance at June 30, 2017</b>		145,550,586	\$ 99,780,290	\$ 13,661,444	\$ (591,708)	\$ (96,653,857)	\$ 16,196,169

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Interim Consolidated Statements of Cash Flows

(Canadian dollars)

(Unaudited)

	Notes	For the period ended June 30,	
		2017	2016
<b>Cash flows from operating activities:</b>			
Net loss		\$ (2,664,797)	\$ (1,935,432)
Items not involving cash:			
Depreciation and amortization		7,175	7,701
Share-based compensation		1,407,437	479,600
Gain on sale of net smelter royalty		-	(623,028)
Gain on sale of marketable securities		-	(38,164)
Net finance income		(49,153)	(4,460)
Foreign exchange loss		17,781	4,541
Change in non-cash working capital		220,296	35,339
Cash flows from operating activities		<b>(1,061,261)</b>	<b>(2,073,903)</b>
<b>Cash flows from financing activities:</b>			
Issue of common shares for cash, net of issue costs	6	13,247,913	1,478,359
Proceeds on exercise of warrants		-	1,433,722
Proceeds on exercise of stock options		50,250	31,400
Cash flows from financing activities		<b>13,298,163</b>	<b>2,943,481</b>
<b>Cash flows from investing activities:</b>			
Expenditures on exploration and evaluation assets		(3,828,383)	(252,022)
Expenditures on property, plant and equipment		(71,988)	(48,856)
Proceeds from sale of marketable securities		-	800,541
Interest received		49,153	4,460
Cash flows from investing activities		<b>(3,851,218)</b>	<b>504,123</b>
Effect of exchange rate changes on cash and cash equivalents		<b>(30,307)</b>	<b>(2,677)</b>
Increase in cash and cash equivalents		<b>8,355,377</b>	<b>1,371,024</b>
Cash and cash equivalents, beginning of period		<b>1,071,209</b>	<b>675,790</b>
Cash and cash equivalents, end of period		<b>\$ 9,426,586</b>	<b>\$ 2,046,814</b>

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 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 three and six months ended June 30, 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.

To date, the Corporation has not earned significant revenues and its key resource properties are still in the exploration and evaluation stage so it is dependent upon raising funds in the equity markets to fund its ongoing operations.

### 2. Basis of presentation

Statement of compliance

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

These financial statements were prepared using the same accounting policies and methods of computation, and are subject to the same use of estimates and judgments, as the Corporation's consolidated financial statements for the year ended December 31, 2016. They do not include all the disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Corporation's 2016 annual consolidated financial statements which have been prepared in accordance with IFRS.

The consolidated financial statements were authorized for issue by the Board of Directors on August 10, 2017.

### 3. Exploration and evaluation assets

	<b>Zuun Mod Moly/Copper</b>	<b>Tsenkher Nomin Gold</b>	<b>Khundii Gold</b>	<b>Other</b>	<b>Total</b>
Balance, January 1, 2016	\$ 881,821	\$ 804,495	\$ 50,977	\$ 299	\$ 1,737,592
Additions	85,885	634,963	1,771,556	294	2,492,698
Sandstorm royalty	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	(239,542)	(11,215)	(36,338)	(12)	(287,107)
Balance, December 31, 2016	\$ 728,164	\$ 551,271	\$ 1,786,195	\$ 581	\$ 3,066,211
Balance, January 1, 2017	\$ 728,164	\$ 551,271	\$ 1,786,195	\$ 581	\$ 3,066,211
Additions	74,062	475,438	3,278,508	375	3,828,383
Effect of movements in exchange rates	16,363	3,946	19,464	4	39,777
Balance, June 30, 2017	\$ 818,589	\$ 1,030,655	\$ 5,084,167	\$ 960	\$ 6,934,371

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

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

The Corporation's mineral exploration and mining licenses in Mongolia are held by its subsidiaries, Erdene Mongol LLC, and Anian Resources LLC. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of 12 years, subject to minimum work requirements. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. These rights are held in good standing through the payment of an annual license fee.

#### Zuun Mod/Khuvyn Khar

The Zuun Mod property contains a molybdenum-copper resource. The property is located in Bayankhongor Province southwest of Ulaanbaatar. The mining license was issued in 2011 (consisting of 6,041 hectares).

The Mining License is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms.

#### 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. The license is in the eighth year of a 12 year term. 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.

#### 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 exploration license has an annual renewal in April and is in the seventh year of a 12 year term. 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.

#### 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. Teck has the option to acquire additional shares of the Corporation, at a 10% premium to the then market price, until it has invested at least \$3 million or has acquired 19.9% of the outstanding shares of the Corporation, whichever occurs first. Teck invested a total of \$3.0 million to June 30, 2017. Under the Teck Alliance, two licenses were staked in early 2015. Both are located in Govi-Altai province and total 1,552 hectares, are in the second year of a 12 year term and have June annual renewal dates.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

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

#### 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 are subject to an 18 month hold period that expires 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 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 ended June 30, 2016. The Corporation sold the shares in Sandstorm in 2016 realizing gross proceeds of \$1,981,064 and recognized a gain of \$481,064.

### 4. Commitments

Operating lease rentals are payable as follows:

	June 30, 2017	December 31, 2016
Less than 1 year	596,691	62,936
Between 1 and 5 years	73,425	104,893
<b>Total</b>	<b>\$ 670,116</b>	<b>\$ 167,829</b>

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

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).

### 5. Corporate and administration expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Administrative services	\$ 239,872	\$ 126,698	\$ 343,274	\$ 190,554
Depreciation and amortization	1,665	1,989	3,364	4,149
Directors fees and expenses	43,729	88,016	84,962	107,076
Investor relations and marketing	67,199	87,559	190,670	120,932
Office and sundry	27,575	32,171	57,637	59,638
Professional fees	40,015	35,993	74,238	57,004
Regulatory compliance	30,587	15,800	76,928	50,015
Share-based compensation	790,456	280,077	817,621	296,225
Travel and accommodations	23,196	30,846	76,498	46,547
	<b>\$ 1,264,294</b>	<b>\$ 699,149</b>	<b>\$ 1,725,192</b>	<b>\$ 932,140</b>

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

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### 6 Share Capital

#### 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. Each compensation option entitles the holder to purchase one share for \$1.20 per share until February 22, 2019 and had a fair value on the grant date of \$322,597 (\$0.30 per compensation option).

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. This fulfills Teck’s annual equity investment obligation pursuant to the agreement outlined in Note 3.

During the six months ended June 30, 2017, the Corporation issued 275,000 shares on the exercise of options, generating gross proceeds of \$50,250.

During the six months ended June 30, 2017, the Corporation granted 69,540 DSUs with a fair value of \$0.94 per DSU (2016 – 211,370 DSUs with fair value of \$0.27 per DSU). The fair value of \$65,637 (2016 – \$56,600) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

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. Total share-based compensation of \$1,341,800 was charged to corporate and administration and exploration and evaluation expenses.

#### 2016

In the first six months of 2016 the Corporation received gross proceeds of \$1,443,518 on the exercise of 7,910,682 warrants with an average exercise price of \$0.18 and \$31,400 on the exercise of 205,000 share purchase options at an average price of \$0.15.

In April 2016, the corporation closed a transaction with Sandstorm and issued 5 million shares at \$0.20 per share, for gross proceeds of \$1,000,000 (see note 3 for details of the agreement).

On June 3, 2016, the Corporation closed a private placement financing with Teck by issuing 1,063,830 shares at \$0.47 per share for gross proceeds of \$500,000.

