Erdene

Resource Development Corp.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

(Canadian dollars)

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Erdene Resource Development Corporation has experienced losses and negative cash flows from operations in 2017 and 2016. The Corporation does not have sufficient capital to fund its operations and planned expenditures beyond the second quarter of 2018 without additional financing. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that casts significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 26, 2018
Halifax, Canada

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes		December 31, 2017		December 31, 2016
ASSETS					
Current assets:					
Cash and cash equivalents		**$**	**3,225,202**	$	1,071,209
Receivables	**6**		**148,069**		36,854
Prepaid expenses			**47,479**		39,743
			3,420,750		1,147,806
Non-current assets:					
Exploration and evaluation assets	**7**		**11,394,843**		3,066,211
Property, plant and equipment	**8**		**130,283**		79,418
			11,525,126		3,145,629
TOTAL ASSETS		**$**	**14,945,876**	**$**	4,293,435
LIABILITIES					
Current liabilities:					
Trade and other payables		**$**	**191,600**	$	182,644
			191,600		182,644
TOTAL LIABILITIES		**$**	**191,600**	$	182,644
EQUITY					
Shareholders' equity:					
Share capital	**12**	**$**	**99,890,270**	$	86,783,669
Contributed surplus			**13,775,386**		11,952,465
Accumulated comprehensive loss			**(894,855)**		(636,283)
Deficit			**(98,016,525)**		(93,989,060)
			14,754,276		4,110,791
TOTAL LIABILITIES AND EQUITY		**$**	**14,945,876**	$	4,293,435

Commitments (Note 9)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"

_________________________________ Director

Signed "John P. Byrne"

_________________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss
(Canadian dollars)

	Notes	For the year ended December 31, 2017	2016
Exploration expenses	**14**	**$ 1,631,628**	$ 2,171,792
Corporate and administration	**15**	**2,450,152**	1,446,888
Foreign exchange loss (gain)		**37,190**	(2,894)
Loss from operating activities		**4,118,970**	3,615,786
Finance income		**91,505**	11,955
Loss before the undernoted		**4,027,465**	3,603,831
Gain on the sale of net smelter royalty interest	**7**	**-**	623,028
Gain on the sale of marketable securities	**7**	**-**	481,064
Net loss		**$ 4,027,465**	$ 2,499,739
Comprehensive loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		**258,572**	294,445
Total comprehensive loss		**$ 4,286,037**	$ 2,794,184
Basic and diluted loss per share		**$ 0.03**	$ 0.02
Basic and diluted weighted average number of shares outstanding		**142,916,756**	117,127,676

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at January 1, 2016		105,060,005	$ 81,967,477	$ 11,945,440	$ (341,838)	$ (91,489,321)	$ 2,081,758
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(2,499,739)	(2,499,739)
Other comprehensive income		-	-	-	(294,445)	-	(294,445)
Private placements, net of share issue costs	12	6,063,830	1,478,858	-	-	-	1,478,858
Warrants issued under private placement	12 & 13	1,801,475	252,207	-	-	-	252,207
Warrants exercised	12 & 13	13,564,721	3,016,502	(507,664)	-	-	2,508,838
Options exercised	12 & 13	320,000	68,625	(20,475)			48,150
Share-based compensation		-	-	535,164			535,164
Total transactions with owners		21,750,026	4,816,192	7,025	-	-	4,823,217
Balance at December 31, 2016		126,810,031	$ 86,783,669	$ 11,952,465	$ (636,283)	$ (93,989,060)	$ 4,110,791
Balance at January 1, 2017		**126,810,031**	**$ 86,783,669**	**$ 11,952,465**	**$ (636,283)**	**$ (93,989,060)**	**$ 4,110,791**
Total comprehensive loss for the period:							
Net loss		**-**	**-**	**-**	**-**	**(4,027,465)**	**(4,027,465)**
Other comprehensive loss		**-**	**-**	**-**	**(258,572)**	**-**	**(258,572)**
Private placements, net of share issue costs	**12**	**18,465,555**	**12,925,316**	**-**	**-**	**-**	**12,925,316**
Compensation options	**12**	**-**	**-**	**322,597**	**-**	**-**	**322,597**
Options exercised	**12 & 13**	**687,500**	**181,285**	**(55,310)**			**125,975**
Share-based compensation		**-**	**-**	**1,555,634**	**-**	**-**	**1,555,634**
Total transactions with owners		**19,153,055**	**13,106,601**	**1,822,921**	**-**	**-**	**14,929,522**
Balance at December 31, 2017		**145,963,086**	**$ 99,890,270**	**$ 13,775,386**	**$ (894,855)**	**$ (98,016,525)**	**$ 14,754,276**

