# ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

*(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 statement of financial position as at December 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Erdene Resource Development Corporation has experienced losses and negative cash flows from operations in 2015 and 2014 and recorded an impairment charge relating to its Zuun Mod property in 2015. The Corporation does not have sufficient capital to fund its operations beyond the second quarter of 2016. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that casts significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Accountants

March 29, 2016
Halifax, Canada

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Financial Position**

(Canadian dollars)

| | Notes | | **December 31, 2015** | | December 31, 2014 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash | | **$** | **675,790** | $ | 136,824 |
| Receivables | **7** | | **55,664** | | 20,674 |
| Prepaid expenses | | | **17,177** | | 15,980 |
| | | | **748,631** | | 173,478 |
| Non-current assets: | | | | | |
| Exploration and evaluation assets | **8** | | **1,737,592** | | 10,676,010 |
| Property, plant and equipment | **9** | | **35,825** | | 62,160 |
| | | | **1,773,417** | | 10,738,170 |
| **TOTAL ASSETS** | | **$** | **2,522,048** | **$** | 10,911,648 |
| **LIABILITIES & EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Trade and other payables | | **$** | **188,083** | $ | 204,661 |
| Convertible debenture due Tian Poh Resouces | **10** | | **252,207** | | - |
| Convertible loan due Teck Resources | **11** | | **-** | | 107,142 |
| | | | **440,290** | | 311,803 |
| **TOTAL LIABILITIES** | | **$** | **440,290** | $ | 311,803 |
| **EQUITY** | | | | | |
| Shareholders' equity: | | | | | |
| Share capital | **15** | **$** | **81,967,477** | $ | 79,290,034 |
| Contributed surplus | | | **11,945,440** | | 11,487,249 |
| Accumulated other comprehensive income (loss) | | | **(341,838)** | | (1,295,742) |
| Deficit | | | **(91,489,321)** | | (78,881,696) |
| | | | **2,081,758** | | 10,599,845 |
| **TOTAL LIABILITIES AND EQUITY** | | **$** | **2,522,048** | $ | 10,911,648 |

Going concern (Note 2)
Commitments (Note 13)
Comparative figures (Note 21)
Subsequent event (Note 22)

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

Approved on behalf of the Board:

*Signed "Peter C. Akerley"*
__________________________________ Director

*Signed "John P. Byrne"*
__________________________________ Director

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Comprehensive Loss**
(Canadian dollars)

| | Notes | For the year ended December 31, 2015 | 2014 |
|---|---|---|---|
| Exploration expenses | **17** | **$ 1,502,565** | $ 1,900,651 |
| Corporate and administration | **18** | **745,448** | 729,074 |
| Other income | | **(1,443)** | (1,039) |
| Foreign exchange gain | | **(5,376)** | (9,615) |
| Loss from operating activities | | **2,241,194** | 2,619,071 |
| Finance income | **19** | **4,926** | 2,936 |
| Finance expense | **19** | **(74)** | (418) |
| Net finance income | | **4,852** | 2,518 |
| Loss from continuing operations | | **2,236,342** | 2,616,553 |
| Impairment on exploration and evaluation assets | **8** | **10,371,283** | - |
| Net loss | | **$ 12,607,625** | $ 2,616,553 |
| Other comprehensive (income) loss: | | | |
| Foreign currency translation difference arising on translation of foreign subsidiaries | | **(953,904)** | 283,947 |
| Other comprehensive (income) loss | | **(953,904)** | 283,947 |
| Total comprehensive loss | | **$ 11,653,721** | $ 2,900,500 |
| Basic and diluted loss per share | | **$ 0.14** | $ 0.04 |
| Basic and diluted weighted average number of shares outstanding | | **92,590,453** | 74,255,417 |

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Changes in Equity**

(Canadian dollars)

| | Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive loss | Deficit | Total equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2014** | 68,621,503 | $ 77,497,474 | $ 11,200,415 | $ (1,011,795) | $ (76,265,143) | $ 11,420,951 |
| **Total comprehensive loss for the period:** | | | | | | |
| Net loss | - | - | - | - | (2,616,553) | (2,616,553) |
| Other comprehensive loss | - | - | - | (283,947) | - | (283,947) |
| Private placement net of share issue costs (note 16) | 11,009,143 | 1,373,916 | - | - | - | 1,373,916 |
| Warrants issued under private placement (note 16 & 17) | - | - | 256,762 | - | - | 256,762 |
| Issue of shares from DSU plan (note 16 & 17) | 76,557 | 7,980 | (7,980) | - | - | - |
| Stock options exercised | 20,000 | 3,400 | (1,000) | - | - | 2,400 |
| Warrants exercised | 2,909,030 | 407,264 | (116,361) | - | - | 290,903 |
| Share-based compensation | - | - | 155,413 | - | - | 155,413 |
| **Total transactions with owners** | 14,014,730 | 1,792,560 | 286,834 | - | - | 2,079,394 |
| **Balance at December 31, 2014** | 82,636,233 | $ 79,290,034 | $ 11,487,249 | $ (1,295,742) | $ (78,881,696) | $ 10,599,845 |
| **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 (note 15) | 20,434,042 | 2,398,881 | - | - | - | 2,398,881 |
| Warrants issued under private placement (note 15 &16) | - | - | 265,395 | - | - | 265,395 |
| Warrants exercised (note 15 & 16) | 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 |

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Consolidated Statements of Cash Flows**
(Canadian dollars)

| | Notes | For the year ended December 31, 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net loss | | $ **(12,607,625)** | $ (2,616,553) |
| Items not involving cash: | | | |
| Depreciation and amortization | | **16,647** | 20,314 |
| Share-based compensation | | **272,385** | 155,413 |
| Writeoff of exploration and evaluation assets | | **420,478** | 45,086 |
| Impairment of exploration and evaluation assets | **8** | **10,371,283** | - |
| Net finance income | | **(4,852)** | (2,518) |
| Foreign exchange gain | | **5,376** | (7,494) |
| (Gain) / loss on disposal of property, plant & equipment | | **4,626** | (1,141) |
| Change in non-cash working capital | | **(54,743)** | 81,818 |
| Cash flows from operating activities | | **(1,576,425)** | (2,325,075) |
| **Cash flows from financing activities:** | | | |
| Issue of common shares and warrants for cash, net of issue costs | | **2,664,276** | 1,630,678 |
| Proceeds from convertible debenture | **10** | **252,207** | - |
| Proceeds from convertible loan | **11** | **-** | 107,142 |
| Repayment of convertible loan | **11** | **(107,142)** | - |
| Proceeds on exercise of stock options | | **-** | 2,400 |
| Proceeds on exercise of share purchase warrants | | **198,973** | 290,903 |
| Repayment of obligations under capital lease | | **(2,657)** | (4,266) |
| Interest paid | | **(74)** | (418) |
| Cash flows from financing activities | | **3,005,583** | 2,026,439 |
| **Cash flows from investing activities:** | | | |
| Expenditures on exploration and evaluation assets | | **(901,648)** | (142,810) |
| Proceeds from sale of property, plant and equipment | | **9,654** | 4,461 |
| Expenditures on property, plant and equipment | | **(1,779)** | (2,152) |
| Interest received | | **4,926** | 2,936 |
| Cash flows from investing activities | | **(888,847)** | (137,565) |
| Effect of exchange rate changes on cash and cash equivalents | | **(1,345)** | 3,556 |
| Increase (decrease) in cash and cash equivalents | | **538,966** | (432,645) |
| Cash and cash equivalents, beginning of period | | **136,824** | 569,469 |
| Cash and cash equivalents, end of period | | $ **675,790** | $ 136,824 |

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

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

Erdene Resource Development Corporation (the "Corporation") is a corporation domiciled in Canada. The address of the Corporation's registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1. The consolidated financial statements of the Corporation as at and for the years ended December 31, 2015 and 2014 comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the exploration of precious and base metal deposits in Mongolia.

**2. Going concern:**

These consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. However, in making its assessment, management is aware of material uncertainties related to events or conditions that cast significant doubt upon the Corporation's ability to continue as a going concern, as described in the following paragraphs.

The Corporation is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Corporation experienced significant losses and negative cash flows from operations in 2015 and 2014 and has a deficit of $91,489,321 at December 31, 2015. The Corporation had a net loss of $12,607,625 for the year ended December 31, 2015 compared to a net loss of $2,616,553 for the year ended December 31, 2014, representing a $9,991,072 increase. This increase is attributable to the impairment charge recorded in 2015 relating to the Zuun Mod property. The Corporation had working capital of $308,341 at December 31, 2015, compared to a working capital deficit of $138,325 at December 31, 2014, representing a $446,666 increase. With the receipt of $770,564 in warrant proceeds (see subsequent event), management estimates current working capital is sufficient to fund the Corporation's planned expenditures until the end of the second quarter of 2016. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

These consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying amounts of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

## 3. Basis of presentation

a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 29, 2016.

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.

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

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

## 3. Basis of presentation (continued)

Critical accounting estimates (continued):

*Share-based payments*

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

*Provisions for site restoration*

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

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

*Exploration and evaluation assets*

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

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for resource properties. Once technical feasibility and commercial viability of a resource property can be demonstrated, exploration costs will be reclassified to property, plant and equipment and subject to different accounting treatment. As at December 31, 2015, management determined that no such reclassification was required.

