



ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(Canadian dollars)
(Unaudited)

Prepared by Management – See Notice to Reader

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect. These unaudited condensed interim consolidated financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at September 30, 2014 and December 31, 2013 and the unaudited condensed interim consolidated statements comprehensive loss and cash flows for the three and nine months ended September 30, 2014 and 2013. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2014 and 2013 condensed interim consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Canadian dollars)

(Unaudited)

	Note	September 30, 2014	December 31, 2013
ASSETS			
Current assets:			
Cash		\$ 45,010	\$ 569,469
Trade and other receivables		20,213	59,198
Prepaid expenses		25,175	12,629
		90,398	641,296
Non-current assets:			
Exploration and evaluation assets		10,610,370	10,859,775
Property, plant and equipment		61,983	85,036
		10,672,353	10,944,811
TOTAL ASSETS		\$ 10,762,751	\$ 11,586,107
LIABILITIES & EQUITY			
Current liabilities:			
Trade and other payables		\$ 179,230	\$ 158,233
Due to Teck Resources	6	107,142	-
Current portion of obligations under finance leases		3,757	4,265
		290,129	162,498
Non-current liabilities:			
Obligations under finance leases		-	2,658
		-	2,658
TOTAL LIABILITIES		\$ 290,129	\$ 165,156
EQUITY			
Shareholders' equity:			
Share capital	6	\$ 78,578,582	\$ 77,497,474
Contributed surplus		11,433,777	11,200,415
Accumulated other comprehensive loss		(1,390,168)	(1,011,795)
Deficit		(78,149,569)	(76,265,143)
TOTAL EQUITY		\$ 10,472,622	\$ 11,420,951
TOTAL LIABILITIES AND EQUITY		\$ 10,762,751	\$ 11,586,107

Going concern (Note 2)

Subsequent events (Note 7)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Loss

(Canadian dollars)

(Unaudited)

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2014	2013	2014	2013
Continuing Operations					
Exploration expenses		401,880	414,104	1,266,410	1,236,229
Corporate and administration		133,811	195,420	624,925	682,826
Foreign exchange (gain)/loss		(273)	(2,578)	(4,843)	(11,917)
Loss from operating activities		(535,418)	(606,946)	(1,886,492)	(1,907,138)
Finance income		427	1,744	2,413	7,380
Finance expense		(94)	(180)	(347)	(1,391)
Net finance income		333	1,564	2,066	5,989
Net loss from continuing operations		(535,085)	(605,382)	(1,884,426)	(1,901,149)
Loss from discontinued operations	5	-	-	-	(137,357)
Net loss		\$ (535,085)	\$ (605,382)	\$ (1,884,426)	\$ (2,038,506)
Other comprehensive income / (loss):					
Items which may subsequently be recycled through profit and loss					
Foreign currency translation difference arising from translation of foreign subsidiary		218,919	(1,063,423)	(378,373)	(947,037)
Total comprehensive loss		\$ (316,166)	\$ (1,668,805)	\$ (2,262,799)	\$ (2,985,543)
Basic and diluted loss per share:					
Continuing operations		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Discontinued operations		-	-	-	-
Basic and diluted loss per share		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Basic weighted average					
number of shares outstanding		75,626,829	58,785,299	72,310,091	56,734,017

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ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance at January 1, 2013	\$ 75,975,162	\$ 10,631,949	\$ (426,531)	\$ (73,504,720)	\$ 12,675,860
Total comprehensive loss for the period:					
Net loss	-	-	-	(2,038,506)	(2,038,506)
Other comprehensive income	-	-	(947,037)	-	(947,037)
Private placement net of share issue costs	981,057	-	-	-	981,057
Change in share subscription receivable	9,791	-	-	-	9,791
Share-based payments	-	297,637	-	-	297,637
Total transactions with owners	990,848	297,637	-	-	1,288,485
Recognition of cumulative translation adjustment in net loss upon windup of subsidiary (note 5)	-	-	137,357	-	137,357
Balance at September 30, 2013	\$ 76,966,010	\$ 10,929,586	\$ (1,236,211)	\$ (75,543,226)	\$ 11,116,159
Balance at January 1, 2014	\$ 77,497,474	\$ 11,200,415	\$ (1,011,795)	\$ (76,265,143)	\$ 11,420,951
Total comprehensive loss for the period:					
Net loss	-	-	-	(1,884,426)	(1,884,426)
Other comprehensive income (loss)	-	-	(378,373)	-	(378,373)
Private placement net of share issue costs (note 6)	851,448	-	-	-	851,448
Warrants issued under private placement	-	149,958	-	-	149,958
Issue of shares from DSU plan	3,500	(3,500)	-	-	-
Stock option exercised	3,400	(1,000)	-	-	2,400
Warrants exercised	222,760	(63,646)	-	-	159,114
Share-based payments	-	151,550	-	-	151,550
Total transactions with owners	1,081,108	233,362	-	-	1,314,470
Balance at September 30, 2014	\$ 78,578,582	\$ 11,433,777	\$ (1,390,168)	\$ (78,149,569)	\$ 10,472,622

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

(Canadian dollars)

(Unaudited)