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows
(Canadian dollars)

	Notes	For the year ended December 31, 2017	2016
Cash flows from operating activities:			
Net loss		**$ (4,027,465)**	$ (2,499,739)
Items not involving cash:			
Depreciation and amortization		**18,285**	14,909
Share-based compensation		**1,555,634**	535,164
Net finance income		**(91,505)**	(11,955)
Foreign exchange loss		**37,190**	3,341
Gain on sale of net smelter royalty interest	**7**	**-**	(623,028)
Gain on sale of marketable securities	**7**	**-**	(481,064)
Gain on wind-up of Barbados subsidiaries		**(242)**	-
Change in non-cash working capital		**(70,469)**	9,641
Cash flows from operating activities		**(2,578,572)**	(3,052,731)
Cash flows from financing activities:			
Issue of common shares and warrants for cash, net of issue costs	**12**	**13,247,913**	1,478,858
Proceeds on exercise of warrants	**13**	**-**	2,508,838
Proceeds on exercise of stock options	**13**	**125,975**	48,150
Cash flows from financing activities		**13,373,888**	4,035,846
Cash flows from investing activities:			
Expenditures on exploration and evaluation assets		**(8,613,147)**	(2,492,698)
Proceeds from sale of marketable securities received as proceeds of sale of net smelter royalty interest	**7**	**-**	1,981,064
Expenditures on property, plant and equipment		**(77,025)**	(71,495)
Interest received		**91,505**	11,955
Cash flows from investing activities		**(8,598,667)**	(571,174)
Effect of exchange rate changes on cash and cash equivalents		**(42,656)**	(16,522)
Increase in cash and cash equivalents		**2,153,993**	395,419
Cash and cash equivalents, beginning of period		**1,071,209**	675,790
Cash and cash equivalents, end of period		**$ 3,225,202**	$ 1,071,209

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

1. Nature of operations:

Erdene Resource Development Corporation (the “Corporation”) is a corporation domiciled in Canada. The address of the Corporation’s registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1. The consolidated financial statements of the Corporation as at and for the years ended December 31, 2017 and 2016 comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the exploration of precious and base metal deposits in Mongolia.

2. Going concern:

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

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

The Corporation experienced significant losses and negative cash flows from operations in 2017 and 2016 and has a deficit of $98,016,525 at December 31, 2017. The Corporation had a net loss of $4,027,465 for the year ended December 31, 2017 compared to a net loss of $2,499,739 for the year ended December 31, 2016, representing a $1,527,726 increase. The Corporation had working capital of $3,229,150 at December 31, 2017, compared to $965,162 at December 31, 2016, representing a $2,263,988 increase. Management estimates current working capital is sufficient to fund the Corporation’s planned expenditures until the end of the second quarter of 2018; which could be extended with the deferral of planned expenditures if deemed necessary. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation’s ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

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

3. Basis of presentation

a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2018.

b) Basis of measurement

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

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

c) Use of estimates and judgments

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

Critical accounting estimates:

Estimate of recoverability for non-financial assets

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

Estimate of recoverability for non-financial assets (continued)

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

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

3. Basis of presentation (continued)

Critical accounting estimates (continued)

Share-based compensation

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

Provisions for site restoration

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

Exploration and evaluation assets

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

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for resource properties. Once technical feasibility and commercial viability of a resource property can be demonstrated, exploration costs will be reclassified to property, plant and equipment and subject to different accounting treatment. As at December 31, 2017, management determined that no such reclassification was required.

4. Summary of significant accounting policies

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

a) Basis of consolidation

For the year ended December 31, 2017, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC (Mongolia exploration companies). On February 6, 2017 the Corporation wound-up its Barbados holding companies Erdene Gold International Inc. and Erdene International Exploration Inc. resulting in a net gain on this transaction of $242 which has been recorded as an offset to Corporate and Administration expenses.

For the year ended December 31, 2016, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Gold International Inc. and Erdene International Exploration Inc. (Barbados holding companies); and Erdene Mongol LLC and Anian Resources LLC (Mongolia exploration companies).

