ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Canadian dollars)
(Unaudited)

Prepared by Management – See Notice to Reader

NOTICE TO READER

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position

(Canadian dollars)
(Unaudited)

		March 31, 2014		December 31, 2013
ASSETS				
Current assets:				
Cash	$	**173,806**	$	569,469
Trade and other receivables		**52,950**		59,198
Prepaid expenses		**3,497**		12,629
		230,253		641,296
Non-current assets:				
Exploration and evaluation assets		**10,630,319**		10,859,775
Property, plant and equipment		**72,145**		85,036
		10,702,464		10,944,811
TOTAL ASSETS	**$**	**10,932,717**	$	11,586,107
LIABILITIES & EQUITY				
Current liabilities:				
Trade and other payables	$	**128,149**	$	158,233
Current portion of obligations under finance leases		**5,315**		4,265
		133,464		162,498
Non-current liabilities:				
Obligations under finance leases		**575**		2,658
		575		2,658
TOTAL LIABILITIES	$	**134,039**	$	165,156
EQUITY				
Shareholders' equity:				
Share capital	$	**77,500,874**	$	77,497,474
Contributed surplus		**11,231,915**		11,200,415
Accumulated other comprehensive income (loss)		**(1,249,723)**		(1,011,795)
Deficit		**(76,684,388)**		(76,265,143)
TOTAL EQUITY	$	**10,798,678**	$	11,420,951
TOTAL LIABILITIES AND EQUITY	$	**10,932,717**	$	11,586,107

Going concern (Note 2)
Subsequent events (Note 6)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Loss
(Canadian dollars)
(Unaudited)

	Note	For the three months ended March 31, 2014	2013
Continuing operations			
Exploration expenses		**$ 203,763**	$ 341,801
Corporate and administration		**222,588**	202,973
Foreign exchange (gain) loss		**(6,357)**	(5,464)
Loss from operating activities		**(419,994)**	(539,310)
Finance income		**887**	2,667
Finance expense		**(138)**	(1,011)
Net finance income		**749**	1,656
Net loss from continuing operations		**$ (419,245)**	$ (537,654)
Loss from discontinued operations	**5**	**-**	(137,357)
Net loss		**$ (419,245)**	$ (675,011)
Other comprehensive income / (loss):			
Items which may subsequently be recycled through profit or loss			
Foreign currency translation difference arising on translation of foreign subsidiaries		**(237,928)**	56,471
Other comprehensive income / (loss)		**(237,928)**	56,471
Total comprehensive loss		**$ (657,173)**	$ (618,540)
Basic and diluted loss per share:			
Continuing operations		**$ (0.01)**	$ (0.01)
Discontinued operations		**-**	-
Basic and diluted loss per share		**$ (0.01)**	$ (0.01)
Basic and diluted weighted average number of shares outstanding		**68,629,059**	53,785,299

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity
(Canadian dollars)
(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity
Balance at January 1, 2013	$ 75,975,162	$ 10,631,949	$ (426,531)	$ (73,504,720)	$ 12,675,860
Total comprehensive loss for the period:					
Net loss	-	-	-	(675,011)	(675,011)
Other comprehensive income	-	-	56,471	-	56,471
Change in share subscription receivable	3,791	-	-	-	3,791
Share-based payments	-	1,691	-	-	1,691
Total transactions with owners	3,791	1,691	-	-	5,482
Recognition of cumulative translation adjustment in net loss upon windup of subsidiary (note 5)	-	-	137,357	-	137,357
Balance at March 31, 2013	$ 75,978,953	$ 10,633,640	$ (232,703)	$ (74,179,731)	$ 12,200,159
Balance at January 1, 2014	$ 77,497,474	$ 11,200,415	$ (1,011,795)	$ (76,265,143)	$ 11,420,951
Total comprehensive loss for the period:					
Net loss	-	-	-	(419,245)	(419,245)
Other comprehensive loss	-	-	(237,928)	-	(237,928)
Issue of shares from DSU plan	1,000	(1,000)	-	-	-
Stock options exercised	2,400	-	-	-	2,400
Share-based payments	-	32,500	-	-	32,500
Total transactions with owners	3,400	31,500	-	-	34,900
Balance at March 31, 2014	$ 77,500,874	$ 11,231,915	$ (1,249,723)	$ (76,684,388)	$ 10,798,678

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows
(Canadian dollars)
(Unaudited)

