



Letter to Shareholders



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Fellow Erdene Shareholders:

First and foremost, we very much value your continuing support as a shareholder of the Company. Your trust in the Company and its management team is greatly appreciated.

During the past year we have re-focused our company on Mongolian mineral interests resulting in a simplified corporate structure. We believe the result provides investors with a clear investment proposition:

To benefit from a generational opportunity investing in a new, rapidly growing, highly prospective, mining district adjacent to the world's largest and fastest growing consumer of commodities.

Management is fully aware that the mining sector, and particularly the junior segment, is high risk and high reward in nature. Therefore, we have developed an approach which, to some extent, insulates our investors from the risk while maintaining the high reward that discovery and development of mineral deposits can bring. Our 'lower-risk' approach includes sharing of risk through joint ventures while maintaining the significant upside potential of our core projects, building an experienced management team, a long term commitment to a highly prospective region, and a full appreciation of the importance of earning our social license to operate.

With a premier gold project that continues to demonstrate the potential to become a world-class deposit, a new partnership with Teck Resources to advance our porphyry exploration projects, together with a

more favorable investment and development environment evolving in Mongolia, we believe very strongly that your investment will provide strong returns in the coming months and years ahead.

Macro Environment – Metals and Markets

As we traverse 2013, it is apparent that the economies of the Asian region will continue to be the engine of global growth. Experts are projecting continued increased growth in the region with China's growth projected to be upwards of 8 percent in the coming years. Even when you exclude China, the developing economies of the region still grew 6.2 percent in 2012, up from 4.5 percent in 2011, a trend which is projected to continue. The Asian region contributed approximately 40 percent of global growth in 2012, with investor confidence surging and financial markets remaining solid. With a strengthening US economy and a reduction in Eurozone risk, the World Bank is now projecting global growth of 2.4 percent in 2013 and a gradual rise to 3.0 percent in 2014.

As the global economy recovers, and the trend towards urbanization and modernization in the Asian region continues, we will see a strengthening in demand for raw materials. Metals, such as nickel, molybdenum and copper, which are consumed in much greater proportion for high-end products, will see improving demand and pricing. This will lead to an increase in investment by major mining companies and top consuming nations in the discovery, development and acquisition of mining projects.

Gold is currently experiencing a normal cyclical reaction in a rebound phase from a recessionary period with paper currency regaining favour. However, what is different about this cycle is the retail buying strength and the long term fundamental change in the US dollar's position in world currency markets. Gold will always react to global economic or political shocks as well as inflationary pressures; however, it is apparent that a new, stronger base of physical buying and more balanced ownership of gold by central banks are currently in place to support gold demand during periods of institutional weakness.

Based on these growth factors, the mining sector is poised for a rebound in the coming months and years ahead.

Mongolia Update

With a population of less than three million, a territory as large as Western Europe and an economy that otherwise depends on agriculture and tourism, there is a long-term necessity to develop the mining industry in Mongolia and to do so requires foreign investment. Investment in the minerals industry is largely responsible for a massive increase in GDP since the late 1990's and included large inflows of foreign capital for mining with \$6B for a single project which is poised to become one of the largest copper-gold mines in the world; infrastructure improvements to border crossings with China; and development of large scale foreign and domestic owned mines. These mines include coal mines that export approximately 20M tonnes of coal per year to China and gold mines including Centerra's Boroo

deposit where over 1.5M ounces of gold have been produced since 2004 at cash costs of approximately \$500/ounce.

Since the mining industry in Mongolia opened up to foreign investment in the late 1990's there have been several major acquisitions of both projects and Mongolia-focused publically listed companies, including Oyu Tolgoi, QGX, Hunnu Coal, East Asia Minerals and Western Prospector. These acquisitions represent a disproportionately high number given the total number of public companies involved in the mining sector of Mongolia.

Although the long term view is positive, Mongolia is currently experiencing the effects of a significant decrease in foreign investment and has watched their 2012 world-leading growth in GDP reduce by half in 2013 due to falling commodity prices and a near absence of foreign direct investment. As a result, the government is accelerating efforts to improve the investment climate for foreign investors, including a recently-passed securities law and a proposed new and improved investment law which is expected to replace the foreign investment protection law that was hastily passed last year. The country's presidential election will be held in late June and we believe the election will bring an end to much of the rhetoric surrounding mining and foreign investment. It is expected the political winds will be blowing in favor of development once Oyu Tolgoi's commercial production starts mid-year followed by commencement of the project's multi-billion dollar phase II project, with funding support from the International Finance Corporation (IFC), Export Canada and a consortium of sovereign funds and private banks. With development of this world-class project proceeding, it is anticipated a number of other copper, gold and coal projects will be advanced during the next 12 months.