Erdene Gold International Inc. and Erdene Gold International Exploration Inc. have a Canadian dollar functional currency. Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC have a Mongolian Tugrik functional currency. All subsidiaries except Leader Exploration LLC are wholly owned.

4. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

i) Subsidiaries

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

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

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

ii) Transactions eliminated on consolidation

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

b) Foreign currency

i) Foreign currency transactions

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

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

ii) Foreign operations

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

- assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each income statement presented are translated at monthly average exchange rates; and

4. Summary of significant accounting policies (continued)

Foreign Currency (continued)

- all resulting exchange differences are recognized as a separate component of equity ("cumulative translation account")

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

c) Financial instruments

i) Financial assets

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

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

Loans and receivables

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

Loans and receivables comprise receivables and cash.

Cash comprises cash on hand and demand deposits.

Fair value

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

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

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

4. Summary of significant accounting policies (continued)

Financial Instruments (continued)

Fair value (continued)

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

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

ii) Financial liabilities

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

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

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

iii) Share capital

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

d) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time a property, or an area's potential has been determined, as approved by the board, in which case subsequent exploration and evaluation costs are capitalized.

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

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

4. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

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

e) Property, plant and equipment

Recognition and measurement

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

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

Subsequent costs

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

Depreciation

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

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

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

f) Impairment

Non-financial assets

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

4. Summary of significant accounting policies (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to

f) Impairment (continued)

their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the “cash-generating-unit” or “CGU”).

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

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

g) Income taxes

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

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

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

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

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from

4. Summary of significant accounting policies (continued)

amortization and depreciation on property, plant and equipment, tax losses carried forward and fair value adjustments on assets acquired in business combinations.

h) Share-based compensation

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

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

i) Loss per share

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

5. Future changes in accounting policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated statements:

<u>Amendments to IFRS 9 - Financial Instruments</u>

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 is currently assessing the impact of adopting this standard on its consolidated financial statements.

5. Future changes in accounting policies (continued)

IFRS 2 – Share-based Payments

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based

payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The amendments apply for annual periods beginning on or after January 1, 2018.

The Corporation is currently assessing the impact of adopting this standard on its consolidated financial statements.

IAS 12: Income taxes

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The Corporation intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2018. The Corporation doesn’t expect the amendments to have a material impact on the financial statements.

IFRS 16 Leases: IFRS 16 will replace IAS 17 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

IFRIC 22: Foreign currency transactions and advance consideration

On December 8, 2016 the IASB issued IFRIC Interpretation 22. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2018. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

IFRIC 23: Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2019. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

(Canadian dollars)

6. Receivables

	December 31, 2017	December 31, 2016
Management fee receivable	**$ 27,003**	$ 20,596
Employee advances and receivables	**106,488**	8,211
Other	**14,578**	8,047
	$ 148,069	$ 36,854

The Corporation has an agreement with Morien Resources Corp. (“Morien”) for the provision of management services, office space and the recovery of overhead costs. For the twelve months ended December 31, 2017, the amounts charged to Morien totaled $264,594 (2016 - $277,814). The costs incurred by the Corporation net of recoveries earned from Morien are recorded as corporate and administrative expenses on the statement of comprehensive loss.

7. Exploration and evaluation assets

	Khundii Gold	Tsenkher Nomin Gold	Zuun Mod Moly/Copper	Other	Total
Balance, January 1, 2016	$ 50,977	$ 804,495	$ 881,821	$ 299	$ 1,737,592
Additions	1,771,556	634,963	85,885	294	2,492,698
Sandstorm royalty	-	(876,972)	-	-	(876,972)
Effect of movements in exchange rates	(36,338)	(11,215)	(239,542)	(12)	(287,107)
Balance, December 31, 2016	$ 1,786,195	$ 551,271	$ 728,164	$ 581	$ 3,066,211
Balance, January 1, 2017	**$ 1,786,195**	**$ 551,271**	**$ 728,164**	**$ 581**	**$ 3,066,211**
Additions	**6,109,190**	**1,480,569**	**74,062**	**949,326**	**8,613,147**
Effect of movements in exchange rates	**(179,997)**	**(46,396)**	**(36,431)**	**(21,691)**	**(284,515)**
Balance, December 31, 2017	**$ 7,715,388**	**$ 1,985,444**	**$ 765,795**	**$ 928,216**	**$ 11,394,843**

The Corporation’s mineral exploration and mining licenses in Mongolia are held by its subsidiaries, Erdene Mongol LLC, Anian Resources LLC and Leader Exploration 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.

