



ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Canadian dollars)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a long, horizontal, slightly curved line.

Chartered Professional Accountants, Licensed Public Accountants
March 27, 2017
Halifax, Canada

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets:			
Cash		\$ 1,071,209	\$ 675,790
Receivables	5	36,854	55,664
Prepaid expenses		39,743	17,177
		1,147,806	748,631
Non-current assets:			
Exploration and evaluation assets	6	3,066,211	1,737,592
Property, plant and equipment	7	79,418	35,825
		3,145,629	1,773,417
TOTAL ASSETS		\$ 4,293,435	\$ 2,522,048
LIABILITIES & EQUITY			
Current liabilities:			
Trade and other payables		\$ 182,644	\$ 188,083
Convertible debenture due Tian Poh Resources	8	-	252,207
		182,644	440,290
TOTAL LIABILITIES		\$ 182,644	\$ 440,290
EQUITY			
Shareholders' equity:			
Share capital	12	\$ 86,783,669	\$ 81,967,477
Contributed surplus		11,952,465	11,945,440
Accumulated other comprehensive income (loss)		(636,283)	(341,838)
Deficit		(93,989,060)	(91,489,321)
		4,110,791	2,081,758
TOTAL LIABILITIES AND EQUITY		\$ 4,293,435	\$ 2,522,048

Commitments (Note 9)

Subsequent events (Note 19)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"

Director

Signed "John P. Byrne"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

		For the year ended December 31,	
	Notes	2016	2015
Exploration expenses	14	\$ 2,171,792	\$ 1,502,565
Corporate and administration	15	1,446,888	745,448
Other income		-	(1,443)
Foreign exchange gain		(2,894)	(5,376)
Loss from operating activities		3,615,786	2,241,194
Finance income	16	11,955	4,926
Finance expense	16	-	(74)
Net finance income		11,955	4,852
Loss before the undernoted		3,603,831	2,236,342
Gain on the sale of net smelter royalty interest	6	623,028	-
Gain on the sale of marketable securities	6	481,064	-
Impairment on exploration and evaluation assets	6	-	(10,371,283)
Net loss		\$ 2,499,739	\$ 12,607,625
Other comprehensive income (loss):			
Foreign currency translation difference arising on translation of foreign subsidiaries		(294,445)	953,904
Other comprehensive income (loss)		(294,445)	953,904
Total comprehensive loss		\$ 2,794,184	\$ 11,653,721
Basic and diluted loss per share		\$ 0.02	\$ 0.14
Basic and diluted weighted average number of shares outstanding		117,127,676	92,590,453

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at January 1, 2015		82,636,233	\$ 79,290,034	\$ 11,487,249	\$ (1,295,742)	\$ (78,881,696)	\$ 10,599,845
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(12,607,625)	(12,607,625)
Other comprehensive income		-	-	-	953,904	-	953,904
Private placements, net of share issue costs	12	20,434,042	2,398,881	-	-	-	2,398,881
Warrants issued under private placement	12 & 13	-	-	265,395	-	-	265,395
Warrants exercised	12 & 13	1,989,730	278,562	(79,589)	-	-	198,973
Share-based compensation		-	-	272,385	-	-	272,385
Total transactions with owners		22,423,772	2,677,443	458,191	-	-	3,135,634
Balance at December 31, 2015		105,060,005	\$ 81,967,477	\$ 11,945,440	\$ (341,838)	\$ (91,489,321)	\$ 2,081,758
Balance at January 1, 2016		105,060,005	\$ 81,967,477	\$ 11,945,440	\$ (341,838)	\$ (91,489,321)	\$ 2,081,758
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(2,499,739)	(2,499,739)
Other comprehensive loss		-	-	-	(294,445)	-	(294,445)
Private placements, net of share issue costs	12	6,063,830	1,478,858	-	-	-	1,478,858
Shares issued on conversion of debenture	12	1,801,475	252,207	-	-	-	252,207
Warrants exercised	12 & 13	13,564,721	3,016,502	(507,664)	-	-	2,508,838
Options exercised	12 & 13	320,000	68,625	(20,475)	-	-	48,150
Share-based compensation		-	-	535,164	-	-	535,164
Total transactions with owners		21,750,026	4,816,192	7,025	-	-	4,823,217
Balance at December 31, 2016		126,810,031	\$ 86,783,669	\$ 11,952,465	\$ (636,283)	\$ (93,989,060)	\$ 4,110,791

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

		For the year ended December 31,	
	Notes	2016	2015
Cash flows from operating activities:			
Net loss		\$ (2,499,739)	\$ (12,607,625)
Items not involving cash:			
Depreciation and amortization		14,909	16,647
Share-based compensation		535,164	272,385
Writeoff of exploration and evaluation assets		-	420,478
Impairment of exploration and evaluation assets	6	-	10,371,283
Net finance income		(11,955)	(4,852)
Foreign exchange gain		3,341	5,376
Gain on sale of net smelter royalty interest	6	(623,028)	-
Gain on sale of marketable securities	6	(481,064)	-
Loss on disposal of property, plant & equipment		-	4,626
Change in non-cash working capital		9,641	(54,743)
Cash flows from operating activities		(3,052,731)	(1,576,425)
Cash flows from financing activities:			
Issue of common shares and warrants for cash, net of issue costs	12	1,478,858	2,664,276
Proceeds from convertible debenture	8	-	252,207
Repayment of convertible loan		-	(107,142)
Proceeds on exercise of warrants	13	2,508,838	198,973
Proceeds on exercise of stock options	13	48,150	-
Repayment of obligations under capital lease		-	(2,657)
Interest paid		-	(74)
Cash flows from financing activities		4,035,846	3,005,583
Cash flows from investing activities:			
Expenditures on exploration and evaluation assets		(2,492,698)	(901,648)
Proceeds from sale of marketable securities received as proceeds of sale of net smelter royalty interest		1,981,064	-
Proceeds from sale of property, plant and equipment		-	9,654
Expenditures on property, plant and equipment		(71,495)	(1,779)
Interest received		11,955	4,926
Cash flows from investing activities		(571,174)	(888,847)
Effect of exchange rate changes on cash and cash equivalents		(16,522)	(1,345)
Increase in cash and cash equivalents		395,419	538,966
Cash and cash equivalents, beginning of period		675,790	136,824
Cash and cash equivalents, end of period		\$ 1,071,209	\$ 675,790

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2016 and 2015

1. Nature of operations:

Erdene Resource Development Corporation (the "Corporation") is a corporation domiciled in Canada. The address of the Corporation's registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1. The consolidated financial statements of the Corporation as at and for the years ended December 31, 2016 and 2015 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 resources 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

a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2017.

b) Basis of measurement

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

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

c) Use of estimates and judgments

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

Critical accounting estimates:

Estimate of recoverability for non-financial assets

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

2. Basis of presentation (continued)

Critical accounting estimates (continued):

Estimate of recoverability for non-financial assets (continued)

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

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

Share-based payments

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

Provisions for site restoration

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

Exploration and evaluation assets

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

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for resource properties. Once technical feasibility and commercial viability of a resource property can be demonstrated, exploration costs will be reclassified to property, plant and equipment and subject to different accounting treatment. As at December 31, 2016, management determined that no such reclassification was required.

Taxation

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

2. Basis of presentation (continued)

Critical accounting estimates (continued):

Taxation (continued)

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.

3. Summary of significant accounting policies

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

a) Basis of consolidation

For the years ended December 31, 2016 and 2015, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados holding companies); and Erdene Mongol LLC and Anian Resources LLC (Mongolia exploration companies). Erdene Gold International Inc. and Erdene Gold International Exploration Inc. have a Canadian dollar functional currency. Erdene Mongol LLC and Anian Resources LLC have a Mongolian Tugrik functional currency. All subsidiaries are wholly owned.

i) Subsidiaries

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

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

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

ii) Transactions eliminated on consolidation

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

3. Summary of significant accounting policies (continued)

b) Foreign currency

i) Foreign currency transactions

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

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

ii) Foreign operations

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

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

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

c) Financial instruments

i) Financial assets

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

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

Loans and receivables

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

3. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

i) Financial assets (continued)

Loans and receivables (continued)

Loans and receivables comprise receivables and cash.

Cash comprises cash on hand and demand deposits.

