



**ERDENE RESOURCE
DEVELOPMENT CORPORATION**

**Notice of Special Meeting of Shareholders
and
Management Information Circular**

**Regarding a Plan of Arrangement Involving
Erdene Resource Development Corporation**

and

Advanced Primary Minerals Corporation

Meeting Date: October 26, 2012 at 10:30 a.m. (Atlantic Time)

Purdy's Wharf Tower II
1969 Upper Water Street, Suite 1300
Halifax, Nova Scotia

September 25, 2012

September 25, 2012

Dear Shareholder,

The directors of Erdene Resource Development Corporation ("**Erdene**" or the "**Corporation**") invite you to attend the special meeting (the "**Meeting**") of holders of common shares of Erdene (the "**Shareholders**") to be held at the offices of McInnes Cooper, Suite 1300-1969 Upper Water Street, Halifax, Nova Scotia, at 10:30 a.m. (Atlantic Time) on October 26, 2012.

At the Meeting, Shareholders will be asked to pass a special resolution approving a statutory plan of arrangement (the "**Arrangement**"). The Arrangement involves, among other things, the transfer by Erdene to Advanced Primary Minerals Corp. ("**APM**") of \$1.95 million cash and all of Erdene's North American property interests, comprised primarily of its 25% interest in the Donkin Coal Project in Cape Breton, Nova Scotia, and, as consideration, the issuance to Erdene of common shares of APM ("**APM Shares**"). Erdene's North American property interests will be held by Erdene Resources Inc. ("**ERI**"), wholly owned by Erdene. Erdene's North American property interests will be transferred to APM by way of the transfer of the shares of ERI to APM. As part of the Arrangement, following the transfer, ERI and APM will amalgamate to form an amalgamated corporation ("**Amalco**") to be named "Morien Resources Corp.". The shares of Amalco ("**Amalco Shares**") will then be consolidated on the basis of 7.85:1, such that each shareholder of APM, including Erdene, will receive 1 Amalco Share for every 7.85 APM Shares held by such shareholder. Each option to acquire shares of Erdene shall be exchanged for one-half of one option to acquire Amalco Shares ("**Amalco Options**") and one-half of one new option of Erdene ("**Erdene New Options**"). No fractional shares of Amalco or Erdene will be issued on the Arrangement or on the exercise of Amalco Options or Erdene New Options, respectively. All fractions will be rounded down to the nearest whole number.

As part of the Arrangement, Erdene will create a new class of shares ("**Erdene New Shares**") and will distribute to Erdene Shareholders one-half of one Erdene New Share and one-half of one Amalco Share in exchange for each outstanding Erdene share.

Following the completion of the Arrangement:

- (a) Erdene will continue to own the Zuun Mod and Altan Nar Projects and it is anticipated that it will have approximately 48 million shares and 2.4 million options outstanding; and
- (b) Amalco will own Erdene's North American property interests and it is anticipated that Amalco will have approximately 49 million shares outstanding, 97.25% of which will be held by Erdene Shareholders and 2.75% will be held by the shareholders of APM other than Erdene. It is also anticipated that Amalco will have approximately 2.4 million options outstanding.

It is a condition of the completion of the Arrangement that the Toronto Stock Exchange (the "**TSX**") approve the Arrangement and that the TSX Venture Exchange (the "**TSXV**") grant conditional approval for the listing of the Amalco Shares on the TSXV.

Management of Erdene believes that the Arrangement will benefit the Erdene Shareholders in a variety of ways, including the following:

- **Greater Opportunities** – The Arrangement is expected to enhance the ability of each of Erdene and Amalco to pursue their independent corporate objectives and strategies, with a view to maximizing the value to their respective shareholders. In particular, the Arrangement will allow Erdene to focus on advancing the Zuun Mod and Altan Nar Projects and precious and base metals exploration, primarily in Mongolia, and will allow Amalco to focus on the development of bulk commodity projects in North America, predominately coal projects, led by the Donkin Coal Project.
- **Investment Flexibility** - Transferring the Donkin Coal Project into a separate public vehicle will provide Erdene Shareholders with additional investment flexibility, as they will hold a direct interest in 2 separate

companies, each of which will be focused on different objectives and it is believed that each of which will be valued differently based on various factors unique to each business.

- **Market Identification** - The Arrangement is expected to improve the market's identification and valuation of each of the Donkin Coal Project and Erdene's projects in Mongolia.

The board of directors of Erdene struck a committee of independent directors (the "**Independent Committee**") to supervise the valuation process and appointed Paradigm Capital Inc. ("**Paradigm**") as its financial advisor. On the basis of advice received from its advisors and receipt of a formal valuation and fairness opinion from Paradigm, the directors of Erdene (excluding those who are directors or senior officers of APM) determined that the Arrangement is fair and in the best interest of Erdene and the Shareholders. **The board of Erdene therefore recommends that Erdene Shareholders vote in favour of the Arrangement.**

To be effective, the Arrangement must be approved by (i) at least 66 2/3% of the votes cast by Shareholders present in person or represented by proxy at the Meeting, and (ii) a majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting other than those who are required to be excluded in determining such approval pursuant to Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* and pursuant to the rules of the TSX. The Arrangement is also subject to the approval of the Supreme Court of Nova Scotia and receipt of all necessary regulatory approvals.

At the Meeting, Erdene Shareholders will also be asked to pass a resolution approving a deferred stock unit plan for Erdene.

We encourage you to read the materials in the attached management information circular ("**Circular**") carefully. The Circular contains a detailed description of the Arrangement as well as detailed information regarding Amalco. Please give this material your careful consideration and, if you require assistance, consult your financial, tax or other professional advisor.

Your vote is important regardless of the number of shares that you own. If you are a registered holder of shares, we encourage you to take the time now to complete, sign, date and return the enclosed form of proxy in the return envelope to Computershare Investor Services Inc. ("**Computershare**") to be received by Computershare no later than 10:30 a.m. (Atlantic Time) on October 24, 2012 to ensure that your shares are voted at the Meeting in accordance with your instructions, whether or not you plan to attend the Meeting. If you hold your shares through a broker or other intermediary, you should follow the instructions provided by your broker or intermediary to vote your shares.

If you receive more than one proxy (or voting instruction form), it is because your shares are registered in more than one name or are held in more than one account. You should sign and submit all proxies or voting instruction forms that you receive in order that all of your shares are voted.

We would like to thank all Shareholders for their support as we proceed with this important step toward the advancement of our projects.

Sincerely,

(Signed) "Peter C. Akerley"
President and Chief Executive Officer
Erdene Resource Development Corporation

ERDENE RESOURCE DEVELOPMENT CORPORATION
Metropolitan Place, 99 Wyse Road, Suite 1480, Dartmouth NS B3A 4S5

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT:

A special meeting ("**Meeting**") of the shareholders ("**Erdene Shareholders**") of Erdene Resources Development Corporation ("**Erdene**") will be held at the offices of McInnes Cooper, Suite 1300-1969 Upper Water Street, Halifax, Nova Scotia, on **Friday, October 26, 2012 at 10:30 a.m. (Atlantic Time)** for the following purposes:

- (a) to consider and, if thought advisable, to pass a special resolution (the "**Arrangement Resolution**"), the full text of which is attached to the accompanying management information circular ("**Circular**"), with or without amendment, approving an arrangement ("**Arrangement**") under Section 192 of the *Canada Business Corporations Act* ("**CBCA**"), whereby Erdene will transfer all of its North American property interests, comprised primarily of Erdene's 25% interest in the Donkin Coal Project in Cape Breton, Nova Scotia, to Advanced Primary Minerals Corporation ("**APM**") for share consideration from APM, whereupon APM will amalgamate with Erdene Resources Inc., a subsidiary of Erdene, to form "**Amalco**", following which 97.25% of the shares of Amalco shall be distributed to the Erdene Shareholders and 2.75% of which shall be distributed to the shareholders of APM other than Erdene;
- (b) to consider and, if deemed appropriate, to pass an ordinary resolution ratifying and approving the Deferred Stock Unit Plan; and
- (c) to transact such further and other business as may properly come before the Meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the Circular accompanying and forming part of this notice of meeting.

Pursuant to an Interim Order of the Supreme Court of Nova Scotia and the CBCA, Erdene Shareholders have the right to dissent in respect of the Arrangement Resolution. The dissent rights are described in the Circular. Failure to strictly comply with the requirements regarding the right to dissent may result in the unavailability of any right of dissent.

Only Erdene Shareholders of record as of the close of business on Tuesday, September 25, 2012 are entitled to receive notice of the Meeting and to vote at the Meeting.

To assure your representation at the Meeting as a **Registered Shareholder**, please complete, sign, date and return the enclosed proxy, whether or not you plan to personally attend the Meeting. Sending your proxy will not prevent you from voting in person at the Meeting. All proxies completed by Registered Shareholders must be received by the Erdene's transfer agent, **Computershare Investor Services Inc.**, not later than **Wednesday, October 24, 2012 at 10:30 a.m. (Atlantic Time)**. A Registered Shareholder must return the completed proxy to Computershare Investor Services Inc., as follows:

- (a) by **mail** in the enclosed envelope;
- (b) by the **Internet** or **telephone** as described on the enclosed proxy; or
- (c) by **registered mail**, by **hand** or by **courier** to the attention of Computershare Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1.

Non-Registered Shareholders whose shares are registered in the name of an intermediary should carefully follow voting instructions provided by the intermediary. A more detailed description on returning proxies by Non-Registered Shareholders can be found in the attached Circular.

If you receive more than one proxy or voting instruction form, as the case may be, for the Meeting, it is because your shares are registered in more than one name. To ensure that all of your shares are voted, you should sign and return all proxies and voting instruction forms that you receive.

DATED at Dartmouth, in the Halifax Regional Municipality, Nova Scotia, this 25th day of September, 2012.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) *Peter C. Akerley*

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ERDENE RESOURCE DEVELOPMENT CORPORATION
MANAGEMENT INFORMATION CIRCULAR
(As at September 25, 2012, except as indicated)

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this Circular and in the Schedules hereto, in certain circumstances the Arrangement is described on a prospective basis (using words like "will," upon", or "following completion of") as if the Arrangement has been completed. However, the Arrangement is a proposed transaction and its effectiveness is subject to a number of conditions, including Court approval, the satisfaction of which cannot be assured.

In addition, this Circular contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performances of Erdene, Amalco and their respective subsidiaries' projects, the future price of coal, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirement for additional capital, government regulation of mining operations, environmental risks, reclamation and rehabilitation expenses, title disputes or claims, limitations of insurance coverage and regulatory matters. Often, but not always, forward-looking information statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes", or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might", or "will" be taken, occur or be achieved. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect, including, but not limited to, assumptions in connection with the continuance of Erdene and its subsidiaries as a going concern, general economic and market conditions, mineral prices, and the accuracy of mineral resource estimates.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Erdene, Amalco and their respective subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, those factors discussed or referred to in the section entitled "Risk Factors" in this Circular and those risk factors discussed or referred to in Schedule G – "*Information Concerning Amalco – Post Arrangement: Risk Factors*". Although Erdene has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Erdene assumes no obligation to revise or update these forward-looking statements after the date of this Circular, or to revise them to reflect the occurrence of future unanticipated events, except as may be required under applicable Securities Laws.

NOTICE TO UNITED STATES SECURITYHOLDERS

Erdene is a corporation existing under the laws of Canada. The information in this Circular relating to Erdene and Amalco has been prepared in accordance with the disclosure requirements of Canadian corporate and securities laws. The financial statements of Erdene incorporated herein, as well as the financial statements of ERI and pro forma financial information related to Amalco attached to this Circular, have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("**GAAP**") or International Financial Reporting Standards ("**IFRS**"), are subject to Canadian auditing and auditor independence standards, and thus may not be comparable in all respects to financial statements of U.S. companies whose financial statements are prepared in accordance with U.S. GAAP. Likewise, information concerning the properties and operations of Erdene and Amalco has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to disclosure standards applicable in the United States.

Mineral resource estimates included and incorporated by reference in this Circular were prepared in accordance with the Canadian Securities Administrators' National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101"), which established Canadian standards for public disclosure of scientific and technical information concerning mineral projects. The requirements of NI 43-101 differ from those of the United States Securities and Exchange Commission ("SEC") in a number of material respects, and information concerning descriptions of deposits included and incorporated by reference in this Circular may not be comparable to information made public by U.S. companies subject to the reporting requirements of the SEC. This Circular uses the term "resources" which is a term not recognized by the SEC. U.S. investors are advised that while "resources" are recognized and required to be disclosed under Canadian securities laws, the SEC does not recognize the term or permit it to be used in filings by U.S. companies. Under U.S. standards, a deposit may not be recognized as a "reserve" unless a determination has been made that it may be economically and legally produced or extracted at the time the determination is made. "Resources" are not "reserves" and U.S. investors are cautioned that "resources" may not ever be converted into "reserves". Further, "resources" classified as "inferred resources" have a great amount of uncertainty as to their existence and whether they can be mined economically or legally. It cannot be assumed that "inferred resources" will ever be upgraded to a higher category, and U.S. investors should not assume that all or any part of an "inferred resource" exists or can be legally or economically mined.

Erdene Shareholders should be aware that the transactions pursuant to the Arrangement whereby Erdene Shareholders will exchange Erdene Common Shares for Erdene New Shares and Amalco Shares, as described herein, may have tax consequences both in the U.S. and in Canada. Such consequences for investors who are resident in, or citizens of, the U.S. may not be described fully herein. See "Tax Considerations to Erdene Shareholders: Erdene Shareholders Not Resident in Canada". All Erdene Shareholders should seek their own tax advice with respect to the tax consequences to them of the transactions contemplated in the Arrangement.

Enforcement by Erdene's and Amalco's securityholders of civil liabilities under U.S. Securities Laws may be affected adversely by the fact that each of Erdene and Amalco is organized under the laws of a jurisdiction other than the U.S., that the officers and directors of Erdene and Amalco are residents of a country other than the U.S., that most of the experts named in the Circular or the Schedules thereto are residents of a country other than the U.S., and that the majority of the assets of Erdene, Amalco and such persons are located outside of the U.S.

The Erdene New Shares and the Amalco Shares issuable in connection with the Arrangement have not been approved or disapproved by the SEC or securities regulatory authorities in any state, nor has the SEC or the securities regulatory authorities of any state passed on the adequacy or accuracy of this Circular. Any representation to the contrary is a criminal offence.

The securities of Amalco to be received under the Arrangement have not been and will not be registered under the U.S. Securities Act or the securities laws of any state, and will be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof and applicable state securities laws. Section 3(a)(10) of the U.S. Securities Act provides an exemption from registration under the U.S. Securities Act for offers and sales of securities issued in exchange for one or more outstanding securities where the terms and conditions of the issuance and exchange of such securities have been approved by a court authorized to grant such approval after a hearing upon the fairness of the terms and conditions of the issuance and exchange at which all persons to whom the securities will be issued have the right to appear.

The U.S. Securities Act imposes restrictions on the resale of securities received pursuant to the Arrangement by persons who were "affiliates" of Amalco within 90 days after the Arrangement. As defined in Rule 144 under the U.S. Securities Act, an "affiliate" of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the issuer.

This Arrangement involves the securities of issuers located in Canada. The solicitation of proxies made in connection with this Circular is being effected in accordance with the corporate laws of the Canada and securities laws of certain provinces of Canada, and it is not subject to the requirements of Section 14(a) of the United States U.S. Exchange Act. Accordingly, this Circular has been prepared in accordance with disclosure requirements applicable in Canada and in accordance with applicable Canadian corporate and Securities Laws. Erdene Shareholders in the United States should be aware that such disclosure requirements are different from those of the

United States applicable to registration statements under the U.S. Securities Act and to proxy statements under the U.S. Exchange Act.

COURT HEARING

The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. The Court issued the Interim Order on September 26, 2012 and, subject to the approval of the Arrangement by the Erdene Shareholders and the APM Shareholders, a hearing on the Arrangement will be held on November 1, 2012 at 9:30 a.m. at the Nova Scotia Supreme Court, 1815 Upper Water Street, Halifax, Nova Scotia. All Erdene Shareholders, subject to compliance with notice provisions applicable to the hearing, are entitled to appear and be heard at this hearing.

CURRENCY INFORMATION

All references to "\$" or "dollars" set forth in this Circular are in Canadian dollars, except where otherwise indicated.

GLOSSARY OF TERMS

Unless the context otherwise requires, when used in this Circular and in the Schedules hereto the following terms shall have the meanings set forth below, words importing the singular number shall include the plural and vice versa, and words importing any gender shall include all genders.

"**AIF**" means Erdene's annual information form for the year ended December 31, 2011.

"**Acquisition Proposal**" means other than the transactions contemplated by the Arrangement Agreement, any offer, proposal, expression of interest, or inquiry from any person (other than a party to the Arrangement Agreement or any of its affiliates) after the date hereof relating to: (i) any acquisition or sale, direct or indirect, of any substantial part of the issued or unissued shares of all of or any of APM and its subsidiaries; or (ii) any arrangement, amalgamation, merger, sale, or purchase of assets, take-over bid, tender offer, share exchange, exchange offer, restructuring, reorganization, recapitalization, liquidation or winding-up of, or other business combination or similar transactions involving all of or any of APM and its subsidiaries.

"**Affiliate**" means a Company that is affiliated with another Company as described below.

A Company is an "Affiliate" of another Company if:

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same Person.

A Company is "controlled" by a Person if:

- (a) voting securities of the Company are held, other than by way of security only, by or for the benefit of that Person, and
- (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Company.

A Person beneficially owns securities that are beneficially owned by:

- (a) a Company controlled by that Person, or
- (b) an Affiliate of that Person or an Affiliate of any Company controlled by that Person.

"**Altan Nar Project**" means the project described in Schedule F - "*Information Concerning Erdene Resource Development Corporation – Post-Arrangement; Summary of the Business of Erdene - Altan Nar Project*".

"**Altan Nar Technical Report**" means the technical report entitled "Technical Report Altan Nar Gold Project, (Tsenkher Nomin Exploration License), Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Technical Report" dated August 31, 2012 prepared by J.C. (Chris) Cowan. MSc, PEng, Vice President, Asia, Erdene Resource Development Corporation.

"**Amalco**" means the corporation continuing from the amalgamation of APM and ERI pursuant to the Plan of Arrangement, to be known as "Morien Resources Corp."

"**Amalco Shares**" means the voting common shares without par value of Amalco.

"**Amalco Options**" means the options to acquire Amalco Shares.

"**APM**" means Advanced Primary Minerals Corporation, a body corporate continued under the laws of Canada.

"**APM Kaolin Technical Report**" means the "Qualifying Technical Report on Erdene Resource Development Corporation's Primary Kaolin Properties, Georgia (USA)" dated September 25, 2008, prepared by Donald M. Fraser, P.Eng., BSC Mining Engineer, MBA.

"**APM Optionholders**" means the holders of APM Options.

"**APM Options**" means the outstanding options to acquire APM Shares issued under the APM Stock Option Plan.

"**APM Shares**" means common shares in the capital of APM.

"**APM Shareholders**" means the holders of APM Shares.

"**APM Stock Option Plan**" means the incentive stock option plan of APM approved by the APM Shareholders on June 29, 2012, pursuant to which APM grants APM Options to eligible participants to acquire APM Shares.

"**Arm's Length Transaction**" means a transaction that is not a Related Party Transaction.

"**Arrangement**" means the proposed arrangement under Section 192 of the CBCA on the terms and subject to the conditions set out in the Plan of Arrangement, as supplemented, modified or amended.

"**Arrangement Agreement**" means the amended and restated arrangement agreement dated as of August 7, 2012 between Erdene, APM, and ERI, including the schedules thereto, a copy of which is attached to this Circular as Schedule B.

"**Arrangement Resolution**" means the resolution of the Erdene Shareholders approving the Plan of Arrangement to be considered at the Meeting, substantially in the form attached to this Circular as Schedule A.

"**Articles of Arrangement**" means the articles in respect of the Arrangement required under subsection 192(6) of the CBCA to be filed with the Director after the Final Order has been granted.

"**Board**" means the board of directors of Erdene.

"**Business Day**" means any day, other than a Saturday, Sunday or holiday when Canadian chartered banks are generally open in the City of Halifax, Nova Scotia for the transaction of banking business.

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C.44, and the regulations thereto, as now in effect and as amended from time to time prior to the Effective Date.

"**CDS**" means The Canadian Depository for Securities Limited.

"**Certificate**" means the certificate giving effect to the Arrangement endorsed by the Director on the Articles of Arrangement pursuant to subsection 192(7) of the CBCA.

"**Change of Control**" means situations where after giving effect to the contemplated transaction and as a result of such transaction:

- (a) any one Person holds a sufficient number of the voting shares of the issuer or resulting issuer to affect materially the control of the issuer or resulting issuer; or
- (b) any combination of Persons, acting in concert by virtue of an agreement, arrangement, commitment or understanding hold in total a sufficient number of the voting shares of the issuer or resulting issuer to affect materially the control of the issuer or resulting issuer;

where such Person or combination of Persons did not previously hold a sufficient number of voting shares to affect materially the control of the issuer or resulting issuer. In the absence of evidence to the contrary, any Person or combination of Persons acting in concert by virtue of an agreement, arrangement, commitment or understanding, hold more than 20% of the voting shares of the issuer or resulting issuer is deemed to materially affect the control of the issuer or resulting issuer.

"**Circular**" means this management information circular, including all Schedules hereto, sent by Erdene to the Erdene Shareholders in connection with the Meeting.

"**Company**" unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual.

"**Computershare**" means Computershare Investor Services Inc., Erdene's transfer agent.

"**Control Person**" means any Person that holds or is one of a combination of Persons that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer.

"**Court**" means the Supreme Court of Nova Scotia.

"**Deferred Stock Unit Plan**" means the deferred stock unit plan of Erdene in the form attached to this Circular as Schedule C.

"**Denominator Number**" means the sum of the Fair Market Value of an Erdene New Share and the Fair Market Value of an Amalco Share.

"**Director**" means the director appointed pursuant to Section 260 of the CBCA.

"**Dissent Notice**" means a written objection to the Arrangement Resolution sent to Erdene in accordance with the Dissent Procedures.

"**Dissent Procedures**" means the procedures set forth in Section 190 of the CBCA, as modified by the Interim Order, required to be taken by an Erdene Shareholder to exercise Dissent Rights in respect of such Erdene Shareholder's Erdene Common Shares in connection with the Arrangement.

"**Dissent Rights**" means the dissent rights in respect of the Arrangement as described in Article 5 of the Plan of Arrangement.

"**Dissenting Shares**" means the Erdene Common Shares held by Dissenting Shareholders.

"Dissenting Shareholders" means Erdene Shareholders who have duly and validly exercised their Dissent Rights pursuant to the Plan of Arrangement and the Interim Order.

"Donkin Coal Project" means the exclusive right to explore and potentially develop and operate the coal resource area in the Sydney, Nova Scotia coal field that is known as the "Donkin Coal Resource Block".

"Donkin Coal Technical Report" means the technical report entitled "Technical Report: Donkin Coal Project, Cape Breton, Nova Scotia, Canada", dated June 2011 prepared by Lynn Partington, P.E. (Kentucky, USA), P.Eng. (Alberta, CAN) of Marston & Marston Inc.

"Donkin Joint Venture" means the joint venture created and governed by the Donkin Joint Venture Agreement.

"Donkin Joint Venture Agreement" means the joint venture agreement dated October 15, 2008 as amended by agreement dated September 17, 2012, with respect to the Donkin Coal Project among Xstrata Coal Donkin Limited, 6531954 Canada Limited, Xstrata Coal Donkin Management Limited and Donkin Tenements Inc.

"DSU Plan Resolution" means the resolution of the Erdene Shareholders approving the Deferred Stock Unit Plan to be considered at the Meeting, substantially in the form attached to this Circular as Schedule L.

"Effective Date" means the date the Arrangement is effective under the CBCA.

"Effective Time" means 12:01a.m. (Eastern Time) on the Effective Date.

"Erdene" or the **"Corporation"** means Erdene Resource Development Corporation, a body corporate incorporated under the laws of Canada.

"Erdene Class A Common Shares" means the renamed and redesignated Erdene Common Shares as described in Section 3.1(a) of the Plan of Arrangement.

"Erdene Common Shares" means common shares in the capital of Erdene.

"Erdene New Shares" means the unlimited number of new common shares of Erdene as described in Section 3.1(a) of the Plan of Arrangement.

"Erdene Optionholders" means the holders of Erdene Options.

"Erdene Options" means the outstanding options to acquire Erdene Common Shares issued under the Erdene Stock Option Plan.

"Erdene Resources" means ERI together with certain adjustments to reflect Erdene's carrying values of assets and liabilities as well as to allocate corporate overheads to the entity, with the purpose of showing carve-out financial statements for Erdene's North American assets which are being sold to APM as part of the Plan of Arrangement.

"Erdene Shareholders" means the holders of Erdene Common Shares.

"Erdene Stock Option Plan" means the incentive stock option plan of Erdene adopted by the board of directors of Erdene on April 9, 2007 and approved by Erdene Shareholders on May 10, 2007, as amended on December 16, 2010 by the Board, pursuant to which Erdene grants Erdene Options to eligible participants to acquire Erdene Common Shares.

"ERI" means Erdene Resources Inc., a body corporate incorporated under the laws of Canada.

"ERI Shares" means common shares in the capital of ERI.

"Exchange Agent" means Computershare or such other exchange agent as Erdene and APM may appoint.

"Fair Market Value" of a share, for the purposes of calculating the exercise price of an Erdene New Option or an Amalco Option, means the volume weighted average trading price of the share on the TSX or the TSXV, as the case may be, for the 10 trading days immediately preceding the date on which the value is to be determined.

"Fairness Opinion" means the opinion of Paradigm to the effect that, as of the date of such opinion, the issuance of 97.25% of the Amalco Shares as consideration for \$1.95 million cash and Erdene's North American property interests is fair, from a financial point of view, and the Arrangement is fair to the Erdene Shareholders.

"Final Order" means the final order of the Court in a form acceptable to Erdene and APM, approving the Arrangement, as such order may be amended by the Court (with the consent of Erdene and APM) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that such amendment is acceptable to Erdene and APM) on appeal.

"Governmental Entity" means any applicable:

- (a) multinational, federal, provincial, territorial, state, regional, municipal, local or other government or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign;
- (b) subdivision, agent, commission, board or authority of any of the foregoing; or
- (c) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of the foregoing.

"Independent Committee" means the special committee of the Board comprised of William B. Burton and John P. Byrne, both of whom are independent of APM.

"Insider" if used in relation to an issuer, means:

- (a) a director or senior officer of the issuer;
- (b) a director or senior officer of the Company that is an insider or subsidiary of the issuer;
- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or
- (d) the issuer itself if it holds any of its own securities.

"Interim Order" means the interim order of the Court dated September 26, 2012, as the same may be amended, in respect of the Arrangement, as contemplated by section 5.3(a) of the Arrangement Agreement providing for, among other things, the calling and holding of the Meeting, a copy of which accompanies this Circular.

"Intermediary" means an intermediary with whom a Non-Registered Shareholder may deal, including banks, trust companies, securities dealers or brokers and trustees or administrators of self-directed RRSPs, RRIFs, RESPs and similar plans, and their nominees.

"Laws" means all statutes, regulations, statutory rules, policies, orders, and terms and conditions of any grant of approval, permission, authority or license of any court, Governmental Entity, statutory body or regulatory authority (including the TSX), and the term "applicable" with respect to such Law and in the context that refers to one or more persons, means that such Law applies to such person or persons or its or their business, undertaking, property or securities and emanates from a Governmental Entity, statutory body or regulatory authority having jurisdiction over the person or persons or its or their business, undertaking, property or securities.

"Letter of Transmittal" means the letter of transmittal (prepared by the Exchange Agent together with Erdene) regarding the delivery of certificates in respect of the Erdene Common Shares to be completed and returned by the

Erdene Shareholders to the Exchange Agent together with all other documents and instruments as the Exchange Agent, Erdene or Amalco may reasonably require.

"**MD&A**" means management's discussion & analysis.

"**Market Value**" means the volume weighted average trading price of the share on the TSX for the 5 consecutive trading days immediately prior to the date as of which the Market Value is determined.

"**Material Adverse Effect**" when used in connection with a party to the Arrangement Agreement, means any change, effect, event, circumstance or occurrence with respect to its condition (financial or otherwise) properties, assets, liabilities, obligations (whether absolute, accrued, contingent or otherwise) businesses or operations, or those of its subsidiaries, that is, or would reasonably be expected to be, material and adverse to the current or future business, operations, financial condition or results of operation of that party and its subsidiaries taken as a whole; provided however, that a Material Adverse Effect shall not include any such change, effect, event or occurrence directly or indirectly arising out of or attributable to:

- (a) general economic conditions or the financial, lending, currency exchange, securities or commodities markets, to the extent that they do not disproportionately affect that party and its subsidiaries, taken as a whole, in relation to other companies in the industries in which that party and its subsidiaries operates;
- (b) the industries in which that party operates in general, to the extent that they do not disproportionately affect that party and its subsidiaries, taken as a whole, in relation to other companies in the same industries;
- (c) any change in applicable Laws, to the extent that it does not disproportionately affect that party and its subsidiaries, taken as a whole, in relation to other companies in the same industries;
- (d) commencement, occurrence or continuation of any war, armed hostilities or acts of terrorism, to the extent that it does not disproportionately affect that party and its subsidiaries, taken as a whole, in relation to other companies in the same industries;
- (e) any decrease in the market price or any decline in the trading volume of the APM Shares or Erdene Common Shares (it being understood that the causes underlying such change in market price or trading volume may be taken into account in determining whether a Material Adverse Effect has occurred) or any suspension of trading in securities generally on any securities exchange on which any securities of APM or Erdene trade; or
- (f) the execution and delivery of the Arrangement Agreement, the public announcement thereof or the completion of the transactions contemplated therein.

"**Meeting**" or "**Erdene Meeting**" means the special meeting of the Erdene Shareholders scheduled to be held on October 26, 2012 to be called and held in accordance with the Interim Order to consider and approve, among other things, the Arrangement and the transactions contemplated by the Arrangement Agreement by way of the Arrangement Resolution, including any adjournment, adjournments, postponement or postponements thereof.

"**Meeting Date**" means the date on which the Meeting is held.

"**Meeting Materials**" means this Circular, the Proxy (or VIF) and the Notice of Meeting in respect of the Meeting.

"**MI 61-101**" means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

"**NI 43-101**" means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

"**NI 54-101**" means National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*.

"**NOBO**" has the meaning given the term "Non-Objecting Beneficial Owner" in NI 54-101.

"**Non-Registered Shareholder**" means a beneficial owner of Erdene Common Shares that is not a Registered Shareholder.

"**Notice of Meeting**" means the notice of the Meeting accompanying this Circular.

"**OBO**" has the meaning given the term "Objecting Beneficial Owner" in NI 54-101.

"**Person**" means a Company or individual.

"**Paradigm**" means Paradigm Capital Inc.

"**Plan of Arrangement**" means the plan of arrangement in the form that is attached as Schedule C to the Arrangement Agreement, subject to any amendments or variations thereto made in accordance with Section 7.1 of the Arrangement Agreement or Article 6 of the Plan of Arrangement, or made at the direction of the Court in the Final Order.

"**Proxy**" means the form of proxy enclosed with this Circular.

"**Record Date**" means Tuesday, September 25, 2012.

"**Related Party Transaction**" has the meaning ascribed to that term in MI 61-101.

"**Registered Shareholder**" means a registered holder of Erdene Common Shares.

"**Related Parties**" means those Erdene Shareholders whose votes are to be excluded from the determination of minority approval of the Arrangement Resolution pursuant to subsection 8.1(2) of MI 61-101 and pursuant to TSX Rules, namely the senior officers and directors of each of Erdene and APM.

"**SEC**" means the United States Securities Exchange Commission;

"**Securities Authorities**" means the Nova Scotia Securities Commission and other securities regulatory authorities in Canada.

"**Securities Laws**" means any applicable securities laws in any Canadian jurisdiction, including, without limitation, rules and policies of Securities Authorities.

"**Superior Proposal**" means an Acquisition Proposal in respect of APM if the members of the independent committee appointed by the board of APM have determined in good faith, after consultation with, and receiving advice (which may include written opinions, a copy of which shall have been provided to Erdene) from such financial, legal and other advisors to the Independent Committee as they consider appropriate, if any, to the effect that such Acquisition Proposal would, if consummated in accordance with the terms thereof result in a transaction which:

- (a) provides consideration to APM Shareholders that is, on the basis of an opinion of an independent and qualified financial advisor, more favourable from a financial point of view than the transaction contemplated by the Arrangement Agreement (after taking into account any modifications to the Arrangement Agreement proposed by the third party); and
- (b) is reasonably capable of being completed within a reasonable time.

"**Tax Act**" means the *Income Tax Act* (Canada), as amended.

"**Transfer Agent**" means the transfer agent for Erdene, Computershare.

"**TSX**" means the Toronto Stock Exchange.

"**TSXV**" means the TSX Venture Exchange.

"**United States**" means the "United States" as defined in Regulation S under the U.S. Securities Act.

"**U.S. Exchange Act**" means the *United States Securities Exchange Act of 1934*, as amended, and the rules, regulations and orders promulgated thereunder.

"**U.S. Person**" means a "U.S. person", as defined in Regulation S under the U.S. Securities Act.

"**U.S. Securities Act**" means the *United States Securities Act of 1933*, as amended, and the rules, regulations and orders promulgated thereunder.

"**U.S. Securities Laws**" means the federal and state securities legislation of the United States and all rules, regulations and orders promulgated thereunder, as amended from time to time.

"**Valuation**" means the formal valuation by Paradigm contained in the Valuation and Fairness Opinion.

"**Valuation and Fairness Opinion**" means the letter dated August 7, 2012 provided to the Independent Committee by Paradigm containing the Valuation and the Fairness Opinion, a copy of which is attached to this Circular as Schedule D.

"**VIF**" means the form to provide voting instructions sent to certain Erdene Shareholders in connection with the Meeting.

"**Zuun Mod Molybdenum - Copper Project**" or "**Zuun Mod Project**" means the project described in Schedule F – "*Information Concerning Erdene Resource Development Corporation – Post-Arrangement – Summary of the Business of Erdene – Zuun Mod Molybdenum-Copper Project*".

"**Zuun Mod Technical Report**" means the technical report entitled "Technical Report Zuun Mod Porphyry Molybdenum - Copper Project, South-Western Mongolian, National Instrument 43-101 Independent Technical Report" dated June 2011 prepared by Philippe A. Baudry, General Manager - China, Minarco-MineConsult.

SUMMARY OF MANAGEMENT INFORMATION CIRCULAR

The following is a summary of information relating to the Arrangement, Erdene, APM and Amalco (assuming completion of the Arrangement) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Circular or in the Schedules hereto.

The Meeting

The Meeting will be held at the offices of McInnes Cooper, Purdy's Wharf, Tower II, Suite 1300, 1969 Upper Water Street, Halifax, Nova Scotia, on October 26, 2012, at 10:30 a.m. (Atlantic time), or at any adjournment thereof. At the Meeting, Erdene Shareholders will be asked to consider, and if deemed advisable, approve, with or without variation, the Arrangement Resolution, a copy of which is attached to this Circular as Schedule A, to consider the Deferred Stock Unit Plan, and to consider such other matters as may properly come before the Meeting. Proxies must be received by Erdene's transfer agent, Computershare, not later than 10:30 a.m. (Atlantic Time) on October 24, 2012.

To be effective, the Arrangement Resolution must be approved by (i) at least 66 2/3% of the votes cast by Erdene Shareholders present in person or represented by proxy at the Meeting, and (ii) a majority of the votes cast by Erdene Shareholders other than Related Parties present in person or represented by proxy at the Meeting. The resolution to approve the Deferred Stock Unit Plan must be approved by a majority of the votes cast by Erdene Shareholders present in person or represented by proxy at the Meeting.

The record date for the Meeting was fixed as September 25, 2012. Only Erdene Shareholders of record as of the close of business on the Record Date will be entitled to vote at the Meeting. Erdene Shareholders entitled to vote shall have 1 vote each on a show of hands and 1 vote per Erdene Common Share on a poll.

By passing the Arrangement Resolution approving the Arrangement, Erdene Shareholders will also be giving the Board the authority to use its best judgment to proceed with and cause Erdene to complete the Arrangement in the event of any variation of, or amendments to, the Arrangement Agreement without any requirement to seek or obtain any further approval of the Erdene Shareholders.

See "*Information Regarding Organization and Conduct of Meeting*", "*Matters to be Acted Upon at the Meeting: The Arrangement*" and "*Other Matters to be Acted Upon at the Meeting: Deferred Stock Unit Plan*".

Particulars of the Matters to be Acted Upon: The Arrangement

The proposed Arrangement will occur by way of statutory Plan of Arrangement under Section 192 of the CBCA involving Erdene, APM, ERI and the shareholders of both Erdene and APM.

In January 2012, the board of directors of Erdene, which owns approximately 60% of the APM Shares, authorized management to consider the alternatives to separate its two major projects, the Donkin Coal Project and minerals exploration in Mongolia, into separate public companies. In August, 2012, an independent committee of the board of APM and the directors of Erdene who are not also directors or officers of APM concluded that it was in the best interest of both APM and Erdene to effect the Arrangement. See "*Matters to be Acted Upon at the Meeting: The Arrangement – Background to the Arrangement*".

Erdene, APM and ERI entered into the Arrangement Agreement, which sets out the terms and conditions of the Arrangement. The Arrangement Agreement provides that, subject to the approval of the TSX, the TSXV and the Court and satisfaction or waiver of the other conditions described in the Arrangement Agreement, Erdene will transfer to APM \$1.95 million cash and all of Erdene's North American property interests in exchange for a total of 360,028,650 APM Shares. Following the transfer, APM will be party to an amalgamation and the Amalco Shares will then be consolidated. Erdene will then distribute to the Erdene Shareholders one-half of one Amalco Share and one-half of one Erdene New Share in exchange for each Erdene Common Share.

Following the completion of the Arrangement:

- All of Erdene's North American property interests, comprised primarily of Erdene's 25% interest in the Donkin Coal Project, will be held by the amalgamated company, Amalco, to be known as "Morien Resources Corp."
- Amalco will be focused on the development of bulk commodity projects in North America, predominantly coal projects, led by the Donkin Coal Project.
- Erdene will continue to own its Zuun Mod and Altan Nar Projects and will focus on precious and base metals exploration, primary in Mongolia.
- Erdene will have 47,901,450 Erdene New Shares outstanding.
- Amalco will have 49,255,190 shares outstanding, 47,901,450 (97.25%) of which will be held by Erdene Shareholders and the balance held by the former APM Shareholders other than Erdene.

Following the Arrangement, it is anticipated that the management and the board of directors of Erdene will remain unchanged except that John P.A. Budreski and Stuart P. Rath will resign as directors.

Following the Arrangement, it is anticipated that the board of directors and management of Amalco will be:

- John P.A. Budreski – President, CEO and a Director
- Peter C. Akerley – Chair of the board of directors
- John P. Byrne – Director
- Charles G. Pitcher – Director
- Philip L. Webster – Director
- Kenneth W. MacDonald – CFO
- Michael A. MacDonald – Vice-President Technical
- D. Suzan Frazer – Corporate Secretary

See "*Matters to be Acted Upon at the Meeting: The Arrangement*", "*The Plan of Arrangement and Arrangement Agreement*", and Schedule G – "*Information Concerning Amalco – Post-Arrangement*".

Benefits to the Erdene Shareholders

- **Greater Opportunities** – The Arrangement is expected to enhance the ability of each of Erdene and Amalco to pursue their independent corporate objectives and strategies, with a view to maximizing the value to their respective shareholders.
- **Investment Flexibility** - Transferring the Donkin Coal Project into a separate public vehicle will provide Erdene Shareholders with additional investment flexibility, as they will hold a direct interest in 2 separate companies, each of which will be focused on different objectives and it is believed that each of which will be valued differently based on various factors unique to each business.
- **Market Identification** - The Arrangement is expected to improve the market's identification and valuation of each of the Donkin Coal Project and Erdene's projects in Mongolia.

See "*Matters to be Acted Upon at the Meeting: The Arrangement – Benefits to the Erdene Shareholders*".

Valuation and Fairness Opinion; Recommendation of the Board

The Board constituted the Independent Committee comprised of William B. Burton and John P. Byrne, each of whom is independent of APM, to assess and examine the Arrangement. The Independent Committee appointed

Paradigm as its financial advisor. See *"Matters to be Acted Upon at the Meeting: The Arrangement – Background to the Arrangement"*.

Paradigm provided the Fairness Opinion to the effect that, as at August 7, 2012, based upon and subject to the various assumptions, qualifications and limitations set forth in the Valuation and Fairness Opinion, the issuance of the equivalent of 97.25% of the outstanding Amalco Shares as consideration for Erdene's North American property interests and \$1.95 million in working capital is fair, from a financial point of view, and that the Arrangement is fair to the Erdene Shareholders, which opinion has not been modified, amended or withdrawn. See *"Matters to be Acted Upon at the Meeting: The Arrangement – Valuation and Fairness Opinion"*.

After considering, among other things, the Valuation and the Fairness Opinion and the recommendation of the Independent Committee, the Board (excluding those directors who are directors or officers of APM) unanimously concluded that the Arrangement is in the best interests of Erdene and is fair to Erdene Shareholders and resolved unanimously to recommend to the Erdene Shareholders that they vote their Erdene Common Shares in favour of the Arrangement. See *"Matters to be Acted Upon at the Meeting: The Arrangement – Recommendation of the Board"*.

Timing

If the Final Order is obtained and all other conditions set forth in the Arrangement Agreement are satisfied, it is expected that the Effective Date will be on or about November 7, 2012. Upon completion of the Arrangement, a news release will be issued by Erdene advising of the actual Effective Date. The record date for determining the Erdene Shareholders entitled to participate in the Arrangement will be the Effective Date. See *"Procedure for the Arrangement to Become Effective: Timing"*.

Letters of Transmittal

If the Arrangement Resolution is approved at the Meeting and by the Court and the other conditions precedent to the Arrangement are met and if you are a Registered Shareholder on the Effective Date, you will be sent a Letter of Transmittal shortly after the Effective Date. You must follow the instruction in the Letter of Transmittal in order to exchange the certificates for your Erdene Common Shares for Erdene New Shares and Amalco Shares. See *"Matters to be Acted Upon at the Meeting: The Arrangement – Letters of Transmittal"*.

Interests of Insiders

The Arrangement is not an Arm's Length Transaction as Erdene currently owns approximately 60% of the outstanding APM Shares.

Kenneth W. MacDonald is a vice president, CFO and a director of Erdene and is president, CEO and a director of APM. J. C. (Chris) Cowan and Philip L. Webster, directors of Erdene, are also directors of APM. Accordingly, the Board appointed the Independent Committee to review the proposed Arrangement. See *"Matters to be Acted Upon at the Meeting: The Arrangement – Background to the Arrangement"*.

Directors and senior officers of Erdene and APM and their associates and affiliates as a group own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of 6,978,087 Erdene Common Shares (approximately 7.3% of the outstanding Erdene Common Shares).

Each of the directors and senior officers of each of Erdene and APM have indicated that they intend to vote in favour of the Arrangement. Their votes will count in determining whether the Arrangement Resolution has been approved by 66 2/3% of the Erdene Shareholders. However, these votes will be excluded from the vote to determine whether the Arrangement Resolution has been approved by a majority of the Erdene Shareholders other than Related Parties as required under MI 61-101 and TSX Rules.

See *"Interests of Certain Persons or Companies in the Matters to be Acted Upon"*.

Dissent Rights

Registered Shareholders have the right to dissent to the Arrangement. Dissenting Shareholders who strictly comply with the Dissent Procedures are entitled to be paid the fair value of their Erdene Common Shares. Any Erdene Shareholder intending to dissent from the Arrangement Resolution should consult legal counsel as the Dissent Procedures are complex. See the Interim Order, a copy of which accompanies this Circular, "*Dissent Rights*" and Schedule E - "*Section 190 of the Canada Business Corporations Act*".

Stock Exchange Listing

The Erdene Common Shares are listed on the TSX under the symbol "ERD". On August 3, 2012, the last trading day for the Erdene Common Shares before the announcement of the Arrangement, the closing price of the Erdene Common Shares on the TSX was \$0.22 per Erdene Common Share. On June 27, 2012, the last trading day for the Erdene Common Shares before Erdene announced it had reached agreement in principle with respect to the Arrangement, the closing price of the Erdene Common Shares on the TSX was \$0.33 per Erdene Common Share.

The APM Shares are listed on the TSXV under the symbol "APD". Trading in the APM shares has been halted at the request of APM in accordance with the policies of the TSXV since August 7, 2012. On August 3, 2012, the day before the announcement of the Arrangement, the closing price of the APM Shares on the TSXV was \$0.045 per APM Share. On June 21, 2012, the last trading day for the APM Shares before APM announced it had reached agreement in principle with respect to the Arrangement, the closing price of the APM Shares on the TSXV was \$0.085 per APM Share.

Stock Exchange Approvals

The TSX has granted conditional approval for the Arrangement and the listing of the Erdene New Shares, subject to Erdene fulfilling the requirements of the TSX. There can be no assurance, however, as to whether Erdene will be able to maintain the listing of the Erdene New Shares on the TSX.

The TSXV has granted conditional approval for the Arrangement and the listing of the Amalco Shares to be issued or issuable pursuant to the Arrangement, subject to Amalco fulfilling the requirements of the TSXV. Final TSXV acceptance, if and when granted, will be subject to Amalco fulfilling all of the requirements of the TSXV. There can be no assurance that, once listed, Amalco will be able to maintain such listing. See "*Procedure for the Arrangement to Become Effective*".

Risk Factors

In evaluating the Arrangement, Erdene Shareholders should carefully consider, in addition to the other information contained in this Circular, the risks and uncertainties described in the Circular under "Risk Factors" before deciding to vote in favour of the Arrangement. In addition, Erdene Shareholders should also carefully consider the risk factors related to Erdene's business and to the business of Amalco following the Arrangement as described under "*Risk Factors*" in Schedule F – "*Information Concerning Erdene Resource Development Corporation – Post-Arrangement: Risk Factors*" and Schedule G – "*Information Concerning Amalco Post-Arrangement: Risk Factors*", respectively, which factors should be considered in conjunction with the other information included in this Circular. While this Circular has described the risks and uncertainties that management of Erdene believes to be material to the businesses of Erdene and Amalco, and therefore the value of their common shares, it is possible that other risks and uncertainties affecting the business of Erdene and/or Amalco will arise and become material in the future.

Information Concerning Erdene and Amalco – Post Arrangement

Erdene, a company governed by the CBCA, is a reporting issuer in each of the provinces of Canada. The Erdene Common Shares are currently listed for trading on the TSX. See Schedule F – "*Information Concerning Erdene Resource Development Corporation – Post-Arrangement*" for a description of the proposed business of Erdene, post-arrangement. This should be read together with the consolidated financial statements of Erdene filed on SEDAR.

Amalco will be an entity amalgamated pursuant to the CBCA. See Schedule G – "*Information Concerning Amalco – Post-Arrangement*" for a description of the proposed business of Amalco, post-arrangement. This should be read together with the unaudited pro forma consolidated financial statements of Amalco set forth in Schedule H to this Circular and the financial statements and MD&A of ERI set forth in Schedules I, J and K to this Circular.

Income Tax Considerations

Certain income tax considerations to certain Erdene Shareholders are summarized herein under "*Tax Considerations to Erdene Shareholders*".

An Erdene Shareholder resident in Canada ("**Resident Holder**") who participates in the Arrangement and receives Erdene New Shares and Amalco Shares in the course of the reorganization is not expected to be deemed to receive a taxable dividend on the exchange. A Resident Holder may recognize a capital gain if (and to the extent that) the fair market value of the Amalco Shares exceeds the adjusted cost base of the Resident Holder's Erdene Common Shares immediately prior to the exchange. Resident Holders whose Erdene Common Shares are "flow-through shares" have an adjusted cost base of nil in respect of those shares and are expected to recognize a capital gain in the course of the reorganization.

An Erdene Shareholder not resident in Canada ("**Non-Resident Holder**") who participates in the Arrangement and receives Erdene New Shares and Amalco Shares in the course of the reorganization is not expected to be deemed to receive a taxable dividend on the exchange. A Non-Resident Holder may only recognize a capital gain subject to tax in Canada if their Erdene Common Shares immediately prior to the exchange constituted "taxable Canadian property" that is not "treaty-protected property".

Erdene Shareholders should carefully review the applicable tax considerations under the Arrangement and are urged to consult their own tax advisors in regard to their particular circumstances.

INFORMATION REGARDING ORGANIZATION AND CONDUCT OF MEETING

Solicitation of Proxies

This management information circular ("**Circular**") is furnished in connection with the solicitation of proxies by or on behalf of the management of Erdene Resource Development Corporation (the "**Corporation**" or "**Erdene**") for use at the Meeting.

Solicitation of proxies will be primarily by mail, but may also be by telephone or other means of communication by the directors, officers, employees or agents of Erdene at nominal cost. All costs of solicitation will be paid by the Corporation. The Corporation will also pay the fees and costs of intermediaries for their services in transmitting proxy-related material in accordance with National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* ("**NI 54-101**").

Appointment and Revocation of Proxies

General

Shareholders of the Corporation ("**Erdene Shareholders**") may be "Registered Shareholders" or "Non-Registered Shareholders". If common shares of the Corporation ("**Erdene Common Shares**") are registered in the Erdene Shareholder's name, they are said to be owned by a "**Registered Shareholder**". If Erdene Common Shares are registered in the name of an intermediary and not registered in the Shareholder's name, they are said to be owned by a "**Non-Registered Shareholder**". An intermediary is usually a bank, trust company, securities dealer or broker, or a clearing agency in which an intermediary participates. The instructions provided below set forth the different procedures for voting Erdene Common Shares at the Meeting to be followed by Registered Shareholders and Non-Registered Shareholders.

The persons named in the enclosed instrument appointing proxy are officers and directors of the Corporation. **Each Shareholder has the right to appoint a person or company (who need not be an Erdene Shareholder) to attend and act for him or her at the Meeting other than the persons designated in the enclosed form of proxy.** Erdene Shareholders who have given a proxy also have the right to revoke it insofar as it has not been exercised. The right to appoint an alternate proxyholder and the right to revoke a proxy may be exercised by following the procedures set out below under "*Registered Shareholders*" or "*Non-Registered Shareholders*", as applicable.

If any Erdene Shareholder receives more than 1 proxy or voting instruction form, it is because that Shareholder's shares are registered in more than one form. In such cases, Erdene Shareholders should sign and submit all proxies or voting instruction forms received by them in accordance with the instructions provided.

Registered Shareholders

Registered Shareholders have 2 methods by which they can vote their Erdene Common Shares at the Meeting, namely in person or by proxy. To assure representation at the Meeting, Registered Shareholders are encouraged to return the proxy included with this Circular. Sending in a proxy will not prevent a Registered Shareholder from voting in person at the Meeting. The vote will be taken and counted at the Meeting. Registered Shareholders who do not plan to attend the Meeting or who do not wish to vote in person can vote by proxy.

Proxies must be received by the Corporation's transfer agent, **Computershare Investor Services Inc.** ("**Computershare**"), not later than **Wednesday, October 24, 2012 at 10:30 a.m. (Atlantic Time)**. A Registered Shareholder must return the completed proxy to Computershare, as follows:

- (a) by **mail** in the enclosed envelope; or
- (b) by the **Internet** or **telephone** as described on the enclosed proxy; or

- (c) by **registered mail**, by **hand** or by **courier** to the attention of Computershare Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1.