	Note	For the three months ended March 31, 2014	2013
Cash flows from operating activities:			
Net loss		**$ (419,245)**	$ (675,011)
Item not involving cash:			
Depreciation and amortization		**5,828**	8,221
Stock-based compensation		**32,500**	1,691
Loss on disposal of exploration and evaluation assets		**-**	10,343
Loss on windup of subsidiary	**5**	**-**	137,357
Loss on disposal of property, plant and equipent		**1,488**	-
Net finance income		**(750)**	(1,656)
Foreign exchange gain		**(3,914)**	(6,256)
Change in non-cash working capital		**(14,456)**	(276,073)
Cash flows from operating activities		**(398,549)**	(801,384)
Cash flows from financing activities:			
Proceeds from exercise of stock options		**2,400**	-
Proceeds from repayment of share subscription receivable		**-**	3,000
Repayment of obligations under capital lease		**(1,033)**	(950)
Interest paid		**(137)**	(220)
Cash flows from financing activities		**1,230**	1,830
Cash flows from investing activities:			
Expenditures on exploration and evaluation assets		**(5,621)**	(44,559)
Proceeds on sale of property, plant and equipment		**4,420**	-
Interest received		**887**	2,667
Cash flows from investing activities		**(314)**	(41,892)
Effect of exchange rate change on cash		**1,970**	7,057
Decrease in cash		**(395,663)**	(834,389)
Cash, beginning of period		**569,469**	1,502,889
Cash, end of period		**$ 173,806**	$ 668,500

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

1. Nature of operations and continuance of operations

Erdene Resource Development Corporation (the "Corporation") is a Corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The condensed interim consolidated financial statements of the Corporation as at and for the three months ended March 31, 2014 and 2013 comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration and development of mineral deposits. The Corporation is primarily focused on the discovery of significant base and precious metal deposits in Mongolia.

2. Going concern

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

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

The Corporation experienced significant losses and negative cash flows from operations in 2013 and 2012. The Corporation had working capital of $96,789 at March 31, 2014 compared to $478,798 at December 31, 2013, representing a $382,009 decrease, and has a deficit. As discussed in note 6, subsequent to March 31, 2014, the Corporation closed two private placements for $350,000 and $685,520. Management estimates current working capital is only sufficient to fund the Corporation's budgeted expenditures until approximately the third quarter of 2014. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

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

3. Statement of compliance

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

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

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

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

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

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

5. Discontinued Operations

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

6. Subsequent Events:

- On April 21, 2014 the Corporation closed a non-brokered private placement financing with the issuance of 2,000,000 shares to Teck Resources Limited at a price of $0.175 for gross proceeds of $350,000.
- On May 13, 2014 the Corporation closed a non-brokered private placement with the issuance of 4,284,500 units at a price of $0.16 per unit for gross proceeds of $685,520. Each unit consists of one common share of the Corporation and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of $0.24 until May 13, 2016. If the closing price of the Corporation's common shares trading on the Toronto Stock Exchange is $0.36 or higher for 30 consecutive trading days, the corporation may, at its sole discretion, accelerate the expiry period of the warrants by providing written notice of such acceleration by way of a news release.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
First quarter ended March 31, 2014

This Management Discussion and Analysis ("MD&A"), dated May 12, 2014, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2013, unaudited condensed interim consolidated financial statements for the period ended March 31, 2014 and 2013 and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities, budgeted financial results and events or developments that the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration results, continued availability of capital and financing and general economic, market or business conditions.

Overview of the Business

Erdene is a resource exploration and development corporation listed on the Toronto Stock Exchange (TSX:ERD) focused on base and precious metals exploration in Mongolia. The Corporation has numerous projects in Mongolia including the Zuun Mod Molybdenum-Copper project, the Altan Nar Gold-Polymetallic project, as well as other early stage prospects.

Alliance with Teck Resources Limited

In April 2013, an alliance was formed by the signing of option and private placement agreements (collectively, "Agreement") with Teck Resources Limited ("Teck") to fund and explore the Corporation's mineral tenements in the Trans Altay region of southwest Mongolia. Under the terms of the Agreement, Teck agreed to subscribe for up to $3 million of Erdene shares by way of a non-brokered private placement. The initial tranche, which closed on April 22, 2013, resulted in the issuance of five million shares priced at $0.20 per share for aggregate proceeds of $1 million. Eighty five percent of the proceeds from the private placement are committed to exploration work, primarily on the Corporation's Khuvyn Khar copper porphyry project and regional exploration in the Trans Altay region.

