



ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(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, 2016 and December 31, 2015 and the unaudited condensed interim consolidated statements comprehensive loss, changes in equity and cash flows for the three and nine months ended September 30, 2016 and 2015. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2016 and 2015 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)

| | Notes | September 30, 2016 | December 31, 2015 |
|---|-------|-----------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | | \$ 2,088,323 | \$ 675,790 |
| Receivables | | 52,844 | 55,664 |
| Prepaid expenses | | 25,763 | 17,177 |
| | | 2,166,930 | 748,631 |
| Non-current assets: | | | |
| Exploration and evaluation assets | 4 | 1,629,229 | 1,737,592 |
| Property, plant and equipment | | 75,424 | 35,825 |
| | | 1,704,653 | 1,773,417 |
| TOTAL ASSETS | | \$ 3,871,583 | \$ 2,522,048 |
| LIABILITIES & EQUITY | | | |
| Current liabilities: | | | |
| Trade and other payables | | \$ 402,305 | \$ 188,083 |
| Convertible debenture due Tian Poh Resources | | - | 252,207 |
| | | 402,305 | 440,290 |
| TOTAL LIABILITIES | | \$ 402,305 | \$ 440,290 |
| EQUITY | | | |
| Shareholders' equity: | | | |
| Share capital | 5 | \$ 85,507,373 | \$ 81,967,477 |
| Contributed surplus | | 12,119,938 | 11,945,440 |
| Accumulated other comprehensive income (loss) | | (660,564) | (341,838) |
| Deficit | | (93,497,469) | (91,489,321) |
| | | 3,469,278 | 2,081,758 |
| TOTAL LIABILITIES AND EQUITY | | \$ 3,871,583 | \$ 2,522,048 |

Subsequent event (Note 7)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Canadian dollars)

| | Notes | For the three months ended | | For the nine months ended | |
|---|-------|----------------------------|---------------------|---------------------------|-----------------------|
| | | September 30, | | September 30, | |
| | | 2016 | 2015 | 2016 | 2015 |
| Continuing Operations | | | | | |
| Exploration expenses | | 288,974 | 257,821 | 1,953,377 | 658,106 |
| Corporate and administration | 6 | 233,767 | 139,898 | 1,165,907 | 536,234 |
| Other (income) / expense | | - | - | - | (59,345) |
| Foreign exchange (gain) / loss | | (3,074) | (2,672) | 1,467 | 135 |
| Loss from operating activities | | (519,667) | (395,047) | (3,120,751) | (1,135,130) |
| Finance income | | 4,051 | 2,035 | 8,511 | 3,576 |
| Finance expense | | - | (2) | - | (74) |
| Net finance income | | 4,051 | 2,033 | 8,511 | 3,502 |
| Gain on sale of marketable securities | 4 | 442,900 | - | 481,064 | - |
| Gain on sale of E&E asset | 4 | - | - | 623,028 | - |
| Net loss | | \$ (72,716) | \$ (393,014) | \$ (2,008,148) | \$ (1,131,628) |
| Other comprehensive income / (loss): | | | | | |
| Foreign currency translation difference | | | | | |
| arising from translation of foreign subsidiary | | (202,759) | 366,168 | (318,726) | 556,692 |
| Other comprehensive income / (loss) | | \$ (202,759) | \$ 366,168 | \$ (318,726) | \$ 556,692 |
| Total comprehensive loss | | \$ (275,475) | \$ (26,846) | \$ (2,326,874) | \$ (574,936) |
| Basic and diluted loss per share | | \$ (0.00) | \$ (0.00) | \$ (0.02) | \$ (0.01) |
| Basic and diluted weighted average number of shares outstanding | | 121,096,481 | 97,277,377 | 114,560,961 | 89,518,480 |

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed interim Consolidated Statements of Changes in Equity

(Canadian dollars)

| | Note | Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive loss | Deficit | Total equity |
|---|------|---------------------|----------------------|------------------------|---|------------------------|----------------------|
| Balance at January 1, 2015 | | 82,636,233 | \$ 79,290,034 | \$ 11,487,249 | \$ (1,295,742) | \$ (78,881,696) | \$ 10,599,845 |
| Total comprehensive loss for the period: | | | | | | | |
| Net loss | | - | - | - | - | (1,131,628) | (1,131,628) |
| Other comprehensive income | | - | - | - | 556,692 | - | 556,692 |
| Private placements, net of share issue costs | | 13,569,715 | 1,663,459 | - | - | - | 1,663,459 |
| Warrants issued under private placement | | - | - | 121,363 | - | - | 121,363 |
| Warrants exercised | | 1,071,429 | 150,000 | (42,857) | - | - | 107,143 |
| Share-based compensation | | - | - | 167,955 | - | - | 167,955 |
| Total transactions with owners | | 14,641,144 | 1,813,459 | 246,461 | - | - | 2,059,920 |
| Balance at September 30, 2015 | | 97,277,377 | \$ 81,103,493 | \$ 11,733,710 | \$ (739,050) | \$ (80,013,324) | \$ 12,084,829 |
| Balance at January 1, 2016 | | 105,060,005 | \$ 81,967,477 | \$ 11,945,440 | \$ (341,838) | \$ (91,489,321) | \$ 2,081,758 |
| Total comprehensive loss for the period: | | | | | | | |
| Net loss | | - | - | - | - | (2,008,148) | (2,008,148) |
| Other comprehensive income | | - | - | - | (318,726) | - | (318,726) |
| Private placements, net of share issue costs | 5 | 6,063,830 | 1,478,859 | - | - | - | 1,478,859 |
| Issue of shares to retire convertible debenture | 5 | 1,801,475 | 246,781 | - | - | - | 246,781 |
| Warrants exercised | 5 | 7,910,682 | 1,745,631 | (312,409) | - | - | 1,433,222 |
| Options exercised | 5 | 320,000 | 68,625 | (20,475) | - | - | 48,150 |
| Share-based compensation | | - | - | 507,382 | - | - | 507,382 |
| Total transactions with owners | | 16,095,987 | \$ 3,539,896 | \$ 174,498 | \$ - | \$ - | \$ 3,714,394 |
| Balance at September 30, 2016 | | 121,155,992 | \$ 85,507,373 | \$ 12,119,938 | \$ (660,564) | \$ (93,497,469) | \$ 3,469,278 |