*Taxation*

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

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

## 4. Summary of significant accounting policies

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

a) Basis of consolidation

For the years ended December 31, 2015 and 2014, 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.

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

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

b) Foreign currency (continued)

i) Foreign currency transactions (continued)

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.

Loans and receivables comprise trade and other receivables and cash.

Cash comprises cash on hand and demand deposits.

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

c) Financial instruments (continued)

*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 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

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

d) Exploration and evaluation assets (continued)

project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest. 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.

*Depreciation*

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

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

e) Property, plant and equipment

*Depreciation (continued)*

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

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

*Resource properties*

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

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

f) Impairment

i) Financial assets (including receivables)

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

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

ii) Non-financial assets

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

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

f) Impairment (continued)

ii) Non-financial assets (continued)

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

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

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

g) Income taxes

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

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

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

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

g) Income taxes (continued)

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

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

h) Share-based compensation

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

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

i) Earnings per share

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

**5. Future changes in accounting policies**

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated statements:

(a) Amendments to IFRS 9 - Financial Instruments

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

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

(b) Clarification of Acceptable Methods of Depreciation and Amortization (amendments to IAS 16)

The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefit embodied in the asset.

The Corporation intends to adopt the amendments to IAS 16 in its financial statements for the annual period beginning on January 1, 2016 and doesn't expect the amendments to have a material impact to the financial statements.

(c) Disclosure Initiative: Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures.

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016 and doesn't expect the amendments to have a material impact to the financial statements.

(d) 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.

(Canadian dollars)

## 6. Financial instruments

**Credit Risk:**

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

| | Carrying Amount December 31, 2015 | 2014 |
|---|---|---|
| Cash | **$ 675,790** | $ 136,824 |
| Receivables | **55,664** | 20,674 |
| | **$ 731,454** | $ 157,498 |

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, 2015, $115,290 or 17% of the balance of cash was held in banks outside Canada (2014 - $10,845 or 8%).

Receivables include a receivable from Morien Resources Corporation ("Morien"). The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 86% of receivables at December 31, 2015 (2014 – 78%). Management believes the credit risk on amounts receivable is low.

**Liquidity Risk:**

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Corporation does not have sufficient working capital to carry out all budgeted programs in 2016 and must obtain additional financing by the second quarter 2016 to avoid disruption in planned expenditures (see Note 2).

**Market Risk:**

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

**a) Interest rate risk**

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

**b) Foreign currency risk**

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

(Canadian dollars)

## 6. Financial instruments (continued)

### b) Foreign currency risk (continued)

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Cash | **$ 152,668** | $ 18,433 |
| Trade and other payables | **(20,515)** | (27,684) |
| | **$ 132,153** | $ (9,251) |

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 $13,000 (2014 - $1,000).

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Cash | **$ 31,187** | $ 6,005 |
| Trade and other receivables | **3,081** | - |
| Trade and other payables | **(39,695)** | (51,481) |
| | **$ (5,427)** | $ (45,476) |

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $500 (2014 - $4,500).

### 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, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets measured at fair value: | | | | | | |
| Cash | **$ 675,790** | **$ -** | **$ -** | $ 136,824 | $ - | $ - |
| Receivables | | **55,664** | **-** | | 20,674 | - |
| | | | | | | |
| Liabilities measured at fair value: | | | | | | |
| Trade and other payables | **$ -** | **$ 188,083** | **$ -** | $ - | $ 204,661 | $ - |
| Convertible debenture due Tian Poh | **-** | **252,207** | **-** | - | - | - |
| Convertible loan due Teck | **-** | **-** | **-** | - | 107,142 | - |

(Canadian dollars)

## 7. Receivables

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Management fee receivable | **$ 47,999** | $ 16,100 |
| Employee advances and receivables | **4,905** | 4,574 |
| Other | **2,760** | - |
| | **$ 55,664** | $ 20,674 |

The Corporation has an agreement with Morien for the provision of management services, office space and the recovery of overhead costs. For the twelve months ended December 31, 2015, the amounts charged to Morien totaled $466,213 (2014 - $421,829). The costs incurred by the Corporation and recoveries earned from Morien are recorded as corporate and administrative expenses on the statement of comprehensive loss.

## 8. Exploration and evaluation assets

| | Zuun Mod Moly/Copper | Altan Nar Gold | Other | Total |
|---|---|---|---|---|
| Balance, January 1, 2014 | $ 10,760,501 | $ 12,095 | $ 87,179 | $ 10,859,775 |
| Additions | 130,888 | 5,379 | 6,543 | 142,810 |
| Writeoffs | - | - | (45,086) | (45,086) |
| Effect of movements in exchange rates | (277,375) | (1,087) | (3,027) | (281,489) |
| Balance, December 31, 2014 | $ 10,614,014 | $ 16,387 | $ 45,609 | $ 10,676,010 |
| Balance, January 1, 2015 | **$ 10,614,014** | **$ 16,387** | **$ 45,609** | **$ 10,676,010** |
| Additions | **132,699** | **764,770** | **4,179** | **901,648** |
| Writeoffs | **(420,478)** | **-** | **-** | **(420,478)** |
| Impairments | **(10,371,283)** | **-** | **-** | **(10,371,283)** |
| Effect of movements in exchange rates | **926,869** | **23,348** | **1,478** | **951,695** |
| Balance, December 31, 2015 | **$ 881,821** | **$ 804,505** | **$ 51,266** | **$ 1,737,592** |

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. One mining license was issued in 2011 (consisting of 6,041 hectares) and the second contiguous mining license was issued in the third quarter 2012 (consisting of 358 hectares). This second license was dropped in 2015 and accounts for the write-off recognized 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.

**8. Exploration and evaluation assets (continued)**

Zuun Mod/Khuvyn Khar (continued)

At December 31, 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 and Khundii

The Corporation has two exploration licenses located in Bayankhongor province in Mongolia covering 9,183 hectares. The 4,669 hectare Tsenkher Nomin license includes the Altan Nar gold, silver, lead, zinc prospect and has a renewal in December. The 4,514 hectare Khundii license includes the Bayan Khundii gold prospect and has a renewal in April. Beginning in 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.

Write-offs

The Corporation did not renew one license in 2015 with a book value of $420,478 (2014 – three licenses with a book value of $45,086) and has recorded a write-off of the balance.

Teck Alliance

In April 2013, the Corporation entered into an agreement with Teck Resources Limited ("Teck"), to fund and explore the Corporation's mineral tenements in the Trans Altay region of southwest Mongolia. Teck has the option to acquire additional shares of the Corporation, 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 $500,000 in each of 2015 and 2014, has invested a total of $2.0 million to December 31, 2015 and owned 12.4% at December 31, 2015 (2014 - 11.1%). Teck must subscribe to a minimum $500,000 on each anniversary of signing to maintain its option. 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 renewal dates. No major exploration work has been completed on these licenses to date.

(Canadian dollars)

## 9. Property, plant and equipment

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

| | 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** |

**Leased equipment, furniture & fixtures:**

At December 31, 2015 the net carrying amount of leased equipment, furniture and fixtures was $3,491 (December 31, 2014: $4,936).

(Canadian dollars)

## 10. 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 will be converted to 1,801,475 common shares of the Corporation at $0.14 per share upon receipt of registration and delivery instructions from Tian Poh.

## 11. Convertible loan due Teck Resources

On August 15, 2014, the Corporation signed a loan agreement with Teck to fund exploration programs under the Teck Alliance (see Note 8). Pursuant to the terms of a conversion feature, the loan was repaid on April 21, 2015 with the cash proceeds from the exercise of 1,071,429 warrants held by Teck, with an exercise price of $0.10 per share.

## 12. Commitments

Operating lease rentals are payable as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Less than 1 year | **44,332** | 66,666 |
| Between 1 and 5 years | **-** | 44,444 |
| **Total** | **$ 44,332** | $ 111,110 |

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

## 13. Income taxes and deferred tax liability

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Statutory tax rates | 31% | 31% |
| Income taxes (recovery) computed at the statutory rates | **$ (3,908,000)** | $ (806,000) |
| Benefit of tax losses not recognized | **2,965,000** | 488,000 |
| Expenses not deductible for tax purposes | **88,000** | 50,000 |
| Effect of foreign tax rates | **993,000** | 172,000 |
| Tax deductible expenses charged to retained earnings | **(142,000)** | (21,000) |
| Other | **4,000** | 117,000 |
| Provision for income taxes | **$ -** | $ - |

The enacted tax rates in Canada 31% (31% in 2014) and Mongolia 25% (25% in 2014) where the Corporation operates are applied in the tax provision calculation.

