ERDENE RESOURCE DEVELOPMENT CORPORATION

Management's Discussion and Analysis
Years ended December 31, 2013 and 2012

This Management Discussion and Analysis ("MD&A"), dated March 27 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, 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), and subsequent to the transaction outlined below is 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-Silver Project as well as other early stage prospects.

Transaction with Advanced Primary Minerals

On November 9, 2012, the Corporation closed a Plan of Arrangement (the "Arrangement") with Advanced Primary Minerals Corp ("APM").

The Arrangement Agreement set out the terms of the statutory plan of arrangement involving Erdene, Advanced Primary Minerals ("APM"), Erdene Resources Inc. ("ERI"), and the securityholders of Erdene and APM whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, an entity that owned Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien Resources Corp ("Morien"), TSXV:MOX.

- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene created a new class of common shares ("Erdene New Shares") and exchanged with the Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene, resulting in 100% of the shares of Morien owned by Erdene being distributed to the Erdene shareholders.

The shares of the Corporation are widely held and there are no controlling blocks of shareholders or formal voting arrangements in place. Following the transaction, Erdene does not have any continuing interest in Morien. As a result, the transaction is accounted for as a distribution of assets to the shareholders of the Corporation in accordance with IFRIC 17: Distributions of non-cash assets to owners. Under IFRIC 17, the distribution of the net assets to the Corporation's shareholders is measured at the fair value of the net assets distributed and is recorded as a reduction in equity. Management determined the recoverable amount of the net assets to be distributed based on the fair value less costs to distribute, which were supported by a formal valuation of the range of values representing the fair market value of the assets acquired by APM. In 2012, the Corporation recorded an impairment charge of $2.7 million as a loss from discontinued operation in the Statement of Loss as a result of the transaction.

Detailed disclosure of the Arrangement can be found in the management information circulars prepared by Erdene and APM, both of which are available on SEDAR at www.sedar.com.

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, bringing their ownership in the Corporation to 10.4%.

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. Beginning six months after the closing of the initial tranche, Teck may subscribe to the balance of the private placement with a minimum of $500,000 to be subscribed on each anniversary date of the closing of the initial tranche. With their recent share subscription of $150,000, the minimum required investment in April 2014 is reduced to $350,000.

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. Expenditures related to the Zuun Mod licenses in 2013 totaled $614,947.

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 issue out 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 of issue 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 identified the Altan Nar epithermal gold-silver-polymetallic discovery which represents a significant new gold discovery. Exploration, specifically trenching, completed in late 2013, has greatly expanded the area 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 within a NNE to NE trending structure 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 to date has tested 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) has been carried out over 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 NNW trending 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.

In 2011-2012, widely spaced scout drilling (200 m to 750 m spacing) was carried out over a 3.5 km portion of the Altan Nar prospect area and indentified a potentially significant new gold-polymetallic mineralized zone, referred to as Union North, located approximately 1.3 km NW of the DZ where hole TND-46 intersected multiple pyrite bearing high-grade gold zones. The Union North prospect is located at the north end of a large north-trending chargeability high anomaly extending over a distance of 1.3 km.

The 2013 trenching program included a series of four east-west oriented lines across the Union North prospect. Trenching, together with drill-hole TND-46, drilled in 2012, has identified a well mineralized system within the 150 m by 150 m area tested to date. Assay results from TND-46 returned 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. 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, diltional 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 quartz veining, brecciation and gold-silver-base metal mineralization at Altan Nar. Two distinct types of gold mineralization have also been identified. This first is associates with brecciation, silicification and comb quartz veining and associated phyllic alteration (sericite-pyrite-quartz) and deposition of galena-sphalerite-chalcopyrite-gold ±arsenopyrite (low-arsenopyrite gold mineralization). The second is a localized arsenopyrite-pyrite-gold overprint in select areas with some associated chalcedony veining and silicification (high-arsenopyrite gold mineralization).

Metallurgical Testing

Two series of metallurgical testing have been carried out on drill core from the Altan Nar property. Metallurgical testing (bottle roll cyanide leach) was completed in 2013 on a series of two to four metre drill core composites that were collected from drill holes from across the Altan Nar property. Excluding the two high-As samples, 12 samples from across the Altan Nar property 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-gold/high-arsenic mineralization using established albeit more complex processing techniques.

Conclusion

The 2013 exploration program on the Altan Nar Gold project met the objectives of the program. In particular, the trenching program has greatly expanded the area of known high-grade mineralization resulting in the identification of a number of high priority targets for follow-up drilling in 2014. 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.

Expenditures related to the Altan Nar project in 2013 totaled $453,084.

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 second 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 recommended drilling program will be submitted to the Teck-ERD Alliance for approval of 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 confirming 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. It is recommended that the 2014 exploration program 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) as well as an 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)

- Maiden 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 southwestern 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.

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

Years ended December 31, 2013 and 2012

In June 2012, the Corporation disposed of its real estate and associated royalty interest in the Granite Hill aggregate property. In November 2012, the Corporation completed the Arrangement discussed above; which resulted in the transfer of the North American assets to APM and subsequent distribution to shareholders. As a result, the cash flows and results of operations have been presented as discontinued operations for the year ended December 31, 2012 have been restated to show the discontinued operations separately from continuing operations.

The distribution of the assets to Erdene shareholders was recorded at the fair value of the assets distributed and recorded as a reduction of equity in Erdene. In 2013, the Corporation recognized a net loss of $2,760,423, or $0.05 per share, compared to a loss of $7,345,810, or $0.15 per share, in 2012.

Exploration expenses totaled $1,701,911 in 2013 compared to $3,167,762 in 2012. As explained in greater detail under "Project Summaries", most of the 2013 exploration expenditures were on its Altan Nar prospect and on Teck Alliance programs. The Corporation's Alliance with Glencore-Xstrata for coal exploration in Mongolia ended in early 2013. As a result, partner recoveries are lower than the prior year.

Exploration and Evaluation	For the year ended December 31 2013	2012
Depreciation & amortization	**$ 9,250**	$ 10,269
Employee benefit costs	**624,744**	1,065,252
Share-based payments	**151,890**	101,511
Direct costs	**927,488**	2,139,748
Partner recoveries	**(11,461)**	(149,017)
	$ 1,701,911	$ 3,167,762

Corporate & administrative expenses amounted to $939,455 for the year ended December 31, 2013 compared to $1,678,298 in 2012. Administrative costs are lower across most expense categories as management ramped up cost cutting programs in 2012. Most importantly, cash costs amounted to $693,992 in 2013, which is $771,220, or 53%, lower than 2012.