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows (Canadian dollars)

| | | For the nine months ended September 30, | |
|--|-------|--|---------------------|
| | Notes | 2016 | 2015 |
| Cash flows from operating activities: | | | |
| Net loss | | \$ (2,008,148) | \$ (221,729) |
| Items not involving cash: | | | |
| Depreciation and amortization | | 11,163 | 8,748 |
| Share-based compensation | | 507,382 | 127,386 |
| Gain on sale of exploration and evaluation asset | 4 | (623,028) | - |
| Gain on sale of marketable securities | 4 | (481,064) | - |
| Net finance income | | (8,511) | (1,469) |
| Foreign exchange gain | | 4,770 | 3,432 |
| Change in non-cash working capital | | 208,541 | (103,084) |
| Cash flows from operating activities | | (2,388,895) | (186,716) |
| Cash flows from financing activities: | | | |
| Issue of common shares for cash, net of issue costs | | 1,473,432 | 1,784,947 |
| Proceeds on exercise of share purchase warrants | | 1,433,223 | 107,143 |
| Proceeds on exercise of share purchase options | | 48,150 | - |
| Proceeds from convertible debenture | | - | 252,207 |
| Repayment of obligations under capital lease | | - | (2,269) |
| Interest paid | | - | (72) |
| Cash flows from financing activities | | 2,954,805 | 2,141,956 |
| Cash flows from investing activities: | | | |
| Expenditures on exploration and evaluation assets | | (1,067,417) | (380,180) |
| Expenditures on property, plant and equipment | | (60,343) | - |
| Proceeds on the sale of marketable securities | | 1,981,064 | - |
| Interest received | | 8,511 | 1,540 |
| Cash flows from investing activities | | 861,815 | (378,640) |
| Effect of exchange rate changes on cash and cash equivalents | | (15,192) | (3,577) |
| Increase (decrease) in cash and cash equivalents | | 1,412,533 | 1,056,001 |
| Cash and cash equivalents, beginning of period | | 675,790 | 136,824 |
| Cash and cash equivalents, end of period | | \$ 2,088,323 | \$ 1,192,825 |

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

For the three and nine months ended September 30, 2016 and 2015

1. Nature of operations:

Erdene Resource Development Corporation (the "Corporation") is a corporation domiciled in Canada. The address of the Corporation's registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1. The 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. 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 2015 annual consolidated financial statements which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 10, 2016.

3. New standards, amendments and interpretations effective for the first time from January 1, 2016

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, 2015, except has outlined below.

(a) 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. These adopted amendments did not have a material impact to the financial statements.

(b) 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"). These adopted amendments did not have a material impact to the financial statements.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

For the three and nine months ended September 30, 2016 and 2015

4. Exploration and evaluation assets

| | Zuun Mod Moly/Copper | Altan Nar Gold | Bayan Khundii Gold | Other | Total |
|---------------------------------------|-------------------------|-------------------|-----------------------|--------|---------------|
| Balance, January 1, 2015 | \$ 10,614,014 | \$ 16,387 | \$ 45,609 | \$ - | \$ 10,676,010 |
| Additions | 132,699 | 764,770 | 3,889 | 290 | 901,648 |
| Writeoffs | (420,478) | - | - | - | (420,478) |
| Impairments | (10,371,283) | - | - | - | (10,371,283) |
| Effect of movements in exchange rates | 926,869 | 23,338 | 1,479 | 9 | 951,695 |
| Balance, December 31, 2015 | \$ 881,821 | \$ 804,495 | \$ 50,977 | \$ 299 | \$ 1,737,592 |
| Balance, January 1, 2016 | \$ 881,821 | \$ 804,495 | \$ 50,977 | \$ 299 | \$ 1,737,592 |
| Additions | 86,299 | 264,078 | 716,745 | 295 | 1,067,417 |
| Proceeds from Sandstorm royalty | - | (876,972) | - | - | (876,972) |
| Effect of movements in exchange rates | (193,871) | (61,045) | (43,858) | (34) | (298,808) |
| Balance, September 30, 2016 | \$ 774,249 | \$ 130,556 | \$ 723,864 | \$ 560 | \$ 1,629,229 |

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 Q4 2015.

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

Tsenkher Nomin 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. Beginning in the third quarter 2016, the Corporation began capitalizing exploration costs on the Khundii license in accordance with its capitalization policy.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements

(Canadian dollars)

For the three and nine months ended September 30, 2016 and 2015

4. Exploration and evaluation assets (continued)

Sandstorm Gold Ltd. Royalty Agreement

On April 21, 2016 the Corporation closed a transaction with Sandstorm Gold Ltd. ("Sandstorm") for total consideration of \$2,500,000. The transaction included the issuance of 5,000,000 shares of Erdene to sandstorm at \$0.20 per share for \$1,000,000 in cash consideration. Sandstorm has committed to hold the Erdene shares for a minimum of 18 months. In addition, Sandstorm issued common shares of Sandstorm to Erdene for total consideration of \$1,500,000, the price being based on the 10 day volume weighted average price as at April 14, 2016. In exchange, Sandstorm has been granted a 2% net smelter returns royalty ("NSR Royalty") on Erdene's Altan Nar and Bayan Khundii projects in Mongolia. Erdene has the 3-year option to buy-back 50% of the NSR Royalty for \$1.2 million, to reduce the NSR Royalty to 1.0%. Sandstorm has been given a right of first refusal on future stream and/or royalty financings related to Bayan Khundii and/or Altan Nar projects.

\$876,972 of the \$1.5 million in royalty consideration was credited against Altan Nar's balance of capitalized Exploration and Evaluation assets at the date of close of the transaction and the remaining \$623,028 recognized as a gain in the statement of loss for the period.

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

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 2016, 2015 and 2014, has invested a total of \$2.5 million and owned 10.47% at September 30, 2016. 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Interim Consolidated Financial Statements (Canadian dollars)

For the three and nine months ended September 30, 2016 and 2015

5. Share Capital

In the nine months ended September 30, 2016, the Corporation received net proceeds of \$1,433,222 on the exercise of 7,910,682 warrants at an average of \$0.18 per share and net proceeds of \$48,150 on the exercise of 320,000 share purchase options at an average of \$0.15 per share.

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

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

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

During the nine months ended September 30, 2016, the Corporation issued 2,000,000 share purchase options to certain officers, directors and employees of the Corporation. Each option is exercisable for one common share of the corporation at \$0.36 per share.

6. Corporate and administration

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|----------------------------------|----------------------------|------------|---------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Administrative services | \$ 77,677 | \$ 26,439 | \$ 268,231 | \$ 96,667 |
| Depreciation & amortization | 1,834 | 2,551 | 5,983 | 8,727 |
| Investor relations and marketing | 28,138 | 11,278 | 148,879 | 31,330 |
| Office and sundry | 26,848 | 26,889 | 86,486 | 82,640 |
| Professional fees | 22,800 | 23,011 | 79,804 | 100,594 |
| Regulatory compliance | 26,498 | 11,006 | 189,784 | 91,232 |
| Share-based compensation | 24,902 | 32,221 | 321,127 | 109,358 |
| Travel and accomodations | 25,070 | 6,503 | 65,613 | 15,686 |
| | \$ 233,767 | \$ 139,898 | \$ 1,165,907 | \$ 536,234 |

7. Subsequent event

Subsequent to September 30, 2016, the Corporation received \$1.08 million on the exercise of 5.65 million warrants at a weighted average exercise price of \$0.19 per share.



ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis Quarter ended September 30, 2016

This Management Discussion and Analysis ("MD&A"), dated November 10, 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, unaudited condensed interim consolidated financial statements for the periods ended September 30, 2016 and 2015 and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities, budgeted financial results and events or developments that the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, 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.

2016 Highlights

Bayan Khundii Gold Project – 100% Erdene

- As of October 18, 2016 (date of last Erdene news release prior to the filing of this MD&A), Erdene has completed 61 diamond drill holes totalling 6,953 m (average vertical drill depth of 89 m), of which 60 have intersected anomalous gold mineralization.
- Drilling continues to establish very good continuity of high-grade gold mineralization within the main Striker Zone;
 - 63 m of 5.3 g/t gold (BKD-17)
 - 24 m of 7.5 g/t gold (BKD-49)
 - 31 m of 6.8 g/t gold (BKD-57)
- Striker Zone drilling has also returned broad zones of, lower-grade mineralization surrounding the high-grade gold mineralization, including;
 - 78 m of 1.0 g/t gold (BKD-28)
 - 66 m of 1.0 g/t gold (BKD-34)
 - 112 m of 1.2 g/t gold (BKD-51)

- Step-out, reconnaissance hole, located 170 m north of Striker Zone under younger Cretaceous cover, discovered a new gold zone, with 68 m of 2.0 g/t gold (BKD-60).
- Step-out hole BKD-60 is the most continuously mineralized hole intersected to date at Bayan Khundii; returning 123 m of 1.3 g/t gold.
- Strong induced polarization resistivity response (typical of Striker Zone) extends at depth beneath the younger Cretaceous units suggesting that Bayan Khundii's epithermal system may be more widespread than the exposed areas at surface.
- Visible gold observed in multiple holes.
- Sulfide minerals are largely oxidized to approximately 100 m depth, benefitting gold recovery;
 - Initial metallurgical study indicates 99% recovery (gravity followed by cyanide leach of the tails) in a high-grade (24.9 g/t gold) composite, and 92% recovery from a low-grade (0.7 g/t gold) composite.
- Exploration plans include continued expansion of mineralization within the Striker Zone, and continued drilling of expansion/perimeter holes within the larger 1.7 km trend, in order to establish potential boundaries to the gold system in advance of a resource drilling program in 2017.
- Project confirmed as low-sulphidation epithermal gold system.
- Gold mineralization is hosted within a zone of altered Devonian volcanic units overlain in part by younger Cretaceous and Quaternary units, extending over a 1.7 km by 0.7 km trend.

Teck Alliance

- In Q2-2016, the Corporation closed a \$500,000 private placement with Teck Resources Limited ("Teck"); 1,063,830 shares granted to Teck at \$0.47 per share.
- The 2016 Teck Alliance regional exploration program commenced in Q3-2016.

Financing and Corporate

- On April 21, 2016, the Corporation closed a transaction with Sandstorm Gold Ltd. ("Sandstorm") and received total consideration of \$2.5 million (see below for full details of the transaction).
- On May 17, 2016, the Corporation issued 1,801,475 shares to Tian Poh Resources Limited and discharged the convertible debenture of \$252,207.
- On June 16, 2016, the Corporation appointed Dr. Anna Biolik and David Mosher to the Company's board of directors;
 - Dr. Anna Biolik has over thirty years of public and private sector experience and is one of the foremost Canadian experts on Central Asian business and diplomacy, having acted as Canada's first resident Ambassador in Mongolia;
 - David Mosher is a gold mining executive with over thirty-five years of experience in mine and company building in foreign jurisdictions, including Russia and Burkina Faso.
- During 2016, to the date of this MD&A, the Corporation received gross proceeds of \$2.6 million on the exercise of 13.9 million warrants and options at an average price of \$0.19 per share.

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 earlier stage prospects. The Corporation is primarily focused on the development of the Bayan Khundii Gold project and the Altan Nar Gold-Polymetallic project.

Discovered by the Corporation in Q2-2015, with initial drill results reported in Q4-2015, the Corporation's 100% owned Bayan Khundii ('Rich Valley') gold project has rapidly become the highest priority project for the Corporation based on its high grades, proximity to surface, favorable metallurgy (99% gold recovery from high-grade composite using gravity and leach), and size potential (1.7 km trend). The Corporation has completed 6,953 m of diamond drilling at Bayan Khundii as of October 18, 2016, comprised of 61 holes (average true vertical depth of 89 metres). Drilling to date has confirmed continuity of the high-grade Striker Zone, identified broad zones of gold mineralization at depth and under post mineralization cover, and identified high priority targets through reconnaissance drilling and trenching over the 1.7 km mineralized trend. The high-grade gold zones within the Striker Zone can be very wide, grading in excess of 5 g/t gold (up to 187 g/t) and greater than 50 m in width.

The 100% owned Altan Nar project hosts a total of 18 mineralized (gold, silver, lead and zinc) target areas that have been identified within a 5.6 km by 1.5 km mineralized corridor. Two of the early discoveries, Discovery Zone ("DZ") and Union North ("UN"), are the most advanced targets, hosting wide zones of high-grade, near-surface mineralization, and were the focus of an initial NI 43-101 mineral resource estimate released by the Corporation in Q1-2015, as well as detailed metallurgical processing test-work, infill drilling and trenching completed in Q3-2015. The remaining 16 targets are either undrilled or scout-drilled and are considered by the Corporation to have good potential for hosting additional resources.

Various technical studies in support of future scoping/feasibility-level studies and a mining license application, including hydro-geological, archaeological, paleontological, and environmental base line studies, have commenced on both Bayan Khundii and Altan Nar.

The Corporation, through its alliance with Teck Resources Limited, will also continue to assess regional opportunities for porphyry and porphyry-related mineralization, and will pursue acquisitions as opportunities arise in the Alliance's area of interest in southwest Mongolia. The 2016 regional exploration program commenced in Q3-2016, and will consist of surface geochemical sampling, geological mapping and prospecting, and analysis of newly acquired satellite data. The Corporation's Bayan Khundii and Altan Nar properties are excluded from the Alliance areas of interest.

Sandstorm Gold Ltd. Royalty Agreement

On April 21, 2016, the Corporation closed a transaction with Sandstorm Gold Ltd. ("Sandstorm") and received total consideration of \$2.5 million. The Transaction included the issuance of equity of Erdene and Sandstorm, and royalty components that resulted in total cash and securities consideration of \$2.5 million to Erdene. The Transaction included the purchase by Sandstorm, by way of private placement, of five million common shares of Erdene at \$0.20 per share. Sandstorm has committed to hold the Erdene shares issued under the private placement for a minimum of 18 months. In addition, Sandstorm has issued common shares of Sandstorm to Erdene for total consideration of \$1.5 million, the price being based on the 10-day volume weighted average price of Sandstorm common shares as at April 14, 2016.