(Canadian dollars)

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

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

| | | | **2015** |
|---|---|---|---|
| | **Canada** | **Mongolia** | **Total** |
| **Non-capital losses carried forward** | **$ 11,835,000** | **$ 3,478,000** | **$ 15,313,000** |
| **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** | **$ 14,246,000** | **$ 32,837,000** |

| | | | 2014 |
|---|---|---|---|
| | Canada | Mongolia | Total |
| Non-capital losses carried forward | $ 12,924,000 | $ 4,330,000 | $ 17,254,000 |
| Property, plant and equipment | 197,000 | - | 197,000 |
| Share issuance costs | 122,000 | - | 122,000 |
| Intangible assets | 378,000 | - | 378,000 |
| Exploration and evaluation assets | 1,211,000 | 4,125,000 | 5,336,000 |
| | $ 14,832,000 | $ 8,455,000 | $ 23,287,000 |

As at December 31 2015, 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,** | |
|---|---|---|
| | **2015** | **2014** |
| 2015 | **-** | 4,017,000 |
| 2016 | **1,071,000** | 946,000 |
| 2017 | **821,000** | 725,000 |
| 2018 | **626,000** | 552,000 |
| 2019 | **960,000** | - |
| Thereafter | **11,835,000** | 11,013,000 |
| | **$ 15,313,000** | $ 17,253,000 |

(Canadian dollars)

## 14. Capital management

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

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

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

| | | | December 31, | |
|---|---|---|---|---|
| **Capital Structure** | **Interest rate** | **Maturity** | **2015** | **2014** |
| Shareholders' Equity | | | **$ 2,081,758** | $ 10,599,845 |
| Tian Poh convertible debenture | 0.00% | December 2015 | **252,207** | - |
| Teck Resources convertible loan | 0.00% | November 2015 | **-** | 107,142 |
| **Net capital** | | | **$ 2,333,965** | $ 10,706,987 |

## 15. 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, 2015 and 2014 were as follows:

| | **2015** | | **2014** | |
|---|---|---|---|---|
| | **Shares** | **$** | Shares | $ |
| On issue at January 1 | **82,636,233** | **79,290,034** | 68,621,503 | 77,497,474 |
| Issued for cash | **20,434,042** | **2,398,881** | 11,009,143 | 1,373,916 |
| Exercise of warrants (note 16) | **1,989,730** | **278,562** | 2,909,030 | 407,264 |
| Exercise of stock options (note 16) | **-** | **-** | 20,000 | 3,400 |
| Issued from deferred share unit plan (note 16) | **-** | **-** | 76,557 | 7,980 |
| On issue at December 31 | **105,060,005** | **81,967,477** | 82,636,233 | 79,290,034 |

Issuance of common shares

*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.

## 15. Share Capital (continued)

Issuance of common shares (continued)

*For year ended 2015 (continued)*

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.

*For the year ended 2014*

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

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

(Canadian dollars)

## 15. Share Capital (continued)

Issuance of common shares (continued)

*For year ended 2014 (continued)*

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

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

### (a) Stock Options

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

The changes in stock options during the years ended December 31, 2015 and 2014 were as follows:

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | | **Number of options** | **Weighted average exercise price** | |
| Outstanding at January 1 | **4,146,750** | **$** | **0.23** | 3,704,250 | $ | 0.37 |
| Granted | **2,525,000** | | **0.15** | 1,115,000 | | 0.16 |
| Expired | **(623,000)** | | **0.45** | (652,500) | | 0.27 |
| Exercised | **-** | | **-** | (20,000) | | 0.12 |
| Outstanding at December 31 | **6,048,750** | **$** | **0.17** | 4,146,750 | $ | 0.23 |
| Exercisable at December 31 | **6,048,750** | **$** | **0.17** | 4,146,750 | $ | 0.23 |

All stock options granted in 2015 and 2014 vested immediately and have a five year term.

(Canadian dollars)

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

### (a) Stock Options (continued)

The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2015:

| Expiry date | Outstanding Number of Options | Exercise price |
|---|---|---|
| March 22, 2016 | 107,500 | 1.04 |
| August 27, 2017 | 600,000 | 0.25 |
| June 28, 2018 | 1,276,250 | 0.12 |
| November 26, 2018 | 445,000 | 0.14 |
| June 18, 2019 | 1,095,000 | 0.16 |
| June 5, 2020 | 1,425,000 | 0.15 |
| July 2, 2020 | 125,000 | 0.15 |
| December 22, 2020 | 975,000 | 0.16 |
| | **6,048,750** | **$ 0.17** |

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, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| Share price at grant date | **$ 0.14** | $ 0.16 |
| Exercise price | **$ 0.15** | $ 0.16 |
| Risk-free interest rate | **0.8%** | 1.3% |
| Expected life | **4.0 years** | 3.6 years |
| Expected volatility | **84%** | 91% |
| Expected dividends | **0.0%** | 0.0% |
| Weighted average grant date fair value | **$ 0.08** | $ 0.09 |

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

### (b) Warrants

As described in Note 15, two private placements of Units were completed during the year ended December 31, 2015. The June 2015 private placement of Units included 5,371,704 whole common share purchase warrants exercisable at $0.16 per share for a period of six months. In November 2015, 4,845,311 of the June 2015 warrants, excluding those held by insiders, were extended to March 15, 2016. The November 2015 private placement of Units included 3,432,166 whole common share purchase warrants exercisable at $0.18 per share for a period of one year from close. In 2015, a total of 789,300 Finders warrants exercisable for a period of one year at an average exercise price of $0.16 were issued.

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

(Canadian dollars)

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

### (b) Warrants (continued)

The following table summarizes the continuity of the warrants for the years ended December 31, 2015 and 2014:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Outstanding at January 1 | **6,534,300** | **$ 0.19** | 7,839,939 | $ 0.16 |
| Issued | **9,593,170** | **0.17** | 4,544,570 | 0.22 |
| Exercised | **(1,989,730)** | **0.10** | (2,909,030) | 0.10 |
| Expired | **(526,393)** | **0.16** | (2,941,179) | 0.25 |
| Outstanding at December 31 | **13,611,347** | **$ 0.19** | 6,534,300 | $ 0.19 |

The following table summarizes information concerning outstanding warrants, all of which are exercisable at December 31, 2015:

| | Outstanding | |
|---|---|---|
| Expiry date | Number of Warrants | Exercise price |
| March 15, 2016 | 4,845,311 | 0.16 |
| May 13, 2016 | 2,142,250 | 0.24 |
| June 4, 2016 | 464,286 | 0.16 |
| November 9, 2016 | 3,757,180 | 0.18 |
| November 13, 2016 | 2,402,320 | 0.21 |
| | **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 | Year Ended December 31, 2014 |
|---|---|---|
| Share price at grant date | **$ 0.14** | $ 0.15 |
| Exercise price | **$ 0.17** | $ 0.22 |
| Risk-free interest rate | **0.66%** | 1.0% |
| Expected life | **0.72 years** | 2.0 years |
| Expected volatility | **83%** | 95% |
| Expected dividends | **0.0%** | 0.0% |
| Weighted average grant date fair value | **$ 0.03** | $ 0.05 |

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

(Canadian dollars)

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

### (c) Deferred Share Units

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

The following table summarizes information concerning DSUs at December 31, 2015 and 2014:

| | December 31, 2015<br>Number of DSUs | December 31, 2014<br>Number of DSUs |
|---|---|---|
| Outstanding at January 1 | **2,384,752** | 2,090,451 |
| Granted | **520,438** | 370,858 |
| Shares issued from DSU | **-** | (76,557) |
| Outstanding at December 31 | **2,905,190** | 2,384,752 |

The fair value of the DSUs granted in the year ended December 31, 2015 was $71,085 (2014 – $51,363) and was charged to share based payments.

| | Year Ended December 31, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| 5 day volume weighted average price at grant date | **$ 0.14** | $ 0.15 |

## 17. Exploration expenses

| | For the year ended December 31<br>2015 | 2014 |
|---|---|---|
| Depreciation & amortization | **$ 5,526** | $ 6,010 |
| Employee compensation costs | **443,207** | 678,706 |
| Share-based compensation | **89,999** | 65,178 |
| Direct costs | **602,700** | 1,105,671 |
| Writeoff of E&E assets | **420,478** | 45,086 |
| Tian Poh exclusivity fee | **(59,345)** | - |
| | **$ 1,502,565** | $ 1,900,651 |

(Canadian dollars)

## 18. Corporate and administration

| | For the year ended December 31 2015 | 2014 |
|---|---|---|
| Depreciation & amortization | **$ 11,121** | $ 14,304 |
| Employee compensation costs | **197,426** | 232,090 |
| Share-based compensation | **182,386** | 90,235 |
| Direct costs | **354,515** | 392,445 |
| | **$ 745,448** | $ 729,074 |

## 19. Finance income and expense

| | For the year ended December 31 2015 | 2014 |
|---|---|---|
| Interest income | **$ 4,926** | $ 2,936 |
| Interest expense - finance leases | **$ (74)** | $ (418) |
| | **$ 4,852** | $ 2,518 |

## 20. 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, 2015 | 2014 |
|---|---|---|
| Directors' fees | $ 17,000 | $ 17,000 |
| Share-based compensation to directors | 113,996 | 60,864 |
| Key management short-term benefits | 198,462 | 355,125 |
| Share-based compensation to key management | 78,148 | 35,750 |
| | $ 407,606 | $ 468,739 |

## 21. Comparative figures

Certain comparative information for 2014 has been reclassified to conform to the presentation adopted in the 2015 financial statements.

## 22. Subsequent event

Subsequent to year end, in March 2016, the Corporation received $770,564 from the exercise of 4,816,025 warrants with an exercise price of $0.16 per shares.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Management's Discussion and Analysis
## Years ended December 31, 2015 and 2014

*This Management Discussion and Analysis ("MD&A"), dated March 29, 2016, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Company" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 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, 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, 2015, a copy of which is available on the Corporation's SEDAR document page at* www.sedar.com.