Fair value

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

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

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

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

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

ii) Financial liabilities

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

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

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

iii) Share capital

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

d) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

3. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

period incurred until such time a property, or an area's potential has been determined, as approved by the board, in which case subsequent exploration and evaluation costs are capitalized.

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

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

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

e) Property, plant and equipment

Recognition and measurement

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

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

Subsequent costs

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

3. Summary of significant accounting policies (continued)

e) Property, plant and equipment (continued)

Depreciation

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

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

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

f) Impairment

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating-unit" or "CGU").

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

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

g) Income taxes

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

3. Summary of significant accounting policies (continued)

g) Income taxes

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

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

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

h) Share-based compensation

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

3. Summary of significant accounting policies (continued)

i) Loss per share

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

4. Future changes in accounting policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these consolidated statements:

Amendments to IFRS 9 - Financial Instruments

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

The Corporation 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.

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Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2016 and 2015

4. Future changes in accounting policies (continued)

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.

5. Receivables

	December 31,	
	2016	2015
Management fee receivable	\$ 20,596	\$ 47,999
Employee advances and receivables	8,211	4,905
Other	8,047	2,760
	\$ 36,854	\$ 55,664

The Corporation has an agreement with Morien Resources Corp. ("Morien") for the provision of management services, office space and the recovery of overhead costs. For the twelve months ended December 31, 2016, the amounts charged to Morien totaled \$277,814 (2015 - \$466,213). The costs incurred by the Corporation net of recoveries earned from Morien are recorded as corporate and administrative expenses on the statement of comprehensive loss.

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6. Exploration and evaluation assets

	Zuun Mod Moly/Copper	Tsenkher Nomin Gold	Khundii Gold	Other	Total
Balance, January 1, 2015	\$ 10,614,014	\$ 16,387	\$ 45,609	\$ -	\$ 10,676,010
Additions	132,699	764,770	3,889	290	901,648
Writeoffs	(420,478)	-	-	-	(420,478)
Impairments	(10,371,283)	-	-	-	(10,371,283)
Effect of movements in exchange rates	926,869	23,338	1,479	9	951,695
Balance, December 31, 2015	\$ 881,821	\$ 804,495	\$ 50,977	\$ 299	\$ 1,737,592
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

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 twelve years, subject to minimum work requirements. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. These rights are held in good standing through the payment of an annual license fee.

Zuun Mod/Khuvyn Khar

The Zuun Mod property contains a molybdenum-copper resource. The property is located in Bayankhongor Province southwest of Ulaanbaatar. The mining license was issued in 2011 (consisting of 6,041 hectares) and the second contiguous mining license was issued in the third quarter 2012 (consisting of 358 hectares). This second license was dropped in 2015 and accounts for the write-off of \$420,478 in 2015.

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

In 2015 the Corporation recorded an impairment charge of \$10,371,283 upon completion of an assessment of the carrying value of its Zuun Mod property. The impairment charge reflects the decline in metal prices and the December 2015 decision of Tian Poh Resources Ltd. ("Tian Poh") to not exercise its option to acquire an interest in the property, indicating a reduction in exploration potential at current metal prices.

In determining the estimated recoverable amount (fair value less costs to sell) of the Zuun Mod property, management considered a market comparable transaction and an analysis of the enhanced value of the Zuun Mod mining license versus an exploration license. The market comparable was discounted by 52.1%, the decline in the underlying commodity prices since the comparable transaction took place. The added value of the mining license was discounted by 50% on the assumption a full recovery of the costs to advance the property to a mining license could not be realized in a sales transaction.

Tsenkher Nomin

The license is located in Bayankhongor province in Mongolia. The 4,669 hectare Tsenkher Nomin license includes the Altan Nar gold, silver, lead, zinc prospect and has an annual renewal in December. At the

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For the years ended December 31, 2016 and 2015

6. Exploration and evaluation assets (continued)

Tsenkher Nomin (continued)

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 license has an annual renewal in April. At the beginning of the third quarter of 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to this, the Corporation only capitalized the license costs associated with Khundii.

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 \$2.5 million to December 31, 2016 and owned 10.0% of the outstanding shares of the Corporation at December 31, 2016 (2015 – 12.4%). Teck must subscribe to a minimum \$500,000 on each anniversary of signing during the term of the agreement to maintain its option (see Note 19 - Subsequent events). Under the Teck Alliance, two licenses were staked in early 2015. Both are located in Govi-Altai province and total 1,552 hectares and both have June annual renewal dates. No major exploration work has been completed on these licenses to date.

Sandstorm Gold Ltd. Royalty Agreement

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

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

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Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

7. Property, plant and equipment

	Field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2015	\$ 25,180	\$ 86,384	\$ 193,633	\$ 305,197
Additions	-	-	1,779	1,779
Disposals	(28,560)	-	-	(28,560)
Effect of movements in exchange rates	3,380	3,281	2,991	9,652
Balance, December 31, 2015	\$ -	\$ 89,665	\$ 198,403	\$ 288,068
Depreciation & depletion				
Balance, January 1, 2015	\$ (10,073)	\$ (69,132)	\$ (163,832)	\$ (243,037)
Depreciation	(2,685)	(4,653)	(9,309)	(16,647)
Disposals	14,280	-	-	14,280
Effect of movements in exchange rates	(1,522)	(2,717)	(2,600)	(6,839)
Balance, December 31, 2015	\$ -	\$ (76,502)	\$ (175,741)	\$ (252,243)
Carrying amounts				
At January 1, 2015	\$ 15,107	\$ 17,252	\$ 29,801	\$ 62,160
At December 31, 2015	\$ -	\$ 13,163	\$ 22,662	\$ 35,825

	Field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2016	\$ -	\$ 89,665	\$ 198,403	\$ 288,068
Additions	48,660	21,033	1,801	71,494
Effect of movements in exchange rates	(10,908)	(7,722)	(6,164)	(24,794)
Balance, December 31, 2016	\$ 37,752	\$ 102,976	\$ 194,040	\$ 334,768
Depreciation & depletion				
Balance, January 1, 2016	\$ -	\$ (76,502)	\$ (175,741)	\$ (252,243)
Depreciation	(4,319)	(3,845)	(6,745)	(14,909)
Effect of movements in exchange rates	544	5,751	5,507	11,802
Balance, December 31, 2016	\$ (3,775)	\$ (74,596)	\$ (176,979)	\$ (255,350)
Carrying amounts				
At January 1, 2016	\$ -	\$ 13,163	\$ 22,662	\$ 35,825
At December 31, 2016	\$ 33,977	\$ 28,380	\$ 17,061	\$ 79,418

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

8. Convertible debenture due Tian Poh Resources

On February 12, 2015, the Corporation granted Tian Poh Resources Ltd. ("Tian Poh") a period of exclusivity to exercise an option to acquire an interest in the Zuun Mod mining license. As consideration for the exclusivity period, the Corporation received a non-refundable payment of USD\$50,000 and USD\$200,000 cash pursuant to a non-interest bearing debenture issued by Erdene. Subject to the terms of the agreement, and whereas Tian Poh elected not to exercise their option on the Zuun Mod /Khuvyn Khar mining license before the December 2015 expiry of the option period, the debenture was converted to 1,801,475 common shares of the Corporation at \$0.14 per share in May 2016.

9. Commitments

Operating lease rentals are payable as follows:

	December 31,	
	2016	2015
Less than 1 year	62,936	44,332
Between 1 and 5 years	104,893	-
Total	\$ 167,829	\$ 44,332

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).