Khundii

The license is located in Bayankhongor province in Mongolia. The 4,514 hectare Khundii license includes the Bayan Khundii gold prospect and Altan Arrow gold prospect. The license has an annual renewal in April. At the beginning of the third quarter of 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to this, the Corporation only capitalized the license costs associated with Khundii.

7. Exploration and evaluation assets (continued)

Tsenkher Nomin

The license is located in Bayankhongor province in Mongolia. The 4,669 hectare Tsenkher Nomin license includes the Altan Nar gold, silver, lead, zinc prospect and has an annual renewal in December. At the beginning of the first quarter of 2015, having received the initial resource estimate for the Altan Nar prospect, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to 2015, the Corporation only capitalized the license costs associated with Altan Nar.

Zuun Mod/Khuvyn Khar

The Zuun Mod property contains a molybdenum-copper resource. The property is located in Bayankhongor Province southwest of Ulaanbaatar. The mining license was issued in 2011 (consisting of 6,041 hectares) and the second contiguous mining license was issued in the third quarter 2012 (consisting of 358 hectares). The Mining License is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms.

Ulaan

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license, situated immediately adjacent to its high-grade Bayan Khundii gold project, with the option to acquire up to 100%. The Ulaan exploration license covers an area of approximately 1,780 hectares. Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that currently owns the property, for US$750,000. Provided Erdene spends a minimum of US$600,000 on work expenditures on the property over three years, it has the right to acquire the remaining 49% of the shares of Leader or, at Erdene’s option, a portion of the property, for the then fair market value of the property or the portion to be acquired. Erdene may extend the option beyond three years by spending a minimum of US$100,000 per annum on work expenditures.

Teck Alliance

In April 2013, the Corporation entered into an agreement with Teck Resources Limited (“Teck”), to fund and explore the Corporation's mineral tenements in the Trans Altai region of southwest Mongolia. Following the March 2017 acquisition of 543,478 shares for $500,000, Teck has invested a total of $3.0 million to December 31, 2017, thus fulfilling its investment commitment; and owned 8.7% of the outstanding shares of the Corporation at December 31, 2017 (2016 – 10.0%). Under the Teck Alliance, two licenses were staked in early 2015. Both are located in Govi-Altai province and total 1,552 hectares and both have June annual renewal dates. No major exploration work has been completed on these licenses to date.

Sandstorm Gold Ltd. Royalty Agreement

On April 21, 2016 the Corporation closed concurrent transactions with Sandstorm Gold Ltd. (“Sandstorm”) for total consideration of $2,500,000. In the first transaction Sandstorm was granted a 2% net smelter returns royalty (“NSR Royalty”) on Erdene’s Tsenkher Nomin and Khundii licenses in Exchange for 321,888 shares of Sandstorm with a value of $1,500,000, the price being based on the 10 day volume weighted average price as at April 14, 2016. The second transaction was the issuance of 5 million Erdene shares from treasury to Sandstorm at $0.20 per share for $1,000,000 in cash consideration. The shares issued to Sandstorm were subject to an 18 month hold period that expired October 14, 2017. Erdene has a 3-year option to buy-back 50%

(Canadian dollars)

7. Exploration and evaluation assets (continued)

of the NSR Royalty for $1.2 million, to reduce the NSR Royalty to 1.0% which expires April 21, 2019. Sandstorm has been given a right of first refusal on future stream and/or royalty financings related to the Khundii and/or Tsenkher Nomin licenses.