On June 15, 2016, 2,000,000 options were granted to certain officers, directors and employees of the Corporation. Each option is exercisable at \$0.36 per share until June 15, 2021. Total share-based compensation of \$423,000 was charged to corporate and administration and exploration and evaluation expenses.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

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### 7. 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	
	June 30, 2017	December 31, 2016
Cash	\$ 9,426,586	\$ 1,071,209
Receivables	110,688	36,854
	<u>\$ 9,537,274</u>	<u>\$ 1,108,063</u>

The Corporation manages credit risk by holding the majority of its cash with a Canadian Schedule I bank, where management believes the risk of loss to be low. At June 30, 2017, \$55,758 or less than 1% of the balance of cash 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 61% of receivables at June 30, 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 June 30, 2017, the Corporation had a cash balance of \$9,426,586 (December 31, 2016 - \$1,071,209) to settle current liabilities of \$533,755 (December 31, 2016 - \$182,644).

#### 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 June 30, 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 balances are primarily held with high quality financial institutions in Canada. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Corporation's budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

### 7. Financial instruments (continued)

#### Market Risk (continued):

##### b) Foreign currency risk (continued)

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

	June 30, 2017	December 31, 2016
Cash	\$ 1,039,050	\$ 112,269
Trade and other payables	(1,235)	(3,463)
	<b>\$ 1,037,815</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 \$103,800 (December 31, 2016 - \$10,900).

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

	June 30, 2017	December 31, 2016
Cash	\$ 54,434	\$ 21,275
Trade and other receivables	8,568	7,319
Trade and other payables	(331,142)	(67,575)
	<b>\$ (268,140)</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 \$26,800 (December 31, 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:

	June 30, 2017 Level 1	December 31, 2016 Level 1
Assets measured at fair value:		
Cash	\$ 9,426,586	\$ 1,071,209

### 8. Comparative figures

Certain comparative information for 2016 has been reclassified to conform to the presentation adopted in the 2017 financial statements.



# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Management's Discussion and Analysis Quarter ended June 30, 2017

*This Management Discussion and Analysis ("MD&A"), dated August 10, 2017, 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 unaudited condensed interim consolidated statements for the three and six months ended June 30, 2017 and 2016, audited consolidated financial statements for the years ended December 31, 2016 and 2015 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, 2016, 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.*

## Second Quarter Highlights and Significant Subsequent Events

### Summary

- The Corporation continued its focus on advancing its 100% owned portfolio of high-grade gold projects and exploring for new precious and base metal opportunities in southwestern Mongolia.
- 2017 exploration programs have concentrated on defining and expanding gold mineralized zones on the two most advanced projects; Bayan Khundii and Altan Nar, 16 kilometres apart.
- To the end of Q2, the Corporation completed over 15,000 metres of the planned 20,000 metres of diamond drilling at Bayan Khundii in 2017. Q2 highlights include:
  - Highest grade intersection to date, 0.314 kg/t (11.1 oz/t) gold and 0.14 kg/t (4.9 oz/t) silver over 1 metre in BKD-98 within the Midfield Zone

- Midfield continuity: 80 metres of 6 g/t gold (BKD-98) and 56 metres of 6.1 g/t gold (BKD-99)
  - Northern expansion of Midfield: 108 metres of 2.8 g/t gold 60 metres north of Midfield (BKD-110) and 60 metres of 1.5 g/t gold 200 metres north of Midfield (BKD-140)
  - Striker-Midfield connection: 150 metres of 1.5 g/t gold (BKD-153)
  - Western expansion: 58 metres of 1.1 g/t gold in 250 metre step-out (BKD-105)
  - Eastern expansion: 10 metres of 12.8 g/t gold in 90 metre step-out (BKD-118)
  - The 2017 drill program has now almost doubled the established continuity of significant gold mineralization over a 1.3 kilometre long trend that is locally up to 450 metres wide, contains the Gold Hill, Striker and Midfield Zones, and remains open.
- During Q2 the Corporation completed approximately 1,300 metres of a planned 3,000 metre drill program at Altan Nar. Initial results support the presence of a high-grade gold and base metal zone at depth in central Discovery Zone with results that include 14 metres of 7.9 g/t gold, 43.7 g/t silver, and 1.8% combined lead-zinc (9.5 g/t gold equivalent) in TND-105 and 16 metres of 3.6 g/t gold, 50.5 g/t silver, and 1.4% combined lead-zinc (5.1 g/t gold equivalent) in TND-104.
  - In Q3 2017, the Corporation resumed the drill program at Altan Nar that is initially focusing on extensions of Discovery and Union North zones and will subsequently evaluate several of the other remaining targets.

#### **Bayan Khundii Gold Project – 100% Erdene (located on the Khundii license)**

- Between Q4 2015 (initial discovery drill hole) and Q2 2017, Erdene completed 177 diamond drill holes totaling 25,988 metres, of which 150 have intersected anomalous gold mineralization.
- The Q2 2017 program included 81 holes, totaling 14,688 metres. Drilling focused on expanding the Midfield Zone north under cover, expanding the Striker Zone down-dip, establishing continuity between Striker and Midfield zones, improving continuity within Striker and Midfield and the testing of new target areas beneath younger cover rocks to the west, east and north;
- Northern Extension of Midfield Zone
  - Step-out drilling extended mineralization for up to 280 metres north of Midfield Zone.
  - Results include up to 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), and 18 metres of 3.0 g/t gold within 60 metres of 1.5 g/t gold (hole BKD-140).
- Striker Zone
  - Drilling along the northern boundary successfully connected a 100 metre wide un-tested area with Midfield, where several holes returned broad, lower grade mineralization, including 146 metres of 0.8 g/t gold (BKD-101), as well as some higher grade zones, including 24 metres of 6.5 g/t gold within 150 metres of 1.5 g/t gold (hole BKD-153).
  - Near-surface zone south of Striker was further defined with 14 metres of 2.8 g/t from surface (BKD-128).
- Midfield Zone
  - Drilling improved confidence in continuity of the high-grade zones, confirmed greater depth potential, and established presence of wider, higher-grade quartz adularia “feeder” veins.
  - Results included 80 metres of 6.0 g/t gold (BKD-98) and 56 metres of 6.1 g/t gold (BKD-99).
- Western Extension
  - Fourteen holes completed at 50 to 100 metre spacing west of Striker and Midfield Zones; all holes except one intersected anomalous gold mineralization.
  - Includes 58 metres of 1.1 g/t gold (BKD-105), 21 metres of 1.3 g/t gold (BKD-107), and 28 metres of 1.4 g/t gold (BKD-172).

- Eastern Extension
  - Step-out hole BKD-118, 90 metres east of Striker Zone, returned 10 metres of 12.8 g/t gold, opening up a large un-tested area east of Striker for additional exploration.
- Northeast Zone
  - Eight holes completed to date in Northeast Zone covering a 600 metre by 400 metre area.
  - Hole BKD-122, located on the southern boundary of this 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.
- The 2017 exploration program has now established continuity of significant gold mineralization over a 1.3 kilometre long trend that is locally up to 450 metres wide, contains the Gold Hill, Striker and Midfield zones, and remains open.
- Sulfide minerals are largely absent within the widespread alteration zone, thus benefitting gold recovery; preliminary metallurgical test work at Bayan Khundii in Q1 2016 on representative composites from initial drilling (top 50 metres) indicated 99% recovery (gravity followed by cyanide leach of the tails) in a high-grade (24.9 g/t gold) composite, and 92% recovery from a low-grade (0.7 g/t gold) composite. The Corporation initiated a second phase of metallurgical work in Q2 2017 and results are expected to be released in Q3 2017.
- A decision regarding when to commence an independent resource estimate will be influenced by drilling results although it is anticipated that a resource study will be underway by Q2 2018.