10. Income taxes and deferred tax liability

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

	December 31, 2016	December 31, 2015
Statutory tax rates	31%	31%
Income taxes (recovery) computed at the statutory rates	\$ (775,000)	\$ (3,908,000)
Benefit of temporary differences not recognized	499,000	2,965,000
Expenses not deductible for tax purposes	101,000	88,000
Effect of foreign tax rates	187,000	993,000
Tax deductible expenses charged to retained earnings	(12,000)	(142,000)
Other	0	4,000
Provision for income taxes	\$ -	\$ -

The enacted tax rates in Canada 31% (31% in 2015) and Mongolia 25% (25% in 2015) where the Corporation operates are applied in the tax provision calculation.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

10. Income taxes and deferred tax liability (continued)

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

	2016		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 13,033,000	\$ 1,818,000	\$ 14,851,000
Property, plant and equipment	216,000	-	216,000
Share issuance costs	182,000	-	182,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,721,000	14,458,000
	\$ 19,546,000	\$ 10,539,000	\$ 30,085,000
	2015		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 11,835,000	\$ 2,908,000	\$ 14,743,000
Property, plant and equipment	208,000	-	208,000
Share issuance costs	433,000	-	433,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	10,768,000	16,505,000
	\$ 18,591,000	\$ 13,676,000	\$ 32,267,000

As at December 31 2016, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	For the year ended December 31,	
	2016	2015
2016	\$ -	\$ 1,071,000
2017	637,000	821,000
2018	439,000	567,000
2019	348,000	449,000
2020	394,000	-
Thereafter	13,033,000	11,835,000
	\$ 14,851,000	\$ 14,743,000

11. Capital management

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

11. Capital management (continued)

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

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

Capital Structure	Interest rate	Maturity	December 31,	
			2016	2015
Shareholders' Equity			\$ 4,110,791	\$ 2,081,758
Tian Poh convertible debenture	0.00%	December 2015	-	252,207
Net capital			\$ 4,110,791	\$ 2,333,965

12. Share Capital

Share capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The changes in share capital during the years ended December 31, 2016 and 2015 were as follows:

	2016		2015	
	Shares	\$	Shares	\$
Issued and outstanding at January 1	105,060,005	81,967,477	82,636,233	79,290,034
Issued for cash	6,063,830	1,478,858	20,434,042	2,398,881
Exercise of warrants (note 13)	13,564,721	3,016,502	1,989,730	278,562
Exercise of stock options (note 13)	320,000	68,625	-	-
Issued on conversion of debenture (note 8)	1,801,475	252,207	-	-
Issued and outstanding at December 31	126,810,031	86,783,669	105,060,005	81,967,477

Issuance of common shares

For the year ended 2016

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

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

12. Share Capital (continued)

Issuance of common shares (continued)

For the year ended 2015

In April 2015, the Corporation closed a private placement financing with Teck Resources Limited which resulted in the issuance of 2,826,310 common shares at a price of \$0.14 per share generating gross proceeds of \$392,857. Share issue costs of \$664 were paid in conjunction with the private placement resulting in net proceeds of \$392,193.

In June 2015, the Corporation closed a private placement financing which resulted in the issuance of 10,743,405 Units at \$0.14 per Unit generating gross proceeds of \$1,504,077. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of \$0.16 for a 6-month period. Effective November 19, 2015, 4,845,311 of the warrants issued in June 2015, being all warrants other than those issued to insiders, were extended to March 15, 2016. The Corporation's advisor, Altus Securities Inc., received a finder's fee of \$65,000 and 464,286 finder's fee warrants in connection with the private placement. Each finder's fee warrant is exercisable for one common share of the Corporation at \$0.16 per share, for a period of 12 months from the closing date. Cash share issue costs of \$106,421 were paid in conjunction with the private placement resulting in net proceeds of \$1,397,656. The Black-Scholes fair value of the warrants was \$150,078 and recorded in contributed surplus.

In November 2015, the Corporation closed a private placement financing which resulted in the issuance of 6,864,327 Units at \$0.14 per Unit generating gross proceeds of \$961,006. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of \$0.18 for a 12-month period. The Corporation's advisor, Altus Securities Inc., received a finder's fee of \$45,502 and 325,014 finder's fee warrants in connection with the private placement. Each finder's fee warrant is exercisable for one common share of the Corporation at \$0.15 per share for a period of 12 months from the closing date. Share issue costs of \$71,751 were paid in conjunction with the private placement resulting in net proceeds of \$889,255. The Black-Scholes fair value of the warrants was \$115,317 and recorded in contributed surplus.

13. Stock options, warrants and deferred share units

(a) Stock Options

The Corporation has a rolling 10% incentive stock option plan (the "Plan") under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. Under the Plan, the terms and conditions of each grant of options are determined by the board of directors. If there are no terms specified upon grant, options vest immediately on the grant date. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

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

(a) Stock Options (continued)

The changes in stock options during the years ended December 31, 2016 and 2015 were as follows:

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	6,048,750	\$ 0.17	4,146,750	\$ 0.23
Granted	2,000,000	0.36	2,525,000	0.15
Expired	(107,500)	1.04	(623,000)	0.45
Exercised	(320,000)	0.15	-	-
Outstanding at December 31	7,621,250	\$ 0.21	6,048,750	\$ 0.17
Exercisable at December 31	7,621,250	\$ 0.21	6,048,750	\$ 0.17

All stock options granted in 2016 and 2015 vested immediately and have a five year term.

The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2016:

	Outstanding	
Expiry date	Number of Options	Exercise price
August 27, 2017	585,000	0.25
June 28, 2018	1,216,250	0.12
November 26, 2018	445,000	0.14
June 18, 2019	1,075,000	0.16
June 5, 2020	1,250,000	0.15
July 2, 2020	100,000	0.15
December 22, 2020	950,000	0.16
June 15, 2021	2,000,000	0.36
	7,621,250	\$ 0.21

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Share price at grant date	\$ 0.35	\$ 0.14
Exercise price	\$ 0.36	\$ 0.15
Risk-free interest rate	0.5%	0.8%
Expected life	3.8 years	4.0 years
Expected volatility	88%	84%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.21	\$ 0.08

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

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

(b) Warrants

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

The following table summarizes the continuity of the warrants for the years ended December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	13,611,347	\$ 0.19	6,534,300	\$ 0.19
Issued	-	-	9,593,170	0.17
Exercised	(13,564,721)	0.19	(1,989,730)	0.10
Expired	(46,626)	0.16	(526,393)	0.16
Outstanding at December 31	-	\$ -	13,611,347	\$ 0.19

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

	Year Ended December 31, 2015	
Share price at grant date	\$	0.14
Exercise price	\$	0.17
Risk-free interest rate		0.7%
Expected life		0.72 years
Expected volatility		83%
Expected dividends		0.0%
Weighted average grant date fair value	\$	0.03

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

(c) Deferred Share Units

In 2013, the Corporation adopted a deferred share unit ("DSU") plan to align the long-term incentive compensation of certain officers, directors and senior management with the drivers of long-term shareholder value. Under the Erdene DSU plan, the Corporation may grant DSUs to eligible plan members in such number and at such times as is determined by the Board of Directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, DSUs vest immediately and plan members are credited with the DSUs granted to them. Upon termination or death of the plan member, the Corporation pays the then market value of the plan member's shares either in cash or in shares, at the sole discretion of the Corporation. Since the type of payout is at the discretion of the Corporation, and the Corporation does not intend to cash settle awards under the plan, the plan is accounted for as an equity settled plan.

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Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

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

(c) Deferred Share Units (continued)

The following table summarizes information concerning DSUs at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
	Number of DSUs	Number of DSUs
Outstanding at January 1	2,905,190	2,384,752
Granted	331,269	520,438
Outstanding at December 31	3,236,459	2,905,190

The fair value of the DSUs granted in the year ended December 31, 2016 was \$112,165 (2015 – \$71,085) and was charged to share based compensation.

	Year Ended December 31, 2016	Year Ended December 31, 2015
5 day volume weighted average price at grant date	\$ 0.34	\$ 0.14

14. Exploration expenses

	For the year ended December 31 2016	2015
Depreciation & amortization	\$ 7,201	\$ 5,526
Direct costs	1,403,190	602,700
Employee compensation costs	572,266	443,207
Share-based compensation	189,135	89,999
Writeoff of E&E assets	-	420,478
Tian Poh exclusivity fee	-	(59,345)
	\$ 2,171,792	\$ 1,502,565

15. Corporate and administration

	For the year ended December 31 2016	2015
Administrative services	\$ 369,095	\$ 128,496
Depreciation and amortization	7,748	11,076
Directors fees and expenses	161,333	24,270
Investor relations and marketing	175,583	53,678
Office and sundry	114,120	110,320
Professional fees	126,747	135,030
Regulatory compliance	68,183	77,361
Share-based compensation	346,029	182,386
Travel and accommodations	78,050	22,831
	\$ 1,446,888	\$ 745,448

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

16. Finance income and expense

	For the year ended December 31	
	2016	2015
Interest income	\$ 11,955	\$ 4,926
Interest expense - finance leases	-	(74)
	\$ 11,955	\$ 4,852

17. Related Parties

Compensation of key management personnel:

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

	Year ended December 31,	
	2016	2015
Directors' fees	\$ 138,000	\$ 17,000
Share-based compensation to directors	240,054	113,996
Key management short-term benefits	372,939	198,462
Share-based compensation to key management	97,665	78,148
	\$ 848,658	\$ 407,606

18. Financial instruments

Credit Risk:

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

	Carrying Amount December 31,	
	2016	2015
Cash	\$ 1,071,209	\$ 675,790
Receivables	36,854	55,664
	\$ 1,108,063	\$ 731,454

The Corporation manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2016, \$90,637 or 8% of the balance of cash was held in banks outside Canada (2015 - \$115,290 or 17%).