To exercise the right to appoint a person or company to attend and act for a Registered Shareholder at the Meeting, such Erdene Shareholder must strike out the names of the persons designated on the enclosed instrument appointing a proxy and insert the name of the alternate appointee in the blank space provided for that purpose.

To exercise the right to revoke a proxy, in addition to any other manner permitted by law, an Erdene Shareholder who has given a proxy may revoke it by instrument in writing, executed by the Erdene Shareholder or his or her attorney authorized in writing, or if the Erdene Shareholder is a corporation, by a duly authorized officer or attorney thereof, and deposited: (i) at the registered office of the Corporation, 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia B3A 4S5, Attn: Ken MacDonald, at any time up to and including the last business day preceding the Meeting at which the proxy is to be used, or at any adjournment thereof, or (ii) with the chair of the Meeting on the date of the Meeting, or at any adjournment thereof, and upon either of such deposits the proxy is revoked.

Non-Registered Shareholders

Non-Registered Shareholders who have not objected to their intermediary disclosing certain ownership information about themselves to the Corporation are referred to as "**NOBOs**". Non-Registered Shareholders who have objected to their intermediary disclosing the ownership information about themselves to the Corporation are referred to as "**OBOs**".

In accordance with the requirements of NI 54-101, the Corporation is sending the notice of meeting ("**Notice of Meeting**"), this Circular, and either the voting instruction form ("**VIF**") or the form of proxy, as applicable, (collectively, the "**Meeting Materials**") directly to the NOBOs and indirectly, through intermediaries, to the OBOs.

Meeting Materials Received by OBOs from Intermediaries

The Corporation has distributed copies of the Meeting Materials to intermediaries for distribution to OBOs. Intermediaries are required to deliver these materials to all OBOs of the Corporation who have not waived their rights to receive these materials, and to seek instructions as to how to vote the Erdene Common Shares. Often, intermediaries will use a service company (such as Broadridge Financial Solutions, Inc.) to forward the Meeting Materials to OBOs.

OBOs who receive Meeting Materials will typically be given the ability to provide voting instructions in one of two ways:

- (a) Usually, an OBO will be given a VIF which must be completed and signed by the OBO in accordance with the instructions provided by the intermediary. In this case, the mechanisms described above for Registered Shareholders cannot be used and the instructions provided by the intermediary must be followed.
- (b) Occasionally, an OBO may be given a proxy that has already been signed by the intermediary. This form of proxy is restricted to the number of Erdene Common Shares owned by the OBO but is otherwise not completed. This form of proxy does not need to be signed by the OBO but must be completed by the OBO and returned to Computershare in the manner described above for Registered Shareholders.

The purpose of these procedures is to allow OBOs to direct the proxy voting of the Erdene Common Shares that they own but that are not registered in their name. Should an OBO who receives either a form of proxy or a VIF wish to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the OBO should strike out the persons named in the form of proxy as the proxy holder and insert the OBO's (or such other person's) name in the blank space provided or, in the case of a VIF, follow the instructions provided by the intermediary. **In either case, OBOs who received Meeting Materials from their intermediary should carefully follow the instructions provided by the intermediary.**

To exercise the right to revoke a proxy, an OBO who has completed a proxy (or a VIF, as applicable) should carefully follow the instructions provided by the intermediary.

Proxies returned by intermediaries as "non-votes" because the intermediary has not received instructions from the OBO with respect to the voting of certain shares or, under applicable stock exchange or other rules, the intermediary does not have the discretion to vote those shares on one or more of the matters that come before the Meeting, will be treated as not entitled to vote on any such matter and will not be counted as having been voted in respect of any such matter. Erdene Common Shares represented by such "non-votes" will, however, be counted in determining whether there is a quorum.

Meeting Materials Received by NOBOs from the Corporation

As permitted under NI 54-101, the Corporation has used a NOBO list to send the Meeting Materials directly to the NOBOs whose names appear on that list. If you are a NOBO and the Corporation's transfer agent, Computershare, has sent these materials directly to you, your name and address and information about your holdings of Erdene Common Shares of the Corporation have been obtained from the intermediary holding such shares on your behalf in accordance with applicable securities regulatory requirements.

As a result, any NOBO of the Corporation can expect to receive a scannable VIF from Computershare. Please complete and return the VIF to Computershare in the envelope provided. Computershare will tabulate the results of the VIFs received from the Corporation's NOBOs and will provide appropriate instructions at the Meeting with respect to the Erdene Common Shares represented by the VIF's received by Computershare.

By choosing to send these materials to you directly, the Corporation (and not the intermediary holding Erdene Common Shares on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. The intermediary holding Erdene Common Shares on your behalf has appointed you as the proxyholder of such Erdene Common Shares, and therefore you can provide your voting instructions by completing the proxy included with this Circular in the same way as a Registered Shareholder. Please refer to the information under the heading "*Registered Shareholders*" for a description of the procedure to return a proxy, your right to appoint another person or company as your proxy to attend the Meeting, and your right to revoke the proxy.

Although a Non-Registered Shareholder may not be recognized directly at the Meeting for the purposes of voting Erdene Common Shares registered in the name of his or her broker, a Non-Registered Shareholder may attend the Meeting as proxyholder for the Registered Shareholder and vote the Erdene Common Shares in that capacity. Non-Registered Shareholders who wish to attend the Meeting and indirectly vote their Erdene Common Shares as proxyholder for the Registered Shareholder should enter their own names in the blank space on the form of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker.

Exercise of Proxies

Where a choice is specified, the Erdene Common Shares represented by proxy will be voted for, withheld from voting or voted against, as directed, on any poll or ballot that may be called. **Where no choice is specified, the proxy will confer discretionary authority and will be voted in favour of all matters referred to on the form of proxy. The proxy also confers discretionary authority to vote for, withhold from voting, or vote against amendments or variations to the matters identified in the Notice of Meeting and with respect to other matters not specifically mentioned in the Notice of Meeting but which may properly come before the Meeting.**

Management has no present knowledge of any amendments or variations to matters identified in the Notice of Meeting or any business that will be presented at the Meeting other than that referred to in the Notice of Meeting. However, if any other matters properly come before the Meeting, it is the intention of the persons named in the enclosed instrument appointing proxy to vote in accordance with the recommendations of management of the Corporation.

Voting Shares

The authorized capital of the Corporation consists of an unlimited number of Erdene Common Shares, of which 95,802,901 are issued and outstanding as of the date hereof.

The Board has fixed the record date for the Meeting as the close of business on Tuesday, September 25, 2012 (the "**Record Date**"). Only Erdene Shareholders of record as of the close of business on the Record Date will be entitled to vote at the Meeting. Erdene Shareholders entitled to vote shall have 1 vote each on a show of hands and 1 vote per Erdene Common Share on a poll.

Quorum

Two or more persons present in person representing at least 5% of the Erdene Common Shares entitled to be voted at the Meeting will constitute a quorum at the Meeting.

Principal Shareholders

As of the date hereof, to the knowledge of the directors and officers of Erdene, no person or company beneficially owns, directly or indirectly, or exercises control or direction over Erdene, Common Shares carrying more than 10% of the voting rights attaching to all outstanding Erdene Common Shares.

MATTERS TO BE ACTED UPON AT THE MEETING: THE ARRANGEMENT

Summary of the Arrangement

On August 7, 2012, Erdene and ERI entered into the Arrangement Agreement with APM, a copy of which is attached as Schedule B to this Circular. The Arrangement will result in two strategically positioned public companies, with Erdene focused on the Zuun Mod and Altan Nar Projects and minerals exploration and development primarily in Mongolia and Amalco focused on North America (Donkin Coal Project).

Pursuant to the Arrangement Agreement and the accompanying Plan of Arrangement:

- Erdene will transfer all of the issued and outstanding ERI Shares (which holds or will hold all of Erdene's North American property interests) and cash of \$1,950,000 to APM in exchange for an aggregate of 360,028,650 APM Shares.
- APM and ERI will amalgamate as Amalco.
- On the amalgamation of APM and ERI, each APM Shareholder (including Erdene) will receive 1 Amalco Share for every 7.85 APM Shares owned by such APM Shareholder.
- Erdene will create the Erdene New Shares and will distribute to the Erdene Shareholders one-half of one Amalco Share and one-half of one Erdene New Share for each Erdene Common Share.
- Outstanding Erdene Options will be exchanged for one-half of one Amalco Option and one-half of one Erdene New Option. The aggregate exercise price of the replacement options will be equal to the Erdene Options they replace, and the exercise price will be allocated based on the volume weighted average trading prices of the shares of Erdene and Amalco following the closing of the Arrangement; provided however, the exercise price for the Amalco Shares shall not be less than \$0.265 per Amalco Share.

Following the Arrangement: (a) Erdene will have approximately 47,901,450 Erdene New Shares and approximately 2,376,520 Erdene New Options outstanding; and (b) Amalco will have approximately 49,255,990 Amalco Shares outstanding, 97.25% of which will be held by Erdene Shareholders and 2.75% of which will be held by former APM Shareholders other than Erdene. Amalco will also have approximately 2,401,997 options outstanding.

Background to the Arrangement

During 2011, management of Erdene undertook a strategic review of the alternatives available to it in order to maximize value to the Erdene Shareholders. In January 2012, the Board instructed management to consider the alternatives to separate Erdene's two major projects, the Donkin Coal Project and the Zuun Mod Project into 2 separate public companies.

On June 28, 2012, the Board met to discuss the possibility of a transaction with APM and, at that meeting, the Independent Committee of the Board was formed, comprised of William B. Burton and John A. Byrne, each of whom are independent of APM. The mandate of the Independent Committee was to:

- (a) retain, instruct and supervise an appropriately qualified expert or experts in the preparation of an independent valuation and fairness opinion as may be required by the TSX or by law, including by MI 61-101, in connection with the proposed Arrangement; and
- (b) make a recommendation to the Board as to an appropriate exchange ratio for the proposed Arrangement.

Erdene agreed to pay each of the members of the Independent Committee a fee of \$5,000 for serving on the committee.

The Independent Committee retained Paradigm as its financial advisor. In its role as financial advisor, Paradigm agreed to provide a valuation and an opinion as to the fairness of the proposed Arrangement from a financial point of view, to the Erdene Shareholders.

In August 2012, the independent committee of the board of APM and the directors of Erdene who are not directors or officers of APM concluded that it was in the best interest of both Erdene and APM to effect the Arrangement.

Proceedings and Deliberations of the Independent Committee

Between June 28 and August 7, 2012, the Independent Committee met on a number of occasions with, when appropriate, its legal and financial advisors to review and discuss the terms and merits of the proposed Arrangement, the assessment of value and fairness by Paradigm and a draft of the Arrangement Agreement. A summary of these meetings is set out below.

In addition, during this period, the members of the Independent Committee met informally with management of Erdene on several occasions.

July 9, 2012

On July 9, 2012, the Independent Committee met to discuss 3 written proposals submitted by potential financial advisors. The Independent Committee concluded that Paradigm is independent of Erdene and APM and is qualified to provide the Valuation and Fairness Opinion with respect to the Arrangement and approved the engagement of Paradigm as its independent financial advisor. Paradigm was formally engaged by the Independent Committee on July 12, 2012. Paradigm delivered its preliminary views on fairness and valuation considerations in relation to the Arrangement to the Independent Committee on July 27, 2012.

July 26, 2012

On July 26, 2012, the Independent Committee received a presentation from Erdene's management, which included information about the Donkin Coal Project and highlighted the potential advantages the proposed Arrangement offered to the Erdene Shareholders.

July 31, 2012

In the morning of July 31, 2012, the Independent Committee met with Paradigm to review and discuss the Paradigm draft report on fairness and valuation considerations.

In the afternoon of July 31, 2012, the Independent Committee met with Paradigm, APM and APM's financial advisor to review and discuss terms of the Arrangement. At the meeting, an agreement was reached on the terms of the Arrangement and Paradigm was instructed to prepare its formal valuation and fairness opinion based on the terms that were agreed on.

Paradigm reviewed their written Valuation and Fairness Opinion with the Independent Committee and concluded that the issuance of 360,028,650 APM Shares as consideration for Erdene's North America property interests and \$1.95 million cash is fair, from a financial point of view, and that the Arrangement is fair to the Erdene Shareholders.

August 7, 2012

On August 7, 2012, at a meeting of the Board, the Independent Committee summarized its deliberations and the advice it had received from Paradigm with respect to the proposed Arrangement. It also made its recommendation to the Board that Erdene proceed with the Arrangement.

Benefits to the Erdene Shareholders

- **Greater Opportunities** – The Arrangement is expected to enhance the ability of each of Erdene and Amalco to pursue their independent corporate objectives and strategies, with a view to maximizing the value to their respective shareholders. In particular, the Arrangement will allow Erdene to focus on advancing the Altan Nar and Zuun Mod Projects and precious and base metals exploration, primarily in Mongolia, and will allow Amalco to focus on the development of bulk commodity projects in North America, predominately coal projects, led by the Donkin Coal Project.
- **Investment Flexibility** - Transferring the Donkin Coal Project into a separate public vehicle will provide Erdene Shareholders with additional investment flexibility, as they will hold a direct interest in 2 separate companies, each of which will be focussed on different objectives and it is believed that each of which will be valued differently based on various factors unique to each business.
- **Market Identification** - The Arrangement is expected to improve the market's identification and valuation of each of the Donkin Coal Project and Erdene's projects in Mongolia.

Factors Considered by the Independent Committee and the Board

In the course of its evaluation of the Arrangement, the Independent Committee and the Board consulted with Erdene's management and Paradigm. In reaching its conclusion that the Arrangement is substantively and procedurally fair to the Erdene Shareholders, the Independent Committee and the Board reviewed information and considered a number of factors including, among other things:

- **Advice from Financial Advisor** – The Independent Committee considered the financial presentations of Paradigm delivered to the Independent Committee and the Independent Committee and the Board considered the Valuation and Fairness Opinion.
- **Terms of the Arrangement Agreement** – The Arrangement Agreement was determined to be fair and reasonable and the terms thereof were the result of *bona fide* negotiations between Erdene and its legal and financial advisors and APM and its legal and financial advisors.
- **Required Shareholder and Court Approvals** – The Independent Committee and the Board considered the rights and approvals that protect Erdene Shareholders, including shareholder and court approvals.

- **Erdene Options** - The Independent Committee and the Board considered the interests and treatment of holders of Erdene Options and confirmed that the terms of the Arrangement Agreement satisfied the terms of the certificates representing the Erdene Options as well as the terms of the Erdene Stock Option Plan, pursuant to which the Erdene Options were issued.

In the course of its evaluation of the proposed Arrangement, the Independent Committee and the Board also considered various risks and potentially negative factors associated with the Arrangement, including the following:

- The requirement that certain conditions to the completion of the Arrangement must be satisfied and the rights of the parties to terminate the Arrangement Agreement if they are not satisfied.

The foregoing discussion of the factors reviewed by the Independent Committee and the Board is not intended to be exhaustive. In view of the wide variety of factors considered in connection with the valuation of the Plan of Arrangement, neither the Independent Committee nor the Board found it practical to, and therefore did not, quantify or assign relative weight to the specific factors or methodologies in reaching its conclusion. In addition, each member of the Independent Committee and the Board may have given weight to different factors.

Recommendation of the Board

After careful consideration, including a thorough review of the Arrangement Agreement, the Plan of Arrangement and the Valuation and Fairness Opinion as well as a thorough review of other factors, including the factors discussed above and the recommendation of the Independent Committee, the Board (excluding those directors who are directors or officers of APM or its subsidiaries), unanimously resolved that: 1) the Arrangement and all related matters, on the terms set forth in the Arrangement Agreement, be authorized and approved; 2) the Arrangement Agreement and the Arrangement are in the best interests of, and fair to, Erdene and the Erdene Shareholders; and 3) the Board recommend that the Erdene Shareholders vote in favour of the Arrangement Resolution.

Erdene Shareholders should consider the Plan of Arrangement carefully and come to their own conclusions as to whether or not to vote in favour of the Arrangement Resolution. Erdene Shareholders who are in doubt as to how to respond should consult with their own investment dealer, stock broker, bank manager, lawyer or professional advisor. Erdene Shareholders are advised that the Plan of Arrangement may have tax consequences to them and they should consult their own professional tax advisors.

Valuation and Fairness Opinion

Selection of Paradigm

The Independent Committee initially contacted 2 prospective financial advisors on June 29, 2012 regarding a potential engagement in connection with the Arrangement. The Independent Committee determined, based in part on certain representations made to it by Paradigm, that Paradigm is independent within the meaning of MI 61-101 and qualified to prepare a formal valuation and should be retained as financial advisor to the Independent Committee for the purposes of, among other things, providing to the Independent Committee a formal valuation of the Erdene North American property interests to be acquired by APM and the APM Shares to be received by Erdene as consideration for such property interests pursuant to the Arrangement, and an opinion as to the fairness, from a financial point of view, to the Erdene Shareholders of the Arrangement in accordance with applicable legal and regulatory requirements, including, without limitation, MI 61-101.

Paradigm was formally engaged to act as financial advisor to the Independent Committee pursuant to an engagement agreement dated July 16, 2012 ("**Engagement Agreement**"). In accordance with the Engagement Agreement, Paradigm was paid a fixed fee for its services and was reimbursed for its out-of-pocket costs and expenses. The fee payable to Paradigm was not contingent on the conclusions reached by Paradigm in the Valuation and Fairness Opinion, or upon the completion of the Arrangement. In addition, Erdene has agreed, pursuant to the Engagement Agreement, to indemnify Paradigm, its affiliates, and their respective officers, directors, employees, partners, agents, advisors and shareholders against certain expenses, losses, claims, actions, damages and liabilities arising from the Engagement Agreement.

Scope of Review

In connection with the Valuation and Fairness Opinion, Paradigm reviewed various documents and filings related to Erdene and APM and had discussions with management of APM and Erdene, as more particularly described in the Valuation and Fairness Opinion.

Assumptions and Limitations

Paradigm relied upon and assumed, without independent investigation, the completeness, accuracy and fair presentation of all financial and other information obtained by Paradigm from public sources, or provided by Erdene, APM or their respective affiliates, associates, advisors, or otherwise, as of the date of the Valuation and Fairness Opinion, and assumed that such information did not omit to state any material fact or any fact necessary to be stated to make that information not misleading. The Valuation and Fairness Opinion is conditional upon such accuracy, completeness and fair presentation and the lack of any such omissions. With respect to financial projections and models provided to Paradigm and used in its analysis, Paradigm assumed that such projections and models have been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Erdene and APM, as applicable, as to the matters covered thereby.

Paradigm did not meet with nor obtain the consent of the auditors of Erdene or APM and assumed the accuracy and fair presentation of the financial statements of Erdene and APM and, where applicable, the reports of the auditors on those statements.

Paradigm rendered its opinion on the basis of securities markets, economic, general business and financial conditions prevailing as of the date of the Valuation and Fairness Opinion and the conditions and prospects, financial and otherwise, of Erdene and APM and their respective assets as reflected in the information reviewed by Paradigm (see "*Scope of Review*" above). Paradigm made assumptions with respect to industry performance, general business and economic conditions, and other matters.

Paradigm also assumed that the final terms of the Arrangement would be substantially the same as, and the Arrangement would be completed substantially in accordance with, the draft Arrangement Agreement among APM, Erdene and ERI dated August 1, 2012 outlining the terms of the Arrangement, that the representations and warranties contained in such draft agreement were correct as of the date of the Valuation and Fairness Opinion, the Circular would satisfy all applicable legal requirements and that all material governmental, regulatory or other required consents and approvals to the Arrangement would be obtained without any meaningful adverse effect on Erdene or APM or the contemplated benefits of the Arrangement.

Paradigm noted that the Valuation and Fairness Opinion was provided for the use of the Independent Committee and the Board in considering the Arrangement and may not be used or relied upon by any other purpose or published without the express written consent of Paradigm.

The Valuation and Fairness Opinion was given as of August 7, 2012 and Paradigm disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Valuation and Fairness Opinion that may come or be brought to its attention, and Paradigm assumes no obligation to update the Valuation and Fairness Opinion to take into account any changes regarding the Arrangement, after August 7, 2012. Paradigm reserves the right to change, modify or withdraw the Valuation and Fairness Opinion in the event of any material change in any fact or matter affecting it.

Paradigm believes that its analyses must be considered as a whole and that selecting portions of the analyses and the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Valuation and Fairness Opinion.

Valuation

The following summary is qualified in its entirety by the full text of the Valuation and Fairness Opinion which sets forth the assumptions made, matters considered and limitations on the review undertaken in connection with the

Valuation, and which is included in the Valuation and Fairness Opinion attached as Schedule D to this Circular. Erdene Shareholders are urged to read the Valuation and Fairness Opinion in its entirety.

Fair Market Value

For the purposes of the Valuation, fair market value means the easily ascertainable monetary consideration that, in an open and unrestricted market, a prudent informed buyer would pay to an informed seller, each acting at arm's length and under no compulsion to act.

Valuation of Erdene's North American Assets

Valuation Methods

For purposes of determining the fair market value of Erdene's North American assets, Paradigm applied a variety of financial and comparative analyses, including the following methodologies:

1. Net Asset Value ("NAV") analysis;
2. Market Trading Multiples, including analyses of Comparable Price to Paradigm Capital NAV, Comparable Enterprise Value to Total Resource, Comparable Enterprise Value to Measured & Indicated Resource, and Comparable Price to Book Value; and
3. Precedent Transaction Analysis.

Valuation Summary and Conclusion

Based upon and subject to the factors set out in the Valuation and Fairness Opinion, Paradigm is of the opinion that, as of the date of the Valuation and Fairness Opinion, the fair market value of Erdene's North American assets was in the range of \$18 million to \$26.3 million.

Valuation of APM

Valuation Methods

For purposes of determining the fair market value of APM, Paradigm relied upon, among other things, the following analyses:

1. Land Value analysis;
2. Public Entity Valuation;
3. Royalty Value analysis; and
4. Resource Value analysis.

Valuation Summary and Conclusion

Based upon and subject to the factors set out in the Valuation and Fairness Opinion, Paradigm is of the opinion that, as of the date of the Valuation and Fairness Opinion, the fair market value of APM was in the range of \$1.8 million to \$2.2 million.

Fairness Opinion

In connection with Paradigm's engagement as financial advisor to the Independent Committee, Erdene requested that Paradigm evaluate the fairness, from a financial point of view, of the Arrangement to the Erdene Shareholders.

In considering whether the share consideration payable by APM under the Arrangement is fair, from a financial point of view, to the Erdene Shareholders, Paradigm principally compared the range of fair market values of Erdene's North American assets to the share consideration received of \$24.6 million to \$29.6 million using the range of fair market values of APM, as described above.

Based upon and subject to the conditions, limitations, qualifications, disclaimers and assumptions set out in the Valuation and Fairness Opinion, Paradigm is of the opinion that, as of the date of the Valuation and Fairness Opinion, the Arrangement is fair, from a financial point of view, to the Erdene Shareholders.

The full text of the Valuation and Fairness Opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Paradigm. The Valuation and Fairness Opinion is attached as Schedule D to this Circular and is incorporated into this Circular by reference. The Fairness Opinion is directed only to the fairness, from a financial point of view, to the Erdene Shareholders of the Arrangement and does not address any other aspect of the Arrangement or any related transaction. The Fairness Opinion does not address the relative merits of the Arrangement or any related transaction as compared to other business strategies or transactions that might be available to Erdene or the underlying business decision of Erdene to effect the Arrangement or any related transaction. The Valuation and Fairness Opinion does not constitute a recommendation by Paradigm to any Erdene Shareholder as to how such Erdene Shareholder should vote or act with respect to any matters relating to the Arrangement.

The Valuation and Fairness Opinion was one of many factors considered by the Independent Committee and the Board in their evaluation of the Arrangement and should not be viewed as determinative of the views of the Independent Committee, the Board or Erdene's management with respect to the Arrangement.

Letters of Transmittal

Timing

If the Arrangement Resolution is approved at the Meeting and by the Court and the other conditions are met, it is expected that the Effective Date will be on or about November 7, 2012. Upon completion of the Arrangement, Erdene will issue a news release advising of the actual Effective Date.

If the Arrangement Resolution is approved at the Meeting and by the Court and the other conditions precedent to the Arrangement are met and if you are a registered Erdene Shareholder on the Effective Date, you will be sent a Letter of Transmittal shortly after the Effective Date. At that time, you will be asked to send your certificate(s) representing your Erdene Common Shares together with your completed and signed Letter of Transmittal by hand, courier or registered mail to the address shown in the Letter of Transmittal. You should not send any share certificates until you have received the Letter of Transmittal from the Exchange Agent after the Effective Date. If you hold your Erdene Common Shares through an Intermediary, your Intermediary will be submitting your share certificates or warrants on your behalf.

Lost Certificates

The Letter of Transmittal will contain instructions to be followed where a certificate for Erdene Common Shares has been destroyed, lost or stolen.

Procedures

On or after the Effective Time, all certificates that represent Erdene Common Shares held by Erdene Shareholders immediately prior to the Effective Time will cease to represent any rights with respect to Erdene Common Shares and will only represent the right to receive one-half of one Amalco Share and one-half of one Erdene New Share for every Erdene Common Share previously held.

Any use of mail to transmit certificates for Erdene Common Shares and/or Letters of Transmittal is at the risk of the Erdene Shareholder. If these documents are mailed, it is recommended that registered mail be used, with a return receipt requested and with proper insurance obtained.

At the Effective Time:

1) Erdene shall deposit with the Exchange Agent, for the benefit of the Erdene Shareholders, a global share certificate representing that number of Erdene New Shares equal to fifty percent (50%) of the number of Erdene Common Shares issued and outstanding at the Effective Time less fifty percent (50%) of the number of Dissenting Shares; and

2) APM shall cause Amalco to deposit with the Exchange Agent, for the benefit of the Erdene Shareholders, a global share certificate representing all of the Amalco Shares previously owned by Erdene, namely 97.25%, which are to be distributed to the Erdene Shareholders less the pro rata number of the Dissenting Shares.

As soon as practical following the later of the Effective Date and the date of deposit with the Exchange Agent of a duly completed Letter of Transmittal, documents, certificates and instruments contemplated by the Letter of Transmittal and such other documents and instruments as the Exchange Agent or as Amalco reasonably requires, the Exchange Agent will:

- (a) forward or cause to be forwarded by first class mail (postage pre-paid), to the former Erdene Shareholder at the address specified in the Letter of Transmittal;
- (b) if requested by the former Erdene Shareholder in the Letter of Transmittal, make available at the Exchange Agent for pickup by the former Erdene Shareholder; or
- (c) if requested as described in (b), forward or cause to be forwarded by first class mail (postage pre-paid), to the former Erdene Shareholder at the address of such former Erdene Shareholder as shown on the share register maintained by Erdene immediately prior to the Effective Time,

certificates representing that number of Amalco Shares and Erdene New Shares issuable to such Erdene Shareholder as determined in accordance with the provisions of the Plan of Arrangement.

Until such time as a former Erdene Shareholder deposits with the Exchange Agent a duly completed Letter of Transmittal, documents, certificates and instruments contemplated by the Letter of Transmittal and such other documents and instruments as the Exchange Agent or as Amalco reasonably requires, all certificates for Erdene New Shares and Amalco Shares to which such former Erdene Shareholder is entitled shall be delivered to the Exchange Agent to be held in trust for such former Erdene Shareholder for delivery to the former Erdene Shareholder, without interest and net of all applicable withholding and other taxes, if any, upon delivery of the Letter of Transmittal, documents, certificates and instruments contemplated by the Letter of Transmittal and such other documents and instruments as the Exchange Agent, Erdene or Amalco reasonably requires.

Erdene, Amalco and the Exchange Agent shall be entitled to deduct and withhold from any consideration otherwise payable to any former Erdene Shareholder such amounts as Erdene, Amalco or the Exchange Agent are required to deduct and withhold with respect to such payment under the Tax Act, or any applicable provision of federal, provisional, state, local or foreign tax law, in each case, as amended and, to the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the former Erdene Shareholder in respect of which such deduction and withholding was made, provided that such withheld amounts are actually transmitted to the appropriate tax authority. In order to effect the withholding, the Exchange Agent shall, as soon as practical after the Effective Date, sell Amalco Shares through the facilities of the TSXV and/or Erdene New Shares through the facilities of the TSX, on such dates and at such prices at the Exchange Agent determines. Each Erdene Shareholder for whom tax is to be withheld will be credited with a pro rata share of the cash proceeds to fund the withholding tax and the cost of the sale of the shares and the Exchange Agent will forward the remaining Amalco Shares and Erdene New Shares to such former Erdene Shareholder.

All questions as to validity, form, eligibility and acceptance of any Erdene Common Shares deposited pursuant to the Letter of Transmittal will be determined by Erdene and Amalco in their sole discretion.

Right of Erdene Optionholders to Receive Replacement Option Certificates

Immediately after the Effective Time, any document or agreement previously evidencing Erdene Options will evidence the Erdene New Options and Amalco Options that the former holder of such Erdene Options is entitled to receive pursuant to the Plan of Arrangement. A holder of Erdene Options will be entitled, upon delivery to Erdene at any time after the Effective Time of the document or agreement previously evidencing an Erdene Option, to receive a replacement document or agreement evidencing the replacement options to which such holder is entitled, which shall be executed by Erdene or Amalco, as the case may be, and on its face will reflect the terms of the replacement Erdene New Options or Amalco Options.

THE PLAN OF ARRANGEMENT AND ARRANGEMENT AGREEMENT

The Board (excluding those directors who are also directors or officers of APM) has unanimously approved the Arrangement and has authorized its submission to the Erdene Shareholders. Erdene, ERI and APM entered into the Arrangement Agreement for the purpose of carrying out the Arrangement. The Plan of Arrangement may be amended or varied prior to the Court granting the Final Order.

Plan of Arrangement

Under the Plan of Arrangement, the following steps will occur in the following order:

- (a) the authorized share structure of Erdene shall be altered by:
 - (i) renaming and redesignating all of the issued and unissued Erdene Common Shares as Erdene Class A Common Shares; and
 - (ii) creating the Erdene New Shares, being an unlimited number of new common shares without par value, with terms identical to the Erdene Common Shares;
- (b) Erdene's articles of incorporation shall be amended to reflect the alterations in paragraph (a) above;
- (c) Erdene shall transfer all of the issued and outstanding shares of ERI to APM in exchange for 360,028,650 APM Shares;
- (d) APM and ERI shall be amalgamated and continue as one corporation, Amalco, in accordance with the following:
 - (i) *Name*: the name of Amalco will be "Morien Resources Corp.";
 - (ii) *By-laws*: By-law 1 of Amalco will be in the form of By-law 1 of APM, *mutatis mutandis*;
 - (iii) *Registered Office*: the registered office of APM will be the registered office of Amalco;
 - (iv) *Incentive Stock Option Plan*: the incentive stock option plan of Amalco will be in the form of the incentive stock option plan of APM, *mutatis mutandis*, together with such changes as may be approved by Erdene, APM and the TSXV; and
 - (v) *Directors*: the first board of Amalco will be comprised of 5 members;

and as a result of such amalgamation:

- (i) the property of each amalgamating corporation shall be the property of Amalco;
 - (ii) Amalco shall be liable for the obligations of each of APM and ERI;
 - (iii) an existing cause of action, claim or liability involving APM or ERI shall be unaffected;
 - (iv) a civil, criminal or administrative action or proceeding pending by or against either APM or ERI may be prosecuted by or against Amalco;
 - (v) a conviction against, or ruling, order or judgment in favour of or against APM or ERI may be enforced by or against Amalco; and
 - (vi) the Articles of Arrangement shall be deemed to be the articles of amalgamation of Amalco and, except for the purposes of subsection 104(1) of the CBCA, the certificate giving effect to the Arrangement shall be deemed to be the certificate of amalgamation of Amalco;
- (e) immediately upon the amalgamation, the shares of ERI owned by APM shall be cancelled without consideration and each APM Shareholder shall receive 1 Amalco Common Share for every 7.85 APM Shares owned by such APM Shareholder;
- (f) each issued and outstanding Erdene Class A Common Share shall be exchanged for one-half of one Erdene New Share and one-half of one Amalco Common Share owned by Erdene;
- (g) the APM Options shall be exchanged for Amalco Options on the basis of 1 Amalco Option for every 7.85 APM Options at an exercise price equal to the exercise price of the APM Option (the exchange for which the Amalco Option is partial consideration) multiplied by 7.85 and, with respect to those Amalco Options issued to APM Optionholders who would not otherwise be eligible to be granted Amalco Options, such Amalco Options shall expire on the earlier of the expiry date of the APM Options for which they were exchanged and 12 months after the Effective Date;
- (h) each Erdene Option shall be exchanged for:
- (i) one-half of one Erdene New Option Option (at an exercise price equal to twice the amount determined when the exercise price of the Erdene Option (the cancellation for which the Erdene New Option is partial consideration) is multiplied by a fraction, the numerator of which is the Fair Market Value of an Erdene New Share and the denominator of which is the sum of the Fair Market Value of an Erdene New Share and the Fair Market Value of an Amalco Common Share ("**Denominator Number**")); and
 - (ii) one-half of one Amalco Option (at an exercise price equal to twice the amount determined when the exercise price of the Erdene Option (the exchange for which the Amalco Option is partial consideration) is multiplied by a fraction, the numerator of which is the Fair Market Value of an Amalco Share and the denominator of which is the Denominator Number; provided that the exercise price shall not be less than \$0.265 per Amalco Share,

which exercise prices shall be determined following the Effective Date when each of the Amalco Shares and the Erdene New Shares have traded on the TSXV and the TSX, respectively, for 10 trading days and, with respect to those Amalco Options issued to Erdene Optionholders who are directors of Erdene and who would not otherwise be eligible to be granted Amalco Options, such

Amalco Options shall expire on the earlier of the expiry date of the Erdene Options for which they were exchanged and 12 months after the Effective Date;

- (i) Erdene shall cease to be the holder of the Amalco Shares issued to the Erdene Shareholders pursuant to paragraph (f) above and the name of Erdene shall be removed from the central securities register of Amalco Shares with respect to the Amalco Shares so transferred;
- (j) Erdene Shareholders shall cease to be the holders of the Erdene Class A Common Shares exchanged pursuant to paragraph (f) above and the name of each Erdene Shareholder who is so deemed to exchange his, her or its Erdene Class A Common Shares shall be removed from the central securities register of Erdene Class A Common Shares with respect to the Erdene Class A Common Shares so exchanged and shall be added to the central securities registers of Erdene New Shares and Amalco Shares as the holder of the number of Erdene New Shares and Amalco Shares deemed to have been received on the exchange, whereupon all of the issued Erdene Class A Common Shares shall be cancelled with the appropriate entries being made in the central securities register of Erdene Class A Common Shares; and
- (k) the terms and conditions of the Erdene New Shares shall be altered by removing all references to the cancelled Erdene Class A Common Shares, and the terms and conditions of the Erdene New Shares shall thereupon be as particularly described in Exhibit 2 to the Plan of Arrangement.

For full particulars in respect of all of the events which will occur pursuant to the Plan of Arrangement, see the full text of the Plan of Arrangement which is attached as Schedule C to the Arrangement Agreement.

Arrangement Agreement

The following is a summary of the material terms of the Arrangement Agreement and is subject to and qualified in its entirety by the full text of the Arrangement Agreement, which is attached as Schedule B to this Circular. Representations contained in the Arrangement Agreement are not and should not be construed as representations by Erdene or APM to any Erdene Shareholder or other investor. There may be risks for Erdene Shareholders or other investors associated with relying on representations contained in the Arrangement Agreement since such statements may become incorrect and the underlying facts may have changed after the time the statements were initially made. Statements made in representations may be further qualified by materiality standards.

Representations and Warranties

The representations and warranties made by Erdene to APM relate to the following: subsistence and capacity, authority to enter into the Arrangement Agreement, absence of defaults, capitalization, board approval, that the board of Erdene has received the Valuation and Fairness Opinion and ownership and assets of ERI.

The representations and warranties made by APM to Erdene relate to the following: subsistence and capacity, authority to enter into the Arrangement Agreement, absence of defaults, no dissolution or similar proceeding, capitalization, board approval, reporting issuer and listing status, that the APM Independent Committee has received a valuation and fairness opinion of its financial advisor and that the APM Independent Committee unanimously recommended approval of the Plan of Arrangement.

Covenants

Mutual Covenants

The Arrangement Agreement contains mutual covenants to remain in effect until the earlier of the Effective Time and the time the Arrangement Agreement is terminated, including that each of Erdene and APM will:

- (a) take, and cause its subsidiaries to take, all reasonable actions and enter into all such agreements as are necessary to complete and give effect to the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement;
- (b) not, except in the ordinary course of business or as contemplated in connection with the Plan of Arrangement, merge into or with, or consolidate with, any other Person or, perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement;
- (c) until the Effective Date, except as specifically provided for in the Arrangement Agreement and in the Plan of Arrangement, not alter or amend its constating or governing documents, articles or by-laws or those of its subsidiaries as the same exist at the date of the Arrangement Agreement; and
- (d) cooperate with and assist each other in dealing with transitional matters relating to or arising from the Plan of Arrangement or the Arrangement Agreement.

Covenants of APM

The Arrangement Agreement contains covenants of APM to remain in effect until the earlier of the Effective Time and the time the Arrangement Agreement is terminated, that:

- (a) it will use all reasonable efforts to cause each of the conditions precedent set out in Article 5 of the Arrangement Agreement that are within its control to be complied with on or before the Effective Date;
- (b) it will, as of the Effective Date, own all of the issued and outstanding shares of Advanced Primary Minerals USA Corp., which: (i) will not dispose of any assets without the prior approval of Erdene; and (ii) will have no liabilities other than: (A) liabilities incurred in the ordinary course of business, recognizing that APM sold its operating assets on June 29, 2012; (B) costs and liabilities incurred in connection with the proposed Arrangement; and (C) amounts owing to Erdene, which are secured by a charge on APM's assets.
- (c) it will not carry on any business, other than as currently conducted, enter into any transaction or effect any corporate act whatsoever until the Effective Date other than as contemplated in the Arrangement Agreement or in the Plan of Arrangement without the prior written consent of Erdene;
- (d) it shall promptly notify Erdene of all matters related to APM and the business of APM including any circumstance or development that, to the knowledge of APM, is or would be reasonably expected to have a Material Adverse Effect or any change to that disclosed in writing to Erdene or in the APM public record;
- (e) it shall forthwith make application to list on the TSXV the Amalco Shares issuable pursuant to or by reason of the Arrangement; and
- (f) it will not issue any securities or enter into any agreements to issue or grant options, warrants or rights to purchase any of its securities until the Effective Date.

Conditions to the Arrangement

Pre-Arrangement Transactions by Erdene

Erdene agreed that it shall take such corporate actions as are necessary such that, immediately prior to the implementation of the Arrangement:

- (a) all of its interest in the Black Point project is transferred to ERI and all of its obligations in connection therewith are assumed by ERI;
- (b) ERI and its subsidiaries will have no liabilities except as disclosed to APM;
- (c) no amounts shall be owing by ERI or its subsidiaries to Erdene or any of its subsidiaries; and
- (d) ERI will have sufficient cash such that following the Arrangement, Amalco will have sufficient cash (after repayment of all amounts owing by Amalco to Erdene and after making an allowance for payables) to meet the requirements of the TSXV for the listing of the Amalco Shares.

Pre-Arrangement Transactions by APM

APM agreed that it shall take all steps necessary such that:

- (a) forthwith following the Effective Time, all amounts owing by Amalco to Erdene are paid in full; and
- (b) immediately following the repayment referred to in paragraph (a) above, the board of directors of Amalco shall be comprised of 5 individuals who are described in Schedule G – "*Information Concerning Amalco – Post-Arrangement*".

Mutual Conditions Precedent

In order for the Arrangement to become effective, the following must have occurred:

- (a) the Arrangement shall have been approved by the Erdene Shareholders at the Meeting in the manner required by the Interim Order and by the rules of the TSX;
- (b) the Arrangement shall have been approved by the APM Shareholders in the manner required by the Interim Order;
- (c) the Final Order shall have been obtained in form and on terms satisfactory to each of Erdene and APM, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such parties, acting reasonably, on appeal or otherwise;
- (d) the TSXV shall have conditionally approved the listing of the Amalco Shares issuable in connection with the Arrangement, subject only to compliance with the usual requirements of the TSXV;
- (e) all governmental, court, regulatory, third party and other approvals, consents, expiry of waiting periods, waivers, permits, exemptions, orders and agreements and all amendments and modifications to, and terminations of, agreements, indentures and arrangements considered by Erdene or APM to be necessary or desirable for the Arrangement to become effective and for the transfer by Erdene of the ERI Shares to APM shall have been obtained or received on terms that are satisfactory to Erdene and APM;
- (f) no action will have been instituted and be continuing on the Effective Date for (i) an injunction to restrain or enjoin the Arrangement, (ii) a declaratory judgment in respect of or relating to the Arrangement, or (iii) damages or other relief arising from, in consequence of or relating to the Arrangement; there will not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by the Arrangement Agreement; and no cease trading or similar order with respect to any securities of any of the parties will have been issued and remain outstanding;

- (g) none of the consents, orders, rulings, approvals or assurances required for the implementation of the Arrangement will contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by either Erdene or APM;
- (h) no law, regulation or policy will have been proposed, enacted, promulgated or applied that interferes or is inconsistent with the completion of the Arrangement;
- (i) no material action or proceeding shall be pending or threatened by any person, company, firm, governmental authority, regulatory body or agency and there shall be no action taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or governmental authority or similar agency, domestic or foreign, that:
 - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein; or
 - (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated herein;
- (j) notices of dissent pursuant to Article 5 of the Plan of Arrangement shall not have been delivered by:
 - (i) Erdene Shareholders holding greater than 4% of the outstanding Erdene Common Shares; or
 - (ii) APM Shareholders holding greater than 4% of the outstanding APM Shares.

Additional Conditions to the Obligations of Erdene

The obligations of Erdene to complete the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement are subject to the following conditions:

- (a) the TSX shall have approved the Arrangement and shall have conditionally approved the substitutional listing of the Erdene New Shares subject only to compliance with the usual requirements of the TSX; and
- (b) there shall not have been any Material Adverse Change in the business or assets of APM.

Additional Conditions to the Obligations of APM

The obligation of APM to complete the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement is also subject to the condition that there shall not have been any Material Adverse Change in the business or assets of ERI.

Non-Solicitation and Superior Proposal

Under the Arrangement Agreement, APM has agreed that it will not directly or indirectly, through any officer, director, employee, representative or agent or otherwise, solicit or initiate any inquiries or proposals, participate in any discussions or negotiations, agreed to, approve or recommend or enter into any agreement related to any Acquisition Proposal or potential Acquisition Proposal.

The board of APM is not restricted from considering or negotiating any unsolicited bona fide Acquisition Proposal that may be a Superior Proposal or from considering, negotiating, approving, recommending to the APM Shareholders or entering into an agreement in respect of a Superior Proposal so long as the directors of APM determine that such action is consistent with their fiduciary duties under applicable Laws.

APM and the directors of APM also agreed not to accept, approve, recommend or enter into any agreement in respect of an Acquisition Proposal on the basis that it would constitute a Superior Proposal unless they provide a copy of such Acquisition Proposal to Erdene and allow at least 5 Business Days to elapse ("**Notice Period**"). During the Notice Period, Erdene shall have the opportunity, but not the obligation, to offer in writing to amend the terms of the Arrangement Agreement and the Arrangement. The independent committee of the APM board shall review any such offer from Erdene in order to determine in good faith whether the offer from Erdene upon acceptance by APM would provide substantially equivalent or superior value to that provided under the Superior Proposal. If the independent committee of the APM board so determines, APM shall enter into an amended agreement with Erdene reflecting the amended proposal from Erdene. APM acknowledges and agrees that each successive financial modification of any Acquisition Proposal shall constitute a new Acquisition Proposal and shall initiate an additional Notice Period.

Termination

The Arrangement Agreement may be terminated in accordance with the provisions of the Arrangement Agreement. In certain circumstances, a termination fee may be payable.

PROCEDURE FOR THE ARRANGEMENT TO BECOME EFFECTIVE

Procedural Steps

The Arrangement is proposed to be carried out pursuant to Section 192 of the CBCA. The following procedural steps must be taken for the Arrangement to become effective:

- (a) the Arrangement Resolution must be approved by the Erdene Shareholders at the Meeting in the manner required by the Interim Order and by the TSX Rules;
- (b) the Arrangement must be approved by the APM Shareholders in the manner required by the Interim Order;
- (c) the Arrangement must be approved by the Court pursuant to the Final Order;
- (d) all other conditions precedent to the Arrangement must be satisfied or waived by the relevant party; and
- (e) the Final Order, Articles of Arrangement and related documents, in the form prescribed by the CBCA, must be filed with the Director.

Shareholder Approval

As provided in the Interim Order and in accordance with the CBCA, in order for the Arrangement to be implemented, the Arrangement Resolution, with or without variation, must be passed at the Meeting by the affirmative vote of at least 66 2/3% of the votes cast by Erdene Shareholders present in person or represented by proxy at the Meeting. In addition, in accordance with the rules of the TSX and as provided in the Interim Order, the Arrangement Resolution must also be approved by a majority of the votes cast by Erdene Shareholders other than Related Parties present in person or represented by proxy at the Meeting, where Erdene Shareholders are entitled to 1 vote for each Erdene Common Share held. Related Parties include directors and officers of Erdene and APM as well as Erdene Shareholders holding more than 10% of the Erdene Common Shares, if any. As known to management, approximately 6,978,087 Erdene Common Shares will be excluded from voting.

Court Approval

An arrangement under the CBCA requires the sanction of the Court. Prior to the mailing of this Circular, Erdene, ERI and APM filed a Notice of Application for the Final Order and obtained the Interim Order providing for the

calling and upholding of the Meeting and other procedural matters. Copies of the Interim Order and the Notice of Application for the Final Order accompany this Circular.

As set out in the Notice of Application for the Final Order, the hearing with respect to the Final Order is scheduled to take place on November 1, 2012, at 9:30 a.m. (Atlantic Time), at the Law Courts, 1815 Upper Water Street, Halifax, Nova Scotia, or at such later date to which the application for the Final Order may be adjourned. At this hearing, any Erdene Shareholder who wishes to participate or be represented or to present evidence or arguments may do so by filing the appropriate notice of appearance and satisfy other requirements.

The authority of the Court is very broad under the CBCA. Erdene has been advised by counsel that the Court, in sanctioning the Arrangement, will consider, among other things, the fairness and reasonableness of the Arrangement, both from a substantive and a procedural point of view. The Court may approve the Arrangement, either as proposed or as amended, in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit. Depending upon the nature of any required amendments, Erdene may determine not to proceed with the Arrangement.

Stock Exchange Listing Approval

The TSX has granted conditional approval for the Arrangement and the listing of the Erdene New Shares, subject to Erdene fulfilling the requirements of the TSX. There can be no assurance, however, as to whether Erdene will be able to maintain the listing of the Erdene New Shares on the TSX.

The TSXV has granted conditional approval for the Arrangement and the listing of the Amalco Shares, subject to Amalco fulfilling the requirements of the TSXV. Final TSXV acceptance, if and when granted, will be subject to Amalco fulfilling all of the requirements of the TSXV. There can be no assurance that, once listed, Amalco will be able to maintain such listing. See "*Procedure for the Arrangement to Become Effective*".

Other Regulatory Conditions, Governmental and Third Party Approvals

In addition to the approval of the Erdene Shareholders, the APM Shareholders and the Court, it is a condition precedent to the implementation of the Arrangement that all requisite regulatory conditions be satisfied or governmental and third party approvals be obtained. Erdene is not aware of any material approval or other action by any Governmental Entity that would be required to be obtained prior to the Effective Date except for TSX approval of the Arrangement, which conditional approval has been received, and TSXV acceptance for the listing of the Amalco Shares to be issued under the Arrangement, which conditional acceptance has also been received. If any additional filings or consents are required, such filings or consents will be sought. It is possible that these additional requirements could delay the Effective Date or prevent the completion of the Arrangement.

Timing

If the Meeting and the meeting of the APM Shareholders are held as scheduled and not adjourned and the other necessary conditions at that point in time are satisfied or waived, Erdene and APM will apply for the Final Order approving the Arrangement on November 1, 2012. If the Final Order is obtained in a form and substance satisfactory to Erdene and APM, and all other conditions set forth in the Arrangement Agreement are satisfied or waived by the relevant party, Erdene and APM will file the Articles of Arrangement with the Director. Pursuant to Section 190 of the CBCA, the Arrangement becomes effective on the date the Certificate of Arrangement is issued.

Assuming the Meeting is held on October 26, 2012 and the Final Order is obtained on November 1, 2012 in form and substance satisfactory to Erdene and APM, and all other conditions set forth in the Arrangement Agreement are satisfied or waived, the Effective Date is anticipated to be on or about November 7, 2012. It is not possible to state with certainty when the Effective Date will occur. However, Erdene will issue a news release advising of the Effective Date.

DISSENT RIGHTS

A Registered Shareholder is entitled to dissent and be paid the fair value of his or her Erdene Common Shares if such Registered Shareholder dissents from the Arrangement and otherwise complies with the procedure set out in Section 190 of the CBCA, as amended by the Interim Order and Plan of Arrangement.

The statutory provisions dealing with the right of dissent are technical and complex. Any Erdene Shareholder who wishes to exercise his or her right to dissent should seek legal advice, as failure to comply strictly with Section 190 of the CBCA (as modified by the Interim Order and Plan of Arrangement) may prejudice such Erdene Shareholder's right of dissent. The relevant provisions of the CBCA are set out in Schedule E of this Circular and shall be read in conjunction with the provisions of the Interim Order and Plan of Arrangement, which modify the statutory rights provided in Section 190 of the CBCA.

A Registered Shareholder who wishes to dissent to the Arrangement Resolution must send to Erdene a written objection to the Arrangement Resolution ("**Dissent Notice**"), which written objection must be received by Erdene c/o its counsel McInnes Cooper, 1969 Upper Water Street, Suite 1300, Purdy's Wharf Tower II, Halifax, Nova Scotia, B3P 2V1, Attention: Suzan Frazer, by 5 p.m. (Atlantic Time) on October 25, 2012.

The filing of a Dissent Notice does not deprive a Registered Shareholder of the right to vote at the Meeting; however, Subsection 190(6) of the CBCA provides, in effect, that a Registered Shareholder who has submitted a Dissent Notice and who votes in favour of the Arrangement Resolution will no longer be considered a Dissenting Shareholder with respect to those shares voted in favour of the Arrangement Resolution. Any proxy granted by a Registered Shareholder who intends to dissent, other than a proxy that instructs the proxyholder to vote against the Arrangement Resolution, should be validly revoked in order to prevent the proxyholder from voting such Erdene Common Shares in favour of the Arrangement Resolution and thereby causing the Registered Shareholder to forfeit his or her dissent rights.

A vote against the Arrangement Resolution, an abstention, or the execution of a proxy to vote against the Arrangement Resolution does not constitute a Dissent Notice.

