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March 9, 2018

**ERDENE RESOURCE DEVELOPMENT CORPORATION**

Metropolitan Place,  
99 Wyse Road, Suite 1480,  
Dartmouth, Nova Scotia,  
Canada B3A 4S5

AND

**BDSEC SECURITIES COMPANY**

8<sup>th</sup> Khoroo, Sukhbaatar District,  
Zaluuchuud Avenue 27 / 1  
Ulaanbaatar, Mongolia

**Legal Opinion relating to the Dual-listing of Common  
shares by Erdene Resource Development Corporation in  
the Mongolian Stock Exchange**

Ladies and Gentlemen,

Erdene Resource Development Corporation (**ERD**), a company incorporated under the laws of Canada and registered at the Toronto Stock Exchange (**TSX**), resolved to raise funds through an offering in Mongolia of up to 4,000,000 common shares in the capital of the ERD (**Common Shares**) pursuant to a prospectus (**Prospectus**) in compliance with applicable Mongolian laws (the **Offering**).

ELC LLP Advocates (**ELC**) has acted as the issuer's legal counsel<sup>1</sup> in relation to the proposed cross-listing of Common Shares on the Mongolian Stock Exchange (**MSE**) (**Listing**).

## Scope of the legal opinion

As a Mongolian law firm with 18 years' experience in legal service industry which is certified to provide legal services for securities market participants<sup>2</sup>, we hereby provide this legal opinion (**Opinion**) on ERD and its Mongolian subsidiaries, namely Erdene Mongol LLC (**EM**), Anian Resources LLC (**AR**) and Leader Exploration LLC (**LE**) in accordance with the Article 10.6 of the Securities Market Law of Mongolia, effective from May 24, 2013 (**Securities Law**), provision 3.3.7 of the 'Regulation on Listing of Shares Offered in Mongolia by a Legal Entity Registered with Foreign Stock Exchange and Listing of Shares Offered in Foreign Stock Exchange by a Legal Entity Registered with Mongolian Stock Exchange' approved by the Financial Regulatory Committee (**FRC**) in its Resolution No. 19 dated January 10, 2018 (**FRC regulation**) and provision 4.5 of the 'Regulation on Listing of Shares in MSE' approved by MSE in its Resolution No. 2018 / 01 dated January 25, 2018 (**MSE regulation**).

ELC is not admitted to advise on Canadian laws and regulations, thus the opinion by Canadian legal counsel, McInnes Cooper LLP (**Canadian Opinion**) is provided in relation to ERD's legal status, powers and authorizations, validity of major transaction and other specific matters that shall be determined by the laws of Canada and is attached hereto as the Annex 1.

This Opinion is based on information acquired by ELC from January 25, 2018 through March 9, 2018. ELC delivers this Legal Opinion according to the laws of Mongolia as of March 9, 2018. No opinion is expressed or implied as to the laws of any other jurisdiction.

We express no view on any matter relating to tax or on any matter requiring skill or expertise of a non-legal nature, such as financial, accounting or commercial matters.

## Executive summary

Based on the following information and upon such investigation as we have deemed necessary, and subject to the qualifications and exceptions contained herein, we are of the opinion that:

### **ERD and its Mongolian subsidiaries were duly incorporated and validly exist in their respective jurisdictions.**

1. ERD was duly organized and is existing under the laws of Canada, was listed on TSX Venture Exchange and became a public company (TSXV: ERD) in

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<sup>1</sup> ELC and EM have entered into the Legal Services Agreement dated January 24, 2018 whereby ELC agrees to provide legal services related to the ERD Cross-listing at the MSE. The scope of work includes conducting legal due diligence on ERD and its Mongolian subsidiaries, providing a legal opinion required for the cross-listing application and rendering necessary advices and consultations during the application process.

<sup>2</sup> ELC is certified by FRC to provide legal services for securities market participants by its Resolution No. 24 dated January 29, 2014. Certification copy is attached in the Annex 5.

accordance with the relevant securities laws and regulations of its own jurisdiction in 2004. It graduated to the main board of the TSX in December 2005 (TSX: ERD). The By-law of ERD to which the last amendment was made in April 18, 2013 (**ERD By-law**) is in compliance with the Canada Business Corporations Act<sup>3</sup>.

2. ERD has the corporate power and capacity to carry on its business as presently carried on and has the capacity to enter into any transaction or agreement with third parties and to sue or be sued in its own name.
3. ERD is authorized to issue an unlimited number of authorized shares. As of February 28, 2018 ERD has 146'400'586 common shares, 9'316'250 incentive stock options; 3'410'186 deferred stock units and 1'075'324 compensation options. All shares and options are valid, effective and exercisable. All corporate decisions to issue options are duly issued and all options and deferred stock units are enforceable.
4. EM, 100 per cent subsidiary of ERD, is a Mongolian company, duly incorporated as a foreign invested limited liability company on December 8, 2005 and validly exists under the laws of Mongolia with state registration number 2718243. EM has the corporate power and capacity to carry out its business as presently carried on and to own and lease its properties and assets. The Charter of EM (**EM Charter**) is effectively registered with the Legal Entities' Registration Office of the Intellectual Property, State Registration General Authority of Mongolia (**LERO**) on December 15, 2016 which is valid and in compliance with the requirements of Mongolian Company Law (**Company Law**).
5. EM's equity capital is registered at the LERO as MNT 149'263'000 (*one hundred forty-nine million two hundred sixty-three thousand Mongolian togrogs*) and the nominal value of a share is MNT 1'000 (*one thousand togrogs*). All shares are fully paid and lawfully held by ERD.
6. AR, 100 per cent subsidiary of ERD, is a Mongolian limited liability company, duly incorporated as a foreign invested limited liability company on December 7, 2005 and validly existing under the laws of Mongolia with state registration number 2874229. AR has the corporate power and capacity to carry out its business as presently carried on and to own and lease its properties and assets. The Charter of AR (**AR Charter**) is effectively registered with the LERO on December 15, 2016 which is valid and in compliance with the requirements of the Company Law.
7. AR's equity capital is registered at the LERO as MNT 648'204'000 (*six hundred forty eight million two hundred and four thousand togrogs*) and the nominal value of a share is MNT 12'000 (*twelve thousand togrogs*). All shares are fully paid and lawfully held by ERD.

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<sup>3</sup> For confirmation of the statement made in paragraph 1, 2 and 3, please see Sections 1 to 5 of the part 'Opinions' of the Canadian Opinion.

8. LE, 51 per cent owned by ERD, is a Mongolian limited liability company, duly incorporated as a limited liability company on May 8, 2017 and validly exists under the laws of Mongolia with state registration number 6183077. LE is jointly owned ERD with Mr. Erdenechuluun Zagdragchaa, a citizen of Mongolia and 49 per cent shareholder. LE has the corporate power and capacity to carry out its business as presently carried on and to own and lease its properties and assets. The Charter of LE (**LE Charter**) is effectively registered with the LERO on August 23, 2017 which is valid and in compliance with the requirements of the Company Law.
9. LE's equity capital is registered at the LERO as MNT 100'000 (*one hundred thousand togrogs*) and the nominal value of a share is MNT 1'000 (*one thousand togrogs*). All shares are fully paid and lawfully held by ERD and Mr. Erdenechuluun Zagdragchaa.

**Powers and authorizations of board of directors and executive officers of ERD and its Mongolian subsidiaries are valid and effective.**

10. ERD has a Board of Directors consisting of eight (8) qualified directors who were duly appointed by the Resolution passed during the Annual Shareholders' General Meeting held on June 14, 2017 and the Board of Director has full legal capacity to exercise the powers assigned to them<sup>4</sup>.
11. None of the ERD directors is subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.
12. ERD's President and Chief Executive Officer (**CEO**) is Mr. Peter C. Akerley who is also a member of the ERD Board of Directors and was appointed by the Resolution of the Annual Shareholders' General Meeting held on June 14, 2017. He is fully authorized to exercise the powers assigned by the ERD Board of Directors.
13. EM has a Board of Directors consisting of three (3) directors who were duly appointed by ERD resolution dated May 7, 2017. All three directors are fully authorized to exercise their rights defined in the EM Charter and the Company Law.
14. Mr. Peter C. Akerley, President and CEO of ERD, implements executive authority in EM himself and he is registered as the CEO of EM at the LERO. He is fully authorized to implement powers assigned to him under EM Charter and the Company Law.
15. AR has a Board of Directors consisting of three (3) directors who were duly appointed by ERD resolution dated May 7, 2017. All three directors are fully authorized to exercise their rights defined in AR Charter and Company Law.

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<sup>4</sup> For confirmation of the statement made in paragraph 10, 11, and 12, please see Sections 10 and 11 of the part 'Opinions' of the Canadian Opinion.

16. Mr. Peter C. Akerley, President and CEO of ERD, implements executive authority in AR himself and he is registered as the CEO of AR at the LERO. He is fully authorized to implement powers assigned to him under AR Charter and the Company Law.
17. LE has an Advisory Committee which consists of three (5) directors who were duly appointed by LE's Shareholders' Meeting Resolution dated August 18, 2017. All five members of the Committee are fully authorized to exercise their rights defined in LE Charter.
18. Mr. Bilguun Ankhbayar was appointed as the CEO of LE by the Resolution of Shareholders' Meeting dated August 18, 2017 and appropriate registration was made with the LERO. He is fully authorized to implement the powers assigned to him under LE Charter and Company Law.

**Major contracts entered into by ERD and its Mongolian subsidiaries during the last one (1) year were duly executed in compliance with relevant laws and regulations.**

19. ERD entered into two (2) major contracts in the last one (1) year, Private Placement with Teck Resource Limited dated March 21, 2017 and Common Share Subscription Agreement with Sandstorm Gold Ltd on March 18, 2016 provided that the subscription was valid until October 2017. Both agreements have been duly approved and all necessary documentation and corporate actions were taken to validate them<sup>5</sup>.
20. EM was not a party to any material or conflict of interest transactions in 2017, except the Acquisition of the LE shares, whereby EM acquired 51 per cent of the LE shares and the transaction was completed in August 2017. EM entered into the Share Purchase Agreement dated August 18, 2017 with Mr. Erdenechuluun Zagdragchaa and Mr. Erdenekhuyag Zagdragchaa to acquire 51 per cent of LE shares. Mr. Erdenechuluun and ERD also entered into the Shareholder Agreement dated August 18, 2017. All necessary approvals were taken to complete the transaction and shareholder register has been duly recorded with the LERO.
21. Other two subsidiaries of ERD, AR and LE have not entered into any major or conflict of interest transaction in 2017.

**No event or circumstance having material impact on company's activities, including the revocation or expiration of operational licenses and permits of ERD and its Mongolian subsidiaries, and no security obligation is registered on the licenses.**

22. Except the mineral licenses ERD holds through its Mongolian subsidiaries in the territory of Mongolia, it has no license, permit, certificate, intellectual property rights and trade mark on its own name in Canada or other country; and business operation of ERD does not require any license or special permit from any Canadian authority.

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<sup>5</sup> For confirmation of the statement made in paragraph 19, please see Sections 12 and 13 of the part 'Opinions' of the Canadian Opinion.