Receivables include an amount from Morien. The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 56% of receivables at December 31, 2016 (2015 – 86%). Management believes the credit risk on amounts receivable is low.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

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18. Financial instruments (continued)

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. Subsequent to year end, the Corporation closed a bought deal common share financing for gross proceeds of \$13.8 million (see Note 19). As a result, the Corporation expects to have the necessary working capital to carry out all budgeted programs into 2018.

Market Risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

As of December 31, 2016, 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.

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

	December 31,	
	2016	2015
Cash	\$ 112,269	\$ 152,668
Trade and other payables	(3,463)	(20,515)
	\$ 108,806	\$ 132,153

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 \$10,900 (2015 - \$13,000).

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

	December 31,	
	2016	2015
Cash	\$ 21,275	\$ 31,187
Trade and other receivables	7,319	3,081
Trade and other payables	(67,575)	(39,695)
	\$ (38,981)	\$ (5,427)

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$3,900 (2015 - \$500).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2016 and 2015

18. Financial instruments (continued)

Market Risk (continued):

c) Price risk

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

Fair Value:

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

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash	\$ 1,071,209	\$ -	\$ -	\$ 675,790	\$ -	\$ -
Liabilities measured at fair value:						
Convertible debenture due Tian Poh	-	-	-	-	252,207	-

19. Subsequent events

- 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.

- Effective February 6, 2017, the Corporation wound-up its two Barbados subsidiaries which held the shares of Erdene Mongol and Anian Resources. As a result, the shares of both Mongolian subsidiaries are now held directly by the Corporation.
- 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 6.



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Year ended December 31, 2016

This Management Discussion and Analysis ("MD&A"), dated March 27, 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 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.

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.

Highlights

Summary

- During 2016, the Corporation completed technical programs focused on advancing its portfolio of gold projects within a 20 km long district and exploring for new precious and base metal opportunities in southwestern Mongolia.
- The most significant programs were those related to the 100%-owned Bayan Khundii gold discovery. The very high grades, wide zones coming to surface, encouraging initial metallurgical testing and size potential made it the Corporation's highest priority project in 2016. The Corporation also completed programs on its Altan Nar gold-polymetallic and Altan Arrow gold-

silver projects, 16 km northwest and 3.5 km north of Bayan Khundii, respectively, where drilling returned significant results.

- The Corporation continued to be active through its Alliance with Teck Resources Limited in assessing regional base and precious metal opportunities throughout southwest Mongolia's prolific Tian Shan copper-gold belt.
- Subsequent to year-end, the Corporation closed private placement financings for total gross proceeds of \$14.3 million (see Outstanding Share Data for more details).

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

- Bayan Khundii is a low-sulphidation epithermal gold system characterized by structurally controlled, high-grade veins or shoots hosted within pervasively altered volcanics that contain low to moderate gold grades, locally over very wide intervals.
- Extensive geologic mapping and geophysical and geochemical surveys have outlined a minimum target area of 1.7 km by 0.7 km defined by a sequence of altered and mineralized Devonian volcanic units overlain in part by younger Cretaceous and Quaternary units.
- The Devonian hosts 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 m apart.
- Between Q4 2015 (initial discovery drill hole) and Q4 2016, Erdene completed 96 diamond drill holes totaling 11,340 m, of which 95 have intersected anomalous gold mineralization. The 2016 program included 81 holes, totaling 10,644 m.
- The average vertical drill depth is 91 m and the deepest hole was drilled to a vertical depth of 250 m.
- The majority of drilling has been concentrated within and around the periphery of the exposed area that includes the Striker and Gold Hill zones where holes have been spaced at approximately 20 to 40 m, on the assumption that this will result in a relatively high confidence in future resource estimates.
- The majority of 2016 drilling was completed within the Striker Zone, which continues to demonstrate good continuity of high-grade gold mineralization. Highlights of 2016 drilling include⁽¹⁾,
 - 63 m of 5.3 g/t gold starting at 50 m; BKD-17; May 9, 2016
 - 24 m of 7.5 g/t gold starting at 74 m BKD-49; October 4, 2016
 - 31 m of 6.8 g/t gold starting at 62 m; BKD-57; October 18, 2016
 - 65 m of 6.3 g/t gold starting at 71 m; BKD-77; November 28, 2016
- Striker Zone drilling has also returned broad zones of lower-grade mineralization surrounding the high-grade gold mineralization, including⁽¹⁾,
 - 70 m of 1.1 g/t gold starting at 50 m; BKD-28; May 24, 2016
 - 66 m of 1.0 g/t gold starting at 76 m; BKD-34; June 14, 2016
 - 112 m of 1.2 g/t gold starting at surface; BKD-51; October 4, 2016
 - 76 m of 1.3 g/t gold starting at 24 m; BKD-83; November 28, 2016
- Initial drilling in Q4 2016, through the overlying cover, was successful in confirming continuity of the gold mineralization west and north of the Striker and Gold Hill Zones.

- The discovery of the Midfield Zone under younger, post-mineralization cover, 200 m northeast of Striker Zone returned some of the highest grades and the longest mineralized intervals intersected to date at Bayan Khundii, including ⁽¹⁾:
 - 149 m of 2.1 g/t gold starting at 23 m, including 41 m of 5.2 g/t gold and 15 m of 6.5 g/t gold (BKD-90)
 - 72 m of 4.0 g/t gold starting at 108 m (BKD-92)
 - 16 m of 3.9 g/t gold and 40 m of 1.0 g/t gold starting at 19 m (BKD-95)
- Although visible gold is commonly observed in high-grade zones, the majority of the gold is considered to be fine grained; 81% passing -75 µm.
- Sulfide minerals are largely absent within the widespread alteration zone, thus benefitting gold recovery.
- The Corporation concluded preliminary metallurgical test work at Bayan Khundii in Q1 2016 on representative composites from initial drilling which only included approximately the top 50 m of the Striker and Gold Hill zones. These results 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.
- 2017 exploration will begin in the second quarter with a dual objective of increasing confidence in areas with established resource potential (Striker, Gold Hill, and Midfield Zones) and simultaneously expanding the perimeter and testing new areas within the larger 1.7 km trend in order to establish potential extensions and boundaries to the gold system in advance of a resource drilling program. The Corporation plans to carry out additional metallurgical testing, hydrogeological, environmental, geotechnical and preliminary economic studies related to the Bayan Khundii discovery.
- 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 in the Q4 2017 to Q2 2018 period.

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

- Altan Nar is a large intermediate-sulphidation epithermal gold system characterized by structurally controlled, high-grade gold mineralized breccias and veins with locally intense sulfide mineralization and carbonate gangue over zones that can range from several metres up to 100 m wide.
- Extensive geologic mapping and geophysical and geochemical surveys have outlined a minimum target area of 5.6 km by 1 km defined by a sequence of altered and mineralized Carboniferous volcanic units. The mineralized structures are typically recessed due to their less resistant nature and covered by thin unconsolidated recent cover.
- A total of 18 distinct targets have been defined within the 5.6 km trend, each ranging from 200 m to in excess of 500 m as defined by drilling, mapping, geochemical and geophysical surveys.
- Exploration of these 18 targets has mainly concentrated on the Discovery Zone and Union North Zone with others receiving some trenching and limited drilling.
- 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”) ⁽²⁾ 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.