		For the nine months ended September 30,	
	Note	2014	2013
Cash flows from operating activities:			
Net loss		\$ (1,884,426)	\$ (2,038,506)
Item not involving cash:			
Depreciation and amortization		15,271	22,689
Stock-based compensation		151,550	297,639
Loss on disposal of exploration and evaluation assets		-	10,343
Loss on windup of subsidiary	5	-	137,357
Loss on disposal of property, plant and equipment		1,601	-
Net finance income		(2,066)	(5,989)
Foreign exchange (gain)/loss		(2,832)	(925)
Change in non-cash working capital		161,768	(327,339)
Cash flows from operating activities		(1,559,134)	(1,904,731)
Cash flows from financing activities:			
Issue of common shares for cash, net of issue costs	6	1,001,406	981,057
Proceeds from exercise of stock options		2,400	-
Proceeds from exercise of warrants		159,114	-
Proceeds on repayment of share subscription receivable		-	9,000
Repayment of obligations under capital lease		(3,166)	(2,912)
Interest paid		(347)	(600)
Cash flows from financing activities		1,159,407	986,545
Cash flows from investing activities:			
Expenditures on exploration and evaluation assets		(129,977)	(215,808)
Proceeds on sale of property, plant and equipment		4,420	-
Interest received		2,413	7,380
Cash flows from investing activities		(123,144)	(208,428)
Effect of exchange rate change on cash		(1,588)	(4,514)
Decrease in cash		(524,459)	(1,131,128)
Cash, beginning of period		569,469	1,502,889
Cash, end of period		\$ 45,010	\$ 371,761

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2014 and 2013

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 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2014 and 2013 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 discovery of significant base and precious metal deposits in Mongolia.

2. Going concern

These condensed interim 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 2014 and 2013. The Corporation had a working capital deficit of \$199,731 at September 30, 2014 compared to working capital of \$478,798 at December 31, 2013, representing a \$677,414 decrease, and has a deficit. Subsequent to September 30, 2014, the Corporation closed a private placement financing of \$661,450 and received \$131,789 on the exercise of warrants. Management estimates current working capital is only sufficient to fund the Corporation's planned expenditures until the first quarter of 2015. 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 condensed interim consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying amounts of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2014 and 2013

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34"). They do not include all the disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Corporation's 2013 annual consolidated financial statements which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB")

The policies applied in these condensed interim consolidated financial statements are consistent with the policies disclosed in Notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2013 with the exception of new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2014. Note 4 sets out the impact of the new standards, interpretations and amendments that have a material effect on the consolidated financial statements.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 12, 2014.

4. New standards, amendments and interpretations effective for the first time from January 1, 2014

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2014. The following new standards, amendments and interpretations have been adopted by the Corporation but have not had a material impact on these condensed interim consolidated financial statements:

- IFRS 9 – Financial Instruments
- Investment Entities - IFRS 10, IFRS 12 and IAS 27
- Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
- IFRIC 21, Levies

5. Discontinued Operations

During the first quarter of 2013, the Corporation completed the windup of its subsidiary ERD Aggregate Corporation (Delaware) which previously held the Corporation's interest in the Granite Hill property and the associated real estate. The Corporation recognized a loss on windup of subsidiary of \$137,357 in the Statement of Loss related to the recognition of the cumulative translation adjustment previously recorded in accumulated other comprehensive income.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2014 and 2013

6. Share Capital

- On April 21, 2014 the Corporation closed a non-brokered private placement financing with the issuance of 2,000,000 shares to Teck Resources Limited at a price of \$0.175 for gross proceeds of \$350,000.
- On May 13, 2014 the Corporation closed a non-brokered private placement with the issuance of 4,284,500 units at a price of \$0.16 per unit for gross proceeds of \$685,520. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.24 until May 13, 2016. If the closing price of the Corporation's common shares trading on the Toronto Stock Exchange is \$0.36 or higher for 30 consecutive trading days, the corporation may, at its sole discretion, accelerate the expiry period of the warrants by providing written notice of such acceleration by way of a news release.
- During the nine months ended September 30, 2014, the Corporation received net proceeds of \$159,114 on the exercise of 1,591,144 share purchase warrants with an exercise price of \$0.10 per share.
- Current liabilities include a loan from Teck Resources totaling \$107,142 which will be settled with equity at a future date. The number of shares issued to settle the debt will be determined at that date.

7. Subsequent events

- Subsequent to September 30, 2014, the Corporation has received total proceeds from the exercise of warrants and from a non-brokered private placement of \$793,239 resulting in the issuance of 6,042,529 common shares the details of which are as follows:
 - The Corporation received \$131,789 in proceeds from the exercise of 1,317,886 share purchase warrants with an exercise price of \$0.10 per share.
 - On November 13, 2014, the Corporation closed a non-brokered private placement with the issuance of 4,724,643 units at a price of \$0.14 per unit for gross proceeds of \$661,450. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.21 until November 13, 2016. If the closing price of the Corporation's common shares trading on the Toronto Stock Exchange is \$0.28 or higher for 30 consecutive trading days, the corporation may, at its sole discretion, accelerate the expiry period of the warrants by providing written notice of such acceleration by way of a news release.



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Quarter ended September 30, 2014

This Management Discussion and Analysis ("MD&A"), dated November 14, 2014, 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, 2013, unaudited condensed interim consolidated financial statements for the period ended September 30, 2014 and 2013 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, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions.

Third Quarter 2014 Highlights

Advancement of the Altan Nar Gold-Base Metal Project

- Union North trenching returned multiple mineralized zones highlighted by a 12 m wide zone of 3.7 g/t gold, extending Union North 100 m south
- Junction, a previously untested target area, located 600 m east of the Discovery Zone, returned a base metal rich zone that included 4 m of 3.7% zinc, 1.2% lead, and 16 g/t silver within a broad 26 m zone of 0.8% zinc
- The early-stage Maggie target continues to demonstrate continuity of mineralization with step-out trenches along trend returning 8 m of 2.0 g/t gold equivalent to the northeast and 5 m of 1.2 g/t gold equivalent to the southwest

Note: Gold equivalents are provided to the reader for guidance in assessing the total metal content in the reported intersection. However, it should be noted that until processing test work is finalized, recoveries of each of these metals is unknown and no recovery factor has been used in the gold equivalent calculations. Prices used for calculating gold equivalent include: US \$1,200/ounce gold, \$18/ounce silver, \$0.80/pound zinc and \$0.80/pound lead.