23. EM holds mineral exploration licenses (i) No. XV-015569 at Khundii area located at Bayan-Undur and Shinejinst soums, Bayankhongor province, (ii) No. XV-016956 at Tsenkher Nomin, Bayan-Undur, Shinejinst soum, Bayankhongor province and (iii) No. XV-017875 at Burgast, Tsogt soum, Gobi-Altai province as of the date of this Opinion. All mineral licenses, related land rights and permits are in full force and effective. According to the confirmation obtained from the Mineral Resources and Petroleum Authority of Mongolia (**MRPAM**), the licenses are not subject to revocation or modification under the Minerals Law of Mongolia (**Minerals Law**) and there is no actual, pending or threatened claims, orders, regulatory proceedings by any Governmental authority or any individual or other legal person against the mineral licenses, relevant land rights and permits.
24. AR holds a mining license with No. MV-016836 at Khuvyn Khar area located in Shinejinst soum, Bayankhongor province as of the date of this Opinion. The mining license, related land rights and permits are in full force and effective. According to the confirmation we obtained from the MRPAM, the licenses are not subject to revocation or modification under the Minerals Law, and there is no actual, pending or threatened claims, orders, regulatory proceedings by any Governmental authority or any individual or other legal person against the license, relevant land right and permit.
25. LE holds a mineral exploration license with No. XV-016057 at Ulaan area located in Bayan-Undur and Shinejinst soums, Bayankhongor province as of the date of this Opinion. The license, related land right and permits are in full force and effective. According to the confirmation we obtained from the MRPAM, the license is not subject to revocation or modification under the Minerals Law, and there is no actual, pending or threatened claims, orders, regulatory proceedings by any Governmental authority or any individual or other legal person against the license, relevant land right and permits.
26. According to the confirmation we obtained from the MRPAM, all mineral licenses and permits of EM, AR and LE are free of any lien or encumbrance and there is no security obligation registered over the licenses at the MRPAM.
27. To the best of our knowledge, EM, AR and LE do not hold any intellectual property right, patent or trade mark.

**Ownership rights over company shares, real estates and other assets are valid and no security registered on them.**

28. EM holds a land possession right over 20,000 m<sup>2</sup> of land, for the purpose of operating Bayan Khundii camp, in Shinejinst soum of Bayankhongor aimag for 15 years commencing from 2015 based on the soum Governor's decision No. 63 dated November 4, 2008. The land possession right is valid and is free of any lien or encumbrances.

29. AR holds a land possession right for 1,8 hectares of land, for the purpose of operating Zuun Mod camp, in Shinejinst soum of Bayankhongor aimag for 30 years. The Land Possession Certificate No. 0230777 was issued on November 17, 2011. The land possession right is valid and is free of any lien or encumbrances.
30. To the best of our knowledge, ERD and LE do not hold any ownership right with significant amount of nature.
31. Shares of ERD, EM, AR and LE have been duly registered with the competent authority. No security has been registered over the shares of EM, AR and LE held by ERD.

**Information and documents disclosed in the Listing application and the prospectus prepared for the Listing (*Prospectus*) are true and accurate.**

32. On February 28, 2018 Board of Directors of ERD resolved that up to four (4) million common shares of ERD may be issuable pursuant to the Offering on the terms set forth in the Prospectus. The Board of Director further approves the volume-weighted average trading price of a Common Share on the TSX for the ten trading days ending on a date agreed upon by the Company being a date after the draft Prospectus is submitted to the FRC but before the FRC grants its approval thereof 10% discount, subject to approval of the offering price by the TSX, as the consideration for each of the Offered shares to be issued pursuant to the Offering and any officer or director of the Company to determine and fix such amount.
33. The Board of Directors of ERD further authorized and directed ERD to make all necessary applications to the MSE in connection with the Offering and MSE Listing, and Erdene Mongol, the wholly owned subsidiary of ERD, to represent ERD to submit to the Mongolian authorities the ERD's application for the Listing, to receive notices and to communicate with Mongolian authorities and shareholders of ERD residing in Mongolia.
34. Based on the information, documents and confirmation provided by the Canadian counsel, it is considered that the decision by the Board of Directors of ERD is valid and effective as per the laws and regulations of ERD's country of jurisdiction.
35. As confirmed by the Canadian counsel, TSX has been informed that ERD intends to list its shares on the MSE and to offer up to 4,000,000 of its common shares to residents of Mongolia pursuant to a prospectus in accordance with the laws of Mongolia.
36. Along with our firm and Canadian counsel of ERD, McInnes Cooper LLP, the parties involved in the Listing application are:  
Erdene Resource Development Corporation (Canada);  
Erdene Mongol LLC (Mongolia);  
Anian Resources LLC (Mongolia);  
Leader Exploration LLC (Mongolia); and  
BDSEC Securities LLC (Mongolia).

37. Each entity listed above has provided the Representation Letter, attached in the Annex 4 of this Opinion, confirming the information they have contributed when drafting and completing the Listing application documents, including the Prospectus is true and accurate.
38. To the best of our knowledge, all information provided in the Prospectus and the Listing applications rely on true and accurate information and documents. As the lawyers are unable to review the facts already available to public, the data and analysis provided in the financial analysis and proposed terms and conditions of sales, we suggest the investors and share purchasers to clarify details of such information from the Issuer and relevant parties.

## Documents reviewed

For the purposes of giving this Opinion, ELC has examined the original copies, certified or otherwise identified to our satisfaction, of documents provided to us by ERD and its Mongolian subsidiaries. The list of reviewed documents (**Documents**) is provided in the Annex 2 of this Opinion.

## Assumptions

This opinion is based on the following assumptions:

- a) all documents submitted to us as originals are authentic and complete and the relevant original continues in full force and effect and all signatures, seals, dates and duty markings are genuine;
- b) all documents supplied to us as notarised copies, photocopies, scanned copies or facsimile transmitted copies or other copies conform to the originals and such originals are authentic, complete and up to date and continue in full force and effect and all signatures, seals, dates and duty markings are genuine;
- c) all of ERD and Mongolian subsidiaries' employees and officers gave truthful statements in good faith, that all individuals material to the investigation were of legal age and capacity and that all signatures on documents material to the investigation were genuine.
- d) all information disclosed to us by governmental authorities and courts are complete and accurate;
- e) the Canadian Opinion given by the Canadian counsel is in compliance with the laws and regulations of the appropriate jurisdiction and is accurate to the extent the counsel is authorized or admitted to give.

## Qualifications

- a) The LERO confirmation letters referred to in the sections of 1.3, 1.4 and 1.5 should have revealed whether any liquidation has commenced with respect to the relevant company as of the date of such confirmation letter. A company must file notice of the decision to liquidate with LERO within three (3) working days upon making such decision.
- b) There is no register and no publicly available information prior to the court making an order to commence bankruptcy proceedings. The confirmation letters referred to in



sections 1.3(E), 1.4(E) and 1.5(E) should have revealed whether any request or claim regarding bankruptcy or liquidation has been lodged with a court as of the date of such confirmation letter. The decision to commence a bankruptcy case is made by a judge within at least five days of receipt of a claim to open a bankruptcy case.

- c) We have obtained certain documents of ERD from the public website at [www.sedar.com](http://www.sedar.com) which is an electronic filing system made available by the Canadian securities Administrators as defined in the Canadian opinion. We considered the documents obtained from SEDAR as true and accurate.
- d) Where indicated in the opinion, 'to the best of our knowledge' indicates that no independent sources of information came to our attention indicating a contrary finding, non-confidential sources of information generally available to the public were searched.

## Reliance

This Opinion shall only be used for the purposes defined herein. Our Opinion may not be used, quoted from, referred to or relied upon by you or by any other person for any other purpose, nor may copies be delivered to any other person, without in each instance our prior written consent; except that you may deliver copies of this opinion to (a) your independent accountants, attorneys and other professional advisors acting on your behalf in connection with the Listing, (b) governmental regulatory agencies having jurisdiction over you to the extent disclosure of the Opinion is required by applicable law or regulation, (c) designated individuals pursuant to an order or legal process of any court or governmental agency or authority of competent jurisdiction. We shall have no obligation to revise or reissue this Opinion with respect to any change in law or any event, fact, circumstance or transaction which occurs after the date of the Prospectus.

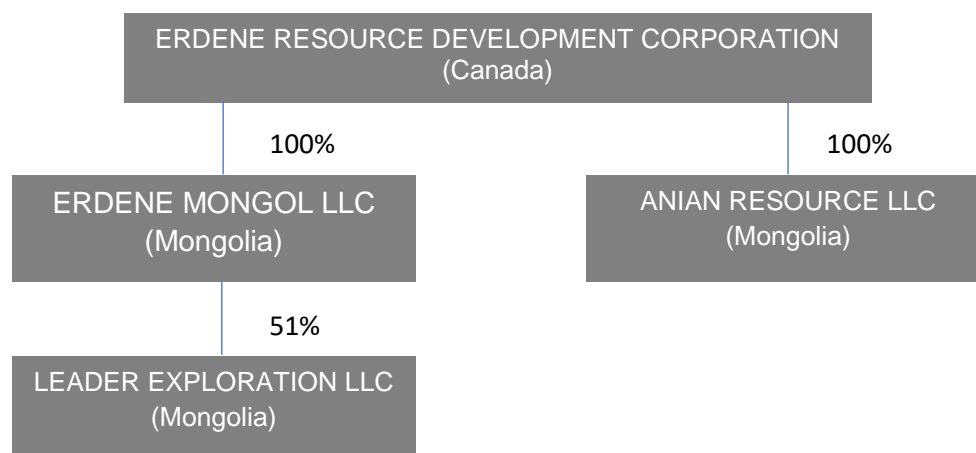
## Opinions

### ONE. CORPORATE STATUS

#### 1.1. Corporate chart

In terms of its corporate structure, ERD represents a group of subsidiaries and affiliated companies (**ERD entities**).

**Chart: Corporate structure as of the date of this Opinion**



## 1.2. Corporate information of ERD (registration number: 377975-1, TSX: ERD)

### A. Incorporation<sup>6</sup>

ERD was incorporated under the Canada Business Corporations Act on June 27, 2000, as '3779751 Canada Inc.' On February 18, 2003, ERD changed its name to 'Erdene Gold Inc.' and on May 29, 2008, ERD changed its name to 'Erdene Resource Development Corporation'.

Since its incorporation, ERD has amended its Articles of Incorporation (**Articles**) as follows:

1. On November 20, 2003, ERD amended its Articles to permit directors to appoint one or more additional directors to hold office until the next annual general meeting, so long as the total number of directors so appointed does not exceed one-third of the number of elected directors.
2. On December 5, 2003, ERD amended its Articles to increase its outstanding share capital by way of a share subdivision whereby the share capital was subdivided on a 2 to 1 basis so that shareholders of record at the close of business on December 5, 2003, received an additional common share of ERD (**ERD Common Share**) for each Common Share owned. All rights to acquire ERD Common Shares of ERD upon the exercise of outstanding options and warrants were adjusted to reflect the stock split.

ERD's head office is located at 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, Canada B3A 4S5, and its registered office is located at 1300 – 1969 Upper Water Street, Halifax, Nova Scotia, Canada B3J 2V1.

The primary business of ERD is the exploration and development of precious and base mineral deposits. In Mongolia, ERD is focused on the discovery and acquisition of large tonnage, low cost, precious and base metal deposits<sup>7</sup>.

Based on the information we have acquired and the confirmation by the Canadian counsel through the Canadian Opinion, ERD validly exists under the laws of Canada and was duly registered and remains registered with the relevant registration authority of its jurisdiction as of the date of this Opinion.

### B. Capital Structure

#### *Common shares*

ERD has an unlimited number of authorized shares<sup>8</sup>. As of February 28, 2018, it has 146'400'586 Common Shares issued and outstanding. Each Common Share is entitled to one vote at meetings of shareholders, to receive dividends if, as and when declared by the board of directors, and to receive the remaining property upon

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<sup>6</sup>The Annual Information Form for the Fiscal Year ended December 31, 2016, ERD, March 27, 2017, Pages 4 and 5 ([www.sedar.com](http://www.sedar.com))

<sup>7</sup>The Annual Information Form for the Fiscal Year ended December 31, 2016, ERD, March 27, 2016, Page 8 ([www.sedar.com](http://www.sedar.com))

<sup>8</sup> Article 24, the ERD By-law

dissolution, liquidation or winding-up of ERD as is distributable to the holders of the Common Shares.