Mongolia remains a poor country. In order to secure investments to foster wide spread development of the economy, the country requires a commitment to development of the mining sector and support for foreign direct investment. In order to attract that foreign investment, the government recognizes it requires clear and transparent laws that remain stable over the longer term which we believe are now being drafted and implemented, led by a new investment law.

Company Highlights – 2012

Throughout the past year, the Company has focused on advancing the Altan Nar gold project in addition to seeking, and ultimately securing, a joint venture partner for our copper porphyry-related projects in Mongolia. Restructuring efforts were also a main priority aimed at streamlining the Company to focus on the areas of highest return and to reduce expenditures during this cyclical downturn. The restructuring included the sale of our non-core industrial mineral assets generating US\$4.24 million and the establishment of a separate public company, Morien Resources Corp., to hold the North American assets, including the Donkin Coal Project. Erdene is now fully focused on advancing our key projects in Mongolia. We have repositioned our Company as a Mongolian-focused precious and base metals explorer with an exciting portfolio of projects including a very significant new gold-silver discovery at

Altan Nar, a major resource of molybdenum and copper at Zuun Mod and an early-stage copper-silver project at Khuvyn Khar. We have also entered into a strategic alliance with Teck Resources to help explore and advance a pipeline of metals and potential coal projects.

Altan Nar (“Golden Sun”) Project Highlights from 2012 [see map enclosed]

In late 2011, we announced results from our first drill holes at Altan Nar with a near surface intersection of 55 metres of 1.03 g/t gold. Since that time, our work at Altan Nar has confirmed the presence of multiple zones of significant gold and base metal mineralization over a 5 kilometre strike length.

The area of initial drilling, referred to as the Discovery Zone, was expanded and gold mineralization to date has been traced over a strike length of 400 metres, remaining open at depth and along strike to the north. High grade zones (29 metre intervals averaging 4.3 g/t gold) are present within broad zones of lower grade mineralization (55 metres of 1.03 g/t gold). Within the Discovery Zone, and elsewhere in the Altan Nar project area, we have an intensely mineralized broad envelope of base metals measuring, in many instances, greater than 100 metres in width and commonly exhibiting high grade mineralization, often exceeding 5 percent combined lead and zinc, in association with the precious metal zones.

In late 2012, reconnaissance exploration outside of the Discovery Zone identified multiple new gold zones with geophysical and geochemical signatures similar to the Discovery Zone including a hole drilled 1.3 kilometres northwest of the Discovery Zone which returned 1.3 g/t gold over a 47 metre interval, including 9 metres of 4.4 g/t gold. Many of the newly identified gold targets across the 5 kilometre by 1.5 kilometre Altan Nar prospect remain untested by drilling. As a result of our most recent drilling success confirming the widespread nature of gold-polymetallic mineralization, we are currently carrying out more detailed mapping and sampling of these new targets. We also anticipate additional geophysical surveys will be carried out to define sulfide mineralization at depth. This work will be completed during the third quarter providing the technical team with the ability to prioritize the drilling program to focus on high probability targets.

In addition to the ground exploration, work has been undertaken on conceptual mining scenarios for the Discovery Zone and evaluations of the metallurgical characteristics, with additional tests currently underway to determine the optimal processing methods to recover the gold and other metals. The near-surface nature of the mineralized zones and preliminary test results using gold cyanidation have the potential to positively impact project economics.

Canadian public companies successfully operate gold mining and processing facilities in the larger region, in similar environments, including Centerra’s Boroo deposit in Mongolia, Kinross’s Kupol Mine in Russia, and Eldorado’s Jinfeng deposit in China. These deposits have all proven successful and have relatively low operating costs. Although Altan Nar will require additional drilling and technical study to confirm grade and tonnage, early indications demonstrate that medium to high grades are present close

to surface within multiple wider zones of lower grade mineralization providing both focused high grade mining and bulk tonnage opportunities.

Khuvyn Khar/Zuun Mod Copper & Molybdenum Project

The Khuvyn Khar mining licence covers a large porphyry system that includes the Zuun Mod molybdenum-copper deposit and multiple exploration targets including the Khuvyn Khar copper targets. The Khuvyn Khar copper prospect, located northwest of the Zuun Mod molybdenum-copper deposit is defined by approximately 4 kilometres of anomalous copper identified in surface geochemical surveys and drilling. Wide spaced holes have intersected long intervals of highly anomalous copper, primarily at depths of less than 300 metres although one intersection at 334 metres depth returned 34 metres of 1.3% copper and 9.24 g/t silver. The 2012 exploration program at Khuvyn Khar included a review of technical data, an expanded mobile metal ion ("MMI") geochemical survey, reprocessing of geophysical data, as well as a review of surface and drill hole geological data. This work has identified areas and criteria for a follow-up exploration program to be carried out in 2013 designed to test the mineral potential of the Khuvyn Khar prospect.