Corporate & Administrative	For the year ended December 31 2013	2012
Depreciation & amortization	**$ 19,837**	$ 26,527
Employee benefit costs	**331,368**	701,486
Share-based payments	**225,626**	186,559
Direct costs	**362,624**	763,726
	$ 939,455	$ 1,678,298

In 2012, the Corporation recognized a $252,434 gain on the sale of Nova Scotia aggregate interests.

The Corporation has reclassified the cash flows and results from operations associated with the Granite Hill Property, APM and Donkin CGU as discontinued operations.

In the first quarter of 2013, the Corporation recognized a $137,357 loss related to the windup of its subsidiary ERD Aggregate Corp. in 2012. ERD Aggregate Corp. sold its remaining assets in 2012 and the windup will save ongoing accounting, tax and legal costs to maintain the subsidiary. The loss is non-cash cumulative translation adjustment on this foreign subsidiary which has been cycled through the statement of loss.

In 2012, the Corporation recorded a total impairment loss of $2,795,942 including $79,406 related to the producing clay assets and grouped in cost of sales, $2,435,485 related to the Donkin CGU shown under impairment loss and $281,051 related to Georgia lands shown under impairment loss.

Fourth Quarter

Financing

In November 2013, the Corporation closed a private placement financing which resulted in the issuance of 9,797,514 Units at $0.07 per Unit generating gross proceeds of $685,826. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.10 for a 24-month period. Share issues costs of $20,588 were paid in conjunction with the private placement resulting in net proceeds of $665,238.

Other than mentioned above, there were no unusual events or items during the fourth quarter of 2013 that affected the Corporation's financial condition, cash flows or results of operations in a material nature.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2013				Fiscal 2012			
	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar
Revenue	nil	nil	nil	nil	nil	nil	nil	nil
Loss to equity holders	$721	$606	$758	$675	$1,391	$3,977	$896	$1,082
Basic and diluted loss per share	$0.01	$0.01	$0.02	$0.01	$0.03	$0.08	$0.02	$0.02
Total Assets	$11,586	$11,315	$12,908	$12,527	$13,315	$34,910	$44,084	$45,871

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 $478,798 at December 31, 2013 compared to $1,091,293 at December 31, 2012, representing a $612,495 decrease.

With the continued weakness in the financial markets, especially in the junior mining industry, the Corporation instituted a significant cost reduction program in 2012. In 2013, management focused its attention on capital preservation and careful deployment of its resources on key properties which demonstrated the most promise (see Project Summaries). As outlined above, management has been largely successful in managing its financial resources by reducing its corporate and administrative costs and has carried out exploration programs on select projects.

Current working capital is only sufficient to fund the Corporation's budgeted expenditures until approximately the second 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 December 31, 2013:

Contractual Obligations	Total	Less than one year	1-3 years years	4-5 years	More than 5 years
Office leases	$ 54,453	$ 54,453	$ -	$ -	$ -
Finance leases	6,923	4,265	2,658	-	-
Accounts payable and accrued liabilities	158,233	158,233	-	-	-
	$ 219,609	$ 216,951	$ 2,658	$ -	$ -

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 December 31, 2013, 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.

Accounting Policies and Changes

The accounting policies applied in the consolidated financial statements for the year ended December 31, 2013 are consistent with those used in the Corporation's Consolidated Financial Statements for the year ended December 31, 2012, with the exception of the following accounting policies adopted on January 1, 2013:

Amendment to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 revised the presentation of other comprehensive income (OCI). Separate subtotals are required for items which may subsequently be recycled through profit or loss and items that will not be recycled through profit or loss. The Corporation has updated the presentation of OCI on the face of the Condensed Interim Statements of Comprehensive Loss.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Corporation.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC Interpretation 20 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets and requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. The Corporation has not early adopted IFRIC 20 as it does not have any assets in operation.

The following new or amended standards and interpretations which were mandatory for 2013 annual periods have not had a material impact on the Corporation at this time:

IFRS 7, Financial Instruments: Disclosures: Amendments – Offsetting Financial Assets and Financial Liabilities

IFRS 10, Consolidated financial statements

IFRS 11, Joint arrangements. IFRS 11 supersedes IAS 31, Joint Ventures.

IFRS 12, Disclosures of Interest in Other Entities

IAS 19, Employee Benefits (Amendments)

Future Changes in Accounting Policies

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated statements:

Amendments to IFRS 9 - Financial Instruments

The IASB has issued IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement, and some of the requirements of IFRS 7, Financial Instrument Disclosures. The date IFRS 9 becomes effective is still being finalized by the International Accounting Standards Board. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The Corporation intends to adopt IFRS 9 when required but does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Corporation's financial assets is not expected to change under IFRS 9 because of the nature of the Corporation's operations and the types of financial assets it holds.

Amendments to IAS 32 – Offsetting Financial Assets and Liabilities

The amendments to IAS 32 clarify that an entity has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Corporation intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Corporation does not expect the amendments to have a material impact on the financial statements.

IFRIC 21, Levies

IFRIC 21 provides guidance on accounting for levies in accordance with the requirement of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms an entity recognizes a liability for a levy only when the triggering event in specified legislation occurs.

The Corporation intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. However, the Company is not able at this time to estimate reasonably the impact that the amendments will have on the financial statements

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 November 7, 2013, the Corporation closed a non-brokered private placement for 9,797,514 units at $0.07 per unit for gross proceeds of $685,826. Each unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant. Each whole warrant is exercisable at $0.10 until November 6, 2015.

On November 26, 2013, the Corporation issued 38,690 shares from its DSU plan to a plan member whose employment was terminated.

On April 22, 2013, the Corporation completed a non-brokered private placement of 5,000,000 shares at $0.20 per share with Teck Resources Limited for total gross proceeds of $1,000,000.

Subsequent to year end, 20,000 options were exercised at $0.12 for total proceeds of $2,400 bring the balance as of the date of this MD&A, to 68,641,503 common shares issued and outstanding.

Stock Options

During 2013, the Corporation granted 1,781,250 options with an average exercise price of $0.12 to certain offices, directors and employees of the Corporation.

During 2013, 453,500 options with an average exercise price of $0.38 expired.

Subsequent to December 31, 2013, 85,000 options with an average exercise price of $0.43 expired and 20,000 options with an exercise price of $0.20 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

The Corporation issued 4,898,760 whole share purchase warrants as part of the November 7, 2013 private placement. Each whole warrant is exercisable at $0.10 until November 6, 2015.

In conjunction with a December 19, 2012 private placement, 2,941,179 whole share purchase warrants were issued. Each whole warrant has an exercise price of $0.25 and an expiry date of December 21, 2014.

To the date of this MD&A, the Corporation had 7,839,939 outstanding warrants.