ERD first traded its Common Shares on the TSX Venture Exchange under the symbol 'ERD' on March 16, 2004.

#### *Stock Options*

As of February 28, 2018, ERD has 9'316'250 outstanding stock options with a weighted average exercise price of USD 0.39. Each vested option is exercisable for one Common Share of ERD.

#### *Deferred Stock Units*

As of February 28, 2018, ERD has an aggregate of 3'410'186 Deferred Stock Units (DSUs) outstanding, at a weighted average price of USD 0.6 per Share, that were granted to certain officers, directors and employees of ERD.

#### *Compensation options*

As of February 28, 2018, ERD had 1'075'324 outstanding compensation options, each exercisable at USD 1.20 per Share until February 22, 2019.

As per the ERD By-law and the statement provided by the Canadian counsel through the Canadian Opinion, ERD has taken all necessary corporate action to authorize the issuance of the foregoing securities.

### **C. ERD By-law**

*'ERD By-law relating generally to the transaction of the corporate business and affairs'* was first adopted in October 22, 2003 and the last amendment was made in April 18, 2013.

ERD By-law provides general regulations relating to the number and quorum of directors who shall manage the business and affairs of ERD, qualifications and requirements for directors, election and term, removal of directors, calling of meeting of directors, remuneration of directors, protection and indemnity of directors and officers, chairman of the Board, President, Vice-President, shares allotment, share certificates, transfer of securities, shareholder annual meetings, quorum, voting rights and dividends.

As per the Canadian Opinion, ERD Articles and By-law is in compliance with the laws and regulations of Canada governing the company operations and are enforceable.

### **D. Tax**

As confirmed by the Canadian Counsel, ERD is not in violation of any Canadian law or regulation respecting taxation and there is no administrative, litigation, arbitration or regulatory proceedings or claims under any such law or regulation pending against ERD.

## **E. Liquidation**

According to the Canadian Opinion, no bankruptcy, winding-up or receivership proceedings in respect of ERD are pending or contemplated by ERD, nor has any order been made, petition granted or meeting convened for the winding up of ERD.

## **F. Litigation**

The Canadian counsel confirms that there is no actual, threatened or pending administrative, litigation, arbitration or outstanding court judgements or orders, regulatory proceedings, petitions of any Governmental agency or by any individual or legal person against ERD.

### **1.3. Corporate information of EM (certificate number: 9019005124, registration number: 2718243)**

#### **A. Incorporation**

According to the Charter of EM (registered the last change with the LERO on January 30, 2017) and its State Registration Certificate, it was established on December 8, 2005, with a total capital of MNT 10'000'000. On July 2, 2013, EM's shareholder increased the total share capital to MNT 149'263'000 which is divided into 140,263 shares with a par value of MNT 1'000 each.

As defined in the State Registration Certificate of EM and the mineral licenses acquired by EM, it engages in the business of foreign trade (as the main business function) and mineral exploration activities (as supplementary functions). EM Charter defines other activities that are allowed under relevant regulations. EM is lawfully organized and validly existing since its incorporation as a limited liability company<sup>9</sup> of Mongolia.

As confirmed by the Reference Letter No. 00282422 issued by the LERO on January 29, 2018, EM remains registered at the LERO as a company with foreign investment.

#### **B. Shareholding structure**

As of the date of this Opinion, EM's equity capital is registered at the LERO as MNT 149'263'000 (*one hundred forty-nine million two hundred sixty-three thousand Mongolian togrogs*) and the nominal value of a share is MNT 1'000 (*one thousand togrogs*). All shares are fully paid and lawfully held by ERD which is (100 per cent) shareholder of EM.

Based on the Reference Letter No. 00282422 of LERO, each change in equity capital has been perfected in accordance with the laws of Mongolia and that all necessary registration / approvals have been completed and obtained.

EM's sole shareholder was Erdene International Exploration Inc. until January 30, 2017 and 100 per cent ownership was transferred to ERD.

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<sup>9</sup> 'A limited liability company is the company whose capital invested by the shareholders is divided into shares and the right of disposal of the shares is limited by law and the company's charter', Article 3.5, Company Law.

The change of ownership / share transfer has been perfected in accordance with the relevant laws and regulations of Mongolia and all necessary registration / approvals have been completed and obtained as per the Reference Letter No. 00282422 of LERO.

According to EM's state registration certificate, its operational term expires on February 27, 2020. The operational term of the certificate can easily be extended upon expiration with a simple request letter by the company and it does not have any effect on the operation of EM.

Based on the EM representation and our review of the Documents, and to the best of our knowledge, since the date of its organization, EM has complied in all material respects with applicable laws and regulations in Mongolia.

### **C. Validity of EM Charter**

The final EM Charter was approved by the shareholder on December 15, 2016. EM Charter has the following structure which provides the provisions required under the Article 16.2<sup>10</sup> of the Company Law:

- Name and abbreviation of EM (Article 1);
- Authorized and issued share details and the share capital amount (Article 4 to Article 7);
- Main business activities of EM (Article 3);
- Powers and authorities of the shareholder's meeting (Article 13);
- Appointment of Board of Directors and their authority (Article 16 to Article 20); and
- Management structure of EM (Article 24);

EM Charter is in compliance with the Company Law requirements, valid and enforceable as of the date of this Opinion.

### **D. Tax**

Based on the Reference Letter No. 1801240534115 issued by the online tax system of the General Tax Authority of Mongolia on January 24, 2018 and the Reference Letter No. 2/290 dated February 2, 2018 which we have obtained from the First Instance Administrative Court of Mongolia<sup>11</sup>, EM has not violated any applicable Mongolian taxation laws and regulations and there is no pending tax litigation claim against EM.

EM has filed all necessary income, value added, business turnover and such other tax returns and reports as may be required, with the Mongolia or taxing authority thereof or therein, and all such returns, reports or filings have been prepared on a reasonable basis and are not the subject of any disputes of a material nature with revenue or other authorities.

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<sup>10</sup> Following mandatory items shall be specified in the company's Charter: (i) the company's full and abbreviated name, abbreviated identification sign that determined the company's type, (ii) number, type and par value of outstanding and issued shares of the company, and amount of share capital, (iii) if preferred shares are announced by the company's Charter, the number of outstanding preferred shares and the rights of holders of the shares, (iv) if the company resolved to have a Board, the number of members of the Board of Directors, (v) other powers of the Shareholders' Meeting and the Board as determined other than the law, and (vi) activities of the company.

<sup>11</sup> Court jurisdiction of a tax case is the Administrative Court of Mongolia as per the General Administrative Law of Mongolia.

The Reference Letter No. 113 of the Sukhbaatar District Social Insurance Department dated January 29, 2018 confirms that EM has been registered at the department and no liability incurred by EM as of the date of the letter.

#### **E. Liquidation**

Based on the Reference Letter No. 836 dated January 29, 2018 we have obtained from the Judicial Central Archive and to the best of our knowledge, no bankruptcy, winding up, or receivership proceedings in respect of EM are pending or, to the best of our knowledge, contemplated, nor has any order been made, petition presented or meeting convened for the winding up of EM.

#### **F. Litigation**

There is no actual, threatened or pending administrative, litigation, arbitration or outstanding court judgements or orders, regulatory proceedings, petitions of any Governmental agency or by any individual or legal person against EM. It is confirmed by the Reference Letter No. 836 dated January 29, 2018 we have obtained from the Judicial Central Archive, the Reference Letter No. 2/290 dated February 2, 2018 obtained from the First Instance Administrative Court, the Reference Letter No. 4/82 dated January 29, 2018 from the Mongolian International and National Arbitration Center and the Reference Letter No. 0048833 dated January 26, 2018 obtained from the Court Decision Enforcement Agency of the Capital City.

### **1.4. Corporate information of AR (certificate number: 9019005122, registration number: 2874229)**

#### **A. Incorporation**

According to the Charter of AR (**AR Charter**) (registered the last change with LERO on May 7, 2017) and its State Registration Certificate, AR was established on December 7, 2005, with a total capital of MNT 648'204'000 divided into 54'017 shares with a par value of MNT 12'000 each on the date of incorporation. AR is authorized to issue 100'000 shares in total.

As defined in the AR Charter and the mineral license acquired by AR, it engages in the mineral exploration and mining activities (as the main business function) and foreign trade (as supplementary functions). AR Charter defines other activities that are allowed under relevant regulations. AR is lawfully organized and validly existing since its incorporation as a limited liability company of Mongolia.

As confirmed by the Reference Letter No. 00282423 issued by the LERO on January 29, 2018, AR remains registered at the LERO as a company with foreign investment.

#### **B. Shareholding structure**

As of the date of this Opinion, AR's equity capital is registered at the LERO as MNT 648'204'000 (*six hundred forty-eight million two hundred and four thousand Mongolian*

togrogs) and the nominal value of a share is MNT 12'000 (*twelve thousand togrogs*). All shares are fully paid and lawfully held by ERD which is (100 per cent) shareholder of AR.

100 per cent shares of AR was first held by Tamerlan International Limited, a company of Bermuda and whole ownership was transferred to Erdene International Exploration Inc. in November 15, 2013.

Later in January 30, 2017, 100 per cent ownership of AR was transferred to ERD which is the current owner.

The change of ownership / share transfer has been perfected in accordance with the relevant laws and regulations of Mongolia and all necessary registration / approvals have been completed and obtained as confirmed by the Reference Letter No. 00282423 issued by the LERO.

According to AR's state registration certificate, its operational term expires on February 25, 2020. The operational term of the certificate can easily be extended upon expiration with a simple request letter by the company and it does not have any effect on the operation of AR.

Based on the AR representation and our review of the Documents, and to the best of our knowledge, since the date of its organization, AR has complied in all material respects with applicable laws and regulations in Mongolia.

### **C. Validity of AR Charter**

The final AR Charter was approved by the shareholder on December 15, 2016. AR Charter has the following structure which provides the provisions required under the Company Law:

- Name and abbreviation of EM (Article 1);
- Authorized and issued share details and the share capital amount (Article 4 to Article 7);
- Main business activities of EM (Article 3);
- Powers and authorities of the shareholder's meeting (Article 13);
- Appointment of Board of Directors and their authority (Article 16 to Article 20);  
and
- Management structure of EM (Article 24);

EM Charter is in compliance with the Company Law requirements, valid and enforceable as of the date of this Opinion.

### **D. Tax**

Based on the Reference Letter No. 1801240534190 issued by the online tax system of the General Tax Authority of Mongolia on January 24, 2018 and the Reference Letter No. 2/292 dated February 2, 2018 we have obtained from the First Instance Administrative Court of Mongolia, AR has not violated any applicable Mongolian taxation laws and regulations and there is no pending tax litigation claim against AR.

AR has filed all necessary income, value added, business turnover and such other tax returns and reports as may be required, with the Mongolia or any political subdivision or taxing authority thereof or therein, and all such returns, reports or filings have been prepared on a reasonable basis and are not the subject of any disputes of a material nature with revenue or other authorities.

The Reference Letter No. 191 of the Chingeltei District Social Insurance Department dated January 29, 2018 confirms that AR has been registered at the department and no liability incurred by AR as of the date of the letter.

#### **E. Liquidation**

Based on the Reference Letter No. 837 dated January 29, 2018 we have obtained from the Judicial Central Archive and to the best of our knowledge, no bankruptcy, winding up, or receivership proceedings in respect of AR are pending or, to the best of our knowledge, contemplated, nor has any order been made, petition presented or meeting convened for the winding up of AR.

#### **F. Litigation**

There is no actual, threatened or pending administrative, litigation, arbitration or outstanding court judgements or orders, regulatory proceedings, petitions of any Governmental agency or by any individual or legal person against AR. It is confirmed by the Reference Letter No. 837 dated January 29, 2018 we have obtained from the Judicial Central Archive, the Reference Letter No. 2/292 dated February 2, 2018 obtained from the First Instance Administrative Court, the Reference Letter No. 4/80 dated January 29, 2018 from the Mongolian International and National Arbitration Center and the Reference Letter No. 0048835 dated January 26, 2018 obtained from the Court Decision Enforcement Agency of the Capital City.