- Subsequent to the initial resource the Corporation identified two significant discoveries at Altan Nar including a previously unrecognized very high-grade central core at the Discovery Zone and a new mineralized zone east of Union North.
- The zone discovered in the central part of Discovery Zone was reported on December 19, 2016. Drill hole TND-101, designed to test a structural intersection, included 110 m of 9.3 g/t gold, 32 g/t silver, and 1.4% combined lead-zinc, including 14 m of 55.6 g/t gold, 131 g/t silver and 5.6% combined lead-zinc.
- TND-101 was consistently mineralized from surface to 170 m 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 Discovery Zone trend. True width of the zone reported is assumed to be in the range of 25 to 35 m.
- In addition to the high base metal and gold zones, there is also a distinct copper event that may reflect a new fluid phase at the Discovery Zone. Copper levels reached as high as 2.43%.
- At Union North, trenching and drilling 155 m east of the Corporation's Q1 2015 mineral resource boundary, returned 22 m of 1.57 g/t AuEq (1.08 g/t Au, 5 g/t Ag and 0.81% combined lead-zinc) starting at 34 m depth (TND-97), under a trench that had previously returned 28 m of 2.5 g/t AuEq (1.88 g/t Au, 4.3 g/t Ag and 1.13% combined lead-zinc).
- 2017 exploration will commence in the second quarter. The objectives at Altan Nar include defining the new zone at Discovery Zone, completing a high definition magnetic survey, drill testing new targets, and in-fill drilling to add resources to a future independent resource estimate.
- 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 in the Q4 2017 to Q2 2018 period.

Altan Arrow Gold-Silver Project – 100% Erdene (located on the Khundii license)

- The Corporation's Altan Arrow gold-silver project, 3.5 km north of Bayan Khundii, and 13 km southeast of Altan Nar is an epithermal-style gold-silver discovery at an early exploration stage.
- A maiden drilling program, totalling 590 m in seven widely spaced, shallow holes (1 square km area), was completed in Q4 2016.
- Drill results confirmed the presence of high-grade veins, including 23.5 g/t gold over 2 m at 76 m depth, and up to 171 g/t silver in separate holes. Results also indicate a wide gold-silver mineralized alteration zone associated with the main northeast-trending mineralized structure.
- Drilling is expected to be undertaken in Q3 2017 to follow up on these initial encouraging results.

⁽¹⁾ *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.*

⁽²⁾ *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 continued 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.
- The program has provided the Alliance with a significant amount of technical information that continues to be evaluated. The 2016 exploration program consisted of surface geochemical sampling, geological mapping and prospecting, and analysis of newly acquired satellite data.
- The Alliance excludes the Corporation’s Bayan Khundii, Altan Nar, Altan Arrow and Zuun Mod projects.
- Additional exploration will be completed in Q3 2017.

Financing

- Subsequent to year-end, 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).
- Subsequent to year-end, on March 20, 2017, the Corporation closed a non-brokered private placement with Teck for gross proceeds to the Corporation of \$500,000.
- On June 6, 2016, the Corporation closed a non-brokered private placement with Teck for gross proceeds to the Corporation of \$500,000.
- On April 21, 2016, the Corporation closed transactions with Sandstorm Gold Ltd. (“Sandstorm”) and received total consideration of \$2.5 million (see Outstanding Share Data for more details).

Corporate

- On June 16, 2016, the Corporation appointed Dr. Anna Biolik and David Mosher to the Corporation’s board of directors:
 - Dr. Anna Biolik has over thirty years of public and private sector experience and is one of the foremost Canadian experts on Central Asian business and diplomacy, having acted as Canada’s first resident Ambassador in Mongolia.
 - David Mosher is a gold mining executive with over thirty-five years of experience in mine and company building in foreign jurisdictions, including Russia and Burkina Faso.

Company Overview and Strategy

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.

Discovered by the Corporation in Q2 2015, with initial drill results reported in Q4 2015, the Corporation’s 100% owned Bayan Khundii (‘Rich Valley’) gold project has become the highest priority project for the Corporation based on its high grades, proximity to surface, favorable metallurgy, and size potential. The

Corporation has completed 11,340 m of diamond drilling at Bayan Khundii as of the end of Q4 2016, comprised of 96 holes (average true vertical depth of 91 m). Drilling to date has confirmed continuity of the high-grade Striker Zone, where mineralization starts from surface. The high-grade gold zones within the Striker Zone can be very wide, grading in excess of 5 g/t gold (up to 187 g/t) and greater than 50 m in width. Step-out drilling in 2016 has indicated that mineralization extends under younger, post-mineralization cover to the northeast along a 1.7 km trend. The new discovery, named the Midfield Zone, is located approximately 200 m northeast of Striker Zone and returned some of the highest grades and the longest mineralized intervals intersected to date at Bayan Khundii, suggesting that mineralization strengthens to the northeast under cover.

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 km by 1.5 km 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 m depth, with high gold grades not previously observed at Altan Nar. Results included 110 m 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 m. 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 Na, 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 is a summary of 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.
- March 2017: Subsequent to year end, 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

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 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 potential 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 20,000 m 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 have been very encouraging and support an extensive exploration program to determine the continuity and limits of the reported high-grade gold mineralization at depth and on surface. The Corporation plans 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 km 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 budget for the recommended 2017 exploration program for the Bayan Khundii project.

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 completed by the Corporation has increased its confidence in the potential to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar, outside of the current DZ-UN resource boundaries. Additionally, the new discovery at the intersection of major structures provides strong support for additional drilling at Altan Nar. Future exploration will focus on establishing continuity of this new high-grade zone and exploring areas where zones of structural dilation, or offset, may have provided a favorable setting for the concentration of these metal-rich solutions over wider intervals. Upcoming work at Altan Nar will include additional drilling, 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 budget for the recommended 2017 exploration program for the Altan Nar project.

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. A 2017 follow-up program is expected to include additional drilling as well as follow-up of the large gold-in-soil anomaly.

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

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 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. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

Teck Alliance

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 working capital which is expected 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.

Fiscal Year Ended December 31	2016	2015	2014
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

Years ended December 31, 2016 and 2015

The tables below show exploration and evaluation costs for the years ended December 31, 2016 and 2015, 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 in 2016.

Year ended December 31, 2016	Zuun Mod	Tsenkher Nomin	Khundii	Other	Total
E&E assets, January 1, 2016	\$ 881,821	\$ 804,495	\$ 50,977	\$ 299	\$ 1,737,592
Exploration expenditures					
Drilling, trenching, sampling and assaying	3,800	292,055	1,975,871	55,215	2,326,941
Licence costs	85,885	5,535	3,790	294	95,504
Geological services, camp and field	65,512	284,905	1,021,042	341,176	1,712,635
Travel and other	623	52,468	80,566	50,298	183,955
Share-based compensation	-	-	-	189,135	189,135
Mongolian office costs	-	-	-	156,320	156,320
Total exploration expenditures	155,820	634,963	3,081,269	792,438	4,664,490
Capitalized expenditures	(85,885)	(634,963)	(1,771,556)	(294)	(2,492,698)
Expensed exploration costs 2016	69,935	-	1,309,713	792,144	2,171,792
Sandstorm royalty	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	(239,542)	(11,215)	(36,338)	(12)	(287,107)
E&E assets, December 31, 2016	\$ 728,164	\$ 551,271	\$ 1,786,195	\$ 581	\$ 3,066,211

Year ended December 31, 2015	Zuun Mod	Tsenkher Nomin	Khundii	Other	Total
E&E assets, January 1, 2015	\$ 10,614,014	\$ 16,387	\$ 45,609	\$ -	\$ 10,676,010
Exploration expenditures					
Drilling, trenching, sampling and assaying	13,937	280,474	213,966	-	508,377
Licence costs	82,592	9,643	3,889	290	96,414
Geological services, camp and field	176,522	447,019	162,990	274,338	1,060,869
Travel and other	47,137	27,634	23,968	43,266	142,005
Share-based compensation	-	-	-	89,999	89,999
Mongolian office costs	-	-	-	145,416	145,416
Writeoffs	420,478	-	-	-	420,478
Other	-	-	-	(59,345)	(59,345)
Total exploration expenditures	740,666	764,770	404,813	493,964	2,404,213
Capitalized expenditures	(132,699)	(764,770)	(3,889)	(290)	(901,648)
Expensed exploration costs 2015	607,967	-	400,924	493,674	1,502,565
Writeoffs	(420,478)	-	-	-	(420,478)
Impairments	(10,371,283)	-	-	-	(10,371,283)
Effect of movements in exchange rates	926,869	23,338	1,479	9	951,695
E&E assets, December 31, 2015	\$ 881,821	\$ 804,495	\$ 50,977	\$ 299	\$ 1,737,592

Corporate & administrative expenses were \$1,446,888 for the year ended December 31, 2016 compared to \$745,448 in 2015, a \$701,440 increase. Additional management services were required to manage the increase in exploration and evaluation programs in 2016. The Corporation also increased the level of its investor relations activities in order to communicate ongoing results to investors. The increase in non-cash share based compensation is due to the appreciation in the share price of Erdene in 2016.