A Dissenting Shareholder may only dissent with respect to all of his or her Erdene Common Shares. Beneficial owners of Erdene Common Shares registered in the name of a broker, custodian, nominee or other intermediary who wishes to dissent should be aware that only Registered Shareholders are entitled to dissent. Accordingly, a beneficial owner of Erdene Common Shares desiring to exercise the right to dissent must make arrangements for the Erdene Common Shares beneficially owned by such Erdene Shareholder to be registered in his or her name prior to the time the Dissent Notice is required to be received, or alternatively make arrangements for the applicable Registered Shareholder to dissent on the beneficial owner's behalf.

Erdene is required, within 10 days after Erdene Shareholders adopt the Arrangement Resolution, to send a notice of such adoption to each Erdene Shareholder who has filed a Dissent Notice. Following receipt of such notice, a Dissenting Shareholder must, within the time periods specified in Section 190, send a written demand for payment and the share certificates representing the Erdene Common Shares in respect of which he or she dissents.

A Dissenting Shareholder who has complied with the provisions of Section 190 of the CBCA (as amended by the Interim Order and Plan of Arrangement) may apply to Court to fix the fair value of Erdene Common Shares held by such Dissenting Shareholder. Once determined, the fair value of such Erdene Common Shares will be paid only in cash.

After the Effective Date, a Dissenting Shareholder ceases to have any rights as an Erdene Shareholder, other than the right to be paid the fair value of such Dissenting Shareholder's Erdene Common Shares. The names of such Dissenting Shareholders will be deleted from the register of holders of Erdene Common Shares.

SECURITIES LAW MATTERS

Canada

The issuance of the Erdene New Shares and the Amalco Shares to the Erdene Shareholders pursuant to the Arrangement will constitute a distribution of securities, which is exempt from the registration and prospectus requirements of Canadian securities Laws. The Erdene New Shares and the Amalco Shares issued to Erdene Shareholders may be resold in each of the provinces and territories of Canada provided the holder is not a "control person" as defined in the applicable securities legislation, no unusual effort is made to prepare the market or create a demand for those securities and no extraordinary commission or consideration is paid in respect of that sale.

United States

The Erdene securities and the Amalco securities issuable pursuant to the Arrangement have not been and will not be registered under the U.S. Securities Act, and will be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof. Section 3(a)(10) of the U.S. Securities Act exempts the issuance of any securities issued in exchange for one or more bona fide outstanding securities from the general requirement of registration where the terms and conditions of the issuance and exchange of such securities have been approved by a court of competent jurisdiction that is expressly authorized by law to grant such approval, after a hearing upon the fairness of the terms and conditions of such issuance and exchange at which all persons to whom it is proposed to issue the securities have the right to appear and receive timely notice thereof. The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. The Court granted the Interim Order on September 26, 2012 and, subject to the approval of the Arrangement by APM Shareholders and the Erdene Shareholders, and satisfaction of certain other conditions, a hearing on the Arrangement will be held on November 1, 2012 by the Court. See "*Procedure for the Arrangement to Become Effective – Court Approval*". Accordingly, the Final Order will, if granted, constitute the basis for an exemption from the registration requirements of the U.S. Securities Act as described above.

The way in which a shareholder may resell the Erdene New Shares or the Amalco Shares issued to it on completion of the Arrangement will depend on whether it is an "affiliate" of Erdene or Amalco, as the case may be. As defined in Rule 144 under the U.S. Securities Act, an "affiliate" of an issuer is a person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer. Typically, persons who are executive officers, directors or major shareholders of an issuer are considered to be its "affiliates".

Under current law, the resale restrictions applicable to the Erdene New Shares and the Amalco Shares issued pursuant to the Arrangement will be as follows:

- Persons that are not affiliates of Erdene/Amalco after, and were not affiliates of Erdene/Amalco within 90 days prior to, the completion of the Arrangement may freely resell such securities under the U.S. Securities Act.
- Persons that are affiliates of Erdene/Amalco after, or were affiliates of Erdene/Amalco within 90 days prior to, the completion of the Arrangement may resell such securities only pursuant to registration or an exemption from registration under the U.S. Securities Act.

Persons that are affiliates of Erdene/Amalco after the Arrangement or were affiliates of Erdene/Amalco within 90 days prior to the Arrangement should consult with their own counsel prior to making any offer or resale of the Erdene New Shares or Amalco Shares issued pursuant to the Arrangement, to ensure that the resale of their securities complies with applicable securities legislation.

Exercise of the Erdene New Options or Amalco Options

The Erdene New Options and the Amalco Options received in the Arrangement may not be exercised in the United States or by or on behalf of a U.S. Person, nor may any Erdene New Shares or Amalco Shares issued upon such

exercise be offered or resold, except pursuant to registration under the U.S. Securities Act or an exemption from such registration requirements.

The foregoing discussion is only a general overview of certain requirements of United States federal securities laws applicable to Erdene New Options and the Amalco Options received in the Arrangement and the resale of Erdene New Shares and Amalco Shares received upon exercise of such Erdene New Options and Amalco Options. All holders of such securities are urged to consult with counsel to ensure the resale of their securities complies with applicable securities legislation.

THE SECURITIES TO BE ISSUED IN CONNECTION WITH THE ARRANGEMENT HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR THE SECURITIES REGULATORY AUTHORITIES OF ANY STATE IN THE UNITED STATES, NOR HAS THE SEC OR ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE IN THE UNITED STATES PASSED ON THE ADEQUACY OR ACCURACY OF THIS CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

TAX CONSIDERATIONS TO ERDENE SHAREHOLDERS

Certain Canadian Federal Income Tax Considerations

General

The following is a general summary of the principal Canadian federal income tax considerations in respect of the Arrangement generally applicable to Erdene Shareholders who at all relevant times and for purposes of the Tax Act (i) hold their Erdene Common Shares as capital property, (ii) will hold their Amalco Shares and Erdene New Shares acquired pursuant to the Arrangement as capital property, and (iii) deal at arm's length with, and are not affiliated with, Erdene or Amalco (each, a "**Holder**").

Erdene Common Shares, Erdene New Shares and Amalco Shares will generally be considered to be capital property of a Holder unless such shares are held in the course of carrying on a business or were acquired in one or more transactions considered to be an adventure in the nature of trade. Certain Holders who are resident in Canada and who might not otherwise be considered to hold their Erdene Common Shares, Erdene New Shares or Amalco Shares as capital property may be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such shares and every other "Canadian security", as defined in the Tax Act, owned by such Holder in the taxation year of the election, and in all subsequent taxation years, deemed to be capital property. Holders should consult their own tax advisors for advice with respect to whether such election is available and advisable in their particular circumstances.

This summary does not apply to a Holder (i) that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules, (ii) that is an interest in which is or would constitute a "tax shelter investment", as defined in the Tax Act, (iii) that is a "specified financial institution", as defined in the Tax Act, or (iv) that reports its Canadian tax results in a currency other than the Canadian currency pursuant to the functional currency reporting rules in the Tax Act. All such Holders should consult their own tax advisors with respect to their particular circumstances.

The tax treatment of Erdene Options under the Arrangement is not addressed in this summary. All Erdene Optionholders should consult with their own tax advisors in this regard. In addition, this summary does not address all issues relevant to Holders who acquired their Erdene Common Shares on the exercise of an employee stock option. All such Holders should consult their own tax advisors.

For purposes of this summary, it has been assumed that the Erdene Common Shares will be listed on the TSX at all relevant times, including after the re-designation of the Erdene Common Shares as Erdene Class A Common Shares, until they are exchanged for Erdene New Shares and Amalco Shares pursuant to the Arrangement, that the Erdene New Shares will be listed on the TSX immediately after the exchange and that the Amalco Shares will be listed on the TSXV at all relevant times.

This summary is based on the current provisions of the Tax Act, the regulations thereunder, all specific proposals (the "**Tax Proposals**") to amend the Tax Act or the regulations thereunder which have been publicly announced in writing by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency. For purposes of this summary, it is assumed that all Tax Proposals will be enacted in the form proposed and that there will be no other change to the Tax Act, the regulations thereunder, or other applicable law or policy. No advance tax ruling has been applied for in respect of the tax consequences of the Arrangement so no assurance can be given that the tax consequences will be as described herein and no assurance can be given that the Tax Proposals will be enacted or otherwise implemented in their current form, if at all.

This summary is not exhaustive of all Canadian federal income tax considerations applicable to Holders pursuant to the Arrangement. Except for the Tax Proposals, this summary does not otherwise take into account or anticipate any changes in law, including retroactive changes, administrative policy or assessing practice, whether by legislative, regulatory, administrative, governmental or judicial decision or action, nor does it take into account the tax laws of any province or territory of Canada or of any jurisdiction outside of Canada, any of which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular Holder, and no representations with respect to the tax consequences to any particular Holder are made. The tax consequences to any particular Holder will depend on a variety of factors including the Holder's own particular circumstances. Therefore, all Holders, and all persons affected by the Arrangement, should consult their own tax advisors with respect to their particular circumstances, including the application and effect of the income and other tax laws of any country, province, state or other local tax authority.

Shareholders Resident in Canada

The following portion of this summary applies generally to a Holder who, at all relevant times for the purposes of the Tax Act, is or is deemed to be resident in Canada (a "**Resident Holder**").

Re-designation of Erdene Common Shares as Erdene Class A Common Shares

The re-designation of the Erdene Common Shares as Class A Common Shares pursuant to the Arrangement does not constitute a substantial change to the attributes of the Erdene Common Shares and accordingly should not result, in and of itself, in a disposition of the Erdene Common Shares by Resident Holders for purposes of the Tax Act.

Exchange of Erdene Class A Common Shares for Erdene New Shares and Amalco Shares

A Resident Holder who exchanges Erdene Class A Common Shares for Erdene New Shares and Amalco Shares in the course of the reorganization of the capital of Erdene pursuant to the Arrangement will be deemed to have received a dividend to the extent, if any, that the fair market value of the Amalco Shares exceeds the "paid-up capital" (as defined in the Tax Act) of the Resident Holder's Erdene Class A Common Shares. Erdene expects the paid-up capital of each Resident Holder's Erdene Class A Common Shares prior to the exchange to be substantially in excess of the fair market value of the Amalco Shares to be issued to such Resident Holder on the exchange. Provided that Erdene's assessment of the fair market value of the Amalco Shares is correct, no deemed dividend should arise on the exchange.

A Resident Holder will only recognize a capital gain on the exchange of Erdene Class A Common Shares for Erdene New Shares and Amalco Shares to the extent the fair market value of the Amalco Shares, plus the adjusted cost base of the Erdene New Shares, received by the Resident Holder in exchange for the Resident Holder's Erdene Class A Common Shares, less the amount of any deemed dividend, as noted above, exceeds the Resident Holder's adjusted cost base of the Erdene Class A Common Shares immediately before the exchange.

Resident Holders who acquired their Erdene Common Shares as "flow-through shares" are deemed to have an adjusted cost base of nil in respect of such Erdene Common Shares. Unless the Resident Holder also owns Erdene

Common Shares which are not "flow-through shares" with which the adjusted cost base is averaged, a Resident Holder whose Erdene Common Shares are "flow-through shares" is expected to realize a capital gain equal to the fair market value of the Amalco Shares. The general tax consequences to a Resident Holder of realizing such a capital gain or capital loss are described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

The adjusted cost base to a Resident Holder of the Amalco Shares received on the exchange will be equal to their fair market value at the time of the exchange. The adjusted cost base to a Resident Holder of the Erdene New Shares received on the exchange will be equal to the excess, if any, of such Resident Holder's adjusted cost base of the Erdene Class A Common Shares over the fair market value of the Amalco Shares received by such Resident Holder.

Holding and Disposing of Erdene New Shares and Amalco Shares

Dividends received or deemed to be received on Erdene New Shares or Amalco Shares by a Resident Holder who is an individual will be included in computing the individual's income for purposes of the Tax Act, and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced dividend tax credit rules applicable to dividends properly designated by Erdene or Amalco, as the case may be, as "eligible dividends", as defined in the Tax Act.

Dividends received or deemed to be received on Erdene New Shares or Amalco Shares by a Resident Holder that is a corporation will be included in computing the corporation's income for purposes of the Tax Act, and will generally be deductible in computing its taxable income. A Resident Holder that is a "private corporation" or a "subject corporation", as defined in the Tax Act, may be liable under Part IV of the Tax Act to pay a refundable tax of 33⅓% of the dividends received or deemed to be received on the Erdene New Shares or Amalco Shares to the extent such dividends are deductible in computing such corporation's taxable income.

In general, a disposition or deemed disposition of Erdene New Shares or Amalco Shares by a Resident Holder may give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Holder's adjusted cost base of such Erdene New Shares or Amalco Shares, as the case may be, immediately before the disposition and any reasonable costs of disposition. The general tax consequences to a Resident Holder of realizing such a capital gain or capital loss are described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*". Resident Holders who acquired their Erdene Common Shares as "flow-through shares" are deemed to have an adjusted cost base of nil in respect of such Erdene Common Shares. Unless the Resident Holder also owns Erdene Common Shares which are not "flow-through shares" with which the adjusted cost base is averaged, a Resident Holder whose Erdene Common Shares are "flow-through shares" is expected to realize a capital gain equal to the fair market value of the Amalco Shares.

Resident Dissenting Holders

A Resident Holder who validly exercises Dissent Rights in connection with the Arrangement (a "**Resident Dissenting Holder**") and receives a cash payment from Erdene in consideration for such Holder's Erdene Common Shares will be deemed to have received a dividend to the extent, if any, that the cash payment (excluding interest, if any, awarded by a court) exceeds the "paid-up capital" (as defined in the Tax Act) of the Resident Holder's Erdene Common Shares. In addition, the Resident Dissenting Shareholder will be considered to have disposed of such Holder's Erdene Common Shares for proceeds of disposition equal to the amount of the cash payment (excluding interest, if any, awarded by a court) less the amount of any deemed dividend, as noted above. Such a disposition will give rise to a capital gain (or capital loss) equal to the amount by which such proceeds of disposition exceed (or are less than) the aggregate of such Resident Dissenting Holder's adjusted cost base of such Erdene Common Shares immediately before the disposition and any reasonable costs of disposition. The general tax consequences to a Resident Dissenting Holder of realizing such a capital gain or capital loss are described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

Interest paid or payable to a Resident Dissenting Holder will be included in such Holder's income. A Resident Dissenting Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of 6⅔% on its "aggregate investment income" for the year, which will include such interest.

Resident Dissenting Holders should consult their own tax advisors for specific advice with respect to the tax consequences in their own particular circumstances of exercising their Dissent Rights.

Taxation of Capital Gains and Capital Losses

One-half of any capital gain realized by a Resident Holder must be included as a taxable capital gain in computing the Resident Holder's income for the year, and one-half of any capital loss realized by a Resident Holder may be deducted as an allowable capital loss by the Holder against taxable capital gains realized by the Holder for the year. An allowable capital loss in excess of taxable capital gains for the year of disposition generally may be carried back and deducted against net taxable capital gains for any of the 3 preceding taxation years or carried forward and deducted against net taxable capital gains in any subsequent taxation year in accordance with and subject to the rules contained in the Tax Act. A Resident Holder that is a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay an additional 6 $\frac{2}{3}$ % refundable tax on certain investment income, including amounts in respect of net taxable capital gains and dividends or deemed dividends not deductible in computing taxable income. The amount of any capital loss realized on the disposition of Erdene Common Shares, Erdene Class A Common Shares, Erdene New Shares or Amalco Shares by a Resident Holder that is a corporation, or certain partnerships or trusts of which the corporation is a member or beneficiary, may be reduced in certain circumstances in respect of dividends, if any, previously received or deemed to have been received on such shares to the extent and in the circumstances set out in the Tax Act.

Alternative Minimum Tax

A capital gain realized, or a dividend received, by a Resident Holder who is an individual (including certain trusts) may give rise to liability for alternative minimum tax under the Tax Act.

Non-Resident Shareholders

The following portion of this summary applies generally to a Holder who (i) at all relevant times, for the purposes of the Tax Act and any relevant tax treaty, is not resident or deemed to be resident in Canada, and (ii) does not and will not use or hold, and is not and will not be deemed to use or hold, Erdene Common Shares, Erdene Class A Common Shares, Erdene New Shares or Amalco Shares in connection with carrying on a business in Canada (each, a "**Non-Resident Holder**"). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere.

Holders whose Erdene Common Shares, Erdene Class A Common Shares, Erdene New Shares or Amalco Shares constitute taxable Canadian property should consult their own tax advisors with respect to the income tax consequences of the Arrangement applicable to them in their particular circumstances.

Re-designation of Erdene Common Shares as Erdene Class A Common Shares

The re-designation of the Erdene Common Shares as Erdene Class A Common Shares pursuant to the Arrangement does not constitute a substantial change to the attributes of the Erdene Common Shares and accordingly should not result, in and of itself, in a disposition of the Erdene Common Shares by Non-Resident Holders for purposes of the Tax Act.

Exchange of Erdene Class A Common Shares for Erdene New Shares and Amalco Shares

A Non-Resident Holder who exchanges Erdene Class A Common Shares for Erdene New Shares and Amalco Shares in the course of the reorganization of the capital of Erdene pursuant to the Arrangement will be deemed to have received a dividend to the extent, if any, the fair market value of the Amalco Shares exceeds the "paid-up capital" (as defined in the Tax Act) of the Non-Resident Holder's Erdene Class A Common Shares. Erdene expects the paid-up capital of each Non-Resident Holder's Erdene Class A Common Shares prior to the exchange to be substantially in excess of the fair market value of the Amalco Shares to be issued to such Non-Resident Holder on the exchange. Provided that Erdene's assessment of the fair market value of the Amalco Shares is correct, no deemed dividend should arise on the exchange. Should a deemed dividend arise, it would be subject to non-resident

withholding tax, as described below under the heading " *Holding and Disposing of Erdene New Shares or Amalco Shares* ".

A Non-Resident Holder will only recognize a capital gain on the exchange of Erdene Class A Common Shares for Erdene New Shares and Amalco Shares to the extent the fair market value of the Amalco Shares, plus the adjusted cost base of the Erdene New Shares, received by the Non-Resident Holder in exchange for the Non-Resident Holder's Erdene Class A Common Shares, less the amount of any deemed dividend, as noted above, exceeds the Non-Resident Holder's adjusted cost base of the Erdene Class A Common Shares immediately before the exchange. The adjusted cost base to a Non-Resident Holder of the Amalco Shares received on the exchange will be equal to their fair market value. The adjusted cost base to a Non-Resident Holder of the Erdene New Shares received on the exchange will be equal to the excess, if any, of such Non-Resident Holder's adjusted cost base of the Erdene Class A Common Shares over the fair market value of the Amalco Shares received by such Non-Resident Holder.

A Non-Resident Holder who exchanges Erdene Class A Common Shares for Erdene New Shares and Amalco Shares pursuant to the Arrangement will not be subject to tax under the Tax Act on any capital gain realized on such exchange unless the Erdene Class A Common Shares or Erdene New Shares, as the case may be, are "taxable Canadian property" to the Non-Resident Holder at the time of the exchange and the Erdene Class A Common Shares or Erdene New Shares, as the case may be, are not "treaty-protected property", as defined in the Tax Act, of the Non-Resident Holder at the time of the exchange.

Generally, Erdene Class A Common Shares and Erdene New Shares will not be taxable Canadian property to a Non-Resident Holder at the time of such exchange if (i) such shares are listed on a designated stock exchange (which currently includes the TSX) at that time, (ii) the Holder, together with persons with whom the Holder does not deal at arm's length, has not owned 25% or more of the issued shares of any class or series of the capital stock of Erdene at any time within the 60-month period preceding the time of the exchange, and (iii) such shares are not otherwise deemed to be taxable Canadian property for purposes of the Tax Act. Erdene expects that the Erdene Common Shares will continue to be listed on the TSX at all relevant times, including after the re-designation of the Erdene Common Shares as Erdene Class A Common Shares, until they are exchanged for Erdene New Shares and Amalco Shares pursuant to the Arrangement, and the TSX has confirmed to Erdene that the Erdene New Shares will be listed on the TSX after the exchange.

If the Erdene Class A Common Shares or Erdene New Shares are not considered to be listed on a designated stock exchange (which currently includes the TSX) for the purposes of the Tax Act at the time of such exchange, such shares will be taxable Canadian property to a Non-Resident Holder and if more than 50% of the fair market value of the Erdene Class A Common Shares at the time of the exchange is derived directly or indirectly from one or any combination of real or immovable property situated in Canada, Canadian resource properties (as defined in the Tax Act), timber resource properties (as defined in the Tax Act), and options in respect of, or interests in, or for civil law rights in, any such properties (whether or not such property exists) then the Erdene Class A Common Shares will be considered taxable Canadian property to the Non-Resident Holder. In this regard, Erdene does not consider that the Erdene Class A Common Shares and the Erdene New Shares will derive more than 50% of their fair market value from one or any combination of real or immovable property situated in Canada, Canadian resource properties (as defined in the Tax Act), timber resource properties (as defined in the Tax Act), and options in respect of, or interests in, or for civil law rights in, any such properties (whether or not such property exists). Non-Resident Holders should consult their own tax advisors as to whether the Erdene Class A Common Shares or Erdene New Shares constitute taxable Canadian property or "treaty-protected property", as defined in the Tax Act, of the Non-Resident Holder.

If the Erdene Class A Common Shares constitute taxable Canadian property to a Non-Resident Holder and are not "treaty-protected property", as defined in the Tax Act, of the Holder at the time of their exchange for Erdene New Shares and Amalco Shares, pursuant to the Arrangement, the tax consequences under the Tax Act to such Holder in respect of the exchange will be similar to those described above under " *Holders Resident in Canada – Exchange of Erdene Class A Common Shares for Erdene New Shares and Amalco Shares* ".

If Erdene Class A Common Shares constitute taxable Canadian property to a Non-Resident Holder at the time of the exchange and are not "treaty-protected property", as defined in the Tax Act, of the Holder at that time, such Holder will also be subject to certain reporting and withholding tax obligations under Section 116, and other provisions, of the Tax Act.

Non-Resident Holders are urged to consult with their tax advisors as soon as possible with respect to determining whether their Erdene Common Shares constitute taxable Canadian property or "treaty-protected property" to them, and the resulting reporting and tax obligations, under the Tax Act.

Holding and Disposing of Erdene New Shares or Amalco Shares

Subject to applicable international tax treaties, a dividend paid or deemed to be paid on the Erdene New Shares or the Amalco Shares to a Non-Resident Holder will generally be subject to Canadian withholding tax at a rate of 25% of the gross amount of such dividend. Such rate is generally reduced under the Canada-US tax treaty to 15% if the beneficial owner of such dividend is a resident of the United States who is a qualifying person for purposes of the Canada-US tax treaty. The rate of withholding tax is further reduced to 5% if the beneficial owner of such dividend is a United States resident company that is a qualifying person for purpose of the Canada-US tax treaty and that owns at least 10% of the voting stock of Erdene or Amalco, as the case may be.

Any capital gain realized by a Non-Resident Holder on a disposition or deemed disposition of Erdene New Shares or Amalco Shares acquired pursuant to the Arrangement will generally not be subject to tax under the Tax Act unless the Erdene New Shares or Amalco Shares are "taxable Canadian property" to the Holder and the shares are not "treaty-protected property" of the Holder at the time of disposition. Generally, Erdene New Shares or Amalco Shares will not be taxable Canadian property to a Non-Resident Holder at a particular time if (i) such shares are listed on a designated stock exchange (which currently includes the TSX and the TSXV) at that time, (ii) the Holder, together with persons with whom the Holder does not deal at arm's length, has not owned 25% or more of the issued shares of any class or series of the capital stock of Erdene or Amalco at any time within the 60-month period preceding the particular time, and (iii) such shares are not otherwise deemed to be taxable Canadian property to the Holder for purposes of the Tax Act.

Non-Resident Dissenting Holders

A Non-Resident Holder who validly exercises Dissent Rights in connection with the Arrangement (a "**Non-Resident Dissenting Holder**") and receives a cash payment from Erdene in consideration for such Holder's Erdene Common Shares will be deemed to have received a dividend to the extent, if any, that the cash payment (excluding interest, if any, awarded by a court) exceeds the "paid-up capital" (as defined in the Tax Act) of the Non-Resident Holder's Erdene Common Shares. Any dividend deemed to have received will be subject to Canadian withholding tax as outlined above under "*Holding and Disposing of Erdene New Shares or Amalco Shares*".

In addition, the Non-Resident Dissenting Shareholder will be considered to have disposed of such Holder's Erdene Common Shares for proceeds of disposition equal to the amount of the cash payment (excluding interest, if any, awarded by a court) less the amount of any deemed dividend, as noted above. Such a disposition will give rise to a capital gain (or capital loss) equal to the amount by which such proceeds of disposition exceed (or are less than) the aggregate of such Non-Resident Dissenting Holder's adjusted cost base of such Erdene Common Shares immediately before the disposition and any reasonable costs of disposition. Any capital gain realized by a Non-Resident Dissenting Holder on such a disposition of Erdene Common Shares will generally not be subject to tax under the Tax Act unless the Erdene Common Shares are "taxable Canadian property" to the Holder and the shares are not "treaty-protected property" of the Holder at the time of disposition, as defined in the Tax Act.

Any interest awarded to a Non-Resident Dissenting Holder by a court will not be subject to Canadian withholding tax provided such Holder deals at arm's length with Erdene for purposes of the Tax Act and such interest does not constitute "participating debt interest" for purposes of the Tax Act.

Non-Resident Dissenting Holders should consult their own tax advisors for specific advice with respect to the tax consequences in their own particular circumstances of exercising their Dissent Rights.

RISK FACTORS

In evaluating the Arrangement, Erdene Shareholders should carefully consider, in addition to the other information contained in this Circular, the risks and uncertainties described below before deciding to vote in favour of the Arrangement. In addition to the risk factors related to the Arrangement, Erdene Shareholders should also carefully consider the risk factors relating to the businesses of Erdene and Amalco following the Arrangement, as described under "*Risk Factors*" in Schedule F and Schedule G, respectively, which risk factors should be considered in conjunction with the other information included in this Circular. While this Circular has described the risks and uncertainties that management of Erdene believes to be material to the businesses of Erdene and Amalco, and therefore the value of their common shares, it is possible that other risks and uncertainties affecting the business of Erdene and/or Amalco will arise or become material in the future.

Risks of Not Proceeding with the Arrangement

Existing Operational Risk

If the Arrangement is not completed, Erdene will continue to face all of the existing operational and financial risks of its business as described herein and as described in the AIF, "*Description of the Business of the Corporation - Risk Factors*" and in Schedule G – "*Information Concerning Amalco – Post-Arrangement; Risk Factors*". In addition, if Erdene's assets are not separated into 2 companies, Shareholders who are primarily interested in only 1 of Erdene's major projects may face unwanted dilution if Erdene raises funds by way of issuances from treasury to advance its other major project.

Costs of the Arrangement

There are certain costs related to the Arrangement, such as legal, accounting and certain fees incurred, that must be paid even if the Arrangement is not completed. There are also opportunity costs associated with the diversion of management attention away from the conduct of Erdene's business in the ordinary course.

Risks of Proceeding with the Arrangement

Fluctuation in Market Value of the Amalco Shares

There is currently no market for the Amalco Shares and there can be no assurance that an active market will develop or be sustained after the Effective Date. The lack of an active public market could have a material adverse effect on the price of the Amalco Shares.

The market price of a publicly-traded stock is affected by many variables not directly related to the corporate performance of the company, including the market in which it is traded, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the future market price of the Amalco Shares on any stock exchange cannot be predicted.

Trading Prices

The trading price of the Erdene New Shares may be lower following the Arrangement than the trading price of the Erdene Common Shares prior thereto, reflecting the transfer of Erdene's North American assets, and such price may fluctuate significantly for a period of time following the Arrangement. The combined trading prices of the Erdene New Shares and the Amalco Shares received pursuant to the Arrangement may be less than, equal to or greater than the trading price of the Erdene Common Shares prior to the Arrangement.

Pre-Arrangement Consents and Approvals

Erdene continues to seek and obtain necessary consents and approvals in order to implement the Arrangement and related transactions as currently structured. Erdene believes that it will obtain such consents and approvals prior to the Effective Date. However, if certain approvals and consents are not received prior to the Effective Date, Erdene may decide to proceed nonetheless, or it may either delay or amend the implementation of all or part of the Arrangement, including possibly delaying the completion of the Arrangement in order to allow sufficient time to receive such consents or approvals.

Income Tax Considerations

The fair market value of the Amalco Shares immediately following the exchange of Erdene Class A Common Shares for Erdene New Shares and Amalco Shares cannot be determined precisely and will impact the tax consequences of participating in the Arrangement.

No tax ruling has been received from the authorities in Canada or elsewhere in respect of the tax consequences of participating in the Arrangement.

INFORMATION CONCERNING ERDENE – POST-ARRANGEMENT

For further information concerning Erdene post-arrangement, see Schedule F – "*Information Concerning Erdene Resource Development Corporation – Post-Arrangement*". Additional information relating to Erdene is also available on SEDAR at www.sedar.com.

INFORMATION CONCERNING AMALCO – POST-ARRANGEMENT

For further information concerning Amalco post-arrangement, see Schedule G – "*Information Concerning Amalco – Post-Arrangement*".

INTERESTS OF CERTAIN PERSONS OR COMPANIES IN THE MATTERS TO BE ACTED UPON

Ken MacDonald, a vice president, CFO and a director of Erdene is also the President, CEO and a director of APM. J.C. (Chris) Cowan and Philip L. Webster, directors of APM, are also directors of Erdene.

Directors and senior officers of Erdene and their associates and affiliates as a group own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of 6,629,287 Erdene Common Shares (approximately 6.92% of the outstanding Erdene Common Shares).

Directors and senior officers of APM (other than those who are directors and senior officers of Erdene) and their associates and affiliates a group own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of 348,800 Erdene Common Shares (approximately 0.36% of the outstanding Erdene Common Shares).

Erdene and the following Insiders of Erdene have the following direct or indirect interests in APM and in Erdene as of September 20, 2012:

Name	APM Shares	APM Options	Erdene Common Shares	Erdene Options
Peter C. Akerley ⁽¹⁾	13,286	Nil	596,150 ⁽³⁾	640,000
John P.A. Budreski ⁽¹⁾	Nil	Nil	60,000	300,000
William B. Burton ⁽¹⁾	Nil	Nil	151,000	250,000
John P. Byrne ⁽¹⁾	Nil	Nil	2,034,500 ⁽⁴⁾	250,000

Name	APM Shares	APM Options	Erdene Common Shares	Erdene Options
David S.B. Carnell ⁽¹⁾	Nil	Nil	440,900 ⁽⁵⁾	250,000
J.C. (Chris) Cowan ⁽¹⁾⁽²⁾	70,000	Nil	639,500	535,000
D. Suzan Frazer ⁽⁶⁾	Nil	Nil	173,000	185,000
Kenneth W. MacDonald ⁽¹⁾⁽²⁾	136,572 ⁽⁷⁾	Nil	613,600 ⁽⁸⁾	425,000
Philip S. Martin ⁽²⁾	215,642	200,000	1,600	Nil
Michael O'Keefe ⁽⁹⁾	102,142	Nil	347,200	105,000
Charles G. Pitcher ⁽²⁾	Nil	Nil	Nil	Nil
Stuart P. Rath ⁽¹⁾	Nil	Nil	836,637	250,000
Philip L. Webster ⁽¹⁾⁽²⁾	710,001 ⁽¹⁰⁾	Nil	1,084,000 ⁽¹¹⁾	250,000

Notes:

- (1) Director of Erdene.
- (2) Director of APM.
- (3) 431,850 Erdene Common Shares are held directly, 93,047 Erdene Common Shares are held indirectly in Mr. Akerley's RRSPs and 71,253 Erdene Common Shares are held by Scotia McLeod in trust for children of Mr. Akerley.
- (4) 1,002,000 Erdene Common Shares are held directly, 100,000 Erdene Common Shares are held by Byrne & Co. Inc., a company controlled by Mr. Byrne, 732,500 Erdene Common Shares are held by Petroleum Corporation of Canada Exploration Ltd., a company controlled by Mr. Byrne and 200,000 Erdene Common Shares are held by TD Waterhouse.
- (5) 349,725 Erdene Common Shares are held directly, 10,000 Erdene Common Shares are held by Bedford Capital Ltd, a company controlled by Mr. Carnell, 65,000 Erdene Common Shares are held by Eleanor Carnell, wife of Mr. Carnell and 16,175 Erdene Common Shares are held indirectly in Mr. Carnell's RRSPs.
- (6) Corporate Secretary of Erdene.
- (7) 70,000 APM Shares are held directly, 65,143 APM Shares are held by Scotia McLeod in trust for Mr. MacDonald and 1,429 APM Shares are held by Scotia McLeod in trust for Mr. MacDonald's wife.
- (8) 267,999 Erdene Common Shares are held directly, 220,451 Erdene Common Shares are held indirectly in Mr. MacDonald's RRSPs and 125,150 Erdene Common Shares are held by Scotia McLeod in trust for Mr. MacDonald's wife.
- (9) Executive Officer of APM.
- (10) 550,000 APM Shares are held directly, 150,000 APM are held by Emster Holdings Inc., a company controlled by Mr. Webster, and 10,001 are held indirectly in Mr. Webster's RRSPs.
- (11) 300,000 Erdene Common Shares are held by Mr. Webster, 670,000 Erdene Common Shares are held by Bonnyburn Investments Inc., a company controlled by Mr. Webster, 100,000 Erdene Common Shares are held by Emster Holdings Inc., a company controlled by Mr. Webster, and 14,000 are held indirectly in Mr. Webster's RRSPs.

Each of the directors and senior officers of each of Erdene and APM have indicated that they intend to vote in favour of the Arrangement. Their votes will count in determining whether the Arrangement Resolution has been approved by 66 2/3% of the Erdene Shareholders. However, these votes will be excluded from the vote to determine whether the Arrangement Resolution has been approved by a majority of the Erdene Shareholders other than Related Parties.

OTHER MATTERS TO BE ACTED UPON AT THE MEETING: DEFERRED STOCK UNIT PLAN

The Board has, subject to Erdene Shareholder approval and final approval of the TSX, adopted the Deferred Stock Unit Plan (the "**DSU Plan**") for the benefit of Erdene's employees and directors. The DSU Plan has been established to assist Erdene in attracting and retaining talented employees and directors and to promote a greater alignment of interests between the directors, employees and the Erdene Shareholders.

It is intended that the deferred stock units ("**DSUs**") issued under the DSU Plan form part of Erdene's overall director and employee compensation strategy. Since the value of DSUs increase or decrease with the price of Erdene Common Shares (or the Erdene New Shares if the Arrangement is approved), DSUs reflect a philosophy of aligning the interests of directors and employees with those of the Erdene Shareholders by tying compensation to share price performance.

Summary of the DSU Plan

Set out below is a summary of the DSU Plan. A copy of the DSU Plan is attached to this Circular as Schedule C.

Administration of Plan

The DSU Plan provides that directors and employees may elect to receive all or a portion of their annual compensation in DSUs. The election, if it is made, must be for a minimum of 10%, or a multiple thereof, of such compensation in DSUs. The number of DSUs received is equal to the amount of compensation elected to be received in DSUs, divided by the volume-weighted average trading price of the Erdene Common Shares or the Erdene New Shares, as the case may be, on the TSX for the 5 trading days immediately prior to the payment date ("**Market Value**"). DSUs awarded under the DSU Plan in lieu of annual compensation will vest immediately.

In addition, the compensation committee of the Board ("**Committee**") will have the authority to make discretionary awards of DSUs to directors and employees under the DSU Plan. DSUs granted pursuant to discretionary awards will vest in accordance with the vesting schedule determined by the Committee. Generally, DSUs will vest equally over 3 years, with 25% of the awarded DSUs vesting on the date of the award and an additional 25% vesting on each anniversary until fully vested. The Committee may at any time shorten the vesting period of any or all DSUs, including upon a change of control.

In the event that a dividend is paid on the Erdene Common shares or the Erdene New Shares, as the case may be, while DSUs are outstanding, each director or employee who has received DSUs will be allocated additional DSUs equal to the total amount of dividends paid on the number of shares which is equal to the number of DSUs received by such director or employee, as the case may be, divided by the Market Value of an Erdene Common Share or Erdene New Share, as the case may be, as at the dividend payment date.

Each DSU represents the right of the director or employee to receive, after his or her death, resignation, retirement or other termination, at the option of Erdene, either (a) a cash payment equal to the Market Value of an Erdene Common Share or an Erdene New Share, as the case may be, on the date of such termination event multiplied by the number of DSUs then held, or (b) that number of Erdene Common Shares or Erdene New Shares, as the case may be, representing the Deferred Share Units then held by such director or employee. Under the DSU Plan, Erdene is authorized to withhold any amounts required to be withheld or deducted under applicable taxation or other laws. If applicable, DSUs will cease vesting on the date of the termination event.

Each participant in the DSU Plan will have a DSU account to record all awards of DSUs and, if applicable, the vesting of DSUs.

Maximum Number of Shares Issued

The maximum number of Erdene Common Shares or Erdene New Shares, as the case may be, issuable under the DSU Plan is 2,500,000, representing 2.6% of the issued and outstanding Erdene Common Shares (or 5.2% of the issued and outstanding Erdene New Shares as of the implementation of the Arrangement).

The DSU Plan provides that the maximum number of Erdene Common Shares or Erdene New Shares, as the case may be, issuable to insiders (as that term is defined by the TSX) pursuant to the DSU Plan, together with any Erdene Common Shares or Erdene New Shares, as the case may be, issuable pursuant to any other security based compensation arrangement of Erdene, will not exceed 10% of the total issued and outstanding Erdene Common Shares or Erdene New Shares, as the case may be, at any time. In addition, the maximum number of Erdene Common Shares or Erdene New Shares, as the case may be, issued to insiders under the DSU Plan, together with any Erdene Common Shares or Erdene New Shares issued to insiders pursuant to any other security based compensation arrangement of Erdene, within any one year period, will not exceed 10% of the total number of outstanding Erdene Common Shares or Erdene New Shares, as the case may be.

Transferability

Neither the DSUs nor any other rights or interests under the DSU Plan may be assigned or transferred by a participant under the DSU Plan except by a legal will or other testamentary dispositions, or according to applicable laws respecting the devolution of estates.

Amendments to the DSU Plan

The DSU Plan provides that the Board may at any time, and from time to time, and without shareholder approval, amend any provision of the DSU Plan, subject to any regulatory or TSX requirement at the time of such amendment, including, without limitation:

- (a) for the purpose of making minor or technical modifications to any of the provisions of the DSU Plan including amendments of a "clerical" or "housekeeping in close in nature";
- (b) to correct any ambiguity, defective provision, error or omission in the provisions of the DSU Plan;
- (c) amendments to the termination provisions;
- (d) amendments necessary or advisable because of any change in applicable securities laws;
- (e) amendments regarding the administration of this DSU Plan; and
- (f) any other amendment, fundamental or otherwise, not requiring shareholder approval under applicable laws or the rules of the TSX;

provided however, that:

- (g) no such amendment of the DSU Plan may be made without the consent of each affected participant in this DSU Plan if such amendment would adversely affect the rights of such affected participant(s) under this DSU Plan;
- (h) no amendment shall be made unless it is such that the DSU Plan continuously meets the requirements of paragraph 6801(d) of the Regulations to the Income Tax Act (Canada) or any successor provision thereto; and
- (i) shareholder approval shall be obtained in accordance with the requirements of the TSX for any amendment:
 - a. to increase the maximum number of Deferred Share Units that may be issued under the DSU Plan above 2,500,000; or
 - b. to the amendment provision of the DSU Plan.

In the event of the suspension of the DSU Plan, no further Deferred Share Units shall be awarded or credited under the DSU Plan. Any Deferred Share Units that remain outstanding in a participant's account at that time shall continue to be dealt with in accordance with the terms of the DSU Plan. The DSU Plan shall terminate when all payments owing pursuant to the DSU Plan have been made and all Deferred Share Units have been cancelled in all participants' account.

Approval of the DSU Plan

There have been no Deferred Share Units issued under the DSU Plan as of the date of this Circular.

The TSX has conditionally approved the DSU Plan, subject to approval of the Erdene Shareholders. At the Meeting, Erdene Shareholders will be asked to approve the DSU Plan Resolution substantially in the form attached as Schedule L, adopting the DSU Plan.

In order to be approved, the resolution must be passed by a majority of the votes cast by the holders of the Erdene Shares present in person or represented by proxy at the Meeting.

The Board recommends that Erdene Shareholders vote in favour of the DSU Plan Resolution to adopt the DSU Plan.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed in this Circular under "*Interests of Certain Persons or Companies in the Matters to be Acted Upon*", none of the current directors or executive officers of Erdene or the proposed directors or executive officers of Erdene following completion of the Arrangement as identified in Schedule F – "*Information Concerning Erdene Resource Development Corporation – Post-Arrangement; Directors and Officers*", or associates or Affiliates of any of these persons, had any material interest, direct or indirect, in any transaction since January 1, 2011, or in any proposed transaction which, in either case, has materially affected or would materially affect Erdene or its subsidiaries.

OTHER BUSINESS

Management of Erdene knows of no matters to come before the Meeting other than those referred to in the Notice of Meeting accompanying this Circular. However, if any other matters properly come before the Meeting, it is the intention of the persons named in the proxy accompanying this Circular to vote the same in accordance with their best judgment of such matters.

ADDITIONAL INFORMATION

Additional information relating to Erdene is available on SEDAR at www.sedar.com. Financial information is provided in the Erdene's comparative financial statements and MD&A for its most recently completed financial year and for the 6 month period ended June 20, 2012. To request copies of Erdene's financial statements and MD&A, Erdene Shareholders should contact Megan Jeffries at Erdene Resource Development Corporation, Suite 1480, 99 Wyse Road, Dartmouth, Nova Scotia, B3A 4S5, Telephone (902) 423-6419, Fax (902) 423-6432. The financial statements and MD&A are also available on SEDAR at www.sedar.com.

APPROVAL OF CIRCULAR

The contents and the sending of the Circular have been approved by the board of directors of Erdene Resources Development Corporation.

Dated at Halifax, Nova Scotia, as of the 25 day of September, 2012.

ON BEHALF OF THE BOARD

(signed) *Peter C. Akerley*
President and Chief Executive Officer

CONSENT OF AUDITOR - ERDENE

We have read the Notice of Special Meeting of Shareholders and Management Information Circular (the "**Circular**") of Erdene Resource Development Corporation ("**Erdene**") dated September 25, 2012, relating to the plan of arrangement involving Erdene, Advanced Primary Minerals Corporation and Erdene Resources Inc. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Circular of our report to the shareholders of Erdene on the consolidated financial statements of Erdene, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010 and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated March 28, 2012.

(signed) "KPMG LLP"

Chartered Accountants
September 25, 2012
Halifax, Nova Scotia

CONSENT OF AUDITOR - ERDENE RESOURCES

We have read the Notice of Special Meeting of Shareholders and Management Information Circular (the "**Circular**") of Erdene Resource Development Corporation ("**Erdene**") dated September 25, 2012, relating to the plan of arrangement involving Erdene, Advanced Primary Minerals Corporation and Erdene Resources Inc. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the Circular:

- of our report to the directors of Erdene Resource Development Corporation on the consolidated carve-out financial statements of Erdene Resources, which comprise the consolidated carve-out statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated carve-out statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated September 25, 2012.
- of our report to the directors of Erdene Resource Development Corporation on the consolidated carve-out financial statements of Erdene Resources, which comprise the Consolidated carve-out balance sheets as at December 31, 2010 and December 31, 2009, the consolidated carve-out statements of income, changes in equity and cash flows for the years ended December 31, 2010 and December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated September 25, 2012.

(signed) "KPMG LLP"
Chartered Accountants

September 25, 2012
Halifax, Canada

CONSENT OF VALUATOR

We hereby consent to the inclusion of our report dated August 7, 2012 as Schedule D to the management information circular ("**Circular**") of Erdene Resource Development Corporation ("**Erdene**") dated September 25, 2012 relating to the special meeting of the shareholders of Erdene to, among other matters, authorize and approve a statutory plan of arrangement under Section 192 of the *Canada Business Corporations Act* and consent to the inclusion of our name, the reference to and summary of our report under the heading "*The Arrangement – Valuation and Fairness Opinion*", and to the inclusion of our report as Schedule D to the Circular.

(Signed) "*Paradigm Capital Inc.*"

Toronto, Ontario
September 25, 2012

ARRANGEMENT RESOLUTION

Special Resolution of the holders of Common Shares of Erdene Resource Development Corp. (the "Corporation")

WHEREAS as provided in the Interim Order granted by the Nova Scotia Supreme Court on September 26, 2012 and in accordance with the *Canada Business Corporations Act*, in order for the Arrangement to be implemented, the following Arrangement Resolution, with or without variation, must be passed at the Meeting by the affirmative vote of at least 66 2/3% of the votes cast by Erdene Shareholders present in person or represented by proxy at the Meeting.

AND WHEREAS in accordance with the TSX Rules, the requirements of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* and as provided in the Interim Order, the Arrangement Resolution must also be approved by a majority of the votes cast by Erdene Shareholders other than Related Parties present in person or represented by proxy at the Meeting.

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement (as it may be modified or amended, the "**Arrangement**") under section 192 of the *Canada Business Corporations Act* involving the Corporation, Advanced Primary Minerals Corp. ("**APM**") and Erdene Resources Inc. ("**ERI**"), all as more particularly described and set forth in the plan of arrangement (as it may be modified or amended, the "**Plan of Arrangement**") attached as Schedule C to the Arrangement Agreement attached as Schedule B to the management information circular of the Corporation dated September 25, 2012, is authorized, approved and adopted.
2. The amended and restated arrangement agreement dated as of August 7th, 2012 between the Corporation, APM and ERI, as it may be further amended from time to time (the "**Arrangement Agreement**"), the actions of the board of directors of the Corporation ("**Board**") in approving the Arrangement and the Arrangement Agreement and the actions of the directors and officers of the Corporation in executing and delivering the Arrangement Agreement and causing the performance by the Corporation of its obligations thereunder are confirmed, ratified, authorized and approved.
3. Notwithstanding that this resolution has been passed (and the Arrangement approved and adopted) by the Corporation's shareholders or that the Arrangement has been approved by the Supreme Court of Nova Scotia, the Board is hereby authorized and empowered without further approval of the holders of common shares of the Corporation (i) to amend the Arrangement Agreement or the Plan of Arrangement to the extent permitted by the Arrangement Agreement, and (ii) not to proceed with the Arrangement at any time prior to the Effective Time (as defined in the Arrangement Agreement).
4. Any director or officer of the Corporation is hereby, authorized, empowered and instructed, acting for, in the name and on behalf of the Corporation, to execute or cause to be executed, under the seal of the Corporation or otherwise, and to deliver or to cause to be delivered, all such other documents and to do or to cause to be done all such other acts and things as in such person's opinion may be necessary or desirable in order to carry out the intent of the foregoing paragraphs of these resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or the doing of such act or thing.

ARRANGEMENT AGREEMENT

**AMENDED AND RESTATED
ARRANGEMENT AGREEMENT**

ERDENE RESOURCE DEVELOPMENT CORP.

- and -

ADVANCED PRIMARY MINERALS CORP.

- and -

ERDENE RESOURCES INC.

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AMENDED AND RESTATED ARRANGEMENT AGREEMENT

THIS AMENDED AND RESTATED ARRANGEMENT AGREEMENT is made as of the 7th day of August, 2012,

BETWEEN:

ERDENE RESOURCE DEVELOPMENT CORP., a corporation incorporated under the *Canada Business Corporations Act* ("**Erdene**")

OF THE FIRST PART

- and -

ADVANCED PRIMARY MINERALS CORP., a corporation continued under the *Canada Business Corporations Act* ("**APM**")

OF THE SECOND PART

- and -

ERDENE RESOURCES INC., a corporation incorporated under the *Canada Business Corporations Act* ("**ERI**")

OF THE THIRD PART

WHEREAS:

- A. ERI is a wholly-owned subsidiary of Erdene that holds substantially all of Erdene's North American assets, including its interest in the Donkin Coal Project;
- B. Erdene currently holds approximately 60% of the issued and outstanding APM Shares;
- C. Erdene and APM have agreed to proceed with a reorganization transaction whereby, among other things, Erdene will transfer to APM substantially all of its North American assets by way of the transfer of all of the issued and outstanding common shares of ERI in exchange for APM Common Shares, whereupon APM and ERI shall amalgamate to form Amalco, the Amalco Common Shares shall be consolidated and all Amalco Common Shares owned by Erdene (approximately 97.25% of the issued and outstanding Amalco Common Shares) shall be distributed to the Erdene Shareholders based on their proportionate shareholdings of Erdene;
- D. The parties intend to effect the proposed transaction by way of a Plan of Arrangement under Section 192 of the CBCA;
- E. The APM Independent Committee has unanimously determined that the transactions proposed to be effected by way of the Plan of Arrangement are advisable and in the best interest of APM and has unanimously approved the transactions contemplated by this Agreement and has unanimously determined to recommend approval of the Plan of Arrangement to the APM Shareholders; and
- F. The Erdene Unrelated Directors have unanimously determined that the transactions proposed to be effected by way of the Plan of Arrangement are advisable and in the best interest of Erdene

and have unanimously approved the transactions contemplated by this Agreement and have unanimously determined to recommend approval of the Plan of Arrangement to the Erdene Shareholders;

G. Each of the Parties has agreed to participate in and support the Arrangement; and

H. The Parties entered into an arrangement agreement made as of August 7, 2012 (the "Original Agreement") as amended by an amending agreement dated as of September 17, 2012 and now wish to enter into this agreement to restate the Original Agreement as amended.