Deferred Share Units

For the year ended December 31, 2013, the Corporation granted to certain officers, directors and employees of the Corporation an aggregate of 2,129,141 DSUs at a weighted average price of $0.11 per share. During 2013, 38,690 shares were issued from the DSU plan upon termination of a plan member.

Subsequent to year end, the corporation granted 192,307 DSUs to certain officers at a price of $0.13.

To the date of this MD&A, the Corporation has a balance of 2,282,758 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 December 31, 2013 and have concluded that these controls and procedures are effective.

The Corporation's management, under the supervision of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2013.

There have been no material changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2013 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

We have audited the accompanying consolidated financial statements of Erdene Resource Development Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Erdene Resource Development Corporation as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Erdene Resource Development Corporation has experienced losses and negative cash flows from operations in 2013 and 2012 and does not have sufficient working capital to fund its operations beyond the second quarter of 2014. 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 may cast significant doubt about Erdene Resource Development Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Accountants

March 27, 2014
Halifax, Canada

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes		December 31, 2013		December 31, 2012
ASSETS					
Current assets:					
Cash		**$**	**569,469**	$	1,502,889
Trade and other receivables	**8**		**59,198**		181,477
Prepaid expenses			**12,629**		39,103
			641,296		1,723,469
Non-current assets:					
Exploration and evaluation assets	**9**		**10,859,775**		11,472,724
Property, plant and equipment	**10**		**85,036**		118,766
			10,944,811		11,591,490
TOTAL ASSETS		**$**	**11,586,107**	**$**	13,314,959
LIABILITIES & EQUITY					
Current liabilities:					
Trade and other payables		**$**	**158,233**	$	628,252
Current portion of obligations under finance leases	**11**		**4,265**		3,924
			162,498		632,176
Non-current liabilities:					
Obligations under finance leases	**11**		**2,658**		6,923
			2,658		6,923
TOTAL LIABILITIES		**$**	**165,156**	$	639,099
EQUITY					
Shareholders' equity:					
Share capital	**15**	**$**	**77,497,474**	$	75,975,162
Contributed surplus			**11,200,415**		10,631,949
Accumulated other comprehensive income (loss)			**(1,011,795)**		(426,531)
Deficit			**(76,265,143)**		(73,504,720)
			11,420,951		12,675,860
TOTAL LIABILITIES AND EQUITY		**$**	**11,586,107**	$	13,314,959

Going concern (Note 2)
Commitments (Note 12)
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 Loss

(Canadian dollars)

	Notes		For the year ended December 31, 2013		2012
Exploration expenses	**18**	**$**	**1,701,911**	$	3,167,762
Corporate and administration	**19**		**939,455**		1,678,298
Other (income) / expenses			**(1,370)**		8,862
Gain on the sale of assets	**9**		**-**		(252,434)
Foreign exchange (gain) / loss			**(9,690)**		131,150
Loss from operating activities			**2,630,306**		4,733,638
Finance income	**20**		**8,790**		96,382
Finance expense	**20**		**(1,550)**		(3,826)
Net finance income			**7,240**		92,556
Loss from continuing operations			**2,623,066**		4,641,082
Loss from discontinued operations	**17**		**137,357**		2,704,728
Net loss		**$**	**2,760,423**	$	7,345,810
Net loss attributable to:					
Equity holders of the Corporation			**2,760,423**		7,047,487
Non-controlling interest			**-**		298,323
		$	**2,760,423**	$	7,345,810
Basic and diluted loss attributable to equity holders		**$**	**0.05**	$	0.15
Basic and diluted loss per share:					
Continuing operations		**$**	**0.05**	$	0.09
Discontinued operations			**-**		0.06
Basic and diluted loss per share		**$**	**0.05**	$	0.15
Basic and diluted weighted average number of shares outstanding			**58,704,258**		48,094,528

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

		For the year ended December 31, 2013		2012
Net loss	**$**	**(2,760,423)**	$	(7,345,810)
Other comprehensive loss				
Foreign currency translation difference arising on translation of foreign subsidiaries		**(722,621)**		(181,192)
Other comprehensive loss		**(722,621)**		(181,192)
Total comprehensive loss	**$**	**(3,483,044)**	$	(7,527,002)
Total comprehensive loss attributable to:				
Equity holders of the Corporation		**(3,483,044)**		(7,242,173)
Non-controlling interest		**-**		(284,829)
	$	**(3,483,044)**	$	(7,527,002)

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Non-controlling interests	Total equity
Balance at December 31, 2011	$ 75,186,822	$ 10,500,956	$ (360,078)	$ (42,874,792)	$ (2,068,902)	$ 40,384,006
Balance at January 1, 2012	75,186,822	10,500,956	(360,078)	(42,874,792)	(2,068,902)	40,384,006
Total comprehensive loss for the period:						
Net loss	$ -	$ -	$ -	$ (7,047,487)	$ (298,323)	$ (7,345,810)
Other comprehensive loss	-	-	(194,686)	-	13,494	(181,192)
Private placement net of share issue costs (note 15)	773,586	-	-	-	-	773,586
Warrants issued under private placement (note 15 & 16)	-	176,471	-	-	-	176,471
Change in share subscription receivable (note 21)	14,754	-	-	-	-	14,754
Share-based payments	-	288,069	-	-	-	288,069
Total transactions with owners	788,340	464,540	-	-	-	1,252,880
Distribution to shareholders (note 6)	-	(333,547)	128,233	(23,582,441)	2,353,731	(21,434,024)
Balance at December 31, 2012	$ 75,975,162	$ 10,631,949	$ (426,531)	$ (73,504,720)	$ -	$ 12,675,860
Balance at January 1, 2013	**$ 75,975,162**	**$ 10,631,949**	**$ (426,531)**	**$ (73,504,720)**	**$ -**	**$ 12,675,860**
Total comprehensive loss for the period:						
Net loss	**$ -**	**$ -**	**$ -**	**$ (2,760,423)**	**$ -**	**$ (2,760,423)**
Other comprehensive loss	**-**	**-**	**(722,621)**	**-**	**-**	**(722,621)**
Private placements, net of share issue costs (note 15)	**1,450,346**	**-**	**-**	**-**	**-**	**1,450,346**
Warrants issued under private placement (note 15 & 16)	**-**	**195,950**	**-**	**-**	**-**	**195,950**
Change in share subscription receivable (note 21)	**66,966**	**-**	**-**	**-**	**-**	**66,966**
Issue of shares from DSU plan (note 15 & 16)	**5,000**	**(5,000)**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**377,516**	**-**	**-**	**-**	**377,516**
Total transactions with owners	**1,522,312**	**568,466**	**-**	**-**	**-**	**2,090,778**
Recognition of cumulative translation adjustment in net loss upon windup of subsidiary (note 17)	**-**	**-**	**137,357**	**-**	**-**	**137,357**
Balance at December 31, 2013	**$ 77,497,474**	**$ 11,200,415**	**$ (1,011,795)**	**$ (76,265,143)**	**$ -**	**$ 11,420,951**