#### **Altan Nar Gold-Polymetallic Project – 100% Erdene (located on the Tsenkher Nomin license)**

- In Q2 2017, the Corporation completed approximately 1,300 m of a planned 3,000 program at Altan Nar. Initial results support the presence of a high-grade gold and base metal zone at depth in central Discovery Zone where results included 14 metres of 9.5 g/t gold equivalent and 16 metres of 5.1 g/t gold equivalent.
- A high-resolution ground magnetic survey and an induced polarization dipole-dipole survey were completed in Q2 2017 and are being used to define targets for a Q3 drill program.
- In Q3 2017, the Corporation initiated a drill program at Altan Nar that is initially focusing on extensions of Discovery and Union North zones and will subsequently evaluate several of the other targets. No results were available at the time this report was prepared.
- Mineral resources were reported for the Discovery Zone and Union North Zone in March 2015 and included an indicated resource of 147,000 ounces (“oz”) gold equivalent (“AuEq”)<sup>(2)</sup> averaging 2.5 g/t AuEq (1.7 g/t Au, 11.1 g/t Ag and 1.1% combined lead-zinc) and an inferred resource of 102,000 oz AuEq averaging 2.1 g/t AuEq (1.5 g/t Au, 10.4 g/t Ag and 0.9% combined lead-zinc), at a 1.0 g/t AuEq cut-off grade within 1.8 million tonnes (“Mt”) indicated and 1.5 Mt inferred resources, respectively.
- The Corporation will also initiate additional metallurgical testing, hydrogeological, environmental, geotechnical and preliminary economic studies related to the Altan Nar project.
- A decision on when to commence an updated independent resource estimate will be influenced by drilling results although it is anticipated that a resource study will be underway by Q2 2018 in conjunction with a maiden resource estimate at Bayan Khundii.

<sup>(1)</sup> *The reported drill intersections above are not true width. At this time there is insufficient data with respect to the shape of the mineralized system to calculate true orientations in space. See Project Summaries below for more detail.*

<sup>(2)</sup> For the Altan Nar project, reference to “gold equivalent” above 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.

## **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 Tian Shan copper-gold belt. Work to date has provided the Alliance with a significant amount of technical information that continues to be evaluated.
- The 2017 field program began in July and is expected to be complete during Q3 2017. The first phase of the program consisted of detailed stream sediment sampling designed to follow up on anomalous results from the comprehensive regional stream program conducted over the entire Edren Terrane in 2016. A second phase of work will be conducted in Q3 2017 and will consist 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 and Zuun Mod projects.

## **Financial**

- On February 23, 2017, the Corporation closed a bought deal financing for gross proceeds to the Corporation of \$13.8 million (see further details below under Outstanding Share Data).
- On March 20, 2017, the Corporation closed a non-brokered private placement with Teck for gross proceeds to the Corporation of \$500,000.
- At the date of this MD&A, the Corporation had approximately \$8.3M in working capital

## **Company Overview**

Erdene is a mineral resource exploration and development corporation listed on the Toronto Stock Exchange (TSX:ERD) and focused on precious and base metals exploration in southwest Mongolia. The Corporation’s projects include the Bayan Khundii Gold project, the Altan Nar Gold-Polymetallic project, the Altan Arrow Gold-Silver project, the Zuun Mod/Khuvyn Khar Molybdenum-Copper project, as well as other earlier stage prospects. The Corporation is primarily focused on the development of the Bayan Khundii Gold and the Altan Nar Gold-Polymetallic projects.

The Corporation’s 100%-owned Bayan Khundii (‘Rich Valley’) gold project which was discovered in Q2 2015, with initial drill results reported in Q4 2015, has become the highest priority project for the Corporation based on its high grades, proximity to surface, favorable metallurgy, and size potential. The Corporation completed 25,988 metres of diamond drilling at Bayan Khundii to the end of Q2 2017, comprised of 177 holes. Drilling to date has confirmed continuity of the high-grade Striker Zone, where mineralization starts from surface, and the Midfield Zone that extends to the northeast under Cretaceous cover. The high-grade gold zones within the Striker and Midfield zones can be very wide, grading in excess of 5 g/t gold (up to 187 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 m northeast from Striker Zone, extends for at least 280 meters further to the northeast under younger, post-mineralization cover. The Midfield Zone returned some of the highest grades and the longest mineralized intervals intersected to date at Bayan Khundii.

The 100%-owned Altan Nar project hosts a total of 18 mineralized (gold, silver, lead and zinc) target areas that have been identified 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 December 2016, the Corporation drill tested a structural intersection in DZ (hole TND-101) that returned consistent mineralization from surface to 170 metre depth, with high gold grades not previously observed at Altan Nar. Results included 110 metres of 9.3 g/t gold, 32 g/t silver, and 1.4% combined lead-zinc. The hole was an exploratory hole drilled perpendicular to a cross-cutting feature observed in geophysical surveys but at a low, oblique angle to the mineralized DZ trend. True width of the zone reported in TND-101 is assumed to be in the range of 25 to 35 metres. 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 in support of future scoping/feasibility-level studies and a mining license application, including hydro-geological, archaeological, paleontological, and environmental base line studies, have commenced on both Bayan Khundii and Altan Nar.

The Corporation, through its alliance with Teck Resources Limited, will also continue to assess regional opportunities for porphyry and porphyry-related mineralization, and will pursue acquisitions as opportunities arise in the Alliance’s area of interest in southwest Mongolia. The Corporation’s Bayan Khundii, Altan Nar, Altan Arrow 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 are subject to an 18-month hold period which expires 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 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 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, “Agreement”) 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 has invested \$3

million or has acquired 19.9% of the outstanding shares of the Corporation, whichever occurs first. Eighty five percent of the proceeds from the private placements are committed to exploration work. 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.

## **Outlook and Strategy**

### **General**

Management's long-term focus remains the discovery and development of significant precious and base metal deposits in Mongolia. Regional exploration will continue, particularly in conjunction with the Teck Alliance program, however, the Corporation's immediate focus will continue to be the evaluation of the neighboring Bayan Khundii Gold and Altan Nar Gold-Polymetallic projects.

The Corporation has discovered a series of gold prospects and deposits that are at a relatively early stage of exploration. Results to date are encouraging and through continued exploration and evaluation, the Corporation aims to demonstrate that these projects have the size and grade necessary to be developed. In addition, because of their close proximity, the Corporation will be reviewing the possibility of a large-scale, centralized gold production complex. These discoveries include Bayan Khundii, Altan Nar and other, earlier-stage, neighboring gold prospects. Determining, to a reasonable extent, the size potential of these targets is the primary, near-term objective of the Corporation.

The next stage will be to define to a high confidence level the potential mineral resource area. 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 which will potentially lead through mine and plant development and construction and onto initial commercial production. Coincident with the resource definition and economic assessment studies, a series of studies will be completed to support a mining license application. The timeline for these studies will be better defined following the 2017 exploration program, which is expected to be a minimum of 24,000 metres of drilling at Bayan Khundii, Altan Nar and Altan Arrow, with the majority of the drilling dedicated to Bayan Khundii. Quarter-end reviews of technical information will be undertaken to determine whether to expand drill programs, commence the resource estimate work leading to economic studies, or a combination of both.