### **1.5. Corporate information of LE (certificate number: 9011672102, registration number: 6183077)**

#### **A. Incorporation**

According to the Charter of LE (**LE Charter**) (registered the last change with LERO on August 23, 2017) and its State Registration Certificate, LE was established on May 8, 2017, with a total capital of MNT 20'000 divided into 20 shares with a par value of MNT 1'000 each on the date of incorporation.

Later, EM purchases 51 per cent of total shares of LE and the total share capital was increased to MNT 100'000 on August 23, 2017. Accordingly current share capital is divided into 100 shares with par value of MNT 1'000.

As defined in the LE Charter and the mineral license acquired by LE, it engages in the foreign trade activities (as the main business function) and mineral exploration and mining consultancy services (as supplementary functions). LE is lawfully organized and validly existing since its incorporation as a limited liability company of Mongolia.



As confirmed by the Reference Letter No. 00282424 issued by the LERO on January 29, 2018, LE remains registered at the LERO as a local company.

## **B. Shareholding structure**

As of the date of this Opinion, LE's equity capital is registered at the LERO as MNT 100'000 (*one hundred thousand Mongolian togrogs*) and the nominal value of a share is MNT 1'000 (*one thousand togrogs*). All shares are fully paid and lawfully held by the shareholders defined in LE Charter.

On August 18, 2017 EM entered into the Shareholders' Agreement with Mr. Erdenechuluun Zagdragchaa, a citizen of Mongolia, after acquiring 51 per cent of LE shares.

50 per cent shares of LE was first held by Mr. Erdenechuluun who currently holds 49 per cent of LE shares and another 50 per cent shares was held by Mr. Erdenekhuyag Zagdragchaa, the previous owner.

Under the Share Purchase Agreement executed on August 18, 2017 Mr. Erdenekhuyag transferred his 50 per cent shares of LE to EM and Mr. Erdenechuluun transferred one (1) per cent EM, accordingly EM become 51 per cent shareholder of LE.

The change of ownership / share transfer has been perfected in accordance with the relevant laws and regulations of Mongolia and all necessary registration / approvals have been completed and obtained.

According to LE's state registration certificate and LE Charter, it has the operational term for indefinite time period which means no extension application is required.

Based on the LE representation and our review of the Documents, and to the best of our knowledge, since the date of its organization, LE has complied in all material respects with applicable laws and regulations in Mongolia.

## **C. Validity of LE Charter**

The final LE Charter was approved by its shareholders on August 18, 2017. LE Charter has the following structure which provides the provisions required under the Company Law:

- Name and abbreviation of LE (Article 1);
- Authorized and issued share details and the share capital amount (Article 4 to Article 7);
- Main business activities of LE (Article 3);
- Powers and authorities of the shareholder's meeting (Article 13);
- Appointment of Board of Directors and their authority (Article 16 to Article 20); and
- Management structure of LE (Article 24);

LE Charter is in compliance with the Company Law requirements, valid and enforceable as of the date of this Opinion.

#### **D. Tax**

Based on the Reference Letter No. 1801240534193 issued by the online tax system of the General Tax Authority of Mongolia on January 24, 2018 and the Reference Letter No. 2/291 dated February 2, 2018 we have obtained from the First Instance Administrative Court of Mongolia, LE has not violated any applicable Mongolian taxation laws and regulations and there is no pending tax litigation claim against LE.

LE has filed all necessary income, value added, business turnover and such other tax returns and reports as may be required, with the Mongolia or any political subdivision or taxing authority thereof or therein, and all such returns, reports or filings have been prepared on a reasonable basis and are not the subject of any disputes of a material nature with revenue or other authorities.

The Reference Letter No. 1/154 of the Khan-Uul District Social Insurance Department dated February 2, 2018 confirms that LE has been registered at the department and no liability incurred by LE as of the date of the letter.

#### **E. Liquidation**

Based on the Reference Letter No. 838 dated January 29, 2018 we have obtained from the Judicial Central Archive and to the best of our knowledge, no bankruptcy, winding up, or receivership proceedings in respect of EL are pending or, to the best of our knowledge, contemplated, nor has any order been made, petition presented or meeting convened for the winding up of EL.

#### **F. Litigation**

There is no actual, threatened or pending administrative, litigation, arbitration or outstanding court judgements or orders, regulatory proceedings, petitions of any Governmental agency or by any individual or legal person against LE. The fact is confirmed by the Reference Letter No. 838 dated January 29, 2018 we have obtained from the Judicial Central Archive, the Reference Letter No. 2/291 dated February 2, 2018 obtained from the First Instance Administrative Court, the Reference Letter No. 4/81 dated January 29, 2018 from the Mongolian International and National Arbitration Center and the Reference Letter No. 0048834 dated January 26, 2018 obtained from the Court Decision Enforcement Agency of the Capital City.

## TWO. POWERS AND AUTHORIZATIONS

### 2.1. Powers and authorizations of ERD management

#### A. Powers and Authorizations of Directors

The directors shall manage the business and affairs of the Corporation (ERD)<sup>12</sup>. The management of ERD consists of eight (8) directors and two (2) executive officers. The term of office of each director is until the next annual meeting of shareholders of the Corporation or until the position is otherwise vacated<sup>13</sup>. As provided in the Article 10 and the Article 56(b) of ERD By-Law, shareholders elect the Board of Directors. All of the directors were elected at the ERD's Annual General Meeting of Shareholders on June 14, 2017. Based on the Canadian Opinion we have been provided, it is confirmed that ERD's annual meeting of shareholders for 2017 was announced and convened in accordance with the ERD By-law, laws and regulations of Canada and Shareholders' Resolution regarding the appointment of ERD board of directors is valid and effective.

Each director shall be eighteen (18) or more years of age and no person who is not an individual, who has the status of a bankrupt or who is of unsound mind and has been so found by a court in Canada or elsewhere shall be a director. If a director acquires the status of a bankrupt or becomes of unsound mind and is so found, he shall thereupon cease to be a director<sup>14</sup>.

The table below provides the names and related information concerning each director and executive officer of ERD.

**Table: Details of ERD Directors**

<b>Name, Province and Country of Residence</b>	<b>Position</b>	<b>Director / Officer since</b>
Peter C. Akerley, Nova Scotia, Canada	President, Chief Executive Officer and Director, and Managing Director of EM and AR	February 25, 2003
Dr. Anna G. Biolok, British Columbia, Canada	Director	June 14, 2016
William B. Burton, Nova Scotia, Canada	Director	August 25, 2004
John P. Byrne, Ontario, Canada	Director	August 25, 2004
J.C. (Chris) Cowan, Ontario, Canada	Chairman of the Board	February 25, 2003
T. Layton Croft, South Carolina, USA	Director	July 2, 2015

<sup>12</sup> Article 6, the ERD By-law

<sup>13</sup> Article 10, the ERD By-law

<sup>14</sup> Article 8, the ERD By-law

Kenneth W. MacDoland, Nova Scotia, Canada	Vice President and Chief Financial Officer	February 25, 2003
David V. Mosher, Nova Scotia, Canada	Director	June 14, 2016
Philip L. Webster, Quebec, Canada	Director	June 14, 2006

## **B. Management introduction**

### *Peter C. Akerley*

Mr. Akerley has over 25 years of experience in mineral exploration, corporate financing, project development and management of publicly listed resource companies. He is one of the founders and principals of Erdene and has held the position of President and Chief Executive Officer of the Corporation since March 2003. Mr. Akerley is a geologist who has worked extensively in foreign jurisdictions throughout his career, predominately in North and South America and Asia, with a focus on Mongolia, where he has led the technical team through the confirmation of a major molybdenum and copper deposit, the discovery and definition of the Altan Nar gold deposit and recent discovery of the Bayan Khundii gold project. He has extensive experience in corporate M&A, joint venture arrangements and financings, leading the companies through more than 20 such business arrangements since taking the corporation public in 2004. Mr. Akerley served on the Board and Special Committee of Temex Resources Corp. advising on the sale of the company to Lake Shore Gold Corp., and is chairman of the TSX-V listed Morien Resources Corp. where he was involved in the sale of the Donkin Coal and Black Point Aggregate projects, converting those interests into royalties. He also pioneered the company's involvement as the founding and lead sponsor of the very successful Catapult leadership program in Nova Scotia. Mr. Akerley has a BSc (1988) from Saint Mary's University in Halifax, specializing in geology, and has completed the Institute of Corporate Directors Audit Committee Effectiveness course in December 2012.

### *Dr. Anna G. Biolik*

Dr. Biolik has over 30 years of public and private sector experience and is one of the foremost Canadian experts on Central Asian business and diplomacy. From 2010 to 2012, Dr. Biolik occupied the position of Regional Director, Pacific Region, Foreign Affairs and International Trade Canada. In 2012, Dr. Biolik retired from the federal public service. Since 2014, she has been working as independent consultant and Vice-President and Chief Executive Officer of Allam Advisory Group, a global business strategy and commercial diplomacy consulting firm. She was Canada's first resident Ambassador in Mongolia where she opened a full-fledged Canadian Embassy in 2008. Dr. Biolik previously served as Ambassador of Canada to Kazakhstan, Kyrgyzstan and Tajikistan as well as Consul General of Canada in St. Petersburg, Russian Federation. She also served as Senior Advisor for international relations and parliamentary affairs to the Governor General of Canada and as European Marketing Manager for Canada Post, Senior Manager at Investment Partnerships Canada and Director of the International Business Opportunities Centre. Dr. Biolik has extensive expertise in international

commerce and has worked closely with Canadian companies in emerging markets. Dr. Biolik currently serves as external member of the Program and Research Council at Royal Roads University in Victoria, BC and as Canadian Board Director to the North America-Mongolia Business Council. Dr. Biolik is also a member of the Institute of Public Administration of Canada. She holds a Ph.D. from the University of Montreal and is fluent in English, French, Russian and Polish.

*William B. Burton*

Mr. Burton was the president of Bedford Resources Management Inc., which he founded in 1990 to provide geological consulting and public company management to the natural resource industry. Mr. Burton graduated with an Honours Bachelor of Sciences (BSc) in Geology from Dalhousie University in Halifax in 1973. He was a founder and is currently a director of Adex Mining Inc. (TSX-V), which is developing the polymetallic Mount Pleasant mine in New Brunswick. He has held executive positions in various publicly traded companies in Canada involved in mineral exploration and development around the globe. With 40 years' experience in the minerals sector, Mr. Burton has both hands-on experiences as a geologist and as an executive. From 1996 to 1998 he was the Vice-President of Exploration of International Pursuit evaluating gold properties in Asia, including Mongolia, and was President of Mongolian Goldfields Corporation from 1996 to 1997. Most recently, as President, CEO and founder of MagIndustries Corp., he led the completion of feasibility studies to develop a solution potash mine operation after many years of exploration and development of the extensive carnallite deposits in the Republic of Congo. Mr. Burton is a member of the Institute of Corporate Directors and completed the Audit Committee Effectiveness course in December 2012.

*John P. Byrne*

Mr. Byrne has more than 30 years of investment banking and corporate finance experience. He is President of Petroleum Corporation of Canada Exploration Limited (**Petrex**), an oil and gas exploration and development company, and has held that position since 1976. Petrex helped establish and finance Enerplus Energy Services Limited for which Mr. Byrne served as Vice-Chairman (1986-2000). He also served in senior executive roles with Levesque Beaubien Geoffrion Inc. (now National Bank Financial), A.E. Ames & Company Ltd./Dominion Securities Ames Ltd. and The First Boston Corporation. Mr. Byrne graduated from McGill University with a BA and from the University of Toronto Law School with an LLB. He is also a Chartered Financial Analyst. Mr. Byrne is also currently a director of Morien Resources Corp. (TSX-V).