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, 2013	2012
Cash flows from operating activities:			
Net loss		$ **(2,760,423)**	$ (7,345,810)
Item not involving cash:			
Depreciation and amortization		**29,087**	37,555
Stock-based compensation		**377,516**	288,070
Loss on disposal of exploration and evaluation assets		**110,147**	-
Loss on windup of subsidiary		**137,357**	-
Non-cash compensation expense		**56,175**	-
Net finance income		**(7,240)**	(77,680)
Foreign exchange loss (gain)		**(3,695)**	124,200
Impairment of property, plant & equipment and resource property interests	**10**	**-**	360,457
Impairment of exploration and evaluation assets distributed	**9**	**-**	2,435,485
Loss (Gain) on disposal of property, plant & equipment and resource property interests		**545**	(544,487)
Change in non-cash working capital		**(320,920)**	(381,777)
Cash flows from operating activities		**(2,381,451)**	(5,103,987)
Cash flows from financing activities:			
Issue of common shares and warrants for cash, net of issue costs		**1,646,296**	950,057
Proceeds on repayment of share subscription receivable		**10,000**	12,000
Repayment of obligations under capital lease		**(3,924)**	(16,453)
Interest paid		**(759)**	(6,005)
Cash distributed to shareholders upon disposal of subsidiary	**6**	**-**	(2,348,820)
Transaction costs incurred on distribution	**6**	**-**	(499,250)
Cash flows from financing activities		**1,651,613**	(1,908,471)
Cash flows from investing activities:			
Expenditures on exploration and evaluation assets		**(214,205)**	(307,926)
Recovery of expenditures on exploration and evaluation assets		**-**	328,775
Proceeds on sale of property, plant and equipment		**-**	486,868
Proceeds on sale of resource property interests		**-**	3,405,041
Proceeds on repayment of loan to former subsidiary		**-**	550,000
Expenditures on property, plant and equipment		**-**	(27,015)
Interest received		**8,790**	99,454
Cash flows from investing activities		**(205,415)**	4,535,197
Effect of exchange rate change on cash and cash equivalents		**1,833**	(124,200)
Decrease in cash and cash equivalents		**(933,420)**	(2,601,461)
Cash and cash equivalents, beginning of period		**1,502,889**	4,104,350
Cash and cash equivalents, end of period		$ **569,469**	$ 1,502,889

Cash flows from discontinued operations (Note 17)

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

1. Nature of operations and continuance of operations:

Erdene Resource Development Corporation (the "Corporation") is a Corporation domiciled in Canada. The address of the Corporation's registered office is 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, B3A 4S5. The consolidated financial statements of the Corporation as at and for the years ended December 31, 2013 and 2012 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 consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and 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, management is aware, in making its assessment, 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 $478,798 at December 31, 2013 compared to $1,091,293 at December 31, 2012, representing a $612,495 decrease, and has a deficit. Management estimates current working capital is sufficient to fund the Corporation's budgeted expenditures until approximately the second 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 consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying amounts of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

3. Basis of presentation

a) Statement of compliance

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

3. Basis of presentation (continued)

a) Statement of compliance (continued)

The consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2014.

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.

c) Use of estimates and judgments

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

Critical accounting estimates:

Estimate of recoverability for non-financial assets

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

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

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

3. Basis of presentation (continued)

Critical accounting estimates (continued):

Share-based payments

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

Provisions for site restoration

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

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

Exploration and evaluation assets

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

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for resource properties. Once technical feasibility and commercial viability of a resource property can be demonstrated, exploration costs will be reclassified to property, plant and equipment and subject to different accounting treatment. As at December 31, 2013, management determined that no such reclassification was required.

Taxation

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

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

4. Summary of significant accounting policies

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

a) Basis of consolidation

For the years ended December 31, 2013 and 2012, 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). All subsidiaries are wholly owned.

On January 9, 2013, the Corporation wound up ERD Aggregate Corporation (Delaware), an inactive holding company (note 17).

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.

4. Summary of significant accounting policies (continued)

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
- 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.

4. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

i) Financial assets (continued)

Loans and receivables

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

Loans and receivables comprise trade and other receivables and cash.

Cash comprises cash on hand and demand deposits.

Fair value

Fair value is determined based on current bid prices for all quoted investments.

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

4. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

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

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

e) Property, plant and equipment

Recognition and measurement

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

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

Subsequent costs

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

Depreciation

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

4. Summary of significant accounting policies (continued)

e) Property, plant and equipment

Depreciation (continued)

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

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

Resource properties

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

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

f) Impairment

i) Financial assets (including receivables)

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

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

ii) Non-financial assets

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

4. Summary of significant accounting policies (continued)

f) Impairment (continued)

ii) Non-financial assets (continued)

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

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

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

g) Income taxes

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

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

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

4. Summary of significant accounting policies (continued)

g) Income taxes (continued)

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

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

h) Share-based payments

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

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

i) Discontinued operations

A discontinued operation is a component of the Corporation's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statements of loss and comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative period.

4. Summary of significant accounting policies (continued)

j) Earnings per share

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

5. Future changes in accounting policies

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated statements:

(a) Amendments to IFRS 9 - Financial Instruments

The IASB has issued IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement, and some of the requirements of IFRS 7, Financial Instrument Disclosures. The date IFRS 9 becomes effective is still being finalized by the International Accounting Standards Board. The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

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

(b) Amendments to IAS 32 – Offsetting Financial Assets and Liabilities

The amendments to IAS 32 clarify that an entity has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Corporation intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Corporation does not expect the amendments to have a material impact on the financial statements.

5. Future changes in accounting policies (continued)

(c) IFRIC 21, Levies

IFRIC 21 provides guidance on accounting for levies in accordance with the requirement of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms an entity recognizes a liability for a levy only when the triggering event in specified legislation occurs.

The Corporation intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. However, the Company is not able at this time to estimate reasonably the impact that the amendments will have on the financial statements.

6. Plan of Arrangement

On November 9, 2012 the Corporation completed a Plan of Arrangement (the "Arrangement") with Advanced Primary Minerals Corporation ("APM") to exchange all of Erdene's North American property interests, comprised primarily of Erdene's interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for shares of APM and to then distribute all of the APM shares owned by the Corporation to its shareholders. On the completion of the transaction, the shares of both companies commenced trading. The shares of Morien Resources Corp. (formerly Advanced Primary Minerals Corporation) are listed on the TSX Venture Exchange under the symbol "MOX". Erdene continues under the same name and trading symbol, "ERD".