### **Bayan Khundii (Khundii license)**

Results to date from the 2017 program include the following highlights:

- Northern expansion: 108 metres of 2.8 g/t gold 60 metres north of Midfield (BKD-110) and 60 metres of 1.5 g/t gold 200 metres north of Midfield (BKD-140)
- Striker-Midfield connection: 150 metres of 1.5 g/t gold (BKD-153)
- Midfield continuity: 80 metres of 6 g/t gold (BKD-98)
- Western expansion: 58 metres of 1.1 g/t gold in 250 metre step-out (BKD-105)
- Eastern expansion: 10 metres of 12.8 g/t gold in 90 metre step-out (BKD-118)

The 2017 drill program is ongoing and with the goal to continue to define, at a higher confidence, gold mineralization within the Striker, Midfield and Gold Hill Zones, and to drill expansion and perimeter holes throughout the 1.7 kilometre Bayan Khundii trend, in order to establish potential boundaries to the gold system in advance of more detailed resource drilling in those areas. In addition, the Corporation has commenced additional metallurgical testing, as well as various technical studies in support of future scoping/feasibility-level studies and a mining license application, including hydrology, archeology, paleontological, and environmental base line studies.

The following table provides a summary of the 2017 budget for the Bayan Khundii exploration program.

Geology and Geochemical Surveys	\$ 455,000
Geophysics	58,000
Drilling	3,000,000
Technical Studies	939,000
Field Support	1,400,000
Subtotal	\$ 5,852,000
Contingency (10%)	585,200
TOTAL	\$ 6,437,200

### **Altan Nar (Tsenkher Nomin license)**

Recent drilling and geophysical surveys completed by the Corporation have increased its confidence in the potential to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar, outside of the current Discovery Zone – Union North resource boundaries. Additionally, the new discovery at the intersection of major structures provides strong support for additional drilling at Altan Nar. In Q2 2017, the Corporation completed approximately 1,300 metres of a planned 3,000 metre drill program. The goal is to establish the continuity and extent of the new high-grade zone identified at the Discovery Zone and explore new target areas defined through the 2017 geophysical and structural mapping programs. Upcoming work at Altan Nar will include additional drilling (discussed above), as well as various technical studies in support of a mining license application, including hydrogeological, archaeological, paleontological, and environmental base line studies.

The following table provides a summary of the 2017 budget for the Altan Nar exploration program.

Geology and Geochemical Surveys	\$ 376,000
Geophysics	63,000
Drilling	455,000
Technical Studies	713,000
Field Support	199,000

Subtotal	\$ 1,806,000
Contingency (10%)	180,000
TOTAL	\$ 1,986,000

### **Altan Arrow (Khundii license)**

The Corporation's 2016 drill results at Altan Arrow confirm the presence of high-grade gold bearing veins and broad structurally controlled lower-grade zones with similar style to the Corporation's Bayan Khundii project, albeit with higher silver values. In Q2 2017, the Corporation completed approximately 400 metres of a planned 1,000 metre diamond drilling program at Altan Arrow. A 2017 follow-up program is expected to include additional drilling as well as follow-up of a large gold-in-soil anomaly.

The following table provides a summary of the 2017 budget for the Altan Arrow exploration program.

Geology and Geochemical Surveys	\$ 45,000
Geophysics	21,000
Drilling	150,000
Technical Studies	20,000
Field Support	55,000
Subtotal	\$ 291,000
Contingency (10%)	29,000
TOTAL	\$ 320,000

### **Zuun Mod/Khuvyn Khar (Khuvyn Khar license)**

Management believes that the Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. Recent market demand and pricing conditions for molybdenum have been generally depressed with the price of molybdenum oxide at approximately US\$6.90-7.90 per pound in 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 in regards to technology and/or additional exploration information. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

### **Regional Exploration**

The Corporation continues to be active through its Alliance with Teck Resources Limited ("Teck"), Canada's largest diversified mining company, in identifying additional porphyry and porphyry-related mineralization in southwest Mongolia's prolific Tian Shan copper-gold belt. The program was designed to be a multi-year program, and has provided the Alliance thus far with a significant amount of technical information that continues to be evaluated. With the renewal of the Alliance, the 2017 exploration program will consist of follow-up work on anomalous targets identified during the 2016 program, comprising surface geochemical sampling, geological mapping/prospecting, ground-verification of multispectral anomalies, and sampling of alteration zones for hyper-spectral analysis. Additional work is also planned for one of the Alliance's newly acquired exploration licenses, consisting of geochemical, geophysical, and geological work. The Corporation's Bayan Khundii, Altan Nar, Altan Arrow and Zuun Mod projects are excluded from the Alliance.

## Budget

The Corporation has a current working capital of \$8.3 million which is expected to be sufficient to meet its budgeted expenditures through second quarter of 2018. The 2018 budget is subject to change depending on the results of the planned drill programs at Bayan Khundii, Altan Nar, and Altan Arrow. The ability of the Corporation to continue beyond this point is contingent upon equity financing, entering joint venture agreement(s), asset sales, or a combination thereof.

## 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>2016</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ Nil	\$ Nil	\$ Nil
Loss for the year	\$ 2,500	\$ 12,608	\$ 2,617
Basic and diluted loss per share	\$ 0.02	\$ 0.14	\$ 0.04
Total assets	\$ 4,293	\$ 2,522	\$ 10,912
Total long-term liabilities	\$ Nil	\$ Nil	\$ Nil
Cash dividends declared	\$ Nil	\$ Nil	\$ Nil

## Discussion of Operations

### *Three months ended June 30, 2017 and 2016*

The tables below show exploration and evaluation costs for the three months ended June 30, 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>Period ended June 30, 2017</b>	<b>Zuun Mod</b>	<b>Tsenkher Nomin</b>	<b>Khundii</b>	<b>Other</b>	<b>Total</b>
<b>E&amp;E assets, April 1, 2017</b>	<b>\$ 753,841</b>	<b>\$ 616,186</b>	<b>\$ 2,144,876</b>	<b>\$ 593</b>	<b>\$ 3,515,496</b>
<b>Exploration expenditures</b>					
Drilling, trenching, sampling and assaying	658	245,266	2,235,743	-	2,481,667
License costs	74,062	-	5,464	375	79,901
Geological services, camp and field	13,310	152,158	671,867	148,353	985,688
Travel and other	300	25,551	50,100	8,924	84,875
Share-based compensation	-	-	-	584,416	584,416
Mongolian office costs	-	-	-	64,474	64,474
Total exploration expenditures	88,330	422,975	2,963,174	806,542	4,281,021
<b>Capitalized expenditures</b>	<b>(74,062)</b>	<b>(422,975)</b>	<b>(2,963,174)</b>	<b>(375)</b>	<b>(3,460,586)</b>
<b>Expensed exploration costs 2017</b>	<b>14,268</b>	<b>-</b>	<b>-</b>	<b>806,167</b>	<b>820,435</b>
Effect of movements in exchange rates	(9,314)	(8,506)	(23,883)	(8)	(41,711)
<b>E&amp;E assets, June 30, 2017</b>	<b>\$ 818,589</b>	<b>\$ 1,030,655</b>	<b>\$ 5,084,167</b>	<b>\$ 960</b>	<b>\$ 6,934,371</b>