In exchange, Sandstorm was granted a 2% net smelter returns royalty (“NSR Royalty”) on Erdene’s two flagship gold projects in southwest Mongolia; the Bayan Khundii gold project and Altan Nar gold-polymetallic project. The Transaction provides Erdene with a 3-year option to buy-back 50% of the NSR Royalty for \$1.2 million to reduce the Sandstorm NSR Royalty to 1.0%. Erdene has granted to Sandstorm a right of first refusal on future stream and/or royalty financings related to the Bayan Khundii and/or Altan Nar properties.

\$876,972 of the \$1.5 million in royalty consideration was credited against Altan Nar’s capitalized Exploration and Evaluation assets, being the balance at the date of close of the transaction. The remaining \$623,028 was recognized as a gain in the statement of loss for the period.

The Corporation sold all its shares in Sandstorm, generating proceeds of \$1.98 million and recognized a gain of \$481,064.

Alliance with Teck Resources Limited

In April 2013, an alliance was formed by the signing of option and private placement agreements (collectively, “Agreement”) with Teck Resources Limited (“Teck”) to fund and explore the Corporation’s mineral tenements in the Trans Altai region of southwest Mongolia. Under the terms of the Agreement, Teck agreed to subscribe 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.

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.

On April 22, 2016, the Corporation agreed to extend the optional subscription date for 2016 by 60 days to June 23, 2016. On June 3, 2016, the Corporation closed a private placement with Teck purchasing 1,063,830 shares at \$0.47 per share for cash consideration of \$500,000.

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 date, Teck has invested \$2.5 million and owns approximately 10% of the Corporation.

Project Summaries

The Corporation’s Bayan Khundii Gold Project and Altan Nar Gold-Polymetallic Project are located in the Tian Shan Gold Belt, part of the Central Asian Orogeny, host to some of the world’s largest gold deposits. Although epithermal gold and porphyry copper± gold deposits are well documented across the border in China and along the westward trend, limited exploration has taken place in southwest Mongolia due to its isolation, both geographically and politically, until the mid-1990’s. Exploration since that time in southeast Mongolia has resulted in the discovery of the world-class Oyu Tolgoi gold-copper deposit containing over 60 million ounces of gold. However, systematic regional exploration in the southwest part of Mongolia has been largely absent with the exception of the work undertaken by Erdene over the past decade,

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

The 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 100% owned, 4,515 hectare, Khundii exploration license in southwest Mongolia, 19 km south of the Company's Altan Nar gold-polymetallic project. The license is in its seventh year of a maximum 12-year term. The license can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia.

Discovery

Bayan Khundii is a low-sulphidation epithermal gold system that was discovered by Erdene in Q2-2015 during a regional reconnaissance program, where 20% of the initial rock chip/grab samples returned values in excess of 3.0 g/t gold (up to 4380 g/t gold), at areas now known as Striker Zone and Gold Hill. To date, The Corporation has identified gold mineralization in three separate prospect areas (Striker Zone, Gold Hill, and Northeast Zone) over a 1.7 km trend. Mineralization is hosted within a zone of intensely silicified and sericitized Devonian volcanic units overlain in part by younger Cretaceous and Quaternary units.

Drilling Summary

The Corporation has an on-going drill program at Bayan Khundii, however as of October 18, 2016 (date of last Erdene news release prior to the filing of this MD&A), the Corporation has completed 61 diamond drill holes (45 to 90 degree angles) at Bayan Khundii, totalling 6,953 m. Drill hole depths ranged from 31 m to 251 m (average 129 m), with vertical depth ranging from 22 m to 250 m (average 89 m). Of the 61 holes completed, a total of 60 have intersected gold-bearing zones.

The majority of drilling has focused on the Striker Zone, a 500 m by 350 m area in southwest Bayan Khundii, where the Corporation has identified very good continuity of multiple, near-surface, high-grade gold zones, including both very high concentrations of gold (ex: 187 g/t gold over 1 m; hole BKD-01), and wide intervals of moderate concentrations of gold (ex: 5.3 g/t gold over 63 m; hole BKD-17). See Table below.

In addition to establishing continuity within the main mineralized zone, a secondary focus of the Corporation's on-going drill program is to test for mineralization within the Cretaceous and Quaternary-filled basin to the east, north, and west of the Striker Zone. Strong geophysical anomalies (induced polarization resistivity) at depth beneath the Cretaceous units suggest Bayan Khundii's epithermal system may be more widespread than the main exposed areas at surface. This was confirmed in October 2016 when step-out drilling (targeting a geophysical anomaly) discovered a new gold zone, under Cretaceous cover, located 170 m north of the main mineralized zone; hole BKD-60 returned 68 m of 2.0 g/t gold from 24 to 92 m depth. BKD-60 was the most continuous gold mineralized hole intersected to date at Bayan Khundii; from the top of mineralization at 20 m to the bottom of hole returned 123 m of 1.3 g/t gold with the highest value 19 g/t gold.

Table summarizing high-grade drill results at Bayan Khundii

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

* Reported intervals are not true width. At this time there is insufficient data with respect to the shape of the mineralized system to calculate true orientations in space. They represent drill intersection widths from holes drilled at a 45 to 90 degree angle. The Bayan Khundii mineralization is interpreted to be moderately dipping (approximately 40 to 50 degrees).

** End of hole

Geology

Bayan Khundii is a low sulfidation epithermal gold system with all of the primary lithologies (volcanic tuff and andesite) pervasively altered by multi-stage, locally intense, silica and sericite alteration. Geological, structural, petrographic, clay spectral and fluid inclusion data observations point to two separate thermal events that post-date the deposition of a thick sequence of Devonian volcanic tuffs. The first thermal event was a high-temperature metasomatic event that resulted in a widespread potassic and localized advanced argillic alteration that was presumably associated with the emplacement of a granitic intrusion, possibly at depth below Bayan Khundii. The second, later thermal event led to the deposition of low sulphidation epithermal mineralization, with associated widespread illite alteration of host tuffs. The gold mineralization of the host tuffs is associated with quartz veins, quartz breccias, within hematite-specularite veins and fractures including along margins (alteration selvages) of quartz veins and disseminated within the altered host rocks, often, but not always, associated with disseminated hematite-specularite mineralization. Visible gold has been identified in several drill holes as irregular-shaped grains, and is generally observed to be fine grained. With the exception of very minor finely disseminated pyrite in a few drill holes, Bayan Khundii is mostly devoid of sulphide minerals, including copper, lead and zinc-bearing sulphide minerals. Sulphides have been oxidized to a depth of approximately 100 m.