Terms of the Arrangement

The Arrangement Agreement set out the terms of the statutory plan of arrangement involving Erdene, APM, Erdene Resources Inc. ("ERI"), and the securityholders of Erdene and APM whereby:

- Erdene transferred all of the issued and outstanding shares of its subsidiary, ERI, an entity that owned Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 common shares of APM.
- APM and ERI amalgamated to form Morien Resources Corp. ("Morien").
- On the amalgamation of APM and ERI, each shareholder of APM (including Erdene) received one (1) common share of Morien for every 7.85 shares of APM owned by such shareholder.
- Erdene created a new class of common shares ("Erdene New Shares") and exchanged with the Erdene shareholders one-half of one Morien share and one half of one Erdene New Share for each existing common share of Erdene, resulting in 100% of the shares of Morien owned by Erdene being distributed to the Erdene Shareholders.

(Canadian dollars)

6. Plan of Arrangement (continued)

Following the Arrangement, Erdene had 47,902,947 Erdene New Shares outstanding and Morien has 49,255,990 shares outstanding, 47,901,450 (97.25%) of which are held by the Erdene shareholders.

The shares of the Corporation are widely held and there are no controlling blocks of shareholders or formal voting arrangements in place. Following the transaction, Erdene will not have any continuing interest in Morien. As a result, the transaction is accounted for as a distribution of assets to the shareholders of the Corporation in accordance with IFRIC 17: Distributions of non-cash assets to owners.

Under IFRIC-17, the distribution of the net assets to the Corporation's shareholders is measured at the fair value of the net assets distributed and is recorded as a reduction in equity. Management determined the recoverable amount of the net assets to be distributed based on the fair value less costs to distribute, which was supported by a formal valuation of the range of values representing the fair market value of the assets acquired by APM, as outlined in the table below. In 2012, the Corporation recorded an impairment charge of $2.7 million as a loss from discontinued operation in the Statement of Loss as a result of the transaction. The following table presents the carrying value of assets and liabilities distributed.

Cash	$ 2,293,465
Restricted cash	55,355
Prepaid expenses	239,504
Exploration and evaluation assets	20,945,901
Property, plant and equipment	508,658
Goodwill	5,000,000
Note payable to Erdene Resource Development	(550,000)
Trade and other payables	(206,590)
Deferred tax liability	(4,916,034)
	23,370,259
Transaction costs	499,250
Less: impairment	(2,435,485)
Fair value of assets and liabilities distributed	$ 21,434,024

(Canadian dollars)

7. 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, 2013	2012
Cash	**$ 569,469**	$ 1,502,889
Trade and other receivables	**59,198**	181,477
	$ 628,667	$ 1,684,366

The Corporation manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2013, less than 1% of the balance of cash was held in banks outside Canada (2012 - 4%).

Trade and other receivables include exploration partner recovery which was concentrated with a single company in 2012, Glencore-Xstrata, a large multinational mining conglomerate. Glencore-Xstrata accounted for 0% of trade and other receivables at December 31, 2013 (2012 – 32%). 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 2014 and must obtain additional financing by the second quarter 2014 to avoid disruption in planned expenditures (see Note 2).

Market Risk:

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

a) Interest rate risk

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

b) Foreign currency risk

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

(Canadian dollars)

7. Financial instruments (continued)

b) Foreign currency risk (continued)

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

	December 31, 2013	December 31, 2012
Cash	**$ 157,772**	$ 315,515
Trade and other payables	**(9,869)**	(54,198)
	$ 147,903	$ 261,317

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 $15,000 (2012 - $26,000).

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

	December 31, 2013	December 31, 2012
Cash	**$ 3,327**	$ 60,411
Trade and other receivables	**6,584**	-
Trade and other payables	**(34,907)**	(70,332)
	$ (24,996)	$ (9,921)

Sensitivity to a plus or minus 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $2,500 (2012 - $1,000).

c) Price risk

The Corporation is 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, 2013			December 31, 2012		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value:						
Cash	**$ 569,469**	**$ -**	**$ -**	$ 1,502,889	$ -	$ -
Trade and other receivables	**-**	**59,198**	**-**	-	181,477	-
Liabilities measured at fair value:						
Trade and other payables	**$ -**	**$ 158,233**	**$ -**	$ -	$ 628,252	$ -
Obligations under finance leases	**-**	**6,923**	**-**	-	10,847	-

(Canadian dollars)

8. Trade and other receivables

	December 31, 2013	December 31, 2012
Trade receivables	**$ 46,446**	$ 56,004
Exploration partner recovery	**-**	57,945
Employee advances and receivables	**9,024**	39,324
Sales tax receivable	**-**	27,246
Other	**3,728**	958
	$ 59,198	$ 181,477

9. Exploration and evaluation assets

	North America		Mongolia		
	Donkin Coal	Nova Scotia Aggregate	Zuun Mod Molybdenum	Other	Total
Balance, January 1, 2012	$ 21,022,241	$ -	$ 11,010,409	$ 280,537	$ 32,313,187
Additions		252,435	392,247	66,023	710,705
Recovery of expenditures	(328,775)	-	-	-	(328,775)
Disposal	-	-		(150,361)	(150,361)
Effect of movements in exchange rates	-	-	(122,779)	(3,352)	(126,131)
Distribution under Plan of Arrangement (note 6)	(20,693,466)	(252,435)	-	-	(20,945,901)
Balance, December 31, 2012	$ -	$ -	$ 11,279,877	$ 192,847	$ 11,472,724
Balance, January 1, 2013	**$ -**	**$ -**	**$ 11,279,877**	**$ 192,847**	**$ 11,472,724**
Additions	**-**	**-**	**177,285**	**36,920**	**214,205**
Disposals	**-**	**-**	**-**	**(110,147)**	**(110,147)**
Effect of movements in exchange rates	**-**	**-**	**(696,661)**	**(20,346)**	**(717,007)**
Balance, December 31, 2013	**$ -**	**$ -**	**$ 10,760,501**	**$ 99,274**	**$ 10,859,775**

The Corporation's mineral exploration and mining licenses in Mongolia are held by its subsidiaries, Erdene Mongol LLC, and Anian Resources LLC. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of nine years, subject to minimum work requirements. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. These rights are held in good standing through the payment of an annual license fee.

Zuun Mod

The Zuun Mod property is a molybdenum-copper deposit and consists of two contiguous mining licenses. The property is located in Bayankhongor Province southwest of Ulaanbaatar. Beginning July 1, 2007, the Corporation's Zuun Mod molybdenum project met the Corporation's criteria to begin capitalizing exploration and evaluation costs associated with the project. One mining license was issued in 2011 (consisting of 6,041 hectares) and the second contiguous mining license was issued in the third quarter 2012 (consisting of 358 hectares).