Period ended June 30, 2016	Tsenkher				Total
	Zuun Mod	Nomin	Khundii	Other	
<b>E&amp;E assets, April 1, 2016</b>	\$ 710,693	\$ 833,941	\$ 52,091	\$ 275	\$ 1,597,000
<b>Exploration expenditures</b>					
Drilling, trenching, sampling and assaying	1,392	3,054	744,060	2,727	751,233
Licence costs	86,299	-	-	-	86,299
Geological services, camp and field	27,112	72,074	523,089	7,465	629,740
Travel and other	-	14,017	21,016	12,280	47,313
Mongolian office costs	-	-	-	45,888	45,888
Total exploration expenditures	114,803	89,145	1,288,165	68,360	1,560,473
<b>Capitalized expenditures</b>	<b>(86,299)</b>	<b>(89,145)</b>	<b>-</b>	<b>-</b>	<b>(175,444)</b>
<b>Expensed exploration costs 2016</b>	<b>28,504</b>	<b>-</b>	<b>1,288,165</b>	<b>68,360</b>	<b>1,385,029</b>
Sandstorm royalty proceeds	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	89,084	18,017	1,270	296	108,667
<b>E&amp;E assets, June 30, 2016</b>	<b>\$ 886,076</b>	<b>\$ 64,131</b>	<b>\$ 53,361</b>	<b>\$ 571</b>	<b>\$ 1,004,139</b>

Corporate and administrative expenses were \$1,264,294 for the three months ended June 30, 2017 compared to \$699,149 for the same period in 2016 (see table below). \$510,379 of the increase is due to non-cash share based compensation. The Corporation granted approximately 2.6 million options to directors, officers and employees of the Corporation in Q2 2017 (Q2 2016 – 2.0 million options). With the appreciation in the share price since the 2016 grant, the calculated fair value of the 2017 options is significantly higher than 2016. The increase in management services is due to performance bonuses paid and additional management services required for managing the greatly expanded 2017 exploration and evaluation programs.

	For the three months ended June 30,		Change
	2017	2016	
Administrative services	\$ 239,872	\$ 126,698	\$ 113,174
Depreciation and amortization	1,665	1,989	(324)
Directors fees and expenses	43,729	88,016	(44,287)
Investor relations and marketing	67,199	87,559	(20,360)
Office and sundry	27,575	32,171	(4,596)
Professional fees	40,015	35,993	4,022
Regulatory compliance	30,587	15,800	14,787
Share-based compensation	790,456	280,077	510,379
Travel and accommodations	23,196	30,846	(7,650)
	\$ 1,264,294	\$ 699,149	\$ 565,145

In Q2 2016 the Corporation received \$1.5 million on signing a royalty agreement with Sandstorm (see above Sandstorm Gold Ltd. Royalty Agreement for more details). \$876,972 of the \$1.5 million was applied against exploration and evaluation assets, being the total capitalized costs at the date of the transaction. The remaining \$623,028 was recognized as a gain in the period.

For the three months ended June 30, 2017, the Corporation recognized a net loss of \$2,069,197, or \$0.01 per share, compared to a loss of \$1,385,310, or \$0.01 per share for the same period in 2016.

### **Six months ended June 30, 2017 and 2016**

The tables below show exploration and evaluation costs for the six months ended June 30, 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>Period ended June 30, 2017</b>	<b>Zuun Mod</b>	<b>Tsenkher Nomin</b>	<b>Khundii</b>	<b>Other</b>	<b>Total</b>
<b>E&amp;E assets, January 1, 2017</b>	<b>\$ 728,164</b>	<b>\$ 551,271</b>	<b>\$ 1,786,195</b>	<b>\$ 581</b>	<b>\$ 3,066,211</b>
<b>Exploration expenditures</b>					
Drilling, trenching, sampling and assaying	1,590	247,031	2,263,520	259	2,512,400
License costs	74,062	-	5,464	375	79,901
Geological services, camp and field	26,280	197,327	936,295	220,055	1,379,957
Travel and other	300	31,080	73,229	11,637	116,246
Share-based compensation	-	-	-	589,816	589,816
Mongolian office costs	-	-	-	121,040	121,040
Total exploration expenditures	102,232	475,438	3,278,508	943,182	4,799,360
<b>Capitalized expenditures</b>	<b>(74,062)</b>	<b>(475,438)</b>	<b>(3,278,508)</b>	<b>(375)</b>	<b>(3,828,383)</b>
<b>Expensed exploration costs 2017</b>	<b>28,170</b>	<b>-</b>	<b>-</b>	<b>942,807</b>	<b>970,977</b>
Effect of movements in exchange rates	16,363	3,946	19,464	4	39,777
<b>E&amp;E assets, June 30, 2017</b>	<b>\$ 818,589</b>	<b>\$ 1,030,655</b>	<b>\$ 5,084,167</b>	<b>\$ 960</b>	<b>\$ 6,934,371</b>

<b>Period ended June 30, 2016</b>	<b>Zuun Mod</b>	<b>Tsenkher Nomin</b>	<b>Khundii</b>	<b>Other</b>	<b>Total</b>
<b>E&amp;E assets, January 1, 2016</b>	<b>\$ 881,821</b>	<b>\$ 804,505</b>	<b>\$ 50,976</b>	<b>\$ 290</b>	<b>\$ 1,737,592</b>
<b>Exploration expenditures</b>					
Drilling, trenching, sampling and assaying	2,414	8,058	781,614	3,455	795,541
Licence costs	86,299	-	3,804	296	90,399
Geological services, camp and field	56,635	133,104	672,278	26,068	888,085
Travel and other	-	20,461	35,134	17,539	73,134
Mongolian office costs	-	-	-	69,266	69,266
Total exploration expenditures	145,348	161,623	1,492,830	116,624	1,916,425
<b>Capitalized expenditures</b>	<b>(86,299)</b>	<b>(161,623)</b>	<b>(3,804)</b>	<b>(296)</b>	<b>(252,022)</b>
<b>Expensed exploration costs 2016</b>	<b>59,049</b>	<b>-</b>	<b>1,489,026</b>	<b>116,328</b>	<b>1,664,403</b>
Sandstorm royalty proceeds	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	(82,044)	(25,025)	(1,419)	(15)	(108,503)
<b>E&amp;E assets, June 30, 2016</b>	<b>\$ 886,076</b>	<b>\$ 64,131</b>	<b>\$ 53,361</b>	<b>\$ 571</b>	<b>\$ 1,004,139</b>

Corporate & administrative expenses were \$1,725,192 for the six months ended June 30, 2017 compared to \$932,140 for the same period in 2016, a \$793,052 increase (see table below). \$521,396 of the increase is due to non-cash share based compensation. The Corporation granted approximately 2.6 million options to directors, officers and employees of the Corporation in Q2 2017 (Q2 2016 – 2.0 million options). With 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 six months ended June 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Administrative services	\$ 343,274	\$ 190,554	\$ 152,720
Depreciation and amortization	3,364	4,149	(785)
Directors fees and expenses	84,962	107,076	(22,114)
Investor relations and marketing	190,670	120,932	69,738
Office and sundry	57,637	59,638	(2,001)
Professional fees	74,238	57,004	17,234
Regulatory compliance	76,928	50,015	26,913
Share-based compensation	817,621	296,225	521,396
Travel and accommodations	76,498	46,547	29,951
	<b>\$ 1,725,192</b>	<b>\$ 932,140</b>	<b>\$ 793,052</b>

In 2016 The Corporation received \$1.5 million on signing a royalty agreement with Sandstorm (see above Sandstorm Gold Ltd. Royalty Agreement for more details). \$876,972 of the \$1.5 million was applied against exploration and evaluation assets, being the total capitalized costs at the date of the transaction. The remaining \$623,028 was recognized as a gain in the period.

For the six months ended June 30, 2017, the Corporation recognized a net loss of \$2,664,797, or \$0.02 per share, compared to a loss of \$1,935,432, or \$0.02 per share for the same period in 2016.