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

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

8. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2016	$ -	$ 89,665	$ 198,403	$ 288,068
Additions	48,661	21,033	1,801	71,495
Effect of movements in exchange rates	(10,909)	(7,722)	(6,164)	(24,795)
Balance, December 31, 2016	$ 37,752	$ 102,976	$ 194,040	$ 334,768
Depreciation & depletion				
Balance, January 1, 2016	$ -	$ (76,502)	$ (175,741)	$ (252,243)
Depreciation	(4,319)	(3,845)	(6,745)	(14,909)
Effect of movements in exchange rates	544	5,751	5,507	11,802
Balance, December 31, 2016	$ (3,775)	$ (74,596)	$ (176,979)	$ (255,350)
Carrying amounts				
At January 1, 2016	$ -	$ 13,163	$ 22,662	$ 35,825
At December 31, 2016	$ 33,977	$ 28,380	$ 17,061	$ 79,418

(Canadian dollars)

8. Property, plant and equipment (continued)

	Field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2017	**$ 37,752**	**$ 102,976**	**$ 194,040**	**$ 334,768**
Additions	**67,528**	**6,680**	**2,817**	**77,025**
Effect of movements in exchange rates	**(7,175)**	**(1,982)**	**(899)**	**(10,056)**
Balance, December 31, 2017	**$ 98,105**	**$ 107,674**	**$ 195,958**	**$ 401,737**
Depreciation & depletion				
Balance, January 1, 2017	**$ (3,775)**	**$ (74,596)**	**$ (176,979)**	**$ (255,350)**
Depreciation	**(7,953)**	**(4,451)**	**(5,881)**	**(18,285)**
Effect of movements in exchange rates	**363**	**970**	**847**	**2,181**
Balance, December 31, 2017	**$ (11,365)**	**$ (78,077)**	**$ (182,013)**	**$ (271,454)**
Carrying amounts				
At January 1, 2017	$ 33,977	$ 28,380	$ 17,061	$ 79,418
At December 31, 2017	**$ 86,740**	**$ 29,597**	**$ 13,945**	**$ 130,283**

9. Commitments

Operating lease rentals are payable as follows:

	December 31, 2017	December 31, 2016
Less than 1 year	**62,936**	62,936
Between 1 and 5 years	**41,957**	104,893
Total	**$ 104,893**	$ 167,829

The Corporation has an operating lease for office space in Dartmouth, Nova Scotia that expires August 31, 2019.

In 2018, minimum exploration expenditures of USD$1.50 per hectare are required on the Corporation's Tsenkher Nomin and Khundii licenses (USD$7,004 and USD$6,771 respectively).

The Corporation must spend a total of USD$600,000 over three years in order to have the right to purchase any or all of the remaining 49% of Leader (Ulaan). The Corporation can extend the option period beyond three years by spending an additional USD$100,000 per year on exploration work.

(Canadian dollars)

10. Income taxes and deferred tax liability

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

	December 31, 2017	December 31, 2016
Statutory tax rates	31%	31%
Income taxes (recovery) computed at the statutory rates	**$ (1,249,000)**	$ (775,000)
Benefit of temporary differences not recognized	**577,000**	487,000
Expenses not deductible for tax purposes	**499,000**	101,000
Effect of foreign tax rates	**173,000**	187,000
Provision for income taxes	**$ -**	$ -

The enacted tax rates in Canada 31% (31% in 2016) and Mongolia 25% (25% in 2016) where the Corporation operates are applied in the tax provision calculation.

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

			2017
	Canada	**Mongolia**	**Total**
Non-capital losses carried forward	**$ 14,983,000**	**$ 1,620,000**	**$ 16,603,000**
Property, plant and equipment	**222,000**	**-**	**222,000**
Share issuance costs	**1,214,000**	**-**	**1,214,000**
Intangible assets	**378,000**	**-**	**378,000**
Exploration and evaluation assets	**5,737,000**	**8,569,000**	**14,306,000**
	$ 22,534,000	**$ 10,189,000**	**$ 32,723,000**

			2016
	Canada	Mongolia	Total
Non-capital losses carried forward	$ 13,033,000	$ 1,818,000	$ 14,851,000
Property, plant and equipment	216,000	-	216,000
Share issuance costs	182,000	-	182,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,721,000	14,458,000
	$ 19,546,000	$ 10,539,000	$ 30,085,000

(Canadian dollars)

10. Income taxes and deferred tax liability (continued)

As at December 31 2017, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	For the year ended December 31, 2017	2016
2017	**$ -**	$ 637,000
2018	**424,000**	439,000
2019	**335,000**	348,000
2020	**384,000**	394,000
2021	**477,000**	-
Thereafter	**14,983,000**	13,033,000
	$ 16,603,000	$ 14,851,000

11. Capital management

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

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

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

Capital Structure	December 31, 2017	2016
Shareholders' Equity	**$ 14,754,276**	$ 4,110,791
Total capital	**$ 14,754,276**	$ 4,110,791