*J.C. (Chris) Cowan*

Mr. Cowan, MSc (Geology), P. Eng. (Ontario), is a minerals consultant providing services to exploration and mining companies world-wide since 1990. Prior to that, he spent 28 years with Falconbridge Limited in a variety of senior management and board positions. Mr. Cowan has also been responsible for technical direction of Falconbridge's world-wide exploration as well as activities exploration manager in Southeast Asia and Chief Geologist for Sudbury Operations. Mr. Cowan is one of the founders of the Corporation and was Vice-President (Asia) between 2006 and June 2015. Mr. Cowan was appointed Chairman of the Board in June 2015. Mr. Cowan has served as a director for a number of publicly listed companies, including Unigold Inc. (2003-2006) and

Preston Resources Inc. (1997-2001) and Advanced Primary Minerals Corporation (2008-2012).

*T. Layton Croft*

Mr. Croft is a senior corporate executive with diversified management and extensive Mongolia focused resource industry expertise with more than 12 years in senior roles with several Mongolia and Asia focused companies, including Oyu Tolgoi, as Executive Vice President, Corporate Affairs and Social Responsibility (Mongolia); SouthGobi Energy Resources, as Vice President, External Affairs and Corporate Citizenship (Hong Kong); The Asia Foundation as Resident Representative (Mongolia); and from January 2011 to June 2015 he worked for Peabody Energy, as Vice President, External Relations – Asia (Singapore). In January 2017, Mr. Croft was appointed Vice President, Corporate Development for Pancontinental Gold Corporation (Pancon Gold) and in March 2017, Mr. Croft was appointed to Pancon Gold's board of directors. Pancon Gold is a Canadian-based mining company operating in southeastern U.S. with a listing on the TSX-V. Having lived and worked in Mongolia for a total of 15 years beginning in 1994, Mr. Croft brings deep knowledge of the Mongolia corporate, political and socio-cultural environments. A U.S. native, Layton has lived and worked internationally for more than 22 years in corporate and public-sector roles in Asia, Latin America and Eastern Europe. Mr. Croft holds a BA from the University of North Carolina at Chapel Hill, an MA from the School for International Training in Vermont, and an MA from the Fletcher School of Law and Diplomacy at Tufts University in Massachusetts.

*Kenneth W. MacDonald*

Mr. MacDonald has been a Vice-President and the Chief Financial Officer of Erdene since March 2003. Mr. MacDonald was a director of the Corporation from March 2003 to June 2013. On February 27, 2009, Mr. MacDonald was appointed President and CEO of Advanced Primary Minerals Corporation (**APM**) upon the reverse takeover of Beta Minerals Inc. by Erdene. In November 2012, upon the amalgamation of APM and Erdene Resources Inc., which held the Corporation's North American assets, to form Morien Resources Corp. (**Morien**), Mr. MacDonald was appointed Chief Financial Officer of Morien. Mr. MacDonald resigned as CFO of Morien effective June 30, 2016 at which time his position with Erdene became Vice President and CFO. From September 1992 to present, Mr. MacDonald has been the President and owner of Fisher Transport Limited, a specialized transport company. Mr. MacDonald was Vice-President of Finance and CFO for Kaoclay Resources Inc. from 1996 until it was acquired by Erdene in June 2006. From 1985 to September 1992, he was involved as Vice-President Finance and CFO with public and private corporations in the resource sector. Prior to 1985, Mr. MacDonald, a chartered public accountant, was a senior manager with one of Canada's major accounting firms.

*David V. Mosher*

Mr. Mosher is a mining executive with over thirty-five years of international experience. From 1992 to 2008, David was President and CEO of High River Gold Mines Ltd., a TSX listed company involved in the exploration, development and production of gold in Canada, Africa and Russia. In that role, he negotiated the acquisition of two producing Russian gold mines, completed mining investment agreements with the government of

Burkina Faso, raised over \$300 million to support the company's growth, and supervised the development of two open pit gold mines (the Taparko gold mine in Burkina Faso, and the Berezitovy gold mine in Russia). He has served on many boards including Cambior Inc. and earlier in his career was project manager for Pancontinental Mining Limited, where he and his team discovered and outlined the largest uranium deposit in the world at that time (the Jabiluka deposits in northern Australia). Over the past decade, Mr. Mosher has been active in the restructuring and refinancing of a number of junior resource companies, both private and public, and currently serves as a director of several mining and exploration companies, including Pancontinental Uranium Corporation (TSX-V) and Pelangio Exploration Inc. (TSX-V). Mr. Mosher received his B.Sc. degree in geology from Acadia University.

Based on the Canadian Opinion, powers and authorizations of the ERD board of directors are valid and effective as of the date of this Opinion. As confirmed by the Canadian counsel, no director or executive officer of ERD is, as of the date of the Canadian Opinion or within the last one (1) year prior to the date, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **2.2. Powers and authorizations of EM and AR**

Management structure of EM and AR is governed by the corporate governance regulations under Company Law and their respective Charters.

### **1) Shareholders' Meeting**

Under the Company Law, the highest governing authority of Mongolian company is the shareholders' meeting or the sole shareholder (in terms of 100 per cent ownership). It is also defined in the Article 11 of EM Charter and AR Charter that the Shareholders' Meeting shall be the highest governing authority.

As defined in the Article 10 of EM Charter and AR Charter, shareholder of EM and AR is entitled to the rights provided in the Article 34<sup>15</sup> of the Company Law.

The matters shall only be resolved by the Shareholders' Meeting under the Article 13 of EM Charter and AR Charter is:

- Any amendments to or revision of the Charter;
- Changing the company form by way of merger, acquisition and separation;
- Deft-share transfer, issuance of additional shares and defining the share number;
- Dissolution or liquidation of company, appointing liquidation committee;
- Splitting or merging the shares; and
- Approving the conflict of interest transaction defined in the Chapter 12 of the Company Law;

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<sup>15</sup> The rights of common shareholder, Article 34, the Company Law

## **2) Board of Directors<sup>16</sup>**

EM and AR resolved to have the Board of Directors which consists of the following three (3) directors under their Charter who were appointed by the latest Shareholder's Resolution dated May 7, 2017 by ERD<sup>17</sup>:

- Peter C. Akerley;
- Bayarmaa Bagabandi; and
- Bilguun Ankhbayar.

As there is no specific power allocated to the Board of Directors of EM and AR under their charters, the Board of Directors shall exercise the rights defined in the Article 76 of the Company Law.

## **3) Legal representative – Chief Operating Officer (CEO)<sup>18</sup>**

Under the Article 21 of EM Charter and AR Charter, the Board of Directors shall appoint the General Director who shall be the legal representative of EM and AR respectively, shall undertake daily activities of EM and AR respectively and shall report to the Board of Directors.

As per the EM Certificate and the Reference Letter No. 00282422 issued by the LERO, Mr. Peter C. Akerley is the legal representative of the company who implements functions of General Director (CEO).

As per the AR Certificate and the Reference Letter No. 00282423 issued by the LERO, Mr. Peter C. Akerley is the legal representative of the company who implements functions of General Director (CEO).

Based on the foregoing and the document we have been provided, the Board of Directors and the General Director (CEO) of EM and AR has been duly authorized to implement the power and authority assigned under the Company Law and EM Charter and AR Charter respectively, and their authorization is valid and effective as of the date of this Opinion.

### **2.3. Powers and authorizations of LE**

Management structure of LE is governed by the corporate governance regulations under Company Law and its Charter.

#### **1) Shareholders' Meeting**

It is defined in the Article 11 of LE Charter that the Shareholders' Meeting shall be the highest governing authority of LE.

As defined in the Article 10 of LE Charter, shareholder of LE is entitled to the rights provided in the Article 34 of the Company Law.

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<sup>16</sup> The Board of Directors shall be the supreme authority of a company between Shareholders' Meetings, Article 75.1, the Company Law

<sup>17</sup> The Shareholders' Meeting shall have the authority to select the Board Members, Article 62.1.7, Company Law

<sup>18</sup> The Board of Director shall select and appoint the executive management, Article 76.1.8, the Company Law



The matters shall only be resolved by the Shareholders' Meeting under the Article 13 of LE Charter are:

- Any amendments to or revision of the Charter;
- Changing the company form by way of merger, acquisition and separation;
- Deft-share transfer, issuance of additional shares and defining the share number;
- Dissolution or liquidation of company, appointing liquidation committee;
- Splitting or merging the shares;
- Transfer and sale of mineral license number XV-016057; and
- Approving the conflict of interest transaction defined in the Chapter 12 of the Company Law;

## **2) Advisory Committee**

As per the Article 16 of LE Charter, LE resolved to have the Advisory Committee which shall have the main function to review and approve annual mineral exploration plan and budget. The Committee consists of the following three (5) members who were appointed by the latest Shareholder's Resolution dated August 18, 2017 by the shareholders of LE:

- Peter C. Akerley;
- Bayarmaa Bagabandi;
- Bilguun Ankhbayar;
- Erdenechuluun Zagdragchaa; and
- Erdenekhuyag Zagdragchaa.

As defined in the Article 17 and 18 of LE Charter, the members of the Committee is appointed for an indefinite time period until they are resigned by the shareholders and the Advisory Committee meeting shall be held at least two times in a year.

## **3) Legal representative – CEO**

Under the Article 22 of LE Charter, the Shareholders shall appoint the CEO who shall be the legal representative of LE, shall undertake daily activities of LE and shall report to the Shareholders' Meeting.

As per the EM Certificate and the Reference Letter No. 00282424 issued by the LERO and the Resolution of Shareholder dated August 18, 2017 Mr. Bilguun Ankhbayar is the legal representative of the company who implements functions of the CEO.

Based on the foregoing and the document we have been provided, the Advisory Committee and the CEO of EM has been duly authorized to implement the power and authority assigned under the Company Law and EL Charter, and their authorization is valid and effective as of the date of this Opinion.

## THREE. MAJOR TRANSACTIONS

### 3.1. Material contracts of ERD

As defined by the Canadian Counsel, the following agreements are considered the major contracts of ERD:

#### 1) **Strategic Alliance entered into with Teck Resources Limited (*Teck*) on April 11, 2013**

The Alliance was formed by the signing of option and private placement agreements (***ERD-Teck Agreement***) to fund and explore ERD's mineral tenements in the Trans Altai region of southwest Mongolia.

Under the terms of the ERD-Teck Agreement, Teck agreed to subscribe for Common Shares by way of annual, nonbrokered private placements priced at a 10 per cent premium to ERD's then 10-day volume weighted average share price until it has invested USD 3 million or has acquired 19.9 per cent of the outstanding Common Shares, whichever occurs first.

ERD has issued the below private placements from April 23, 2013 through to March 21, 2017:

<b>№</b>	<b>Issuance date</b>	<b>Number of Common Shares</b>	<b>Par value /USD/</b>	<b>Gross proceeds /USD/</b>
<b>1</b>	April 23, 2013	5'000'000	0.20	1'000'000
<b>2</b>	November 7, 2013	2'142'857	0.07	150'000
<b>3</b>	April 21, 2014	2'000'000	0.175	350'000
<b>4</b>	April 27, 2015	2'826'310	0.139	392'857
<b>5</b>		1'071'429	0.10	107'143
<b>6</b>	June 6, 2016	1'063'830	0.47	500'000
<b>7</b>	March 21, 2017	543'487	0.92	500'000
				3'000'000

On March 21, 2017, the private placements have fulfilled Teck's equity investment obligation (USD 3 million) pursuant to the ERD-Teck Agreement announced on April 11, 2013<sup>19</sup>.