## Summary of Quarterly Results

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

	Fiscal 2017		Fiscal 2016				Fiscal 2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	\$2,069	\$596	\$442	\$73	\$1,423	\$512	\$11,476	\$393
Basic and diluted loss per share	\$0.01	\$0.01	\$0.00	\$0.00	\$0.01	\$0.01	\$0.13	\$0.00
Total Assets	\$16,730	\$17,208	\$4,293	\$3,872	\$4,044	\$2,504	\$2,522	\$12,508

The Corporation's expenditures vary from quarter to quarter largely depending on the timing of its Mongolian exploration programs. The net loss in Q4 2015 was mainly an impairment charge recognized on the Zuun Mod/Khuvyn Khar property. 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 \$8.3 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 through Q2 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**

As of the date of this MD&A, the Corporation had 145,963,086 shares issued and outstanding.

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.

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.

### **Stock Options**

As of the date of this MD&A, the Corporation had 9,553,750 outstanding stock options with a weighted average exercise price of \$0.39, all of which are exercisable.

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.

During the period ended June 30, 2017, the Corporation received \$50,250 on the exercise of 275,000 share purchase options at an average price of approximately \$0.18 per share. Subsequent to June 30, 2017, the Corporation received \$75,725 on the exercise of 412,500 options at an average price of approximately \$0.18 per share.

### **Compensation options**

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 were exercisable.

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).

## **Deferred Stock Units**

As of the date of this MD&A, the Corporation had a balance of 3,305,999 deferred stock units (“DSUs”) outstanding which may be settled in cash or shares.

For the six months ended June 30, 2017, the Corporation granted certain officers, directors and employees of the Corporation an aggregate of 69,540 DSUs at a weighted average price of approximately \$0.94.

## **Project Summaries**

The Corporation’s gold projects are located in the Tian Shan Gold Belt, part of the Central Asian Orogeny, host to some of the world’s largest 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, which has resulted in the discovery of multiple gold and copper occurrences including the discoveries at Bayan Khundii and Altan Nar. The wider 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-silver and molybdenum-copper porphyries, intermediate sulphidation / carbonate base metal gold deposits, and low sulphidation epithermal gold and gold-silver systems within an approximately 40 by 60 kilometre area.

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

### **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. The license can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia.

#### **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 four separate prospect areas (Striker, Gold Hill, Midfield, and Northeast zones) over a 1.7 kilometre trend that remains open. The deposit is characterized by structurally controlled, high-grade 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**

During Q2 2017, the Corporation completed 81 drill holes, totaling 14,688 metres. Since drilling the first hole in Q4 2015 to the end of the last drill program (Q2 2017), the Corporation has completed 177

diamond drill holes (45 to 90 degree angles) at Bayan Khundii totaling 25,988 metres, of which 150 have intersected anomalous gold mineralization.

#### Striker Zone

Since the first hole at Bayan Khundii was completed (BKD-01: 7 metres of 27.5 g/t gold at 14 metres depth; northern Striker Zone), the Striker Zone has received 57 holes totalling 5,748 metres (22% of the total drilling at Bayan Khundii). 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). A total of 21% of the holes completed in Striker have ended in mineralization.

In 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. The holes were completed over a 180 by 100 metre area between Striker and Midfield and all intersected broad zones of lower-grade gold mineralization beginning at shallow depths (Table 1).

Table 1. Drill highlights from Northern Striker Zone

Drill Hole	From (m)	To (m)	Interval (m) <sup>(1)</sup>	Gold (g/t)
BKD-101	54	200.4	146.4	0.84
incl	134	144.1	10.1	4.84
incl	139	144.1	5.1	8.7
incl	142	144.1	2.1	19.1
BKD-102	0	20	20	0.4
and	44	183.2	139.2	0.74
incl	131	163	32	2.06
incl	142	146	4	7.4
incl	145	145	1	16.2
BKD-153	3	7	4	0.73
and	17	22	5	1.36
and	33	183	150	1.53
incl	37	38	1	31.4
incl	142	166	24	6.53
incl	152	162	10	13.8
incl	152	153	1	86.2
incl	161	162	1	33.2

(1) Reported intervals are not true width. At this time, there is insufficient data with respect to the shape of the mineralized system to calculate true orientations in space. They represent drill intersection widths from holes drilled at a dip of -45 to -55 and oriented to the north-northeast. The Bayan Khundii mineralization is interpreted to be moderately dipping (approximately 40 to 50 degrees to the southwest).

In 2017, the Corporation also completed a series of three, 20-metre spaced step-out holes designed to test the down-dip extension of the Striker Zone to the southwest. These three holes were successful in extending the Striker Zone down-dip, with BKD-129 returning 20 metres of 2.6 g/t gold from 90 to 110 metres and included an 8-metre interval of 5.7 g/t gold. In addition, BKD-128 intersected 14 metres of 2.81 g/t gold from surface. This near-surface mineralization was previously reported in several other holes in the vicinity of BKD-128, including: BKD-17, 0 to 12 metres of 2.3 g/t gold; BKD-28, 0.8 to 19 metres of

1.1 g/t gold; BKD-46, 2.3 to 19 metres of 16.7 g/t gold; and BKD-51, 0 to 9 metres of 1.0 g/t gold. This series of holes defines a new zone of significant mineralization at surface in this area vertically above the Striker Zone.

#### Midfield Zone

A total of 12 holes have been completed within the Midfield Zone, totalling 2,038 metres. All holes except one terminated in post-mineralization syenite at an average vertical depth of 122 metres. The average vertical depth of Cretaceous cover is 42.7 metres. The Corporation completed three holes within Midfield in 2017, which 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. The results support the observation that this area contains the most intense hydrothermal activity and the most pervasive gold mineralization at Bayan Khundii (Table 2).

Table 2. Drill highlights from Midfield Zone

Drill Hole	From (m)	To (m)	Interval (m) <sup>(1)</sup>	Gold (g/t)
BKD-98	39	170.5	131.5	3.86
incl	42	122	80	6.03
incl	86	87	1	11.1
incl	111	119	8	51.0
incl	112	114	2	192
BKD-99	53	158.4	105.4	3.55
incl	56	112	56	6.13
incl	87	91	4	69.0
incl	111	112	1	12.9
BKD-150	21.5	152.9	131.4	1.77
incl	26	41	15	2.10
incl	38	41	3	8.11
incl	39	40	1	18.7
and	89	106	17	8.22
incl	92	98	6	21.4
incl	96	98	2	53.6

(1) Reported intervals are not true width. At this time, there is insufficient data with respect to the shape of the mineralized system to calculate true orientations in space. They represent drill intersection widths from holes drilled at a dip of -45 to -50 degrees and oriented to the north-northeast. The Bayan Khundii mineralization is interpreted to be moderately dipping (approximately 40 to 50 degrees to the southwest).

The Corporation also completed step-out drilling to the west of Midfield. Hole BKD-100, drilled along the western edge of the Midfield Zone, did not return significant gold mineralization, as the hole intersected a syenite intrusion at shallower depths than expected, truncating the western extension of Midfield. However, hole BKD-166, drilled 50 metres further west of BKD-100 and 80 metres west of Midfield, intersected a thick package of the host Devonian volcanic tuff, returning 36 metres of 1.1 g/t gold commencing at 86 metre vertical depth, suggesting the syenite encountered in BKD-100 represents a localized intrusion. The zone remains open to the west, and will receive further drilling in Q3-2017.

#### Geology

Bayan Khundii is located in southwest Mongolia within the Tian Shan metallogenic 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 with drill hole BKD-32 located northwest of the Striker Zone, Bayan Khundii is mostly devoid of sulphide minerals, including copper, lead and zinc-bearing sulphide minerals.