(Canadian dollars)

12. Share Capital

Share capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The changes in share capital during the years ended December 31, 2017 and 2016 were as follows:

	2017		**2016**	
	Shares	**$**	Shares	$
Issued and outstanding at January 1	**126,810,031**	**86,783,669**	105,060,005	81,967,477
Issued for cash	**18,465,555**	**12,925,316**	6,063,830	1,478,858
Exercise of warrants (note 13)	**-**	**-**	13,564,721	3,016,502
Exercise of stock options (note 13)	**687,500**	**181,285**	320,000	68,625
Issued on conversion of debenture (note 8)	**-**	**-**	1,801,475	252,207
Issued and outstanding at December 31	**145,963,086**	**99,890,270**	126,810,031	86,783,669

Issuance of common shares

For the year ended 2017

On February 23, 2017, the Corporation closed a bought deal common share private placement financing for gross proceeds to the Corporation of $13.8 million. The offering was led by Paradigm Capital Inc., with a syndicate including Canaccord Genuity Corp. (collectively, the “Underwriters”).

The Corporation issued an aggregate of 17,922,077 common shares at a price of $0.77 per share, including the full exercise of the Underwriters 15% over-allotment option. In consideration for their services, the Underwriters received a cash commission of $828,000 representing 6% of the gross proceeds and 1,075,324 compensation options representing 6% of the shares issued pursuant to the offering. Share issue costs of $220,937 were paid on the private placement, resulting in net proceeds of $12,751,063. Each compensation option entitles the holder to purchase one share for $1.20 per share until February 22, 2019. The 1,075,324 compensation options were outstanding at December 31, 2017.

The fair value of $322,597 related to these compensation options has been added to Contributed Surplus.

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

		February 23, 2017
Share price at grant date	**$**	**0.82**
Exercise price	**$**	**1.20**
Risk-free interest rate		**0.8%**
Expected life		**2.0 years**
Expected volatility		**87%**
Expected dividends		**0.0%**
Weighted average grant date fair value	**$**	**0.30**

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

On March 20, 2017 the Corporation closed a non-brokered private placement with Teck by issuing 543,478 shares at a price of $0.92 for gross proceeds of $500,000. Share issue costs of $3,150 were paid in conjunction with the private placement resulting in net proceeds of $496,850. This fulfills Teck’s annual equity investment obligation pursuant to the agreement outlined in Note 7.

(Canadian dollars)

12. Share Capital (continued)

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

For the year ended 2016

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

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

13. Stock options, warrants and deferred share units

(a) Stock Options

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

During the year ended December 31, 2017, 3,845,324 options were granted at a weighted average exercise price of $0.96. Also 687,500 options were exercised at an average price of $0.18 generating proceeds of $125,975.

The changes in stock options during the years ended December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	**7,621,250**	**$ 0.21**	6,048,750	$ 0.17
Granted	**3,845,324**	**0.96**	2,000,000	0.36
Expired	**-**	**-**	(107,500)	1.04
Exercised	**(687,500)**	**0.18**	(320,000)	0.15
Outstanding at December 31	**10,779,074**	**$ 0.47**	7,621,250	$ 0.21
Exercisable at December 31	**10,779,074**	**$ 0.47**	7,621,250	$ 0.21

(Canadian dollars)

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

(a) Stock Options (continued)

All stock options granted in 2017 and 2016 vested immediately and have a five-year term.

The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2017.

	Outstanding	
Expiry date	**Number of Options**	**Exercise price**
August 27, 2017	437,500	0.25
June 28, 2018	1,071,250	0.12
November 26, 2018	445,000	0.14
February 22, 2019	1,075,324	1.20
June 18, 2019	935,000	0.16
June 5, 2020	1,100,000	0.15
July 2, 2020	100,000	0.15
December 22, 2020	895,000	0.16
June 15, 2021	1,950,000	0.36
March 31, 2022	2,620,000	0.87
July 18, 2022	150,000	0.89
	10,779,074	**$ 0.47**

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

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
Share price at grant date	**$ 0.88**	$ 0.35
Exercise price	**$ 0.87**	$ 0.36
Risk-free interest rate	**0.9%**	0.5%
Expected life	**3.7 years**	3.8 years
Expected volatility	**85%**	88%
Expected dividends	**0.0%**	0.0%
Weighted average grant date fair value	**$ 0.51**	$ 0.21

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

(b) Warrants

No warrants were outstanding in 2017.