Northeast Zone

The Northeast Zone prospect, located 700 m to the northeast of Striker Zone, contains an alteration area measuring 300 m by 300 m, and has returned numerous anomalous gold assays (>0.2 g/t) 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 6.9 g/t and 0.4 g/t gold.

Independent Consultants

As part of the Corporation's Q3-2016 exploration program, the Corporation commissioned several independent studies at Bayan Khundii, including structural mapping studies, hyperspectral analysis of core and surface samples, evaluation by an expert in epithermal gold systems, geophysical interpretation, development of a 3-D model, and through this combined evaluation, examined the ideal approach to drilling in regards to both exploration targeting and eventual resource categorization;

- Dr. Jeffrey Hedenquist, an Ottawa-based, independent consultant and one of the world's leading experts on epithermal gold systems, visited Bayan Khundii with the objective of aiding on-going geological interpretation and drill targeting efforts;
- Mr. Anthony Coote, of Applied Petrologic Services & Research in New Zealand, completed mineralogical petrographic and fluid inclusion studies on drill core samples from Bayan Khundii to interpret the hydrothermal environment and controls on the distribution of gold mineralogy and paragenesis;
- Dr. Stefan Kruse, an experienced structural geologist with Terrane Geoscience Inc., spent 12 days on site to determine the principal structural controls and geometry of the mineralized systems;
- Ms. Khashagerel Bat-Erdene and Mr. Imants Kavalieris of Plus Minerals LLC, who specialize in alteration studies of epithermal and porphyry systems, completed field and drill core evaluations to identify alteration zonation within the hydrothermal systems to assist with future drill targeting;
- Terrane Geoscience Inc. is completing a 3-D model of the multiple mineralized zones to assist with drill targeting. The model will incorporate all geological, drilling, structural, spectral, geochemical and geophysical data;
- Mr. Chet Lide of Zonge International completed data processing and quality control analysis of all magnetic and induced polarization (IP) data; and
- RungePincockMinarco Limited provided an independent review of all results to date with the objective of recommending optimal drill hole spacing in advance of future resource definition drilling.

Geophysics

Between Q4-2015 and Q2-2016, the Corporation has completed extensive geophysical programs over the 1.7 km Bayan Khundii target area, consisting of gradient IP (covering a 2 km x 2 km area at 100-metre spaced lines), dipole-dipole (23 line km at 50-metre spacing), and ground magnetics (20 m spaced lines over 1.7 km by 1.8 km area). Previous mapping and geophysical surveys support the extension of the zones of intense alteration, and presumably mineralization, both to the south, and to the north, northeast and east under Cretaceous cover. The three prospect areas (Striker Zone, Gold Hill, Northeast Zone) are interpreted as erosional 'windows', with the full extent of the altered and mineralized zone yet to be determined.

A strong positive resistivity anomaly (>1,000 ohm m) in the gradient array data corresponds very closely to the exposed, intensely altered (silicified and sericitized) volcanic rocks and is thought to reflect intense silicification. The observed resistivity high response in the gradient array data extends for several hundred metres to the east, in an area mapped as unaltered basalt, suggesting the alteration zone extends beneath the volcanic cover, as also suggested by magnetic data. The dipole-dipole data provide additional insight into the probable extensions of the highly resistive alteration beneath both the younger Cretaceous units to the south and to the north. The combined gradient and dipole-dipole surveys suggest that the silicified zone is located at the apex of broad IP anomaly that extends to the north and east under younger cover, at relatively shallow depths (<100m) and to the south under Cretaceous sediments and volcanics. The magnetic data provides insight into the geology of Bayan Khundii. The analytical signal of the total magnetic field provides the magnetic response for near-surface rock units and outlines the distribution of both altered lithologies at the Southwest and Northeast prospects (low magnetic response presumably reflecting magnetite destruction within zones of silica/sericite alteration) and unaltered andesite to the north and east.

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.

These results suggest that gold from Bayan Khundii is free milling and amenable to conventional processing techniques.

Technical Report

On March 3, 2016, Erdene filed on SEDAR a National Instrument 43-101 technical report for Bayan Khundii. There is no resource estimate included in the report, which was prepared by the Corporation in support of disclosure to be used within its Annual Information Form.

Conclusion and Recommendations

Results to date at Bayan Khundii have been very encouraging and support an extensive exploration program to determine the continuity and limits of the reported high-grade gold mineralization at depth and on surface. The Corporation's near-term objective at Bayan Khundii is to continue to expand mineralization within the Striker Zone, and to continue drilling expansion and perimeter holes throughout the 1.7 km Bayan Khundii trend in order to establish potential extensions and boundaries to the gold system in advance of a resource drilling program in 2017. In addition, the Corporation has commenced various technical studies in support of future scoping/feasibility-level studies and a mining license application, including hydrology, archeology, paleontological, and environmental base line studies.

Bayan Khundii Regional Exploration; Altan Arrow Gold Prospect

The Altan Arrow gold prospect is situated on the Bayan Khundii license, 3.5 km north of the Bayan Khundii project, and 15 km southeast of Altan Nar. Previous exploration by the Corporation in 2013 confirmed the presence of high-grade gold within epithermal quartz veins and the potential for broader mineralized zones. Erdene geologists identified an approximately 1 square-kilometre area of anomalous gold-silver mineralization in quartz veins that returned up to 57 g/t gold in hand samples and 1 m of 31.4 g/t gold and 6 m of 4.5 g/t gold in trenching. The Corporation plans to drill test Altan Arrow in Q4-2016 with shallow, low-angle holes to test continuity of the high-grade zones from surface.

Altan Nar Gold-Polymetallic Project

The Altan Nar (“Golden Sun”) project is located on the Corporation’s Tsenkher Nomin exploration license in southwest Mongolia. The exploration license is in its 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.

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 Deposits

Resource Estimate

During Q1-2015, 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 | Classification | Tonnes Mt | Au g/t | Ag g/t | Zn % | Pb % | AuEq g/t | Au kOz | Ag kOz | Zn Mlbs | Pb Mlbs | AuEq kOz |
|------------------|------------------|------------|------------|-------------|-------------|-------------|------------|------------|------------|-------------|-------------|------------|
| 0.6 | Indicated | 3.4 | 1.0 | 9.4 | 0.57 | 0.47 | 1.7 | 112 | 1,014 | 42.4 | 34.8 | 185 |
| 0.6 | Inferred | 3.0 | 0.8 | 9.4 | 0.51 | 0.35 | 1.4 | 83 | 913 | 33.9 | 23.5 | 139 |
| 1.0 | Indicated | 1.8 | 1.7 | 11.1 | 0.61 | 0.54 | 2.5 | 102 | 657 | 24.7 | 22.1 | 147 |
| 1.0 | Inferred | 1.5 | 1.5 | 10.4 | 0.54 | 0.39 | 2.1 | 72 | 498 | 17.7 | 12.8 | 102 |
| 1.4 | Indicated | 1.3 | 2.3 | 12.1 | 0.61 | 0.58 | 3.1 | 92 | 486 | 16.8 | 15.9 | 124 |
| 1.4 | Inferred | 1.0 | 2.0 | 10.8 | 0.53 | 0.40 | 2.6 | 63 | 342 | 11.5 | 8.6 | 83 |