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

Teck has the option to acquire additional shares of Erdene, until it has invested $3 million or acquired through subscriptions 19.9% of the outstanding shares of Erdene, whichever occurs first. Teck may subscribe to the balance with a minimum of $500,000 to be subscribed on each anniversary date of the closing of the initial tranche. To the date of this MD&A, Teck owns 12.2% of the Corporations issued and outstanding common shares.

Project Summaries

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

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in Bayankhongor Province, Mongolia, approximately 950 km southwest of Ulaanbaatar and 215 km from railhead on the Mongolia-China border at Ceke. The railhead is located 50 km south of the Nariin Sukhait and Oyuut Tolgoi coal mines. The property consists of two contiguous mining licenses totaling 6,399 hectares. The mining licenses are registered in the name of Anian Resources XXK, a wholly owned subsidiary of the Corporation and have an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter royalty of 1.5%, subject to a buy-down provision.

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

Current market conditions for molybdenum are unfavourable for the advancement of the Zuun-Mod molybdenum-copper deposit to the next stage of development, namely a pre-feasibility study. In 2013, while limited work was completed on the Zuun-Mod molybdenum-copper deposit, exploration work was carried out elsewhere on the property, in particular, on the Khuvyn Khar copper prospect located 2.2 km NW of the main deposit. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

Khuvyn Khar

The Khuvyn Khar copper prospect is located on the Zuun Mod property which covers a large porphyry system. Exploration work at Khuvyn Khar has included geochemical sampling, geophysical surveys as well as wide spaced drilling. Hole ZMD-121, which was drilled to test a geophysical target, intersected 34 m of 1.3% copper and 9.24 g/t silver from 308 m to 342 m. Additional drilling on the Khuvyn Khar prospect has defined a very large copper mineralized zone trending over 900 m with multiple zones in three drill holes in excess of 0.2% copper over significant widths (12 m to 42 m).

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

The 2013 exploration program on the Zuun Mod – Khuvyn Khar property met the objectives of the program, namely, to identify drill targets for follow-up exploration on the Khuvyn Khar copper porphyry target and to complete work on the Zuun Mod molybdenum-copper deposit required to maintain the mining licenses in good standing, including annual license payments, ongoing environmental review requirements and community development work.

First Quarter 2014

During the first quarter 2014, work on the Zuun Mod / Khuvyn Khar project included geophysical characterization studies and a review of geological data related to high priority targets in preparation for the commencement of the 2014 exploration program. Expenditures related to the Zuun Mod licenses in the first quarter 2014 totaled $103,000

Subsequent to the end of the first quarter, senior technical teams from Teck and the Corporation visited the Khuvyn Khar property to carry out a review of geotechnical data. It is anticipated that recommendations for further exploration, including drill testing of high priority targets, will be submitted to the Teck-ERD Alliance by the end of the second quarter of 2014.

Altan Nar Gold Project

The Altan Nar prospect ("Golden Sun") is located on Erdene's Tsenkher Nomin exploration license located in southwestern Mongolia. The exploration license is in its 5th year of a maximum 9-year term. The license can be converted to a mining license at any time prior to the end of the 9th year by meeting the requirements prescribed under the Minerals Law of Mongolia. The 4,669 hectare Tsenkher Nomin license is 100% owned by Erdene and is not subject to any royalty agreements.

Exploration carried out by Erdene over the past four years has confirmed the Altan Nar epithermal gold-silver-polymetallic discovery as a significant new gold discovery. Exploration, specifically the 2013 trenching program has greatly expanded the areas of known high-grade mineralization.

The Altan Nar prospect hosts low-sulphidation epithermal gold-silver-polymetallic mineralization within Late Paleozoic (Devonian-Carboniferous) andesitic volcanic rocks. Mineralization is associated with comb quartz and chalcedony veins, quartz breccias and breccia zones with associated phyllic alteration zones (quartz-sericite-pyrite), within widespread propyllitic (epidote-chlorite-montmorillonite/illite) alteration of host trachy-andesite and andesite tuff units. Gold mineralization is commonly hosted within broad zones of polymetallic (silver-zinc-lead) mineralization.