	For the year ended December 31		
	2016	2015	Change
Administrative services	\$ 369,095	\$ 128,496	\$ 240,599
Depreciation and amortization	7,748	11,076	(3,328)
Directors fees and expenses	161,333	24,270	137,063
Investor relations and marketing	175,583	53,678	121,905
Office and sundry	114,120	110,320	3,800
Professional fees	126,747	135,030	(8,283)
Regulatory compliance	68,183	77,361	(9,178)
Share-based compensation	346,029	182,386	163,643
Travel and accommodations	78,050	22,831	55,219
	\$ 1,446,888	\$ 745,448	\$ 701,440

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.

Subsequent to signing the Royalty Agreement, the Corporation sold all Sandstorm shares received as consideration, realized proceeds of \$1,981,064 and recognized a gain of \$481,064.

In 2015, the Corporation recognized an impairment charge of \$10,371,283 on its Zuun Mod property. With the exit of Tian Poh in December 2015, and in light of depressed pricing for both molybdenum and copper, management deemed an impairment to exist on the Zuun Mod property. Management carried out an analysis to determine the estimated recoverable amount of the Zuun Mod property. The primary factors in determining the fair value of Zuun Mod was a market comparable and the enhanced value of the Zuun Mod mining license versus an exploration license. The market comparable was discounted by 52.1%, the decline in the underlying commodity prices since the comparable transaction took place. The added value of the mining license was discounted by 50% on the assumption a full recovery of the costs to advance the property to a mining license could not be realized in a sales transaction.

For the year ended December 31, 2016, the Corporation recognized a net loss of \$2,499,739, or \$0.02 per share, compared to a loss of \$12,607,625, or \$0.14 per share in 2015.

Fourth Quarter

Warrants exercised

In the fourth quarter of 2016, 5,654,039 warrants with a weighted average exercise price of approximately \$0.19 were exercised generating gross proceeds to the Corporation of \$1.1 million.

Exploration and evaluation

The Corporation carried out field programs into early December 2016. As a result, the Corporation spent approximately \$1.5 million in the fourth quarter on exploration and evaluation activities. \$1.0 million was directed to drilling, assaying, camp, geophysics and technical consulting on the Khundii license (Bayan Khundii and Altan Arrow) while approximately \$400,000 was spent on drilling, assaying and logistics on the Tsenkher Nomin license (Altan Nar) (see "Project Summaries" for more details).

Other than that mentioned above, there were no unusual events or items during the fourth quarter of 2016 that affected the Corporation's financial condition, cash flows or results of operations in a material nature.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2016				Fiscal 2015			
	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	\$442	\$73	\$1,423	\$512	\$11,476	\$393	\$222	\$517
Basic and diluted loss per share	\$0.00	\$0.00	\$0.01	\$0.01	\$0.13	\$0.00	\$0.01	\$0.00
Total Assets	\$4,293	\$3,872	\$4,044	\$2,504	\$2,522	\$12,508	\$12,540	\$11,321

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 \$13.5 million in working capital. (See Outstanding Share Data for complete details on all common share issuances).

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.

During 2016, the Corporation received \$2.58 million in gross proceeds from the exercise of 13.89 million warrants and options. In April 2016, the Corporation received total consideration of \$2.5 million on the close of transactions with Sandstorm Gold Ltd. (see Royalty Agreement with Sandstorm Gold Ltd.). In May 2016, the Corporation retired an outstanding debenture of \$252,207 by issuing 1,801,475 shares to Tian Poh. In June 2016, the Corporation closed a private placement with Teck by issuing 1,063,830 shares at \$0.47 per share for gross proceeds of \$500,000.

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 145,390,586 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.

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 May 17, 2016, the Corporation issued 1,801,475 shares to retire a \$252,207 debenture due to Tian Poh Resources Ltd.

The Corporation also issued shares on the exercise of warrants and options as outlined below.

Stock Options

As of the date of this MD&A, the Corporation had 7,506,250 outstanding stock options with a weighted average exercise price of \$0.21, all of which are exercisable.

Subsequent to December 31, 2016, and as of the date of this MD&A, 115,000 options with a weighted average exercise price of \$0.17 were exercised for gross proceeds to the Corporation of \$20,000.

In the year ended December 31, 2016, the Corporation received \$48,150 on the exercise of 320,000 share purchase options at an average price of \$0.15.

On June 15, 2016, two million share purchase 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. Each option had a fair value on the grant date of approximately \$0.21.

In March 2016, 107,500 options with an average exercise price of \$1.04 expired.

Warrants

As of the date of this MD&A, the Corporation had no outstanding warrants.

In 2016, the Corporation received \$2.5 million on the exercise of 13.6 million warrants at an average exercise price of \$0.19.

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.

Deferred Stock Units

As of the date of this MD&A, the Corporation had a balance of 3,236,459 deferred stock units ("DSUs") outstanding which may be settled in cash or shares.

For the year ended December 31, 2016, the Corporation granted certain officers, directors and employees of the Corporation an aggregate of 331,269 DSUs at a weighted average price of \$0.34.

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 km by 60 km 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 km 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 4380 g/t gold), at areas now known as Striker Zone and Gold Hill Zone. To date, The Corporation has identified gold mineralization in four separate prospect areas (Striker Zone, Gold Hill, Midfield, and Northeast Zone) over a 1.7 km trend. Mineralization is hosted within a zone of intensely silicified and illite-altered Devonian volcanic units 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 2016, the Corporation completed 81 drill holes, totaling 10,644 m. Since drilling the first hole in Q4 2015 to the end of the last drill program (Q4 2016), the Corporation has completed 96 diamond drill holes (45 to 90 degree angles) at Bayan Khundii totaling 11,340 m (average vertical drill depth of 91 m), of which 95 have intersected anomalous gold mineralization. Drill hole depths ranged from 31 m to 251 m (average 118 m), with vertical depth ranging from 22 m to 250 m (average 91 m).

Striker Zone

The majority of drilling has focused on the Striker Zone in southwest Bayan Khundii, where the Corporation has identified very good continuity of multiple, near-surface, high-grade gold zones, including both very high concentrations of gold (ex: 306 g/t gold over 1 m; hole BKD-77), wide intervals of high-grade gold (ex: 5.3 g/t gold over 63 m; hole BKD-17), and broad, lower grade intervals surrounding the high-grade mineralization (ex. 1.2 g/t gold over 112 m; hole BKD-51). See Table below.

Table summarizing drill results at Striker Zone

Drill Hole	From (m)	To (m)	Interval (m)*	Gold (g/t)	Results Reported
BKD-01	14	21	7	27.5	Dec 9, 2015
BKD-09	33	59	26	5.90	Dec 14, 2015
incl	34	49	15	9.90	
BKD-10	0	35	35	5.70	Dec 14, 2015
incl	11	23	12	16.2	
BKD-17	50	113	63	5.31	May 9, 2016
incl	54	69	15	11.5	
incl	82	95	13	11.3	
BKD-28	42	120**	78	1.00	May 24, 2016
BKD-34	76	142	66	1.01	June 14, 2016
BKD-44	0.7	9	8.3	14.2	June 22, 2016
BKD-46	2.3	19	16.7	4.65	October 4, 2016
incl	8	15	7	10.2	
and	100	108	8	5.61	
BKD-49	45	116	71	3.06	October 4, 2016
incl	74	98	24	7.52	
BKD-51	0	112	112	1.17	October 4, 2016
incl	76	106	30	3.23	
incl	100	103	3	19.8	
BKD-57	36	126**	90	2.51	October 18, 2016
incl	62	93	31	6.80	
incl	66	73	7	26.0	
BKD-60	20	143	123	1.32	October 18, 2016
incl	24	92	68	1.96	
incl	29	59	30	2.98	

* 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 45 to 90 degree angle. The Bayan Khundii mineralization is interpreted to be moderately dipping (approximately 40 to 50 degrees to the southwest).