NOW THEREFORE, in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the Parties hereby covenant and agree as follows:

ARTICLE 1 - INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires, the following capitalized words and terms shall have the following meanings ascribed to them below:

- (a) "**Acquisition Proposal**" means other than the transactions contemplated by this Agreement, any offer, proposal, expression of interest, or inquiry from any person (other than a Party hereto or any of its affiliates) after the date hereof relating to: (i) any acquisition or sale, direct or indirect, of any substantial part of the issued or unissued shares of all of or any of APM and its subsidiaries; or (ii) any arrangement, amalgamation, merger, sale, or purchase of assets, take-over bid, tender offer, share exchange, exchange offer, restructuring, reorganization, recapitalization, liquidation or winding-up of, or other business combination or similar transactions involving all of or any of APM and its subsidiaries;
- (b) "**Amalco**" means the corporation continuing from the amalgamation of APM and ERI pursuant to the Plan of Arrangement, to be known as "Morien Resources Corp.";
- (c) "**Amalco Common Shares**" means the voting common shares without par value of Amalco;
- (d) "**APM**" has the meaning given to it in the description of the Parties on page one (1) of this Agreement;
- (e) "**APM Arrangement Resolution**" means the special resolution of the APM Shareholders in respect of the Arrangement and related matters, to be considered at the APM Meeting, substantially in the form and content of Schedule A;
- (f) "**APM Circular**" means the management information circular of APM, including all schedules and exhibits thereto, to be sent to APM Shareholders in connection with the APM Meeting;

- (g) "**APM Common Shares**" means the common shares of APM as they exist on the date hereof;
- (h) "**APM Disclosure Letter**" means the letter of even date herewith delivered by APM to Erdene in form and substance satisfactory to Erdene, acting reasonably, and initialled by Erdene with respect to certain matters in this Agreement;
- (i) "**APM Independent Committee**" means the special committee of the board of directors of APM comprised of Charles G. Pitcher and Philip S. Martin;
- (j) "**APM Meeting**" means the special meeting of APM Shareholders to be held on or about October 11, 2012 and any adjournment(s) or postponement(s) thereof, to vote on the APM Arrangement Resolution and any other matters set out in the APM Notice of Meeting;
- (k) "**APM Notice of Meeting**" means the notice to APM Shareholders of the APM Meeting, which notice will accompany the APM Circular;
- (l) "**APM Options**" means the outstanding options to acquire APM Common Shares issued under the APM Stock Option Plan;
- (m) "**APM Shareholders**" means the holders from time to time of issued and outstanding APM Common Shares;
- (n) "**APM Stock Option Plan**" means the incentive stock option plan of APM approved by the APM Shareholders on June 29, 2012, pursuant to which APM grants options to acquire APM Common Shares to eligible participants;
- (o) "**Applicable Laws**" means all applicable securities laws, rules of applicable stock exchanges and applicable corporate laws including the rules, regulations, notices, instruments and blanket orders of the securities regulatory authorities in Canada;
- (p) "**Arrangement**" means the arrangement under the provisions of section 192 of the CBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations thereto made in accordance with this Agreement or the Plan of Arrangement or made at the direction of the Court in the Final Order with the consent of ERD and APM;
- (q) "**Arrangement Agreement**" or "**Agreement**" means this arrangement agreement, including the Schedules attached hereto, as amended or supplemented from time to time;
- (r) "**Articles of Arrangement**" means the articles in respect of the Arrangement required under subsection 192(6) of the CBCA to be filed with the Director after the Final Order has been granted;
- (s) "**Business Day**" means any day, other than a Saturday, Sunday or holiday when Canadian chartered banks are generally open in the City of Halifax, Nova Scotia for the transaction of banking business;

- (t) "**CBCA**" means the *Canada Business Corporations Act* R.S.C. 1985, c. C-44, and the regulations thereto, as now in effect and as it may be amended from time to time prior to the Effective Date;
- (u) "**Certificate**" means the certificate giving effect to the Arrangement endorsed by the Director on the Articles of Arrangement pursuant to subsection 192(7) of the CBCA;
- (v) "**Completion Deadline**" has the meaning given to it in Section 2.4 hereof;
- (w) "**Court**" means the Nova Scotia Supreme Court;
- (x) "**Director**" means the director appointed pursuant to section 260 of the CBCA;
- (y) "**Donkin Coal Project**" means the exclusive right to explore and potentially develop and operate the coal resource area in the Sydney, Nova Scotia coal field that is known as the "Donkin Coal Resource Block";
- (z) "**Donkin JV Agreement**" means the agreement dated as of October 15, 2008 among Xstrata Coal Donkin Limited, 6531954 Canada Inc., Xstrata Coal Donkin Management Limited and Donkin Tenements Inc. with respect to the Donkin Coal Project;
- (aa) "**Effective Date**" means the date designated by Erdene and APM by notice in writing as the effective date of the Arrangement, after all of the conditions of this Agreement and the Final Order have been satisfied or waived;
- (bb) "**Effective Time**" means 12:01 a.m. (Eastern Time) on the Effective Date or such other time as may be determined by Erdene and APM;
- (cc) "**Erdene**" has the meaning given to it in the description of the Parties on page one (1) hereof;
- (dd) "**Erdene Arrangement Resolution**" means the special resolution of the Erdene Shareholders in respect of the Arrangement and related matters, to be considered at the Erdene Meeting, substantially in the form and content of Schedule B;
- (ee) "**Erdene Circular**" means the management information circular of Erdene, including all schedules and exhibits thereto, to be sent to Erdene Shareholders in connection with the Erdene Meeting;
- (ff) "**Erdene Class A Common Shares**" means the renamed and redesignated Erdene Common Shares as described in subsection 3.1(a) of the Plan of Arrangement;
- (gg) "**Erdene Common Shares**" means the common shares of Erdene as they exist on the date hereof;
- (hh) "**Erdene Disclosure Letter**" means the letter of even date herewith delivered by Erdene to APM, in form and substance satisfactory to APM, acting reasonably, and initialled by APM, with respect to certain matters in this Agreement;
- (ii) "**Erdene Meeting**" means a special meeting of Erdene Shareholders to be held on or about October 11, 2012 and any adjournment(s) or postponement(s) thereof, to vote on

the Erdene Arrangement Resolution and any other matters set out in the Erdene Notice of Meeting;

- (jj) "**Erdene New Shares**" means the unlimited number of new common shares of Erdene as described in subsection 3.1(a) of the Plan of Arrangement;
- (kk) "**Erdene Notice of Meeting**" means the notice to Erdene Shareholders of the Erdene Meeting, which notice will accompany the Erdene Circular;
- (ll) "**Erdene Options**" means the outstanding options to acquire Erdene Common Shares issued under the Erdene Stock Option Plan;
- (mm) "**Erdene Shareholders**" means the holders from time to time of issued and outstanding Erdene Common Shares;
- (nn) "**Erdene Stock Option Plan**" means the incentive stock option plan of Erdene adopted by the board of directors of Erdene on April 9, 2007 and approved by Erdene Shareholders on May 10, 2007, pursuant to which Erdene grants options to acquire Erdene Common Shares to eligible participants;
- (oo) "**Erdene Unrelated Directors**" means all of the directors of Erdene other than J. C. (Chris) Cowan, Kenneth W. MacDonald and Philip L. Webster;
- (pp) "**ERI**" has the meaning given to it in the description of the Parties on page one (1) of this Agreement;
- (qq) "**Final Order**" means the final order of the Court, in a form acceptable to Erdene and APM, approving the Arrangement, as such order may be amended or varied by the Court (with the consent of Erdene and APM) at any time prior to the Effective Date, or if appealed, then, until such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is acceptable to Erdene and APM) on appeal;
- (rr) "**Governmental Authority**" means any applicable:
 - (i) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign;
 - (ii) any subdivision, agency, commission, board or authority of any of the entities set forth in clause (i) of this subsection (rr); or
 - (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;
- (ss) "**Interim Order**" means an interim order of the Court containing declarations and directions with respect to the Arrangement and the holding of the APM Meeting and the Erdene Meeting, as such order may be affirmed, amended or modified (provided that any such amendment is acceptable to Erdene and APM) by the Court;
- (tt) "**MI 61-101**" means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*;

- (uu) **"Material Adverse Change"** has the meaning ascribed thereto in the Applicable Laws;
- (vv) **"Material Adverse Effect"** when used in connection with a Party, means any change, effect, event, circumstance or occurrence with respect to its condition (financial or otherwise) properties, assets, liabilities, obligations (whether absolute, accrued, contingent or otherwise) businesses or operations, or those of its subsidiaries, that is, or would reasonably be expected to be, material and adverse to the current or future business, operations, financial condition or results of operation of that Party and its Subsidiaries taken as a whole; provided however, that a Material Adverse Effect shall not include any such change, effect, event or occurrence directly or indirectly arising out of or attributable to:
 - (i) general economic conditions or the financial, lending, currency exchange, securities or commodities markets, to the extent that they do not disproportionately affect that Party and its subsidiaries, taken as a whole, in relation to other companies in the industries in which that Party and its Subsidiaries operates;
 - (ii) the industries in which that Party operates in general, to the extent that they do not disproportionately affect that Party and its subsidiaries, taken as a whole, in relation to other companies in the same industries;
 - (iii) any change in Applicable Laws, to the extent that it does not disproportionately affect that Party and its subsidiaries, taken as a whole, in relation to other companies in the same industries;
 - (iv) commencement, occurrence or continuation of any war, armed hostilities or acts of terrorism, to the extent that it does not disproportionately affect that Party and its subsidiaries, taken as a whole, in relation to other companies in the same industries;
 - (v) any decrease in the market price or any decline in the trading volume of the APM Common Shares or Erdene Common Shares (it being understood that the causes underlying such change in market price or trading volume may be taken into account in determining whether a Material Adverse Effect has occurred) or any suspension of trading in securities generally on any securities exchange on which any securities of APM or Erdene trade; or
 - (vi) the execution and delivery of this Agreement, the public announcement thereof or the completion of the transactions contemplated herein;
- (ww) **"Party"** means a party to this Agreement and **"Parties"** means two or more of the parties to this Agreement;
- (xx) **"Person"** or **"person"** means and includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, trustee, executor, administrator or other legal representative and the Crown or any agency or instrumentality thereof;
- (yy) **"Plan of Arrangement"** means the plan of arrangement in substantially the form of the plan of arrangement that is attached as Schedule C hereto and any amendments or

variations thereto made in accordance with this Agreement, the Plan of Arrangement or upon the direction of the Court in the Final Order with the consent of Erdene and APM;

- (zz) "**Subsidiary**" means, with respect to a specified body corporate, any body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified body corporate and shall include any body corporate, partnership, joint venture or other entity over which such specified body corporate exercises direction or control or which is in a like relation to a subsidiary;
- (aaa) "**Superior Proposal**" means an Acquisition Proposal in respect of APM if the members of the APM Independent Committee have determined in good faith, after consultation with, and receiving advice (which may include written opinions, a copy of which shall have been provided to Erdene) from such financial, legal and other advisors to the APM Independent Committee as they consider appropriate, if any, to the effect that such Acquisition Proposal would, if consummated in accordance with the terms thereof result in a transaction which:
 - (i) provides consideration to APM Shareholders that is, on the basis of an opinion of an independent and qualified financial advisor, more favourable from a financial point of view than the transaction contemplated by this Agreement (after taking into account any modifications to this Agreement proposed by the third party); and
 - (ii) is reasonably capable of being completed within a reasonable time;
- (bbb) "**TSX**" means the Toronto Stock Exchange;
- (ccc) "**TSXV**" means the TSX Venture Exchange; and
- (ddd) "**U.S. Securities Act**" means the *United States Securities Act* of 1933 and the rules and regulations promulgated thereunder, as the same has been and hereafter from time to time may be amended.

In addition, words and phrases used herein and defined in the CBCA shall have the same meaning herein as in the CBCA unless otherwise defined herein or unless the context otherwise requires.

1.2 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada unless otherwise specified.

1.3 Interpretation Not Affected by Headings

The division of this Agreement into articles, sections and schedules and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement (including the Exhibits and appendices hereto) as a whole and not to any particular article, section, paragraph or other portion hereof and include any agreement, document or instrument supplementary or ancillary hereto.

1.4 Article References

Unless something in the subject matter or context is inconsistent therewith, all references herein to articles, sections, paragraphs and other portions are to articles, sections, paragraphs and other portions of this Agreement.

1.5 Construction

In this Agreement, unless something in the context is inconsistent therewith:

- (a) the words "include" or "including" when following any general term or statement are not to be construed as limiting the general term or statement to the specific items or matters set forth or to similar items or matters, but rather as permitting it to refer to all other items or matters that could reasonably fall within its broadest possible scope;
- (b) a reference to time or date is to the time or date in Halifax, Nova Scotia, unless specifically indicated otherwise;
- (c) a word importing the masculine gender includes the feminine gender or neuter and a word importing the singular includes the plural and vice versa; and
- (d) a reference to "approval", "authorization", "consent", "designation" or "notice" means written approval, authorization, consent, designation or notice unless specifically indicated otherwise.

1.6 Date for any Action

In the event that any date on which any action required to be taken hereunder by any of the parties hereto is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place, unless otherwise agreed to.

1.7 Entire Agreement

This Agreement, together with the Schedules, agreements and other documents herein or therein referred to, constitute the entire agreement between the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties hereto with respect to the subject matter hereof.

1.8 Schedules

The following Schedules are annexed to this Agreement and are incorporated by reference into this Agreement and form a part hereof:

- Schedule A – APM Arrangement Resolution
- Schedule B – Erdene Arrangement Resolution
- Schedule C – Plan of Arrangement

ARTICLE 2 - THE ARRANGEMENT

2.1 Arrangement

The Parties agree that the Arrangement will be implemented in accordance with and subject to the terms and conditions contained in this Agreement and the Plan of Arrangement.

2.2 Interim and Final Orders

As soon as reasonably practicable, Erdene and APM shall apply to the Court for an order approving the Arrangement and in connection with such application shall:

- (a) Interim Order. Forthwith file, proceed with and diligently prosecute an application for an Interim Order providing for, among other things, the calling and holding of:
 - (i) the APM Meeting for the purpose of, among other matters, the APM Shareholders considering and, if deemed advisable, approving the APM Arrangement Resolution;
 - (ii) the Erdene Meeting for the purpose of, among other matters, the Erdene Shareholders considering and, if deemed advisable, approving the Erdene Arrangement Resolution; and
- (b) Final Order. Subject to obtaining all necessary approvals of the Erdene Shareholders and the APM Shareholders as contemplated in the Interim Order, and as may be directed by the Court in the Interim Order, take the necessary steps to submit the Arrangement to the Court and apply for the Final Order, on terms acceptable to the Parties acting reasonably, and shall diligently prosecute an application for the Final Order,

and, upon issuance of the Final Order and subject to fulfilment or waiver of the conditions set forth in Article 5, shall deliver to the Director the Articles of Arrangement together with such other documents as may be required to give effect to the Arrangement, whereupon the transactions comprising the Arrangement shall occur and shall be deemed to have occurred in the order set out therein, without any further act or formality.

2.3 U.S. Matters

Erdene shall advise the Court of its intention to rely upon the exemption in Section 3(a)(10) of the U.S. Securities Act in respect of the distribution to Erdene Shareholders of Amalco Common Shares and Erdene New Shares. APM shall advise the Court of its intention to rely upon the exemption in Section 3(a)(10) of the U.S. Securities Act in respect of the distribution of Amalco Common Shares to APM Shareholders.

2.4 Effective Time

The Arrangement shall become effective at the Effective Time. The Parties shall use their reasonable commercial efforts to cause the Effective Date to occur on or about October 31, 2012 or as soon thereafter as reasonably practicable and in any event by November 30, 2012 (the "**Competition Deadline**").

ARTICLE 3 - REPRESENTATIONS AND WARRANTIES

3.1 Mutual Representations and Warranties

Each of the Parties hereby represents and warrants to the other that:

- (a) Subsistence and Capacity. It is a corporation incorporated or continued and subsisting under the laws of Canada and has full capacity and authority to enter into this Agreement and, subject to obtaining the requisite approvals and consents contemplated herein, to perform its obligations hereunder.
- (b) Corporate Action. It has taken all corporate actions necessary to authorize the execution and delivery of, and the performance of its obligations under this Agreement and this Agreement has been duly executed and delivered by it.
- (c) Performance will not cause Default. Neither the execution and delivery of this Agreement nor the performance of any of its covenants and obligations hereunder will constitute a material default under, or be in any material contravention or breach of:
 - (i) any provision of its constating documents or other governing corporate documents;
 - (ii) any judgment, decree, order, law, statute, rule or regulation applicable to it; or
 - (iii) any agreement or instrument to which it is a party or by which it is bound.
- (d) Insolvency Proceedings. No dissolution, winding up, bankruptcy, liquidation or similar proceeding has been commenced or is pending or proposed in respect of it.

3.2 Representations and Warranties of Erdene and ERI

Except as set forth in the Erdene Disclosure Letter, Erdene and ERI hereby represent and warrant to APM, and hereby acknowledge that APM is relying upon such representations and warranties in entering into this Agreement and agreeing to complete the Arrangement:

- (a) Valuation and Opinion of Financial Advisor

The Erdene Unrelated Directors have received an opinion ("**Erdene Fairness Opinion**") of Paradigm Capital Inc. to the effect that, as of the date of this Agreement, the Arrangement is fair, from a financial point of view, to the Erdene Shareholders, which opinion has not been modified, amended or withdrawn. The Erdene Unrelated Directors have received a formal valuation ("**Erdene Valuation**") from Paradigm Capital Inc., the preparation and contents of which complies in all material respects with the requirements of MI 61-101 for a formal valuation in respect of the transactions contemplated herein and in the Plan of Arrangement. A true and complete copy of the Erdene Fairness Opinion and the Erdene Valuation were provided by Erdene to APM prior to the execution of this Agreement.

- (b) Erdene Board Approval

The Erdene Unrelated Directors, after consultation with Erdene's financial and legal advisors, have determined unanimously that the Arrangement is fair to the Erdene Shareholders and is in the best interests of Erdene and have resolved unanimously to recommend to the Erdene Shareholders that they

vote their Erdene Common Shares in favour of the Arrangement. The Erdene Unrelated Directors have unanimously approved the Arrangement and the execution and performance of this Agreement.

(c) Ownership of ERI

ERI is a wholly-owned subsidiary of Erdene.

(d) Assets of ERI

ERI owns all of the outstanding shares of 6531954 Canada Limited which, in turn, holds all of Erdene's interest in the Donkin Coal Project, including 25% of the issued and outstanding shares of Donkin Tenements Inc., in each case free and clear of all liens, and is a party to the Donkin JV Agreement.

(e) Liabilities of ERI

The data and information in respect of ERI and its assets, liabilities, business and operations provided by Erdene to APM or its representatives was and is accurate and correct in all material respects as at the respective dates thereof and, in respect of any information provided or requested, did not knowingly omit any material data or information necessary to make any data or information provided not misleading as at the respective dates thereof.

(f) Information Regarding Assets

APM has been provided with a true and complete copy of all contracts, agreements and licences material to the assets owned by ERI (or to be acquired by ERI prior to the Effective Date) and the conduct of the business of ERI, namely all contracts and agreements related to Erdene's interest in the Donkin Coal Project and the Black Point project, which is to be transferred to ERI prior to the Effective Date. There are no current or pending negotiations with respect to the renewal, termination or amendment of any such material contracts, agreements or licences. Neither Erdene nor ERI is in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement or licence to which it is a party or by which either Erdene or ERI is bound which would, individually or in the aggregate, have a Material Adverse Effect on ERI.

(g) Capitalization of Erdene

Erdene is authorized to issue an unlimited number of Erdene Common Shares without nominal or par value of which 95,802,901 are issued and outstanding as of the date of this Agreement. On the date of this Agreement, there are 7,413,000 Erdene Options outstanding, permitting the holders thereof to purchase 7,413,000 Erdene Common Shares.

(h) Vote Required

The only vote of holders of securities of Erdene necessary (under Erdene's constating documents, the CBCA, the rules and policies of the TSX, other Applicable Laws or otherwise) to approve the Arrangement is, subject to any requirements of the Interim Order:

- (i) approval of 66 2/3% of the votes cast on the Erdene Arrangement Resolution by the Erdene Shareholders; and
- (ii) approval of in excess of 50% of the votes cast on the Erdene Arrangement Resolution by the Erdene Shareholders other than those required to be excluded in

determining the "majority of the minority" approval required pursuant to MI 61-101,

in each case present in person or represented by proxy at the Erdene Meeting.

(i) No Option on Assets

No person has any agreement or option or any right or privilege capable of becoming an agreement or option for the purchase from Erdene of the shares of ERI or any of the assets of ERI, or the Black Point project except as set forth in the Donkin JV Agreement.

(j) Public Record

Since December 31, 2009, Erdene has filed with all applicable securities administrators (including exchanges and markets), all material information and documents required to be filed with such authorities under the securities legislation in the jurisdictions in which it is a reporting issuer ("**Erdene Public Record**"). The documents comprising the Erdene Public Record, at the time filed:

- (i) did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein not misleading in light of the circumstances under which they were made; and
- (ii) complied in all material respects with the requirements of Applicable Laws.

Erdene has not filed any confidential material change report with any Canadian securities authority or regulator or any stock exchange with respect to the Donkin Coal Project or the Black Point project that, at the date of this Agreement, remains confidential.

(k) No Employees

ERI has no employees.

(l) Compliance with Laws

ERI is in compliance in all material respects with all Applicable Laws.

3.3 Representations and Warranties of APM

Except as set forth in the APM Disclosure Letter, APM hereby represents and warrants to Erdene, and hereby acknowledges that Erdene is relying upon such representations and warranties in entering into this Agreement and agreeing to complete the Arrangement:

(a) Valuation and Opinion of Financial Advisor

The APM Independent Committee has received an opinion ("**APM Fairness Opinion**") of Toll Cross Securities Inc. to the effect that, as of the date of this Agreement, the issuance of 360,028,650 APM Common Shares as consideration for Erdene's North American property interests is fair, from a financial point of view, and the Arrangement is fair to the APM minority shareholders, which opinion has not been modified, amended or withdrawn. The APM Independent Committee has received a formal valuation ("**APM Valuation**"), the preparation and contents of which complies in all material respects with the

requirements of the TSXV for a formal valuation in respect of the transactions contemplated herein and in the Plan of Arrangement. A true and complete copy of the APM Fairness Opinion and the APM Valuation have been provided by APM to Erdene prior to the execution of this Agreement.

(b) APM Board Approval

The APM Independent Committee, after consultation with its financial and legal advisors, has determined unanimously that the Arrangement is fair to the APM Shareholders and is in the best interests of APM and has resolved unanimously to recommend to the APM Shareholders that they vote their APM Shares in favour of the Arrangement. The APM Independent Committee has unanimously approved the Arrangement and the execution and performance of this Agreement.

(c) Reporting Status

APM is a reporting issuer or its equivalent in Nova Scotia, British Columbia, Alberta and Ontario. The APM Shares are listed on the TSXV.

(d) No Cease Trade

APM is not subject to any cease trade or other order of any applicable stock exchange or securities authority and, to the knowledge of APM, no investigation or other proceedings involving APM which may operate to prevent or restrict trading of any securities of APM are currently in progress or pending before any applicable stock exchange or securities authority.

(e) Assets of APM

The financial statements of APM as at and for the three months ended March 31, 2012 describe the assets of APM as of March 31, 2012. Since then, APM sold its operating assets and certain real property in Georgia for US\$839,000, comprised of US \$492,000 cash on closing and US \$401,000 in assumed liabilities. Following the sale, APM's assets, all of which are held by APM USA Corp., a wholly owned subsidiary of APM, are comprised of real property in McDuffie County, Georgia with an appraised value of \$833,500 less estimated selling costs of \$50,000 for a net appraised value of \$783,500, leasehold and ownership interests in various non-producing properties in Georgia, a production royalty on APM's Tudor Property and cash, full particulars of which have been provided to Erdene.

(f) Liabilities of APM

The financial statements of APM as of and for the period ended March 31, 2012 were prepared in accordance with International Financial Reporting Standards ("IFRS"), consistently applied, and fairly presenting all material respects the financial condition of APM at March 31, 2012 and the results of operations of APM for the period covered and reflect adequate provisions for the liabilities of APM in accordance with IFRS. APM sold its operating assets and certain real property in Georgia effective June 30, 2012. Since then, it has incurred trade liabilities in the ordinary course of business and other costs and liabilities in connection with the transactions contemplated by this Agreement.

(g) No Defaults

Erdene has been provided with a true and complete copy of all contracts, agreements and licences material to the assets owned by APM and the conduct of the business of APM, namely all contracts and agreements related to APM's interest in its assets in Georgia. There are no current or pending negotiations with respect to the renewal, termination or amendment of any such material contracts,

agreements or licences. APM is not in default under, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default under, any contract, agreement or licence to which it is a party or by which it is bound which would, individually or in the aggregate, have a Material Adverse Effect on APM.

(h) Capitalization of APM

APM is authorized to issue an unlimited number of APM Shares without par value, of which 26,342,963 are issued and outstanding as of the date of this Agreement. As of the date hereof, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments (pre-emptive, contingent or otherwise) obligating APM to issue or sell any shares of APM or any securities or obligations of any kind convertible into or exchangeable for any shares of APM, except:

- (i) APM Options to purchase an aggregate of 2,300,000 APM Common Shares, and
- (ii) pursuant to this Agreement and the transactions contemplated hereby.

All outstanding APM Common Shares have been authorized and are validly issued and outstanding as fully paid and non-assessable shares, free of pre-emptive rights. There are no outstanding bonds, debentures or other evidences of indebtedness of APM having the right to vote with the APM Shareholders on any matter. There are no outstanding contractual obligations of APM to repurchase, redeem or otherwise acquire any outstanding APM Common Shares or with respect to the voting or disposition of any outstanding APM Common Shares.

(i) Vote Required

The only vote of holders of securities of APM necessary (under APM's constating documents, the CBCA, the rules and policies of the TSXV, other Applicable Laws or otherwise) to approve the Arrangement is, subject to any requirements of the Interim Order:

- (i) approval of 66 2/3% of the votes cast on the APM Arrangement Resolution by the APM Shareholders; and
- (ii) approval of in excess of 50% of the votes cast on the APM Arrangement Resolution by the APM Shareholders other than those required to be excluded in determining the "majority of the minority" approval required pursuant to MI 61-101,

in each case present in person or represented by proxy at the APM Meeting.

(j) No Option on Assets

No person has any agreement or option or any right or privilege capable of becoming an agreement or option for the purchase any of the assets of APM.

(k) Public Record

Since December 31, 2009, APM has filed with all applicable securities administrators (including stock exchanges and markets), all material information and documents required to be filed with such authorities under the securities legislation in the jurisdictions in which it is a reporting issuer (the "**APM Public Record**"). The documents comprising the APM Public Record, at the time filed:

- (iii) did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein not misleading in light of the circumstances under which they were made; and
- (iv) complied in all material respects with the requirements of Applicable Laws.

APM has not filed any confidential material change report with any Canadian securities authority or regulator or any stock exchange that at the date of this Agreement remains confidential.

(l) Litigation

There are no injunctions, judgments, orders or legal actions or similar proceedings, either threatened or pending or outstanding against APM which may have a Material Adverse Effect on APM or the completion of the transactions contemplated herein and in the Plan of Arrangement.

ARTICLE 4 - COVENANTS

4.1 Mutual Covenants

From the date hereof until the Effective Date or the termination of this Agreement and except as otherwise expressly permitted or specifically contemplated by this Agreement (including the Plan of Arrangement) or required by Applicable Laws, each of the Parties covenants and agrees that it will:

(a) Implement Agreement

Take, and cause its Subsidiaries to take, all reasonable actions and enter into all such agreements as are necessary to complete and give effect to the transactions contemplated by this Agreement and the Plan of Arrangement, including by using all commercially reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to any instruments that it may be a party to, and taking such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby prior to the Effective Date.

(b) No Merger

Not, except in the ordinary course of business or as contemplated in connection with the Plan of Arrangement, merge into or with, or consolidate with, any other Person or, perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions contemplated by this Agreement and the Plan of Arrangement.

(c) No Amendments to Constatng Documents

Until the Effective Date, except as specifically provided for hereunder and in the Arrangement, not alter or amend its constating or governing documents, articles or by-laws or those of its Subsidiaries as the same exist at the date of this Agreement.

(d) Cooperate

Cooperate with and assist each other in dealing with transitional matters relating to or arising from the Plan of Arrangement or this Agreement.

4.2 Covenants of Erdene

From the date hereof until the Effective Date or the termination of this Agreement and except as otherwise expressly permitted or specifically contemplated by this Agreement (including the Plan of Arrangement) or required by Applicable Laws, Erdene hereby covenants and agrees with APM as follows:

(a) Conduct of Erdene Meeting

It shall in a timely and expeditious manner:

- (i) carry out the terms of the Interim Order;
- (ii) ensure that the Erdene Circular complies with Applicable Laws and provides Erdene Shareholders with sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the Erdene Meeting with respect to the Arrangement;
- (iii) file the Erdene Circular in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Order and in accordance with all Applicable Laws, and solicit proxies to be voted at the Erdene Meeting in favour of the Arrangement and related matters;
- (iv) conduct the Erdene Meeting in accordance with the Interim Order, the articles of Erdene, as applicable, and Applicable Laws; and
- (v) use commercially reasonable efforts to obtain such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable in connection with the completion of the Arrangement.

(b) Comply with Conditions Precedent

It shall use all reasonable efforts to cause each of the conditions precedent set out in Article 5 hereof that are within its control to be complied with on or before the Effective Date.

(c) Assets and Liabilities of ERI

As of the Effective Date, ERI:

- (i) will have sufficient cash such that, following the Arrangement, Amalco will have sufficient cash (after repayment of all amounts owing by Amalco to Erdene and after making an allowance for payables) to meet the requirements of the TSXV for the listing of the Amalco Common Shares;
- (ii) will have no liabilities, other than as set forth in the Erdene Disclosure Letter; and
- (iii) will own all of the issued and outstanding shares of 6531954 Canada Inc. which will, in turn, hold Erdene's interest in the Donkin Coal Project and the Black Point project.

(d) Conduct of Business of ERI

Except as contemplated by the terms of this Agreement and in the Erdene Disclosure Letter, it shall cause the business of ERI and its subsidiaries to be conducted only in the ordinary course of business consistent with past practice during a "quiet period".

(e) Notification to APM

It shall promptly notify APM of all matters related to ERI and the business of ERI including any circumstance or development that, to the knowledge of Erdene, is or would be reasonably expected to have a Material Adverse Effect or any change to that disclosed in writing to APM, or in the Erdene Public Record.

(f) Issuance of Options

Except as disclosed in the Erdene Disclosure Letter, it shall not issue any additional Erdene Options.

(g) Application to TSX

It shall forthwith make application to the TSX for consent to proceed with the Arrangement and for the substitutional listing on the TSX of the Erdene New Shares issuable pursuant to or by reason of the Arrangement.

4.3 Covenants of APM

From the date hereof until the Effective Date or the termination of this Agreement and except as otherwise expressly permitted or specifically contemplated by this Agreement (including the Plan of Arrangement) or required by Applicable Laws, APM hereby covenants and agrees with Erdene and ERI as follows:

(a) Conduct of APM Meeting

It shall in a timely and expeditious manner:

- (i) carry out the terms of the Interim Order;
- (ii) ensure that the APM Circular complies with Applicable Laws and provides APM Shareholders with sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the APM Meeting;
- (iii) file the APM Circular in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Order and in accordance with all Applicable Laws, and solicit proxies to be voted at the APM Meeting in favour of the Arrangement and related matters;
- (iv) conduct the APM Meeting in accordance with the Interim Order, the articles of APM, as applicable, and as otherwise required by Applicable Laws; and
- (v) use commercially reasonable efforts to obtain such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable in connection with the completion of the Arrangement.

(b) Comply with Conditions Precedent

It will use all reasonable efforts to cause each of the conditions precedent set out in Article 5 hereof that are within its control to be complied with on or before the Effective Date.

(c) Assets and Liabilities

As of the Effective Date, APM will own all of the issued and outstanding shares of Advanced Primary Minerals USA Corp., which:

- (i) will not dispose of any assets without the prior approval of Erdene; and
- (ii) will have no liabilities other than:
 - (A) liabilities incurred in the ordinary course of business, recognizing that APM sold its operating assets in June 30, 2012;
 - (B) costs and liabilities incurred in connection with the proposed Arrangement; and
 - (C) amounts owing to Erdene, which are secured by a charge on APM's assets.

(d) Business in Ordinary Course

It will not carry on any business, other than as currently conducted, enter into any transaction or effect any corporate act whatsoever until the Effective Date other than as contemplated herein or in the Plan of Arrangement without the prior written consent of Erdene.

(e) Notification to Erdene

It shall promptly notify Erdene of all matters related to APM and the business of APM including any circumstance or development that, to the knowledge of APM, is or would be reasonably expected to have a Material Adverse Effect or any change to that disclosed in writing to Erdene, or in the APM Public Record.

(f) Reservation of APM Securities

It will reserve and authorize for issuance the securities issuable by it as contemplated in the Plan of Arrangement.

(g) Application to TSX-V

It shall forthwith make application to list on the TSXV the Amalco Common Shares issuable pursuant to or by reason of the Arrangement.

(h) No Issuance of Securities

It will not issue any securities or enter into any agreements to issue or grant options, warrants or rights to purchase any of its securities until the Effective Date.

4.4 Access to Information

Subject to Applicable Laws, upon reasonable notice to the other, each of Erdene and APM shall (and shall cause each of its Subsidiaries and their respective representatives, officers, directors, employees and agents to) afford the directors, officers, employees and other authorized representatives, agents and advisors (including financial advisors and counsel) (collectively the "**Representatives**") of the other Party access, during normal business hours from the date of this Agreement and until the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with Article 7, to its properties, books, contracts and records, as well as to its management personnel.

ARTICLE 5 - CONDITIONS PRECEDENT

5.1 Pre-Arrangement Transactions by Erdene

Erdene agrees that it shall take such corporate actions as are necessary such that, immediately prior to the implementation of the Arrangement:

- (a) all of its interest in the Black Point project is transferred to ERI and all of its obligations in connection therewith are assumed by ERI;
- (b) ERI and its Subsidiaries will have no liabilities except as set forth in the Erdene Disclosure Letter;
- (c) no amount shall be owing by ERI or its subsidiaries to Erdene or any of its subsidiaries; and
- (d) ERI will have sufficient cash such that following the Arrangement, Amalco will have sufficient cash (after repayment of all amounts owing by Amalco to Erdene and after making an allowance for payables) to meet the requirements of the TSXV for the listing of the Amalco Common Shares.

5.2 Pre-Arrangement Transactions by APM

The directors of APM agree that, prior to the implementation of the Agreement, they shall take all steps necessary such that:

- (a) forthwith following the Effective Time, all amounts owing by Amalco to Erdene are paid in full; and
- (b) immediately following the repayment referred to in subsection 5.2(a), the board of directors of Amalco shall be comprised of five (5) individuals acceptable to Erdene and APM who shall be described in the materials circulated in connection with the APM meeting.

5.3 Mutual Conditions Precedent

The respective obligations of the Parties to complete the transactions contemplated by this Agreement and the Plan of Arrangement and the obligation of each of Erdene and APM to take such other action as is necessary or desirable to give effect to the Arrangement shall be subject to the satisfaction, on or before the Effective Date, of the following conditions:

(a) Interim Order Granted

The Interim Order shall have been granted in form and substance satisfactory to Erdene and APM.

(b) Erdene Arrangement Resolution Passed

The Erdene Arrangement Resolution, with or without amendment, shall have been approved at the Erdene Meeting, in accordance with the Interim Order.

(c) APM Arrangement Resolution Passed

The APM Arrangement Resolution, with or without amendment, shall have been approved at the APM Meeting in accordance with the Interim Order.

(d) Final Order Granted

The Final Order shall have been granted in form and substance satisfactory to Erdene and APM.

(e) Conditional Approval of TSXV

The TSXV shall have conditionally approved the listing of the Amalco Common Shares issuable in connection with the Arrangement, subject only to compliance with the usual requirements of the TSXV.

(f) Filings

The Articles of Arrangement and all necessary related documents to be filed with the Director in accordance with the Arrangement shall be in form and substance satisfactory to each of the Parties, acting reasonably, and shall have been accepted for filing by the Director together with the Final Order in accordance with subsection 192(6) of the CBCA.

(g) Other Approvals

All governmental, court, regulatory, third party and other approvals, consents, expiry of waiting periods, waivers, permits, exemptions, orders and agreements and all amendments and modifications to, and terminations of, agreements, indentures and arrangements considered by Erdene or APM to be necessary or desirable for the Arrangement to become effective and for the transfer by Erdene of the shares of ERI to APM shall have been obtained or received on terms that are satisfactory to Erdene and APM.

(h) No Actions

No action will have been instituted and be continuing on the Effective Date for:

- (i) an injunction to restrain or enjoin the Arrangement,
- (ii) a declaratory judgment in respect of or relating to the Arrangement, or
- (iii) damages or other relief arising from, in consequence of or relating to the Arrangement; there will not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement and the Plan of Arrangement; and no cease trading or similar order with respect to any securities of any of the parties will have been issued and remain outstanding.

(i) All Conditions Acceptable

None of the consents, orders, rulings, approvals or assurances required for the implementation of the Arrangement will contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by either Erdene or APM.

(j) No Law Interferes

No law, regulation or policy will have been proposed, enacted, promulgated or applied that interferes or is inconsistent with the completion of the Arrangement.

(k) No Action

No material action or proceeding shall be pending or threatened by any person, company, firm, Governmental Authority, regulatory body or agency and there shall be no action taken under any existing applicable law or regulation, nor any statute, rule, regulation or order which is enacted, enforced, promulgated or issued by any court, department, commission, board, regulatory body, government or Governmental Authority or similar agency, domestic or foreign, that:

- (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions contemplated herein; or
- (ii) results in a judgment or assessment of material damages directly or indirectly relating to the transactions contemplated herein.

(l) Notices of Dissent

Notices of dissent pursuant to Article 5 of the Plan of Arrangement shall not have been delivered by:

- (i) Erdene Shareholders holding greater than four percent (4%) of the outstanding Erdene Shares; or
- (ii) APM Shareholders holding greater than four percent (4%) of the outstanding APM Shares.

(m) Agreement Not Terminated

This Agreement shall not have been terminated pursuant to subsection 7.2 hereof.

5.4 Additional Conditions to the Obligations of Erdene

The obligations of Erdene to complete the transactions contemplated by this Agreement and the Plan of Arrangement and to take such other action or is necessary or desirable to give effect to the Arrangement shall be subject to the satisfaction of, on or before the Effective Date, of the following conditions:

- (a) the TSX shall have conditionally approved the substitutional listing of the Erdene New Shares subject only to compliance with the usual requirements of the TSX;
- (b) the TSX shall have approved the Arrangement; and
- (c) there shall not have been any Material Adverse Change in the business or assets of APM.

5.5 Additional Conditions to the Obligations of APM

The obligations of APM to complete the transactions contemplated by this Agreement and the Plan of Arrangement and to take such other action as is necessary or desirable to give effect to the Arrangement shall be subject to the satisfaction of, on or before the Effective Date, of the following condition:

- (a) there shall not have been any Material Adverse Change in the business or assets of ERI.

5.6 Conditions and Obligations of Each Party

The obligation of each of Erdene and APM to complete the transactions contemplated by this Agreement, including the Arrangement, is further subject to the condition, which may be waived by either of the Parties without prejudice to the right of such Party hereto to rely on any other condition in favour of such Party hereto, that each and every one of the covenants of the other Party hereto to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been performed by such Party and that, except as affected by the transactions contemplated by this Agreement, the representations and warranties of the other Party shall be true and correct in all material respects on the Effective Date, with the same effect as if such representations and warranties had been made on the Effective Date.

5.7 Notice of Failure to Comply with Conditions

Each of Erdene and APM shall agree that they shall give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof to the Effective Date of any event or state of facts which occurrence or failure would, or would be likely to, result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any Party hereunder provided, however, that no such notification will affect the conditions to the obligations of the Parties hereunder.

5.8 Satisfaction of Conditions

The conditions set out in this Article 5 shall be conclusively deemed to have been satisfied, waived or released when, with the agreement of the Parties, Articles of Arrangement are filed with the Director under the CBCA to give effect to the Arrangement.

ARTICLE 6 - NON-SOLICITATION

6.1 Covenant Regarding Non-Solicitation

- (a) Restrictions on APM

APM shall not, directly or indirectly, through any officer, director, employee, representative or agent of APM, or otherwise:

- (i) solicit or initiate (including by way of furnishing information or entering into any form of agreement, arrangement or understanding) any inquiries or proposals regarding any Acquisition Proposal or potential Acquisition Proposal;
- (ii) participate, directly or indirectly, in any discussions or negotiations regarding any Acquisition Proposal or potential Acquisition Proposal;
- (iii) agree to, approve or recommend any Acquisition Proposal or potential Acquisition Proposal;

- (iv) enter into any agreement related to any Acquisition Proposal or potential Acquisition Proposal;
- (v) make any public announcement or take any other action inconsistent with, or which could reasonably be likely to be regarded as detracting from, the recommendation of the APM Independent Committee to approve the transactions contemplated herein;

provided, however, that notwithstanding the preceding part of this subsection 6.1(a), but subject to the following provisions of Article 6 of this Agreement, nothing shall prevent or restrict the directors of APM from considering or negotiating any unsolicited Acquisition Proposal that may be a Superior Proposal or from considering, negotiating, approving, recommending to the APM Shareholders or entering into an agreement in respect of a Superior Proposal from any person in accordance with the provisions of the following subsections of this Article 6 but in each case only if the directors of APM determine in good faith that such action is necessary or advisable for such directors to act in a manner consistent with their fiduciary duties under Applicable Laws.

(b) Notification

Within forty-eight (48) hours of the receipt by any director or officer of APM of any Acquisition Proposal, or any amendment to the foregoing, or any request for non-public information relating to APM in connection with any Acquisition Proposal or for access to the properties, books or records of APM by any person that informs APM that it is considering making, or has made, an Acquisition Proposal, APM shall notify Erdene thereof, at first orally and then, as soon as possible thereafter, in writing. Such written notice shall include a copy of the Acquisition Proposal documents (with such deletions as are necessary to protect any confidential portions of such documents, provided that, unless contractually prohibited from doing so at the date hereof, material terms and conditions of, and the identity of the person making, such Acquisition Proposal may not be deleted) if the same has been received as described above, or, if not so received, a description of the material terms and conditions of the Acquisition Proposal and, in any event, provide such details of the Acquisition Proposal, inquiry or contact as Erdene may reasonably request, including the identity of the person making such Acquisition Proposal, inquiry or contact, unless APM is, as of the date hereof, contractually prohibited from doing so.

(c) Access to Information

If APM receives a request for material non-public information from a person, who is considering making or has made an unsolicited Acquisition Proposal (the existence and content of which have been disclosed to Erdene), and the directors of APM determine that such proposal would or does constitute a Superior Proposal then, and only in such case, the directors of APM may, subject to the execution of a confidentiality agreement on usual terms, provide such person with access to information regarding APM; provided, however, that the person who is considering making the Acquisition Proposal shall not be precluded thereunder from making the Acquisition Proposal, and provided further that APM sends a copy of any such confidentiality agreement to Erdene immediately upon the execution thereof and Erdene is provided with a list of or a copy of the information, if any, provided to such person that was not previously provided to Erdene and Erdene is immediately provided with access to similar information.

(d) Liability

APM shall ensure that its officers, directors, employees, agents and advisors are aware of the provisions of this section 6.1, and APM shall be responsible for any breach of this section 6.1 by any such persons.

6.2 Notice of Superior Proposal Determination

(a) Notice

Until the Completion Deadline, APM and the directors of APM shall not accept, approve, recommend or enter into any agreement in respect of an Acquisition Proposal (other than a confidentiality agreement contemplated by subsection 6.1(c) hereof) on the basis that it would constitute a Superior Proposal, unless:

- (i) it has provided Erdene with a copy of the documents containing such Acquisition Proposal (with such deletions as are necessary to protect any confidential portions of such document, provided that the material terms and conditions of, and the identity of the person making, such Acquisition Proposal may not be deleted) which the directors of APM have determined would be a Superior Proposal pursuant to subsection 6.1(a) hereof; and
- (ii) five (5) Business Days shall have elapsed from the later of the date Erdene received notice of the determination of the directors of APM to accept, approve, recommend or enter into an agreement in respect of such Acquisition Proposal and the date Erdene received a copy of the Acquisition Proposal.

(b) Offer to Amend

During the five (5) Business Days referred to in subsection 6.2(a) hereof, Erdene shall have the opportunity, but not the obligation, to offer in writing to amend the terms of this Agreement and the Arrangement. The APM Independent Committee shall review any offer by Erdene to amend the terms of this Agreement and the Arrangement in order to determine in good faith, as of the later of the dates referred to in paragraph 6.2(a)(ii) hereof, whether the offer of Erdene upon acceptance by APM would provide substantially equivalent or superior value to that provided under the Superior Proposal. If the APM Independent Committee so determine, APM shall enter into an amended Agreement with Erdene and ERI reflecting the amended proposal of Erdene. APM acknowledges and agrees that each successive financial modification of any Acquisition Proposal shall constitute a new Acquisition Proposal for purposes of the requirement under paragraph 6.2(a)(ii) hereof and shall initiate an additional five (5) Business Day period.

ARTICLE 7 - AMENDMENT AND TERMINATION

7.1 Amendment

Subject to any restrictions under the CBCA or in the Final Order, this Agreement (including the Schedules or appendices attached hereto) may, at any time and from time to time before or after the holding of the Erdene Meeting and the APM Meeting, but not later than the Effective Date, be amended by written agreement of the parties hereto without, subject to Applicable Laws and the terms of the Final Order, further notice to, or authorization on the part of, the Erdene Shareholders or the APM Shareholders. Without limiting the generality of the foregoing, any such amendment may:

- (a) change the time for performance of any of the obligations or acts of the Parties;
- (b) waive any inaccuracies or modify any representation contained herein or in any document to be delivered pursuant hereto;

- (c) waive compliance with or modify any of the covenants herein contained or waive or modify performance of any of the obligations of the Parties; or
- (d) make such alterations in this Agreement (including the Plan of Arrangement) as the Parties may consider necessary or desirable in connection with the Interim Order or the Final Order.

7.2 Termination

- (a) If any condition contained in Sections 5.2, 5.3 or 5.4 is not satisfied at or before the Effective Date to the satisfaction of Erdene, then Erdene may, by notice to APM, terminate this Agreement and the obligations of the Parties hereunder shall terminate (except as otherwise herein provided) but without detracting from the rights of Erdene arising from any breach by APM but for which the condition would have been satisfied.
- (b) If any condition contained in Sections 5.1, 5.3 or 5.5 is not satisfied at or before the Effective Date to the satisfaction of APM, then APM may by notice to Erdene terminate this Agreement and the obligations of the Parties hereunder shall terminate (except as otherwise herein provided) but without detracting from the rights of APM arising from any breach by Erdene but for which the condition would have been satisfied.
- (c) This Agreement may:
 - (i) be terminated by the mutual agreement of APM and Erdene;
 - (ii) be terminated by either APM or Erdene, if there shall be passed any law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited;
 - (iii) be terminated by Erdene if the APM Independent Committee shall have failed to recommend to the APM Shareholders, or shall have withdrawn, modified, qualified or changed in a manner adverse to Erdene, its approval or recommendation of the Arrangement or the APM Arrangement Resolution in any manner that could reasonably be expected to reduce the likelihood of the APM Arrangement Resolution being approved at the APM Meeting, or have resolved or proposed publicly to do so, unless such failure, withdrawal, modification, qualification or change occurs after, and as a result of, the condition in Section 5.4(c) no longer being capable of being satisfied at the Effective Time;
 - (iv) be terminated by APM if the Erdene board shall have failed to recommend to the Erdene Shareholders, or shall have withdrawn, modified, qualified or changed in a manner adverse to APM, its approval or recommendation of the Arrangement or the Erdene Arrangement Resolution in any manner that could reasonably be expected to reduce the likelihood of the Erdene Arrangement Resolution being approved at the Erdene Meeting, or have resolved or proposed publicly to do so;
 - (v) be terminated by Erdene if APM shall have failed to hold the APM Meeting on or about October 11, 2012, unless such failure is for reasons beyond the control of APM and so long as APM is in compliance, in all material respects, with the terms and conditions of this Agreement and it has been and continues to be using

commercially reasonable efforts to hold the APM Meeting as soon as practicable after October 11, 2012;

- (vi) be terminated by APM if Erdene shall have failed to hold the Erdene Meeting on or before October 11, 2012, unless such failure is for reasons beyond the control of Erdene and so long as APM is in compliance, in all material respects, with the terms and conditions of this Agreement and it has been and continues to be using commercially reasonable efforts to hold the Erdene Meeting as soon as practicable after October 11, 2012; or
- (vii) be terminated by Erdene at any time, upon payment of the amounts referred to in Section 7.4(b);

in each case, prior to the Completion Deadline; and

- (d) If the Effective Time does not occur on or prior to the close of business on the Completion Deadline then this Agreement may be terminated by either Erdene or APM, except that such right to terminate will not be available to a Party whose failure to fulfil its obligations hereunder has been the cause of, or resulted in the failure of the Effective Time to occur by such time.

7.3 Effect of Termination

Upon termination of this Agreement, no Party shall have any liability or further obligation to any other Party hereunder, except as set forth in section 7.4.

7.4 Payments on Termination

The parties agree that:

- (a) if Erdene terminates this Agreement pursuant to subsection 7.2(c)(iii) or (v) then APM shall be liable to pay to Erdene the sum of ten thousand dollars (\$10,000) together with an amount equal to the costs Erdene incurred in connection with the Arrangement, including fees and expenses of legal counsel, accountants, financial advisors and other experts and advisors, incidental to the negotiation, preparation and execution of this Agreement and related documentation, which shall be paid to Erdene within five (5) Business Days of the termination;
- (b) if APM terminates this Agreement pursuant to subsection 7.2(c)(iv) or (vi) then Erdene shall be liable to pay to APM the sum of ten thousand dollars (\$10,000) together with an amount equal to the costs APM incurred in connection with the Arrangement, including fees and expenses of legal counsel, accountants, financial advisors and other experts and advisors, incidental to the negotiation, preparation and execution of this Agreement and related documentation, which shall be paid to APM within five (5) Business Days of the termination.

- (c) subject as is hereinafter provided, if Erdene terminates this Agreement pursuant to subsection 7.2(c)(vii) then Erdene shall be liable to pay APM the sum of ten thousand dollars (\$10,000) together with an amount equal to the costs APM incurred in connection with the Arrangement, including fees and expenses of legal counsel, accountants, financial advisors and other experts and advisors, incidental to the negotiation, preparation and execution of this agreement and related documentation, which shall be paid to APM within five (5) Business Days of the termination; Provided however, if Erdene terminates this Agreement by reason that Erdene has sold its interest in the Donkin Coal Project concurrent with the sale by Xstrata Coal Canada Limited of its interest in the Donkin Coal Project and such sale is completed before the Effective Date, then Erdene shall be liable to pay APM the sum of three hundred thousand dollars (\$300,000), which shall be paid to APM within five (5) Business Days of the termination, and Erdene shall forgive the indebtedness then owing by APM to Erdene; and
- (d) if this Agreement is terminated for any reason other than:
- (i) as set forth in subsection 7.4(a) or (b);
 - (ii) a reason within the control of APM,

then Erdene be liable for all of the costs incurred by APM in connection with the Arrangement, including fees and expenses of counsel, accountants, financial advisors and other experts and advisors, incidental to the negotiation, preparation and execution of this agreement and related documentation.

ARTICLE 8 - MERGER AND SURVIVAL

8.1 Merger of Covenants

The provisions of sections 4.1, 4.2, 4.3 and 4.4 hereof shall be conclusively deemed to have been satisfied in all respects upon the Effective Date.

8.2 No Survival of Representations and Warranties

The representations and warranties of Erdene, APM and ERI contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated on the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with its terms.

ARTICLE 9 - NOTICES

9.1 Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a Party is to be in writing and delivered by hand to each other Party to which the notice is to be given at the following addresses or sent by fax to the following numbers or to such other address or fax number as specified by a Party by like notice. Any notice, consent, waiver, direction or other communication aforesaid is, if delivered, deemed to have been given and received on the date on which it was delivered to the address provided herein (if a Business Day or, if not, then the next succeeding Business Day) and if sent by fax be deemed to have been given and received at the time of receipt (if a Business Day or, if not, then the next succeeding Business Day) unless actually received after 4:00 p.m.

(Halifax time) at the point of delivery in which case it shall be deemed to have been given and received on the next Business Day. The address for service of each of the Parties is as follows:

- (a) Erdene Resource Development Corp.
99 Wyse Road, Suite 1480
Dartmouth, Nova Scotia B3A 4S5
Fax: (902) 423-6432
Attn: Peter C. Akerley, President and Chief Executive Officer

- (b) Advanced Primary Minerals Corp.
99 Wyse Road, Suite 1480
Dartmouth, Nova Scotia B3A 4S5
Fax: (902) 423-6432
Attn: Ken MacDonald, President and Chief Executive Officer

- (c) Erdene Resources Inc.
99 Wyse Road, Suite 1480
Dartmouth, Nova Scotia B3A 4S5
Fax: (902) 423-6432
Attn: Peter C. Akerley, President and Chief Executive Officer

ARTICLE 10 - GENERAL

10.1 Binding Effect

This Agreement shall be binding upon and enure to the benefit of the Parties hereto and their respective successors and permitted assigns.