Drilling and Trenching Results

To date, drilling has principally been concentrated within the Discovery Zone ("DZ") and surrounding area. Within the DZ, multiple drill holes at 50 m to 100 m intervals and four trenches excavated across zones of mineralization have demonstrated vertical and lateral continuity of gold-polymetallic mineralization along a 400 m strike length. Exploration work has identified north-northeast trending sub-vertical zones of gold and silver mineralization over variable widths (up to 50 m apparent width) averaging in excess of 1 g/t gold, including intervals up to 29 m averaging 4.3 g/t gold and 24.1 g/t silver. Within the DZ, gold mineralization appears to be structurally controlled with sub-parallel mineralized vein and breccia zones that are steeply dipping to sub-vertical. The DZ remains open along strike to the north and at depth. Drilling has tested the mineralization to a vertical depth of 175 m (Discovery South) to 230 m (Discovery Zone North), the deepest vertical hole on the Altan Nar property.

Outside of the DZ, scout drilling (2011-2012) and trenching (2013) have been carried out over a 3.5km portion of the Altan Nar property to test a number of high priority targets. Results from the IP gradient-array survey identified a series of high chargeability anomalies, up to 190 m wide, that are interpreted as representing broad zones of sulphide mineralization. Many of these IP anomalies have corresponding surface geochemical anomalies (in both rock and soil). The morphology of these IP anomalies, coupled with the geometry of the lineaments evident on satellite imagery, suggests mineralization may be associated with dilation zones along a dextral fault system over a distance of approximately 5 km. A review of drill and trenching data to date shows a strong, positive correlation between mineralized intersections and IP gradient array chargeability highs.

The 2011-2012scout drilling (200 m to 750 m spacing) indentified a potentially significant new gold-polymetallic mineralized zone, referred to as Union North, located approximately 1.3 km NW of the DZ. Hole TND-46 intersected 47 m of 1.3 g/t gold, including 9 m of 4.3 g/t gold, 12 g/t silver, and 1.7% combined lead-zinc. The Union North prospect is located at the north end of a 1.3km north-trending geophysical anomaly.

The 2013 trenching program which included a series of four east-west oriented lines across the Union North prospect has confirmed a well mineralized system within the 150 m by 150 m area tested to date. Results from trenching (ANT-14) included 45 m of 4.59 g/t gold, 29 g/t silver, and 4.56% combined lead-zinc, including 20.2 g/t gold, 138 g/t silver, 17% lead and 5.3% zinc over 7 m. The mineralization at Union North is characterized by multiple, sub-vertical stockwork breccia shoots, 2 to 20 m wide, hosted in zones of intense phyllic alteration. At least two high grade shoots, 7 to 20 m wide have been identified to date. The more significant of the two is a new discovery just west of the projected extent of drill hole TND-46. Union North is open to the north, south and at depth.

Other significant trench results were reported from the following prospect:

Union South prospect

- Located approximately 550 m south of Union North
- High grade mineralization was discovered that returned 10 m of 4.46 g/t gold, 8.9 g/t silver and 2.2% lead.

Riverside prospect

- A 800 m long gradient IP and geochemical anomaly
- Intersection located approximately 250 m south of Union North returned 14 m of 1.4 g/t gold.

Maggie prospect

- Located 1 km north of the Discovery Zone and 700 m east of the Union North prospect
- Trenching uncovered a well mineralized zone, 38 m wide and hosted by an altered andesite cut by two barren post-mineral dykes (7 m and 2 m wide).
- Excluding 9 m of post mineralization dyke, the central mineralized zone returned 17 m of 3.4 g/t gold, 4.9 g/t silver and 1.41% combined lead-zinc.

Northbow prospect

- Located 600 m to the west of Union North; extends 700 m south where it widens and intensifies (Southbow prospect).
- Northbow trenches returned up to 9 m of 1.3 g/t gold, 6.6 g/t silver and 1.32% combined lead-zinc; first confirmation that gold mineralization is associated with the large Northbow-Southbow geophysical anomaly

Mineralization

The gold-silver-polymetallic mineralization is structurally controlled in subsidiary structures (pull-apart faults, dilational jogs etc.) associated with the main structural trend, a 5.5 km NNW trending dextral fault system. Areas of apparent dilation or structural intersection within these subsidiary structures commonly displays higher intensity Induced Polarization gradient-array chargeability high signatures and have been demonstrated to host higher volumes of gold and polymetallic mineralization both from a higher grade and larger size perspective.

There is clear evidence of multi-stage gold-silver-base metal mineralization at Altan Nar. In addition, two distinct types of gold mineralization have been identified. This first is galena-sphalerite-chalcopyrite-gold ±arsenopyrite (low-arsenopyrite gold mineralization) associated with brecciation, silicification and associated phyllic alteration (low arsenopyrite gold mineralization. The second is a localized arsenopyrite-pyrite-gold overprint in select areas with some associated silicification (high-arsenopyrite gold mineralization).