** End of hole

Midfield Zone

In addition to establishing continuity within the main mineralized zone, a secondary focus of the Corporation's 2016 drill program was to test for mineralization within the Cretaceous and Quaternary-filled basin to the east, north, and west of the Striker Zone. Strong geophysical anomalies (induced polarization

resistivity) at depth beneath these younger, post-mineralization units suggest Bayan Khundii's epithermal system may be more widespread than the main exposed areas at surface. This was confirmed in October 2016 when a step-out hole 170 m northeast of the Striker Zone (targeting a geophysical anomaly) discovered a new gold zone (referred to as Midfield Zone), under Cretaceous cover; hole BKD-60 returned 68 m of 2.0 g/t gold from 24 to 92 m depth.

On November 25, 2016, the Corporation mobilized a drill rig to test the area surrounding hole BKD-60. Eight holes, totalling 1,370 m were completed in this new area. The holes were drilled on 40 m centres surrounding hole BKD-60, and were oriented at 45 to 60 degrees to the north-northeast to intersect the mineralized zones approximately perpendicular to their interpreted orientation. Results were reported subsequent to year end, on January 10, 2017 and returned some of the highest grades and the longest mineralized intervals intersected to date at Bayan Khundii. All holes intersected gold mineralization with visible gold observed in six of the eight holes, establishing lateral continuity of this new mineralized zone in all directions. Results included: 149 m of 2.1 g/t gold, including 41 m of 5.2 g/t gold and 15 m of 6.5 g/t gold (BKD-90); 72 m of 4.0 g/t gold (BKD-92); and 16 m of 3.9 g/t gold and 40 m of 1.0 g/t gold (BKD-95). See Table below.

Table summarizing drill results at Midfield Zone

Drill Hole	From (m)	To (m)	Interval (m)*	Gold (g/t)	Results Reported
BKD-60	20	143	123	1.32	October 18, 2016
incl	24	92	68	1.96	
incl	29	59	30	2.98	
BKD-89	92	173.6	81.6	1.15	January 10, 2017
BKD-90	23	171.8	148.8	2.11	January 10, 2017
incl	40	81	41	5.17	
incl	66	81	15	6.51	
and	108	115	7	4.58	
BKD-92	108	180.3	72.3 **	3.96	January 10, 2017
incl	119	121	2	112.8	
BKD-94	59	126	67	1.15	January 10, 2017
BKD-95	19	35	16	3.93	January 10, 2017
and	106	146.3	40.3	1.03	

* 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 45 to 60 degree angle, and oriented to the northeast. The Bayan Khundii mineralization is interpreted to be moderately dipping (approximately 40 to 50 degrees to the southwest).

** BKD-92 includes two post-mineral dykes, from 128 m to 135.7 m depth and 144.15 m to 155.45 m depth. These dykes have been incorporated into the drill results for BKD-92 as 0.00 g/t gold over the combined 19 m.

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. Much of the project area is overlain by younger, post mineralization, Cretaceous and Quaternary units. 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, 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

- Approximately 30% of the drill holes at Bayan Khundii have ended in mineralization, and all zones remain open at depth and along strike.

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 1 km x 2 km area.

Northeast Zone

- The Northeast Zone, located 700 m to the northeast of Striker Zone, contains an outcropping area of altered tuffs measuring 300 m by 300 m, and has returned numerous anomalous surface gold assays (>0.2 g/t) from mineralized rock chip samples with up to 4 g/t gold. Shallow drilling in the area returned wide zones of strongly altered volcanics and up to 2.3 g/t gold over 2 m. In addition, two rock chip samples collected a further 500 m 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

- Post-mineralization sedimentary units and basalt overlie the majority of the Bayan Khundii target area. The vertical depth of the younger cover, from the nine holes completed at Midfield Zone, ranges from 8 m to 110 m (average of 48 m). 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.

West of Striker Zone

- The limited drilling that has been completed to the west of the Striker and Midfield Zones demonstrates the potential for the discovery of additional gold mineralization under cover to the west. Hole BKD-59, located 230 m west of Striker Zone, returned 31 m of 1.0 g/t gold at 121 m depth and 2 m of 7.4 g/t gold at 216 m depth. Hole BKD-40, located 180 m west of Striker Zone, returned 2 m of 15.3 g/t gold at 124 m depth, and hole BKD-53, 200 m west of Striker Zone, returned 5 m of 2.2 g/t gold at 99 m depth.

Independent Consultants

As part of the Corporation's Q3-2016 exploration program, the Corporation commissioned several independent studies at Bayan Khundii, including structural mapping studies, 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, visited Bayan Khundii with the objective of aiding on-going geological interpretation and drill targeting efforts;
- Mr. Anthony Coote, of Applied Petrologic Services & Research in New Zealand, completed mineralogical petrographic and fluid inclusion studies on drill core samples from Bayan Khundii to interpret the hydrothermal environment and controls on the distribution of gold mineralogy and paragenesis;
- Dr. Stefan Kruse, an experienced structural geologist with Terrane Geoscience Inc., spent 12 days on-site to determine the principal structural controls and geometry of the mineralized systems;
- Ms. Khashagerel Bat-Erdene and Mr. Imants Kavalieris of Plus Minerals LLC, who specialize in alteration studies of epithermal and porphyry systems, completed field and drill core evaluations to identify alteration zonation within the hydrothermal systems to assist with future drill targeting;
- 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 provided 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 2016, the Corporation completed extensive geophysical programs over the 1.7 km Bayan Khundii target area, consisting of gradient IP (covering a 2 km x 2 km area at 100 m line spacing), dipole-dipole (23 line km at 50 m line spacing), and ground magnetics (20 m spaced lines over 1.7 km by 1.8 km 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 m) 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, suggesting the alteration zone extends beneath the volcanic cover, as also suggested by magnetic data. 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 m) and to the south under Cretaceous sediments and volcanics.

The magnetic data provides 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 (low magnetic response presumably

reflecting magnetite destruction within zones of silica/sericite 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, and possibly syenite 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 1380.9 g/t gold and 200 g/t silver. The low-grade gravity concentrate 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 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.

Technical Report

On March 27, 2017, Erdene filed on SEDAR a National Instrument 43-101 technical report for Bayan Khundii entitled "Bayan Khundii Gold Project (Khundii Exploration License), Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Technical Report" dated March 23, 2017. 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.

Conclusion and Recommendations

Results to date at Bayan Khundii have been very encouraging and 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 blind discovery of the Midfield Zone supports an extensive program to test beneath the post-mineralization Cretaceous cover. In 2017, the Corporation will continue with a 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 1.7 km trend, 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.

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 four 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 km by 1.5 km 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 km long Altan Nar trend.

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 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 km. The Kelian open pit, for example, was developed to a depth of 500 m.

Drilling Summary – Discovery Zone

Drilling to date at the DZ has identified a minimum strike length of 500 m. A total of thirty-six, mostly shallow drill holes (i.e. <150 m true vertical depth), on 20 m to 100 m 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 m apparent width) averaging in excess of 1 g/t gold, including intervals up to 19 m averaging 5.8 g/t gold (7.8 g/t AuEq) in Discovery Zone North. During Q4 2014, drilling at Discovery Zone North returned 30 m of 4.2 g/t gold (5.1 g/t AuEq) including 8 m 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 m of

7.3 g/t gold (9.2 g/t AuEq) within a 38 m interval of 2.0 g/t gold (2.8 g/t AuEq), from 43 to 81 m depth; and hole TND-90, also located in DZ South, returned a 53 m 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 m 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 m 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 m 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 m. 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 m depth to 450 m depth (390 m 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 m 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 m 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 m depth. The deepest hole at Altan Nar prior to extending TND-31, was TND-58 which was drilled to 270 m vertical depth, and returned 6 m 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.

Drilling Summary - Union North

In addition to DZ, one of the early discoveries at Altan Nar was Union North ("UN"), 1.3 km north of the DZ. At UN, a series of 8 trenches and 20 drill holes, at 50 m to 200 m spacing, have identified mineralization associated with a structural dilation zone on a large northeast-southwest trending structure, that hosts wide, parallel zones of intensely altered and mineralized breccias. Previous drilling (2012) included a single hole (TND-46) at UN that intersected 47 m of 1.3 g/t gold, including 9 m 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 m from surface), which returned 5 m 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 m 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 m east of the current UN resource boundary, returned 8 m 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 m 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 m east of the Corporation's Q1-2015 UN mineral resource boundary, returned 22 m of 1.57 g/t AuEq (1.08 g/t Au, 5 g/t Ag and 0.81% combined lead-zinc) starting at 34 m depth, under trench ANT-41 that had previously returned 28.5 m 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 m 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 km 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 dominated by an intermediate carbonate, base metal gold phase within Late Paleozoic (Devonian-Carboniferous) andesitic volcanic rocks. Mineralization is associated with comb quartz and chalcedony veins, quartz breccias, sulfide matrix breccia and quartz-poor breccia zones with associated phyllic alteration zones (quartz-sericite-pyrite), and locally potassic altered zones, all within widespread propylitic (epidote-chlorite-montmorillonite/illite) alteration of host trachy-andesite, andesite and andesite tuff units.