Khuvyn Khar Copper/Zuun Mod Molybdenum Project Activity

- “Anaconda Style” mapping was completed along with a 1,500 metre trenching program which has complemented the definition of a strong porphyry copper target in northern Khuvyn Khar

Financing & Corporate

- The Company raised approximately \$1.1 million from the beginning of the third quarter to the date of this MD&A:
 - During the quarter the company received \$159,114 through the exercise of warrants
 - During the quarter Teck Resources advanced \$107,142 to the Company. The loan will be settled with equity.
 - Subsequent to quarter end the company closed a private placement and received proceeds on the exercise of warrants totalling \$793,239.

Company Overview and Strategy

Erdene is a resource exploration and development corporation listed on the Toronto Stock Exchange (TSX:ERD) focused on base and precious metals exploration in Mongolia. The Corporation's projects include the Khuvyn Khar/Zuun Mod Copper-Molybdenum project, the Altan Nar Gold and Base Metal project, as well as other early stage prospects. The current focus is the exploration and evaluation of the Altan Nar Gold and Base Metal Property. This 100% owned property includes 20 gold - base metal targets identified to date, and of those, only one has been tested below 100 metres vertical depth. The Discovery Zone and Union North are the two most advanced targets. The current NI 43-101 technical report is available on Sedar.

The Company's near-term objective is to establish initial, independently reported, near surface, high grade, open pit minable resources at both Discovery Zone and Union North in early 2015. Simultaneously the Company would be completing additional evaluation of the remaining targets to assist in determining the highest priority areas and assessing the potential of property-wide near-surface resources. The initial resource will support a scoping study in the first half of 2015 which would consider options for development including evaluating the concept of producing a potentially high value gold, silver, lead and zinc concentrate(s) sold into China (rail link 175 km to the south) for final processing. This option has the potential to have low capital and operating costs during start up and early cash flow.

In addition to the Altan Nar Project, the Company is active through the Teck Alliance in assessing the potential of the Khuvyn Khar porphyry copper project and assessing regional opportunities through the Alliance's area of interest particularly now that the Mongolian licencing system is about to re-open. Also, the Company continues to monitor the molybdenum market and assess the most efficient and effective way to advance the Zuun Mod molybdenum deposit.

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 Altay 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 are committed to exploration work; primarily on the Corporation's Khuvyn Khar copper porphyry project and regional exploration in the Trans Altay region.

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 August 29, 2014 the Corporation received \$107,142 from Teck to fund ongoing exploration programs under the Agreement. The loan carries no interest and will be settled with equity at a later date. The number of shares issued to settle the loan will be determined based on the market value of Erdene shares at that date or the \$0.10 per share exercise price of warrants held by Teck.

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. Teck may subscribe to the balance with a minimum of \$500,000 to be subscribed on each anniversary date of the closing of the initial tranche. To the date of this MD&A, Teck owns 11.1% 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.

Altan Nar Gold Project

The Altan Nar ("Golden Sun") prospect is located on Erdene's Tsenkher Nomin exploration license located in southwestern Mongolia. The exploration license is in its fifth 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 12th 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 Property 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 southwestern Mongolia due to its isolation geographically and politically until the early 1990's. Exploration since that time in southeastern Mongolia has resulted in the discovery of the super-giant Oyu Tolgoi gold-copper deposit containing over 60 million ounces of gold. However, systematic regional exploration in the southwest has been largely absent with the exception of that work undertaken by Erdene over the past five years

which has resulted in the discovery of multiple gold and copper occurrences including the grassroots discovery at Altan Nar.

Altan Nar is predominantly 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 Kelian, Porgera and Anatok, and elsewhere in the world, Fruta del Norte, Cripple Creek & Montana Tunnels and Rosia Montana and in Mexico five of the world's top silver producers including Penasquito. They are often associated with breccia pipes (diatremes) and can extend vertically for greater than 1 kilometre. The Kelian open pit, for example, is 500 metres deep.

Exploration carried out by Erdene over the past three years has established Altan Nar as a significant new epithermal gold-silver-lead-zinc mineralized system. Exploration, specifically the 2013 trenching program and 2014 surface mapping, geochemical and geophysical surveys and drilling, has greatly expanded the areas of known mineralization with 20 targets now documented over a 6 km x 10 km area with the main structural trend and primary location of carbonate, base metal mineralization being approximately 5.6 km x 1.5 km.

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.

Drilling and Trenching Results

Drilling has principally been concentrated within the Discovery Zone ("DZ") and to a lesser extent the Union North area. During the second quarter of 2014 a total of eight new and extended drill holes were completed over four high-priority targets including the DZ, Union North, Maggie and Union South. In the third quarter, 10 trenches, totaling 1,050 m, were excavated, primarily designed to test new target areas but also tested extensions of previously identified mineralized zones. This included a trench testing the southern extension of Union North where it intersects with two other target areas; Union South and Riverside. New areas tested included targets in the far eastern (Junction) and northwestern (North Bow) portions of the Altan Nar mineralized corridor.

Drilling to date at the DZ has identified a minimum strike length of 450 m. Twenty-four, mostly shallow (<150 m vertical extent) drill holes, generally at 50 m to 100 m intervals, and four trenches across zones of 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 50 m apparent width) averaging in excess of 1 g/t gold, including intervals up to 29 m averaging 4.3 g/t gold and 24.1 g/t silver in Discovery Zone South. During the second quarter, drilling at Discovery Zone North returned the highest grade intersection to date, 32 m of 3.2 g/t gold, 23 g/t silver and 1.7% combined lead and zinc including 5 m of 17.7 g/t gold with 69 g/t silver and 4.6% lead and zinc.