10.2 No Assignment

No Party may assign its rights or obligations under this Agreement without the prior written consent of each of the other Parties.

10.3 Equitable Remedies

Any covenants herein or to be given hereunder as to enforceability in accordance with the terms of any covenant, agreement or document shall be qualified as to applicable bankruptcy and other laws affecting the enforcement of creditors' rights generally and to the effect that specific performance, being an equitable remedy, may only be ordered at the discretion of the Court.

10.4 Severability

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect in any jurisdiction, the remaining provisions or parts thereof contained herein shall be and shall be conclusively deemed to be, as to such jurisdiction, severable therefrom and:

- (a) the validity, legality or enforceability of such remaining provisions or parts thereof shall not in any way be affected or impaired by the severance of the provisions or parts thereof severed; and
- (b) the invalidity, illegality or unenforceability of any provision or part thereof contained in this Agreement in any jurisdiction shall not affect or impair such provision or part thereof or any other provisions of this Agreement in any other jurisdiction.

10.5 Further Assurances

Each Party hereto shall, from time to time and at all times hereafter, at the request of any other Party hereto, but without further consideration, do, or cause to be done, all such further acts, and execute and deliver, or cause to be executed and delivered all such further documents and instruments as may be reasonably required in order to fully perform and carry out the terms and intent hereof, including, without limitation, the Plan of Arrangement.

10.6 Time of Essence

Time shall be of the essence in this Agreement.

10.7 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Nova Scotia and the federal laws of Canada applicable therein and shall be treated in all respects as a Nova Scotia contract. Each Party hereby irrevocably attorns to the jurisdiction of the Courts of the Province of Nova Scotia in respect of all matters arising under or in relation to this Agreement.

10.8 Expenses of the Arrangement

Except as otherwise agreed by the Parties or as set forth herein, all expenses incurred in connection with the Plan of Arrangement contemplated hereby shall be borne by the Party incurring such expense.

10.9 Waiver

No waiver or release by any Party is effective unless in writing and executed by the Party granting such waiver or release and any waiver or release affects only the matter, and the occurrence thereof, specifically identified and does not extend to any other matter or occurrence.

10.10 Counterparts

This Agreement may be executed in one or counterparts and by fax or portable document format (PDF), each of which is conclusively deemed an original, and all such counterparts together constitute one and the same instrument.

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IN WITNESS OF WHICH the Parties hereto have duly executed this Agreement.

ERDENE RESOURCE DEVELOPMENT CORP.

Per: (original signed) *Peter C. Akerley*
Peter C. Akerley, President and CEO

ADVANCED PRIMARY MINERALS CORP.

Per: (original signed) *Kenneth W. MacDonald*
Kenneth W. MacDonald, President and CEO

ERDENE RESOURCES INC.

Per: original signed) *Peter C. Akerley*
Peter C. Akerley, President and CEO

APM Arrangement Resolution

Special Resolution of the holders of Common Shares of Advanced Primary Minerals Corp. (the "Corporation")

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement (as it may be modified or amended, the "**Arrangement**") under section 192 of the *Canada Business Corporations Act* involving the Corporation, Erdene Resource Development Corp. ("**Erdene**") and Erdene Resources Inc. ("**ERI**"), all as more particularly described and set forth in the plan of arrangement (as it may be modified or amended, the "**Plan of Arrangement**") attached as Schedule [●] to the management information circular of the Corporation dated [●], 2012 (the "**Circular**"), is authorized, approved and adopted.
2. The arrangement agreement dated August 7th, 2012 between the Corporation, Erdene and ERI, as it may be amended from time to time (the "**Arrangement Agreement**"), the actions of the special committee of the board of directors of the Corporation ("**Special Committee**") in approving the Arrangement and the Arrangement Agreement and the actions of the directors and officers of the Corporation in executing and delivering the Arrangement Agreement and causing the performance by the Corporation of its obligations thereunder are confirmed, ratified, authorized and approved.
3. Notwithstanding that this resolution has been passed (and the Arrangement approved and adopted) by the Corporation's shareholders or that the Arrangement has been approved by the Supreme Court of Nova Scotia ("**Court**"), the Special Committee is hereby, authorized and empowered without further approval of the holders of common shares of the Corporation (i) to amend the Arrangement Agreement or the Plan of Arrangement to the extent permitted by the Arrangement Agreement, and (ii) not to proceed with the Arrangement at any time prior to the Effective Time (as defined in the Arrangement Agreement).
4. Any director or officer of the Corporation is hereby, authorized, empowered and instructed, acting for, in the name and on behalf of the Corporation, to execute or cause to be executed, under the seal of the Corporation or otherwise, and to deliver or to cause to be delivered, all such other documents and to do or to cause to be done all such other acts and things as in such person's opinion may be necessary or desirable in order to carry out the intent of the foregoing paragraphs of these resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or the doing of such act or thing.

Erdene Arrangement Resolution

Special Resolution of the holders of Common Shares of Erdene Resource Development Corp. (the "Corporation")

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement (as it may be modified or amended, the "**Arrangement**") under section 192 of the *Canada Business Corporations Act* involving the Corporation, Advanced Primary Minerals Corp. ("**APM**") and Erdene Resources Inc. ("**ERI**"), all as more particularly described and set forth in the plan of arrangement (as it may be modified or amended, the "**Plan of Arrangement**") attached as Schedule [●] to the management information circular of the Corporation dated [●], 2012 (the "**Circular**"), is authorized, approved and adopted.
2. The arrangement agreement dated August 7th, 2012 between the Corporation, APM and ERI, as it may be amended from time to time (the "**Arrangement Agreement**"), the actions of the board of directors of the Corporation ("**Board**") in approving the Arrangement and the Arrangement Agreement and the actions of the directors and officers of the Corporation in executing and delivering the Arrangement Agreement and causing the performance by the Corporation of its obligations thereunder are confirmed, ratified, authorized and approved.
3. Notwithstanding that this resolution has been passed (and the Arrangement approved and adopted) by the Corporation's shareholders or that the Arrangement has been approved by the Supreme Court of Nova Scotia ("**Court**"), the Board is hereby, authorized and empowered without further approval of the holders of common shares of the Corporation (i) to amend the Arrangement Agreement or the Plan of Arrangement to the extent permitted by the Arrangement Agreement, and (ii) not to proceed with the Arrangement at any time prior to the Effective Time (as defined in the Arrangement Agreement).
4. Any director or officer of the Corporation is hereby, authorized, empowered and instructed, acting for, in the name and on behalf of the Corporation, to execute or cause to be executed, under the seal of the Corporation or otherwise, and to deliver or to cause to be delivered, all such other documents and to do or to cause to be done all such other acts and things as in such person's opinion may be necessary or desirable in order to carry out the intent of the foregoing paragraphs of these resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document or the doing of such act or thing.

Plan of Arrangement

ERDENE RESOURCE DEVELOPMENT CORP.

- and -

ERDENE RESOURCES INC.

- and -

ADVANCED PRIMARY MINERALS CORP.

Plan of Arrangement under Part XV of the *Canada Business Corporations Act*

ARTICLE 1 - DEFINITIONS AND INTERPRETATION

1.1 Definitions. In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following capitalized words and terms shall have the following meanings:

- (a) "**Amalco**" means the corporation continuing from the amalgamation of APM and ERI, contemplated by this Plan of Arrangement, to form an amalgamated corporation to be known as "Morien Resources Corp.";
- (b) "**Amalco Common Shares**" means the voting common shares without par value of Amalco;
- (c) "**Amalco Option**" means an option to acquire one (1) Amalco Common Share:
 - (i) in the case of Amalco Options issued on the exchange of Erdene Options in accordance with Section 3.1(h) hereof, at an exercise price equal to twice the amount determined when the exercise price of the Erdene Option (the exchange for which the Amalco Option is partial consideration) is multiplied by a fraction, the numerator of which is the Fair Market Value of an Amalco Common Share and the denominator of which is the sum of the Fair Market Value of an Erdene New Share and the Fair Market Value of an Amalco Common Share, which exercise price shall be determined following the Effective Date when each of the Amalco Common Shares and the Erdene New Shares have traded on the TSXV and the TSX, respectively, for ten (10) trading days, provided that the exercise price of the Amalco Options shall not be less than \$0.265 per Amalco Common Share; and
 - (ii) in the case of Amalco Options issued on the exchange of APM Options in accordance with Section 3.1(g) hereof, at an exercise price equal to the exercise price of the APM Option (the exchange for which the Amalco Option is partial consideration) ~~divided~~ multiplied by seven decimal eighty-five (7.85).

- (d) "**APM**" means Advanced Primary Minerals Corporation, a corporation continued under the CBCA;
- (e) "**APM Common Shares**" means the voting common shares of APM without par value that APM is authorized to issue, as the same are constituted on the date hereof;
- (f) "**APM Dissenting Shares**" means the APM Common Shares held by APM Dissenting Shareholders;
- (g) "**APM Dissenting Shareholders**" means APM Shareholders who have duly and validly exercised Dissent Rights;
- (h) "**APM Letter of Transmittal**" means the letter of transmittal (prepared by the Exchange Agent together with APM) regarding the delivery of certificates in respect of the APM Common Shares to be completed and returned by the APM Shareholders to the Exchange Agent together with all other documents and instruments as the Exchange Agent or Amalco may reasonably require;
- (i) "**APM Meeting**" means the special meeting of the APM Shareholders to be held to consider, among other matters, the Arrangement and related matters, and any adjournment or postponement thereof;
- (j) "**APM Option**" means an option to acquire APM Common Shares;
- (k) "**APM Optionholders**" means the holders of APM Options;
- (l) "**APM Shareholders**" means holders of APM Common Shares;
- (m) "**Arrangement**" means the arrangement pursuant to the Arrangement Provisions on the terms and conditions set out herein;
- (n) "**Arrangement Agreement**" means the arrangement agreement dated the date hereof between Erdene, ERI and APM to which this Plan of Arrangement is attached as Schedule C, as it may be supplemented or amended from time to time;
- (o) "**Arrangement Provisions**" means section 192 of the CBCA, the Interim Order and the Final Order;
- (p) "**Articles of Arrangement**" means the articles in respect of the Arrangement required under subsection 192(6) of the CBCA to be filed with the Director after the Final Order has been granted;
- (q) "**Business Day**" means any day, other than a Saturday, a Sunday or a holiday, when Canadian chartered banks are open for business in the City of Halifax, Nova Scotia;
- (r) "**CBCA**" means the *Canada Business Corporations Act* R.S.C. 1985, c. C-44, and the regulations thereto, as now in effect and as it may be amended from time to time prior to the Effective Date;
- (s) "**Certificate**" means the certificate giving effect to the Arrangement endorsed by the Director on the Articles of Arrangement pursuant to subsection 192(7) of the CBCA;

- (t) **"Court"** means the Supreme Court of Nova Scotia;
- (u) **"Director"** means the director appointed pursuant to Section 260 of the CBCA;
- (v) **"Dissent Rights"** means the dissent rights in respect of the Arrangement described in Article 5 hereof;
- (w) **"Distribution Record Date"** means the close of business on that day after the Effective Date that Erdene and APM fix as the date for:
 - (i) determining the Erdene Shareholders entitled to receive certificates representing Erdene New Shares and Amalco Common Shares issued pursuant to this Plan of Arrangement; and
 - (ii) if applicable, determining the APM Shareholders entitled to receive certificates representing Amalco Common Shares issued pursuant to this Plan of Arrangement;
- (x) **"Effective Date"** means the date the Arrangement is effective under the CBCA, which is expected to be on or about October 31, 2012 or such other date as may be determined by Erdene and APM;
- (y) **"Effective Time"** means 12:01 a.m. (Eastern Time) on the Effective Date or such other time as may be determined by Erdene and APM;
- (z) **"Erdene"** means Erdene Resource Development Corporation, a corporation existing under the CBCA;
- (aa) **"Erdene Class A Common Shares"** means the renamed and redesignated Erdene Common Shares as described in Section 3.1(a) of this Plan of Arrangement;
- (bb) **"Erdene Common Shares"** means the voting common shares without par value which Erdene is authorized to issue, as the same are constituted on the date hereof;
- (cc) **"Erdene Dissenting Shares"** means the Erdene Common Shares held by Erdene Dissenting Shareholders;
- (dd) **"Erdene Dissenting Shareholders"** means Erdene Shareholders who have duly and validly exercised their Dissent Rights;
- (ee) **"Erdene Letter of Transmittal"** means the letter of transmittal (prepared by the Exchange Agent together with Erdene) regarding the delivery of certificates in respect of the Erdene Common Shares to be completed and returned by the Erdene Shareholders to the Exchange Agent together with all other documents and instruments as the Exchange Agent, Erdene or Amalco may reasonably require;
- (ff) **"Erdene Meeting"** means the special meeting of the Erdene Shareholders to be held to consider, among other matters, the Arrangement and related matters, and any adjournment or postponement thereof;

- (gg) **"Erdene New Option"** means an option to acquire one (1) Erdene New Share at an exercise price equal to twice the amount determined when the exercise price of the Erdene Option (the cancellation for which the Erdene New Option is partial consideration) is multiplied by a fraction, the numerator of which is the Fair Market Value of an Erdene New Share and the denominator of which is the sum of the Fair Market Value of an Erdene New Share and the Fair Market Value of an Amalco Common Share, with the Fair Market Value determined as of the date when the Erdene New Shares have traded on the TSX for ten (10) trading days;
- (hh) **"Erdene New Shares"** means the new class of voting common shares without par value which Erdene will create and issue as described in Sections 3.1(a) and (k) of this Plan of Arrangement and for which the Erdene Class A Common Shares are, in part, to be exchanged under this Plan of Arrangement and which, immediately after completion of the transactions comprising this Plan of Arrangement, will be identical in every relevant respect to the Erdene Common Shares;
- (ii) **"Erdene Option"** means an option to acquire Erdene Common Shares;
- (jj) **"Erdene Optionholders"** means the holders of Erdene Options;
- (kk) **"Erdene Shareholders"** means holders of Erdene Common Shares;
- (ll) **"ERI"** means Erdene Resources Inc., a corporation existing under the CBCA;
- (mm) **"Exchange Agent"** means Computershare Investor Services Inc., or such other Exchange Agent as Erdene and APM may appoint;
- (nn) **"Fair Market Value"** of a share means the volume weighted average trading price of the share on the TSX or the TSXV, as the case may be, for the ten (10) trading days immediately preceding the date on which the value is to be determined;
- (oo) **"Final Order"** means the final order of the Court approving this Arrangement pursuant to subsection 192 of the CBCA, as such order may be, amended or varied at any time prior to the Effective Time, or if appealed, then, until such appeal is withdrawn or denied, as affirmed or as amended on appeal;
- (pp) **"Interim Order"** means an interim order of the Court containing declarations and directions with respect to this Arrangement and the holding of the APM Meeting and the Erdene Meeting, as such order may be affirmed, amended or modified (provided that any such amendment is acceptable to Erdene and APM) by the Court;
- (qq) **"Non-Resident"** means:
 - (i) a Person (other than a partnership) who is not a resident of Canada for the purposes of the *Tax Act*; or
 - (ii) a partnership that is not a "Canadian partnership" for the purposes of the *Tax Act*;
- (rr) **"Party"** means a party to the Arrangement Agreement and **"Parties"** means two or more of the parties to the Arrangement Agreement;

- (ss) **"Person"** means and includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, trustee, executor, administrator or other legal representative;
- (tt) **"Plan of Arrangement"** means this plan of arrangement, as the same may be amended from time to time; and
- (uu) **"Tax Act"** means the *Income Tax Act* (Canada), R.S.C. 1985 (5th Supp.) c.1, as amended.

1.2 Interpretation Not Affected by Headings. The division of this Plan of Arrangement into articles, sections, subsections, paragraphs and subparagraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement. Unless otherwise specifically indicated, the terms "this Plan of Arrangement", "hereof", "hereunder" and similar expressions refer to this Plan of Arrangement as a whole and not to any particular article, section, subsection, paragraph or subparagraph and include any agreement or instrument supplementary or ancillary hereto.

1.3 Number and Gender. Unless the context otherwise requires, words importing the singular number only shall include the plural and vice versa, words importing the use of either gender shall include both genders and neuter and words importing persons shall include firms and corporations.

1.4 Meaning. Words and phrases used herein and defined in the CBCA shall have the same meaning herein as in the CBCA, unless the context otherwise requires.

1.5 Exhibits. The following exhibits are attached hereto and are deemed to be incorporated into and form part of this Plan of Arrangement:

- Exhibit 1 – Initial Rights and Restrictions for the Erdene New Shares
- Exhibit 2 – Final Rights and Restrictions for the Erdene New Shares

ARTICLE 2 - ARRANGEMENT AGREEMENT

2.1 Arrangement Agreement. This Plan of Arrangement is made pursuant to, is subject to the provisions of, and forms part of the Arrangement Agreement.

2.2 Binding Effect. The Arrangement shall be binding upon Erdene, ERI, APM, Erdene Shareholders, Erdene Optionholders, APM Shareholders, APM Optionholders and holders of Amalco Common Shares on and from the Effective Time. Erdene and APM shall have the discretion and authority to determine when to make the necessary filings with the Director to cause the Effective Date to occur.

ARTICLE 3 - THE ARRANGEMENT

3.1 The Arrangement. At the Effective Time, the following shall occur and be deemed to occur in the following chronological order without further act or formality notwithstanding anything contained in the provisions attaching to any of the securities of Erdene, ERI or APM, but subject to the provisions of Article 5:

- (a) the authorized share structure of Erdene shall be altered by:

- (i) renaming and redesignating all of the issued and unissued Erdene Common Shares as Erdene Class A Common Shares; and
 - (ii) creating the Erdene New Shares, being an unlimited number of new common shares without par value, as more particularly described in Exhibit I hereto being an unlimited number of common shares without par value with terms identical to the Erdene Common Shares on the date hereof,
- (b) Erdene's articles of incorporation shall be amended to reflect the alterations in Section 3.1(a);
 - (c) Erdene shall transfer all of the issued and outstanding shares of ERI to APM in exchange for 360,028,650 APM Common Shares;
 - (d) APM and ERI shall be amalgamated and continue as one corporation ("**Amalco**") in accordance with the following:
 - (i) *Name*: the name of Amalco will be "Morien Resources Corp.";
 - (ii) *By-laws*: By-law 1 of Amalco will be in the form of By-law 1 of APM, *mutatis mutandis*;
 - (iii) *Registered Office*: the registered office of APM will be the registered office of Amalco;
 - (iv) *Incentive Stock Option Plan*: the incentive stock option plan of Amalco will be in the form of the incentive stock option plan of APM, *mutatis mutandis*, together with such changes as may be approved by Erdene, APM and the TSXV; and
 - (v) *Directors*: the first board of Amalco will be comprised of five (5) members, who shall be acceptable to Erdene and who shall be described in the materials circulated in connection with the APM Meeting;

and as a result of such amalgamation:

- (A) the property of each amalgamating corporation shall be the property of Amalco;
- (B) Amalco shall be liable for the obligations of each of APM and ERI;
- (C) an existing cause of action, claim or liability to prosecution involving APM or ERI shall be unaffected;
- (D) a civil, criminal or administrative action or proceeding pending by or against either APM or ERI may be prosecuted by or against Amalco;
- (E) a conviction against, or ruling, order or judgment in favour of or against APM or ERI may be enforced by or against Amalco; and
- (F) the Articles of Arrangement shall be deemed to be the articles of amalgamation of Amalco and, except for the purposes of subsection

104(1) of the CBCA, the Certificate shall be deemed to be the certificate of amalgamation of Amalco;

- (e) immediately upon the amalgamation as set forth in subsection 3.1(d), the shares of ERI owned by APM shall be cancelled without consideration and each APM Shareholder shall receive one (1) Amalco Common Share for every seven decimal eighty-five (7.85) APM Common Shares owned by such APM Shareholder;
- (f) each issued and outstanding Erdene Class A Common Share shall be exchanged for one-half of one Erdene New Share and one-half of one Amalco Common Share owned by Erdene;
- (g) the APM Options shall be exchanged for Amalco Options on the basis of one (1) Amalco Option for every seven decimal eighty-five (7.85) APM Options and, with respect to those Amalco Options issued to APM Optionholders who would not otherwise be eligible to be granted Amalco Options, such Amalco Options shall expire on the earlier of the expiry date of the APM Options for which they were exchanged and twelve (12) months after the Effective Date;
- (h) each Erdene Option shall be exchanged for one-half of one Erdene New Option and one-half of one Amalco Option and, with respect to those Amalco Options issued to Erdene Optionholders who are directors of Erdene and who would not otherwise be eligible to be granted Amalco Options, such Amalco Options shall expire on the earlier of the expiry date of the Erdene Options for which they were exchanged and twelve (12) months after the Effective Date
- (i) Erdene shall cease to be the holder of the Amalco Common Shares issued to the Erdene Shareholders pursuant to Section 3.1(f) and the name of Erdene shall be removed from the central securities register of Amalco Common Shares with respect to the Amalco Common Shares so transferred;
- (j) Erdene Shareholders shall cease to be the holders of the Erdene Class A Common Shares exchanged pursuant to Section 3.1(f) and the name of each Erdene Shareholder who is so deemed to exchange his, her or its Erdene Class A Common Shares shall be removed from the central securities register of Erdene Class A Common Shares with respect to the Erdene Class A Common Shares so exchanged and shall be added to the central securities registers of Erdene New Shares and Amalco Common Shares as the holder of the number of Erdene New Shares and Amalco Common Shares deemed to have been received on the exchange, whereupon all of the issued Erdene Class A Common Shares shall be cancelled with the appropriate entries being made in the central securities register of Erdene Class A Common Shares; and
- (k) the terms and conditions of the Erdene New Shares shall be altered by removing all references to the cancelled Erdene Class A Common Shares, and the terms and conditions of the Erdene New Shares shall thereupon be as particularly described in Exhibit 2 hereto.

3.2 No Fractional Shares. Notwithstanding any other provision of this Arrangement no fractional Erdene New Share or Amalco Common Share shall be issued by Erdene or Amalco pursuant to this Plan of Arrangement, or be issuable by Erdene on the exercise of an Erdene New Option or be issuable by Amalco upon the exercise of an Amalco Option. The number of Erdene New Shares or Amalco Common

Shares issuable to any particular former Erdene Shareholder pursuant to this Plan of Arrangement and the number of Amalco Common Shares issuable to any particular former APM Shareholder pursuant to this Plan of Arrangement shall be rounded down to the nearest whole number of shares.

3.3 Deemed Fully Paid and Non-Assessable Shares. All Erdene New Shares and Amalco Common Shares issued pursuant hereto shall be deemed to be validly issued and outstanding as fully paid and non-assessable shares for all purposes of the CBCA.

3.4 Supplementary Actions. Notwithstanding that the transactions and events set out in Section 3.1 shall occur and shall be deemed to occur in the chronological order therein set out without any act or formality, each of Erdene, ERI, APM and Amalco shall be required to make, do and execute or cause and procure to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may be required to give effect to, or further document or evidence, any of the transactions or events set out in Section 3.1 including, without limitation, any resolutions of their respective directors authorizing the issue, transfer or redemption of shares, any share transfer powers evidencing the transfer of shares and any receipt therefor, and any necessary additions to or deletions from share registers.

ARTICLE 4 - CERTIFICATES

4.1 Effect of Arrangement. After the Effective Time:

- (a) certificates formerly representing Erdene Common Shares shall represent only the right to receive one-half of one Erdene New Share and one-half of one Amalco Common Share for each Erdene Common Share, which the former holders of such Erdene Common Shares is entitled to receive pursuant to Article 3 of this Plan of Arrangement subject to compliance with the requirements set forth in this Article 4; and
- (b) certificates formerly representing APM Common Shares shall represent only the right to receive one (1) Amalco Common Share for every seven decimal eighty-five (7.85) APM Common Shares which the former holder of such APM Common Shares is entitled to receive pursuant to Article 3 of this Plan of Arrangement, subject to compliance with the requirements set forth in this Article 4.

4.2 Right of Erdene Shareholders to Receive Erdene New Shares and Amalco Common Shares.

- (a) At the Effective Time:
 - (i) Erdene shall deposit with the Exchange Agent, for the benefit of the Erdene Shareholders, a global share certificate representing that number of Erdene New Shares equal to fifty percent (50%) of the number of Erdene Common Shares issued and outstanding at the Effective Time less fifty percent (50%) of the number of Erdene Dissenting Shares; and
 - (ii) APM shall cause Amalco to deposit with the Exchange Agent, for the benefit of the Erdene Shareholders, a global share certificate representing all of the Amalco Common Shares previously owned by Erdene, namely ninety-seven decimal twenty-five percent (97.25%), which are to be distributed to the Erdene Shareholders less the pro rata number of the Erdene Dissenting Shares.

- (b) Subject to subsection 4.4, as soon as practical following the later of the Effective Date and the date of deposit with the Exchange Agent of a duly completed Erdene Letter of Transmittal, documents, certificates and instruments contemplated by the Erdene Letter of Transmittal and such other documents and instruments as the Exchange Agent or as Erdene may reasonably require, the Exchange Agent shall:
- (i) forward or cause to be forwarded by first class mail (postage pre-paid), to the former Erdene Shareholder at the address specified in the Erdene Letter of Transmittal; or
 - (ii) if requested by the former Erdene Shareholder in the Erdene Letter of Transmittal, make available at the Exchange Agent for pickup by the former Erdene Shareholder; or
 - (iii) if the Erdene Letter of Transmittal neither specifies an address or contains a request as described in (ii), forward or cause to be forwarded by first class mail (postage pre-paid), to the former Erdene Shareholder at the address of such former Erdene Shareholder as shown on the share register maintained by Erdene immediately prior to the Effective Time,

certificates representing that number of Erdene New Shares and Amalco Common Shares issuable to such Erdene Shareholder as determined in accordance with the provisions hereof.

- (c) No Erdene Shareholder shall be entitled to receive any consideration with respect to the Erdene Common Shares other than the certificates representing the Erdene New Shares and the Amalco Common Shares that they are entitled to receive in accordance with Article 3 of this Plan of Arrangement and, for greater certainty, no Erdene Shareholder will be entitled to receive any interest, dividends, premium or other payment in connection therewith.
- (d) Until such time as a former Erdene Shareholder deposits with the Exchange Agent a duly completed Erdene Letter of Transmittal, documents, certificates and instruments contemplated by the Erdene Letter of Transmittal and such other documents and instruments as the Exchange Agent, Erdene or Amalco reasonably requires, all certificates for Erdene New Shares and Amalco Common Shares to which such former Erdene Shareholder is entitled shall, subject to subsection 4.4, in each case be delivered to the Exchange Agent to be held in trust for such former Erdene Shareholder for delivery to the former Erdene Shareholder, without interest and net of all applicable withholding and other taxes, if any, upon delivery of the Erdene Letter of Transmittal, documents, certificates and instruments contemplated by the Erdene Letter of Transmittal and such other documents and instruments as the Exchange Agent, Erdene or Amalco reasonably requires.
- (e) Erdene, Amalco and the Exchange Agent shall be entitled to deduct and withhold from any consideration otherwise payable to any former Erdene Shareholder such amounts as Erdene, Amalco or the Exchange Agent are required to deduct and withhold with respect to such payment under the Tax Act, or any applicable provision of federal, provincial, state, local or foreign law, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the former Erdene Shareholder in respect of which such deduction and

withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

4.3 Right of APM Shareholders to Receive Amalco Common Shares

- (a) At the Effective Time, APM shall cause Amalco to deposit with the Exchange Agent, for the benefit of the APM Shareholders, a global share certificate representing that number of Amalco Common Shares equal to two decimal seventy - five percent (2.75%) of the number of Amalco Common Shares issued and outstanding at the Effective Time less the pro rata number of the APM Dissenting Shares;
- (b) Subject to subsection 4.4, as soon as practical following the later of the Effective Date and the date of deposit with the Exchange Agent of a duly completed APM Letter of Transmittal, documents, certificates and instruments contemplated by the APM Letter of Transmittal and such other documents and instruments as the Exchange Agent or as APM may reasonably require, the Exchange Agent shall:
 - (i) forward or cause to be forwarded by first class mail (postage pre-paid), to the former APM Shareholder at the address specified in the APM Letter of Transmittal; or
 - (ii) if requested by the former APM Shareholder in the APM Letter of Transmittal, make available at the Exchange Agent for pickup by the former APM Shareholder; or
 - (iii) if the APM Letter of Transmittal neither specifies an address or contains a request as described in (ii), forward or cause to be forwarded by first class mail (postage pre-paid), to the former APM Shareholder at the address of such former APM Shareholder as shown on the share register maintained by APM immediately prior to the Effective Time,

certificates representing that number of Amalco Common Shares issuable to such APM Shareholder as determined in accordance with the provisions hereof.

- (c) No APM Shareholder shall be entitled to receive any consideration with respect to the APM Common Shares other than the certificates representing the Amalco Common Shares which they are entitled to receive in accordance with Article 3 of this Plan of Arrangement and, for greater certainty, no APM Shareholder will be entitled to receive any interest, dividends, premium or other payment in connection therewith.
- (d) Until such time as a former APM Shareholder deposits with the Exchange Agent a duly completed APM Letter of Transmittal, documents, certificates and instruments contemplated by the APM Letter of Transmittal and such other documents and instruments as the Exchange Agent or Amalco reasonably requires, all certificates for Amalco Common Shares to which such former APM Shareholder is entitled shall, subject to subsection 4.4 in each case be delivered to the Exchange Agent to be held in trust for such former APM Shareholder for delivery to the former APM Shareholder, without interest and net of all applicable withholding and other taxes, if any, upon delivery of the APM Letter of Transmittal, documents, certificates and instruments contemplated by the APM Letter of Transmittal and such other documents and instruments as the Exchange Agent or as Amalco reasonably requires.

- (e) APM, Amalco and the Exchange Agent shall be entitled to deduct and withhold from any consideration otherwise payable to any APM Dissenting Shareholder such amounts as APM, Amalco or the Exchange Agent are required to deduct and withhold with respect to such payment under the Tax Act or any applicable provision of federal, provincial, state, local or foreign law, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the APM Dissenting Shareholder in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

4.4 Surrender of Rights. Any certificate formerly representing Erdene Common Shares or APM Common Shares not duly surrendered on or prior to the 6th anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature against Erdene or Amalco by a former Erdene Shareholder or against Amalco by a former APM Shareholder. On such date:

- (a) all Erdene New Shares and Amalco Common Shares that the former Erdene Shareholder of such certificates was entitled shall be deemed to have been surrendered to Erdene or Amalco, as the case may be; and
- (b) all Amalco Common Shares that the former APM Shareholder of such certificates was entitled shall be deemed to have been surrendered to Amalco.

4.5 Right of APM Optionholders to Receive Replacement Options. Immediately after the Effective Time, any document or agreement previously evidencing an APM Option shall thereafter evidence the Amalco Options that the former holder of such APM Option is entitled to receive pursuant to Article 3 of this Plan of Arrangement. A holder of APM Options shall be entitled, upon delivery to Amalco at any time after the Effective Time, of the document or agreement previously evidencing an APM Option, to receive a replacement document or agreement evidencing the Amalco Options to which such holder is entitled, which replacement document or agreement shall be executed by Amalco and on its face shall reflect the terms of the Amalco Options.

4.6 Right of Erdene Optionholders to Receive Replacement Options. Immediately after the Effective Time, any document or agreement previously evidencing an Erdene Option shall thereafter evidence the Erdene New Options and Amalco Options that the former holder of such Erdene Option is entitled to receive pursuant to Article 3 of this Plan of Arrangement, it being understood that the exercise prices thereof cannot be determined until the date following the Effective Date when each of the Amalco Common Shares and the Erdene New Shares have traded on the TSXV and the TSX, respectively, for ten (10) trading days. A holder of Erdene Options shall be entitled, upon delivery to Erdene at any time after the Effective Time, of the document or agreement previously evidencing an Erdene Option, to receive a replacement document or agreement evidencing the Erdene New Options and Amalco Options to which such holder is entitled, which replacement document or agreement shall be executed by Erdene or Amalco as the case may be, and on its face shall reflect the terms of the Erdene New Options and the Amalco Options.

ARTICLE 5 - Rights of Dissent

5.1 Dissent Rights. Notwithstanding Section 3.1 hereof, APM Shareholders and Erdene Shareholders may exercise rights of dissent ("Dissent Right") in connection with the Arrangement pursuant to the Interim Order and in the manner set forth in section 190 of the CBCA, as modified by the Interim Order and this Plan of Arrangement ("Dissent Procedures").

5.2 Dealing with Dissenting Shares. APM Shareholders or Erdene Shareholders who duly exercise Dissent Rights with respect to their APM Common Shares or Erdene Common Shares, as the case may be, and who:

- (a) are ultimately entitled to be paid fair value for their APM Common Shares or Erdene Common Shares, as the case may be, which fair value, notwithstanding anything to the contrary contained in subsection 190(3) of the CBCA, shall be determined as of the close of business on the day before the Final Order is made, shall be paid an amount equal to such fair value by APM or Erdene, as the case may be, and all such APM Common Shares or Erdene Common Shares shall be deemed to have been transferred to APM or Erdene, as the case may be, as of the Effective Time; or
- (b) are ultimately not entitled, for any reason, to be paid fair value for their APM Common Shares or Erdene Common Shares, as the case may be, shall be deemed to have participated in the Arrangement, as of the Effective Date, on the same basis as a non-dissenting holder of APM Common Shares or Erdene Common Shares and shall be entitled to receive only the consideration contemplated herein which such holder would have received pursuant to the Arrangement if such holder had not exercised Dissent Procedures;

provided that, notwithstanding anything to the contrary contained in subsection 190(11) of the CBCA, in no case shall APM, Erdene or Amalco or any other person be required to recognize dissenting shareholders as APM Shareholders, Erdene Shareholders or Amalco Shareholders after the Effective Time and the names of such dissenting APM Shareholders or Erdene Shareholders shall be deleted from the register of APM Shareholders, Erdene Shareholders and Amalco Shareholders, as the case may be, on the Effective Date.

5.3 Reservation of Amalco Common Shares and Erdene New Shares. If an Erdene Shareholder exercises his, her or its Dissent Rights, Erdene shall, on the Effective Date, set aside and not distribute that portion of the Amalco Common Shares and the Erdene New Shares that are attributable to the Erdene Common Shares for which Dissent Rights have been exercised. If the Erdene Dissenting Shareholder is ultimately not entitled to be paid for their Erdene Common Shares, Erdene shall distribute to such Erdene Dissenting Shareholder his, her or its pro rata portion of the Amalco Common Shares and the Erdene New Shares. If an Erdene Dissenting Shareholder duly complies with the Dissent Procedures and is ultimately entitled to be paid for his, her or its Erdene Common Shares, then Erdene shall retain the portion of the Amalco Common Shares and the Erdene New Shares attributable to such Erdene Dissenting Shareholder and such shares will be cancelled.

5.4 Reservation of APM Common Shares. If an APM Shareholder exercises his, her or its Dissent Rights, Amalco shall on the Effective Date set aside and not distribute that portion of the Common Shares which is attributable to the APM Common Shares for which Dissent Rights have been exercised. If the APM Dissenting Shareholder is ultimately not entitled to be paid for his, her or its APM Common Shares, Amalco shall distribute to such APM Shareholder his, her or its pro rata portion of the Amalco Common Shares. If an APM Shareholder duly complies with the Dissent Procedures and is ultimately entitled to be paid for their APM Common Shares, then Amalco shall retain the portion of the Amalco Common Shares attributable to such APM Dissenting Shareholder and such shares will be cancelled.

ARTICLE 6 - AMENDMENT

6.1 Amendment of Plan of Arrangement. The Parties hereto agree as follows:

- (a) Erdene and APM may amend, modify and/or supplement this Plan of Arrangement at any time and from to time, provided that any amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following the Erdene Meeting and the APM Meeting, approved by the Court and communicated to the Erdene Shareholders and the APM Shareholders if and as required by the Court.
- (b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by Erdene or APM at any time prior to or at the Erdene Meeting and the APM Meeting with or without any prior notice or communication and, if so proposed and accepted by the persons voting at the Erdene Meeting and the APM Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.
- (c) Any amendment, modification or supplement to this Plan of Arrangement that is approved or directed by the Court following the Erdene Meeting and the APM Meeting shall only be effective if it is consented to by Erdene and APM acting reasonably.
- (d) Erdene, APM and ERI may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time after the Erdene Meeting and the APM Meeting and prior to the Effective Time, with the approval of the Court.
- (e) This Plan of Arrangement may be withdrawn prior to the Effective Time in accordance with the terms of the Arrangement Agreement.

ARTICLE 7 - REFERENCE DATE

7.1 Reference Date. This Plan of Arrangement is dated for reference August 7, 2012.

Exhibit 1
ERDENE RESOURCE DEVELOPMENT CORP.
(the "Corporation")

Initial Rights and Restrictions for the Erdene New Shares

1.1 The Erdene Common Shares

The Erdene Common Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

(f) Voting

The holders of the Erdene Common Shares shall be entitled as such to receive notice of, attend and vote at any meeting of the shareholders of the Corporation.

(g) Dividends

Subject to the prior rights of holders of any shares of the Corporation ranking in priority to the Erdene Common Shares, the holders of the Erdene Common Shares shall be entitled to receive, if, as and when declared by the Board of Directors, non-cumulative cash dividends in an amount or amounts to be determined by the Board of Directors from time to time.

(h) Dissolution

In the event of liquidation, dissolution or winding-up of the Corporation or other return of capital by the Corporation, whether voluntary or involuntary, the holders of the Erdene Common Shares are entitled to receive, before any distribution of any part of the profits and assets of the Corporation among the holders of the Erdene Common Shares, a payment of an amount equal to One Cent (\$0.01) per Erdene Common Share to the extent of the amount of value of property available under applicable law for payment to shareholders upon such liquidation, dissolution or winding-up, and will thereupon be entitled to participate *pari passu* with the holders of the Erdene Class A Common Shares, if any, with respect to the distribution of any remaining part of the profits and assets of the Corporation upon such liquidation, dissolution or winding-up.

Exhibit 2

ERDENE RESOURCE DEVELOPMENTS CORP. (the "Corporation")

Final Rights and Restrictions for the Erdene New Shares

1.1 The Erdene Common Shares

The Erdene Common Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

(a) Voting

The holders of the Erdene Common Shares shall be entitled as such to receive notice of, attend and vote at any meeting of the shareholders of the Corporation.

(b) Dividends

Subject to the prior rights of holders of any shares of the Corporation ranking in priority to the Erdene Common Shares, the holders of the Erdene Common Shares shall be entitled to receive, if, as and when declared by the Board of Directors, non-cumulative cash dividends in an amount or amounts to be determined by the Board of Directors from time to time.

(c) Dissolution

In the event of liquidation, dissolution or winding-up of the Corporation or other return of capital by the Corporation, whether voluntary or involuntary, the holders of the Erdene Common Shares are entitled to receive any remaining part of the profits and assets of the Corporation upon such liquidation, dissolution or winding-up.

SCHEDULE C

DEFERRED STOCK UNIT PLAN

ERDENE RESOURCE DEVELOPMENT CORPORATION

Deferred Stock Unit Plan

October [26], 2012

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ARTICLE 1
DEFINITIONS AND INTERPRETATION

Section 1.01 Definitions

For purposes of this DSU Plan, unless the context in which such word or term is used herein otherwise requires, the following words and terms with the initial letter or letters thereof capitalized shall have the following meanings:

- (a) "**Act**" means the *Canada Business Corporations Act* or its successor, as amended from time to time;
- (b) "**Affiliate**" has the meaning assigned by the *Securities Act* (Nova Scotia), as amended from time to time;
- (c) "**Annual Compensation**" means (i) the annual base compensation payable by the Corporation to an Eligible Employee; or (ii) the Board or committee meeting fees payable by the Corporation to an Eligible Director, when acting as an Employee or Director of the Corporation;
- (d) "**Associate**" has the meaning assigned by the *Securities Act* (Nova Scotia), as amended from time to time;
- (e) "**Award Date**" means in respect of Deferred Share Units awarded (i) pursuant to Section 3.02 of this DSU Plan, the Purchase Date; or (ii) pursuant to Section 3.03 of this DSU Plan, on such date as the Committee determines;
- (f) "**Board**" means the board of directors of the Corporation;
- (g) "**Change in Control**" means:
 - (i) when any person, together with any Affiliate or Associate of such person (other than the Corporation or its subsidiaries, or an employee benefit plan of the Corporation or its subsidiaries, including any trustee of such plan acting as trustee) hereafter acquires, the direct or indirect "beneficial ownership", as defined by the Act, of securities of the Corporation representing 50% or more of the combined voting power of the Corporation's then outstanding securities;
 - (ii) the occurrence of a transaction requiring approval of the Corporation's shareholders involving the acquisition of the Corporation or all or substantially all of its business by an entity through purchase of assets by amalgamation, arrangement or otherwise;
 - (iii) a consolidation, merger, amalgamation, arrangement or other reorganization or acquisition involving the Corporation or any of its Subsidiaries in another corporation or other entity, as a result of which the holders of Common Shares prior to the completion of the transaction hold less than 50% of the votes attaching to all of the outstanding voting securities of the successor corporation or entity after completion of the transaction;
 - (iv) a resolution is adopted to wind-up, dissolve or liquidate the Corporation;

- (v) as a result of, or in connection with:
 - (A) the contested election of Directors; or
 - (B) a transaction referred to in paragraph (iii) above, the nominees named in the most recent management information circular of the Corporation for election to the board of directors of the Corporation shall not constitute a majority of the Directors; or
- (vi) the Board adopts a resolution to the effect that a Change of Control as defined herein has occurred or is eminent.
- (h) "**Committee**" means the compensation committee of the Board or, if there is no compensation committee, means the Board;
- (i) "**Common Share**" means a common share in the capital of the Corporation;
- (j) "**Corporation**" means Erdene Resource Development Corporation, a corporation formed under the Act;
- (k) "**Deferred Share Unit**" means a book-keeping entry in the books of the Corporation equivalent in value to the Market Value of a Common Share on the relevant date;
- (l) "**Director**" means a member of the Board from time to time;
- (m) "**DSU Plan**" means this Deferred Share Unit plan;
- (n) "**DSU Grant Letter**" means a letter in the form attached hereto as:
 - (i) Schedule A, in the case of an award of Deferred Share Units pursuant to Section 3.02 of this DSU Plan; or
 - (ii) Schedule B, in the case of an award of Deferred Share Units pursuant to Section 3.03 of this DSU Plan;
- (o) "**DSU Payment**" means a cash payment by the Corporation to a Participant equal to the Market Value of a Common Share on the Separation Date multiplied by the number of Deferred Share Units held by the Participant on the Separation Date;
- (p) "**DSU Plan Shares**" means the number of Common Shares represented by the vested Deferred Share Units that are held by the Participant on the Separation Date;
- (q) "**Election Period**" means:
 - (i) where an Eligible Director or Eligible Employee was not a Director or Employee, as the case may be, within 30 days prior to the beginning of the Year, within 30 days after the date on which the Eligible Director became a Director; and
 - (ii) where an Eligible Director or Eligible Employee was a Director or Employee, as the case may be, within 30 days prior to the beginning of the Year, within 30 days prior to the date on which that Year commenced.

- (r) **"Eligible Director"** means any Director from time to time;
- (s) **"Eligible Employee"** means any Employee from time to time;
- (t) **"Employee"** means an employee of the Corporation from time to time;
- (u) **"Insiders"** has the same meaning as found in the TSX Company Manual.
- (v) **"Market Value"** means the volume-weighted average trading price of the Common Shares on the TSX for the five (5) consecutive trading days immediately prior to the date as of which Market Value is determined. If the Common Shares are not trading on the TSX, then the Market Value shall be determined based on the trading price on such stock exchange or over-the-counter market on which the Common Shares are listed and posted for trading as may be selected for such purpose by the Committee. In the event that the Common Shares are not listed and posted for trading on any stock exchange or over-the-counter market, the Market Value shall be the fair market value of such Common Shares as determined by the Committee in its sole discretion;
- (w) **"Participant"** means each Eligible Director or Eligible Employee to whom Deferred Share Units are issued;
- (x) **"Purchase Date"** means the last day in each quarter of a Year, on which date Deferred Share Units representing the Annual Compensation or the portion thereof payable for such quarter to an Eligible Director or Eligible Employee, as the case may be, who has elected to receive Deferred Share Units shall be deemed to be awarded and shall be credited to the account of such Participant;
- (y) **"Separation Date"** means the date that a Participant ceases to be an Eligible Director and/or Eligible Employee by reason of his or her death, resignation or retirement from, or loss of office as a Director and/or Employee;
- (z) **"Share Compensation Arrangement"** means any stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism of the Corporation involving the issuance or potential issuance of Common Shares, including a share purchase from treasury, whether or not financially assisted by the Corporation by way of a loan, guarantee or otherwise;
- (aa) **"Subsidiary"** means any related entity to the Corporation, as such term is defined in National Instrument 45-106 - *Prospectus and Registration Exemptions* of the Canadian Securities Administration;
- (bb) **"TSX"** means the Toronto Stock Exchange or, if the Common Shares are not listed for trading on the TSX, such other stock exchange in Canada on which such Common Shares are listed for trading; and
- (cc) **"Year"** means a financial year of the Corporation.

Section 1.02 Headings

The headings of all Articles, Sections and subsections in this DSU Plan are inserted for convenience of reference only and shall not affect the construction or interpretation of this DSU Plan.

Section 1.03 References to this DSU Plan

The words "hereto", "herein", "hereby", "hereunder", "hereof" and similar expressions mean or refer to this DSU Plan as a whole and not to any particular Article, Section, subsection or other part hereof.

Section 1.04 Canadian Funds

Unless otherwise specifically provided, all references to dollar amounts in this DSU Plan are references to lawful money of Canada.

**ARTICLE 2
PURPOSE AND ADMINISTRATION OF THE DSU PLAN**

Section 2.01 Purpose of this DSU Plan

The purpose of this DSU Plan is to enhance the Corporation's ability to attract and retain talented individuals to serve as Directors and Employees and to promote a greater alignment of interests between the Eligible Directors, Eligible Employees and the shareholders of the Corporation by linking the compensation of Eligible Directors and Eligible Employees to the future value of the Common Shares.

Section 2.02 Administration of the DSU Plan

This DSU Plan shall be administered by the Committee and the Committee shall have full discretionary authority to administer this DSU Plan, including the authority to interpret and construe any provision of this DSU Plan and to adopt, amend and rescind such rules and regulations for administering this DSU Plan as the Committee may deem necessary in order to comply with the requirements of this DSU Plan. The Committee may delegate to any Director, Employee or officer of the Corporation such of the Committee's duties and powers relating to the DSU Plan as the Committee may see fit. All actions taken and all interpretations and determinations made by the Committee or its delegates in good faith shall be final and conclusive and shall be binding on the Participants and the Corporation.

Section 2.03 No Liability

No member of the Committee nor any Director, Employee or officer of the Corporation shall be personally liable for any action taken or determination or interpretation made in good faith in connection with this DSU Plan and all members of the Committee and all Directors, Employees and officers of the Corporation shall be fully protected, indemnified and held harmless by the Corporation with respect to any such action taken or determination or interpretation made. The officers of the Corporation are hereby authorized and empowered to do all things and execute and deliver all instruments, undertakings and applications and writings as they, in their absolute discretion, consider necessary for the implementation of this DSU Plan and of any rules and regulations established for administering this DSU Plan. All costs incurred in connection with the administration of this DSU Plan shall be for the account of the Corporation.

Section 2.04 Record Keeping

The Corporation shall maintain a register in which shall be recorded:

- (a) the name and address of each Participant in this DSU Plan;
- (b) the number of Deferred Share Units granted to each Participant under this DSU Plan; and

- (c) the date and Market Value at which Deferred Share Units were granted.

For administrative purposes, a separate register shall be maintained for each Participant by the Corporation for unvested Deferred Share Units, if applicable.

Section 2.05 Amendment to DSU Plan

Subject as is hereinafter provided, the Board may at any time, and from time to time, and without shareholder approval, amend any provision of this DSU Plan, subject to any regulatory or TSX requirement at the time of such amendment, including, without limitation:

- (a) for the purpose of making minor or technical modifications to any of the provisions of the DSU Plan including amendments of a "clerical" or "housekeeping in close in nature";
- (b) to correct any ambiguity, defective provision, error or omission in the provisions of the DSU Plan;
- (c) amendments to the termination provisions of Section 2.06;
- (d) amendments necessary or advisable because of any change in applicable securities laws;
- (e) amendments to Section 2.02 regarding the administration of this DSU Plan;
- (f) amendments necessary or advisable if any Participant is resident outside of Canada; and
- (g) any other amendment, fundamental or otherwise, not requiring shareholder approval under applicable laws or the rules or policies of the TSX;

provided however, that:

- (h) no such amendment of this DSU Plan may be made without the consent of each affected Participant in this DSU Plan if such amendment would adversely affect the rights of such affected Participant(s) under this DSU Plan;
- (i) no amendment shall be made unless it is such that this DSU Plan continuously meets the requirements of paragraph 6801(d) of the Regulations to the *Income Tax Act* (Canada) or any successor provision thereto; and
- (j) shareholder approval shall be obtained in accordance with the requirements of the TSX for any amendment:
 - (i) to subsection 3.02(a) in order to increase the maximum number of Deferred Share Units that may be issued under this DSU Plan (other than pursuant to Section 3.03); or
 - (ii) to this subsection 2.05 in any manner.

Section 2.06 Plan Termination

The Board may decide to discontinue granting awards under the DSU Plan at any time in which case no further Deferred Share Units shall be awarded or credited under the DSU Plan. Any Deferred Share Units that remain outstanding in a Participant's account at that time shall continue to be dealt with in accordance

with the terms of this DSU Plan. The DSU Plan shall terminate when all payments owing pursuant to Section 3.10 or 3.11 of this DSU Plan have been made and all Deferred Share Units have been cancelled in all Participants' accounts.

ARTICLE 3 DSU PLAN

Section 3.01 Establishment of DSU Plan

A DSU Plan is hereby established for Eligible Directors and Eligible Employees.

Section 3.02 Maximum Common Shares Reserved for Issuance

The maximum number of Common Shares that are issuable under the DSU Plan is 2,500,000 (the "**Plan Limit**"), subject to adjustment under Section 3.03, and:

- (a) the maximum number of Common Shares issuable to Insiders pursuant to the DSU Plan, or when combined with all of the Corporation's other Share Compensation Arrangements, shall not exceed 10% of the issued and outstanding Common Shares at any time; and
- (b) the maximum number of Common Shares issued to Insiders pursuant to the DSU Plan, or when combined with all of the Corporation's other Share Compensation Arrangements, within any one year, shall not exceed 10% of the issued and outstanding Common Shares.

For the purpose of determining the number of Common Shares that remain available for issuance under this DSU Plan, the number of Common shares underlying any grants of Deferred Stock Units that are surrendered, forfeited, waived and/or cancelled shall be added back to the Plan Limit and again be available for future grant.

Section 3.03 Adjustments and Reorganizations

In the event of any dividends paid in Common Shares, share subdivision, combination or exchange of shares, merger, consolidation, spin-off, or other distribution of the Corporation's assets to shareholders, or any other change in the capital of the Corporation affecting Common Shares, the Committee, in its sole and absolute discretion will make, with respect to the number of Deferred Share Units outstanding under this DSU Plan, any proportionate adjustments as it considers appropriate to reflect that change.