(Canadian dollars)

9. Exploration and evaluation assets (continued)

Zuun Mod (continued)

Together these mining licenses contain all of the reported mineral resources at Zuun Mod. The Mining Licenses are valid for an initial 30-year term with provision to renew the license for two additional 20-year terms.

Tskenher Nomin and Other Licenses

The Corporation has four exploration licenses located in Bayankhongor and Gobi Altai provinces in Mongolia covering a combined 31,568 hectares. The 4,669 hectare Tskenker Nomin license includes the Altan Nar gold, silver prospect. The license renewal dates are in April, November and December 2014.

Disposals

The Corporation disposed of two licenses in 2013 with a book value of $110,147 (2012 – three licenses with a book value of $150,361).

Arrangement

In the 2012, the corporation recognized a $252,434 gain on the disposal of its Nova Scotia aggregate interests as part of the arrangement outlined in note 6.

10. Property, plant and equipment

	Plant & field equipment	Equipment, furniture & fixtures	Software & computer	Total
Cost				
Balance, January 1, 2013	**$ 43,334**	**$ 102,878**	**$ 197,980**	**$ 344,192**
Additions	**-**	**-**	**-**	**-**
Disposals	**-**	**(597)**	**(2,211)**	**(2,808)**
Effect of movements in exchange rates	**(4,327)**	**(4,222)**	**(2,845)**	**(11,394)**
Balance, December 31, 2013	**$ 39,007**	**$ 98,059**	**$ 192,924**	**$ 329,990**
Depreciation & depletion				
Balance, January 1, 2013	**$ (11,595)**	**$ (73,347)**	**$ (140,484)**	**$ (225,426)**
Depreciation	**(4,162)**	**(7,743)**	**(17,182)**	**(29,087)**
Disposals	**-**	**219**	**2,044**	**2,263**
Effect of movements in exchange rates	**1,419**	**3,526**	**2,351**	**7,296**
Balance, December 31, 2013	**$ (14,338)**	**$ (77,345)**	**$ (153,271)**	**$ (244,954)**
Carrying amounts				
At January 1, 2013	$ 31,739	$ 29,531	$ 57,496	$ 118,766
At December 31, 2013	**$ 24,669**	**$ 20,714**	**$ 39,653**	**$ 85,036**

(Canadian dollars)

10. Property, plant and equipment (continued)

	Land & Buildings	Plant & field equipment	Equipment, furniture & fixtures	Software & computer	Resource Properties	Total
Cost						
Balance, January 1, 2012	$1,974,492	$ 1,444,436	$ 268,325	$ 193,992	$ 6,260,893	$10,142,138
Additions	-	-	2,195	24,820	-	27,015
Disposals	(1,435,683)	(1,391,053)	(166,683)	(20,313)	(6,259,752)	(9,273,484)
Distribution under Plan of						-
Arrangment (note 6)	(508,658)	-	-	-		(508,658)
Effect of movements in						
exchange rates	(30,151)	(10,049)	(959)	(519)	(1,141)	(42,819)
Balance, December 31, 2012	$ -	$ 43,334	$ 102,878	$ 197,980	$ -	$ 344,192
Depreciation & depletion						
Balance, January 1, 2012	$ (415,371)	$ (1,046,846)	$ (231,315)	$ (136,833)	$(3,274,412)	$ (5,104,777)
Depreciation & depletion	-	(4,481)	(9,599)	(23,475)	-	(37,555)
Disposals	767,534	1,047,754	166,683	19,377	3,274,412	5,275,760
Impairment (a)	(352,163)	(8,294)			-	(360,457)
Effect of movements in						
exchange rates		272	884	447	-	1,603
Balance, December 31, 2012	$ -	$ (11,595)	$ (73,347)	$ (140,484)	$ -	$ (225,426)
Carrying amounts						
At January 1, 2012	$1,559,121	$ 397,590	$ 37,010	$ 57,159	$ 2,986,481	$ 5,037,361
At December 31, 2012	$ -	$ 31,739	$ 29,531	$ 57,496	$ -	$ 118,766

a) Impairment loss and disposal of assets

In 2012, the recoverable amount of the former subsidiary, APM, was estimated based on the fair value less costs to sell and an impairment of $281,051 is recorded in loss from discontinued operations in the Statement of Loss. A further $79,406 impairment is recorded in loss from discontinued operations in the Statement of Loss related to the producing assets, upon disposal of the assets, as outlined below.

On June 29, 2012, the Corporation closed the sale of its Dearing, Georgia clay processing operations and select real estate. Details of the sale are as follows:

Cash sale price	$ 500,573
Assumed liabilities	422,421
Total consideration	922,994
Book value of net assets	$ (964,132)
Costs to sell	(38,268)
Loss on sale of clay assets	$ (79,406)

(Canadian dollars)

10. Property, plant and equipment (continued)

a) Impairment and disposal of assets (continued)

On June 29, 2012, the Corporation completed the sale of its real estate and associated royalty interest in the Granite Hill property to Aggregates USA (Sparta) LLC. Details of the sale are as follows:

Cash sale price	$	3,443,986
Recognition of prepaid royalty	$	84,252
Costs to sell	$	(38,945)
Book value of assets	$	(3,112,988)
Gain on sale of aggregate assets	$	376,305

The gain is recorded in the Consolidated Statement of Loss in loss from discontinued operations.

b) Leased equipment, furniture & fixtures:

At December 31, 2013 the net carrying amount of leased equipment, furniture and fixtures was $6,978 (December 31, 2012: $9,865).

11. Finance leases

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	December 31, 2013			December 31, 2012		
Less than 1 year	**$ 4,683**	**$ 418**	**$ 4,265**	$ 4,683	$ 759	$ 3,924
Between 1 and 5 years	**2,732**	**74**	**2,658**	7,416	493	6,923
Total	**$ 7,415**	**$ 492**	**$ 6,923**	$ 12,099	$ 1,252	$ 10,847

12. Commitments

Operating lease rentals are payable as follows:

	December 31, 2013	2012
Less than 1 year	**54,453**	78,648
Between 1 and 5 years	**-**	54,453
Total	**$ 54,453**	$ 133,101

The Corporation has an operating lease for office space in Dartmouth, Nova Scotia until August 31, 2014.

(Canadian dollars)

13. Income taxes and deferred tax liability

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

	December 31, 2013	December 31, 2012
Statutory tax rates	**31%**	31%
Income taxes (recovery) computed at the statutory rates	**$ (856,000)**	$ (2,277,000)
Benefit of tax losses not recognized	**621,000**	4,280,000
Expenses not deductible for tax purposes	**119,000**	(2,066,000)
Effect of foreign tax rates	**82,000**	488,000
Tax deductible expenses charged to retained earnings	**(12,000)**	(131,000)
Effect of change in enacted tax rates	**-**	(46,000)
Other	**46,000**	(248,000)
Provision for income taxes	**$ -**	$ -

The enacted tax rates in Canada 31% (31% in 2012), USA 39% (39% in 2012) and Mongolia 25% (25% in 2012) where the company 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.