Within the DZ, gold mineralization appears to be both structurally controlled and related to an andesite porphyry stock with associated hydrothermal breccia zones that are steeply dipping to sub-vertical. The DZ remains open along strike to the north and at depth. Drilling has tested the

mineralization to a vertical depth of 175 m (Discovery Zone South) to 230 m (Discovery Zone North). The deepest hole on the Altan Nar property intersected 6 m of 4.7 g/t gold, 8.5 g/t silver and 1.3% combined lead and zinc near the bottom of the hole.

Outside of the DZ, scout drilling (2011-2012), trenching (2013, Q3 2014) and target drilling (Q2 2014) have been carried out over a 5.0 km portion of the Altan Nar property to test a number of high priority targets. The target that has received the most resources, outside the DZ, is Union North, located 1.3 km to the NNW. This target, characterized by a structural dilation on a large northeast-southwest trending structure, hosts wide, parallel zones of intensely altered and mineralized breccias. Previous drilling included a single hole (TND-46) at Union North which intersected 47 m of 1.3 g/t gold, including 9 m of 4.3 g/t gold, 12 g/t silver, and 1.7% combined lead-zinc. Drilling during the second quarter returned the widest zone of higher grade mineralization to date and an indication of intensifying grades at depth, including 22 m of 2.1 g/t and 25 m vertically below expanding to 24 m of similar grade with a high grade core of 12 m of 4 g/t gold, 10 g/t silver and 2.5% combined lead and zinc. Trenching in Q3, designed to test a geophysical anomaly located 170 m southeast of the main Union North target returned multiple mineralized zones. Trench ANT-37, positioned over the eastern-most portion of the geophysical anomaly, where soil geochemistry returned high gold and base metal values, uncovered multiple zones of alteration and mineralization averaging greater than 1 g/t gold equivalent over a combined length of 22 m, with one section returning 12 m of 3.7 g/t gold. The western portion of the anomaly trends under a deeper drainage basin and bedrock is beyond the depth accessible through trenching. Union North remains open to the north, south (Union South prospect) and at depth.

In the third quarter, an 82 m long trench (ANT-39) was positioned over a new target area, referred to as Junction, located 600 m east of the Discovery Zone. The Junction target is characterized by anomalous rock (up to 11.2 g/t gold) and soil geochemistry within a 350 m by 450 m area overlying a large gradient IP chargeability anomaly. Trench ANT-39 tested the northeast portion of this target area and intersected a broad zone of base metal mineralization that included 4 m of 3.7% zinc, 1.2% lead, 16 g/t silver, and 0.1 g/t gold, within a 26 m interval of 0.8% zinc and 0.5% lead. This target has not been drill tested.

The single holes testing the Maggie and Union South targets returned intervals of 5 m or more exceeding 1 g/t gold and greater than 1% combined lead and zinc (see more below). Trenching at Maggie in Q3, tested northeast and southwest of a previous trench and drill hole, established a 120 m strike length that remains open. Results included 8 m of 2 g/t gold equivalent to the northeast and 5 m of 1.2 g/t gold equivalent to the southwest. In central Union South a Q3 trench returned a narrow zone of 2.3 m of 1.5 g/t gold equivalent while a surface rock sample from this area returned 3.2 g/t gold, 55 g/t silver, 9.9% lead and 1.2% zinc indicating the high-grade potential of the zone.

Geophysical Survey

The aerial extent of ground geophysical surveys at Altan Nar was expanded in 2014, with 20 line kilometres of IP 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 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. Zonge International Inc., a geophysical consulting firm based in Reno Nevada, is currently reviewing the data and completing an interpretation and compilation that is expected to further define existing targets and generate additional targets.

Geochemical Soil Survey

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. 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 (see below).

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 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 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 Discovery Zone and Union North these targets remain relatively untested. These target zones have the potential to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar.

Priority Project/Target Summary

Discovery Zone Project

The DZ target is the most advanced of all targets within the main mineralized trend at Altan Nar. It was the subject of initial drilling based on intense gold and lead soil anomalism and quartz

breccia rubble at surface. The mineralized zone which can reach up to 50 m in width with over 1 g/t gold, and associated silver, lead and zinc has now been traced at depth for over 450 m. High grade zones, greater than 3 g/t gold, range from 2 m to 20 m widening in core zones in the south and north are now believed to be associated with a andesite porphyry stock (in the form of a cupola) and associated dykes either through structural preparation of fluid transportation with associated breccia's in an earlier event. Evidence of increasing potassic alteration with elevated copper is observed in the northern most and deepest intersection to date. The northern extension also displays a very wide, potentially ore grade gold polymetallic zone with 0.5 g/t gold, and averaging 0.8% combined lead and zinc over 50 metres and locally up to 100 m wide perhaps as a more dispersed halo around the higher grade zones that are interpreted to be plunging with the cupola. The DZ requires additional delineation drilling (approximately 900 m) to achieve inferred and perhaps indicated resource confidence over the 450 m strike length to an average depth of approximately 150 m.