Under our strategic alliance with Teck Resources, ownership of the Zuun Mod molybdenum-copper deposit has been retained 100% by the Company, while Teck has been provided an opportunity to earn a majority interest in the remainder of the property with a focus on porphyry copper mineralization. The Khuvyn Khar prospect will be the focus of the Company's 2013 exploration program under the Teck agreement and has been designed to further define priority drill targets through a program of drill core re-logging, detailed surface alteration mapping, geologic mapping, and geochemical and geophysical surveys to be carried out in the second and third quarters of 2013. Drilling will be considered by a joint technical committee following completion of the surface work program.

In regards to the Zuun Mod molybdenum deposit, we view the potential for additional copper discoveries as bringing shared benefits to the overall property and will assess those synergies as exploration evolves at Khuvyn Khar. Although molybdenum prices have resulted in a cautious approach to advancing this deposit, the location relative to China, large resource size, unexplored areas, the significant copper component and favourable longer term outlook for molybdenum demand and pricing, are all positive factors in evaluating the future potential of the project.

Trans-Altay Projects

Over the past several years, Erdene has carried out regional exploration in an area of southwestern Mongolia designated as the Trans Altay project area ("Project Area"). This has led to a number of prospects being generated on licenses currently held by Erdene and throughout the Project Area. Early stage surface exploration on a new prospect (Altan Arrow), located 15 kilometres south-southeast of the Company's Altan Nar gold discovery, has returned significant gold and silver mineralization associated

with epithermal quartz veins over a one-square-kilometre area. Results include an average grade from rock chip samples over a 1 kilometre strike length of 3.5 g/t gold and 60 g/t silver, including samples with up to 57 g/t gold and 416 g/t silver. The Teck-Erdene Alliance will evaluate the Project Area for further development and acquisition of exploration targets over the next two years.

Community

Of critical importance to our success in Mongolia is our ability to manage relationships with local communities and all levels of government. This success is secured when a path forward is developed that provides a shared benefit to each of the stakeholder groups based on transparent, accountable and trusting relationships. In order to achieve this goal we believe a high level of direct community interaction is required and therefore we employ a strong interactive approach to community relations. In addition we are continuously identifying and taking the necessary steps to mitigate and manage health, safety, environment and community risks and striving to adhere and surpass leading industry practices.

Financial and Share Information

From a financial perspective, the ability to raise equity and/or source other forms of investment is much more difficult than it has been at any time in our corporate history. As such, we are continuing to focus intensely on core projects and only advance programs where we feel significant value can be created. However, there is a balance in cost reductions that has to be recognized. As an internationally focussed, TSX listed exploration company, the cost of providing the necessary supporting organization is relatively high compared to those operating in North American jurisdictions. So with that balance in mind, we have made significant efforts to reduce our base costs with our administrative and overhead costs decreasing 18 percent in 2012 and projected to fall a further 43 percent in 2013. Much of this reduction has been secured through a reduction in management and executive salaries through a combination of time reduction and the use of deferred share units. Our current funding provides for expenditures to be covered through to the end of the year at which time Teck will be eligible to participate in the next private placement permitted under our agreement. Management is continuing to assess various opportunities for advancing the Altan Nar project while seeking to ensure our shareholders maintain exposure to the maximum amount of ownership possible in this very promising mineral project.

In regards to our share structure, at 58.8 million, we have a comparatively low number of shares outstanding and 5.5 million options and warrants priced at between \$0.25 and \$1.04. Control of our shares remains relatively tight with 40 percent of our shares controlled by our top 30 shareholders led by Teck at 8.5 percent.

Driving Growth

It is difficult to imagine a more favourable set of circumstances being aligned in regards to the development of a new mining industry anywhere on the globe. It is as if Mongolia was waiting offstage for the previous century while China's demands grew to that point where their appetite for raw material reached a significant tipping point. Mongolia then draws back the curtain to reveal large untapped resources of iron, copper, gold and coal. Obviously, Mongolia and China will experience growing pains as the industry and their relationship evolves; however, this is not a short term association but a very long term relationship which will grow and strengthen because they both need what the other possesses.

Your management team is focused on creating benefits and value for our shareholders in Mongolia by advancing Altan Nar while working with Teck to explore the copper potential at Khuvyn Khar. In addition, we are continuing our strategy of exploring for and eventually acquiring additional projects in Mongolia, as part of, and outside of, the Teck agreement. In 2012, we met our goals and objectives as we moved to create a Mongolia-focused company, while advancing one of the most significant new hard rock gold discoveries in Mongolia. However, we as fellow shareholders share the same disappointment and frustration in the decrease of our share price. Our job is to turn that around. We are committed to accomplishing this by fast-tracking the Altan Nar project and building on the solid foundation we have established in Mongolia with our new partner, Teck Resources.

In closing, we wish to thank you for your confidence in management and the Erdene team. Please stay in touch by calling us anytime at 1-902-423-6419 or emailing info@erdene.com.

Sincerely,



Peter C. Akerley
President and CEO