#### 2) **Subscription Agreement and Royalty Agreement entered into with Sandstorm Gold Ltd. (*Sandstorm*) in March 2016**

Board of Directors of ERD has issued the Resolution to enter into the Subscription Agreement and Royalty Agreement with Sandstorm in accordance with the terms of a non-binding term sheet dated March 18, 2016 and executed on March 21, 2016.

<sup>19</sup> The Annual Information Form of ERD for the Fiscal Year ended December 31, 2016, March 27, 2017, Page 7

In the first transaction Sandstorm was granted a 2 per cent net smelter returns royalty (**NSR Royalty**) on ERD's Tsenkher Nomin and Khundii licenses in exchange for 321'888 shares of Sandstorm with a value of USD 1'500'000, the price being based on the 10-day volume weighted average price as at April 14, 2016.

The second transaction was the issuance of 5 million Common Shares from treasury to Sandstorm at USD 0.20 per share for USD 1'000'000 in cash consideration. The Common Shares issued to Sandstorm are subject to an 18-month hold period that expires October 14, 2017. ERD has a 3-year option to buy-back 50 per cent of the NSR Royalty for USD 1.2 million, to reduce the NSR Royalty to 1.0 per cent<sup>20</sup>.

Based on the Canadian Opinion, it is confirmed that the above-mentioned material transactions of ERD have been duly entered into under applicable laws and regulations of Canada and the Board of Directors of ERD have issued related resolutions to enter into the major transactions.

### **3.2. Material contracts of EM**

In 2017, EM has not entered into any major transaction and transaction with conflict of interest, except the LE Share acquisition transaction. Details of the transaction are provided in Section 5.2 of this Opinion.

It is provided in Article 13(f) of the Charter of EM dated December 15, 2016 that entering into a transaction with conflict of interest is subject to only the powers of the Shareholders' Meeting. This provision is in compliance with the Company Law.

In case of a major transaction, the Shareholders' Meeting shall approve such a major transaction if the Board of Directors fails to decide entering into a major transaction<sup>21</sup>.

On the basis of the list of agreements provided for us, EM has entered into total 28 agreements, which are related to its principal operations including logistic, security, legal, audit, drilling services, geological work, liability and accident insurance, in 2017. In case of total sum of the agreements paid in 2017, it would be shown as follows:

- Over MNT 1'000'000'000 – 1 agreement;
- MNT 100'000'000 – MNT 1'000'000'000 – 5 agreements;
- MNT 50'000'000 – MNT 100'000'000 – 5 agreements;
- MNT 10'000'000 – MNT 50'000'000 – 9 agreements;
- MNT 5'000'000 – MNT 10'000'000 – 2 agreements;
- MNT 1'000'000 – MNT 5'000'000 – 5 agreements;
- Up to MNT 1'000'000 – 1 agreement.

It can be considered that these 28 agreements of EM are neither major transactions nor transactions with conflict of interest since the agreements were not entered into with EM's affiliated entities and are having the market price less than 25 percent of the total assets of the last balance sheet prior to entering into such agreements as per EM's financial statement dated as of December 31, 2016.

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<sup>20</sup> The Annual Information Form of ERD for the Fiscal Year ended December 31, 2016, March 27, 2017, Page 8

<sup>21</sup> Article 62.1.10, Company Law

### **3.3. Material contracts of AR**

In 2017, AR has not entered into any major transaction and transaction with conflict of interest.

It is provided in Article 13(f) of the Charter of AR dated December 15, 2016 that entering into a transaction with conflict of interest is subject to only the powers of the Shareholders' Meeting. This provision is in compliance with the Company Law.

In case of a major transaction, the Shareholders' Meeting shall approve such a major transaction if the Board of Directors fails to decide entering into a major transaction in accordance with the Company Law.

AR has entered into total 3 agreements, according to the list of agreements provided for us, which are related to its principal operations including legal and audit services, in 2017. In case of total sum of the agreements paid in 2017, it would be shown as follows:

- MNT 5'000'000 – MNT 10'000'000 – 1 agreement;
- MNT 1'000'000 – MNT 5'000'000 – 1 agreement;
- Up to MNT 1'000'000 – 1 agreement.

It can be considered that these 3 agreements of AR are neither major transactions nor transactions with conflict of interest since the agreements were not entered into with AR's affiliated entity and are related to AR's day-to-day principal operations.

### **3.4. Material contracts of LE**

In 2017, LE has not entered into any major transaction and transaction with conflict of interest.

It is provided in Article 13(g) of the Charter of LE dated August 18, 2017 that entering into a transaction with conflict of interest is subject to only the powers of the Shareholders' Meeting. This provision is in compliance with the Company Law.

In case of a major transaction, the Shareholders' Meeting shall approve such a major transaction as well within the scope of its powers pursuant to the Company Law.

According to the list of agreements provided for us, LE has entered into total 4 agreements, which are related to its principal operations including logistic, audit, sample assay services and geological work, in 2017. In case of total sum of the agreements paid in 2017, it would be shown as follows:

- MNT 50'000'000 – MNT 100'000'000 – 2 agreements;
- MNT 5'000'000 – MNT 10'000'000 – 1 agreement;
- MNT 1'000'000 – MNT 5'000'000 – 1 agreement.

It can be considered that these 4 agreements of LE are neither major transactions nor transactions with conflict of interest since the agreements were not entered into with LE's affiliated entities and are having the market price less than 25 percent of the total assets of the last balance sheet prior to entering into such agreements as per LE's financial statement dated as of December 31, 2016.

## FOUR. LICENSE AND PERMITS

### 4.1. ERD Licenses and permits

ERD holds four (4) mineral exploration licenses covering 11'820 hectares and one (1) mining license covering 6'041 hectares (**the ERD Licenses**) which are registered in the name of its Subsidiaries (Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC) in Mongolia.

The following projects in Mongolia are considered material properties to ERD:

- The Bayan Khundii Gold Project (located on the Khundii license);
- The Altan Nar Gold-Polymetallic Project (located on the Tsenkher Nomin license)
- Burgast (located in Gobi Altai);
- Zuun Mod Molybdenum-Copper Project (located on Khuvyn Khar license);
- Khuvyn Khar Copper Porphyry Project (it has excluded from 'ERD-Teck alliance' area of interest in 2014 which was entered between ERD and Teck Resources Limited, (located on Khuvyn Khar license);
- Ulaan Copper Gold Porphyry Project (in 2017, ERD acquired 51 per cent interest in the Ulaan exploration license adjacent to Bayan Khundii Gold project);

The details of each license are provided in the following sections.

Based on the information we have acquired and the statement by the Canadian counsel through the Canadian Opinion, ERD has no license, permit, certificate, intellectual property rights and trade mark on its own name in Canada and business operation of ERD does not require licenses or special permits in accordance with Canadian Laws. In addition, Canadian counsel also confirms that no filing or reporting requirement under Canadian laws and regulations related to the Licenses held by ERD through its subsidiaries in Mongolia except the TSX reporting requirements.

ERD is a public company listed on the TSX and, as such, must comply with all related Canadian Securities laws and regulations. Based on the statement by the Canadian counsel through the Canadian Opinion, ERD is in compliance with TSX Filing requirements and continuous disclosure.

### 4.2. Validity of ERD Licenses

#### A. Mineral licenses held by EM

EM holds<sup>22</sup> the following three (3) mineral exploration licenses covering 10'039 hectare areas in total.

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<sup>22</sup> 'A holder of an exploration license has the exclusive right to conduct exploration within the boundaries of the license, the exclusive right to apply for a mining license for all or part of the exploration license area, the right to transfer, pledge to others all or part of the license, the right to have access to and transit through the exploration license area and the right to surrender all or part of the license area, subject to compliance with Minerals laws and other applicable laws', Article 21, the Mineral Law

1. The exploration license with No. XV-015569 at Khundii area located in Bayan-Undur and Shinejinst soum, Bayankhongor province was granted by Decision No. 389 of the Chairman of the Geology, Mining and Cadastral Department of the MRPAM dated March 31, 2010 to EM and is valid until April 14, 2019 (***Khundii License***).
2. The exploration license with No. XV-016956 was divided from an exploration license issued on December 11, 2009 and expired on December 11, 2012 and granted to EM with 4668.64 hectares in Tsenkher Nomin, Bayan-Undur, Shinejinst soum, Bayankhongor province by Decision No. 1076 of the Chairman of the Geology, Mining and Cadastral Department the MRPAM dated November 24, 2011. The license is valid until December 11, 2018 (***Tsenkher Nomin License***).
3. The third exploration license with No. XV-017875 at Burgast area located in Tsogt soum, Gobi-Altai province was granted by Decision No. 438 of the Chairman of the Cadastral Department of the MRPAM dated June 02, 2015 to EM and is valid until June 08, 2018 (***Burgast License***).

#### **B. Mineral license held by AR**

The Mining License with No. XV-016836 at Khuvyn Khar area in Shinejinst soum, Bayankhongor province was issued to AR by Decision No. 499 of the Chairman of the Geology, Mining and Cadastral Department of the MRPAM dated May 05, 2011 and is valid until May 26, 2041 (***Khuvyn Khar License***).

The projects, 'Zuun Mod Molybdenum-Copper' and 'Khuvyn Khar Copper Silver', are implemented in the area of Khuvyn Khar License.

#### **C. Mineral license held by LE**

The exploration license with No. XV-016057 at Ulaan area located in Bayan-Undur and Shinejinst soum, Bayankhongor province was initially issued by Decision No. 432 of the Chairman of the Cadastral Department of the MRPAM dated April 13, 2010 and was transferred to LE by Decision No. 396 of the Chairman of the Cadastral Department on July 16, 2017. The license is valid until February 16, 2021 (***Ulaan License***).

**Table: Details of ERD Licenses**

Held by	License No.	Name of the area	Initial Area /hectare/	Current Area /hectare/	Issue Date	Expiration Date	Exploration license expiry date <sup>23</sup>
EM	XV-015569	Khundii Bayan-Undur, Shinejinst soum, Bayankhongor province	19936.34	4514.33	Apr 14, 2010	Apr 14, 2019	Apr 14, 2022
EM	XV-016956	Tsenkher Nomin, Bayan-Undur, Shinejinst soum, Bayankhongor	4668.64	4668.64	Nov 24, 2011	Dec 11, 2018	Dec 11, 2021

<sup>23</sup> 'An exploration license is granted for an initial term of three (3) years, and the license holder has the right to apply for three extensions for another three years each. Total term allowed for exploration is 12 years', Article 20.5, the Minerals Law.

		province					
<b>EM</b>	XV-017875	Burgast Tsogt soum, Gobi-Altai province	857.00	857.00	Jun 8, 2015	Jun 08, 2018	Jun 8, 2027
<b>AR</b>	MV-016836	Khuvyn Khar Shinejinst soum, Bayankhongor province	6041.03	6041.03	May 26, 2011	May 26, 2041 <sup>24</sup>	N/A
<b>LE</b>	XV-016057	Ulaan Bayan-Undur and Shinejinst soum, Bayankhongor province	1824.18	1780.20	Feb 16, 2015	Feb 16, 2021	Feb 16, 2027

As per the review of the Documents and the Reference Letters provided by MRPAM, the ERD Licenses are all in full force and effective as of the day of this Opinion. The annual fees for the ERD Licenses have been duly paid on time and there is no outstanding or due payment obligations over the licenses.

#### 4.3. Any pledge registry over the ERD licenses

In order to provide security for the financing of its investments and operations of a particular project, a license holder may pledge its mineral licenses to bank or non-banking financial organizations together with the exploration work results, geological information, feasibility study and assets which are permitted to be pledged under Mongolian laws. A license alone shall not be collateral.

The pledge of a license shall be recorded with the MRPAM<sup>25</sup>.