Union North Project

Similar to the Discovery Zone, the width of gold mineralization in drilling can reach 50 m of greater than 1 g/t with high grade zones in the core of the target returning 12 m of 4 g/t gold, 10 g/t silver and combined 2.5% lead and zinc open at depth. Union North is characterized by a complex set of porphyry dykes intruding andesite, trachy-andesite and tuffs that follow the same structural path as mineralization and locally appear to cut-off the mineralization. These dykes are incorporated into the lower grade averages for the gold zones and as a result the true mineralized zones are typically in the 2 g/t to 5 g/t gold content range. The width and intensity of mineralization appears to be heavily influenced by flexures (or zone of dilation) along a main NE trending structure that offsets to the west in the center of the Union North zone creating a bifurcation of the mineralized zone. There is evidence mineralization continuing greater than 300 m to the northeast (total potential strike length of the Union North target is 750 m). The recently completed induced polarization dipole survey has confirmed a large very intense chargeability high anomaly with a coincident resistivity high at depth. Q3 trenching has extended the area of known mineralization 170m south of the main Union North Target. Resource delineation drilling (approximately 800m) to achieve inferred and perhaps indicated resource confidence over a the central portion of the prospect is expected to be carried out in Q4. .

Maggie Target

Located 1 km north of the Discovery Zone and 700 m east of the Union North prospect, the Maggie target area is a 500 m x 400 m triangular shaped area at the intersection of a major NE structure and bounded to the east by a large granite sill/stock. This target is characterized by a 10 to 40 m wide linear phyllic alteration zone with gold, silver, lead and zinc mineralization traced for over 300 m on a NE trend through the center of the target. Approximately 50% of the target area is under recent sedimentary cover. Trenching uncovered a well mineralized zone, 38 m wide and hosted by an altered andesite cut by two barren post-mineral dykes (7 m and 2 m wide). Excluding the 9 m of post mineralization dyke, the central mineralized zone returned 17 m of 3.4 g/t gold, 4.9 g/t silver and 1.41% combined lead-zinc. Drilling of this target during the Q2 2014 program returned two narrower zones with mineralization apparently displaced by a post-mineral porphyry dyke. These two zones, 3 m and 5 m wide and located on either side of the dyke, returned greater than 1 g/t gold, and up to 36 g/t silver and 1.5% combined lead and zinc. North and southeast of the trench and drill hole, extensive gold, lead, zinc and locally molybdenum soil anomalism occurs and in the southern most portion, a coincident chargeability high and transitional vertically plunging resistivity feature exists. Two new trenches completed in Q3 tested

northeast and southwest of the previous trench and drill hole and established a 120 m strike length that remains open. Results included 8 m of 2 g/t gold equivalent to the northeast and 5 m of 1.2 g/t gold equivalent to the southwest.

North Bow Target

The North Bow target is located 600 m to the west of Union North. Northbow, extends 600 m on a NE trend and adjoining the South Bow prospect located to the south. The target is characterized by two or more parallel zones of phyllicly altered volcanics/hydrothermal breccias traced over 400 m and open. The main alteration zone has been tested by two trenches which are approximately 100 m apart along the NE trend testing an area of quartz vein rubble at surface returning up to 9 m of 1.3 g/t gold and 1.3% combined lead and zinc. Large portions of the target area are under cover. The priority area remaining to be tested is the NE extension from the trenched areas over a strike length of approximately 200 m. A large soil anomaly, up to 200 m wide, is present in this area with high gold, up to 0.2 g/t, and highly anomalous molybdenum (up to 0.7%). Molybdenum has proven to be a good pathfinder element for the highest intensity gold mineralization. In addition, evidence of phyllic alteration and quartz veining in the surface rubble and evidence of a structural flexure support the high priority assigned to this target area. The recently completed induced polarization study displays moderate chargeability and resistivity anomalies coming to surface through low resistivity cover and broadening and intensifying significantly moving north and at depth. A magnetic low anomaly is located on the east side of the target area. Q3 Trenching in the North Bow area, identified broad zones of mineralization, with four zones, totaling 34 m, returning an average of 0.4 g/t gold equivalent, while approximately 300 m to the south, a second trench returned 10 m of 0.75 g/t gold equivalent.

Junction

The Junction target is located adjacent and to the northeast of the DZ. This 400 m by 400 m area has been largely defined by very intense soil anomalism including gold, lead, zinc and locally molybdenum. It is also characterized by a complex dyke swarm. In the center of the target area multiple quartz veins and vein-rubble areas are evident and, at the southernmost extent, rock samples have returned up to 11.2 g/t gold. However, much of the area is in low relief with recent sedimentary cover. Geophysical surveys indicate a structural break near the centre of the target area with a coincident magnetic low, gradient resistivity high and moderate chargeability high. In the western portion of the target, under recent sedimentary cover, the Q2 IP dipole study identified a vertically plunging resistivity low with adjacent high chargeability with lower chargeability at depth, similar in nature to the cupola feature identified at DZ North. Quartz/breccia rubble is present in an area of gold, lead, zinc soil anomalism along the eastern side of the covered drainage area. Trenching in Q3 tested the northeast portion of this target area and intersected a broad zone of base metal mineralization that included 4 m of 3.7% zinc, 1.2% lead, 16 g/t silver, and 0.1 g/t gold, within a 26 m interval of 0.8% zinc and 0.5% lead. This target has not been drill tested.

South Bow Target

South Bow is a 600 m long target extending south from North Bow where the most southerly trench returned 9 m of 1.3 g/t gold, 6.6 g/t silver and 1.32% combined lead-zinc. Continuing south from the trench, the North Bow / South Bow targets are overlain by recent sedimentary cover which buries the most intense chargeability anomaly on the property. One area of minor quartz rubble in the central portion of the South Bow target area is coincident with zinc soil anomalism. Although soil values are very low in this area of thick cover, there are still a few gold,

molybdenum and zinc anomalies along the trend of the gradient chargeability high anomaly. Given the intensity of chargeability anomaly and known relationship between high chargeability and areas of mineralization, the subtle geochemical anomaly's poking through cover and evidence of a structural break, the South Bow target is highly ranked. Trenching will be attempted along the entire trend; however, the depth to bedrock is unknown at this point.