Notes:

1. The Statement of Estimates of Mineral Resources has been compiled under the supervision of Mr. Jeremy Clark who is a full-time employee of RPM and a Member of the Australian Institute of Geoscientists. Mr. Clark has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.
2. All Mineral Resources figures reported in the table above represent estimates as at 19th February, 2015. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.
3. Mineral Resource grades are reported in accordance with the CIM Standards.
4. Mineral Resources reported on a dry in-situ basis.
5. Totals may differ due to rounding

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

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

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 Q4 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 in Q3 2015 returned multiple, near-surface, high-grade mineralized zones from the central resource area, including hole TND-82 (within 38 m from surface), which returned 5 m of 10.9 g/t AuEq (7.2 g/t Au, 29.8 g/t Ag, 2.64% Pb, 3.62% Zn) within a 12 m interval of 5.3 g/t AuEq (3.6 g/t Au, 14.4 g/t Ag, 1.15% Pb, 1.76% Zn). Trenching in Q3 significantly expanded the deposit's mineralized zone; trench ANT-41, located approximately 200 m east of the current UN resource boundary, returned 8 m of 4.1 g/t AuEq (3.5 g/t Au, 5.0 g/t Ag, 0.70% Pb, 3.26% Zn) within a 28.5 m interval of 2.5 g/t AuEq (1.9 g/t Au, 4.3 g/t Ag, 0.78% Pb, 0.35% Zn). 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 Q2 2014 survey results show the presence of multiple, locally intense, chargeability high anomalies, extending from near-surface to depth, often continuing below the IP survey detection limit of approximately 150 m. Anomalies beneath the North Bow/South Bow and Union North, Union South target areas are particularly intense. The majority of these geophysical targets have yet to be drill tested.

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 untested. 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 test-work on representative drill core composites from DZ North and Union North. The test-work program was completed by Blue Coast Research Ltd. ("BCR") of Parksville, British Columbia, and was designed to provide a preliminary metallurgical evaluation of Altan Nar and included cyanidation, flotation, gravity separation, and heavy liquid separation.

Metallurgical test-work at DZ North returned 88% gold recovery from direct cyanidation (ground to 80% passing 75 microns), indicating the gold is free milling and does not contain a significant refractory component. The test was conducted as a standard 48-hour bottle roll at 40% solids, with a cyanide concentration maintained at 1.0 g/L NaCN, while the pH was maintained between 10.5 and 11.0. Dissolved oxygen levels were maintained above 5 mg/L. Both cyanide (0.96 kg/t) and lime (1.51 kg/t) consumptions were moderate, indicating relatively low reagent consumable costs.

The flotation results indicated that high-grade gold-lead-silver concentrates (229 g/t gold, 62% lead, 1,029 g/t silver) could be produced with reasonable overall recoveries (75% gold, 74% lead, 64% silver) using conventional lead-zinc differential flotation.

A single cyanidation test and a single cleaner flotation test were both completed on UN drill core composites under similar conditions to those employed for the DZ North test-work. The results of the cyanidation test indicated a gold recovery of 68%. In the flotation test, the gold associated with the UN sample displayed a higher affinity for recovery to the sulphide concentrate (24% gold recovery), and less of an affinity for recovery to the lead concentrate (45% gold recovery) versus the DZ North material. No optimization work was performed on the UN composite.

BCR specializes in flowsheet development, from conceptual through prefeasibility to full feasibility level studies as well as in-plant consulting services supporting the start-up and optimization of production plants. Their metallurgists have significant experience with polymetallic base and precious metal concentrates globally.

Summary

Altan Nar hosts a total of 18 mineralized (gold, silver, lead and zinc) target areas that have been identified within a 5.6 km by 1.5 km mineralized corridor. Two of the early discoveries, Discovery Zone ("DZ") and Union North ("UN"), are the most advanced targets, hosting wide zones of high-grade, near-surface mineralization, and were the focus of an initial NI 43-101 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 Corporation's confidence in the potential for these target areas, outside of the DZ-UN resource boundaries, to significantly expand the areas of known gold-polymetallic mineralization at Altan Nar.

The Corporation also completed metallurgical test-work 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.

The Corporation plans to drill at Altan Nar in Q4-2016 targetting both resource expansion and testing of new targets.

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in southwest Mongolia, approximately 950 km southwest of Ulaanbaatar and 215 km from railhead on the Mongolia-China border at Ceke. The railhead is located 50 km south of the Nariin Sukhait and Ovoot Tolgoi coal mines. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC, a wholly owned subsidiary of the Corporation and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter returns royalty of 1.5%, subject to a buy-down provision.

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

Khuvyn Khar Copper-Silver Project

The Khuvyn Khar copper-silver project is located on the Zuun Mod property, approximately 2.2 km northwest of the Zuun Mod molybdenum-copper porphyry deposit (discussed above). Exploration work at Khuvyn Khar has included geological mapping, vein density mapping, geochemical sampling, geophysical surveys, and wide spaced drilling. Previous drilling completed by the Corporation to test a geophysical target, intersected 34 m of 1.3% copper and 9.24 g/t silver from 308 m to 342 m (hole ZMD-121). Additional drilling on the Khuvyn Khar prospect has defined a very large copper mineralized zone trending over 900 m with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 m to 42 m).

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

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

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

Khuvyn Khar 2015 Update

In Q1 2015, the Corporation announced the granting to Tian Poh Resources Limited (“Tian Poh”) a period of exclusivity to exercise an option to acquire an interest in the Zuun Mod mining license (“Zuun Mod”). Tian Poh agreed it would complete a 1,000 m drill program by October 30, 2015 to test the Khuvyn Khar North target area, an approximately 1 km x 1.5 km prospect area, that was identified by the Corporation. The target area was identified on the basis of several overlapping geological, geophysical and geochemical factors, including: gravity low response, magnetic low response, concentration of quartz veins surrounded by D-vein zones, the presence of copper mineralization at surface, anomalous copper, silver, and gold in soils and rock chips, 2014 trenching results, and IP chargeability response. Tian Poh completed a two-hole, 1,000 m drill program on the Khuvyn Khar North target area in Q3 2015. Hole ZMD-129 reached a depth of 450 m and intersected hydrothermal intrusive breccias and several porphyry intrusions in the upper 242 m of the hole, with assay results returning an average of 0.08% copper (“Cu”),

including an 8 m interval that averaged 0.13% Cu. Hole ZMD-130 was drilled to a depth of 550 m and intersected andesite with cross-cutting porphyry dykes in the top 192 m, with assays for this interval averaging 0.10% Cu, including a 4 m interval averaging 0.25% Cu. The drilling also encountered elevated gold, up to 0.12 g/t.