## 2015 Highlights

**Bayan Khundii Gold Project – 100% Erdene**

The Corporation identified a new high-grade gold discovery in Q2 on its Khundii exploration license located 20 km south of the Corporation's Altan Nar project. Initial surface sampling at Bayan Khundii returned highly anomalous values, with rock chip/grab samples commonly returning values in excess of 3.0 g/t gold (up to 4,380 g/t gold). This sampling was followed up by trenching and geophysical surveys. The Corporation completed its first round of drilling in Q4 2015. The following is a summary of the drilling program:

- Initial drilling consisted of 15 shallow holes (31-70 m; average 46 m) all of which intersected gold bearing zones with multiple high-grade zones, including:
  - Hole BKD-01: 7 m of 27.5 g/t gold, from 14 to 21 m depth (including 1 m of 187 g/t gold)
  - Hole BKD-09: 26.4 m of 5.9 g/t gold, from 33 to 59.4 m depth (including 15 m of 9.9 g/t gold and 2 m of 49 g/t gold)
  - Hole BKD-10: 35 m of 5.7 g/t gold, from surface to 35 m depth (including 12 m of 16.2 g/t gold and 1 m of 167 g/t gold)

(Note: Hole BKD-09 is located 30 m south-southwest from BKD-01 and 363 m west of hole BKD-1010, indicating continuity down-dip and along strike)

- Visible gold was observed in 10 of 15 holes within quartz and/or hematite veins as irregular shaped grains (up to 2 mm) and also as high-grade disseminations and fracture fillings.
- Gold mineralization was confirmed through drilling in multiple structures, orientated perpendicular to a 550 m long, silicified and sericitized alteration zone that remains open at depth and along strike.
- Geophysical surveys indicate that the alteration zone is located at the apex of an IP anomaly that broadens at depth and extends to the north and east under unaltered andesite, and to the south under Cretaceous sedimentary lithologies.

Subsequent to year-end, the Corporation concluded preliminary metallurgical test work conducted by Blue Coast Research Ltd. on two drill-core composites (high and low grade). The following are the main findings from the metallurgical testing:

- Gold from Bayan Khundii is free milling and amenable to conventional processing techniques.
- Gravity concentration and cyanidation of the gravity tails yielded very good overall gold recoveries for both high-grade and low-grade composites:
  - 99% recovery of gold from high-grade (24.9 g/t Au) composite using gravity plus cyanide leach methods
  - 92% recovery of gold from low-grade (0.7 g/t Au) composite using gravity plus cyanide leach methods

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

The Corporation completed 738 m of drilling and 224 m of trenching over the Discovery Zone ("DZ") and Union North ("UN") mineral resource areas, and 320 m of drilling to test new targets outside of the current resource boundaries in an effort to expand the current resource and to provide future growth potential at Altan Nar. The Corporation also completed metallurgical testwork on drill core composites from DZ and UN to evaluate processing options. The results of these programs are summarized below:

- Results from infill and expansion drilling at DZ included multiple, significant, intersections in the near-surface mineralized zone; hole TND-92 returned 9 m of 9.2 g/t gold equivalent ("AuEq[1]" from 46 to 55 m depth) within a 38 m interval of 2.8 g/t AuEq (43 to 81 m from surface); and hole TND-90 returned 12 m of 4.8 g/t AuEq (91-103 m depth) within a 53 m interval of 2.0 g/t AuEq (78 to 131 m from surface).
- Infill drilling at UN returned multiple, near-surface, high-grade mineralized zones from the central resource area, including hole TND-82, which returned 5 m of 10.9 g/t AuEq within a 12 m interval of 5.3 g/t AuEq (26 to 38 m depth).

[1] Gold Eq. ("gold equivalent") has been used to express the combined value of gold, silver, lead and zinc as a percentage of gold, and is provided for illustrative purposes only. No allowances have been made for recovery losses that may occur should mining eventually result. Calculations use metal prices of US $1200/oz gold, $18/oz silver, and $0.90/lb for lead and zinc

- Trenching at UN significantly expanded the mineralized zone; trench ANT-41, located approximately 200 m east of the current resource boundary, returned 8 m of 4.1 g/t AuEq within a 28.5 m interval of 2.5 g/t AuEq.
- Results from reconnaissance drilling increased the Corporations understanding and the potential of these target areas; hole TND-88 at the Riverside target returned 16 m of 0.76 g/t AuEq, from 45 to 61 m depth, and hole TND-89 at the Union South target returned four intersections (3 to 4 m wide) ranging from 2.15 g/t to 2.64 g/t AuEq.
- Metallurgical testwork on representative drill core composites from DZ North returned 88% gold recovery from cyanidation. The results also indicated that high-grade gold-lead-silver concentrates (229 g/t gold, 62% lead, 1,029 g/t silver) can be produced with reasonable overall recoveries (75% gold, 74% lead, 64% silver) using conventional lead-zinc differential flotation.
- A single cyanidation test was completed on UN drill core composites under similar conditions to those employed for the DZ North testwork, with results indicating a gold recovery of 68%. A single flotation test was also completed, producing a gold recovery from concentrate of 45%.

**Zuun Mod/Khuvyn Khar Molybdenum-Copper Project**

Through an option agreement between the Corporation and Tian Poh Resources Limited ("Tian Poh"), two drill holes were completed for a total of 1,000 m. The drilling program was designed to test a large copper porphyry target in the part of the porphyry complex termed the Khuvyn Khar North target that was identified by the Erdene during its 2014 exploration program.

The two diamond drill holes were completed during August and early September 2015 with the drilling, logging, and sampling work being completed by Erdene geological staff. The two drill holes included a 450 m hole (ZMD-129) and a 550 m hole (ZMD-130). Assay results for ZMD-130 returned 192 m averaging 0.10% copper with multiple zones up to 6 m wide exceeding 0.2% copper (including up to 2 m of 0.31% copper). The drilling also encountered elevated gold, up to 0.12 g/t Au over 2 m.

In December 2015, Tian Poh elected to not exercise their option to acquire an interest in the Zuun Mod mining license. The Corporation continues to investigate options to advance the Zuun Mod/Khuvyn Khar Copper - Molybdenum Project (see Fourth Quarter - Impairment).

**Teck Alliance**

The Corporation continued to evaluate opportunities through its alliance with Teck Resources Limited ("Teck"), focused on regional exploration for base and precious metal targets. The Corporation completed a regional exploration program on behalf of the alliance during Q2 2015. Erdene executive and officials from Teck met in Mongolia in Q3 to review the Corporation's ongoing regional exploration program. Based on the results from regional exploration to date, the Corporation and Teck have identified several high-priority areas of interest for follow up work.

**Financing and Corporate**

- Corporate and administrative expenses have decreased $926,400 since 2012, a 55% reduction.
- Management secured approximately $3.1 million in funding in 2015 through equity and convertible debt.

## Company Overview and Strategy

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

The Bayan Khundii ('Rich Valley') Gold project is located on the Corporation's 100% owned Khundii exploration license located in southwestern Mongolia. The project represents a new gold discovery made in Q2 2015. To date, rock chip sampling, trenching and a 15 hole, 695 m, drilling program have identified high-grade gold mineralization within quartz veins and breccia zones in association with hypogene hematite within a zone of intensely altered (silica and sericite) volcanic and volcaniclastic lithologies. Detailed exploration to date has been carried out over an area approximately 550 m by 300 m. Prospecting and geophysical surveys (magnetic and induced polarization) indicate the zone of alteration extends under, at relatively shallow depths, adjoining unaltered andesite and younger (Cretaceous) sediments.

Initial drilling has confirmed down-dip extensions of mineralized zones at surface as defined by prospecting and trenching. Gold mineralization is present in over 15 parallel, NW-SE trending, SW-dipping zones that have been traced up to 100 m along strike remaining open in all directions. These zones include very high grade veins and breccias over cm to m scale with gold grades locally exceeding 15 g/t, and up to 187 g/t, over 1m intervals. Enveloping these higher grade zones, are zones of lower grade mineralization typically in the 0.1 to 2 g/t Au range that can extend for significant intervals, up to 35 m in the case of the Striker Zone.

Preliminary metallurgical test work conducted by Blue Coast Research Ltd. on two drill-core composites (high and low grade) indicate that gold from Bayan Khundii is free milling and amenable to conventional processing techniques. Gravity concentration plus cyanidation of the gravity tails yields very good overall gold recoveries for both high-grade (99% gold recovery) and low-grade (92% gold recovery) composites.

The Bayan Khundii Gold prospect requires an extensive exploration program to determine the continuity, grade and extent of the gold mineralization. The recommended exploration program for 2016 includes; geological mapping, geochemical surveys (soil and rock), expanded geophysical surveys; trenching; drilling (both resource delineation and exploratory); mineralogical studies; and technical studies in support of moving the project towards a mining license application. In addition, results to date from the entire Khundii license area support a more detailed license-wide surface exploration program to define additional target areas. Although at an early stage, results to date from Bayan Khundii have been very encouraging. It is anticipated that work completed in Q2 2016, will result in a maiden resource estimate for Bayan Khundii in Q3 2016.

The 100% owned Altan Nar property hosts a total of 18 mineralized (gold, silver, lead and zinc) target areas that have been identified within a 5.6 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 testwork, infill drilling and trenching completed in Q3 2015. The remaining 16 targets are either undrilled or scout-drilled and are considered by the Corporation to have good potential for hosting additional resources.

Future work at Altan Nar is expected to include additional metallurgical process test-work to optimize the processing method, evaluations of the mining, engineering, transportation, and marketing options, exploration and development related programs, and work required for a mining license application. Simultaneously, the Corporation plans to evaluate the remaining target areas to assist in defining the highest priority areas for delineation of additional near-surface resources at Altan Nar.