Metallurgical Testing

Two series of metallurgical tess have been carried out on drill core from the Altan Nar property. Bottle roll cyanide leach testing was completed in 2013 on a series of drill core composites from drill holes from across the Altan Nar property. Excluding two high-As samples, 12 samples returned an average gold recovery of 81% after a 24 hr cyanide leach test. Future testing will be required to maximize recoveries through additional grind size and retention time studies. Samples representing the high-As material underwent five separate sample preparation / acid digestion procedures designed to characterize the gold mineralization and identify processing options. The test work indicated that recovered gold is mostly associated with arsenopyrite and that recovery rates of greater than 90%, possibly up to 95%, are achievable for this type of high arsenopyrite-gold mineralization using established albeit more complex processing techniques.

Conclusion

The 2013 exploration program on the Altan Nar Gold project was very successful in confirming the significance of this new gold discovery. In particular, the trenching program greatly expanded the area of known high-grade mineralization resulting in the identification of numerous high priority targets. In addition, preliminary metallurgical testing has indicated recovery of gold from both low and high arsenic gold mineralization can be achieved using establish processing techniques.

First Quarter 2014

During the first quarter 2014, work on the Altan Nar project included planning for the upcoming Phase 1 - Q2 exploration program was completed. This will include detail geological mapping, detailed geochemical (soil) sampling, additional geophysical surveys (induced polarization ("IP") dipole-dipole) and selective drilling (approximately 1000 m). Trenching targets will be finalized once the results of the soil and IP surveys have been reviewed. Expenditures related to the Altan Nar project in the first quarter 2014 totaled $99,000.

Subsequent to the end of the first quarter, the geological mapping program, geochemical and geophysical surveys and select drilling program have all been initiated. Results are pending.

Outlook

General

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

The Corporation has working capital sufficient to meet its budgeted expenditures until approximately the third quarter of 2014. The ability of the Corporation to continue beyond this point is contingent upon reduction of expenditures, asset sales, entering joint venture agreement(s), equity financing or a combination thereof.

Zuun Mod/Khuvyn Khar

Management believes that the Zuun Mod molybdenum-copper deposits have significant potential for development when molybdenum prices improve and will continue to complete evaluations towards optimizing project economics as new information is received in regards to technology and/or additional exploration information. With the establishment of the Alliance with Teck, the Corporation will continue to carry out exploration on the Khuvyn Khar copper prospect. Discovery of additional significant copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits. In 2014, high priority targets will be subjected to detailed surface mapping and geophysical characterization studies during the second quarter prior to the final design of drill plans. This program is estimated to cost $236,000 and will be funded through the Teck-ERD Alliance.

By the end of Q2 2014, a drilling program will be recommended to the Teck-ERD Alliance for a 2014 drill program. This program will be funded through the Teck-ERD Alliance and has a preliminary cost estimate of $484,000.

Altan Nar

The Corporation's exploration program on Altan Nar has delivered very encouraging results including the confirmation of the lateral and vertical continuity of gold-silver mineralization within the DZ. Trenching and reconnaissance drilling to the north and northwest of the DZ has identified a number of high priority drill targets. In addition a number of geochemical and geophysical targets have not yet been tested by trenching or drilling.

Additional exploration work is required to further define the extent of, and determine the controls on mineralization within the multiple gold/silver/base metal prospects identified to date across the 5.5 by 1.5 km Altan Nar property. The 2014 exploration program has been designed to include both resource delineation drilling in areas where significant mineralization has been identified to date (Discovery Zone, Union North, Union South, Riverside and Maggie prospects) and expansion of the ongoing exploration program designed to identify additional zones of mineralization.

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

Assuming the required capital is secured, the 2014 exploration program will be carried out in two phases consisting of:

Phase I –Q2 Program: estimated cost of $460,000

- Detailed geological, alteration system and structural mapping
- Close-spaced geochemical sampling
- Induced polarization dipole-dipole survey
- Trenching
- Select delineation drilling (Discovery Zone, Union North, Union South, Maggie prospects)

Phase II – Q3-Q4 Program: estimated minimum cost of $740,000

- Delineation drilling of high priority targets (based in part on results of Phase I drilling a review of which will determine extent and associated costs for Phase II)
- Intial Resource Estimate
- Reconnaissance drilling of targets untested to date
- Trenching
- Metallurgical testing

Regional Exploration

Regional exploration designed to identify additional porphyry and porphyry related mineralization in south-western Mongolia is ongoing and has been designed to be a multi-year program. This program is being funded through the Teck-ERD Alliance. The budget for the 2014 exploration program is $421,000. It is anticipated that the regional exploration program in south-western Mongolia will commence during the second quarter 2014.