In Q4 2015, Tian Poh elected to not exercise its option to acquire an interest in the Zuun Mod mining license. The Corporation continues to investigate options to advance the Zuun Mod and Khuvyn Khar projects.

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 approximately the first quarter of 2017. 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

Results to date have been very encouraging and support an extensive exploration program to determine the continuity and limits of the reported high-grade gold mineralization at depth and on surface. The Corporation plans to continue to expand mineralization within the Striker Zone, and to continue drilling expansion and perimeter holes throughout the 1.7 km Bayan Khundii trend, in order to establish potential boundaries to the gold system in advance of a resource drilling program in 2017. In addition, the Corporation has commenced various technical studies in support of future scoping/feasibility-level studies and a mining license application, including hydrology, archeology, paleontological, and environmental base line studies.

Altan Nar

With the completion of the initial mineral resource for Altan Nar, the Corporation is now considering resource expansion drilling, 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 various technical studies in support of a mining license application, including hydro-geological, archaeological, paleontological, and environmental base line studies.

Zuun Mod/Khuvyn Khar

Management believes that the Zuun Mod molybdenum-copper deposit has significant potential for development if/when the molybdenum price improves. Recent market demand and pricing conditions for molybdenum have been generally depressed with the price of molybdenum oxide at approximately US\$7.00 per pound in October 2016, down significantly from the US\$40 per pound values reached in 2004 and 2005. Improvement in the molybdenum market is an important factor in the advancement of the Zuun-Mod molybdenum-copper deposit. The Corporation will continue to complete evaluations towards optimizing project economics as new information is received in regards to technology and/or additional exploration information.

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

Teck Alliance

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. To date, Teck has invested \$2.5 million and owns approximately 10% of the Corporation. The 2016 regional exploration program commenced in Q3-2016, and will focus on the eastern portion of the south-western Mongolia area of interest, and will consist of regional-scale stream sediment surveys, geological mapping and prospecting, as well as analysis of remote sensing data.

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

Three months ended September 30, 2016 and 2015

The tables below show exploration and evaluation costs for the third quarters of 2016 and 2015, including those costs capitalized during the reporting periods. As explained in greater detail under "Project Summaries", exploration efforts were focused on Bayan Khundii in Q3 2016.

| | Zuun Mod | Altan Nar | Bayan Khundii | Other | Total |
|--|-------------------|-------------------|----------------------|---------------|---------------------|
| E&E assets, July 1, 2016 | \$ 886,076 | \$ 64,131 | \$ 53,361 | \$ 571 | \$ 1,004,139 |
| Exploration expenditures | | | | | |
| Drilling, trenching, sampling and assaying | 680 | 746 | 416,386 | 60,141 | 477,953 |
| Licence costs | - | - | - | - | - |
| Geological services, camp and field | 29,803 | 84,622 | 275,314 | 120,644 | 510,383 |
| Travel and other | 643 | 17,077 | 21,242 | 25,393 | 64,355 |
| Mongolian office costs | - | - | - | 51,678 | 51,678 |
| Total exploration expenditures | 31,126 | 102,445 | 712,942 | 257,856 | 1,104,369 |
| Capitalized expenditures | - | (102,445) | (712,942) | (8) | (815,395) |
| Expensed exploration costs | 31,126 | - | - | 257,848 | 288,974 |
| Proceeds from Sandstorm royalty | - | - | - | - | - |
| Effect of movements in exchange rates | (111,827) | (36,020) | (42,439) | (19) | (190,305) |
| E&E assets, September 30, 2016 | \$ 774,249 | \$ 130,556 | \$ 723,864 | \$ 560 | \$ 1,629,229 |

| | Zuun Mod Moly/Copper | Altan Nar Gold | Bayan Khundii | Other | Total |
|--|-------------------------|-------------------|------------------|---------|---------------|
| E&E assets, July 1, 2015 | \$ 10,913,778 | \$ 284,091 | \$ 49,506 | \$ 147 | \$ 11,247,522 |
| Exploration expenditures | | | | | |
| Drilling, trenching, sampling and assaying | - | 209,458 | 26,303 | - | 235,761 |
| License costs | - | - | - | - | - |
| Geological services, camp and field | 10,949 | 171,449 | 12,836 | 149,140 | 344,374 |
| Travel and other | 43 | 10,834 | 3,265 | 9,286 | 23,428 |
| Mongolian office costs | - | - | - | 56,991 | 56,991 |
| Total exploration expenditures | 10,992 | 391,741 | 42,404 | 215,417 | 660,554 |
| Deferred expenditures | (10,992) | (391,741) | - | - | (402,733) |
| Exploration expenses incurred | | | | | |
| Effect of movements in exchange rates | 357,051 | 8,125 | 476 | 2 | 365,654 |
| E&E assets, September 30, 2015 | \$ 11,281,821 | \$ 683,957 | \$ 49,982 | \$ 149 | \$ 12,015,909 |

Corporate & administrative expenses were \$233,767 for the three months ended September 30, 2016 compared to \$139,898 in 2015, a \$93,869 increase. The increase over the prior year is mainly due to the following (numbers are rounded): \$51,000 in additional management services, \$17,000 in additional investor relations and marketing costs, and \$19,000 in additional travel.

Subsequent to signing the Royalty Agreement (see above, Sandstorm Gold Ltd. Royalty Agreement for more details), the Corporation sold all the shares received as consideration. The Corporation generated proceeds of \$1,981,064, and recognized a gain of \$481,064, on the sale.

For the three months ended September 30, 2016, the Corporation recognized a net loss of \$72,716, or \$0.00 per share, compared to a loss of \$393,014, or \$0.00 per share, for the same period in 2015.