As confirmed by the Reference Letter No. 7/758, 7/759 and 7/760 of the MRPAM dated February 1, 2018 no pledge or security obligation exists over the ERD Licenses.

#### 4.4. Confirmation of minimum cost for geological exploration work and submission of exploration work plan and report of Khundii, Tsenkher Nomin, Burgast and Ulaan Licenses

The exploration license holder shall undertake exploration work with expenses not less than the expense amount stated in the Minerals Law<sup>26</sup> annually and it shall be confirmed by the state administrative agency which is MRPAM.

<sup>24</sup> 'A mining license is granted for an initial term of thirty (30) years, and the license holder has the right to extend the term of the license two times an additional 20 years depending on the reserve of the mineral', Articles 26.5 and 27.1, the Minerals Law

<sup>25</sup> Article 51.2, Minerals Law

<sup>26</sup> 'Each year an exploration license holder shall undertake exploration work with expenses not less than the amounts specified below per hectare of the license area:

33.1.1. USD 0.5 for each of the second to third years of the term of the exploration license,

33.1.2. USD 1.00 for each of the fourth to sixth years of the term of the exploration license,

33.1.3. USD 1.50 for each of the seventh to ninth years of the term of the exploration license,

33.1.4. USD 10.00 for each of the seventh to ninth years of the term of the exploration license', Article 33, Minerals

Law

As confirmed by the Reference Letter No. 4/757 and 4/814 of the MRPAM dated February 1, 2018, EM and LE's minimum cost for geological exploration work has been spent in respective years and explorations work plans and reports for its three (3) exploration licenses were duly submitted to the Geology and Exploration Department of the MRPAM.

**Table: Submission of Exploration Work Plan and Report**

No.	Held by	License number	Name of the area	Submission of the Plan	Submission of the Report	Approved minimum cost for geological exploration work
1.	EM	XV-015569	Khundii	2010-2017	2010-2016	2010-2016
2.	EM	XV-016956	Tsenkher Nomin	2011-2017	2012-2016	2012-2016
3.	EM	XV-017875	Burgast	2015-2017	2015-2016	2015-2016
4	LE	XV-016057	Ulaan	2015-2017	2015-2016	2015-2016

#### 4.5. Archeological and paleontological survey

In the official survey reports of Mongolian Academy of Science and Mongolian National University of May 2016, no paleontological or archaeological findings were identified, citing the scarcity of surface water and lack of historical grazing in the Tsenkher Nomin (Altan Nar) and Khundii (Bayan Khundii, Altan Arrow) license areas as detriments to historical human habitation.

Archeological and paleontological survey for Zuun Mod was conducted in 2012 by Mongolian National University and states that there is possibility of having archeological findings in the north, south and west side of the license area. In the general paleontological survey for Zuun Mod by Mongolian Academy of Science, it concluded that the area contains fossil animals and plants and specific survey should be conducted for the area.

As confirmed by EM and LE, there is no archeological and paleontological survey conducted for Ulaan and Burgast area and they are planned to be conducted in 2018.

#### 4.6. Water Use Permit

A license holder shall obtain Water Use Inference from State central administrative organization or local authority depending on proposed amount of water usage<sup>27</sup>. License holder shall submit a request for Water Use Permit to an authority granted the Water Use Inference. Upon the issuance of Water Use Permit, Water Use Certificate is granted and Water Use Agreement is executed.

<sup>27</sup> Article 26, the Water Law



Transferring water use permit is prohibited. If Water Use Permit is transferred to others, it is punishable by the Law on Misdemeanor<sup>28</sup>.

The Water Use Permit for Khundii and Tsenkher Nomin area were obtained by the Order No. A/33 of the Governor of Bayan-Undur soum and Water Use Agreements were executed on April 03, 2017 until December 31, 2017. As informed by EM, permits are under a renewal process.

As informed by EM, AR and LE, no other Water Use Permit obtained for the other Licenses area as water is not required for the exploration work and the mining operation has not been commenced.

#### **4.7. Reserves of Khuvyn Khar License**

In Mongolia, the tonnage and grade of a mineral reserve that has been defined by exploration activities must be recorded in State Centralized Data on Mineral Reserves<sup>29</sup>.

The mining license holder shall exhaust all the mineral reserves. It is prohibited to mine selecting the high-grade areas<sup>30</sup>.

The reserves defined under the Khuvyn Khar License has been recorded with the State Centralized Data on Mineral Reserves as per the Order No. 312 by the Chairman of the MRPAM dated July 29, 2010 on registering the Zuun Mod Copper Porphyry deposit reserves, which is issued based on the Conclusion No. XX-10-01 by the Minerals Professional Council dated July 14, 2010.

#### **4.8. Feasibility study of Khuvyn Khar License**

A mining licence holder shall prepare and submit a feasibility study on the development of the deposit within one (1) year (by December 1<sup>st</sup>) upon obtaining the licence<sup>31</sup>.

The state administrative agency shall make a decision on registering the Feasibility Study and the report of reserves together with the primary documents upon the Conclusion of Minerals Professional Council is issued<sup>32</sup>.

We have been provided with copy of the Conclusion with No. 13-15-3 issued by the Minerals Professional Council on October 09, 2013 for the Feasibility study for '*Usage of Zuun Mod Molybdenum-Copper deposit located in Shinejinst soum, Bayankhongor province by open pit method*' (pertaining to Mining License with No. MV-016836). The Council was of the opinion that the project was not economically profitable, thus the feasibility study should be re-prepared by calculating another profitable option. There is no order on acceptance of feasibility study issued by the Chairman of the MRPAM.

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<sup>28</sup> Article 7.15, the Law on Misdemeanor

<sup>29</sup> Article 48.4, the Minerals Law

<sup>30</sup> Article 35.5, the Minerals Law

<sup>31</sup> Article 48.6.1, the Minerals Law

<sup>32</sup> Article 48.4, the Minerals Law

#### **4.9. Approval for commencement of mining operation**

Mining license holder is entitled to commence its mining operation after the Commission appointed by the MRPAM<sup>33</sup> accepts the mine. It is prohibited to commence mining operation without acceptance of the mine by the Commission and it is punishable by the Law on Misdemeanor<sup>34</sup>.

As confirmed by the Reference Letter No. 5/1071 of the MRPAM dated February 08, 2018, the mine pertaining to Khuvyn Khar License has not been accepted and the mining operation has not been commenced yet.

#### **4.10. Mining work and plan**

The mining license holder is required to develop and submit annual report as well as the plan for mine works for the next year within the 1st of December annually. In case of the delay of submission of the plan, the official shall be punishable by the Law on Misdemeanor<sup>35</sup>.

As confirmed by the Reference Letter No. 5/1071 of the MRPAM dated February 08, 2018, the plan and report for mine work for Khuvyn Khar License are not available since mining operation has not been commenced yet. However, AR had been submitting information and annual reports during 2011-2016 that the mining operation had not been commenced.

#### **4.11. Environmental obligations of the exploration license holder**

The exploration license holder must annually develop and implement an environmental management plan and its report which includes also environment protection plan, and submit to the relevant authorities, where the environmental management plan gets reviewed and approved<sup>36</sup>.

We have been provided with copies of environmental protection and reclamation plans for the license areas and copies of conclusions of the competent authorities on the environmental obligations.

Environmental protection and reclamation plans 2017 for Khundii area is approved by the Environmental and Tourism department, the Governor of Shinejinst soum and Bayan-Undur soum and reviewed by the official of the Environmental and Tourism department and Environmental inspector of Shinejinst soum, Bayankhongor province. The report for such plan is reviewed by the environmental inspectors of Shinejinst soum. The Environmental inspector of Shinejinst soum, Bayankhongor province confirmed by its Conclusion No. 11 dated December 06, 2017 that EM has not conducted harmful operation in Khundii area of the license with No. XV-015569 and have been completed annual reclamation works accordingly.

Environmental protection and reclamation plan 2017 for Tsenkher Nomin area is approved by the Environmental and Tourism department, the Governor of Shinejinst

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<sup>33</sup> Article 35.4, the Minerals Law

<sup>34</sup> *Legal entity shall be punished by 10000 units (=MNT 10'000'000)*, 2.1 of Article 7.11, Law on Misdemeanor

<sup>35</sup> *Legal entity shall be punished by 10000 units (=MNT 10'000'000)*, 2.2 of Article 7.11, Law on Misdemeanor

<sup>36</sup> Article 38.1.5, Minerals Law

soum and Bayan-Undur soum of Bayankhongor province. The report for such plan is reviewed by the environmental inspectors of Shinejinst soum. The Environmental inspector of Shinejinst soum, Bayankhongor province confirmed by its Conclusion No. 12 dated December 05, 2017 that EM has not conducted harmful operation in Tsenkher Nomin area of the license with No. XV-016956 and have been completed annual reclamation works accordingly. The Environmental inspector of Bayan-Undur soum, Bayankhongor province confirmed by its Conclusion No. 05.04.332.01 dated December 08, 2017 that EM has conducted the exploration operation in Tsenkher Nomin area of the license with No. XV-016956 in accordance with its reclamation plan.

Environmental protection and reclamation plan 2017 for Burgast, area is approved by the Governor of Tsogt soum, Gobi-Altai province and approved by Environmental inspector of Tsogt soum, Gobi-Altai province. The Professional Inspection Agency of Tsogt soum, Gobi-Altai province confirmed by its Conclusion No.1 dated October 23, 2017 that EM has conducted its operation in accordance with the environmental management plan in the license area with No. XV-017875.

Environmental management plan 2017 for Ulaan area is approved by the Governor of Shinejinst soum and reviewed by the Environmental and Tourism department and Environmental inspector of Shinejinst soum, Bayankhongor province. The report for such plan is reviewed by the environmental inspectors of Bayan-Undur soum. The Environmental inspector of Shinejinst soum, Bayankhongor province confirmed by its Conclusion No. 06 dated October 12, 2017 that LE has not conducted harmful operation in Ulaan area of the license with No. XV-016057 in 2017. The Environmental inspector of Bayan-Undur soum, Bayankhongor province confirmed by its Conclusion No. 05.04.332.02 dated December 08, 2017 that LE has conducted the exploration operation in Ulaan area of the license with No. XV-016956 in accordance with its reclamation plan.

As confirmed by the Reference Letter with No. 06a/872 and 06a/873 of the MET dated February 08, 2018, the areas of the four (4) exploration licenses are not overlapped with any protection zone or prohibited areas specified by the Prohibition Law and the Government decisions with No. 194 of 2012 and No. 289 of 2015. MET stated in its Reference Letter that environmental management plan or environment protection plan of these licenses were not registered to the MET archive and there is no information of any reclamation fund deposit.

#### **4.12. Environmental obligations of the mining license holder**

Under the Environmental Protection Law of Mongolia (**EPL**), business entities and organizations have the following duties, including, but not limited to, with respect to environmental protection<sup>37</sup>:

- a) to comply with the EPL and the decisions of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- b) to comply with environmental standards, limits, legislation and procedures and to supervise their implementation within their organization;

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<sup>37</sup> Article 31, EPL

- c) to keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- d) to report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

The Minerals Law and the Law on Environmental Impact Assessment state that the mining license holder shall prepare and submit an environmental impact assessment report to relevant government authority for its approval<sup>38</sup>.

Mining license holder must annually develop and implement an environmental management plan which includes also environment protection plan to be submitted to the relevant authorities. Accordingly, the environmental management plan shall be approved<sup>39</sup>.

The Detailed Environmental Impact Assessment Report (**DEIA**) for Zuun Mod Molybdenum-Copper Project was approved by the Ministry of Environment and Tourism in 2011.

As confirmed by the Reference Letter with No. 06a/874 of the MET dated February 08, 2018, the mining license area is not overlapped with any protection zone or prohibited areas specified by the Law of Mongolia on Prohibition of Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas and the Government resolutions with No. 194 of 2012 and No. 289 of 2015.