The Corporation, through its alliance with Teck Resources Limited, will also continue to assess regional opportunities and continue to attempt to acquire new licences in the Alliance's area of interest in southwest Mongolia, particularly now that Mongolia's exploration licencing system has re-opened. Two new licences were acquired in 2015.

During the fourth quarter, the Corporation announced that Tian Poh Resources Limited ("Tian Poh"), after completing a 1,000 m drilling program on the Khuvyn Khar copper prospect, elected to not exercise its option to acquire an interest in the Zuun Mod mining license (see Fourth Quarter – Impairment). The Corporation continues to investigate options to advance the Zuun Mod/Khuvyn Khar Copper - Molybdenum Project.

## 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 for up to $3 million of Erdene shares by way of a non-brokered private placement. The initial tranche, which closed on April 22, 2013, resulted in the issuance of five million shares priced at $0.20 per share for aggregate proceeds of $1 million. Eighty five percent of the proceeds from the private placement were committed to exploration work.

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

On April 24, 2015, the Corporation closed a private placement with Teck for $392,857 at $0.139 per share and received $107,143 on the exercise of $0.10 warrants.

Teck has the option to acquire additional shares of Erdene, until it has invested $3 million or acquired through subscriptions 19.9% of the outstanding shares of Erdene, whichever occurs first. A minimum of $500,000 is to be subscribed on each anniversary date of the closing of the initial tranche. To the date of this MD&A, Teck owns 11.9% of the Corporation's issued and outstanding common shares.

## Project Summaries

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

**Bayan Khundii Gold Project**

The Bayan Khundii ("Rich Valley") Gold project is located on Erdene's Khundii exploration license in southwest Mongolia, approximately 20 km south of the Company's Altan Nar gold project. The license is in its sixth year of a maximum 12-year term. The license can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. The 4,515 hectare Khundii exploration license is 100% owned by Erdene and is not subject to any royalty agreements.

The Bayan Khundii project is located within the Tian Shan Gold Belt, part of the Central Asian Orogeny and host to some of the world's largest gold deposits. Although epithermal gold and porphyry copper deposits are well documented across the border in China and along the westward trend, in Kazakhstan for example, limited exploration has taken place in southwest Mongolia due to its isolation, geographically and politically, until the early 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 seven years which has resulted in the discovery of multiple gold and copper occurrences including the discovery at Erdene's Altan Nar gold deposit 20 km north, Nomin Tal, Altan Arrow and now Bayan Khundii.

Bayan Khundii was discovered in Q2, 2015 when gold-bearing quartz veins were first sampled at what are now known as the Striker Zone and Gold Hill. Initial assays returned highly anomalous values, with rock chip/grab samples commonly returning values in excess of 3.0 g/t gold (up to 4,380 g/t gold) from exposed veins and importantly indicated that a significant number of veins outcropping over a 550 m by 300 m area were highly auriferous. The initial sampling results were followed by a Q3-Q4 exploration program that included geological mapping, prospecting and rock chip sampling, trenching, detailed ground magnetics, IP gradient array and dipole-dipole surveys, and a 15-hole (695 m) maiden drilling program.

Gold mineralization at Bayan khundii is associated with comb-textured quartz veins, quartz breccias, and hematite veinlets, breccias and fracture fillings that are hosted by an intensely altered (silicified and sericitized) sequence of volcanic and volcaniclastic rocks. With the exception of very minor finely disseminated pyrite in a few drill holes, Bayan Khundii is devoid of sulphide minerals, including copper, lead and zinc-bearing sulphide minerals. Visible gold has been noted in association with comb- and mottled-textured quartz veins, chalcedony veins, and as fine disseminations and along joint surfaces, as fine disseminations in quartz breccias, and in hematite veins and veinlets which are interpreted as hypogene in origin.

A review of mechanisms for epithermal gold formation include a model for low sulphidation epithermal systems whereby gold is transported as bisulphide complexes in fluids, presumably from deep magmatic sources, that interacted with shallow oxygenated meteoric-dominated hydrothermal fluids that destabilized the bisulphide complexes resulting in gold deposition. The presence of hypogene hematite is a key mineralogical indicator for this type of gold deposition. Bayan Khundii gold±silver mineralization is considered to be a low sulphidation epithermal type gold deposit.

Drilling Program

The maiden drill program commenced on November 8, 2015 and consisted of 15 angled (45 to 60 degrees) large diameter diamond drill holes (‘PQ’ size core; 85mm), totaling 695 metres. Drill hole depth ranged from 31 m to 70 m (average 46 m) with maximum vertical depth tested of approximately 50 m. The program only tested the Southwest prospect.

Gold mineralization was confirmed through drilling in multiple structures (>15), orientated perpendicular to a 550 m long, silicified-sericitized alteration zone that remains open in all directions. These perpendicular structures are commonly host to high-grade comb-quartz veins and quartz and/or hematite breccias within a lower grade gold envelope, all within a zone of pervasive silica and sericite altered, volcanic and volcaniclastic host rocks with extensive hypogene hematite within veins and along fractures, and as matrix material in breccias. Visible gold was observed in 10 of 15 holes within quartz veins as irregular shaped grains (up to 2 mm), and also as high-grade disseminations and fracture fillings. A general absence of sulphide mineralization was noted in all of the holes, with the exception of minor disseminated pyrite and rare pyrite in quartz veins. The main mineralized veins are interpreted to dip at 40 to 50 degrees to the southwest.

Mineralization within the Striker Zone (northeast portion of Southwest prospect) included;

- Hole BKD-01: 7m of 27.5g/t gold, from 14 to 21m depth (including 1m of 187g/t gold)

- Hole BKD-09: 26.4m of 5.9g/t gold, from 33 to 59.4m depth (including 15m of 9.9g/t gold)

- Hole BKD-10: 35m of 5.7g/t gold, from surface to 35m depth (including 12m of 16.2g/t gold)

Note: Hole BKD-09 is located 30 m south-southwest from BKD-01 and 63 m west of hole BKD-10, indicating continuity down-dip and along strike.

Rock Chip Sampling

Within the Southwest prospect, a total of 78 rock chip, grab and channel samples were collected, principally from quartz veins within multiple mineralized areas across the prospect, a 550 m by 300 m area, with the majority returning highly anomalous values, and over 20% of the samples returning values in excess of 3.0 g/t gold (up to 4,380 g/t gold). The Northeast prospect, located 700 m to the northeast of the Southwest prospect, contains an alteration area measuring 300 m by 300 m, and returned numerous anomalous gold assays (>200 ppb) from mineralized rock chip samples with up to 4 g/t gold. In addition, two rock chip samples collected a further 500 m to the northeast (NE Extension prospect) returned gold assay values of 7.0 g/t and 0.4 g/t gold. These areas to the northeast will be investigated further in 2016.

Trenching

Following the surface sampling program and prior to drilling, a detailed mapping and trenching program was initiated by the Corporation during Q3 2015. The program included 11 trenches, totaling 552 m, completed over the Southwest prospect. The program was designed to further define the near-surface mineralization identified through rock chip sampling, improve the understanding of the gold mineralized system and prioritize areas for the planned maiden drilling program. The program was successful in demonstrating wide zones of gold mineralization in the wall rock (30 m of 2.70 g/t gold in trench BKT-01) and confirming the intensity of high-grade mineralization in narrow, high-grade veins (1 m of 55.6 g/t gold in trench BKT-06), as well as demonstrating continuity over a wide area.

## Geophysics

A detailed ground magnetic survey (20 m spaced N-S lines) was completed over a 1.7 by 1.8 km area at Bayan Khundii. 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 andesite to the north and east of the Southwest prospect.

Induced polarization (IP) surveys were completed at Bayan Khundii, including a 1 km by 1 km gradient array survey (100 m spaced N-S lines) over the Southwest prospect, and four 1.4 km long N-S dipole-dipole (Dp-Dp) lines over the Striker, Gold Hill and Stockwork Hill zones within the Southwest prospect. 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 in the Southwest prospect area 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 andesite, suggesting the alteration zone extends beneath the andesite cover, as also suggested by magnetic data. The Dp-Dp data provide additional insight into the probable extensions of the highly resistive alteration beneath both the Cretaceous sedimentary rocks to the south and the unaltered andesite to the north. The combined gradient and Dp-Dp 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 (<100m) and to the south under Cretaceous sediments.

## 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 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. This suggests that gold from Bayan Khundii is free milling and amenable to conventional processing techniques.

## Conclusion and Recommendations

Results to date at Bayan Khundii have been very encouraging; however, the Bayan Khundii Gold project requires an extensive exploration program to determine the continuity, grade and extent of the gold mineralization. The recommended exploration program for 2016 includes; geological mapping, geochemical surveys (soil and rock), expanded geophysical surveys; trenching; drilling (both resource delineation and exploratory); mineralogical studies; and technical studies in support of moving the project towards a mining license application. In addition, results to date from the entire Khundii license area support a more detailed license-wide surface exploration program to define additional target areas.

It is anticipated that the planned work program will results in a maiden resource estimate for the Bayan Khundii project in Q3 2016.

**Altan Nar Gold-Polymetallic Project**

The Altan Nar ("Golden Sun") project is located on Erdene's Tsenkher Nomin exploration license in southwestern Mongolia. The exploration 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. The 4,669 hectare Tsenkher Nomin license is 100% owned by Erdene and is not subject to any royalty agreements.