Union South Target

This target is a largely a linear N-S feature which continues over 700 m from just south of TND-30 to the north banks of the E-W drainage adjoining the Union North target. Underlying the main trend there are zones of intense dipole chargeability highs extending to surface that are most pronounced in the north portion of the target area (near the south end of the Union North target) where there is evidence of a structural offset. Gold values up to 15.4 g/t have been returned from rock samples from this area associated with an area of strong phyllic alteration. In the southern portion, drilling has identified two parallel, 10 m wide zones, with 1.5 g/t and 2.3 g/t gold equivalent (\$1250 per ounce gold/\$18 per ounce silver and \$0.85 per pound lead and zinc). High grade mineralization was also discovered in trenching (ANT-24) in the southern area with 10 m of 4.46 g/t gold, 8.9 g/t silver and 2.2% lead. However, continuity has not been well established albeit with limited drilling (four holes in south and one in north). Although one hole (TND-52) has tested the eastern portion of the northern part of the target area, it was targeting a parallel zone of near surface mineralization which did not extend to depth and this drill hole was not long enough to reach the main Union South target located further west. Trenching is planned for both the southern and northern portions of the target area.

Riverside Target

This target is characterized by an 800 m long gradient IP and geochemical anomaly that follows the trend of phyllic alteration, quartz/breccia rubble fields and porphyry dykes which follow the same structural pathway. The northern portion exhibits multiple quartz veins in andesite although much of the target area is covered by recent sediments. Trenching in this area, located approximately 200 m south of Union North, returned 6 m of 3 g/t gold. A single hole (TND-51) tested this area of the target and returned anomalous gold and base metals in multiple zones (32 m of 0.3 g/t gold equivalent). At the southern end of the target, drill hole TND-45 returned 19 m of 1 g/t gold equivalent. The induced polarization study completed during the second quarter indicates moderate chargeability at depth although increasing in the northern portion of the target area and an intense magnetic low feature in the northern half trending into Union North. Although exploration to date has failed to confirm continuity of higher grade mineralization, the target still ranks in the top eight of the 20 identified to date and additional trenching work is expected to be completed in 2015.

Other Targets

Of the remaining 12 targets, two are outside the main mineralized trend and are of different styles of mineralization albeit with high grades of copper and gold mineralization over narrow widths. Within the main mineralized trend, a number of other targets are at a low level of understanding and may improve in ranking as additional data is generated; however, all display evidence of gold and base metal mineralization at surface.

Metallurgical Testing

Two series of metallurgical tests have been carried out on drill core from the Altan Nar property. Bottle roll cyanide leach testing was completed in 2013 on a series of drill core composites from

drill holes from across the Altan Nar property. Excluding two high-As samples, 12 samples returned an average gold recovery of 81% after a 24 hr cyanide leach test. Future testing will be required to maximize recoveries through additional grind size and retention time studies. Samples representing the high-As material underwent five separate sample preparation / acid digestion procedures designed to characterize the gold mineralization and identify processing options. The test work indicated that recovered gold is mostly associated with arsenopyrite and that recovery rates of greater than 90%, possibly up to 95%, are achievable for this type of high arsenopyrite-gold mineralization using established, albeit more complex, processing techniques.

Third Quarter Program

During Q3, work on the Altan Nar project included excavation of 10 trenches, totaling 1,050 m. These trenches were primarily designed to test new target areas but also tested extensions of previously identified mineralized zones. This included a trench testing the southern extension of Union North where it intersects with two other target areas; Union South and Riverside. New areas tested included targets in the far eastern (Junction) and northwestern (North Bow) portions of the Altan Nar mineralized corridor. Work has also been carried out on plans for resource delineation drilling for DZ and Union North, to be carried out in Q4.

Summary

The 2014 exploration program on the Altan Nar Gold Base Metal project provided the widest zones of high grade mineralization to date for the two most advanced projects, Discovery Zone and Union North, established continuity of those zones and expanded the known size. In addition, drilling and trenching of a number of other target areas, including Maggie and Union South prospects, confirmed continuity of mineralization at depth from trenches, established significant strike lengths and returned very encouraging results. In addition, the greater detail in data provided by the surface program has allowed for identification of new targets and better definition of existing targets. The project is well positioned to move rapidly through initial resource definition in early 2015. Given the multitude of targets, Altan Nar has now been established as a very 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.

Expenditures on the Altan Nar project licenses for the nine months ended September 30, 2014 are as follows:

	Budget YTD	Actual YTD	Var \$ YTD	Var % YTD
Drilling, Trenching, Sampling, Assaying	780,540	236,903	543,637	69.6%
Geological services, camp and field	284,129	262,004	22,125	7.8%
Travel and other	88,339	89,411	(1,072)	-1.2%
Total	1,153,008	588,318	564,690	49.0%

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 Oyuut Tolgoi coal mines. The property consists of two contiguous mining

licenses totaling 6,399 hectares. The mining licenses are registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation and have 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 NI 43-101 compliant resource estimate which has a M&I 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 two contiguous mining licenses.

Although recent market demand and pricing conditions for molybdenum have been depressed there has been increasing demand and price over the past six months. The advancement of the Zuun-Mod molybdenum-copper deposit to the next stage of development, namely a pre-feasibility study is contingent on continued improvement in the molybdenum market. In 2013, while limited work was completed 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 additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

Khuvyn Khar

The Khuvyn Khar copper prospect is located on the Zuun Mod property which covers a large porphyry system. Exploration work at Khuvyn Khar has included geochemical sampling, geophysical surveys as well as wide spaced drilling. Hole ZMD-121, which was drilled to test a geophysical target, intersected 34 m of 1.3% copper and 9.24 g/t silver from 308 m to 342 m. 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 in excess of 0.2% copper over significant widths (12 m to 42 m).