There is no information registered to the MET archive that AR submitted environmental management plan and environment protection plan and deposited a reclamation fund.

#### **4.13. Condition for revocation of a license**

The MRPAM has the right to revoke a license on the following terms<sup>40</sup>:

- a) the license holder has failed to meet the requirements of the Minerals Law
- b) the license holder fails to pay the license fee in due time;
- c) An exploration or mining area has been designated as a special purpose land and the license holder has been fully compensated;
- a) the costs of the mine work done in a year was lower than the minimum cost outlined in the Minerals Law;
- b) the license holder fails to perform its environmental obligations based on the conclusion of the local authorities;
- c) the state central administrative body in charge of environment issues has made a conclusion that;
- d) it has been determined that the cultural heritage is being at the mine site; and / or
- e) the license holder breached the clauses the Prohibition Law and breached the clauses of contract made under the Implementation Law of Prohibition Law;

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<sup>38</sup> Article 25.1.7, Minerals Law

<sup>39</sup> Article 39.1.7, Minerals Law

<sup>40</sup> Article 56, Minerals Law

- f) the license holder breached the clauses to transfer the licenses in accordance with the Minerals Law;
- g) the license holder breached reporting procedure to the Tax and State Registration authority;

Based on the Documents, the Reference Letters from the competent authorities and to the best of knowledge, we are of the opinion that ERD Licenses are not under the condition or event in which the licenses could be revoked by the MRPAM.

#### **4.14. No Intellectual property rights**

To the best of our knowledge and confirmed by ERD and its Mongolian subsidiaries, no intellectual property right, trade mark or patent is registered in the companies' name.

## **FIVE. OWNERSHIP RIGHTS**

### **5.1. Ownership rights of ERD**

In accordance with Article 47 of the By-law of ERD dated November 19, 2003 the Board of Directors may from time to time allot or grant options to purchase the whole or any part of the authorized and unissued shares in ERD. Accordingly, ERD has approved the following plans in relation to the shareholders and securities.

- The Board of Directors of ERD adopted a Shareholder Rights Plan (***Rights Plan***) as of March 14, 2008 to ensure the fair treatment of shareholders in connection with any take-over offer for ERD and is not intended to prevent take-over bids that treat shareholders fairly. The Rights Plan was first approved by the Shareholders at ERD's Annual and Special Meeting of Shareholders on May 28, 2008. ERD entered into an amended and restated Shareholder Rights Plan Agreement (***Agreement***) with Computershare Investor Services Inc., as Rights Agent dated as of June 14, 2017, which was entered into on March 14, 2008 as amended as of June 23, 2011 and amended and restated as of June 19, 2014, with respect to the Rights Plan. Under this Agreement, ERD has appointed the Rights Agent to act on behalf of ERD in connection with the issuance, transfer, exchange and replacement of rights certificates, the exercise of rights and other matters referred to in the Agreement.
- On April 9, 2007, ERD approved Incentive Stock Option Plan (***Plan***) to advance the interests of ERD and its subsidiaries by encouraging the directors, officers, employees, consultants and management employees to acquire Shares in ERD thereby increasing their proprietary interest in ERD, encouraging them to remain associated with ERD, rewarding significant performance achievements and furnishing them with additional incentive in their efforts on behalf of ERD and its affiliates in the conduct of their affair. On June 14, 2016, the Shareholders approved the unallocated options issuable under the Plan until June 14, 2019.

The Plan is administered by the Board of Directors and is subject to the approval of the Shareholders of ERD to be given by a resolution passed at a meeting of the Shareholders of ERD.

The holder of an Option has no rights as a shareholder of ERD with respect to any shares covered by such Option until such holder shall have exercised such Option in accordance with the terms of the Plan and ERD issues such shares to the Optionee in accordance with the terms of the Plan.

- **Deferred Stock Unit Plan (*DSU Plan*)** was approved by the Shareholders at ERD's Special Meeting of Shareholders on October, 26, 2012 received regulatory approval from the TSX on November 7, 2012 and amended on April 30, 2015 by the Resolution of the Board of Directors. The DSU Plan aims at enhancing ERD's ability to attract and retain talented individuals to serve as directors and employees and promoting a greater alignment of interests between the eligible directors, eligible employees and the shareholders of ERD by linking the compensation of eligible directors and eligible employees to the future value of the common shares. The DSU Plan provides that directors and employees of ERD may elect to receive all or a portion of their annual compensation in DSUs.

No holder of any DSUs has any rights as a shareholder of ERD at any time and DSUs and any right or interest of a participant under the DSU Plan are not be assignable or transferable other than by will or other testamentary disposition or according to the applicable laws respecting the devolution of estates.

ERD has granted the following option and DSUs to its certain officers, directors and employees in 2017:

- **Stock Options.** On April 1, 2017, 2'620'000 options were granted to ERD's certain officers, directors and employees. Each option is exercisable at USD 0.87 per share until March 31, 2022 and has an average fair value of USD 0.51 per option.

During the nine months ended September 30, 2017, the ERD received USD 125,975 on the exercise of 687'500 share purchase options at an average price of approximately USD 0.18 per share.

- **DSU.** For the nine months ended September 30, 2017, ERD granted its certain officers, directors and employees an aggregate of 115'123 DSUs at a weighted average price of approximately USD 0.86<sup>41</sup>.

As of December 31, 2017, the list of officers, directors and employees of ERD who were granted the options are as follows:

Name of Optionee	Number of Options	Price /USD/	Date of Resolution	Date Granted	Date Expire	Currently Outstanding
Peter Akerley	400'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	400'000

<sup>41</sup> The Management's Discussion and Analysis, quarterly ended September 30, 2017, Page 13

William B. Burton	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
J.C. (Chris) Cowan	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
Kenneth W. MacDonald	150'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	150'000
Michael X. Gillis	175'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	175'000
D. Suzan Frazer	50'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	50'000
John P. Byrne	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
Bayarmaa Bagabandi	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
Ulambayar Uuganbayar	20'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	20'000
Mike O'Keefe	150'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	150'000
Enkhbaatar Ganzorig	25'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	25'000
Dawson Brisco	150'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	150'000
Peter Dalton	75'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	75'000
Philip Webster	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
Erdenebileg Pagva (Billy)	75'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	75'000
Oyungerel Akerley (Sharav)	25'000	0.86	March 23, 2017	April 1, 2017	March 31, 2022	25'000
Erdenebaatar Otgonbaatar (Erka)	40'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	40'000
Baterdene Gendenjamts	75'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	75'000
Jon Lyons	150'000	**		July 18, 2017	July 18, 2022	150'000
Megan Jeffries	25'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	25'000
Mike MacDonald	150'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	150'000
Bilguun Ankhbayar	150'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	150'000
Layton Croft	150'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	150'000
David Mosher	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
Anna Biolik	100'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	100'000
Gansukh Yakhuu	15'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	15'000
Badrakh Bolor-Erdene	20'000	0.87	March 23, 2017	April 1, 2017	March 31, 2022	20'000

According to the Canadian Opinion, the options granted to certain officers, directors and employees of ERD are based on proper resolutions by ERD and ownership rights for the options are valid as of the date of this Opinion.

ERD holds two business accounts at Scotiabank as confirmed by the bank as of December 31, 2017.

As at September 30, 2017, ERD had no 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 ERD<sup>42</sup>.

As confirmed by the Canadian Opinion and the information we have acquired, ERD has no significant amount of immovable or other property registered in its name.

## 5.2. Ownership rights of EM

EM possesses 20'000 m<sup>2</sup> of land, for the purpose of Bayan Khundii camp, in Shinejinst soum of Bayankhongor aimag for 15 years starting from 2015 based on the soum Governor's decision No. 63 dated November 4, 2008 and the Land Possession Agreement (**Agreement**) has been entered into on May 29, 2017. The Land Possession Certificate has not been issued yet. In accordance with Article 2.3 of the Agreement, EM shall pay land fee within the 25<sup>th</sup> day of the first month of each quarter and EM has duly paid the land fee of 2016 and 2017 on June 12, 2017.

EM is the shareholder of 51 per cent of the total issued and outstanding common shares of LE pursuant to Share Purchase Agreement entered into on August 18, 2017.

In relation to the Share Purchase Agreement, the Shareholders' Resolution was duly issued by the Shareholders of LE and Shareholder Agreement was entered into by and between EM and LE on August 18, 2017 as well. According to the State Registration Certificate of LE, information on the Shareholders of LE was properly amended on August 23, 2017 in accordance with applicable laws.

EM has duly authorized and issued the power of attorney to Mr. Bilguun for executing and signing the Share Purchase Agreement on behalf of EM and ERD, as the sole shareholder of EM, has properly issued the Shareholder's Resolution on August 16, 2017 related to purchasing the 51 per cent of the total issued and outstanding common shares of LE.

Pursuant to Article 3.1 of the Share Purchase Agreement, EM is granted an exclusive and irrevocable option to acquire remaining 49 per cent of the total issued and outstanding common shares of LE on the terms and conditions set forth in the Share Purchase Agreement and Mr. Erdenechuluun, who is the shareholder of the remaining 49 per cent of the total issued and outstanding common shares of LE, has executed a pledge of the remaining 49 per cent as security for his obligation to transfer the remaining 49 per cent of the total issued and outstanding common shares of LE to EM based on Share Pledge Agreement dated August 18, 2017. This action related to the

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<sup>42</sup> The Management Discussion and Analysis, ERD, September 30, 2017, Page 34



pledge of the remaining 49 per cent of the total issued and outstanding common shares of LE as security of the obligation is in compliance with the Civil Code.

EM holds USD account 499074745 and MNT account 499074734 at Trade and Development Bank. According to the Reference Letter No. 7-499TXT/050 issued by the bank on January 31, 2018, EM has not been granted a loan and is not indebted to the bank.

To the best of our knowledge and as confirmed by EM, EM has not assumed the obligation in relation to performance of any obligation under any agreement to which EM is a party or which is related to EM's affiliated entities as of the date of this Opinion.

### **5.3. Ownership rights of AR**

AR possesses 1'8 hectares of land, for the purpose of Zuun Mod camp, in Shinejinst soum of Bayankhongor aimag for 30 years according to the soum Governor's decision No. 63 dated November 4, 2008. The Land Possession Agreement (**Agreement**) was entered into on November 17, 2011 and the Land Possession Certificate No. 0230777 was issued on the same date. In accordance with Article 2.3 of the Agreement, AR shall pay land fee within the 25<sup>th</sup> day of the first month of each quarter and AR has duly paid the land fee on June 12, 2017.

AR holds USD account 499071846 and MNT account 499071835 at Trade and Development Bank. According to the Reference Letter No. 7-499TXT/049 issued by the bank on January 31, 2018, AR has not been granted a loan and is not indebted to the bank.

To the best of our knowledge and as confirmed by AR, AR has not assumed the obligation in relation to performance of any obligation under any agreement to which AR is a party or which is related to AR's affiliated entity as of the date of this Opinion.

### **5.4. Ownership rights of LE**

LE holds MNT account 411031730 at Trade and Development Bank. According to the Reference Letter No. 7-499TXT/048 issued by the bank on January 31, 2018, LE has not been granted a loan and is not indebted to the bank.

To the best of our knowledge and as confirmed by LE, LE has not assumed the obligation in relation to performance of any obligation under any agreement to which LE is a party or which is related to LE's affiliated entities as of the date of this Opinion.

Truly yours,

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Bayar Budragchaa

Managing Partner

ELC LLP Advocates

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Nyamtseren Bataa

Senior Associate

ELC LLP Advocates

Annex 1. Canadian Opinion

Annex 2. The list of reviewed documents

Annex 3. Reference Letters from the authorities

Annex 4. Certification by the parties involved in the Listing application

Annex 5. ELC and qualified lawyers' certificates