Section 3.04 Deferral of Annual Compensation

- (a) Amount of Election

A Participant may elect to receive, in 10% increments, up to 100% of his or her Annual Compensation in Deferred Share Units.

- (b) Method of Electing

Each Participant shall complete and deliver to the chief financial officer of the Corporation within the Election Period an annual written election in the form attached hereto as Schedule C designating the portion of his or her Annual Compensation that is to be paid in Deferred Share Units and/or cash. If a

Participant does not make an election for all or part of a Year, the Participant's Annual Compensation for such Year shall be paid in cash.

(c) Duration of Election

An election made in accordance with the foregoing shall be effective for the Year or balance thereof in respect of which it is made. An election may be revoked or changed only with respect to the portion of a Year for which Deferred Share Units have not yet been credited.

(d) Number of Deferred Share Units

The number of Deferred Share Units to be credited shall be determined by dividing the amount of the Annual Compensation which is payable on the Purchase Date in respect of the applicable quarter and which is to be received in Deferred Share Units by the Market Value of a Common Share on the Purchase Date.

Section 3.05 Discretionary Awards

(a) Board Discretion

Subject to this Section 3.05 and such other terms and conditions as the Board may prescribe, the Board, on recommendation of the Committee, in its sole and absolute discretion, shall have authority to award Deferred Share Units to a Participant at any time or from time to time.

(b) Vesting

The Board, on recommendation of the Committee, shall determine the vesting schedule for Deferred Share Units awarded pursuant to this Section 3.05; provided that, if the vesting schedule is not so determined by the Board, 25% of such Deferred Share Units shall vest upon the Award Date and an additional 25% shall vest on each of the first, second and third anniversary of the Award Date. Unless otherwise determined by the Board, such Deferred Share Units shall cease to vest on the Separation Date and any Deferred Share Units which have not vested on the Separation Date shall be cancelled. Notwithstanding the foregoing, unless otherwise determined by the Board at or after the Award Date, any Deferred Share Units outstanding immediately prior to the occurrence of a Change in Control, but which are not then vested, shall become fully vested upon the occurrence of a Change in Control. The Board may, in its absolute discretion at any time, shorten the vesting period of all or any unvested Deferred Share Units of a Participant, including, without limiting the generality of the foregoing, upon a Change of Control.

Section 3.06 Credit of Elected Deferred Share Units

All Deferred Share Units received by a Participant shall be credited to an account maintained for the Participant on the books of the Corporation as of the Award Date, except where Deferred Share Units have been granted pursuant to Section 3.05, in which case such Deferred Share Units shall be credited to the Participant's account according to the vesting schedule for such Deferred Share Units.

Section 3.07 Notification of Deferred Share Units Granted

Each grant of Deferred Share Units under this DSU Plan shall be evidenced by a DSU Grant Letter issued as of the Award Date. In addition, the Corporation shall issue to each Participant who has been granted Deferred Share Units in a particular Year an annual statement showing the number of Deferred Share

Units granted on each Award Date in such Year and the Market Value of a Common Share on each such Award Date.

Section 3.08 Dividends

Subject to the prior approval of the TSX, in the event that a dividend (other than a stock dividend) is declared and paid by the Corporation on Common Shares, a Participant will be credited with additional Deferred Share Units. The number of such additional Deferred Share Units will be calculated by dividing (x) the total amount of the dividends that would have been paid to the Participant if the Deferred Share Units in the Participant's account on the dividend record date had been outstanding Common Shares (and the Participant held no other Common Shares) by (y) the Market Value of a Common Share on the TSX on the date on which the dividends were paid on the Common Shares, rounded up to the next whole Deferred Share Unit.

Section 3.09 Term of the DSU Plan

This DSU Plan shall be deemed to become effective as of [October 26, 2012]. This DSU Plan shall remain in effect until it is discontinued by the Board.

Section 3.10 Redemption

Each vested Deferred Share Unit held by a Participant who ceases to be an Eligible Director or Eligible Employee shall be redeemed by the Corporation effective as of the Separation Date for, at the option of the Corporation, either:

- (a) a DSU Payment to be made to the Participant on such date or dates as the Corporation determines, which shall be no later than the end of the first calendar year commencing thereafter; or
- (b) DSU Plan Shares issued from treasury, certificates for which shall be delivered on such date or dates as the Corporation determines, which shall be no later than the end of the first calendar year commencing thereafter.

ARTICLE 4 INCOME TAX MATTERS

Section 4.01 Taxes and Other Source Deductions

The Corporation shall be authorized to withhold or deduct such amounts, if any, as may be required to be withheld or deducted under applicable taxation or other laws ("**applicable withholding taxes**"). Any issuance of DSU Plan Shares under the DSU Plan shall be subject to the provision that the Corporation may, in its sole discretion, require the Participant to reimburse the Corporation for any amounts required to be withheld as taxes in respect of the issuance of the DSU Plan Shares to such Participant. In lieu thereof, the issuance of DSU Plan Shares under the DSU Plan is conditional upon the Corporation's reservation, in its discretion, of the right to withhold, consistent with any applicable law, from any compensation or other amounts payable to the Participant, any amounts required to be paid by the Corporation to any taxing or other governmental authority on behalf of the Participant or its own behalf under any federal, provincial or local law as a result of the issuance of DSU Plan Shares under this DSU Plan. The Corporation shall also have the right in its discretion to satisfy such withholding tax liability by retaining, acquiring or selling on behalf of a Participant any DSU Plan Shares that would otherwise be issued to a Participant hereunder.

Section 4.02 Compliance with Income Tax Act

Notwithstanding the foregoing, all actions of the Board, the Committee and any Director, Employee or officer of the Corporation shall be such that this DSU Plan continuously meets the conditions of paragraph 6801(d) of the Regulations under the *Income Tax Act* (Canada), or any successor provision.

**ARTICLE 5
GENERAL**

Section 5.01 Non-Assignable

Deferred Share Units and any right or interest of a Participant under this DSU Plan shall not be assignable or transferable other than by will or other testamentary disposition or according to the applicable laws respecting the devolution of estates and any such assignment or transfer in violation of this DSU Plan shall be null and void.

Section 5.02 Rights as a Shareholder, Director or Employee

No holder of any Deferred Share Units shall have any rights as a shareholder of the Corporation at any time. Nothing in this DSU Plan shall confer on any Participant the right to continue as a Director or Employee of the Corporation or interfere with the Corporation's right to terminate such Employee's employment with the Corporation.

Section 5.03 No Representation or Warranty

The Corporation makes no representation or warranty as to the future value of any rights under Deferred Share Units issued in accordance with the provisions of this DSU Plan. No amount will be paid to, or in respect of, a Participant under this DSU Plan or pursuant to any other arrangement, and no additional Deferred Share Units will be granted to such Participant to compensate for a downward fluctuation in the price of the Common Shares, nor will any other form of benefit be conferred upon, or in respect of, a Participant for such purpose.

Section 5.04 Compliance with Applicable Law

If any provision of this DSU Plan or any Deferred Share Unit contravenes any law or any order, ruling, policy, by-law or regulation of any regulatory body having jurisdiction, then such provision shall be deemed to be amended to the extent necessary to bring such provision into compliance therewith.

Section 5.05 Interpretation

This DSU Plan shall be governed by and construed in accordance with the laws of the Province of Nova Scotia.

Section 5.06 Unfunded Benefit

Any DSU Payments to be made hereunder constitute unfunded obligations of the Corporation payable solely from its general assets and subject to the claims of its creditors. The Corporation has not established any trust or separate fund to provide for the payment of benefits hereunder.

Section 5.07 Successors and Assigns

This DSU Plan shall be binding on all successors and assigns of the Corporation.

**SCHEDULE A
DSU GRANT NOTIFICATION**

TO: _____

Pursuant to the Deferred Share Unit Plan (the "Plan") of Erdene Resource Development Corporation it has been determined that you are eligible to participate in the Plan and that on [date] \$_____ of your Annual Compensation in respect of the quarter ended [date] has been paid in _____ Deferred Share Units based on a Market Value of \$[●] per Common Share.

Capitalized terms used herein have the meanings ascribed to them in the Plan.

DATED the _____ day of _____, 20_____.

**ERDENE RESOURCE DEVELOPMENT
CORPORATION**

Per: _____

Name:

Title:

**SCHEDULE B
DSU GRANT NOTIFICATION**

TO: _____

Pursuant to the Deferred Share Unit Plan (the "Plan") of Erdene Resource Development Corporation it has been determined that you are eligible to participate in the Plan and you have been awarded _____ Deferred Share Units. The Market Value of a Common Share on the Award Date is \$ _____.

Capitalized terms used herein have the meanings ascribed to them in the Plan.

DATED the ____ day of _____, 20 ____.

**ERDENE RESOURCE DEVELOPMENT
CORPORATION**

Per: _____

Name:

Title:

**SCHEDULE C
ELECTION REGARDING COMPENSATION**

TO: The [Compensation Committee] of Erdene Resource Development Corporation (the "Corporation")

FROM: [NAME OF DIRECTOR or EMPLOYEE]

Pursuant to the terms of the Deferred Share Unit Plan of the Corporation (the "Plan"), I hereby elect to receive:

- (i) _____% of my Annual Compensation in respect of the _____ Year in the form of Deferred Share Units; and
- (ii) _____% of my Annual Compensation in respect of the _____ Year in the form of cash.

This constitutes my election as required pursuant to Section 3.04 of the Plan. Capitalized terms used herein have the meanings ascribed to them in the Plan.

DATED the _____ day of _____, 20____.

[DIRECTOR or EMPLOYEE]

SCHEDULE D

VALUATION AND FAIRNESS OPINION

See attached



August 7, 2012

The Independent Committee of the Board of Directors
Erdene Resource Development Corporation
99 Wyse Road
Suite 1480
Dartmouth, Nova Scotia
B3A 4S5

To the Independent Committee of the Board of Directors:

Paradigm Capital Inc. ("**Paradigm Capital**") understands that Erdene Resource Development Corporation ("**Erdene**" or the "**Company**") proposes to enter into an arrangement agreement (the "**Agreement**") with Advanced Primary Minerals Corporation ("**APM**") and the Company's wholly-owned direct subsidiary Erdene Resources Inc. ("**ERI**") whereby APM will acquire substantially all of the Company's North American interests, comprised primarily of the Company's interest in the Donkin Coal Project in Nova Scotia ("**Donkin**"), the Black Point Project in Nova Scotia ("**Black Point**"), and \$1.95 million of working capital (collectively, the "**Erdene North American Interests**") (the "**Transaction**"). Paradigm understands that APM will issue 360,028,650 shares to Erdene (the "**Share Consideration**") in consideration for all of the shares of ERI, which will at the time of closing of the Transaction own, directly or through its subsidiaries, the Erdene North American Interests.

Paradigm Capital further understands that:

- (a) The Transaction will constitute a "related party transaction" for purposes of Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**") and therefore requires a formal valuation of the non-cash assets involved in the Transaction (the "**Valuation**"); and
- (b) The board of directors of Erdene (the "**Board of Directors**") has appointed an independent special committee (the "**Independent Committee**") to consider and evaluate the Transaction and to make recommendations thereon to the Board of Directors.

The Independent Committee has retained Paradigm Capital to assist it in evaluating the Transaction, including the preparation and delivery to the Independent Committee of the Valuation in accordance with the requirements of MI 61-101 and the rules of the Investment Industry Regulatory Organization of Canada ("**IIROC**") (collectively, the "**Policies**") and an opinion (the "**Opinion**") as to the fairness, from a financial point of view, of the Share Consideration under the Transaction to the shareholders of Erdene.

Paradigm Capital also understands that all of the material terms of and risks associated with the Transaction will be described in a management information circular (the "**Circular**"), which will be prepared by the Company in compliance with applicable laws, regulations, policies and rules and will be mailed to shareholders of Erdene.

Paradigm Capital understands that APM has engaged Toll Cross Securities Inc. to provide a formal valuation in connection with the Transaction (the "**Toll Cross Valuation**").

All dollar amounts herein are expressed in Canadian dollars, unless stated otherwise.



Paradigm Capital Engagement and Background

Paradigm Capital was first contacted regarding the Transaction on June 29, 2012. Paradigm Capital was formally engaged to act as financial advisor to the Independent Committee pursuant to an agreement dated July 16, 2012 (the “**Engagement Agreement**”). The terms of the Engagement Agreement provide that Paradigm Capital is to be paid a fixed fee for its service and will be reimbursed for out of pocket expenses upon submission of the Valuation and the Opinion. In addition, Erdene has agreed to indemnify Paradigm Capital, its subsidiaries and affiliates, and their respective officers, directors, employees and agents, against certain expenses, losses, claims, actions, damages and liabilities arising from the Engagement Agreement. The fee payable to Paradigm Capital is not contingent upon the conclusions reached in the Valuation or the Opinion, or upon the completion of the Transaction. No understandings or agreements exist between Paradigm Capital and the Company with respect to future financial advisor or investment banking business.

Subject to the terms of the Engagement Agreement, Paradigm Capital consents to the inclusion of the Valuation and the Opinion in their entirety, together with a summary thereof in a form acceptable to Paradigm Capital, acting reasonably, in the Circular and other documents filed by the Company with the securities commissions or similar regulatory authorities in each relevant province of Canada.

Credentials and Independence of Paradigm Capital

Paradigm Capital is a Canadian independent investment banking firm with a sales, trading, research and corporate finance focus providing services for both institutional investors and corporations. Paradigm Capital was founded in 1999 and is a member of the Toronto Stock Exchange, the TSX Venture Exchange and IIROC. Paradigm Capital has participated in many transactions involving both public and private companies.

The Valuation and the Opinion expressed herein represent the opinion of Paradigm Capital and the form and content thereof have been approved for release by a committee of directors and other professionals of Paradigm Capital, each of whom is experienced in mergers, business combinations, divestitures, valuations and fairness opinion matters.

None of Paradigm Capital or its associates or affiliates: (i) is an “issuer insider”, “associated entity” or “affiliated entity” (as those terms are defined in MI 61-101) of Erdene or APM, or any of their respective associates or affiliates; (ii) is an advisor to Erdene or APM or any person or company with respect to the Transaction; (iii) has a financial incentive with respect to the conclusions reached in the Valuation or the Opinion or the outcome of the Transaction; or (iv) is a manager or co-manager of a soliciting dealer group formed in respect of the Transaction (or a member of such a group performing services beyond the customary soliciting dealer’s functions or receiving more than the per security or per security holder fees payable to the other members of the group). Paradigm Capital has not provided any financial advisory services to Erdene or APM, or any of their respective associates or affiliates for which it has received compensation in the past five years.

Paradigm Capital may, however, in the ordinary course of its business, provide financial advisory or investment banking services to Erdene or APM. In addition, in the ordinary course of its business, Paradigm Capital may actively trade common shares and other securities of Erdene or APM for its own account and for the accounts of Paradigm Capital’s clients and, accordingly, may at any time hold a long or short position in such securities. As an investment dealer, Paradigm Capital conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including those related to any of Erdene, APM or the Transaction.

Scope of the Review

In connection with the Valuation and the Opinion, Paradigm Capital has reviewed and relied upon and in some cases carried out, among other things, the following:

- a) The draft Agreement between APM, Erdene and ERI dated August 1, 2012 outlining the terms of the Transaction (the “**August 1 Draft Agreement**”);
- b) Erdene’s Annual Information Form for the fiscal year ended December 31, 2011, dated March 27, 2012;
- c) Erdene’s Management Information Circular dated May 23, 2012;
- d) Erdene’s audited consolidated financial statements and Management’s Discussion and Analysis for the fiscal year ended December 31, 2011 and the comparative period ended December 31, 2010;
- e) Erdene’s unaudited quarterly consolidated interim financial statements and Management’s Discussion and Analysis as at and for the periods March 31, 2012, September 30, 2011 and June 30, 2011, and the comparative periods ended March 31, 2011, September 30, 2010 and June 30, 2010, respectively;
- f) Erdene’s draft unaudited quarterly consolidated interim financial statements as at and for the period ended June 30, 2012;
- g) NI 43-101 Technical Report – Donkin Coal Project, Cape Breton, Nova Scotia, Canada, dated June 2011, prepared for Xstrata Coal Donkin Management Limited (“**XCDM**”) and the Company by Lynn R. Partington, P.E., P.Eng., of Marston and Marston, Inc. (the “**June 2011 Donkin Technical Report**”);
- h) NI 43-101 Technical Report – Donkin Coal Project, Cape Breton, Nova Scotia, Canada, dated April 2007, prepared for XCDM and Erdene Gold Inc. by Kerry J. Whitby, BSc, FAusIMM, of McElroy Bryan Geological Services (the “**April 2007 Donkin Technical Report**”);
- i) Black Point Quarry Scoping Study – Erdene Resource Development Corporation, dated July 2011
- j) Erdene’s press releases and material change reports for the one year period ending August 2, 2012;
- k) Erdene’s internal financial, operational and corporate projections for Donkin;
- l) Erdene’s corporate presentation dated June 2012;
- m) Certain internal financial, operational, corporate and other information concerning Donkin, including financial models for Donkin, that was prepared or provided by the management of Erdene;
- n) Certain internal financial and other information concerning Black Point, including historical expenditures for Black Point, that was prepared or provided by the management of Erdene;
- o) Oral representations obtained from senior representatives of Erdene as to matters of fact considered by Paradigm Capital to be relevant;



- p) Selected public market trading statistics and relevant business and financial information of Erdene and other comparable publicly traded entities;
- q) Relevant public record materials regarding the ongoing sale process by Xstrata Coal Donkin Limited (“**Xstrata Coal**”) of its interest in Donkin, including the joint press release by Xstrata Coal, Erdene and XCDM dated April 26, 2012;
- r) APM’s Management Information Circular dated May 31, 2012;
- s) APM’s audited consolidated financial statements and Management’s Discussion and Analysis for the fiscal year ended December 31, 2011 and the comparative period ended December 31, 2010;
- t) APM’s unaudited quarterly consolidated interim financial statements and Management’s Discussion and Analysis as at and for the periods ended March 31, 2012, September 30, 2011 and June 30, 2011, and the comparative periods ended March 31, 2011, September 30, 2010 and June 30, 2010, respectively;
- u) APM’s press releases and material change reports for the one year period ending August 2, 2012;
- v) APM’s internal financial, operational and corporate projections for the Dearing Asset Royalty;
- w) Qualifying Technical Report on Erdene Resource Development Corporation’s Primary Kaolin Properties, Georgia (U.S.A.) dated September 25, 2008, prepared by Donald M. Fraser, P.Eng., BSc Mining Engineering, MBA (summary only) (the “**September 2008 Kaolin Technical Report**”);
- x) Land appraisal reports on the Cofer property dated May 15, 2012, prepared by Stadler Appraisals, LLC;
- y) APM’s purchase agreement between Advanced Primary Minerals USA Corp., Avant Coughlan Newco, and Paul D. Coughlan dated May 29, 2012 and the subsequent amending agreement entered into between Southeastern Primary Minerals LLC, Paul D. Coughlan and Advanced Primary Minerals USA Corp. dated June 29, 2012;
- z) Oral representations obtained from senior representatives of APM as to matters of fact considered by Paradigm Capital to be relevant;
- aa) Selected public market trading statistics and relevant business and financial information of APM and other comparable publicly traded entities;
- bb) Relevant financial information and selected financial metrics with respect to precedent transactions deemed relevant by Paradigm Capital; and
- cc) Such other corporate, industry and financial market information, investigations and analyses as Paradigm Capital considered necessary or appropriate in the circumstances.

In addition, Paradigm Capital has participated in discussions with members of Erdene’s senior management regarding Donkin and Black Point, past and current business operations, and the Company’s financial condition and prospects. Paradigm Capital has also participated in discussions with members of APM’s senior management regarding APM’s past and current business operations, and APM’s financial condition and prospects. Paradigm Capital has not, to the best of its knowledge, been denied access by Erdene or APM to any information requested.



The Valuation and the Opinion have been prepared in accordance with MI 61-101 and the Disclosure Standards for Formal Valuations and Fairness Opinions contained in Rule 29 of the IIROC Dealer Member Rules, but IIROC has not been involved in the preparation or review of the Valuation or the Opinion.

Assumptions and Limitations

With the approval of the Independent Committee and, as provided in the Engagement Agreement, Paradigm Capital has relied, without independent verification, upon all financial and other information that was obtained by us from public sources or that was provided to us by Erdene or APM or their respective affiliates, associates, advisors or otherwise. Paradigm Capital has assumed that this information was complete, accurate and fairly presented as of the date thereof and did not omit to state any material fact or any fact necessary to be stated to make that information not misleading. The Valuation and the Opinion are conditional upon such completeness, accuracy and fair presentation and the lack of any such omissions. In accordance with the terms of our engagement, but subject to the exercise of Paradigm Capital's professional judgment, Paradigm Capital has not conducted any independent investigation to verify the completeness, accuracy or fair presentation of such information or the lack of any such omissions. With respect to the financial projections and models provided to us and used in our analysis, Paradigm Capital has assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Erdene and APM, as the case may be, as to the matters covered thereby.

Paradigm Capital did not meet with the auditors of Erdene or APM and has assumed the accuracy and fair presentation of the audited and unaudited consolidated financial statements of Erdene and APM and, where applicable, the reports of the auditors thereon.

Each of Erdene and APM has represented to us, in certificates of senior officers of each such entity delivered as of the date hereof, among other things, that the information, opinions and other materials (the "**Information**") provided to us by or on behalf of such entity are complete, accurate and fairly presented as of the date of the Information, that since the date of the Information, except as publicly disclosed, there has been no material change, financial or otherwise, in such entity or in its assets, liabilities (contingent or otherwise), business or operations and there has been no change in any material fact and no new material fact which, in either case, is of such a nature as to render the Information or any part thereof untrue or misleading in any material respect except to the extent corrected in subsequent Information, and that such senior officers have no knowledge of any facts or circumstances, public or otherwise, not contained in or referred to in the Information that could reasonably be expected to affect the Valuation or the Opinion, including the assumptions used, the procedures adopted, the scope of the review undertaken or the conclusions reached.

The Valuation and the Opinion are based on the securities markets, economic, general business and financial conditions prevailing as of the date hereof and the conditions and prospects, financial and otherwise, of Erdene and APM and their respective assets as they were reflected in the Information reviewed by us. In its analysis and in preparing the Valuation and the Opinion, Paradigm Capital has made a number of assumptions with respect to industry performance, general business and economic conditions, and other matters, many of which are beyond the control of Paradigm Capital, Erdene, APM and any other party involved in the Transaction.

Paradigm Capital has also assumed that the final terms of the Transaction will be substantially the same as the August 1 Draft Agreement reviewed by Paradigm Capital, that all of the representations and warranties of Erdene, ERI and APM contained in the August 1 Draft Agreement are correct as of the date hereof, that the Transaction will be completed substantially in accordance with the August 1 Draft Agreement and that the Circular will satisfy all applicable legal requirements. Finally, Paradigm Capital has assumed that all material governmental, regulatory or other required consents and approvals necessary for the consummation of the Transaction will be obtained without any meaningful adverse effect on Erdene or APM or the contemplated benefits of the Transaction.



The Valuation and the Opinion have been provided for the use of the Independent Committee and the Board of Directors for their use in considering the Transaction and may not be used or relied upon for any other purpose or published without the express written consent of Paradigm Capital. The Valuation and the Opinion are given as of the date hereof and Paradigm Capital disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Valuation or the Opinion which may come or be brought to Paradigm Capital's attention after the date hereof. The Valuation and the Opinion are limited to Paradigm Capital's understanding of the Transaction as of the date hereof and Paradigm Capital assumes no obligation to update the Valuation or the Opinion to take into account any changes regarding the Transaction after the date hereof. However, without limiting the generality of the foregoing, in the event that there is any material change in any fact or matter affecting the Opinion or the Valuation after the date hereof, Paradigm Capital reserves the right to change, modify or withdraw the Opinion and/or the Valuation.

Opinions of Financial Advisors

The valuation methodology employed by Paradigm Capital requires the development of long-range financial projections for Donkin and APM which reflect numerous assumptions regarding the impact of general economic and industry conditions on their future financial results. The Valuation of the Erdene North American Interests and APM reflects their Fair Market Values (as hereinafter defined) as at August 7, 2012 (the "**Valuation Date**"). While Paradigm Capital believes the assumptions used are appropriate in the circumstances, some or all of the assumptions may prove to be incorrect.

In preparing the Valuation and the Opinion, Paradigm Capital performed a variety of financial and comparative analyses, including those described below. The summary of Paradigm Capital's analyses described below is not a complete description of the analyses underlying the Valuation and the Opinion. In preparing the Valuation and the Opinion, Paradigm Capital made qualitative judgements as to the significance and relevance of each analysis and factor that it considered.

No company, transaction or business used in Paradigm Capital's analyses as a comparison is identical to Erdene, APM or the Transaction, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgements concerning financial and operating characteristics and other factors that could affect the business combination, public trading or other values of the companies, business segments or transactions being analysed. The estimates contained in Paradigm Capital's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favourable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Paradigm Capital's analyses and estimates are inherently subject to uncertainty.

Paradigm Capital believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying this report. The preparation of a valuation or a fairness opinion is complex and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Valuation and the Opinion are not and should not be construed as a recommendation to shareholders of Erdene to accept or reject the Transaction.



Prior Valuations

Each of Erdene and APM has represented to Paradigm Capital that, other than the Toll Cross Valuation which is being prepared for APM but which has not been finalized as of the date hereof, there have been no independent appraisals or prior valuations (as defined in the Policies) of all or a material part of the properties or assets owned by such entity or any of its subsidiaries made in the preceding 24 months and in the possession or control of such entity.

Overview of Erdene

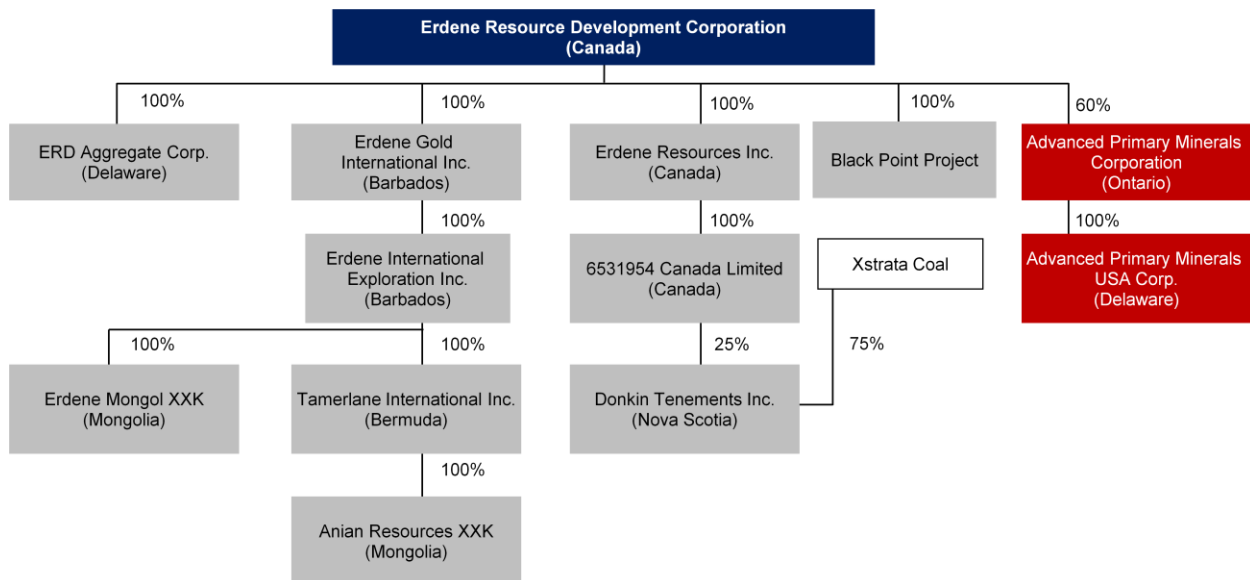
Erdene is a Canadian resources company focused on the development and operation of coal projects in Nova Scotia and molybdenum projects in Mongolia. Erdene is listed on the Toronto Stock Exchange (the “TSX”) under the symbol ‘ERD’.

In North America, the Company holds, through ERI, a 25 per cent interest in the Donkin Coal Project, with the remaining 75 per cent owned by its joint-venture partner, Xstrata Coal. Xstrata Coal is a 100 per cent owned subsidiary of Xstrata plc, a publicly listed diversified metals company with a market capitalization as of the day of this Valuation of \$38.7 billion. In addition to Donkin, Erdene has also entered into a long term option to lease the Black Point Quarry located on the south shore of Chedabucto Bay in Guysborough, Nova Scotia.

In Mongolia, Erdene currently holds seven mineral exploration licenses covering 236,924 hectares and one mining license covering 6,041 hectares under six project names.

As of the day of this Valuation, Erdene has a market capitalization of \$21.1 million. Erdene holds approximately 15.7 million shares of APM, representing approximately 59.7 per cent of the basic shares outstanding. Erdene has a cash balance of \$5.4 million and no debt as of June 30, 2012.

We show the current corporate structure of Erdene below.



Overview of Donkin

Donkin is a development stage coal project located adjacent to the town of Donkin on Cape Breton Island, Nova Scotia. Donkin occurs within the Sydney Coalfield of Nova Scotia, a large coal basin that extends north and northeast from the northern part of Cape Breton Island under the Atlantic Ocean towards Newfoundland.

The Donkin resource block is located approximately 28.5 km east of Sydney, Cape Breton Island. The coal resource lies under the Atlantic Ocean and is accessible by two decline drifts, currently extending some 3.6 km from the surface. The resource block comprises an area of approximately 100,000 hectares.

Erdene acquired its 25 per cent interest in Donkin through the following transactions. In December 2004, the Nova Scotia Department of Natural Resources ("**NSDNR**") issued a "Call for Proposals for the Exploration/Development of the Donkin Coal Resource Block". The Donkin Coal Alliance was formed on behalf of Xstrata Coal Pty Ltd. (66%), Kaoclay Resources Inc. ("**Kaoclay**") (20%), American Transbridge Technologies LLC ("**American Transbridge**") (9.33%) and PDC Resources Corporation ("**PDC**") (4.67%) to submit a proposal to the NSDNR for the exclusive rights to explore and develop Donkin. On December 14, 2005, the NSDNR announced that the Donkin Coal Alliance was the successful proponent. On December 16, 2005, the Donkin Coal Alliance submitted an application to the NSDNR for a special exploration license and a supporting work proposal and budget was submitted on February 20, 2006. In June 2006, the application and work proposal was approved by the Cabinet of the Province of Nova Scotia and the special exploration license was granted. Effective June 12, 2006, the Company concluded by way of a plan of arrangement pursuant to the Canadian Business Corporations Act the acquisition of Kaoclay and its wholly owned subsidiaries, Sparta Kaolin Corporation and 6531954 Canada Inc. Xstrata Coal Pty Ltd's interest in the Donkin Coal Alliance was transferred to Xstrata Coal and Kaoclay's interest was transferred to 6531954 Canada Inc., now a wholly owned subsidiary of Erdene.

In October 2006, the Company reached an agreement with American Transbridge and PDC to increase the Company's ownership in the Donkin Coal Alliance to 25 per cent from 20 per cent in exchange for cash consideration of US\$9,400 and 360,000 Common Shares of the Company. Xstrata also increased its interest in the Donkin Coal Alliance to 75 per cent from 66 per cent in exchange for cash. The members of the Donkin Coal Alliance signed an agreement ("**Alliance Agreement**") effective March 11, 2005, which was amended by agreements dated April 23, 2006, October 26, 2006 and October 27, 2006. In October 2008, the Company and Xstrata executed a definitive joint venture agreement and a sales agency agreement, thereby forming the "Donkin Joint Venture", with the Company having a 25 per cent interest and Xstrata Coal having a 75 per cent interest. XCDM, a related party to Xstrata Coal, is the project manager for the Donkin Joint Venture.

Paradigm understands that pursuant to the Alliance Agreement, the Company agreed to fund up to \$10 million in respect of expenditures incurred during the pre-feasibility phase and detailed feasibility phase of Donkin, provided such expenditures qualify as Canadian exploration expenses for purposes of the Income Tax Act (Canada). Xstrata Coal agreed to pay any other costs up to a maximum of \$5.0 million. The Company is responsible to fund 25 per cent of any additional expenditures incurred during the pre-feasibility phase and the detailed feasibility phase if it wishes to maintain its 25 per cent interest in the Donkin Joint Venture. Upon a positive development decision, the first \$10 million of the Company's capital obligations will be funded by Xstrata Coal.

On April 26, 2012, XCDM and Erdene jointly announced that Xstrata Coal is seeking an operating coal company to assume its interest in Donkin. Paradigm Capital understands that Xstrata Coal has hired Citibank to assist in the process.

Erdene's proposed development of Donkin includes the construction and operation of an underground coal mine with a mine life in excess of 30 years. Underground operations would include multiple continuous-miners producing approximately 3.6 million tonnes per annum ("**Mtpa**") of run-of-mine ("**ROM**") coal. A coal handling and processing plant capable of processing the ROM coal is proposed to be constructed to produce

approximately 2.75 Mtpa of product coal suitable for international metallurgical coal markets as well as international and domestic thermal coal markets.

Donkin Reserve and Resource Summary

The following table shows the Donkin mineral reserves and resources on a 100 per cent basis.

Donkin Project Mineral Reserves & Resources⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

Seam	Typical Seam Thickness Range (m)	Probable Mineable Reserve (Mt)	Resources within Drill Hole Limits (Mt)	Resources outside Drill Hole Limits (Mt)	
				Probable	Inferred
Lloyd Cove	3.1 - 3.6	n/a	53	64	18
				82	
Hub	3.2 - 4.0	28	73	38	19
				57	
Harbour	1.8 - 3.6	30	101	15	100
				115	
Total Lloyd Cove, Hub & Harbour Seams		58	227	117	137
				254	

Notes:

1. Source of data re Lloyd Cove: April 2007 Donkin Technical Report (effective date: April 2007).
2. Source of data re Hub and Harbour: June 2011 Donkin Technical Report (effective date: June 2011).
3. Probable mineable reserve is run-of-mine ("ROM").
4. Mineral reserves and resources are reported using the standards of the Canadian Institute of Mining, Metallurgy and Petroleum.
5. Mineral resources are inclusive of mineral reserves.

Overview of Black Point

Black Point is an exploration-stage construction aggregate project located on approximately 280 hectares near the Upper Fox Island in Guysborough County, Nova Scotia. The property abuts the south shore of Chedabucto Bay is a located approximately 10 km from the town of Canso. Erdene has a long-term royalty lease on Black Point with the Municipality of the District of Guysborough. As of June 30, 2012, Erdene had accumulated expenditures totaling \$1.3 million on Black Point.

Valuation Methodology of Donkin

Definition of Fair Market Value

For the purposes of the Valuation, fair market value ("**Fair Market Value**") means the easily ascertainable monetary consideration that, in an open and unrestricted market, a prudent informed buyer would pay to an informed seller, each acting at arm's length and under no compulsion to act.

Approach to Valuation and Fairness Opinion

The Valuation has been prepared based on techniques that Paradigm Capital considers appropriate in the circumstances, after considering all relevant facts and taking into account Paradigm Capital's assumptions, in order to arrive at the Fair Market Value of the Erdene North American Interests.



For purposes of determining the Fair Market Value of Donkin, and in turn the Erdene North American Interests, Paradigm Capital relied on, among other things, a variety of financial and comparative analyses, including those described below.

- a) Net Asset Value (“NAV”) analysis;
- b) Market Trading Multiples (“Market Trading Multiples”)
 - (i) Comparable Price to Paradigm Capital NAV (“P / Paradigm NAV”);
 - (ii) Comparable Enterprise Value to Total Resource (“EV / Total Resource”)
 - (iii) Comparable Enterprise Value to Measured & Indicated Resource (“EV / M&I Resource”); and
 - (iv) Comparable Price to Book Value (“P / Book”); and
- c) Precedent Transaction Analysis.

a) Net Asset Value Analysis

In determining the NAV for Donkin, Paradigm Capital calculated the net present value (“NPV”) of Donkin using a discounted cash flow (“DCF”) analysis. The DCF considered the present value of the free cash flows to the firm (“FCFF”) generated by Donkin using an appropriate discount rate. This approach took into account the timing and relative certainty of projected cash flows, and required that certain assumptions be made regarding, among other things, commodity prices, exchange rates, capital costs, operational costs, taxes, timing and discount rates. Paradigm Capital did not rely on any single series of assumptions, rather Paradigm Capital performed a variety of sensitivity analyses across multiple scenarios, including a Monte Carlo simulation.

b) Market Trading Multiples

Paradigm Capital compared financial, asset and operational data of Donkin to the corresponding data of a comparable group of companies determined by Paradigm Capital. Paradigm Capital has chosen comparable companies based on key criteria such as primary commodity, stage of development, project location and enterprise value. Paradigm Capital selected the most appropriate valuation metrics to determine the value of Donkin as being comparable trading ranges of P / NAV, EV / Total Resource, EV / M&I Resource and P / Book. An analysis of the results of the selected company analysis involves complex considerations of the selected companies and other factors that could affect the Fair Market Value of Donkin and in turn the Erdene North American Interests.

c) Precedent Transaction Analysis

Paradigm Capital identified and reviewed numerous precedent company acquisition transactions that occurred over the last two years in the coal mining sector. Paradigm Capital considered the transaction value to total resources and transaction value to measured and indicated resources to be the most relevant comparable metrics.

The precedent transactions approach involves identifying comparable transactions and selecting appropriate value multiples, and applying these multiples to the appropriate financial metrics for Donkin. We note that the majority of the precedent transactions occurred in different pricing environment and involved companies in a variety of development stages. Paradigm Capital identified a list of comparable transactions, where public information was available and examined 9 precedent transactions announced between June 1, 2010 and August 1, 2012 on a Transaction Value / Total Resource and Transaction Value / Measured & Indicated Resource basis.

Paradigm Capital found that the publicly available information regarding comparable precedent transactions was not adequate and placed no reliance on this metric.

Donkin Valuation Summary

NAV Analysis

(i) NAV Assumptions

As a basis for the development of projected future cash flows, Paradigm Capital reviewed the Erdene management team's financial and operating projections for Donkin. Paradigm Capital developed its own projections for the future cash flows at Donkin, based on its own knowledge and experience. In particular, Paradigm Capital's base case NAV is based on Erdene's operating forecasts but Paradigm Capital used a more conservative set of assumptions regarding currency rates, thermal and metallurgical coal prices, and the year of commercial production for metallurgical and thermal coal.

The thermal and metallurgical coal price forecasts used in Paradigm Capital's financial projections played a critical role in determining the NAV of Donkin, and in turn the Fair Market Value of the Erdene North American Interests. In considering future coal prices, Paradigm Capital reviewed various equity research projections and economic factors such as supply and demand.

In Paradigm Capital's opinion, the most important assumptions in the Donkin DCF analysis are: (i) future coal prices; (ii) foreign exchange rates, (iii) capital costs; (iv) operating costs; (v) mine operating life and rate; and (vi) corporate tax rates.

Select key line items of Paradigm Capital's base case financial forecasts for Donkin on a 100 per cent basis are set out below:

Donkin Financial Forecasts ⁽¹⁾⁽²⁾⁽³⁾													
Fiscal Year		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Coal Price													
Thermal	US\$/t	107	102	99	90	88	88	87	87	87	87	87	87
Metallurgical	US\$/t	143	135	117	116	115	115	115	115	115	115	115	115
Domestic	US\$/t	117	120	123	115	106	104	102	105	104	105	106	106
USD per CAD	USD/CAD	1.01	0.99	0.99	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98
Saleable Coal													
Thermal	M t	-	-	-	-	-	0.2	0.5	0.6	0.6	0.7	0.7	0.7
Metallurgical	M t	-	-	-	-	-	0.6	1.6	1.9	2.0	2.0	2.3	2.0
Domestic	M t	-	-	0.4	0.5	0.6	0.4	-	-	-	-	-	-
Net Revenue	\$ M	-	-	46	53	67	125	223	264	275	280	307	276
Operating Expenses	\$ M	-	-	(36)	(39)	(28)	(66)	(100)	(112)	(115)	(118)	(125)	(116)
EBITDA	\$ M	-	-	10	13	39	59	122	151	159	163	182	160
Taxes	\$ M	-	-	-	-	-	-	-	-	-	-	(45)	(39)
Change in Working Capital	\$ M	-	-	(9)	(1)	3	(9)	(9)	(3)	(1)	(1)	(2)	2
Capital Expenditures	\$ M	(1)	(33)	(41)	(88)	(234)	(109)	(10)	(11)	(12)	(12)	(13)	(12)
FCFF	\$ M	(1)	(33)	(40)	(75)	(192)	(59)	104	137	146	150	122	111

(1) Commodity and foreign exchange forecasts based on consensus estimates of analyst research

(2) Revenue net of royalties and marketing costs

(3) Shown on a 100% basis

(ii) Discount Rate

Paradigm Capital selected appropriate discount rates to apply to the FCFFs using the Capital Asset Pricing Model to determine an appropriate weighted average cost of capital ("WACC"). An appropriate discount rate was selected based on Paradigm Capital's experience in valuing mining companies. The discount rate reflects:

- a) market risk (risk free rate, equity risk premium, small capitalization premium and volatility); and
 b) project risk (commodity type, project scale, projected free cash flows and other mining risks)

Donkin WACC		
Cost of Debt		
Pre-tax Cost of Debt ⁽¹⁾	%	10.00%
Tax Rate ⁽¹⁾	%	31.00%
After-tax Cost of Debt	%	6.90%
Cost of Equity		
Risk Free Rate ⁽²⁾	%	2.17%
Beta ⁽³⁾		1.50
Market Risk Premium ⁽⁴⁾	%	6.01%
Cost of Equity	%	11.20%
Country Risk Premium ⁽¹⁾	%	0.00%
Risk Adjusted Cost of Equity	%	11.20%
Optimal Debt / Total Capital ⁽¹⁾	%	25.0%
WACC	%	10.13%

⁽¹⁾ Paradigm Capital Estimate

⁽²⁾ Government of Canada 10 Year Bond Yield

⁽³⁾ Comparable company adjusted beta including 11 companies

⁽⁴⁾ Aswath Damodaran - Equity Risk Premiums: Determinants, Estimation and Implications (2011)

Paradigm Capital's analysis determined the appropriate discount rate for Erdene to be the Company's WACC of 10.13%.

(iii) NPV of Donkin and Sensitivities

To complete the DCF analysis, Paradigm Capital did not rely on any single series of projected FCFF, rather Paradigm Capital performed a variety of sensitivity analyses. Based on 25 per cent of the FCFF of Donkin and discount rates presented above, Paradigm Capital's DCF analysis produced NPV ranges using sensitivity analysis. High and low NPVs were derived from modification of several important assumptions including (i) future coal prices; (ii) foreign exchange rates; (iii) capital costs; (iv) operating costs; (v) discount rates; and (vi) initial capital expenditures, amongst other factors.

Variable	Sensitivity	NAV Impact (\$ M)	NAV Sensitivity
Metallurgical Coal Price	+5%	10.9	14.6%
Thermal Coal Price	+5%	2.9	3.9%
Initial CAPEX	+5%	-3.4	-4.6%
Operating Costs	+5%	-6.5	-8.7%
USD/CAD Exchange Rate	-0.010	3.0	4.0%
WACC	-0.5pp	6.8	9.2%

pp: percentage points

(iv) Donkin Net Present Value Conclusion (25 per cent basis)

The following table summarizes Paradigm Capital's NAV range for Donkin.

Donkin Net Present Value (25% Basis)		Low	High
Donkin NPV	\$ M	63.5	85.9
Donkin NAV	\$ M	63.5	85.9

Market Trading Multiples

Paradigm Capital analyzed the values of the comparable companies and then applied select multiples to Donkin's 25 per cent NAV, total resources, measured and indicated resources and book value to determine its implied value. The comparable companies were selected based on development status, location and commodity focus.

Comparable Coal Companies

August 02, 2012

C\$ unless otherwise noted

Company	Locations	Price (Local)	Market Cap. (\$ M)	EV (\$ M)	Reserves and Resources			Valuation				
					Resources (M t)	M&I Resources (M t)	Inf. Resources (M t)	Total Resources (M t)	EV/M&I (\$/t)	EV/Total Resource (\$/t)	Book Value (\$)	P/Book
Non Producing												
Acacia Coal Limited	Australia	A\$0.02	20	10	-	152	152	n/a	0.07	19	1.0x	n/a
Aspire Mining Limited	Mongolia	A\$0.11	72	36	226	26	252	0.16	0.14	59	1.2x	0.79x
Bandanna Energy Limited	Australia	A\$0.36	200	69	517	1,133	1,650	0.13	0.04	216	0.9x	0.22x
Carabella Resources Limited	Australia	A\$0.44	70	32	109	32	141	0.30	0.23	62	1.1x	0.50x
CIC Energy Corp.	Botswana	C\$1.75	102	86	2,925	38	2,963	0.03	0.03	182	0.6x	0.20x
Cline Mining Corp.	Colorado	C\$0.28	57	68	561	95	656	0.12	0.10	242	0.2x	0.22x
Endocoal Limited	Australia	A\$0.27	53	49	88	301	389	0.55	0.13	31	1.7x	0.42x
Metrocoal Ltd.	Australia	A\$0.24	52	29	270	2,877	3,148	0.11	0.01	37	1.4x	n/a
Universal Coal plc	South Africa	A\$0.13	29	21	343	644	987	0.06	0.02	36	0.8x	0.12x
Mean			73	44	560	589	1,149	0.18	0.09		1.0x	0.35x
Median			57	36	270	152	656	0.13	0.07		1.0x	0.22x
High			200	86	2,925	2,877	3,148	0.55	0.23		1.7x	0.79x
Low			20	10	-	26	141	0.03	0.01		0.2x	0.12x

The table above show the comparable companies used in Paradigm Capital's analysis and select comparable multiples.

(i) Price to NAV

For purposes of the P / NAV analysis, Paradigm Capital used the high and low Paradigm Capital NAV estimates for Donkin and the mean P / NAV ratio of the comparable group to arrive at the Fair Market Value for Donkin. The low and high case scenarios and the associated calculations are set forth below.

Price Deck Summary

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Prices: Low Case													
Thermal	US\$/t	107	102	99	90	88	88	87	87	87	87	87	87
Metallurgical	US\$/t	135	128	111	110	109	109	109	109	109	109	109	109
Prices: High Case													
Thermal	US\$/t	107	102	99	90	88	88	87	87	87	87	87	87
Metallurgical	US\$/t	150	142	123	122	121	121	121	121	121	121	121	121

Price / Paradigm Net Asset Value		Low	High
Donkin 25% NAV	\$ M	63.5	85.9
Comparable P / NAV Multiple	x	0.35x	0.35x
Donkin Implied Value	\$ M	22.3	30.2

(ii) Enterprise Value / Total Resource

For purposes of the EV / Total Resource analysis, Paradigm Capital used the total attributable indicated and inferred resources of Donkin to Erdene and applied select EV / Total Resources multiples of the comparable group to arrive at the Fair Market Value for Donkin. The low and high case scenarios and the associated calculations are set forth below.

Enterprise Value per Tonne: Total Resources		Low	High
Erdene Total Resources ⁽¹⁾	M t	120.3	120.3
EV / Tonne (Total Resources) ⁽²⁾	\$ / t	0.07	0.14
Implied Enterprise Value	\$ M	8.2	17.1
Add: Attributable Cash	\$ M	0.0	0.0
Less: Attributable Debt	\$ M	0.0	0.0
Donkin 25% Implied Value	\$ M	8.2	17.1

Notes:

1. Erdene's attributable 25 per cent share of Donkin total resources from page 9
2. Comparable EV / Tonne multiples shown on page 13

(iii) Enterprise Value / Measured and Indicated Resource

For purposes of the EV / Measured and Indicated Resource analysis, Paradigm Capital used the total attributable indicated resources of Donkin to Erdene and applied select EV / Measured and Indicated Resources multiples of the comparable group to arrive at the Fair Market Value for Donkin. The low and high case scenarios and the associated calculations are set forth below.

Enterprise Value per Tonne: M&I Resources		Low	High
Erdene M&I Resources ⁽¹⁾	M t	56.8	56.8
EV / Tonne (M&I) ⁽²⁾	\$ / t	0.12	0.30
Implied Enterprise Value	\$ M	6.9	16.8
Add: Attributable Cash	\$ M	0.0	0.0
Less: Attributable Debt	\$ M	0.0	0.0
Donkin 25% Implied Value	\$ M	6.9	16.8

Notes:

1. Erdene's attributable 25 per cent share of Donkin total indicated resources from page 9
2. Comparable EV / Tonne (M&I) multiples shown on page 13

(iv) Price to Book Value

For purposes of the P / Book analysis, Paradigm Capital used the book value of Donkin as at June 30, 2012. Paradigm Capital applied select P / Book multiples of the comparable group to arrive at the Fair Market Value for Donkin. The low and high case scenarios and the associated calculations are set forth below.

Price / Book		Low	High
Comparable P/B Multiple ⁽¹⁾	x	0.6x	1.4x
Book Value	\$ M	25.7	25.7
Donkin 25% Implied Value	\$ M	14.3	35.7

Notes:

1. Comparable P / Book Value multiples shown on page 13

Donkin Valuation Summary

In arriving at an opinion of the fair market value of Donkin, Paradigm Capital has not attributed any particular weight to any specific factor but has made qualitative judgments based on experience rendering such opinions and on circumstances prevailing as to the significance and relevance of each factor.

Based upon and subject to the foregoing and such other factors as we considered relevant, Paradigm Capital is of the opinion that the fair market value of Erdene's interest in Donkin is in the range of \$16 million to \$24 million.

Donkin Fair Market Value Summary		Low	High
Price / Paradigm Net Asset Value	\$ M	22.3	30.2
EV / Tonne Total Resources	\$ M	8.2	17.1
EV / Tonne M&I Resources	\$ M	6.9	16.8
P / Book	\$ M	14.3	35.7
Fair Market Value	\$ M	16.0	24.0

Black Point Valuation Summary

For the purpose of the valuation of Black Point, Paradigm Capital relied on market trading multiples of comparable companies. Paradigm Capital found that the publicly available information on comparable exploration stage aggregate companies was limited and has relied primarily on the P / Book methodology.

For the purposes of the P / Book analysis, Paradigm Capital applied the P / Book multiples of two comparable construction aggregate companies, Astar Minerals plc and Polaris Minerals Corp., to the book value of Black Point. Paradigm Capital used the aggregate expenditures incurred by Erdene on Black Point to June 30, 2012 of \$1.3 million as a proxy for book value. Given the potential challenges of advancing Black Point through environment permitting to production, Paradigm Capital has applied a 50 per cent discount to the implied value of Black Point.



Price / Book		Low	High
Comparable P/B Multiple	x	0.13x	0.49x
Environmental Permit Risk Discount	%	50%	50%
Adjusted Multiple	x	0.07x	0.25x
Book Value	\$ M	1.3	1.3
Implied Value	\$ M	0.1	0.3

Based upon and subject to the foregoing and such other factors as we considered relevant, Paradigm Capital is of the opinion that the fair market value of Black Point is in the range of \$0.1 million to \$0.3 million.