In 2013, the Corporation partnered with Teck Resources Limited (Teck-ERD Alliance) (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 has 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.

The 2013 exploration program on the Zuun Mod – Khuvyn Khar property met the objectives of the program, namely, to identify 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.

Third Quarter 2014

During the third quarter 2014, work on the Zuun Mod / Khuvyn Khar project included 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 area 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 exploration work included, in addition to the Q3 trenching, geochemical rock chip sampling, vein density mapping, and geophysical modeling. The 2014 work program has culminated in the identification of new, partially buried high priority drill target in the 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).

Expenditures (including capitalized costs) related to the Zuun Mod and Khuvyn Khar Teck programs for the nine months ended September 30, 2014 are as follows:

	Budget YTD	Actual YTD	Var \$ YTD	Var % YTD
Drilling, Trenching, Sampling, Assaying	86,040	16,085	69,956	81.3%
License renewals	114,035	112,472	1,563	1.4%
Geological services, camp and field	464,157	547,914	(83,757)	-18.0%
Travel and other	118,939	131,598	(12,659)	-10.6%
Total	783,171	808,069	(24,898)	-3.2%

Outlook

General

Management's long term focus remains the discovery and development of significant base and precious metal deposits in Mongolia.

The Corporation has working capital sufficient to meet its budgeted expenditures until approximately the first quarter 2015. The ability of the Corporation to continue beyond this point is contingent upon equity financing, entering joint venture agreement(s), reduction of expenditures, asset sales, or a combination thereof.

Altan Nar

The Corporation's exploration program on Altan Nar has delivered very encouraging results including the confirmation of 20 gold, silver, lead and zinc targets including the lateral and vertical continuity of gold-silver mineralization within the DZ and Union north. Surface mapping, geochemical and geophysical surveys, trenching and reconnaissance elsewhere across the 5.6 by 1.5 km Altan Nar trend has identified a number of high priority targets. Additional exploration work is required to further define the extent of, and determine the controls on mineralization within these prospects. The 2014 exploration program has been designed to include both resource delineation drilling in areas where significant mineralization has been identified to date,

particularly DZ and Union North and expansion of the ongoing exploration program designed to identify additional zones of mineralization.

Metallurgical test work carried out to date on both low-As and high-As sample from the Altan Nar property have returned encouraging results, however, additional metallurgical test work, on samples representative of dominant ore-types, will have to be carried out to determine the optimum recoveries for not only gold but also potentially significant by-product silver, lead and zinc.

The resource drilling program commenced November 11, 2014. The program has a budget of approximately \$400,000 and will include delineation drilling of Discovery Zone and Union North and an initial Resource Estimate.

Zuun Mod/Khuvyn Khar

Management believes that the Zuun Mod molybdenum-copper deposits have significant potential for development when molybdenum prices improve and will continue to complete evaluations towards optimizing project economics as new information is received in regards to technology and/or additional exploration information. With the establishment of the Alliance with Teck, the Corporation will continue to carry out exploration on the Khuvyn Khar copper prospect. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits. In 2014, high priority targets were subjected to detailed surface mapping and geophysical characterization studies and trenching. Several high-priority drill targets have been identified as a result of this work.

A drilling program has been recommended to the Teck-ERD Alliance for 2015. This program would be funded through the Teck-ERD Alliance and has a preliminary cost estimate of \$484,000.

Regional Exploration

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 Teck-ERD Alliance. The budget for the 2014 exploration program is \$421,000. The 2014 regional exploration program in south-western Mongolia has been completed and prospects have been recommended for acquisition pending opening of the Mongolian mineral license staking system.

Selected Annual 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	2013	2012	2011
Revenues	\$ nil	\$ nil	\$ nil
Loss for the year attributable to equity holder of Erdene	\$ 2,760	\$ 7,345	\$ 11,861
Basic and diluted loss per share	\$ 0.05	\$ 0.15	\$ 0.30
Total assets	\$ 11,586	\$ 13,315	\$ 46,783
Total long-term liabilities	\$ 3	\$ 7	\$ 5,354
Cash dividends declared	Nil	Nil	Nil

Discussion of Operations

Three months ended September 30, 2014 and 2013

Exploration expenses totaled \$401,880 for the three months ended September 30, 2014 compared to \$414,104 for the same period in 2013. As explained in greater detail under "Project Summaries", the Corporation carried out a trenching program on the Khuvyn Khar and Altan Nar projects in the third quarter of 2014.

Corporate & administrative expenses amounted to \$133,811 for the three months ended September 30, 2014 compared to \$195,420 for the same period in 2013. Increases in travel, investor relations and regulatory costs were more than offset by lower administrative salaries, share based payments and professional fees.

For the third quarter of 2014, the Corporation recognized a net loss of \$535,085 or \$0.01 per share compared to \$605,382 or \$0.01 per share for the same period in 2013.

Nine months ended September 30, 2014 and 2013

Exploration expenses totaled \$1,266,410 for the nine months ended September 30, 2014 compared to \$1,236,229 for the same period in 2013. The Corporation carried out trenching and drill programs on the Khuvyn Khar and Altan Nar properties, accounting for the increase over the prior year.

Corporate & administrative expenses amounted to \$624,925 for the nine months ended September 30, 2014 compared to \$682,826 for the same period in 2013. Most administrative and overhead costs are lower than the prior year with the exception of increases in travel, investor relations and regulatory costs.

In the first quarter of 2013, the Corporation recognized a \$137,357 loss related to the windup of its subsidiary ERD Aggregate Corp. The loss was the non-cash cumulative translation adjustment on this foreign subsidiary which has been cycled through the statement of loss.