The Altan Nar project is located in the Tian Shan Gold Belt, part of the Central Asian Orogeny and host to some of the world's largest gold deposits. Although epithermal gold and porphyry copper deposits are well documented across the border in China and along the westward trend, limited exploration has taken place in southwest Mongolia due to its isolation, geographically and politically, until the early 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 five years which has resulted in the discovery of multiple gold and copper occurrences including the discovery at Altan Nar.

Altan Nar was first discovered by the Company 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.

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, including mapping, geochemical and geophysical survey programs, and a multi-stage scout and resource delineation drilling program, have greatly expanded the areas of known mineralization with 20 targets areas now documented over a 6 km x 10 km area, with the main mineralized, structural trend and primary location of carbonate, gold-silver-base metal mineralization being approximately 5.6 km x 1.5 km, consisting of 18 of the 20 target areas.

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

Discovery Zone and Union North

Resource Estimate

During the first quarter of 2015, an independent National Instrument 43-101 technical report ("Altan Nar Report") outlining the initial resource estimate at Altan Nar for the Discovery Zone ("DZ") and Union North ("UN") deposits was completed and is available on SEDAR.

Table 1 below shows the Indicated and Inferred Mineral Resource ("Mineral Resource") estimate for the Discovery Zone and Union North prospects as at February 19, 2015. The Mineral Resource was completed by RungePincockMinarco ("RPM") in accordance with the recommended guidelines of the CIM Definition Standards references in National Instrument 43-101 ("NI 43-101"). The Mineral Resources are provided at a number of gold equivalent ("AuEq") cut-offs, however RPM suggests reporting the Mineral Resource at a 1.0 g/t AuEq cut-off. The 0.6 g/t AuEq and 1.4 g/t AuEq cut-off grade Mineral Resources are provided for illustrative purposes.

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

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

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

*5. Totals may differ due to rounding*

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

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

Exploration Work

Drilling to date at the DZ has identified a minimum strike length of 500 m. Thirty-five, mostly shallow (<150 m true depth vertical extent) drill holes, on 20 m to 100 m spacing along strike, and six trenches across zones of surface mineralization, have demonstrated vertical and lateral continuity of gold, silver, lead and zinc mineralization. Exploration work has identified north-northeast trending, sub-vertical zones of gold and silver mineralization over variable widths (up to 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 the fourth quarter 2014, drilling at Discovery Zone North returned the highest grade intersection to date in hole TND-70, with 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). 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 1.4 g/t gold (2.0 g/t AuEq), from 78 to 131 m depth.

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

At UN, a series of 8 trenches and 15 drill holes, at 50 m to 100 m spacing, have identified mineralization associated with a structural dilation zone on a large northeast-southwest trending structure, that hosts wide, parallel zones of intensely altered and mineralized breccias. Previous drilling (2012) included a single hole (TND-46) at UN that intersected 47 m of 1.3 g/t gold, including 9 m of 4.4 g/t gold (5.4 g/t AuEq). Infill drilling during the third quarter of 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). The total strike length of UN is now 600 m and remains open to the northeast, south, and at depth.

Outside of the DZ and UN, scout drilling (2011-2012), trenching (2013, Q3 2014) and target drilling (Q2,Q4 2014, and Q3 2015) have been carried out over a 5.0 km portion of the Altan Nar property to test a number of high priority targets..

Geophysical Survey

The aerial extent of ground geophysical surveys at Altan Nar was expanded in 2014, with 20 line kilometres of induced polarization ("IP") dipole-dipole surveys completed along 100 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 second quarter 2014 survey results show the presence of multiple, locally intense, chargeability high anomalies, extending from near-surface to depth, often continuing below the IP survey detection limit of approximately 150 m. Anomalies beneath the North Bow/South Bow and Union North, Union South target areas are particularly intense. The majority of these geophysical targets have yet to be drill tested.

Geochemical Soil Survey

In addition to the regional soil survey over the Tsenkher Nomin license area, that had a broad 400 m by 400 m grid spacing and defined the 5.6 by 1.5 km target area, a total of 858 soil samples were collected at 12.5 m intervals along 50 m spaced infill lines over a 1.0 square km area at Altan Nar in Q2, 2014. The objective of the soil program was to provide greater definition of gold, base-metal and associated alteration-element soil anomalies, which have proven to be very effective in identifying mineralized trends. Approximately 15% of the samples collected (128 samples) returned values greater than 10 ppb gold and are considered to be anomalous based on a regional average of 2.3 ppb gold. One soil sample collected over the Maggie prospect returned a highly anomalous value of 1.04 g/t (1,040 ppb) gold. The new soil data has been compiled and integrated with other geochemical data as well as geophysical and geological data sets and new targets generated.

Geologic Mapping and Prospecting

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

Surface Exploration Results

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

Metallurgical Testing

During Q3, 2015 the Corporation completed metallurgical testwork on representative drill core composites from DZ North and Union North. The testwork 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 testwork 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 testwork. 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. Additional metallurgical work is planned for Q1 2016.

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.

<u>Summary</u>

Altan Nar hosts a total of 18 mineralized (gold, silver, lead and zinc) target areas that have been identified within a 5.6 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 resource estimate released in Q1 2015. The Altan Nar resource includes an Indicated Resource of 1.8 million tonnes (“Mt”) averaging 2.5 g/t AuEq (147,000 oz gold) and an Inferred Resource of 1.5 Mt averaging 2.1 g/t AuEq, (102,000 oz gold), at a 1.0 g/t AuEq cut-off. The remaining 16 targets are either undrilled or scout-drilled and are considered by Erdene to have good potential for hosting additional resources.

During Q3 2015, 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 Corporations confidence in the potential for these target areas, outside of the DZ-UN resource boundaries, to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar.

The Corporation also completed metallurgical testwork on drill core composites from DZ-UN to evaluate processing options for the production of gold-silver doré on site through gravity and leaching, and/or production of gold and silver in lead-zinc concentrates through flotation.

Given the multitude of targets, Altan Nar has now been established as a significant new gold, silver and base metal discovery. Altan Nar's location relative to China, where plant and operating equipment can be accessed and where potential final processing facilities are located, has advantages for moving rapidly to initial production.

**Zuun Mod Molybdenum Project**

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in Bayankhongor Province, Mongolia, approximately 950 km southwest of Ulaanbaatar and 215 km from railhead on the Mongolia-China border at Ceke. The railhead is located 50 km south of the Nariin Sukhait and 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 royalty of 1.5%, subject to a buy-down provision.

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

Recent market demand and pricing conditions for molybdenum have been generally depressed with the price of molybdenum oxide at approximately US$5.44 per pound on December 31, 2015, 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. 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"). The exclusivity and option period was originally scheduled to expire on June 9, 2015; however, on July 15, 2015 Erdene announced that Tian Poh was granted a 6-month extension to its deadline for exercising its option. Tian Poh agreed it would complete a 1,000 m drill program by October 30, 2015. The deadline for Tian Poh to decide to exercise its option to acquire an interest in Erdene's Zuun Mod-Khuvyn Khar mining license was extended to December 9, 2015. Prior to the expiration date, Tian Poh elected to not exercise its option to acquire an interest in the Zuun Mod mining license (see Fourth Quarter – Impairment).

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

Khuvyn Khar Copper-Silver Project

The Khuvyn Khar copper-silver project is located on the Zuun Mod property which covers a large porphyry system. 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).

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

Khuvyn Khar 2014 Exploration Program

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 Update

As noted above, on July 15, 2015, the Corporation granted Tian Poh an extension to the exclusivity period to December 9, 2015. As consideration for the extension, Tian Poh was required to complete a minimum of 1,000 metres of drilling on the Project by October 30, 2015.

A two-hole, 1,000 m drill program was completed on the Khuvyn Khar (“KK”) North target area from mid-August to early September 2015. The drilling was overseen by Shane Hibbird, P. Geo, who acted in the capacity of Tian Poh-contracted Qualified Person (QP). The two drill holes included a 450 m hole (ZMD-129) and a 550 m hole (ZMD-130). Assays were completed at the SGS Laboratory in Ulaanbaatar for two-metre intervals for the entire length of both drillholes with highlights presented in Table 2.

Both drillholes were located in the large Khuvyn Khar North target zone (approximately 1 km x 1.5 km) 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.

Hole ZMD-129 intersected hydrothermal intrusive breccias and several porphyry intrusions in the upper 242 m of the hole, with assays over that length returning an average of 0.08% copper ("Cu"), including an 8 m interval that averaged 0.13% Cu. Trace amounts of molybdenite were noted throughout much of the hole, whereas only trace amounts of chalcopyrite were noted, although the fine grain size of much of the sulphide made confirmation of chalcopyrite difficult. Several faults, up to 11 m wide, were noted throughout the hole, with some copper enrichment (up to 0.1% Cu).

Hole ZMD-130 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 andesite contained abundant sulphide, locally with quartz vein stockwork, some with 'bleached' alteration selvages, and zones of quartz-magnetite-pyrite-epidote veins with associated magnetite alteration. Trace amounts of molybdenite were noted throughout the hole, mostly in quartz-sulphide veins. Only minor chalcopyrite was observed, although the fine grain size of much of the sulphide made confirmation of chalcopyrite difficult. As noted in ZMD-129, some faults in ZMD-130 were enriched in copper (up to 0.1% Cu), suggesting these structures may have acted as conduits for mineralizing fluids. The drilling also encountered elevated gold, up to 0.12g/t.