#### Exploration Potential

There are several indications that Bayan Khundii's epithermal system may be more widespread than the main exposed areas at surface;

#### Striker and Midfield Potential

- Drilling in 2016 and Q2 2017 extended the mineralization in the Striker Zone through Midfield Zone for approximately 480 metres under cover to the north and northeast.

#### Geophysical Surveys

- A strong induced polarization resistivity geophysical response, that is typical of the Striker Zone, suggests extensive zones of alteration continue at depth to the north, northeast and west of the Midfield Zone, beneath the younger Cretaceous units, over an approximately 2 by 1.8 kilometre area.

#### Northeast Zone

- The Northeast Zone, located 700 metres to the northeast of Striker Zone and 500 metres northeast of Midfield Zone, contains an outcropping area of altered tuffs measuring 300 by 300 metres, and has returned numerous anomalous surface gold assays (>0.2 g/t) from mineralized rock chip samples with up to 4 g/t gold. Eight holes have been completed to date in this area covering a 600 by 400 metre area. Hole BKD-122, located on the southern boundary of this zone 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. In addition, two rock chip samples collected a further 600 metres to the northeast (NE Extension prospect) returned gold assay values of 6.9 g/t and 0.4 g/t gold.

#### Younger, Post-Mineralization Cover Areas

- Post-mineralization sedimentary units and basalt overlie the majority of the Bayan Khundii target area. Geophysical data suggests that the thickness of the younger units is variable but thins to expose mineralization in the Northeast Zone. The three outcropping prospect areas (Striker Zone,

Gold Hill Zone, and Northeast Zone) are interpreted as erosional 'windows', with the full extent of the altered and mineralized zone yet to be determined.

#### Western Extension of Striker Zone

- A series of holes were completed west of the Striker Zone in Q2 2017, covering a 250 metre by 200 metre area, at 50 to 100 metre spacing, and returned multiple gold mineralized intersections under younger, post-mineralization cover. Results included up to 28 metres of 1.4 g/t gold (BKD-172) located 130 metres west of the westernmost drilling in the Striker Zone (see Table 4). Previous 2017 drilling in this area includes 58 metres of 1.1 g/t gold (BKD-105) and 21 metres of 1.3 g/t gold (BKD-107), both holes located 250 metres west of the westernmost drilling in the Striker Zone. The results support additional closer-spaced drilling in Q3 2017.

#### Independent Consultants

As part of the Corporation's 2017 exploration program, it has 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, 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;
- 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, will complete 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. is completing a 3-D model of the multiple mineralized zones to assist with drill targeting. The model will incorporate 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 Q2 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 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 2.0 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 Zone under Cretaceous cover.

A strong positive resistivity anomaly (>1,000 ohm metres) in the gradient array data corresponds very closely to the exposed, intensely altered (silicified and sericitized) volcanic rocks and is thought to 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 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 areas with intense magnetite destruction, presumably from widespread alteration, whereas areas with low-moderate magnetic response near Striker and Gold Hill zones, and in the Northeast Zone, are interpreted as reflecting late 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. Results are expected to be released in Q3 2017.

#### 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

Erdene has commenced a water exploration program in two basin areas proximal to the Bayan Khundii and Altan Nar projects. Both sites have the potential to host water resources to support mineral processing requirements. The water exploration program includes a maximum of 12 drill holes totalling up to 1,800 metres with six holes within each basin. Drill targets were identified following a geophysical survey carried out in Q4 2016. Permission to carry out a water exploration program was granted by the Ministry of the Environment as of July 31 and the drilling contractor is on site at the date of this report with drilling anticipated to commence on or about August 13, 2017. It is estimated that the exploration program will take up to two and a half months to complete with the objective of identifying a potential (inferred) water resource. Additional work will be required to confirm the volume, recharge rate, etc. of any identified water resource. The work is being carried out under the direction of Mongolian hydrogeologist G. Tserendondov, who has 25 years of experience, including the identification of water resources in the southwestern and Gobi regions of Mongolia.

## 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

Results to date at Bayan Khundii have been very encouraging and continue to support an extensive exploration program to determine the continuity and limits of the reported high-grade gold mineralization at depth and on surface. The late 2016 discovery of the Midfield Zone and continued success to the north, west and east supports an extensive program to test beneath the post-mineralization Cretaceous cover. The 2017 program at Bayan Khundii has the dual objective of increasing confidence in areas with established resource potential (Striker, Gold Hill, and Midfield zones) and simultaneously expanding the perimeter of known mineralized zones and testing for new areas within the larger 2 x 1.8 kilometre prospect area, in order to establish potential extensions and boundaries to the gold system in advance of a resource drilling program. In addition, the Corporation has commenced additional metallurgical testing, and various technical studies in support of future scoping/feasibility-level studies and a mining license application, including hydrogeology, archeology, paleontological, and environmental base line studies.

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 27, 2017, 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”

## **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. The exploration license is in its eighth year of a maximum 12-year term. The license can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. The 4,669 hectare Tsenkher Nomin license is 100% owned by Erdene.

### **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 2015 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.

In Q4 2016, the Corporation drill tested a conceptual target at a structural intersection at DZ, and intersected a consistently mineralized zone from surface to 170 m, with the highest gold grades observed at Altan Nar (see below details below). The new discovery at the intersection of major structures provides strong support for additional drilling at DZ, and throughout the larger 5.6 kilometre long Altan Nar trend. A six-hole follow-up drilling in Q2 2017 confirmed the presence of mineralized zones in the central part of the Discovery Zone and depth extensions of mineralization in both DZ North and DZ South.

### **Discovery and Deposit Style**

Altan Nar was first discovered by the Corporation in Q3 2011 and 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 style of gold mineralization in the southeast Asia region and includes the Kelian mine in Indonesia (now closed but formerly operated by Rio Tinto) and Porgera gold mine Papua New Guinea (operated by Barrick Gold Corporation), and elsewhere in the world, Fruta del Norte in Ecuador, (operated by Lundin Gold Inc.), 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. A total of 42, mostly shallow drill holes (i.e. <150 metre true vertical depth), on 20 to 100 metre spacing along strike, have demonstrated vertical and lateral continuity of gold, silver, lead and zinc mineralization. Mineralization is structurally controlled and associated with epithermal breccia zones that are steeply dipping to sub-vertical. The DZ remains open along strike to the northeast and at depth. 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.

#### Q4 2016 – DZ Drilling Summary

On December 19, 2016, the Corporation announced results for drill hole TND-101, designed to test a structural intersection in the DZ. Results included 110 metres of 9.3 g/t gold, 32 g/t silver, and 1.4% combined lead-zinc. Drill hole TND-101 was consistently mineralized from surface to 170 metres with high gold grades not previously observed at Altan Nar. The hole was an exploratory hole drilled perpendicular to a cross-cutting feature observed in geophysical surveys but at a low, oblique angle to the mineralized DZ trend. True width of the zone reported in TND-101 is assumed to be in the range of 25 to 35 metres. In addition to the high base metal gold zones, there is also a distinct copper event with high copper-gold that may reflect a new fluid phase at the DZ. Copper levels reached as high as 2.43%.