Working Capital Consideration Summary

It is Paradigm Capital's understanding that in exchange for the Share Consideration, and in addition to Donkin and Black Point, APM will receive \$1.95 million of working capital from Erdene at the close of the Transaction. Furthermore, Erdene has provided APM assurances that ERI will have sufficient cash such that following the Agreement, APM will have sufficient cash (after repayment of all amounts owing by APM to Erdene and after making an allowance for payables) to meet the requirements of the TSX Venture Exchange ("TSX-V") for the listing of a new company.

Erdene North American Interests Valuation Conclusion

The following is a summary of the range of fair market values of the Erdene North American Interests resulting from the aforementioned approaches to value 25% of Donkin and Black Point and inclusive of the working capital to be received by APM.

Erdene North American Interest Fair Market Value Summary			
		Low	High
Donkin Coal Project	\$ M	16.0	24.0
Black Point Project	\$ M	0.1	0.3
Working Capital	\$ M	2.0	2.0
Fair Market Value	\$ M	18.0	26.3

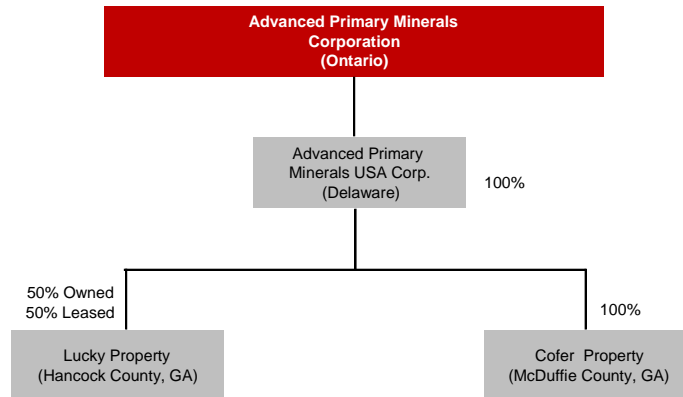
Overview of APM

APM is a Canadian resources company focused on the development of kaolin coal projects in Georgia, USA. APM is listed on the TSX-V under the symbol 'APD'.

In Georgia, APM holds a 100 per cent interest in the Cofer Project ("Cofer") located in McDuffie County covering 135 hectares. Furthermore, APM holds a 50 per cent interest in the Lucky Project ("Lucky") located in Hancock County covering 305 hectares. APM leases the remaining 50 per cent of mineral rights in Lucky from International Paper Company.

As of the day of this Valuation, APM has a market capitalization of \$1.5 million. APM has a cash balance of \$0.5 million and promissory note owing to Erdene due with principal amount of \$0.6 million as at June 30, 2012. Erdene owns approximately 59.7 per cent of APM's shares outstanding.

Below we show the corporate structure of APM.



Overview of Cofer

Cofer is an exploration stage kaolin clay project located within 20 km of Augusta, Georgia, and accessible by paved highway within 3 km of the property followed by dirt road access. The September 2008 Kaolin Technical Report concluded that the kaolin clay resource estimate of approximately 9.9 million tonnes and 1.2 million tonnes in measured and indicated, and inferred categories, respectively. On October 21, 2011, APM announced that McDuffie County Board of Commissioners denied the application for a Conditional Use Permit (“**Conditional Use Permit**”) to mine kaolin clay from Cofer and surrounding properties.

Overview of Lucky

Lucky is an exploration stage kaolin clay project located within 8 km of Sparta and about 100 km from Augusta accessible via an all-season, paved two-lane highway. The September 2008 Kaolin Technical Report concluded that the kaolin clay resource estimate is in excess of 3.8 million tonnes in the measured category.

In October 2003, APM’s 100 per cent owned subsidiary, Advanced Primary Minerals USA Corp. (“**APMUSA**”) signed a Master Sublease Agreement and Agreement for the Purchase and Sale of Kaolin, as amended (the “**APM Kaolin Agreement**”) with JM Huber Corporation (“**Huber**”) a major US kaolin producer with plants in Huber, Sandersville and Wrens, Georgia. In the first quarter of 2008, Huber Engineered Materials (a division of Huber) was purchased by IMin Partners who formed KaMin LLC (“**KaMin**”) to operate the kaolin business. The APM Kaolin Agreement and all obligations thereunder continue under KaMin.

As of December 31, 2011, KaMin has mined a total of approximately 630,000 tonnes of kaolin from Lucky. Under the terms of the APM Kaolin Agreement, KaMin can only mine up to approximately 907,000 tonnes from Lucky. The balance of the prepaid tonnage that can be mined from the Lucky Main property is approximately 275,000 tonnes.

Valuation Methodology of APM

Approach to Valuation and Fairness Opinion

The Valuation has been prepared based on techniques that Paradigm Capital considers appropriate in the circumstances, after considering all relevant facts and taking into account Paradigm Capital’s assumptions, in order to arrive at the Fair Market Value of APM.



For purposes of determining the Fair Market Value of APM, Paradigm Capital relied on, among other things, the following analyses.

- a) Land Value ("**Land Value**") analysis;
- b) Public Entity Valuation;
- c) Royalty Value ("**Royalty Value**") analysis; and
- d) Resource Value analysis ("**Resource Value**").

a) Land Value Analysis

Paradigm Capital understands that APM obtained an appraised Land Value for Cofer from an independent valuator, Stadler Appraisals, LLC ("**Stadler**"), in May 2012. Paradigm Capital reviewed the appraisal materials by Stadler and based on its research is of the opinion that the appraised Land Value of Cofer is reliable for the purposes of this Valuation.

b) Public Entity Valuation

As a result of APM's modest capitalization, Paradigm Capital believes that a portion of APM's market valuation is attributed to APM's nature of being a public entity. As such, Paradigm Capital analyzed the valuations of Capital Pool Companies ("**CPC**") to observe market valuations for public entities with no operations and financial liabilities. CPCs are selected due to they do not have operations and their deemed value is negotiated between the managements of CPCs and the businesses to be acquired.

c) Royalty Value Analysis

On July 3, 2012, APM completed the sale of Dearing Operating Assets ("**Dearing Operating Assets**") that included the Tudor kaolin clay project ("**Tudor**"). As part of the transaction, APM received a royalty on Tudor based on future productions. In determining the value of royalty, Paradigm Capital calculated the NPV of the royalty using a DCF analysis. The DCF considered the present value of cash flows generated from the royalty using an appropriate discount rate. This approach took into account the timing and relative certainty of projected cash flows, and required that certain assumptions be made regarding, among other things, production forecasts, timing and discount rates.

d) Resource Value Analysis

In determining the Resource Value, Paradigm Capital did not rely on Market Trading Multiples approach due to lack of comparable companies. As such, Paradigm Capital relied on implied resource valuation ("**Implied Resource Valuation**") derived from the sale price and resource estimate of Tudor sold by APM on July 3, 2012. Paradigm Capital applied the Implied Resource Valuation and discount adjustments for permitting risks to APM's resource estimates to derive Resource Value.

Land Value Analysis

Paradigm Capital reviewed the appraisal reports for Cofer completed on May 15, 2012 by Stadler and the appraised Land Value is set forth below.

Cofer Area	Area (Acres)	Appraised Value (\$)
Sub-Area 1	62.2	161,000
Sub-Area 2	72.9	153,000
Sub-Area 3	61.3	129,000
Sub-Area 4	1.0	7,000
Sub-Area 5	10.8	98,000
Sub-Area 6	45.4	64,500
Sub-Area 7	40.0	221,000
Total	293.6	833,500

Public Entity Valuation

Paradigm Capital analyzed a set of CPCs that have entered into qualified transactions and announced their deemed share prices. Valuations on the CPCs are derived based on their respective deemed prices. To measure the value of only the public entity, cash balance is subtracted from the valuation of a CPC. Furthermore, only CPCs with greater than one year of remaining time to complete a qualified transaction are used in the analysis to account for the “long-dated” public entity value of APM. The low and high case scenarios are based on the median and mean of CPC values excluding cash balances.

Analysis of Capital Pool Companies with Qualified Transaction

August 2, 2012
 C\$ unless otherwise noted

CPC Name	Listing Date	Market Cap (\$ M)	Cash (\$ M)	Days Remaining for QT Prior to CPC Delisting (Days)	CPC			CPC Valuation less Cash (\$ M)
					S/O Pre QT (M)	CPC Deemed Share Price (\$/sh)	CPC Valuation (\$ M)	
Capricorn Business Acquisitions Inc	14-Jun-12	0.2	0.1	681	5.7	0.20	1.1	1.0
Kanosak Capital Venture Corporation	23-Nov-11	1.0	0.4	477	5.2	0.30	1.6	1.1
CT Developers Ltd. ⁽¹⁾	23-Nov-11	1.1	0.1	477	5.0	0.20	1.0	0.9
Rockstar Capital Corp.	29-Sep-11	N/A	0.6	422	3.1	0.40	1.2	0.7
JDV Capital Corp.	7-Sep-11	0.2	0.2	400	3.1	0.17	0.5	0.3
Thoroughbred Capital Inc.	1-Sep-11	N/A	0.3	394	6.0	0.13	0.8	0.5
High North Resources Ltd.	25-Aug-11	N/A	0.2	387	0.8	0.60	0.5	0.2
Race Capital Corp.	15-Aug-11	0.2	0.1	377	2.0	0.20	0.4	0.3
Exito Energy Inc.	12-Aug-11	0.5	0.6	374	5.0	0.25	1.3	0.7
Mean								0.6
Median								0.7

Note:

(1) - CPC deemed share price based on pricing of financing announced on April 12, 2012

Public Entity Valuation		Low	High
Public Entity Valuation	\$ M	0.6	0.7

Royalty Value Analysis

(i) Royalty Assumptions

As a basis for the development of projected future cash flows of the royalty, Paradigm Capital had discussions with the management of APM to obtain operating projections for Tudor and the terms of the royalty. Paradigm Capital developed its own production projections for the future royalty cash flow, based primarily on the APM management team's projections, terms of royalty and Paradigm Capital's knowledge and experience.

In Paradigm Capital's opinion, the most important assumptions in Royalty Value analysis are: (i) production ramp up period and (ii) tonnage of crude clay mined per annum. Paradigm Capital believes that the DCF analysis is based on reasonable assumptions and is accurately calculated in the base case summarized below.

Year		LOM	2012	2013	2014	2015	2016	2017 - 2032
Crude Clay Mined	t	649,831	3,780	11,225	13,889	17,185	21,263	582,490
Royalty Threshold (Crude Clay Mined)	t	18,144	7,560	18,144	18,144	18,144	18,144	18,144
Crude Clay Subject to Royalty	t	313,454	0	0	0	0	3,120	310,334
Royalty per Tonne	\$/t	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Royalty Payable	\$	313,454	0	0	0	0	3,120	310,334

Note: Figures in 2012 only account for estimates after the sale of Dearing Operating Assets in July 2012

(ii) Discount Rate

Paradigm Capital selected appropriate discount rates to apply to the cash flows using the Capital Asset Pricing Model to determine an appropriate weighted average cost of capital ("WACC"). An appropriate discount rate was selected based on Paradigm Capital's experience in valuing mining companies. The discount rate reflects:

- market risk (risk free rate, equity risk premium, small capitalization premium and volatility); and
- specific risk (commodity type, project scale and other mining risks);

Advanced Primary Metals WACC		
Cost of Debt		
Pre-tax Cost of Debt ⁽¹⁾	%	10.00%
Tax Rate ⁽¹⁾	%	30.00%
After-tax Cost of Debt	%	7.00%
Cost of Equity		
Risk Free Rate ⁽²⁾	%	2.17%
Re-levered Beta ⁽³⁾		0.50
Market Risk Premium ⁽⁴⁾	%	6.01%
Cost of Equity	%	5.17%
Specific Risk ⁽¹⁾	%	5.00%
Risk Adjusted Cost of Equity	%	10.17%
Optimal Debt / Total Capital ⁽¹⁾	%	0.0%
WACC	%	10.17%

⁽¹⁾ Paradigm Capital Estimate

⁽²⁾ Government of Canada 10 Year Bond Yield

⁽³⁾ Re-levered beta based on observed raw beta of 0.60 and re-levered at optimal debt / total capital structure

⁽⁴⁾ Aswath Damodaran - Equity Risk Premiums: Determinants, Estimation and Implications (2011)



Paradigm Capital's analysis determined the appropriate discount rate for Royalty Value to be APM's WACC of 10.17%.

(iii) Royalty Value Analysis Conclusion

Based on Paradigm Capital's projected royalty cash flows, the Royalty Value is set forth below.

Year	LOM	2012	2013	2014	2015	2016	2017 - 2032
Royalty Cash Flows (Undiscounted)	\$	313,454	0	0	0	0	310,334
NPV of Royalty Payable Cash Flow	\$	98,338					

Resource Value Analysis

(i) Resource Value Analysis Assumptions

Paradigm Capital applied the Implied Resource Valuation derived from kaolin clay resource estimate and sale price of Tudor sold by APM on July 3, 2012 to obtain a Resource Value per tonne as follows:

Implied Resource Valuation from Tudor Property Sale		
Kaolin Clay Resource at Tudor Property	Mt	0.9
Tudor Property Sale Price	\$	110,000
Implied Kaolin Clay Resource Valuation	\$ / t	0.12

(ii) Resource Value Analysis Conclusions

To derive Resource Value of APM, Paradigm used the kaolin clay resource estimates at Cofer and Lucky. Implied Resource Valuation and discount adjustments for permitting risks were applied to the resource estimates based on Paradigm Capital's judgements to incorporate the risks of APM not obtaining a mining permit in the future. In particular, Resource Value at Cofer is attributed with a greater discount adjustment for the high case to reflect the low probability of obtaining a mining permit as demonstrated by the two recent unsuccessful applications by APM for Conditional Use Permits. The low and high case scenarios and the associated calculations are set forth below.

APM - Cofer Resource Valuation		Low	High
Cofer Kaolin Clay Resource	Mt	11.1	11.1
Implied Kaolin Clay Resource Valuation	\$ / t	0.12	0.12
Cofer Resource Valuation	\$ M	1.3	1.3
Discount Adjustment for Permitting Risk	%	90.0%	80.0%
Adjusted Cofer Resource Valuation	\$ M	0.1	0.3

APM - Lucky Resource Valuation		Low	High
Lucky Kaolin Clay Resource	Mt	3.8	3.8
Implied Kaolin Clay Resource Valuation	\$ / t	0.12	0.12
Lucky Resource Valuation	\$ M	0.5	0.5
Discount Adjustment for Permitting Risk	%	90.0%	50.0%
Adjusted Lucky Resource Valuation	\$ M	0.0	0.2

APM Total Resource Valuation		Low	High
Adjusted Cofer Resource Valuation	\$ M	0.1	0.3
Adjusted Lucky Resource Valuation	\$ M	0.0	0.2
APM Total Resource Valuation	\$ M	0.2	0.5



Working Capital

Paradigm Capital understands that APM has working capital of approximately \$47,000 as at June 30, 2012.

APM Valuation Summary

The following is a summary of the range of fair market values of APM resulting from the sum of the aforementioned valuation components.

APM Fair Market Value Summary			
		Low	High
Land Value	\$ M	0.8	0.8
Public Entity	\$ M	0.6	0.7
Royalty Value	\$ M	0.1	0.1
Resource Value	\$ M	0.2	0.5
Working Capital	\$ M	0.0	0.0
Fair Market Value	\$ M	1.8	2.2

Fairness Opinion Considerations

The conclusion of our Fairness Opinion is subject to all of the conditions, limitations, qualifications, disclaimers and assumptions reflected in and underlying the Valuation, as described above. The analysis, investigations, research, testing of assumptions and conclusions reflected in and underlying the Valuation is integral to the provision of our Fairness Opinion.

In reaching an opinion as to whether the Share Consideration payable by APM under the Transaction is fair, from a financial point of view, to the shareholders of Erdene, Paradigm Capital principally compared the range of Fair Market Values of the Erdene North American Interests to Share Consideration received of \$24.6 million to \$29.6 million using the range of fair market values of APM, each as determined in the Valuation. We note that the low fair market value received of \$24.6 million is within the \$18.0 million to \$26.3 million range and that the high value of \$29.6 million exceeds the range of \$18.0 million to \$26.3 million.

Fairness Opinion Summary

		Low	High
APM Fair Market Value	\$ M	1.8	2.2
APM Shares Outstanding (Basic)	M	26.3	26.3
APM Fair Market Value per Share	\$ / sh	0.07	0.08
APM Shares Issued to Erdene	M	360.0	360.0
Implied Erdene North American Interests Value	\$ M	24.6	29.6
Erdene North American Interests Fair Market Value	\$ M	18.0	26.3



Based upon and subject to the foregoing and such other factors as Paradigm Capital considered relevant, Paradigm Capital is of the opinion that, as of the date hereof, the Transaction is fair, from a financial point of view, to the shareholders of Erdene.

Yours very truly,

Paradigm Capital Inc.

PARADIGM CAPITAL INC.

SECTION 190 OF THE CANADA BUSINESS CORPORATION ACT

190(1) Right to dissent

Subject to Sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

- (a) amend its articles under Section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
- (b) amend its articles under Section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
- (c) amalgamate otherwise than under Section 184;
- (d) be continued under Section 188;
- (e) sell, lease or exchange all or substantially all its property under Subsection 189(3); or
- (f) carry out a going-private transaction or a squeeze-out transaction.

190(2) Further right

A holder of shares of any class or series of shares entitled to vote under Section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.

190(2.1) If one class of shares

The right to dissent described in Subsection (2) applies even if there is only one class of shares.

190(3) Payment for shares

In addition to any other right the shareholder may have, but subject to Subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents or an order made under Subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

190(4) No partial dissent

A dissenting shareholder may only claim under this section with respect to all the shares of a class held on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

190(5) Objection

A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in Subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of their right to dissent.

190(6) Notice of resolution

The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in Subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn their objection.

190(7) Demand for payment

A dissenting shareholder shall, within twenty days after receiving a notice under Subsection (6) or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing

- (a) the shareholder's name and address;
- (b) the number and class of shares in respect of which the shareholder dissents; and
- (c) a demand for payment of the fair value of such shares.

190(8) Share certificate

A dissenting shareholder shall, within thirty days after sending a notice under Subsection (7), send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.

190(9) Forfeiture

A dissenting shareholder who fails to comply with Subsection (8) has no right to make a claim under this section.

190(10) Endorsing certificate

A corporation or its transfer agent shall endorse on any share certificate received under Subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

190(11) Suspension of rights

On sending a notice under Subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than to be paid the fair value of their shares as determined under this section except where

- (a) the shareholder withdraws that notice before the corporation makes an offer under Subsection (12),
- (b) the corporation fails to make an offer in accordance with Subsection (12) and the shareholder withdraws the notice, or
- (c) the directors revoke a resolution to amend the articles under Subsection 173(2) or 174(5), terminate an amalgamation agreement under Subsection 183(6) or an application for continuance under Subsection 188(6), or abandon a sale, lease or exchange under Subsection 189(9),

in which case the shareholder's rights are reinstated as of the date the notice was sent.

190(12) Offer to pay

A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in Subsection (7), send to each dissenting shareholder who has sent such notice

- (a) a written offer to pay for their shares in an amount considered by the directors of the corporation to be the fair value, accompanied by a statement showing how the fair value was determined; or
- (b) if Subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

190(13) Same terms

Every offer made under Subsection (12) for shares of the same class or series shall be on the same terms.

190(14) Payment

Subject to Subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under Subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

190(15) Corporation may apply to court

Where a corporation fails to make an offer under Subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

190(16) Shareholder application to court

If a corporation fails to apply to a court under Subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

190(17) Venue

An application under Subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

190(18) No security for costs

A dissenting shareholder is not required to give security for costs in an application made under Subsection (15) or (16).

190(19) Parties

On an application to a court under Subsection (15) or (16),

- (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
- (b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to appear and be heard in person or by counsel.

190(20) Powers of court

On an application to a court under Subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

190(21) Appraisers

A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

190(22) Final order

The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the court.

190(23) Interest

A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

190(24) Notice that Subsection (26) applies

If Subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under Subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

190(25) Effect where Subsection (26) applies

If Subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under Subsection (24), may

- (a) withdraw their notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to their full rights as a shareholder; or
- (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

190(26) Limitation

A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

SCHEDULE F

**INFORMATION CONCERNING ERDENE RESOURCE DEVELOPMENT CORPORATION –
POST-ARRANGEMENT**

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NOTICE TO READER

The following is a summary of the business of Erdene following the completion of the Arrangement and should be read together with the consolidated financial statements of Erdene available on SEDAR at www.sedar.com. Except where the context otherwise requires, all of the disclosure in this Schedule is made on the basis that the Arrangement has been completed as described in the Circular.

All capitalized terms used in this Schedule but not otherwise defined herein have the meanings set forth in the "Glossary of Terms" in the Circular. In this Schedule, dollar amounts are expressed in Canadian dollars unless otherwise stated.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by Erdene with the various securities commissions or similar regulatory authorities in Canada, are specifically incorporated by reference into, and form an integral part of, this Schedule and the Circular. Copies of these documents incorporated by reference may be obtained on request without charge from Megan Jeffries at Erdene Resource Development Corporation, Suite 1480, 99 Wyse Road, Dartmouth, Nova Scotia, B3A 4S5, Telephone (902) 423-6419, Fax (902) 423-6432. They are also available through the Internet on SEDAR at www.sedar.com.

1. annual information form for the year ended December 31, 2011 ("**AIF**"), excluding reference to the AP Kaolin Technical Report and information related to the "Sparta Kaolin Project" referred to therein;
2. audited consolidated statements of financial position and changes in equity as at December 31, 2011 and 2010, and the audited consolidated statements of loss, comprehensive loss and cash flows for the years ended December 31, 2011 and 2010 together with the notes thereto and the auditor's report thereon;
3. management's discussion and analysis ("**MD&A**") for the years ended December 31, 2011 and 2010;
4. condensed interim consolidated financial statements as at and for the 6 months ended June 30, 2012 and 2011 together with the notes thereto;
5. MD&A for the 6 month period ended June 30, 2012;
6. management information circular dated May 23, 2012;
7. "Technical Report Zuun Mod Porphyry Molybdenum - Copper Project, South-Western Mongolian, National Instrument 43-101 Independent Technical Report" dated June 2011 prepared by Philippe A. Baudry, General Manager - China, Minarco-MineConsult ("**Zuun Mod Technical Report**");
8. "Technical Report Altan Nar Gold Project, (Tsenkher Nomin Exploration License), Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Technical Report" dated August 31, 2012 prepared by J.C. (Chris) Cowan. MSc, PEng, Vice President, Asia, Erdene Resource Development Corporation ("**Altan Nar Technical Report**").
9. material change report dated January 20, 2012 announcing the commencement of production at the Granite Hill quarry;
10. material change report dated January 20, 2012 announcing the results from drilling at Erdene's Altan Nar property in Mongolia;
11. material change report dated January 20, 2012 announcing the appointment of John Budreski to the Board;

12. material change report dated February 2, 2012 announcing the receipt of final assay results from a 20-hole scout drill program at Erdene's Altan Nar property in Mongolia;
13. material change report dated March 7, 2012 announcing the completion of a review and interpretation of the Altan Nar drilling results;
14. material change report dated April 10, 2012 providing an update on Erdene's principal projects in conjunction with the release of its year-end financial results;
15. material change report dated May 3, 2012 announcing that Xstrata Coal Donkin Management Limited was seeking an operating coal company to assume its interest in the Donkin Coal Project;
16. material change report dated May 22, 2012 providing an update on Erdene's principal projects in conjunction with the release of its first quarter 2012 financial results;
17. material change report dated May 22, 2012 announcing the sale of Erdene's land and royalty interest at the Granite Hill Quarry;
18. material change report dated May 31, 2012 announcing the results from drilling and surface prospecting at Erdene's Altan Nar property in Mongolia;
19. material change report dated July 4, 2012 announcing the agreement in principle with APM whereby APM will acquire Erdene's interest in the Donkin Coal Project;
20. material change report dated July 12, 2012 announcing the completion of the sale of Erdene's real estate and associated royalty interest in the Granite Hill property;
21. material change report dated July 27, 2012 providing an update on the Donkin Coal Project;
22. material change report dated August 14, 2012 announcing the Arrangement Agreement;
23. material change report dated August 22, 2012 announcing John P.A. Budreski as CEO designate for Amalco; and
24. material change report dated August 30, 2012 providing an update on Erdene's 2012 project activities in Mongolia.

Any material change reports (excluding confidential material change reports), annual information forms, interim and annual consolidated financial statements (and related MD&A), business acquisition reports, information circulars and any other disclosure documents required to be incorporated by reference that are filed by Erdene with applicable securities authorities after the date of the Circular but prior to the date of the Meeting shall be incorporated by reference herein.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of the Circular to the extent that a statement contained in the Circular or herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of the Circular, except as so modified or superseded.

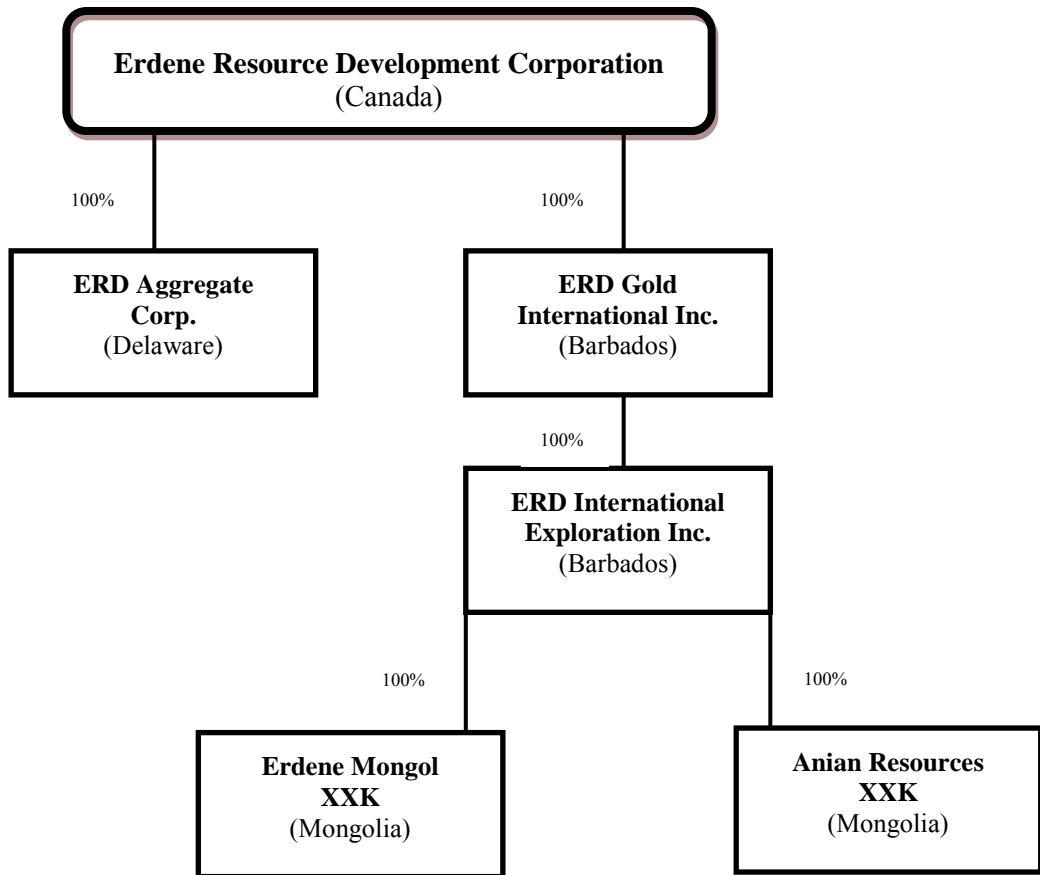
CORPORATE STRUCTURE

Name and Incorporation

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

Intercorporate Relationships

The following diagram depicts the corporate structure of Erdene assuming the completion of the Arrangement as described in the Circular, together with the jurisdiction of incorporation of each of Erdene's subsidiaries and the percentage of the votes attaching to all voting securities of each such subsidiary beneficially owned by Erdene.



SUMMARY DESCRIPTION OF THE BUSINESS OF ERDENE

Introduction

Following completion of the Arrangement, the primary business of Erdene will be focused on the Zuun Mod Project, the Altan Nar Project, and the discovery and acquisition of large tonnage, low cost, molybdenum, copper, gold, and coal deposits, primarily in Mongolia.

In Mongolia, Erdene currently holds 7 mineral exploration licenses covering 236,924 hectares and 2 mining licenses covering 6,399 hectares under 6 project names, which it acquired through acquisitions and claim staking. All of these licenses are registered in the name of the Erdene's Mongolian subsidiaries (Erdene Mongol XXK and Anian Resources XXK). Erdene must meet minimum work requirements to keep its licenses in good standing in addition to the payment of annual renewal fees.

Erdene is focusing its exploration program in Mongolia on core commodities, including base and precious metals, and its management has the depth of expertise to advance these projects from the exploration stage through development and thereby maximizing shareholder value. In addition, Erdene has pursued strategic partnerships in Mongolia at the exploration stage for other commodities, including coal (with Xstrata Coal Canada Limited), where outside expertise is most beneficial for the exploration, development and marketing of these commodities.

Zuun Mod Project

The technical information in this section regarding the Zuun Mod Molybdenum-Copper Project is based on or extracted from the Zuun Mod Technical Report, prepared by Philippe Baudry, BSc, MAIG, General Manager - China, Minarco-MineConsult, which are incorporated herein by reference. Mr. Baudry is a "qualified person" as that term is defined in NI 43-101 and is independent of Erdene. The following summary does not purport to be a complete summary of the Zuun Mod Technical Report. Reference should be made to the full text of the Zuun Mod Technical Report which is available for review on SEDAR at www.sedar.com under Erdene's profile.

Introduction

The Zuun Mod (porphyry) Molybdenum-Copper Project is located in Bayankhongor Province in south-western Mongolia, 950 kilometres from Ulaanbataar, Mongolia's capital. The project is located 180 kilometres north of the Chinese border and 215 kilometres from the railhead located at Ceke on the Mongolia/China border, 30 kilometres south of the Nariin Sukhait and Ovoot Tolgoi coal mines.

Previous exploration work at the Zuun Mod property identified the porphyry complex and significant molybdenum-copper mineralization. After acquiring the rights to the property in 2005 from Gallant Mineral Limited, Erdene carried out an exploration program that has identified significant molybdenum and copper mineralization at Zuun Mod, primarily focused within the South Corridor, a north-east south-west trending structurally controlled zone approximately 3.6 kilometres long by 800 metres wide. The remaining 90% of the Zuun Mod porphyry complex has undergone only limited exploration consisting of surface surveys and widely spaced drill holes. These programs have identified significant anomalous mineralization and the entire Zuun Mod property is considered to be highly prospective for the discovery of additional potentially economic copper and molybdenum mineralization. Results from the ongoing surface and sub-surface evaluations of the larger Zuun Mod porphyry complex are expected to generate a number of new drill targets.

While there is mineralization throughout the Zuun Mod property, mineral resource estimates are reported only for identified mineral concentration in the South Corridor area. This area comprises 3 mineralized zones named Stockwork, Racetrack South and Racetrack North. The resource estimate in the Zuun Mod Technical Report was based on 128 diamond drill holes with an average depth of 337 metres and assays from 2 metres intervals of split diamond core. For the purposes of the Zuun Mod Technical Report, the deposit collectively is called the South Corridor Deposit.

Mineral Resources

Table 1 shows the Measured, Indicated and Inferred Mineral Resource estimate for the Zuun Mod Project. These resources are reported above a cut-off grade of 0.04% molybdenum. This was done to meet the requirement of the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") that all resources must have a reasonable prospect for economic extraction. Note that mineral resources are not mineral reserves and do not have demonstrated economic viability. The block model inventory at various cut-off grades is reported in Table 2. Although Minarco MineConsult ("MMC") recommends the use of 0.04% molybdenum as the base case cut off grade, MMC believes given the style of mineralization geometry of the deposit each cut off grade report in **Table 2** has potential for economic extraction.

The entire mineral resource is contained within 2 mining licenses. MMC notes that all of the Measured and Indicated Resources and 82.2% of the Inferred Resource, at a 0.04% molybdenum cut off grade are located within the main Zuun Mod Mining License issued to Erdene by the Mongolian government in June 2011, while 17.8% or 30 Mt is located on the second Zuun Mod Mining License that was issued in July 2012. MMC has limited the vertical limit of the report resource to 500 metres as a result of the geometry of the mineralization and potential economic extraction. MMC will review this depth upon completion of the mining studies which are currently underway.

Table 1 Zuun Mod Project – Resource Statement as at June 2011 Reported at Cut Off of 0.04% Mo

Resource Category	Quantity Mt	Mo%	Contained Mo Metal		Contained Cu Metal
			Mlbs	Cu %	Mlbs
Measured	40	0.056	49.5	0.064	57
Indicated	178	0.057	224	0.07	273.7
M&I	218	0.057	273.5	0.069	330.7
Inferred	168	0.052	191.8	0.065	240.5

Table 2 Zuun Mod Project – Mineral Resource Estimate

Cut-off Grade Mo%	Resource Category	Quantity Mt	Mo %	Contained Mo Metal		Contained Cu Metal
				Mlbs	Cu %	Mlbs
0.03%	Measured	55	0.05	61.1	0.06	73
	Indicated	260	0.05	287	0.065	373.6
	M&I	315	0.05	348.1	0.064	446.6
	Inferred	335	0.043	318.8	0.061	454.6
0.04%	Measured	40	0.056	49.5	0.064	57
	Indicated	178	0.057	224	0.07	273.7
	M&I	218	0.057	273.5	0.069	330.7
	Inferred	168	0.052	191.8	0.065	240.5
0.05%	Measured	25	0.063	34.5	0.068	37.5
	Indicated	105	0.066	152.5	0.074	171
	M&I	130	0.065	187	0.073	208.5
	Inferred	78	0.06	103.4	0.067	115.5

Resources Estimate Notes:

- Effective Date: May 2011.
- 1 tonne = 2204.64 lbs.
- Estimates are rounded to appropriate significant figures.
- M&I means the sum of Measured and Indicated Resources.

Project Summary

Exploration work at the Zuun Mod project began in 2002 and 2003 with a joint venture between WMC Resource Project Ltd ("**WMC**") and Gallant Minerals Mongolia Ltd ("**Gallant**"). These works identified a porphyry complex which contained significant molybdenum-copper-rhenium ("**Mo-Cu-Re**") mineralization. After acquiring the rights to the project from Gallant in 2005, Erdene undertook an exploration program that identified key structural features understood to be integral to the concentration of potentially economic Mo, Cu, and Re mineralization.

While exploration to date has identified significant Mo, Cu, and Re mineralization within the license area, the work completed has been primarily focused within the South Corridor, a northeast-southwest trending structurally controlled zone approximately 3.6 kilometres long by 800 metres wide. The remainder of the Zuun Mod porphyry complex has undergone limited exploration consisting of surface surveys and widely spaced drill holes. These programs have identified significant anomalous mineralization, leading to the interpretation that the Zuun Mod Project being considered highly prospective for the additional potentially economic Cu and Mo mineralization. Results from the ongoing surface and sub-surface evaluations of the larger Zuun Mod porphyry complex are expected to generate a number of new drill targets.

While mineralization has been identified throughout the Zuun Mod Project, Mineral Resource estimates are reported only for mineral concentrations in the South Corridor area where sufficient data is available to define the geology and mineralization continuity. This area is comprised of 3 mineralized zones, named Stockwork, Racetrack South and Racetrack North, which for the purpose of the Zuun Mod Report are collectively called the "South Corridor area". MMC prepared Mineral Resource estimates based on 128 diamond drill holes, which have an average depth of 337 metres, and 2 metres length assays of split diamond core.

MMC has reviewed the data by visiting a number of sampled locations in the field and evaluating the reported results against the mineralized rock observed. MMC accepts the work completed by Erdene and the previous owners, as meeting acceptable resource evaluation and due diligence standards for international mining ventures under the NI 43-101 technical standards.

As discussed in later sections, and to the extent known, MMC believes that the sampling and analysis programs for the exploration activities were generally conducted using standard industry practices, providing generally reasonable results. MMC believes that the resulting data can effectively be used for a Mineral Resource estimate.

The Zuun Mod Project has accumulated an extensive amount of data through exploration, which provide the background for the Mineral Resource estimate and analysis that underpin this report. The recommendations for further development of the Zuun Mod Project are primarily concerned with the acquisition of additional data to expand resources and to support preliminary economic assessment and pre-feasibility or feasibility studies.

The drilling completed in 2009 to 2010 (which has resulted in the Mineral Resource update) returned higher average grades for Cu and to a lesser extent Mo. Of particular note is the area at depth below the Racetrack South area. In addition the drilling has resulted in a further refinement of controls of mineralization and confirmation of the classification system utilized.

Potential for increasing of the Mineral Resources are good, with mineralization open to the north and south and also down dip, which requires further drilling to investigate potential. In addition, mineralization extends northwest and is undefined by drill holes under the andesite mantle.

Recommendations

The recommendations in the Zuun Mod Technical Report are based on observations made during the review of the Zuun Mod Project and subsequent Mineral Resource estimate.

- Down hole electromagnetic ("**EM**") surveys should be considered around the high grade Cu intersection recently found in ZMD121 (2010 drilling). From the 3 nearby lower grade vertical holes the high grade mineralization appears to be located in a steep structure, which could be missed by vertical holes. If

correct, the structure can then be effectively targeted with inclined drill holes. Once it is confirmed that the body is conductive it could be explored laterally by surface EM methods, which will penetrate deeply in the generally resistive rocks.

- There is a relatively unexplored stock work zone sporadically outcropping in the area west of ZMD94 and ZMD95. The outcrop is mostly obscured by transported alluvium in the major north south drainage affecting the area but interesting unmapped stock work and even milled breccias veins. This area needs re-mapping in detail and scout rotary air blast ("**RAB**") drilling through cover then drilling at depth if mineralization is intersected.
- In-fill drilling is recommended to increase the Mineral Resource confidence categorization of high grade areas currently defined and further investigate the internal grade variability within the Zuun Mod Project. This drilling is estimated to cost approximately US\$830,000 for the currently defined Resource area.
- Metallurgical Test work- Complete additional metallurgical test work to further define the processing characteristics of the material. US\$20,000.
- Complete a marketing study to confirm the saleability of the product and likely price forecasts.
- Complete a Preliminary Economic Assessment ("**PEA**") which will encompass the additional metallurgical test work, marketing study and additional drilling. US\$100,000.
- Upon successful outcome of PEA study, complete additional drilling to increase Inferred areas within the proposed pit to Indicated and Measured to enable reserve estimates to be completed. US\$2.5 million.

Ongoing Work

In 2011, work was also carried out by consultants on a pit optimization study designed to assess various mine scheduling scenarios for a range of production profiles and molybdenum revenue rates. This study is expected to provide high level production scheduling, a review of operating and capital costs, and economic modeling, and will be used to determine the parameters of additional pre-feasibility level studies to be carried out in 2012.

The Zuun Mod Project covers a large porphyry system and while the majority of the work to date has concentrated on defining the main molybdenum-copper deposit, Erdene has continued to evaluate exploration targets on the remainder of the property. One such target is the Khuvyn Khar copper prospect located 2.2 kilometres northwest of the Zuun Mod deposit and located within the boundaries of the Mining License issued in June 2011.

In February 2011, Erdene released the final results of the 2010 drilling program including data from the Khuvyn Khar copper prospect. Hole ZMD-121, which was drilled to test a geophysical target, intersected 34 metres of 1.3% copper and 9.24g/t silver from 308 to 342 metres depth. This drill hole is located within an area that exhibits intense alteration and copper geochemical anomalies on surface and in previous intersections from limited drilling in the vicinity. During the second quarter of 2011, Erdene announced the results of a follow-up drilling program that was carried out over the Khuvyn Khar copper prospect. This program was successful in defining a very large copper mineralized zone trending over 900 metres with multiple zones in 3 drill holes in excess of 0.2% copper. This zone remains untested to the south where it trends under andesite cover.

In late 2011, an orientation mobile-metal-ion ("**MMI**") soil survey, designed to identify sub-surface mineralization, was carried out over the Khuvyn Khar prospect. This survey successfully identified copper and silver anomalies previously intersected in drilling. In June 2012, an expanded MMI survey was carried out over a one square-kilometre area at Khuvyn Khar and results are pending. Additional 2012 work included a review of all technical data, reprocessing of geophysical data, as well as a review of all surface and drill-hole geological data. The goal of this work is to identify targets for a follow-up drilling program.

Altan Nar Project

The technical information in this section regarding the Altan Nar Project is based on or extracted from the "Altan Nar Gold Project, (Tsenkher Nomin Exploration License), Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Technical Report" dated August 31, prepared by J.C. (Chris) Cowan, MSc, PEng. Mr. Cowan is a "qualified person" as that term is defined in NI 43-101 but is not independent of Erdene as he is a vice-president and a director of Erdene. The following summary does not purport to be a complete summary of the Altan Nar Technical Report. Reference should be made to the full text of the Altan Nar Technical Report, which is available for review on SEDAR at www.sedar.com under Erdene's profile.

Introduction

The Altan Nar prospect is an early-stage, greenfields property and is one of three mineralized prospect located on the Erdene's Tsenkher Nomin exploration license located in south western Mongolia. The other two prospects are referred to as Nomin Tal and Oyut Khundii. At Altan Nar, surface exploration has identified a 5 km by 1.5 km north-northwest trending zone with multiple targets defined by induced polarization ("IP") gradient array chargeability highs with associated anomalous gold mineralization from both rock and soil samples. Drilling to date has only been carried out over a 1 km² area and has been concentrated on the Discovery Zone, an area 125 metres by 300 metres where multiple drill holes at 50 metre to 100 metre intervals have demonstrated vertical and lateral continuity of gold-silver-base metal mineralization. The Discovery Zone remains open along strike to the north and at depth. Drilling has intersected mineralization consisting of epithermal quartz veins and breccias with associated base metal (lead ("Pb"), zinc ("Zn")) mineralization within a wide propylitic alteration halo. Within this halo, narrower structurally controlled zones with phyllic alteration host quartz veins and breccias hosting gold-silver-sulphide mineralization. Drilling in the Discovery Zone has returned multiple intersections greater than 20 m with greater than 1 g/t gold ("Au"), and a number of high-grade intersections up to 29 metres of 4.29 g/t Au (drill hole TND-19).

Project Description and Location

The Tsenkher Nomin exploration license in Bayankhongor Aimag in southwestern Mongolia, is located approximately 800 km south-west of Ulaanbaatar and 300 km south of the Aimag capital, Bayankhongor City. The license is in its third year of issue and consists of 4,669 hectares. The exploration license can be renewed on an annual basis for up to 9 years by paying annual renewal fees and by completing minimum annual work commitments as prescribed by the Mineral Law of Mongolia. Annual renewal fees and minimum work commitment range from US \$1 to US \$1.50 per hectare. Surface rights in rural Mongolia are not clearly defined and surface rights access is managed by the local government. Surface rights access on exploration licenses are also provided for under the Minerals Law of Mongolia.

The Tsenkher Nomin license is 100% owned by Erdene and is not subject to any royalty agreements, back-in-rights, payments or other agreements and encumbrances. There are no known environmental liabilities to which the property is subject. All permits required to carry out exploration work on the Tsenkher Nomin licenses are in good standing.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Altan Nar property can be accessed by plane from Ulaanbaatar to Bayankhongor (the Provincial capital) and then by vehicle 300 km to the south over unmade dirt roads. In 2012, a temporary landing strip, located in the northwest corner of the Tsenkher Nomin license, was approved by the Mongolian Aviation Authority for light aircraft. A private flying service is available from Ulaanbaatar and a one-way trip to Altan Nar takes approximately 3 hours.

Altan Nar is located 40 km west of Erdene's Zuun Mod exploration camp and approximately 80 kilometres south of the Soum center, Shinejinst. The property is also located approximately 160 kilometres north of the Mongolia-Chinese border and 260 km from the railhead at Ceke on the China-Mongolia border.

The topography of the prospect area is characterized by low hills of exposed rock and lower plains of unconsolidated sediments. There is very little to no soil profile developed, with fresh rock generally occurring from or very near to surface. The elevation of the undulating low hills ranges from 1,300 m to 1,350 m above sea level. Vegetation is sparse and restricted to grasses, saxual bushes and shrubs.

The Mongolian climate is characterized by extreme seasonal variations in temperature (-40°C to +40°C) and has an average of 250 sunny days a year. The country is subject to high wind conditions that alleviate the effects of the summer's heat but can result in extreme wind chill during the winter. Average annual precipitation is less than 100 mm, and most rain falls during the summer months of July and August, producing localized flash flooding. Exploration and mining activities can be conducted all year round, only requiring proper preparation with respect to working in a remote location during extreme cold and hot weather.

History

The Altan Nar prospect is a greenfields project. With the exception of regional geological mapping and prospecting projects carried out at a scale of 1:200,000 under the direction of the Mongolian government, no previous exploration work is known to have taken place on the property.

The property (before it was acquired) was covered by Erdene's 2009 Southwest Porphyry evaluation program which included a regional stream sediment survey and limited prospecting over the license area. The regional stream sediment results identified an area of highly anomalous base metal and gold in the area of the Altan Nar prospect. The Tsenkher Nomin license was subsequently acquired in late 2009 through the established license application process of the Government of Mongolia.

Geological Setting

The Tsenkher Nomin exploration license is located within the Trans Altay terrane ("**TAT**"). The TAT forms part of the western end of the large, composite, arcuate-shaped Carboniferous-Permian New Kazak-Mongol Arc terrane ("**NKMA**") as described by Yakubchuk (2002). The NKMA extends along the southern margin of Mongolia, including the border region with China, and is host to the Oyu Tolgoi copper-gold porphyry mine.

The TAT is located immediately south of the Main Mongolian Lineament that separates the dominantly PreCambrian and Lower Paleozoic terranes to the north from the dominantly Upper Paleozoic terranes to the south. The TAT consists mostly of Middle Paleozoic volcanic and sedimentary rocks that were intruded by a series of Devonian and Carboniferous calc-alkaline, granitoid plutons. Devonian and Carboniferous volcanic, sedimentary and igneous rock units are locally overlain by Cretaceous sedimentary rocks including mudstone, sandstone and conglomerate, with local amphibian and mammal fossils, or by unsorted Neogene or Quaternary age sediments including boulder, gravel, sand and talus deposits.

The Tsenkher Nomin license area was mapped in detail during the 2011 field season. The geology of the license area is dominated by two separate sequences of volcanic rocks (A and B), both assumed to be Devonian to Carboniferous in age. Sequence A is a wedge-shaped package of hornfels altered andesite and minor rhyolite flows. These rocks are interpreted to be a steeply dipping volcanic sequence intruded by sub-parallel, northwest-trending granite porphyry and fine grained granite intrusions. The wedge-shaped Sequence A volcanic rocks and associated granite intrusions have a much higher magnetic response than the Sequence B volcanic rocks to the west and the granite intrusion situated along the eastern margin of the Tsenkher Nomin license.

The geology of the central and western portion of the Tsenkher Nomin license area consists mostly of a sequence of andesite and tuffaceous rocks of intermediate composition. The magnetic response of Sequence B volcanic rocks is generally lower than for Sequence A and lacks linear orientations, which supports a shallow-dip interpretation for these rocks.

Topographic low areas throughout the Tsenkher Nomin license area are underlain by unconsolidated Quaternary sediments. The pattern and distribution of various facies of Quaternary deposits reflects paleo-drainage systems that were developed along bedrock features including faults and lineament ridges. The abundance and patterns of distribution of Quaternary sediments differs significantly over the Sequence A and B volcanic rocks.

Exploration

Exploration work to date consists of progressively more detailed, geological mapping, soil and rock geochemical sampling along with both magnetic and IP geophysical surveys, all designed to determine the extent of the Au-Ag and base metal mineralization identified on the Tsenkher Nomin license by Erdene over the past three years.

The geology of the Tsenkher Nomin license area has been mapped at a scale of 1:5,000 with more detailed mapping of a number of prospect areas. In conjunction with the geological mapping program rock-chip (outcrop) and rock-grab (float) samples were collected from across the property. In addition, progressively more detailed soil geochemical surveys have been carried out across the Tsenkher Nomin license, starting with 400 m grid sampling in 2011 with the most recent and detailed survey completed in July 2012 which consisted of samples at 25 m intervals along 100 m spaced lines over an area of 9 km². As of the end of August, 2012, analytical results for approximately half of the 2012 soil sample have been received from the lab.

All geological mapping and geochemical sampling was carried out by Erdene geologists while geochemical analysis was carried out at the SGS laboratory in Ulaanbaatar, Mongolia, which is independent of Erdene. Both soil and rock geochemical surveys have returned highly anomalous values for gold and base metals. Of a total of 228 rock samples collected, over half (n=127) returned assays of greater than 0.1 g/t Au and averaged 2.3 g/t Au; 91 samples returned values greater than 0.5 g/t Au; 60 samples were greater than 1 g/t Au; and 14 sample returned assays greater than 5 g/t Au.

Geophysical surveys were carried out by Erdenyn Erel LLC, a Mongolian geophysical consulting firm based in Ulaanbaatar with QA/QC and data processing was carried out by Chet Lide of Zonge Geosciences Inc. of Sparks, Nevada, USA. Geophysical surveys on the Tsenkher Nomin license have included a magnetic survey, initiated in 2010 and expanded in 2011 and 2012. The magnetic survey now covers an area of approximately 44 km², including 14.5 km² of coverage at 25 m spaced lines while the remainder is covered at 100 m spaced lines. The results of the magnetic survey show distinct magnetic signatures for the main lithological units. This survey has been helpful in identifying possible structural features and lithologic contacts, and has been incorporated into the dataset used to interpret and extrapolate the results from the drilling program.

In addition to the magnetic survey, both IP dipole-dipole ("**Dp-Dp**") and IP gradient-array surveys have been carried out on the Tsenkher Nomin property over, and in the vicinity of, the Nomin Tal and Altan Nar prospects. A series of 21, east-west oriented, IP Dp-Dp line, spaced from 100 m to 400 m apart, have been completed for a total of 34.4 line-kms. In addition to the IP Dp-Dp surveys, an IP gradient-array survey, initiated in 2011 and expanded in 2012, has been completed over the Altan Nar prospect for a total area of coverage of 16 km². The IP gradient-array survey, in particular, has been a very useful exploration tool for identifying mineralized zones within the Tsenkher Nomin license. A review of drill data shows a strong, positive correlation between mineralized intersections and IP gradient-array chargeability highs. A number of new IP gradient-array chargeability highs have been identified by the expanded 2012 survey and most of these chargeability highs have corresponding geochemical anomalies (from both rock and soil surveys). These results have identified targets along a north-northwest trending zone 5 km long and 1.5 km wide.

Drilling

A scout drilling program has been carried out over a 1 km² area along with more detailed drilling in a 125 m by 300 m area referred to as the Discovery Zone. To date, 33 holes totalling 5,743 m have been drilled on the Altan Nar prospect. All drilling was carried out by Falcon Drilling Limited of Ulaanbaatar. All holes were drilled using a truck mounted Longyear 44 wireline drilling rig. All core was NQ size. Down-hole orientation surveys were carried out by Falcon at 100 m intervals and/or at the bottom of each hole. Reading included both dip and azimuth of the hole at the recorded depths. Core recovery averaged greater than 95%.