Table 2. Assay highlights from the 2015 two-hole drill program at the KK North target area.

| Drillhole | From (m) | To (m) | Interval (m) | Cu (%) | Mo (ppm) | Au* (ppb) | Ag** (ppm) |
|---|---|---|---|---|---|---|---|
| ZMD-129 | 2 | 244 | 242 | 0.08 | 104 | 1.4 | 1 |
| including | 4 | 18 | 14 | 0.10 | 22 | 18 | 1 |
| and | 36 | 50 | 14 | 0.11 | 91 | 0.5 | 1 |
| and | 194 | 196 | 2 | 0.08 | 584 | 0.5 | 1 |
| and | 222 | 234 | 12 | 0.12 | 184 | 1.0 | 1 |
| ZMD-130 | 2 | 194 | 192 | 0.10 | 45 | 3.2 | 1.2 |
| including | 46 | 48 | 2 | 0.15 | 436 | 5 | 1 |
| and | 112 | 122 | 10 | 0.19 | 48 | 0.5 | 1 |
| and | 136 | 142 | 6 | 0.20 | 59 | 2 | 1 |
| and | 140 | 142 | 2 | 0.31 | 77 | 5 | 1 |
| and | 162 | 164 | 2 | 0.08 | 28 | 118 | 1 |

*Au values less than the detection limit of 1 ppb were assigned a value of 0.5 ppb for statistical purposes.
**Ag values less than the detection limit of 2 ppm were assigned a value of 1 ppm for statistical purposes.

As noted above, in December 2015, Tian Poh elected to not exercise its option to acquire an interest in the Zuun Mod mining license. The Corporation continues to investigate options to advance the Zuun Mod/Khuvyn Khar Copper - Molybdenum Project.

## Outlook

### General

Management's long-term focus remains the discovery and development of significant precious and base metal deposits in Mongolia. The Corporation's immediate focus will continue to be the evaluation and potential development of the Bayan Khundii Gold and Altan Nar Gold-Polymetallic projects.

The Corporation has working capital sufficient to meet its budgeted expenditures until the end of the second quarter of 2016. 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.

### Bayan Khundii

Management considers Bayan Khundii to be a significant new gold discovery and, based on the initial high-grade results received from initial drilling and trenching programs, has elevated the project to high priority status. The 2016 exploration program, designed to determine the continuity, grade and extent of the gold mineralization at Bayan Khundii, is schedule to start in early April 2016. Baseline studies in advance of a mining license application will commence in Q2 and it is anticipated that a maiden resource estimate will be completed in Q3.

### Altan Nar

With the completion of the initial mineral resource for Altan Nar, the Corporation is now evaluating near-term development options and will advance the project based on the outcome of this work.

Upcoming work at Altan Nar is expected to include additional metallurgical process test work, evaluations of the mining, engineering, transportation, and marketing options, exploration and development related programs, and the commencement of studies associated with a mining license application.

### Zuun Mod/Khuvyn Khar

Management believes that the Zuun Mod molybdenum-copper deposits have significant potential for development if/when the molybdenum price improves. 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

Regional exploration, designed to identify additional porphyry and porphyry-related mineralization in south-western Mongolia is ongoing and has been designed to be a multi-year program. This program is being funded through the alliance with Teck Resources Limited. The 2016 regional exploration program will focus on the eastern portion of the south-western Mongolia area of interest and will consist of regional scale stream sediment survey, geological mapping and prospecting, as well as analysis of remote sensing data. The 2016 exploration program will be completed, contingent on, and financed out of proceeds from, the April 2016 Teck private placement.

Table 3. Estimated budget for 2016 is outlined below.

| Mongolia Exploration by Project | Altan Nar | Bayan Khundii | Genex | Zuun Mod/ Khuvyn Khar | Total 2016 |
|---|---|---|---|---|---|
| Drilling | $ - | $ 495,000 | $ - | $ - | 495,000 |
| Geochemical Analysis/Assays | $ - | $ 99,000 | $ - | $ - | 99,000 |
| Geological and Project Personnel | $ 90,000 | $ 83,000 | $ 56,000 | $ 11,000 | 240,000 |
| Country and Project Management | $ 131,000 | $ 135,500 | $ 77,000 | $ 32,000 | 375,500 |
| Geophysics | $ - | $ 60,000 | $ - | $ - | 60,000 |
| * Consulting | $ 227,500 | $ 672,000 | $ - | $ - | 899,500 |
| Field Support and Community | $ 51,500 | $ 126,000 | $ 9,500 | $ 8,500 | 195,500 |
| Travel | $ 8,000 | $ 23,000 | $ 3,000 | $ - | 34,000 |
| License Renewal | $ 6,500 | $ 9,000 | $ 500 | $ 92,000 | 108,000 |
| **Exploration Sub-total** | **$ 514,500** | **$ 1,702,500** | **$ 146,000** | **$ 143,500** | **2,506,500** |
| **Mongolia Exploration Office** | | | | | **210,500** |
| **Total Mongolia** | **$ 514,500** | **$ 1,702,500** | **$ 146,000** | **$ 143,500** | **2,717,000** |
| **Corporate Admin/Office Canada** | | | | | **681,500** |
| **Total** | **$ 514,500** | **$ 1,702,500** | **$ 146,000** | **$ 143,500** | **3,398,500** |

*** Consulting includes geophysical programs, various studies associated with Mongolian mining license application: hydrology, paleontological and archeological studies, resource estimates, economic evaluations, and environmental baseline studies**

## 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** | **2015** | **2014** | **2013** |
|---|---|---|---|
| Revenues | $ Nil | $ Nil | $ Nil |
| Loss for the year | $ 12,608 | $ 2,617 | $ 2,760 |
| Basic and diluted loss per share | $ 0.14 | $ 0.04 | $ 0.05 |
| Total assets | $ 2,522 | $ 10,912 | $ 11,586 |
| Total long-term liabilities | $ Nil | $ Nil | $ 3 |
| Cash dividends declared | $ Nil | $ Nil | $ Nil |

## Discussion of Operations

### *Years ended December 31, 2015 and 2014*

Exploration expenses totaled $1,502,565 for the year ended December 31, 2015 compared to $1,900,651 for the same period in 2014. This excludes the capitalized costs on Zuun Mod totaling $132,699 (2014 - $130,888) and Altan Nar totaling $764,770 (2014 – $5,379). In the first quarter of 2015, upon receipt of a maiden resource estimate on the Altan Nar property, the Corporation gained sufficient confidence in the future potential of the Altan Nar property to begin to capitalize exploration expenses, in line with its accounting policy. As explained in greater detail under

“Project Summaries”, most of the 2015 exploration expenses were on the Bayan Khundii and Altan Nar projects and on programs under the alliance with Teck Resources. The tables below outline the exploration costs incurred on the Corporations properties in 2015 and 2014.

| | Zuun Mod | Altan Nar | Bayan Khundii and 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** | **4,179** | **96,414** |
| Geological services, camp and field | **176,522** | **447,019** | **527,327** | **1,150,868** |
| Travel and other | **47,137** | **27,634** | **67,234** | **142,005** |
| Writeoffs | **420,478** | **-** | **-** | **420,478** |
| Mongolian office costs | **-** | **-** | **145,416** | **145,416** |
| Other | **-** | **-** | **(59,345)** | **(59,345)** |
| Total exploration expenditures | **740,666** | **764,770** | **898,777** | **2,404,213** |
| **Capitalized expenditures** | **(132,699)** | **(764,770)** | **(4,179)** | **(901,648)** |
| **Expensed exploration costs 2015** | **607,967** | **-** | **894,598** | **1,502,565** |
| Writeoffs | **(420,478)** | **-** | **-** | **(420,478)** |
| Impairments | **(10,371,283)** | **-** | **-** | **(10,371,283)** |
| Effect of movements in exchange rates | **926,869** | **23,348** | **1,478** | **951,695** |
| **E&E assets, December 31, 2015** | **$ 881,821** | **$ 804,505** | **$ 51,266** | **$ 1,737,592** |

| | Zuun Mod | Altan Nar | Bayan Khundii and Other | Total |
|---|---|---|---|---|
| **E&E assets, January 1, 2014** | **$ 10,760,501** | **$ 12,095** | **$ 87,179** | **$ 10,859,775** |
| **Exploration expenditures** | | | | |
| Drilling, trenching, sampling and assaying | - | 508,641 | 99,621 | 608,262 |
| Licence costs | 100,099 | 5,379 | 6,543 | 112,021 |
| Geological services, camp and field | 30,591 | 384,595 | 598,099 | 1,013,285 |
| Travel and other | 198 | 21,466 | 61,944 | 83,608 |
| Writeoffs | - | - | 45,086 | 45,086 |
| Mongolian office costs | - | - | 181,199 | 181,199 |
| Total exploration expenditures | 130,888 | 920,081 | 992,492 | 2,043,461 |
| **Capitalized expenditures** | **(130,888)** | **(5,379)** | **(6,543)** | **(142,810)** |
| **Expensed exploration costs 2014** | **-** | **914,702** | **985,949** | **1,900,651** |
| Writeoffs | - | - | (45,086) | (45,086) |
| Effect of movements in exchange rates | (277,375) | (1,087) | (3,027) | (281,489) |
| **E&E assets, December 31, 2014** | **$ 10,614,014** | **$ 16,387** | **$ 45,609** | **$ 10,676,010** |

Corporate & administrative expenses were $745,448 for the year ended December 31, 2015 compared to $729,074 in 2014. Cash overhead and administrative costs totaled $551,941 in 2015 compared to $624,535 in 2014, a $72,594 decrease.

| | For the year ended December 31 | |
|---|---|---|
| | **2015** | **2014** |
| Depreciation & amortization | **$ 11,121** | $ 14,304 |
| Employee compensation costs | **197,426** | 232,090 |
| Share-based compensation | **182,386** | 90,235 |
| Direct costs | **354,515** | 392,445 |
| | **$ 745,448** | $ 729,074 |

For the year ended December 31, 2015, the Corporation recognized a net loss from continuing operations of $2,236,342, compared to a loss of $2,616,553 for the same period in 2014. The Corporation also recognized an impairment charge of $10,371,283 on its Zuun Mod property (see Fourth Quarter below).