2013	**Canada**	**Mongolia**	**Total**
Non-capital losses carried forward	**$ 12,116,000**	**$ 5,558,000**	**$ 17,674,000**
Property, plant and equipment	**162,000**	**-**	**162,000**
Share issuance costs	**113,000**	**-**	**113,000**
Intangible assets	**351,000**	**-**	**351,000**
Exploration and evaluation assets	**1,210,000**	**-**	**1,210,000**
	$ 13,952,000	**$ 5,558,000**	**$ 19,510,000**

2012	Canada	Mongolia	United States	Total
Non-capital losses carried forward	$ 14,521,000	$ 6,686,000	$ 10,000	$ 21,217,000
Net capital losses carried forward	7,163,000	-	-	7,163,000
Property, plant and equipment	174,000	-	-	174,000
Share issuance costs	117,000	-	-	117,000
Intangible assets	378,000	-	-	378,000
Exploration and evaluation assets	1,210,000	-	-	1,210,000
	$ 23,563,000	$ 6,686,000	$ 10,000	$ 30,259,000

(Canadian dollars)

13. Income taxes and deferred tax liability (continued)

As at December 31 2013, 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, 2013	2012
2013	**$ -**	$ 1,006,000
2014	**2,018,000**	3,004,000
2015	**4,110,000**	4,110,000
2016	**988,000**	2,078,000
2017	**968,000**	-
Thereafter	**9,590,000**	11,019,000
	$ 17,674,000	$ 21,217,000

14. Capital management

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

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

The Company utilizes a combination of finance leases and equity to finance its operations and exploration.

Capital Structure	Interest rate	Maturity	December 31, 2013	2012
Shareholders' Equity			**$ 11,420,951**	$ 12,675,860
Obligations under finance leases	8.36%	July 2015	**6,923**	10,847
Net capital			**$ 11,427,874**	$ 12,686,707

(Canadian dollars)

15. Share Capital

Share capital

The Corporation has an unlimited number of common shares authorized for issue without par value. The number of common shares outstanding at year-end is as follows:

	2013	2012
On issue at January 1	**53,785,299**	47,901,451
Issued for cash	**14,797,514**	5,883,848
Issued from deferred share unit plan (note 16)	**38,690**	-
On issue at December 31	**68,621,503**	53,785,299

Issuance of common shares

In November 2013, the Corporation closed a private placement financing which resulted in the issuance of 9,797,514 Units at $0.07 per Unit generating gross proceeds of $685,826. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.10 for a 24-month period. Share issue costs of $20,588 were paid in conjunction with the private placement resulting in net proceeds of $665,238. The Black-Scholes fair value of the warrants was $195,950 and recorded in contributed surplus. All securities issued are subject to a hold period of four months and one day from the date of issuance. All issued shares are fully paid.

In April 2013, the Corporation closed private placement financing with Teck Resources Limited which resulted in the issuance of 5,000,000 common shares at a price of $0.20 generating gross proceeds of $1,000,000. Share issue costs of $18,942 were paid in conjunction with the private placement resulting in net proceeds of $981,058.

In December 2012, the Corporation closed a private placement financing which resulted in the issuance of 5,882,352 Units at $0.17 per Unit generating gross proceeds of $1,000,000. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.25 for a 24-month period. Share issue costs of $49,943 were paid in conjunction with the private placement resulting in net proceeds of $950,057. The Black-Scholes fair value of $176,471 was allocated to the warrants and recorded in contributed surplus.

16. Stock options, warrants and deferred share units

(a) Stock Options

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

(Canadian dollars)

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

The changes in stock options during the years ended December 31, 2013 and 2012 were as follows:

	December 31, 2013			December 31, 2012		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding at January 1	**2,376,500**	**$**	**0.37**	3,804,000	$	1.20
Granted	**1,781,250**		**0.12**	885,000		0.62
Expired	**(453,500)**		**0.38**	(175,000)		2.64
Forfeited	**-**		**-**	(2,137,500)		2.40
Options relinquished for new options as part of the Arrangement	**-**		**-**	(2,376,500)		0.90
New options granted as part of the Arrangement	**-**		**-**	2,376,500		0.37
Outstanding at December 31	**3,704,250**	**$**	**0.25**	2,376,500	$	0.37
Exercisable at December 31	**3,704,250**	**$**	**0.25**	2,367,000	$	0.37

As a result of the 2012 Plan of Arrangement described in Note 6, outstanding options to acquire Erdene Shares were exchanged for one-half of one Morien Option and one-half of one new option of Erdene. The aggregate exercise price of the replacement options were equal to the Erdene Options they replace, and were allocated based on the volume weighted average trading prices of the shares of Erdene and Morien following the closing of the Arrangement, which resulted in a new exercise price of 41.26% of the original price attributable to the one-half of one new option of Erdene. In addition, the expiry term for certain options were modified based on the employees' continuing involvement with the respective Company/projects.

The options relinquished as part of the Plan of Arrangement were fully vested on the date of relinquishment and the majority of the replacement options granted were fully vested at the issue date and no payments were made to the holders as a result of the modifications. As such, the relinquished options were treated as cancelled and there is no further accounting for the replacement options.

The following table summarizes information concerning outstanding, all of which are exercisable at December 31, 2013:

	Outstanding	
Expiry date	Number of Options	Exercise price
June 26, 2014	400,000	0.25
September 21, 2014	172,500	0.25
April 15, 2015	390,500	0.48
October 8, 2015	200,000	0.48
March 22, 2016	125,000	1.04
August 27, 2017	635,000	0.25
June 28, 2018	1,336,250	0.12
November 26, 2018	445,000	0.14
	3,704,250	**$ 0.25**

(Canadian dollars)

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

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, 2013	Year Ended December 31, 2012
Share price at grant date	**$ 0.11**	$ 0.21
Exercise price	**$ 0.12**	$ 0.31
Risk-free interest rate	**1.6%**	1.3%
Expected life	**4.4 years**	4.5 years
Expected volatility	**97%**	97%
Expected dividends	**0.0%**	0.0%