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 RungePincokMinarco (“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 1 - Altan Nar Project –Mineral Resource Estimate Summary as at February 19, 2015

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

Notes:

1. The Statement of Estimates of Mineral Resources has been compiled under the supervision of Mr. Jeremy Clark who is a full-time employee of RPM and a Member of the Australian Institute of Geoscientists. Mr. Clark has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.
2. All Mineral Resources figures reported in the table above represent estimates as at 19th 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 m, sub-blocked to 3.25 x 1.25 x 1.25 m) is similar to the expected small-mining units conventionally used in this type of deposit, and appropriate for an open pit mine.

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 km of induced polarization ("IP") dipole-dipole surveys completed along 100 m spaced lines over an area covering the North Bow, South Bow, Riverside, Union North, Union South and Maggie prospect areas. To date, high chargeability anomalism has been an important guide for successful targeting of the gold mineralized zones. A previous IP gradient-array survey identified a series of high chargeability anomalies, up to 190 m wide that are interpreted as representing broad zones of sulphide mineralization. Many of these IP anomalies have corresponding surface geochemical anomalies (in both rock and soil). The morphology of these IP anomalies, coupled with the geometry of the lineaments evident on satellite imagery, suggests mineralization may be associated with 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 m. Anomalies beneath the North Bow/South Bow and Union North, Union South target areas are particularly intense. The majority of these geophysical targets have yet to be drill tested.

A high-resolution ground magnetic orientation study using 10m-spaced survey lines was completed over a 500 m by 500 m 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.

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. Future exploration will focus on establishing continuity of this new high-grade zone and exploring areas where zones of structural dilation, or offset, may have provided a favorable setting for the concentration of these metal-rich solutions over wider intervals.

Additionally, 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.

A high-resolution magnetic survey is also planned for Altan Nar in 2017 and the results will be used to evaluate the potential for similar cross-cutting structures, as observed at DZ, at the 17 other target areas within the mineralized corridor.

Upcoming work at Altan Nar is expected to include additional drilling, as well as 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 km 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 m of 31.4 g/t gold and 6 m 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 m in seven holes at an average spacing of 200 m, completed to an average vertical depth of 58 m. Drill results confirmed the presence of high-grade veins, including 23.5 g/t gold over 2 m at 76 m depth, and up to 171 g/t silver, at 36 m 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 m along the main mineralized structure, returned intersections of 28 m of 0.45 g/t gold equivalent * ("AuEq") (0.39 g/t gold, 3.75 g/t silver) and 17 m of 0.43 g/t Au, 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 km south), albeit with higher silver values. A 2017 follow-up program is expected to include additional exploration of the Altan Arrow prospect as well as follow-up of the large gold-in-soil anomaly.

* 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/.

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 km southwest of Ulaanbaatar and 215 km from railhead on the Mongolia-China border at Ceke. The railhead is located 50 km south of the Nariin Sukhait and 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.

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 km 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 m of 1.3% copper and 9.24 g/t silver from 308 m to 342 m (hole ZMD-121). Additional drilling on the Khuvyn Khar prospect has defined a very large copper mineralized zone trending over 900 m with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 m to 42 m).

Recent exploration work carried out at Khuvyn Khar included a property-wide gravity survey, an expansion of the mobile-metal-ion ("MMI") geochemical survey, re-logging of all drill holes and alteration mapping, including spectral analysis of drill core. This program resulted in the identification and prioritization of seven porphyry copper drill targets, three of which are considered high-priority with strong probability of intersecting copper porphyry mineralization at relatively shallow depths.

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

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

Khuvyn Khar 2015 Tian Poh

In Q1 2015, the Corporation announced the granting to Tian Poh Resources Limited ("Tian Poh") a period of exclusivity to exercise an option to acquire an interest in the Zuun Mod mining license ("Zuun Mod"). Tian Poh agreed it would complete a 1,000 m drill program by October 30, 2015 to test the Khuvyn Khar North target area, an approximately 1 km x 1.5 km prospect area, that was identified by the Corporation. The target area was identified on the basis of several overlapping geological, geophysical and

geochemical factors, including: gravity low response, magnetic low response, concentration of quartz veins surrounded by D-vein zones, the presence of copper mineralization at surface, anomalous copper, silver, and gold in soils and rock chips, 2014 trenching results, and IP chargeability response. Tian Poh completed a two-hole, 1,000 m drill program on the Khuvyn Khar North target area in Q3 2015. Hole ZMD-129 reached a depth of 450 m and intersected hydrothermal intrusive breccias and several porphyry intrusions in the upper 242 m of the hole, with assay results returning an average of 0.08% copper ("Cu"), including an 8 m interval that averaged 0.13% Cu. Hole ZMD-130 was drilled to a depth of 550 m and intersected andesite with cross-cutting porphyry dykes in the top 192 m, with assays for this interval averaging 0.10% Cu, including a 4 m interval averaging 0.25% Cu. The drilling also encountered elevated gold, up to 0.12 g/t.

In Q4 2015, Tian Poh elected to not exercise its option to acquire an interest in the Zuun Mod 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 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 December 31, 2016:

Contractual Obligations	Total	Less than one year	1-3 years years	4-5 years	More than 5 years
Office leases	\$ 167,828	\$ 62,936	\$104,893	\$ -	\$ -
Finance leases	-	-	-	-	-
Accounts payable and accrued liabilities	182,644	182,644	-	-	-
	<u>\$ 350,472</u>	<u>\$245,580</u>	<u>\$104,893</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 December 31, 2016, 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 \$535,164 in non-cash share-based compensation in 2016 (2015 - \$272,385) and are disclosed in Notes 14 and 15 of the Corporation's December 31, 2016 and 2015 audited financial statements.

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 year ended December 31, 2016 are consistent with those used in the Corporation's Consolidated Financial Statements for the year ended December 31, 2015.

Future Changes in Accounting Policies

The following new standards, and amendments to standards and interpretations under IFRS and have not been applied in preparing the December 31, 2016 and 2015 consolidated statements as they came into effect subsequent to year end.

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 following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash	\$ 1,071,209	\$ -	\$ -	\$ 675,790	\$ -	\$ -
Liabilities measured at fair value:						
Convertible debenture due Tian Poh	-	-	-	-	252,207	-

Risks

In conducting its business, the principal risks and uncertainties faced by the Corporation relate primarily to exploration results and, to a lesser extent, metal and commodity prices. Exploration for minerals and development of mining operations involve many risks, many of which are outside the Corporation's control. In addition to the normal and usual risks of exploration and mining, the Corporation works in remote locations that lack the benefit of infrastructure and easy access.

Credit Risk:

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

	Carrying Amount December 31,	
	2016	2015
Cash	\$ 1,071,209	\$ 675,790
Receivables	36,854	55,664
	<u>\$ 1,108,063</u>	<u>\$ 731,454</u>

The Corporation manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2016, \$90,637 or 8% of the balance of cash was held in banks outside Canada (2015 - \$115,290 or 17%).

Receivables include an amount from Morien Resources Corp ("Morien"). The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 56% of receivables at December 31, 2016 (2015 – 86%). Management believes the credit risk on amounts receivable is low.

Liquidity Risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Corporation expects to have the necessary working capital to carry out all budgeted programs into 2018.

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 \$108,806 as at December 31, 2016 (2015 - \$132,153). 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 \$10,900 (2015 - \$13,000).

The Corporation's exposure to Mongolian Tugrik currency risk was \$38,981 as at December 31, 2016 (2015- \$5,427). Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$3,900 (2015 - \$500).

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 December 31, 2016 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2016.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2016 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 Parksville British Columbia, Canada, or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards 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 and on the Corporation's website at www.erdene.com.