For the nine months ended September 30, 2014, the Corporation recognized a net loss of \$1,884,426, or \$0.03 per share, compared to \$2,038,506, or \$0.03 per share, for the same period in 2013.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2014			Fiscal 2013				Fiscal 2012
	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	\$535	\$930	\$419	\$721	\$606	\$758	\$675	\$1,391
Basic and diluted loss per share	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.03
Total Assets	\$10,763	\$10,812	\$10,932	\$11,586	\$11,315	\$12,908	\$12,527	\$13,315

All financial data has been prepared in accordance with IFRS.

Subsequent to the reorganization which closed on November 9, 2012, the Corporation's expenditures vary from quarter to quarter largely depending on the timing of its Mongolian exploration programs. The Corporation is not aware of any other specific trends which account for fluctuations in financial results from period to period.

Liquidity and Capital Resources

Excluding the Teck loan in current liabilities, which will be settled with equity, the Corporation had a working capital deficit of \$92,589 at September 30, 2014 compared to working capital of \$478,798 at December 31, 2013, representing a \$571,387 decrease.

On April 21, 2014 and May 13, 2014 the Corporation closed two non-brokered private placements for \$350,000 and \$685,520, respectively. During the nine months ended September 30, 2014, the Corporation also received cash proceeds of \$161,514 on the exercise of options and warrants. The primary use of funds was for Teck Alliance programs on the Corporations Khuvyn Khar project as well as trenching and drill programs on the Corporations Altan Nar project (see Project Summaries, above).

Subsequent to September 30, 2014, the corporation received proceeds totaling \$793,239 on the close of a non-brokered private placement (\$661,450) and on the exercise of warrants (\$131,789). Current working capital is only sufficient to fund the Corporation's budgeted expenditures until approximately the end of the first quarter 2015. 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, 2014:

Contractual Obligations	Total	Less than one year	1-3 years	4-5 years	More than 5 years
Office leases	\$ 126,379	\$ 65,937	\$ 60,442	\$ -	\$ -
Finance leases	3,757	3,757	-	-	-
Accounts payable and accrued liabilities	178,115	178,115	-	-	-
Due to Teck Resources	107,142	107,142	-	-	-
	<u>\$ 415,393</u>	<u>\$ 354,951</u>	<u>\$ 60,442</u>	<u>\$ -</u>	<u>\$ -</u>

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

The Teck loan will be settled with equity at a future date. The number of shares issued to settle the debt will be determined at that date.

Off-Balance Sheet Arrangements

As at September 30, 2014, 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.

Provisions for site restoration

The Corporation records provisions which include various estimates, including the Corporation's best estimate of the future costs associated with settlement of the obligation, and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change.

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.

Future Changes in Accounting Policies

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2014. The following new standards, amendments and interpretations have been adopted by the Corporation but have not had a material impact on these condensed interim consolidated financial statements:

- IFRS 9 – Financial Instruments
- Investment Entities - IFRS 10, IFRS 12 and IAS 27
- Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
- IFRIC 21, Levies

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 February 25, 2014, the Corporation issued 20,000 shares at \$0.12 per share on the exercise of employee options for total proceeds of \$2,400.

On April 2, 2014, the Corporation issued 30,609 shares from its DSU plan to a plan member whose employment was terminated.

On April 21, 2014 the Corporation closed a non-brokered private placement financing with the issuance of 2,000,000 shares to Teck Resources Limited at a price of \$0.175 for gross proceeds of \$350,000.

On May 13, 2014 the Corporation closed a non-brokered private placement with the issuance of 4,284,500 units at a price of \$0.16 per unit for gross proceeds of \$685,520. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.24 until May 9, 2016.

On November 14, 2014, the Corporation closed a non-brokered private placement with the issuance of 4,724,643 units at a price of \$0.14 per unit for gross proceeds of \$661,450. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.21 until November 14, 2016.

As of the date of this MD&A, 82,515,285 common shares were issued and outstanding.

Stock Options

During 2014, to the date of this MD&A, 652,500 options with an average exercise price of \$0.27 expired and 20,000 options were exercised at \$0.12.

On June 18, 2014, 1,115,000 options with an exercise price of \$0.16 and a fair value of \$144,050 were granted to certain officers, directors and employees of the Corporation.

As of the date of this MD&A, the Corporation has 4,146,750 outstanding stock options, all of which were exercisable.

Warrants

In conjunction with a May 13, 2014 private placement, 2,142,250 whole share purchase warrants were issued. Each whole warrant has an exercise price of \$0.24 and an expiry date of May 13, 2016.

In conjunction with a November 14, 2014 private placement, 2,495,177 whole share purchase warrants were issued. Each whole warrant has an exercise price of \$0.21 and an expiry date of November 14, 2016.

During 2014, to the date of this MD&A, 2,909,030 warrants with an exercise price of \$0.10 have been exercised.

To the date of this MD&A, the Corporation had 9,568,336 outstanding warrants with an average exercise price of \$0.19.

Deferred Share Units

For the nine months ended September 30, 2014, the Corporation granted to certain officers, directors and employees of the Corporation an aggregate of 332,227 DSUs at a weighted average price of \$0.14 per share.

On April 2, 2014, 30,609 shares were issued from the DSU plan upon termination of a plan member.

To the date of this MD&A, the Corporation had a balance of 2,392,069 DSUs outstanding.

Disclosure Controls and Internal Controls over Financial Reporting

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 September 30, 2014 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 September 30, 2014.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Qualified Person

J. Christopher Cowan, P.Eng., 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 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, sample splits and duplicates.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation's properties has been reviewed by J. Christopher Cowan, P.Eng., 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.