Net loss for the year ended December 31, 2015 was $12,607,625, or $0.14 per share compared to $2,616,553 or $0.04 per share in 2014.

## Fourth Quarter

### Financing

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 is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.18 for a 12-month period.

### Impairment

With the exit of Tian Poh in December 2015, and in light of the continued 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.

As a result of this analysis, an impairment charge of approximately $10.4 million was recognized in Q4 2015.

Other than that mentioned above, there were no unusual events or items during the fourth quarter of 2015 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 2015 | | | | Fiscal 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $11,476 | $393 | $222 | $517 | $733 | $535 | $930 | $419 |
| Basic and diluted loss per share | $0.13 | $0.00 | $0.01 | $0.00 | $0.01 | $0.01 | $0.01 | $0.01 |
| Total Assets | $2,522 | $12,508 | $12,540 | $11,321 | $10,912 | $10,763 | $10,812 | $10,932 |

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

The Corporation’s expenditures vary from quarter to quarter largely depending on the timing of its Mongolian exploration programs. The next 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 December 31, 2015, the Corporation had working capital of $308,341 compared to a working capital deficit of $138,325 at December 31, 2014.

In the first quarter of 2015, the Corporation received a US$250,000 payment from Tian Poh (see Agreement with Tian Poh Resources Limited). During the year ended December 31, 2015, the Corporation closed private placements totaling $2,857,940 in gross proceeds on the issuance of 20,434,042 shares and units (see Outstanding Share Data for further detail). The Corporation also received $198,973 on the exercise of 1,989,730 warrants. This includes 1,071,429 warrants held by Teck. Funds from the Teck warrants were used to repay the $107,142 Teck loan. Subsequent to year end, in March 2016, the Corporation received $770,564 in gross proceeds from the exercise of 4,816,025 warrants. At the date of this MD&A, the Corporation had approximately $850,000 in working capital.

Funds 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 only sufficient to fund the Corporation’s budgeted expenditures until the end of the second quarter of 2016. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliance, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation’s ongoing exploration programs.

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

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

## Contractual Obligations

The following table summarizes the Corporation's contractual obligations at September 30, 2015:

| Contractual Obligations | Total | Less than one year | 1-3 years | 4-5 years | More than 5 years |
|---|---|---|---|---|---|
| Office leases | $ 44,332 | $ 44,332 | $ - | $ - | $ - |
| Accounts payable and accrued liabilities | 188,083 | 188,083 | - | - | - |
| Convertible loan due Tian Poh | 252,207 | 252,207 | - | - | - |
| | $ 484,622 | $484,622 | $ - | $ - | $ - |

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

The Tian Poh debenture will be converted into shares of Erdene at $0.14 per share (issuance of 1,801,485 shares from treasury) upon receipt of registration and delivery instructions from Tian Poh.

## Off-Balance Sheet Arrangements

As at December 31, 2015, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

## Critical Accounting Estimates

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

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

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

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

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

**Share-based payments**

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

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

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

**Taxation**

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

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

## Adoption of New Accounting Standards

The accounting policies applied in the consolidated financial statements for the period ended December 31, 2015 are consistent with those used in the Corporation's Consolidated Financial Statements for the year ended December 31, 2014.

## Future Changes in Accounting Policies

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

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated statements:

(a) Amendments to IFRS 9 - Financial Instruments

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

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

(b) Clarification of Acceptable Methods of Depreciation and Amortization (amendments to IAS 16)

The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefit embodied in the asset.

The Corporation intends to adopt the amendments to IAS 16 in its financial statements for the annual period beginning on January 1, 2016 and doesn't expect the amendments to have a material impact to the financial statements.

(c) Disclosure Initiative: Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures.

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016 and doesn't expect the amendments to have a material impact to the financial statements.

(d) 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.

## Financial Instruments and Other Risks

The Corporation's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, accrued liabilities and obligations under finance leases. Management does not believe these financial instruments expose the Corporation to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

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

At this stage in the Corporation's development, it relies on equity financing for its working capital and capital requirements to fund its exploration and development programs. Future equity financing could be adversely or positively affected by many factors outside the Corporation's control such as market or commodity price changes, changes in the value of the Canadian dollar against the US dollar and/or the Mongolian Tugrik, general economic conditions, exploration results or political or economic changes in the jurisdictions in which the Corporation operates. The Corporation does not have sufficient funds to put any of its properties into commercial production from its current financial resources. There is no assurance that such financing will be available to the Corporation when required, or that it will be available on acceptable terms.

## Outstanding Share Data

### Issued and Outstanding Share Capital

On April 27, 2015, the Corporation closed a private placement with Teck and issued 2,826,310 shares at $0.139 per share for gross proceeds of $392,857. In addition to the private placement, the Corporation issued 1,071,429 shares at $0.10 per share on the exercise of warrants held by Teck.

In June 2015, the Corporation closed a non-brokered private placement with the issuance of 10,743,405 units at a price of $0.14 per unit for gross proceeds of $1,504,077. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant (see warrants below). The Corporation's advisors, Altus Securities Inc., received a finder's fee of $65,000 and 464,286 finder's fee warrants in connections with the private placement. Each finder's fee warrant is exercisable for one common share of the Company at $0.16 per share for a period of 12 months from the closing date.

On November 9, 2015 the Corporation closed a private placement with the issuance of 6,864,327 units at a price of $0.14 per unit for gross proceeds of $961,006. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant (see warrants below). The Corporation's advisors, Altus Securities Inc., received a finder's fee of $45,002 and 325,014 finder's fee warrants in connections with the private placement.

Subsequent to year end, the Corporation received $770,564 on the exercise of 4,816,025 warrants with an exercise price of $0.16.

To the date of this MD&A, the Corporation had 109,876,030 shares issued and outstanding.

**Stock Options**

During 2015, 623,000 options with an average exercise price of $0.45 expired.

During 2015, 2,525,000 options with an average exercise price of $0.15 were granted to certain officers, directors and employees of the Corporation. The options vested immediately and have a term of five years from the grant date.

Subsequent to year end, 107,500 options with an average exercise price of $1.04 per share expired

As of the date of this MD&A, the Corporation had 6,048,750 outstanding stock options with a weighted average exercise price of $0.17, all of which are exercisable.

**Warrants**

During 2015, 1,989,730 warrants were exercised at $0.10, for gross proceeds of $198,973.

In June 2015, the Corporation issued 5,371,704 whole share purchase warrants in conjunction with a private placement financing. Each whole share purchase warrant entitled the holder to purchase one common share of the Corporation at a price of $0.16 for a six month period from the closing date. Effective November 19, 2015, 4,845,311 of the warrants issued in June 2015, being warrants not held by insiders, were extended to March 15, 2016. In March 2016, 4,816,025 of these warrants were exercised for gross proceeds of $770,564 while 29,286 warrants expired.

The June 2015 private placement included the issuance of 464,286 finder's fee warrants with an exercise price of $0.16 for a period of 12 months from closing.

On November 9, 2015, the Corporation issued 3,432,166 whole share purchase warrants in conjunction with a private placement. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of $0.18 for a 12 month period from closing. The November 2015 private placement included the issuance of 325,014 finder's warrants with an exercise price of $0.15 for a period of 12 months from closing.

To the date of this MD&A, 8,766,036 warrants with a weighted average exercise price of $0.20 were outstanding, all of which were exercisable.

**Deferred Share Units**

For the year ended December 31, 2015, the Corporation granted certain officers, directors and employees of the Corporation an aggregate of 520,438 DSUs at a weighted average price of $0.14 per share compared to 370,858 with a weighted average price of $0.14 in 2014.

To the date of this MD&A, the Corporation had a balance of 3,020,437 DSUs outstanding.

## Disclosure Controls and Internal Controls over Financial Reporting

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the updated *Internal Control–Integrated Framework* (2013 Framework) in May 2013. COSO announced that the 2013 Framework will supersede the original 1992 Framework. The

Corporation has not yet adopted the new framework and used the 1992 Framework in 2015. The Corporation intends to adopt the new framework in the fiscal year ended December 31, 2016.

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, 2015 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, 2015.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## Qualified Person

Michael A. MacDonald, P.Geo. (Nova Scotia) is a qualified person under NI 43-101 and supervises all of the Corporation's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar, Blue Coast Research Ltd in Parksdale British Columbia, Canada, or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards and blanks.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation's properties has been reviewed 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.