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

(Canadian dollars)

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

(b) Warrants (continued)

The following table summarizes the continuity of the warrants for the years ended December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
Outstanding at January 1	**-**	**$ -**	13,611,347	$ 0.19
Issued	**-**	**-**	-	-
Exercised	**-**	**-**	(13,564,721)	0.19
Expired	**-**	**-**	(46,626)	0.16
Outstanding at December 31	**-**	**$ -**	-	$ -

(c) Deferred Share Units

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

The following table summarizes information concerning DSUs at December 31, 2017 and 2016:

	December 31, 2017 Number of DSUs	December 31, 2016 Number of DSUs
Outstanding at January 1	**3,236,459**	2,905,190
Granted	**173,727**	331,269
Outstanding at December 31	**3,410,186**	3,236,459

The fair value of the DSUs granted in the year ended December 31, 2017 was $131,274 (2016 – $112,165) and was charged to share based compensation.

	Year Ended December 31, 2017	Year Ended December 31, 2016
5 day volume weighted average price at grant date	**$ 0.76**	$ 0.34

(Canadian dollars)

14. Exploration expenses

	For the year ended December 31 2017	2016
Depreciation & amortization	**$ 11,747**	$ 7,201
Direct costs	**719,183**	1,403,190
Employee compensation costs	**293,606**	572,266
Share-based compensation	**607,092**	189,135
	$ 1,631,628	$ 2,171,792

15. Corporate and administration

	For the year ended December 31 2017	2016
Administrative services	**$ 572,692**	$ 369,095
Depreciation and amortization	**6,504**	7,748
Directors fees and expenses	**146,141**	161,333
Investor relations and marketing	**267,171**	175,583
Office and sundry	**115,299**	114,120
Professional fees	**131,525**	126,747
Regulatory compliance	**139,108**	68,183
Share-based compensation	**948,542**	346,029
Travel and accommodations	**123,170**	78,050
	$ 2,450,152	$ 1,446,888

16. Related Parties

Compensation of key management personnel:

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

	Year ended December 31, 2017	2016
Directors' fees	$ 60,000	$ 138,000
Share-based compensation to directors	528,250	240,054
Key management short-term benefits	523,536	372,939
Share-based compensation to key management	353,071	97,665
	$ 1,464,857	$ 848,658

(Canadian dollars)

17. Financial instruments

Credit Risk:

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

	Carrying Amount December 31, 2017	Carrying Amount December 31, 2016
Cash and cash equivalents	**$ 3,225,202**	$ 1,071,209
Receivables	**148,069**	36,854
	$ 3,373,271	$ 1,108,063

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2017, $113,555 or 4% of the balance of cash was held in banks outside Canada (2016 - $90,637 or 8%).

Receivables include an amount from Morien. The Corporation has an agreement to provide management services to Morien, invoiced monthly. Morien accounted for 18% of receivables at December 31, 2017 (2016 – 56%). Management believes the credit risk on amounts receivable is low.

Liquidity Risk:

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

The corporation does not have sufficient working capital to carry out all budgeted programs in 2018 and must obtain additional financing by the third quarter 2018 to avoid disruption in planned expenditures (see note 2).

Market Risk:

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

a) Interest rate risk

As of December 31, 2017, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The Corporation operates in Mongolia, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash and cash equivalents balances are primarily held with high quality financial institutions in Canada. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favorable rates in line with the Corporation's

(Canadian dollars)

17. Financial instruments (continued)

Market Risk (continued):

budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

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

	December 31, 2017	2016
Cash and cash equivalents	**$ 212,116**	$ 112,269
Trade and other receivables	**7,424**	-
Trade and other payables	**(13,767)**	(3,463)
	$ 205,773	$ 108,806

Sensitivity to a plus or minus 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately $20,600 (2016 - $10,900).

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

	December 31, 2017	2016
Cash and cash equivalents	**$ 25,328**	$ 21,275
Trade and other receivables	**7,158**	7,319
Trade and other payables	**(71,012)**	(67,575)
	$ (38,526)	$ (38,981)

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $3,900 (2016 - $3,900).

c) Price risk

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

Fair Value:

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

	December 31, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	**$ 3,225,202**	**$ -**	**$ -**	$ 1,071,209	$ -	$ -