Nine months ended September 30, 2016 and 2015

The tables below show exploration and evaluation costs for the nine months ended September 30, 2016 and 2015, including those costs capitalized during the reporting periods. As explained in greater detail under "Project Summaries", exploration efforts have been focused on Bayan Khundii in 2016.

| | Zuun Mod | Altan Nar | Bayan Khundii | Other | Total |
|--|------------|------------|------------------|---------|--------------|
| E&E assets, January 1, 2016 | \$ 881,821 | \$ 804,505 | \$ 50,967 | \$ 299 | \$ 1,737,592 |
| Exploration expenditures | | | | | |
| Drilling, trenching, sampling and assaying | 3,094 | 8,804 | 1,201,721 | 63,596 | 1,277,215 |
| License costs | 86,299 | - | 3,886 | 295 | 90,480 |
| Geological services, camp and field | 50,121 | 217,726 | 736,212 | 390,617 | 1,394,676 |
| Travel and other | 623 | 37,548 | 56,376 | 42,932 | 137,479 |
| Mongolian office costs | - | - | - | 120,944 | 120,944 |
| Total exploration expenditures | 140,137 | 264,078 | 1,998,195 | 618,384 | 3,020,794 |
| Capitalized expenditures | (86,299) | (264,078) | (716,745) | (295) | (1,067,417) |
| Expensed exploration costs 2016 | 53,838 | - | 1,281,450 | 618,089 | 1,953,377 |
| Proceeds from Sandstorm royalty | - | (876,972) | - | - | (876,972) |
| Effect of movements in exchange rates | (193,871) | (61,045) | (43,858) | (34) | (298,808) |
| E&E assets, September 30, 2016 | \$ 774,249 | \$ 130,566 | \$ 723,854 | \$ 560 | \$ 1,629,229 |

| | Zuun Mod | Altan Nar | Bayan Khundii | Other | Total |
|--|----------------------|-------------------|------------------|----------------|----------------------|
| E&E assets, January 1, 2015 | \$ 10,614,014 | \$ 16,714 | \$ 45,282 | \$ - | \$ 10,676,010 |
| Exploration expenditures | | | | | |
| Drilling, trenching, sampling and assaying | - | 283,154 | 35,453 | - | 318,607 |
| License costs | 82,436 | - | 4,025 | 145 | 86,606 |
| Geological services, camp and field | 36,391 | 354,543 | 14,382 | 429,251 | 834,567 |
| Travel and other | 1,949 | 20,269 | 6,279 | 26,557 | 55,054 |
| Mongolian office costs | - | - | - | 146,184 | 146,184 |
| Total exploration expenditures | 120,776 | 657,966 | 60,139 | 602,137 | 1,441,018 |
| Deferred expenditures | (120,776) | (657,966) | (4,025) | (145) | (782,912) |
| Exploration expenses incurred in 2015 | - | - | 56,114 | 601,992 | 658,106 |
| Effect of movements in exchange rates | 547,030 | 9,277 | 680 | - | 556,987 |
| E&E assets, September 30, 2015 | \$ 11,281,820 | \$ 683,957 | \$ 49,987 | \$ 145 | \$ 12,015,909 |

Corporate & administrative expenses were \$1,165,907 for the nine months ended September 30, 2016 compared to \$536,234 in 2015, a \$629,673 increase. The increase over the prior year is due to the following (numbers are rounded): \$172,000 in additional management service, \$212,000 in additional non-cash share based compensation, \$118,000 in additional investor relations and marketing costs, \$50,000 increase in travel and \$98,000 in additional regulatory costs. These increases were partially offset by a \$20,000 decrease in office costs and professional fees.

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

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

For the nine months ended September 30, 2016, the Corporation recognized a net loss of \$2,008,148, or \$0.02 per share, compared to a loss of \$1,131,628, or \$0.01 per share, for the same period in 2015.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

| | Fiscal 2016 | | | Fiscal 2015 | | | Fiscal 2014 | |
|----------------------------------|-------------|-----------|-----------|-------------|-----------|-----------|-------------|-----------|
| | 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 | \$73 | \$1,423 | \$512 | \$11,476 | \$393 | \$222 | \$517 | \$733 |
| Basic and diluted loss per share | \$0.00 | \$0.01 | \$0.01 | \$0.13 | \$0.00 | \$0.01 | \$0.00 | \$0.01 |
| Total Assets | \$3,872 | \$4,044 | \$2,504 | \$2,522 | \$12,508 | \$12,540 | \$11,321 | \$10,912 |

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 net loss in Q4 2015 was mainly an impairment charge recognized

on the Zuun Mod/Khuvyn Khar property. The Corporation is not aware of any other specific trends which account for fluctuations in financial results from period to period.

Liquidity and Capital Resources

At the date of this MD&A, the Corporation had approximately \$1.9 million in working capital.

During 2016, to the date of this MD&A, the Corporation received \$2.6 million in proceeds from the exercise of 13.9 million warrants and options (see Outstanding Share Data for further details). In April 2016, the Corporation received total consideration of \$2.5 million on the close of a transaction with Sandstorm Gold Ltd. (see Royalty Agreement with Sandstorm Gold Ltd.). In May 2016, the Corporation retired an outstanding debenture of \$252,207 by issuing 1,801,475 shares to Tian Poh. In June 2016, the Corporation closed a private placement with Teck by issuing 1,063,830 shares at \$0.47 per share for gross proceeds of \$500,000. Funds 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 sufficient to fund the Corporation's budgeted expenditures until approximately Q1 2017. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at September 30, 2016:

| Contractual Obligations | Total | Less than one year | 1-3 years | 4-5 years | More than 5 years |
|--|-------------------|---------------------------|------------------|------------------|--------------------------|
| Office leases | \$ 190,155 | \$ 65,347 | \$124,807 | \$ - | \$ - |
| Accounts payable and accrued liabilities | 402,305 | 402,305 | - | - | - |
| | <u>\$ 592,460</u> | <u>\$467,652</u> | <u>\$124,807</u> | <u>\$ -</u> | <u>\$ -</u> |

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

Sandstorm Gold Ltd. is entitled to a 2.0% net smelter return royalty on the Altan Nar and Bayan Khundii projects. The royalty is subject to a buy-down provision.

Off-Balance Sheet Arrangements

As at September 30, 2016, 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 following new standards and amendments to standards and interpretations were adopted for the period beginning January 1, 2016.

(a) 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.

(b) 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").

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 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) 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

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

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

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

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

To the date of this MD&A, the Corporation had 126,810,031 shares issued and outstanding.

Stock Options

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

In the nine months ended September 30, 2016, the Corporation received \$48,150 on the exercise of 320,000 share purchase options at an average price of \$0.15.

On June 15, 2016, two million share purchase options were granted to certain officers, directors and employees of the Corporation. Each option is exercisable at \$0.36 per share until June 15, 2021.

As of the date of this MD&A, the Corporation had 7,621,250 outstanding stock options with a weighted average exercise price of \$0.21, all of which are exercisable.

Warrants

In 2016, to the date of this MD&A, the Corporation received \$2.5 million on the exercise of 13.6 million warrants at an average exercise price of \$0.19.

The Corporation has no warrants outstanding as of the date of this MD&A.

Deferred Share Units

For the nine months ended September 30, 2016, the Corporation granted certain officers, directors and employees of the Corporation an aggregate of 286,457 DSUs at a weighted average price of \$0.27.

To the date of this MD&A, the Corporation had a balance of 3,306,894 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 uses the 1992 Framework. The Corporation is working to adopt of the new framework which is expected to be complete in 2017.

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at September 30, 2016 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of September 30, 2016.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Qualified Person

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

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