In Q4 2016, the Corporation extended hole TND-31 from 190 metres depth to 450 metres depth (390 metres vertical depth) below the DZ North deposit area. The extension of the hole confirmed that high-grade precious and base metal mineralization extends below the depths previously tested, returning 1 metre samples up to 18.3 g/t AuEq (17.9 g/t gold, 10 g/t silver, and 0.47% combined lead-zinc) at 370 metres depth and up to 6.90 g/t AuEq (2.3 g/t gold, 43 g/t silver, and 7.8% combined lead-zinc) at 401 metres depth. The deepest hole at Altan Nar prior to extending TND-31, was TND-58 which was drilled to 270 metres vertical depth, and returned 6 metres of 5.6 g/t AuEq (4.8 g/t gold, 9.3 g/t silver and 1.4% combined lead and zinc) near the bottom of the hole. As demonstrated by TND-101, the potential exists for these narrow high-grade zones to be enhanced greatly in size and grade in favorable structural settings within the district.

#### 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 (Table 3). 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.

Table 3. Drill Highlights From Altan Nar Project

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

(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.

The Corporation recently completed a detailed high-resolution ground magnetic survey and induced polarization dipole-dipole surveys, which have defined multiple drill targets throughout the larger 5.6 kilometre Altan Nar trend. The 2017 Altan Nar exploration program has been modified to include a Q3 drill program that commenced on August 7, 2017, with results pending when this report was prepared. The program was designed to test some of these new targets and to complete step-out drilling in areas adjacent to the Corporation's previously reported NI 43-101 mineral resource estimate at Altan Nar.

#### 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.

#### 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.

#### 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 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.

Table 1 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.

Table 4 - Altan Nar Project –Mineral Resource Estimate Summary as at February 19, 2015

AuEq Cut-off g/t	Classification	Tonnes Mt	Au g/t	Ag g/t	Zn %	Pb %	AuEq g/t	Au kOz	Ag kOz	Zn Mlbs	Pb Mlbs	AuEq kOz
0.6	Indicated	3.4	1.0	9.4	0.57	0.47	1.7	112	1,014	42.4	34.8	185
0.6	Inferred	3.0	0.8	9.4	0.51	0.35	1.4	83	913	33.9	23.5	139
<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 2016, the Corporation completed a drilling and trenching program 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. 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. Based on these encouraging results, a high-resolution ground magnetic survey for the entire Altan Nar project is planned for 2017. 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 will guide drill targeting in a Q3-Q4 drill program that will test 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

The new discovery at DZ, situated at the intersection of major structures, provides strong support for additional drilling at Altan Nar. The six-hole Q2, 2017 exploration drill program focused on establishing continuity of the new high-grade zone 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. A Q3-Q4, 2017 drill program will explore additional targets, including a newly discovered east extension at UN, with a total of approximately 3,000 metres of diamond drilling to be completed at Altan Nar in 2017.

Drilling completed subsequent to the Q1 2015 resource estimate, has 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.

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 mineralized corridor.

In addition to drilling, upcoming work at Altan Nar is 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"

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

The Altan Arrow gold-silver prospect is situated on the Bayan Khundii license, 3.5 kilometres north of the Bayan Khundii project. Previous exploration by the Corporation in 2013 confirmed the presence of high-grade gold within epithermal quartz veins and the potential for broader mineralized zones. Erdene geologists identified an approximately 1 square-km area of anomalous gold-silver mineralization in quartz veins that returned 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 Q4-2016, the Corporation completed a maiden drill program at Altan Arrow, consisting of a total of 590 metres in seven holes at an average spacing of 200 metres, completed to an average vertical depth of 58 metres. Drill results confirmed the presence of high-grade veins, including 23.5 g/t gold over 2 metres at 76 metres depth, and up to 171 g/t silver, at 36 metres depth, in a separate hole. Results also indicate a wide gold-silver mineralized alteration zone associated with the main northeast-trending mineralized structure. The two southwestern holes, spaced at approximately 300 metres along the main mineralized structure, returned intersections of 28 metres of 0.45 g/t gold equivalent \* ("AuEq") (0.39 g/t gold, 3.75 g/t silver) and 17 metres of 0.43 g/t gold, including values of up to 2.4 g/t gold and 171 g/t silver in AAD-02 and AAD-05, respectively.

The results confirm the presence of both high-grade gold bearing veins and broad structurally controlled lower-grade zones with similar style to the Corporation's Bayan Khundii gold project (3.5 kilometres south), albeit with higher silver values. A Q2 2017 follow-up drill program included two 200 m holes that were drilled to intersect mineralized zones encountered in the 2016 program. No significant mineralization was encountered. A 600 metre drill program is planned for the Altan Arrow area H2 2017.

*\* Gold Eq. ("gold equivalent") for Altan Arrow has been used to express the combined value of gold and silver 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 and \$18/oz silver.*

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"

### **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 early June, 2011, the Corporation released the May 2011 Zuun Mod molybdenum-copper deposit National Instrument 43-101 compliant resource estimate which has a measured and indicated resource of 218 million tonnes ("Mt") at an average grade of 0.057% molybdenum, and 0.069% copper at a cut-off grade ("cog") of 0.04% molybdenum (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.

Recent market demand for molybdenum has been depressed, with the price of molybdenum oxide at approximately US\$6.90 per pound in March 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 in regards to technology and/or additional exploration information.

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.

to the Corporation will continue to complete necessary work on the Zuun Mod molybdenum-copper deposit required to maintain the mining licenses in good standing, including annual license payments, ongoing environmental review requirements and community development work.

Data verification and exploration information for the Khuvyn Khar section can be found in the following documents 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 March 31, 2017:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than one year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
Office leases	\$ 136,361	\$ 62,936	\$73,425	\$ -	\$ -
Accounts payable and accrued liabilities	533,755	533,755	-	-	-
	<u>\$ 670,116</u>	<u>\$596,691</u>	<u>\$73,425</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 work commitments for the Zuun Mod mining license.

Sandstorm Gold Ltd. is entitled to a 2.0% net smelter return royalty on the Altan Nar and Bayan Khundii projects. 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).

## Off-Balance Sheet Arrangements

As at June 30, 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 carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the

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

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

### **Share-based payments**

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured. The Corporation recognized a total of \$1,407,437 in non-cash share-based compensation in the six months ended June 30, 2017 (2016 - \$479,600).

### **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 June 30, 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 June 30, 2017 condensed interim 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, 2017. 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.

## 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).

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:

	<b>June 30, 2017 Level 1</b>	<b>December 31, 2016 Level 1</b>
Assets measured at fair value:		
Cash	\$ 9,426,586	\$ 1,071,209

### 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:

	<b>Carrying Amount</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Cash	\$ 9,426,586	\$ 1,071,209
Receivables	110,688	36,854
	<b>\$ 9,537,274</b>	<b>\$ 1,108,063</b>

The Corporation manages credit risk by holding the majority of its cash with a Canadian Schedule I bank, where management believes the risk of loss to be low. At June 30, 2017, \$55,758 or less than 1% of the balance of cash 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 61% of receivables at June 30, 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 June 30, 2017, the Corporation had a cash balance of \$9,426,586 (December 31, 2016 - \$1,071,209) to settle current liabilities of \$533,755 (December 31, 2016 - \$182,644).

#### **Foreign currency risk:**

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

The Corporation's exposure to US dollar currency risk was \$1,037,815 as at June 30, 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 \$103,800 (December 31, 2016 - \$10,900).

The Corporation's exposure to Mongolian Tugrik currency risk was \$268,140 as at June 30, 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 \$26,800 (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**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the updated *Internal Control-Integrated Framework* (2013 Framework) in May 2013. COSO announced that the 2013 Framework will supersede the original 1992 Framework. The Corporation is working to adopt the new framework which is expected to be complete in 2017.

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at June 30, 2017 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of June 30, 2017.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## **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 Parksdale 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).