Selected Annual Information

The following information has been extracted from the Corporation's audited consolidated financial statements.

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December 31	**2013**	**2012**	**2011**
Revenues	$ nil	$ nil	$ nil
Loss for the year attributable to equity holder of Erdene	$ 2,760	$ 7,345	$ 11,861
Basic and diluted loss per share	$ 0.05	$ 0.15	$ 0.30
Total assets	$ 11,586	$ 13,315	$ 46,783
Total long-term liabilities	$ 3	$ 7	$ 5,354
Cash dividends declared	Nil	Nil	Nil

Discussion of Operations

Three months ended March 31, 2014 and 2013

Exploration expenses totaled $203,763 for the three months ended March 31, 2014 compared to $341,801 for the same period in 2013. As explained in greater detail under "Project Summaries", most of the 2013 exploration expenditures were on Altan Nar and Teck Alliance programs.

Corporate & administrative expenses amounted to $222,588 for the three months ended March 31, 2014 compared to $202,973 for the same period in 2013. Approximately $10,000 of the increase is due to higher shareholder communication and conference costs while the remaining increase is due to more non-cash share based payments expensed in the first quarter.

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

For the first quarter of 2014, the Corporation recognized a net loss of $419,245 or $0.01 per share compared to $675,011 or $0.01 per share for the same period in 2013.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2014	Fiscal 2013				Fiscal 2012		
	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	$419	$721	$606	$758	$675	$1,391	$3,977	$896
Basic and diluted loss per share	$0.01	$0.01	$0.01	$0.02	$0.01	$0.03	$0.08	$0.02
Total Assets	$10,932	$11,586	$11,315	$12,908	$12,527	$13,315	$34,910	$44,084

All financial data has been prepared in accordance with IFRS.

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

Liquidity and Capital Resources

The Corporation had working capital of $96,789 at March 31, 2014 compared to $478,798 at December 31, 2013, representing a $382,009 decrease.

On April 21, 2014 and May 13, 2014 the Corporation closed two non-brokered private placements for $350,000 and $685,520, respectively. Current working capital is only sufficient to fund the Corporation's budgeted expenditures until approximately the third quarter of 2014. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliance, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at March 31, 2014:

Contractual Obligations	**Total**	**Less than one year**	**1-3 years years**	**4-5 years**	**More than 5 years**
Office leases	$ 34,033	$ 34,033	$ -	$ -	$ -
Finance leases	5,890	5,315	575	-	-
Accounts payable and accrued liabilities	128,149	128,149	-	-	-
	$ 168,072	$ 167,497	$ 575	$ -	$ -

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.

Off-Balance Sheet Arrangements

As at March 31, 2014, the Corporation had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

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

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

Share-based payments

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

Fair value of financial instruments, including embedded derivatives

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

Provisions for site restoration

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

Taxation

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

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

Future Changes in Accounting Policies

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

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

Financial Instruments and Other Risks

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

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

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

Outstanding Share Data

Issued and Outstanding Share Capital

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

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

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

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

As of the date of this MD&A, 74,956,612 common shares were issued and outstanding.

Stock Options

In the first quarter of 2014, 85,000 options with an average exercise price of $0.43 expired and 20,000 options with an exercise price of $0.12 were exercised.

As of the date of this MD&A, the Corporation has 3,599,250 outstanding stock options, all of which were exercisable.

Warrants

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

To the date of this MD&A, the Corporation had 9,982,189 outstanding warrants with an average exercise price of $0.17.

Deferred Share Units

For the quarter ended March 31, 2014, the Corporation granted to certain officers, directors and employees of the Corporation an aggregate of 239,182 DSUs at a weighted average price of $0.14 per share.

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

To the date of this MD&A, the Corporation has a balance of 2,299,024 DSUs outstanding.

Disclosure Controls and Internal Controls over Financial Reporting

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to the Corporation's certifying officers. The Corporation's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Corporation's disclosure controls and procedures as at March 31, 2014 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of March 31, 2014.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Qualified Person

J. Christopher Cowan, P.Eng., is a qualified person under NI 43-101 and supervises all of the Corporation's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards, sample splits and duplicates.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation's properties has been reviewed by J. Christopher Cowan, P.Eng., who is not independent of the Corporation.

Other Information

Additional information regarding the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com and on the Corporation's website at www.erdene.com.