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

(b) Warrants

As described in Note 15, a private placement of Units was completed during the year ended December 31, 2013. Each Unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.10 for a 24-month period. A private placement of Units was also completed during the year ended December 31, 2012. Each Unit was comprised of one common share of the Corporation and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to purchase one common share of the Corporation at a price of $0.25 for a 24-month period. The following table summarizes the continuity of the warrants for the years ended December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	**2,941,179**	**$ 0.25**	-	$ -
Issued	**4,898,760**	**0.10**	2,941,179	0.25
Outstanding at December 31	**7,839,939**	**$ 0.16**	2,941,179	$ 0.25
Exercisable at December 31	**7,839,939**	**$ 0.16**	2,941,179	$ 0.25

The fair value of each warrant was 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, 2013	Year Ended December 31, 2012
Share price at grant date	**$ 0.09**	$ 0.17
Exercise price	**$ 0.10**	$ 0.25
Risk-free interest rate	**1.1%**	1.1%
Expected life	**2.0 years**	2.0 years
Expected volatility	**78%**	84%
Expected dividends	**0.0%**	0.0%

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

(Canadian dollars)

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

(c) Deferred Share Units

In 2013, the Corporation adopted a deferred share unit ("DSU") plan to align the long-term incentive compensation of certain officers, directors and senior management with the drivers of long-term shareholder value. Under the Erdene DSU plan, the Corporation may grant DSUs to eligible plan members in such number and at such times as is determined by the Board of Directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, DSUs vest immediately and plan members are credited with the DSUs granted to them. Upon termination or death of the plan member, the Corporation pays the then market value of the plan member's shares either in cash or in shares, at the sole discretion of the Corporation. Since the type of payout is at the discretion of the Corporation, the plan is accounted for as an equity settled plan.

The following table summarizes information concerning DSUs at December 31, 2013:

	December 31, 2013 Number of DSUs	December 31, 2012 Number of DSUs
Outstanding at January 1	**-**	-
Granted	**2,129,141**	-
Shares issued from DSU	**(38,690)**	
Outstanding at December 31	**2,090,451**	-

The fair value of the 2,129,141 DSUs granted in the year ended December 31, 2013 was $238,073 (2012 – Nil) and was charged to share based payments.

	Year Ended December 31, 2013	Year Ended December 31, 2012
5 day VWAP at grant date	**$ 0.11**	$ -

17. Discontinued operations

During the year-ended December 31, 2012, the Corporation sold its real estate and associated royalty interest in the Granite Hill property (see note 10). As a result, the cash flows and results of operations have been presented as discontinued operations for the year ended December 31, 2012. In November 2012, the Corporation completed the Arrangement as discussed in Note 7; which resulted in the transfer of the Donkin cash generating unit ("CGU") to APM in exchange for shares of APM and the distribution of all the shares of APM to Erdene's shareholders. As a result, the cash flows and results from operations of the Donkin CGU and APM have been presented as discontinued operations at December 31, 2012, as outlined in the following table.

In 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 prior to disposal during the year ended December 31, 2012.

(Canadian dollars)

17. Discontinued operations (continued)

	For the year ended December 31, 2013	2012
Results of discontinued operations		
Revenue	**$ -**	$ 342,435
Cost of sales	**-**	402,496
	-	(60,061)
Exploration expenses	**-**	16,432
Corporate and administration	**-**	272,679
Impairment loss (note 6 and 10)	**-**	2,716,536
Gain on sale of assets (note 10)	**-**	(376,305)
Loss on windup of subsidiary	**137,357**	-
Foreign exchange loss (gain)	**-**	449
Loss from operating activities	**(137,357)**	(2,689,852)
Finance income	**-**	505
Finance expense	**-**	(15,381)
	-	(14,876)
Net loss from discontinued operations	**$ (137,357)**	$ (2,704,728)

The $137,357 loss recognized in 2013 is the non-cash cumulative translation adjustment related to the windup of ERD Aggregate Corp. in 2012, which has been cycled through the statement of loss. In 2012, total impairments associated with discontinued operations were $2,795,942 including $79,406 related to the producing assets and shown in cost of sales, $2,435,485 related to the Donkin CGU shown under impairment loss and $281,051 related to Georgia lands shown under impairment loss.

	Continuing operations	Discontinued operations	Total
For the year ended December 31, 2013			
Net loss attributable to:			
Equity holders of the Corporation	**$ 2,623,066**	**$ 137,357**	**$ 2,760,423**
Non-controlling interest	**-**	**-**	**-**
	$ 2,623,066	**$ 137,357**	**$ 2,760,423**
For the year ended December 31, 2012			
Net loss attributable to:			
Equity holders of the Corporation	$ (4,641,082)	$ (2,406,405)	$ (7,047,487)
Non-controlling interest	-	(298,323)	(298,323)
	$ (4,641,082)	$ (2,704,728)	$ (7,345,810)

(Canadian dollars)

17. Discontinued operations (continued)

Cash flows (used in) provided by discontinued operation	For the year ended December 31, 2013	2012
Net cash (used in) provided by operating activities	$ -	$ (452,749)
Net cash provided by (used in) investing activities	-	(2,944,920)
Net cash (used in) provided by financing activities	-	3,623,715
Net cash used in discontinued operation	$ -	$ 226,046

18. Exploration expenses

	For the year ended December 31 2013	2012
Depreciation & amortization	**$ 9,250**	$ 10,269
Employee benefit costs	**624,744**	1,065,252
Share-based payments	**151,890**	101,511
Direct costs	**927,488**	2,139,748
Partner recoveries	**(11,461)**	(149,017)
	$ 1,701,911	$ 3,167,762

19. Corporate and administration

	For the year ended December 31 2013	2012
Depreciation & amortization	**$ 19,837**	$ 26,527
Employee benefit costs	**331,368**	701,486
Share-based payments	**225,626**	186,559
Direct costs	**362,624**	763,726
	$ 939,455	$ 1,678,298

20. Finance income and expense

	For the year ended December 31 2013	2012
Interest income	**$ 8,790**	$ 96,382
	$ 8,790	$ 96,382
Interest expense - finance leases	**$ (759)**	$ (1,072)
Interest expense - other	**(791)**	(2,754)
	$ (1,550)	$ (3,826)
	$ 7,240	$ 92,556

(Canadian dollars)

21. 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, 2013		2012	
Directors' fees	$	26,000	$	162,000
Share-based payments to directors		69,500		70,000
Key management short-term benefits		476,793		685,081
Share-based payments to key management		221,744		70,000
	$	794,037	$	987,081

Balances with director:

An unsecured loan granted to a director and officer, with a balance of $28,300, was forgiven in 2013 in lieu of cash compensation (December 31, 2012 - $30,300).

A share subscription loan from a director and officer, with a balance of $56,175, was forgiven in 2013 in lieu of cash compensation (December 31, 2012 - $66,175). The balance of the outstanding share subscription receivable was a reduction of share capital. Payments on the loan were added back to share capital each period as disclosed in the Consolidated Statement of Changes in Equity.