Exploration drilling at the Discovery Zone has intersected north-northeast trending sub-vertical zones hosting quartz veins and quartz breccias with gold and silver mineralization over variable widths (up to 50 m apparent width) averaging in excess of 1 g/t Au, including a 29 m interval averaging 4.3 g/t gold and 24.1 g/t silver (TND-19).

Exploration work to date suggests that the Altan Nar prospect hosts low-sulphidation epithermal gold-silver mineralization within Late Paleozoic (Devonian-Carboniferous) andesitic volcanic rocks. Mineralization is associated with comb quartz and chalcedony veins, quartz breccias and breccia zones with associated phyllic alteration zones (quartz-sericite-pyrite), within widespread propylitic (epidote-chlorite-montmorillonite/illite) alteration of host trachy-andesite and andesite tuff units. Gold-polymetallic mineralization was intersected in drilling within broad zones of zinc-lead mineralization, for example drill-hole TND-09, which contained several gold-bearing quartz breccia zones (up to 55 m in width), was enriched in base metals throughout the entire hole (i.e. surface to 111 m total depth).

Mineralization

Preliminary evaluation of regional lineament geometry, as defined by satellite imagery, coupled with orientation of quartz-breccia vein systems suggest that the Altan Nar epithermal mineralization is structurally controlled within a north-northwest trending sinistral fault system. The IP gradient-array chargeability signature suggests mineralization may be associated north and northeast-trending dilation zones along this sinistral fault system over a distance of approximately 5 km. Drilling to date has only been carried out over a 1 km² area, concentrated on the Discovery Zone, where multiple drill holes at 50 m to 100 m intervals have demonstrated vertical and lateral continuity of gold-polymetallic mineralization. Drill-hole TND-19, for example, was drilled 50 m below the mineralized intersection in TND-09 (55 m (apparent width) of 1.02 g/t Au and 12 g/t Ag) and intersected a significant increase in gold values at a true depth of 100 m, with a 29 m (apparent width) intersection averaging 4.3 g/t Au and 24.1 g/t Ag, including 11 m of 9.1 g/t Au and 22.7 g/t Ag. The Discovery Zone remains open along strike to the north and at depth.

Within the Discovery Zone gold-bearing zones are associated with quartz veins and breccias hosted by a series of Devonian to Carboniferous shallow-dipping trachy-andesite and andesite tuff. Mineralization appears to be structurally controlled within multiple sub-parallel, steeply dipping to sub-vertical shear zones.

There are multiple phases of quartz veins / breccias (+/- mineralization) including:

- Unmineralized epithermal quartz veins
 - Chalcedony, comb quartz, quartz breccias
- Epithermal quartz veining and breccias with base metal (galena and sphalerite) mineralization with and without associated gold/silver mineralization
 - Base metal mineralization ranges from very fine to very coarse grained
- Later stage gold-arsenopyrite mineralization (+ manganese carbonate/silicate)
- Distinctive banded coliform crustiform (CC) quartz veining with associated high Au values (greater than 1 g/t over 1 m)

A review of results to date indicates that there is a strong correlation between IP gradient-array chargeability highs and gold-polymetallic mineralization intersected in drill core. The IP gradient-array chargeability highs identified along trend (north-northwest trending structural corridor interpreted as a series of dilation zones within a sinistral fault system) from the Discovery Zone, many with corresponding surface geochemical anomalies (in both rock and soil) that have not been tested by drilling and represent priority drill targets.

Sampling and Analysis

This section provides the relevant details of the sample preparation, analytical methodology and sample security protocols in place for soil, rock and drill-core samples from the 2011 and 2012 exploration programs carried out on the Tsenkher Nomin exploration license.

Soil samples were taken at regular intervals on a grid varying between 400 m intervals on 400 m spaced lines to 25 m intervals along 100 m spaced lines. Sample locations were determined by hand-held global positioning system

("GPS") devices with an accuracy of approximately 3 m. All samples were taken using a consistent sampling methodology which included digging shallow hand dug pits (average of 25 cm deep) and dry sieving to -2 mm.

Rock chip and rock grab samples were taken from outcrop / sub-crop, respectively, by Erdene's geologist with locations determined by hand-held GPS devices (3 m accuracy as above). Samples were taken for mineralized and un-mineralized surface rocks that are, as much as possible, representative of the lithological units identified while in the field. No systematic grid-based rock chip sampling was carried out over the prospect areas.

Erdene's sampling protocol for drill core includes routine collection of samples at 1 m or 2 m intervals (depending on the style of mineralization) over the entire length of the drill hole. Sample intervals were generally based on meterage, not geological controls or mineralization. However, in the case of early stage or scout drilling programs, samples were sometimes selected based on geological controls to get a better understanding of the distribution of the mineralization. At Altan Nar, a few mineralized zones were selectively sampled in the initial drill holes (TND-09 to 12), however, subsequently drill holes (TND-13 to 41) were all sampled at 1 m or 2 m intervals, depending on intensity of mineralization. Drill core recovery was excellent (>95%) and did not impact the accuracy and reliability of the assay results. All drill-core was sawn in half using a rock saw and it is the author's opinion that the samples assayed are representative and that there has been no sampling biases.

Drill core was delivered directly from the drill site to Erdene's exploration camp at the end of every shift. All logging and sampling was done in camp by Erdene geologists. Drill core was logged for geology and rock quality designation (RQD), and sample intervals were marked. Core was the sawn in half with a core saw and then half-core samples were bagged. Magnetic susceptibility readings were taken for each sample interval. The remaining half-core is securely stored at the Erdene's Zuun Mod exploration camp.

All samples (soil, rock and drill core) were organized into batches of 30 with a commercial certified reference standard and an analytical blank inserted into each batch and stored in the field camp in sealed bags. Samples were periodically shipped directly to SGS in Ulaanbaatar via Erdene's logistical contractor, Monrud Co. Ltd.

All rock samples were assayed for Au, Ag, Cu, Pb, Zn, arsenic ("As") and Mo. Samples from TND-09 to 12 were also analyzed for Bi and Sb. All soil sample from 2011 were also assayed for Au, Ag, Cu, Pb, Zn, As and Mo; however, soil samples from 2012 were assayed for Au and a suite of 45 elements. All drill core sample pulps and rejects are saved and are available to carry out check analyses as necessary.

Security of Samples

Drill core was delivered directly from the drill site to Erdene's exploration camp at the end of every shift. All logging and sampling was done on site and individual samples were stored in large sealed bags before being shipped directly to SGS laboratory in Ulaanbaatar. Similarly, all soil and rock samples were organized into batches and were stored in large sealed bags before being shipped directly to SGS laboratory in Ulaanbaatar for analysis. All samples were transported by Erdene's logistical contractor, Monrud Co. Ltd.

Although no Erdene personnel accompanied the samples to Ulaanbaatar, Erdene is of the opinion that no tampering with the samples occurred. The SGS laboratory has 24-hour security staff. All client sample submittals are given unique laboratory numbers to avoid the identification of the client. A quality control management system that meets the requirements of ISO 17025/ISO 9000 is used by the laboratories. The laboratories participate in various internal and external proficiency programs to ensure that a high standard of analytical precision and accuracy is maintained.

The author of the Altan Nar Technical Report reviewed all QA/QC procedures carried out by Erdene including a review of logging, sampling and sample preparation procedures; reviewed all technical data including geophysical and geochemical data; carried out an analysis of the analytical QA/QC results; and compared data sets with observations made in the field. The author did not carry out any third party verification of assay results. The author is satisfied that QA/QC procedures carried out by Erdene conform to generally accepted industry standards and that the data used in the Altan Nar Technical Report is reliable.

Mineral Resource and Mineral Reserve Estimates

While results to date at Altan Nar are very encouraging, this project is at an early stage of exploration and sufficient work to calculate a resource estimate has not yet been completed.

Exploration and Development

Work programs completed in 2011 and the first half of 2012 have confirmed the presence of large gold/silver plus base metal mineralized zones, as defined by soil geochemistry, rock chip analysis, and geophysical surveys (IP, Magnetics). Scout drilling over approximately 1 km² has confirmed the presence of widespread base metal mineralization (galena, sphalerite) and numerous gold-silver-base metal vein-breccia systems throughout the mineralized zone. In addition, closer spaced drilling in the area of the Discovery Zone has defined an area 300 m by 125 m with vertical and lateral continuity of gold-polymetallic mineralization.

A review of results to date indicates that there is a strong correlation between IP gradient-array chargeability highs and gold-polymetallic mineralization intersected in drill core. The series of IP gradient-array chargeability highs have been identified along trend from the Discovery Zone. These IP chargeable highs have been interpreted to represent zones of base metal mineralization associated with dilation zones with a NNW trending sinistral fault system 5 km long and 1.5 km wide centered on the Discovery Zone. A number of these IP chargeable anomalies have corresponding surface geochemical anomalies (in both rock and soil). Many of these areas have not been tested by drilling and represent priority drill targets.

It is recommended that future work be focused on the following: 1) additional drilling in the Discovery Zone to further define the extent of mineralization with the objective of obtaining sufficient data to calculate a resource estimates for the Discovery Zone; 2) complete metallurgical studies currently underway that include multi-stage diagnostic gold analysis test-work designed to characterize the gold mineralization and identify processing options; 3) complete compilation of geophysical and geochemical data once all soil samples have been received and identify priority drill targets; and 4) carry out a 3,500 m scout drilling program on high priority targets defined by IP gradient-array chargeability highs and associated Au geochemical anomalies in rock and soil.

Other

In addition to the Zuun Mod and Altan Nar properties, Erdene holds a 100% interest in 6 exploration licences in southwestern Mongolia totalling 232,255 hectares. These licences are prospective for and host multiple occurrences of gold, copper, molybdenum, lead, zinc, silver and coal.

DIRECTORS AND OFFICERS

The following table sets out the names, place of residence, occupations, position(s) with Erdene, and the number of Erdene New Shares anticipated to be held by those persons proposed to be the directors and officers of Erdene following completion of the Arrangement, based on information as of September 20, 2012.

Name, Province and Country of Residence	Principal Occupation⁽¹⁾	Director of Erdene Since	Position(s) with Erdene	Erdene New Shares Owned, Controlled or Directed after giving effect to the Arrangement⁽⁷⁾
Peter C. Akerley ⁽⁵⁾⁽⁶⁾ Nova Scotia, Canada	President and Chief Executive Officer, Erdene	February 25, 2003	President, Chief Executive Officer and Director, and Co-Managing Director of a Subsidiary of Erdene	298,075
William B. Burton ⁽³⁾⁽⁶⁾	Retired; director of two	February 25, 2003	Director	75,500

Name, Province and Country of Residence	Principal Occupation⁽¹⁾	Director of Erdene Since	Position(s) with Erdene	Erdene New Shares Owned, Controlled or Directed after giving effect to the Arrangement⁽⁷⁾
Nova Scotia, Canada	public companies			
John P. Byrne ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	President, Petroleum Corporation of Canada Exploration Ltd. (an oil production company) and President, Petroleum Corporation of Canada Limited (an investment holding company)	August 25, 2004	Director	1,017,250
David S.B. Carnell ⁽²⁾ Nova Scotia, Canada	Retired	November 18, 2003	Director	220,450
J.C. (Chris) Cowan ⁽⁵⁾⁽⁶⁾ Ontario, Canada	Vice-President Asia, Erdene	February 25, 2003	Vice-President (Asia), Director and a Managing Director of Erdene's Mongolian Subsidiaries	319,750
Kenneth W. MacDonald ⁽⁵⁾ Nova Scotia, Canada	President and CEO, APM	February 25, 2003	Vice-President (Business Strategy), Chief Financial Officer and Director	306,800
Philip L. Webster ⁽⁴⁾ Quebec, Canada	President, Imperial Windsor Group Inc. (an investment holding company)	June 14, 2006	Director	542,000

Notes:

- (1) See biographical summaries below for descriptions of the occupations of the above noted individuals within the past 5 years and for prior periods.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Corporate Governance and Disclosure Policy Committee.
- (5) Member of the Pre-Clearance Committee.
- (6) Member of the Technical Committee.
- (7) The information as to security holdings was provided by the nominees as of September 20, 2012.

Peter C. Akerley - Mr. Akerley has been Erdene's President and Chief Executive Officer since March 2003. Mr. Akerley is a geologist who previously provided corporate development, exploration and managerial services for projects in Canada, Guyana, Mexico, the Philippines, the United States of America and Mongolia to junior and senior exploration and mining companies. Mr. Akerley has a BSc (1988) from Saint Mary's University in Halifax. He is also a director of Temex Resources Corporation, a company listed on the TSXV.

William B. Burton – Mr. Burton is a director of two public corporations. He is a geoscientist with over 40 years experience in mineral exploration, corporate financing and management of junior resource companies. He was the President and Chief Executive Officer of MagIndustries Corp., a TSX listed resource company, from 1997 to 2010. Mr. Burton was Vice-President of Exploration for International Pursuit Corporation (1996-1998), evaluating gold properties in Asia, including Mongolia and was President of Mongolian Goldfields Corporation from 1996 to 1997. He has been a director of Adex Mining Inc. (TSX-V), a mineral exploration company, since January 2007 and also

served as a director of Adex Mining Inc. from December 1992 to March 2000. He has been a director of Erdene since February 2003.

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 was a director of FW Omnimedia (2000-2004). 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 a LLB. He is also a Chartered Financial Analyst.

David S.B. Carnell - Mr. Carnell retired in 2000 from a bank-owned investment dealer after a 32-year career in sales and management and is the President of Bedford Capital Group Inc. (an investment holding company) based in Halifax, Nova Scotia. From 1987 to 1989, Mr. Carnell was a director of AquaGold Resources Inc. (now Atlantic Industrial Minerals Inc.).

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 a Managing Director of Erdene Mongol XXK and Anian Resources XXK, wholly-owned subsidiaries of the Corporation. 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). Mr. Cowan was appointed Vice-President (Asia) of the Corporation in June 2006 and is a director of APM.

Kenneth W. MacDonald – Mr. MacDonald has been a Vice-President, the Chief Financial Officer and a director of Erdene since March 2003. Mr. MacDonald was appointed Vice-President Business Strategy of Erdene in 2007. On February 27, 2009 Mr. MacDonald was appointed President and CEO of APM upon the reverse takeover of Beta Minerals Inc. by Erdene. 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 ERI in June 2006. From 1985 to September 1992, he was involved as Vice-President Finance with public and private corporations in the resource sector. Prior to 1985, Mr. MacDonald, a chartered accountant, was a senior manager with one of Canada's major accounting firms.

Philip L. Webster – Since 1998 Mr. Webster's principal occupation has been as President of Imperial Windsor Group Inc., a private investment holding company. From 1984 to 1990 he was an adjunct professor at McGill's School of Architecture and a designer with Anderson Architects. From 1977 to 1982 he was Executive Assistant to the President of Imperial Trust Company. Mr. Webster is presently also a director of APM and Imperial Windsor Group Inc., Kinmont Canada Inc., Wuswig Inc., Autoparc Stanley and Webridge Donnacona, all private companies. He is a Trustee of the R. Howard Webster Foundation, the Zellers Family Foundation and the Constance Lethbridge. He is a Trustee and former Chairman of Stanstead College and President of its Red and White Foundation. He has an A.B. (Hon.) degree from Princeton University and a Master of Architecture from the Graduate School of Design at Harvard University.

Corporate Cease Trade Orders and Bankruptcies

No director or executive officer of Erdene is, or within 10 years prior to the date of the Circular has been, a director, chief executive officer or chief financial officer of any company (including Erdene) that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of Erdene, or a shareholder holding a sufficient number of securities of Erdene to affect materially the control of Erdene:

- (i) is, or within 10 years prior to the date of the Circular has been, a director or executive officer of any company (including Erdene) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (ii) has, within 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties and Sanctions

No director or executive officer of Erdene, or a shareholder holding a sufficient number of securities of Erdene to affect materially the control of Erdene, has been subject to (i) 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.

DESCRIPTION OF SECURITIES

Erdene Common Shares and Erdene New Shares

Erdene has an unlimited number of authorized common shares. As of September 20, 2012, there were 95,802,901 Erdene Common Shares issued and outstanding.

After giving effect to Arrangement, Erdene will have an unlimited number of Erdene New Shares authorized and 47,901,450 Erdene New Shares issued and outstanding based on the number of issued and outstanding Erdene Common Shares as at September 20, 2012. Each Erdene New Share will entitle the holder thereof to receive notice of any meetings of Erdene Shareholders and to attend and to cast 1 vote per Erdene New Share at all such meetings. Each Erdene New Share will also entitle the holder to receive on a pro rata basis, dividends if, as and when declared by the Board and to participate in any distributions of Erdene's net assets upon liquidation, dissolution or winding-up on a pro rata basis after payment of debts and liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares of Erdene, ranking in priority to, or equally with, the Erdene New Shares. There will be no pre-emptive, redemption, purchase, retraction or conversion rights attached to the Erdene New Shares.

Erdene Options and Erdene New Options

As of September 20, 2012, Erdene also has 5,103,000 Erdene Options outstanding. Following the completion of Arrangement as described in the Circular, there will be 2,376,500 Erdene New Options outstanding, based on the number of outstanding Erdene Options expected to be outstanding as at September 30, 2012, and each Erdene New Option will be exercisable for 1 Erdene New Share. See *"The Plan of Arrangement and Arrangement Agreement - Plan of Arrangement"* and *"Matters to be Acted Upon at the Meeting: The Arrangement - Right of Erdene"*

Optionholders to Receive Replacement Option Certificates" in the Circular for information relating to the exchange of the Erdene Options.

Shareholder Rights Plan

The Board adopted a Shareholder Rights Plan ("**Rights Plan**") as of March 14, 2008, a copy of which is available electronically at www.sedar.com. The Rights Plan was first approved by the Erdene Shareholders at Erdene's annual and special meeting of shareholders on May 28, 2008 and the continued operation of the Rights Plan was approved by the Erdene Shareholders at Erdene's annual and special meeting of shareholders on June 23, 2011. It is the intention of Erdene to amend the Rights Plan to give effect to the Arrangement.

DIVIDEND POLICY

Erdene has not declared or paid any dividends on the Erdene Common Shares since the date of its incorporation, other than the distribution of the Amalco Shares to the Erdene Shareholders. Erdene intends to retain its earnings, if any, to finance the growth and development of its business and does not expect to pay dividends or to make any other distributions in the near future. The Board will review this policy from time to time having regard to Erdene's financing requirements, financial condition and other factors considered to be relevant.

CONSOLIDATED CAPITALIZATION

There have been no changes in the capital structure of Erdene since December 31, 2011. The following table and the notes thereto set forth the share capital of Erdene as at the dates specified.

Designation of Security	Number Authorized or to be Authorized	Number Outstanding as of December 31, 2011	Number Outstanding after giving effect to the Arrangement
share capital	unlimited	95,802,901 ⁽¹⁾	47,901,450 ⁽²⁾

Notes:

(1) Information related to Erdene Common Shares as of September 20, 2012.

(2) Information related to Erdene New Shares on a post-Arrangement basis.

PRIOR SALES

During the 12 month period before the date of the Circular, Erdene did not issue any Erdene Common Shares or any securities convertible into Erdene Common Shares except the following:

Date of Issue/Grant	Price/Exercise Price per Security	Number of Erdene Securities
<u>Erdene Common Shares</u>		
November 28, 2011	\$0.40	4,287,000
December 6, 2011	\$0.40	1,192,024
<u>Erdene Options</u>		
July 5, 2012	\$0.30	150,000
July 5, 2012	\$0.45	150,000
August 27, 2012	\$0.30	1,470,000

MARKET FOR SECURITIES

The Corporation first traded its Erdene Common Shares on the TSXV under the symbol "ERD" on March 16, 2004. On December 14, 2005, Erdene graduated to the TSX. On September 24, 2012, the closing price of the Erdene Common Shares was \$0.24. On August 7, 2012, the last trading day for the Erdene Common Shares before the announcement of the Arrangement, the closing price of the Erdene Common Shares on the TSX was \$0.22 per Erdene Common Share. On June 27, 2012, the last trading day for the Erdene Common Shares before Erdene

announced it had reached agreement in principle with respect to the Arrangement, the closing price of the Erdene Common Shares on the TSX was \$0.23 per Erdene Common Share.

The TSX has conditionally approved the substitutional listing of the Erdene New Shares on the TSX following the completion of the Arrangement, subject to Erdene fulfilling all of the requirements of the TSX.

TRADING PRICE AND VOLUME

The Erdene Common Shares trade on the TSX under the symbol "ERD". The monthly prices ranges and volume of the Erdene Common Shares for the 12 months prior to the date of the Circular are as follows:

Period	High	Low	Average Daily Volume
September, 2011.....	\$0.70	\$0.36	97,034
October, 2011.....	\$0.58	\$0.32	145,022
November, 2011.....	\$0.49	\$0.35	68,728
December, 2011.....	\$0.42	\$0.305	131,301
January, 2012.....	\$0.65	\$0.335	133,246
February, 2012.....	\$0.56	\$0.43	89,318
March, 2012.....	\$0.46	\$0.325	198,210
April, 2012.....	\$0.43	\$0.32	104,249
May, 2012.....	\$0.40	\$0.24	113,754
June, 2012.....	\$0.275	\$0.215	39,711
July, 2012.....	\$0.25	\$0.20	31,116
August, 2012.....	\$0.24	\$0.165	52,243
September 1 to 24, 2012.....	\$0.26	\$0.16	210,550

INTEREST OF EXPERTS

Information relating to Erdene's mineral properties in the Circular, in the documents incorporated by reference herein and in the Schedules hereto has been derived from reports prepared by the experts listed below and has been included in reliance on such person's expertise.

None of McInnes Cooper, Canadian counsel to Erdene, Paradigm or Philippe A. Baudry, Marston & Marston Inc. or Minarco - MineConsult, each being companies or persons who have prepared reports relating to Erdene's mineral properties, or any director, officer, employee or partner thereof, as applicable, received or has received a direct or indirect interest in the property of Erdene or of any associate or Affiliate of Erdene. As at the date hereof, the aforementioned persons, and the directors, officers, employees and partners, as applicable, of each of the aforementioned companies and partnerships beneficially owned, directly or indirectly, in the aggregate, less than 1% of the securities of Erdene.

None of the aforementioned persons, nor any director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships is currently expected to be elected, appointed or employed as a director,

officer or employee of Erdene or of an associate or Affiliate of Erdene, other than D. Suzan Frazer, partner of McInnes Cooper, who is the corporate secretary of Erdene.

KPMG LLP, chartered accountants, reports that it is independent of Erdene within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia.

RISK FACTORS

In evaluating the Arrangement, Erdene Shareholders should carefully consider, in addition to the other information contained in the Circular, the risk factors that apply to Erdene and its business as well as the Arrangement. **See Erdene's AIF, which is incorporated herein by reference, "Risk Factors" in the Circular for certain considerations relevant to Erdene Shareholders regarding the Arrangement, and Schedule G to the Circular "Information Concerning Amalco –Post-Arrangement; Risk Factors"**. These risk factors are not a definitive list of all risk factors associated with the business to be carried out by Erdene.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditor of Erdene is KPMG LLP, Suite 1500, Purdy's Wharf Tower I, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2.

The transfer agent and registrar for the Erdene Common Shares is, and for the Erdene New Shares will be, Computershare, at its offices in Halifax, Nova Scotia and Toronto, Ontario.

OTHER MATERIAL FACTS

To the knowledge of the directors of Erdene, there are no material facts about Erdene that are not disclosed above which are necessary in order for this Schedule to contain full, true and plain disclosure of all material facts relating to Erdene following the Arrangement, assuming the completion of the Arrangement.

INFORMATION CONCERNING AMALCO – POST-ARRANGEMENT

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APPENDIX 1 – Proposed Audit Committee Charter

NOTICE TO READER

The following information is a summary of the business and affairs of Amalco, post-Arrangement, and should be read together with the financial information contained in the Schedules to the Circular. See Schedule H - "*Amalco's Pro Forma Financial Statements*", Schedule I - "*Annual Financial Statements of Erdene Resources Inc.*", Schedule J - "*Interim Financial Statements of Erdene Resources Inc.*" and Schedule K - "*Management Discussion and Analysis for Erdene Resources Inc.*". In addition, for information relating to the Donkin Coal Project, see the Donkin Coal Technical Report, filed on SEDAR.

Except where the context requires, all of the information in this Schedule is made on the basis that the Arrangement has been complete as described in the Circular.

All capitalized terms used in this Schedule but not otherwise defined herein have the meanings set forth in the "Glossary of Terms" in the Circular to which this Schedule is attached.

In this Schedule, dollar amounts are expressed in Canadian dollars unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This Schedule may include "forward-looking information" within the meaning of applicable laws. See "*Caution Regarding Forward Looking Statements*" in the Circular.

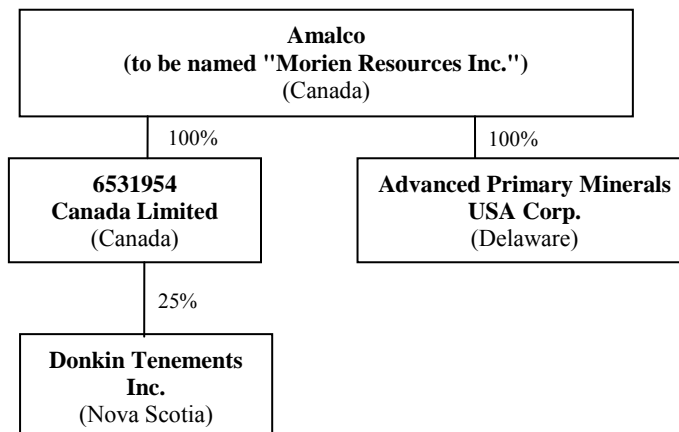
CORPORATE STRUCTURE

Name and Incorporation

Amalco, to be named "Morien Resources Inc.", will be formed through the amalgamation of Erdene Resources Inc. ("**ERI**") and Advanced Primary Minerals Corporation ("**APM**") to be effected by the Arrangement pursuant to the provisions of the CBCA. The Articles of Arrangement shall be deemed to be the articles of amalgamation of Amalco. Amalco's registered office and head office will be located at Metropolitan Place, 99 Wyse Road, Suite 1480, Dartmouth NS, B3A 4S5.

Intercorporate Relationships

The following diagram presents Amalco's material intercorporate relationships, where each relevant subsidiary was incorporated or continued, as well as the percentage of votes attaching to all voting securities of each such subsidiary beneficially owned, controlled or directed by Amalco, assuming the completion of the Arrangement.



NARRATIVE DESCRIPTION OF THE BUSINESS OF AMALCO

Following the completion of the Arrangement, Amalco will continue the businesses of ERI and APM although it intends to concentrate on the evaluation and development of the Donkin Coal Project. See "*Description of Mineral Properties – Donkin Coal Project*".

APM's business, as previously conducted, was the development, processing and sale of its primary kaolin resources in Georgia, USA. On June 29, 2012 APM sold its operating assets. APM currently owns real property in McDuffie County, Georgia, leasehold and ownership interests in various non-producing properties containing kaolin resources in Georgia and a production royalty. These will be considered "non-core" to the business of Amalco.

If the Arrangement proceeds, in addition to owning Erdene's North American property interests (comprised primarily of its 25% interest in the Donkin Coal Project) and APM's assets, Amalco will be debt-free and will have approximately \$1.88 million in cash.

Stated Business Objectives

The primary objective of Amalco is to participate in the development of the Donkin Coal Project, which is held in a joint venture ("**Donkin Joint Venture**") in which Amalco will have a 25% interest and Xstrata Coal Donkin Limited ("**Xstrata**") has a 75% interest.

Xstrata Coal Donkin Management Limited, a party related to Xstrata, is the operator. Current efforts by the Donkin Joint Venture are focused on procuring the required environmental and related permitting to commence underground development that will lead to definitive mining plans and, ultimately, full scale commercial production.

Milestones

Several technical and environmental studies have been completed or are under way. An Environmental Impact Statement, prepared in response to comprehensive guidelines released by the federal government on February 7, 2012, was completed and submitted for review on July 16, 2012. The 60-day public review period ended on September 14, 2012. Public comments will then be considered and a comprehensive report will be prepared by the federal government. It is expected that formal approval, if granted, will be received in the second quarter of 2013. After receipt, the Donkin Joint Venture, subject to receiving all required joint venture partner approvals, will begin the process of permitting and remediating the existing infrastructure to allow for the commencement of underground development.

Evaluation and Development

Over the coming months, Amalco will use its available funds to participate in the permitting and evaluation process, contribute to its share of care and maintenance operations (to the extent that these expenses are not covered by Xstrata) and continue as a public company. Amalco will also, on a selective basis, evaluate other opportunities to grow and diversify its business.

Description of Mineral Properties - General

Following the completion of the Arrangement, Amalco will hold the following interests in mineral properties:

- (a) 25% interest in the Donkin Coal Project, described below; and
- (b) 100% interest in APM's existing assets (comprised of real property in McDuffie County, Georgia, leasehold and ownership interests in various non-producing properties containing kaolin resources in Georgia and a production royalty), which will not be material to Amalco.

In addition, Amalco will hold additional early-stage mineral projects.

DONKIN COAL PROJECT

Property Description and Location

The Donkin property is located approximately 28.5 km east of the city of Sydney, Cape Breton County, Nova Scotia, Canada and the resource block comprises an area of roughly 100,000 ha. The coal resource lies under the Atlantic Ocean and is accessible by two decline drifts currently extending some 3.6 km from the surface. The coordinates for the surface location of the two tunnels is approximately 745,088E; 5,118,733N (NAD83 - UTM Zone 20).

Mineral Tenure

In December 2005 the Nova Scotia Department of Natural Resources ("NSDNR") announced that the Donkin Coal Alliance ("DCA") was the successful proponent for the Donkin Coal Project. The DCA and the NSDNR entered into an agreement dated May 31, 2006 for Special Coal License No. 2/06. In addition, on January 31, 2007, the Province, as represented by the Minister of the Department of Energy, and the DCA entered into a Coal Gas Exploration Agreement (No. 07-31-01-01) which authorized the DCA to explore for coal gas in the Donkin Resource Block. In January 2012 this exploration agreement was renewed for an additional 5 years ending in January 2017. The May 31, 2006 award of the Special Coal License allowed the DCA to access the site previously operated by Cape Breton Development Corporation ("CBDC") (also known as DEVCO).

In October 2008, XCDL and Erdene executed a definitive joint venture agreement and a sales agency agreement and formed Donkin Tenements Inc. ("DTI"), a Nova Scotia company, to hold certain of the interest of the joint venture and the DCA was renamed the "**Donkin Joint Venture**". As a normal progression from the Special Coal License, a 33-year Special Lease was granted to DTI on May 1, 2009 by NSDNR. The Special Lease is renewable for an additional 20 years and grants the Donkin Joint Venture the exclusive right to coal within the lease boundary.

Royalties, Back-payments, Other Encumbrances

In 2003, the CBDC surrendered the mineral rights to the Donkin Resource Block to the Province of Nova Scotia. There are no back-in rights, payments, or other agreements and encumbrances to which the property is subject. Nova Scotia charges a royalty for coal produced, prescribed under section 174 of the *Mineral Resources Act* (Nova Scotia) and the Mineral Resource Regulations, Section 71(d), at \$1.09 per short ton (\$1.20 per metric tonne).

The province also collects revenue in the form of an annual mining lease rental fee. The mining lease rental rate in Nova Scotia is currently set at \$100 per 40 acre (16 ha) claim per year. The Special Lease requires a nominal rental amount of \$1 per year for the first four years of the lease; then the rental increases to \$136,192 in May 2013. This amount is based on current regulatory fees.

Environmental Liabilities

Other than general regulatory requirements, if the project was terminated at the current phase of the project, XCDM would be required to remove surface infrastructure for which no alternatives have been identified, safely abandon and close the mine tunnels and restore the project site in a manner that enables its reuse for another purpose or its rehabilitation as natural areas. The environmental liabilities will change if the project progresses to feasibility stage.

Permit Requirements

In addition to the Special Coal License and Special Lease referred to above, certain permits and approvals related to mineral resource management are issued by NSDNR under authority of the Mineral Resources Act ("**MRA**"). They include exploration licenses, excavation permits, letters of authority, mining leases and various related permits. A requirement of all permits and approvals granted under authority of the MRA is that work must be conducted in compliance with the Occupational Health & Safety Act and Regulations thereunder and the Environment Act and Regulations thereunder.

As noted above, the Donkin Coal Project has an existing environmental permit which allows for exploration phase development work to prepare an unwashed thermal coal product at the mine both on the surface and underground; and use of a continuous miner ("CM") system for up to two years to remove an average of 2,000 tonnes of coal per day (approximately 0.5 million tonnes per annum ("Mtpa")). A new Environmental Assessment ("EA") for full mine production is underway with a decision expected in Q2 2013. See "*Environmental Considerations*" below.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Donkin property is located on Cape Breton Island, Nova Scotia approximately 28.5 km east of the city of Sydney and 6.6 km east of the town of Glace Bay. Paved roads extend from Sydney to within approximately 1 km of the site with a newly constructed all-weather gravel road extending the remaining 1 km. The property is approximately 14 km east of the regional airport.

Xstrata Coal currently owns approximately 99% of the land on the Donkin Peninsula. The land was purchased by Xstrata Coal from CBDC and includes all the land that would be required onsite including the mine tunnels, the CBDC settling pond and all land required for site facilities including the access road and transport corridor. A portion of a proposed rail transport corridor was also purchased by Xstrata Coal. Much of the corridor was a rail line to the townships of Donkin and Louisbourg, which has not had a rail line since the 1960s.

Cape Breton is located at 46°N latitude but is temperate by Canadian standards because of its location in the Atlantic Ocean. Although weather is not expected to have a significant impact on the operation of the mine and coal processing facilities, it is an important planning factor for the potential marine shipping option. The potential loading and transshipment sites are located on the Eastern Coast of Cape Breton Island. As such, the site is exposed to the North Atlantic Ocean and is affected by the storms, wind, ice and waves generated in the Atlantic Ocean. As loading or transshipment operations would be in close proximity to the coastline, there is some sheltering provided by local islands and headlands, but the sites remain fully exposed to wind and waves that originate from the northeast to southeast sectors. There is large seasonal variation as winter storms produce high winds and large sea states, whereas summer provides substantially calmer wind and sea states.

Ausenco Sandwell carried out a Marine Options Study and a significant portion of their report was dedicated to analyzing the potential impact of weather on the various transshipping options. Ausenco Sandwell concluded:

"that the development of a suitable facility for the berthing and loading of all three main types of marine fleet considered is technically feasible and with good design the annual throughput level of 2.75 Mt/y can be achieved. This can be achieved through judicious management of the loading from May to September prime loading months, and with October, November, December and early January becoming less favourable due to seas, swell and wind (non winter ice period where the down time due to ice is 0%)." [The non-winter ice period is the period (Oct-Jan) when there is no ice, but loading may be impacted by other climatic conditions.]

Existing infrastructure includes the two dewatered tunnels providing access to the Harbour Seam; a metal storage building being utilized as an office, storage, and maintenance facility; a generator for power to the storage building and mine fan; an access road; sediment control structures; and, sufficient land to accommodate all proposed facility requirement. A high voltage power line is located at Victoria Junction approximately 25 km from the site.

History

The Sydney area of Cape Breton has a long history of coal mining beginning with the inhabitants of Fortress Louisbourg in 1713. Mining in the submarine portion of the coal field has taken place at numerous entrances over a 134-year history. Historically, extensive underground mining has been conducted west of the Donkin Coal Resource Block. The most recent underground mines were all owned by CBDC. Mining was conducted by room and pillar as well as longwall methods. Principal underground mining operations in the Sydney coalfield ceased with the closure of the last operating mine in the fall of 2001. Historical coal production from the Sydney coalfield, west of the Donkin Coal Resource Block, totalled 329 million tonnes by 2001. Since the mines were closed, extensive closure and reclamation activities have taken place throughout the Sydney Coalfields.

The Donkin Coal Project now represents the most eastern extension of the coalfield that is accessible from the north coast of Cape Breton and is the last primary block of un-mined coal that has the potential to be mined from the coast.

Between 1977 and 1987, CBDC evaluated the mining potential of the Donkin Coal Resource Block. Extensive work efforts and funds (*reportedly in excess of \$100M*) were expended to conduct exploration programs, define the coal resource, access the coal deposit, and evaluate potential mining operations.

Exploration of the Donkin Coal Resource Block began in 1977 with the drilling of coal seams from a drill ship. This work continued into 1978 and 1979, with a total of 11 holes drilled during the three-year period. The coal seams encountered in the Donkin Coal Resource Block of primary interest are the Harbour, Hub and Lloyd Cove. The Harbour seam, because of its consistency across the resource block, has typically been the primary point of focus for the resource. In addition, numerous geological and geotechnical studies were conducted and include: Marine Bottom and Sub-bottom Geophysical Surveys; Offshore Seismic Surveys; Sparker Surveys; Resource Estimation Studies; Coal Quality Estimation; and Geologic Model Development (Electronic Version). The exploration efforts culminated in the drivage of two tunnels to intersect the Harbour Seam. These side-by-side tunnels generally measure 7.6 m in diameter and are approximately 3.5 km in length. The tunnels accessed the Harbour Seam where a crosscut was driven in the coal seam to allow channel samples and bulk samples to be taken. In 1992, CBDC sealed both of the tunnels with bulkheads and allowed the tunnels to flood.

After receiving the necessary regulatory approvals, XCDM breached the tunnel seals and commenced pumping water from the tunnels in late 2006 in order to reclaim access to the Harbour Seam coal face. The tunnels have been drained and access to the Harbour Seam re-established. The tunnels will require extensive renovation before full scale mining can commence.

Other than the coal extracted during the construction of the tunnels, there has been no production from the property. The tunnel construction coal was used for coal quality testing purposes. An additional strip sample (DHC01) was extracted from near a previous channel sample (T2) by XCDM in October 2007 and was also used for testing purposes.

Geological Setting

The Donkin Coal Resource Block is located within the Sydney coal basin located along the northeastern coastline of Cape Breton Island, mostly off shore, under the Atlantic Ocean. The basin structure was determined by geophysical methods in 1976 and is described as a relatively simple basin, with the beds dipping towards the deeper and central parts of the basin (20 km north of Donkin license), steeper along the coastline and becoming flatter offshore. Along the southern boundary of the basin (Cape Breton coastline), a marginal fold belt exists, with north-easterly trending folds and minor faulting affecting the Sydney area underground mines.

The depositional environment was largely fluvial. The river systems had their headwaters in a mountainous upland whose present-day eroded remnants are represented by the crystalline rocks of the Forchu/East Bay structural blocks and the Cape Breton Highlands. Early elastic deposition and a later initiation of major peat deposition occurred in the southeastern part of the basin. Sediments accumulated in an alluvial flood plain setting in a subsiding ancient river valley. The major structural features of the Sydney coalfield are the bounding faults (the Mountain Fault on the west and the Mira River/Bateston Fault on the southeast) and the large-scale folds, which define a broad structure known as the Sydney Synclinorium.

Coal-bearing rocks in the Sydney area are of Carboniferous age, Westphalian series Morien Group, comprising an interbedded succession of shales, claystones, siltstones, sandstones and coal. Significant peat accumulation began with the formation of the Tracey seam, the lowest mineable seam in the section. The progressive westward onlap of younger seams reflects the overall development of the Morien Group. The later seams (Harbour, Hub, and Point Aconi) are well developed over most of the basin. Throughout Morien time the center of deposition remained in the eastern Donkin area where the seams attained their greatest thickness. Drill holes in the Donkin area intersect seams from the Point Aconi Seam to the Phalen Seam in an interval approximately 400 m thick. A total of 11 coal seams occur throughout the Sydney Basin.

Local Geology

Eight coal seams have been intersected in the Donkin area ranging in thickness from 0.5 m to 3.5 m and are typically separated by more than 70 m of interburden. The Harbour Seam is the seam targeted for initial mining at Donkin, and the seam for which most data has been gathered and studied historically. It has been successfully mined at several mines in the Sydney Coalfield.

The floor of the Harbour Seam shows a reasonably consistent grade from outcrop on the sea floor to a depth of more than 1000 m in the northern part of the licence. The grade across the licence area ranges from 14 to 5 degrees. The other seams in the Morien Group display similar characteristics, as the interburden between seams is quite consistent. The Harbour Seam increases in thickness from 1.9 m to 3.6 m towards the east across the Donkin licence.

The other two seams of potential economic interest within the Donkin licence, the Lloyd Cove and Hub seams, occur approximately 160 m and 95 m respectively above the Harbour Seam. The Hub Seam splits into two sections in the Donkin area, and also in the No 7 Colliery to the west of Donkin. In the west of the Donkin licence, the Hub Upper ply is between 2.1 and 2.6 m thick whereas the Hub Lower ply is commonly between 0.4 m and 0.7 m thick. Where the plies coalesce in the eastern part of the licence area, the Hub Seam is between 3.2 and 4.9 m thick.

The Lloyd Cove Seam is the thickest seam in the Donkin area, ranging from 3.1 to 3.6 m. It is very uniform in character and does not display any seam splitting. The immediate roof and floor strata of the Lloyd Cove Seam is generally a siltstone or shale. The seam was intersected in four of the offshore holes, and is the shallowest seam regarded as an underground resource at Donkin.

The non-coal interburden strata show complex patterns of only three facies, the result of which is that the roof strata will tend to be quite variable and difficult to predict in advance. Based on observations recorded at Phalen and other mines, the lithologies in the three facies are: channel facies, flood plain facies and back-swamp facies. There appears to be a coalfield-wide pattern of fewer channel facies in the upper seams. At No 26 and Lingan Mines, the channel sandstone facies included linear sandstone bodies in the Harbour Seam roof and caused washouts at the top of the seam in places.

Structural Geology

The Sydney Coalfield has a long history of coal mining that has confirmed a low level of structural disturbance throughout the coalfield. Although the strata exhibit broad folding and seam rolls can be quite common, the incidence of faulting, and in particular faults with sufficient displacement to seriously disrupt mining operations, is quite rare in the Sydney Coalfield.

The Donkin Fault, in the eastern part of the Donkin area, appears to be a more significant structure than has been intersected in any mines in the coalfield to date. It was identified in the 1978 marine sparker survey, which prompted detailed seismic survey, designed to assist in determining the nature of the disturbance, and any other features across the licence area. The Donkin Fault was initially interpreted to be a thrust fault, with approximately 20 m throw near its western limit increasing to 120 m displacement towards the east. Review of the reprocessed seismic data has revised the interpretation of the Donkin Fault – it may be a normal fault, reactivated along a basement feature. The fault is associated with an anticline termed the Flint Flexure.

Exploration

The Province of Nova Scotia granted a Special Exploration License to the Donkin Coal Alliance in June 2006 and the land surrounding the Donkin site was secured. Senior-staff were appointed to the Glace Bay office, which was officially opened on June 8, 2006. Concurrent with site rehabilitation work to reopen the access tunnels, a comprehensive review of all historical data was undertaken culminating in the "*Technical Report Donkin Coal Project, Cape Breton, Nova Scotia, Canada*" dated April 2007, prepared by Kerry J. Whitby BSc, FAusIMM, McElroy Bryan Geological Services ("MBGS"). This report compiled all historical information on the Donkin Coal project, developed an updated model of the deposit and included an updated resource estimate for the Donkin Coal Resource Block.

After receiving the necessary regulatory approvals, XCDM breached the tunnel seals and commenced pumping water from the tunnels in late 2006 in order to reclaim access to the Harbour Seam coal face. This work is now complete and unimpeded access to the Harbour Seam is possible. In 2007, a bulk sample was taken from the Harbour Seam and sent to Australia for testing and analysis.

Compilation of Previous Exploration Results

MBGS carried out a comprehensive review of the previous exploration programs and results. The previous work was carried out by CBDC between 1977 and 1987 and included 11 offshore drill holes, a sparker survey (a marine seismo-acoustic reflection survey with shallow sea floor penetration), a seismic survey, tunneling (two parallel tunnels 50m apart providing access to the Harbour Seam 200m BSL), bulk sampling and strip sampling of the Harbour Seam (from the cross-cut at the base of the two tunnels) and coal quality studies. In addition, the Geological Survey of Canada Atlantic carried out a bathymetry survey of the central part of the Donkin area in 1995 provided detailed images of the sea floor.

Due to the difficulties of exploration below the seabed, historical mine development was based on inference and experience from the existing mining areas and very limited drilling. Drilling by ship is often difficult, expensive and sterilizes a significant block of coal from future mining. As a result, the risk profiles for this type of property and the assessment methods differ from land-based coal resources.

The information from the drilling and seismic exploration historical mining and coal marketing/utilisation studies provide valuable information in evaluating the Donkin coal deposit and the Sydney Coalfield in general. Donkin has 11 drill holes within the licence area, high resolution 2D seismic survey lines across the lease and mine data from neighbouring underground Harbour Seam mines No. 20 and No. 26. This information amounts to substantially more than the amount of data that previous Sydney Coalfield mines had to work with before mining commenced.

XCDM Exploration Activities

A sampling program was carried out in June 2006 with a 400 kg sample collected from the Harbour Seam during underground sampling at the adjacent Glace Bay Miners' Museum (referred to as the Miners' Museum bulk sample) and delivered to Australia for testing and analysis at CCI Newcastle laboratory, under the supervision of A&B Mylec, coal quality consultants. A full range of tests were carried out, including raw coal analysis, drop shatter and sizing, washability analysis and clean coal tests.

Commencing in May 2006, XCDM re-processed the original 1981 2D seismic data with several geophysicists from Australia involved to maximize the amount of information gained from the data. Interpretation of the re-processed data was carried out at Velseis Processing of Brisbane, Australia. The re-processed data identified Harbour Seam floor elevation along each seismic line and this data will be used in future generations of the Donkin geological model. The seismic data successfully identified the Flint Flexure (fold and fault complex) and has interpreted a number of possible faults with smaller displacements.

In October 2007, a strip sample (DCH-01) was collected from the Harbour Seam exposed in the cross-cut at the base of the tunnels, near the location of the strip samples taken by CBDC in 1985. The sample location was selected because of the excellent access to the entire Harbour Seam profile at this location. The sample was collected by ply and included roof and floor material. The plys, and roof and floor material were collected as separate sample and labelled accordingly, sealed in 45 gallon drums and shipped to Australia as quickly as practical, to prevent oxidation of the coal. ACIRL Ltd., Maitland, New South Wales, Australia was the laboratory that performed all of the coal quality analysis.

Drilling

All drilling within the license area was carried out by CBDC between 1977 and 1979. A total of 11 drill holes were completed with selective coring of the coal intervals. In some instances where coal seam core recovery was poor, sidewall cores were taken. A geophysical log suite, was run in each hole by Schlumberger Canada Ltd. comprising gamma ray formation density, caliper, geodip, continuous dipmeter +/- sonic and neutron logs +/- microlaterologs and dual induction laterologs.

The final drill pattern comprised 3 east-west drill lines. The southernmost line had 5 holes, between 1km and 2km apart. The middle line, approximately 2.5km north of the southern line, had 4 holes between 2.5km and 3.5km apart and the northern line, approximately 2km north of the middle line, had 2 holes, 4km apart.

A Well History Report was prepared for each drill hole, and included hole details, a drilling diary, rod and casing use record, geological descriptions, casing and abandonment records. All holes were reportedly cleaned out and grouted from the base of the hole to the sea floor on completion. Samples of the cement were taken at regular intervals to ensure the seal material was competent.

Sampling and Analysis

Drill Core (CBDC)

During the drill programs in 1978 and 1979, the coal core was described by CBDC geologists on board the ship, then re-logged and sampled for analysis on shore within days of drilling. Laboratory testing of the core commenced within a week of drilling in most cases. Records of broken coal and core loss are variable – in a few logs these records are well kept and an attempt has been made to account for core loss. Insufficient core for representative analysis was recovered from the first series of holes drilled in 1977 so only analysis of sidewall samples exists for these holes. There was insufficient volume of coal from these sidewall samples to give meaningful results and they were not included in the resource estimation process.

Seam cores recovered from the 1978 and 1979 holes were commonly sampled in some detail – divided into plies at visible partings or otherwise at approximately 0.15 m intervals (approx 6"). Testing of "half-cores" was conducted in Calgary, Alberta. Some sub-samples were combined for further testing; however the majority of testing was conducted on the sub-samples, which provided some flexibility in the study of potential working sections.

Bulk Sampling (XCDM)

XCDM extracted two bulk samples, one from the Glace Bay Miners' Museum in 2006 and the other from the base of the access tunnels in 2007 (DCH01). Both were taken from the Harbour Seam. In both cases, the coal face was „cleaned“ by removal of the outer layer of coal so that samples taken were from „fresh“ un-oxidized coal.

The Miners' Museum bulk sample was taken from a 0.38m x 0.38m section of the coal seam using a pick and placed into plastic bags, taking care to capture all fines. The plastic bags were labelled and sealed into 45-gallon drums sealed for transport to Australia for testing and analysis at CCI Newcastle laboratory, under the supervision of A&B Mylec, coal quality consultants. A full range of tests were carried out, including raw coal analysis, drop shatter and sizing, washability analysis and clean coal tests.

The Donkin tunnel Harbour Seam sample (DCH01) was collected on a ply-by-ply basis and included roof and floor material using a manually operated compressed air chipping hammer. Total thickness sampled, including roof and floor material was 3.38m. The five in-seam plies (ranging in thickness from 0.04m to 2.42m), and roof and floor material (0.1m and 0.15m, respectively), considered out-of-seam-dilution (“OSD”), were collected from a 1m wide strip as separate samples and labelled accordingly and sealed in 45 gallon drums before being shipped to Australia as quickly as practical, to prevent oxidation of the coal. ACIRL Ltd., Maitland, New South Wales, Australia was the laboratory that performed all of the coal quality analysis.

Sample DCH01 was taken from the same area (number 2 cross-cut) as the five strip samples (T2, SS1, SS2, SS3 and SS4) that were extracted in 1985 by CBDC. The DCH01 sample was used to compare coal quality results with the five CBDC samples taken at the Harbour Seam intersection at the base of the tunnels (see Table 1, below). In addition, DCH01 was used for washability testing for preparation plant design and for metallurgical coal characterization. The sample quality can reasonably be considered as representative of the coal quality within indicated distance of the sample location but does not represent the resource as a whole.

Table 1 - Tunnel Channel Sample Raw Qualities

Parameters	DHC01	T2	SS1	SS2	SS3	SS4	Average
Thickness (m)	3.13	3.58	4.03	3.45	3.44	3.44	3.51
Ash (%)	8.9	9.2	8.0	5.8	6.9	7.7	7.8
Total Sulphur (%)	4.45	4.02	5.15	3.29	3.45	3.45	3.97

The average results of all six strip samples have been assumed to represent raw quality at the base of the tunnel.

Security of Samples

Other than XCDM transporting the 45-gallon steel drums for the two bulk samples of coal to Kuehne + Nagel Ltd. in Halifax, Nova Scotia for shipping to Australia, there was no special sample security protocol. A shipping manifest was maintained, and the samples were inspected by Australian customs.

Data Verification

Data verification and limitations for the data used for resource determination as well as mine planning and economic analysis are identified below.

- Potential inaccuracies with original survey of shore to ship for offshore holes, this may result in errors in drill hole location of +/- 15 m to 30 m.
- Possible errors associated with determining geophysical log datum point on board the ship, resulting in a possible error of approximately +/- 5 m to 10 m in seam depth from sea floor.
- Hole deviation data is available for the offshore holes to obtain the survey of the seam at seam level, however this has not yet been utilized in the geological model.
- Poorly aligned geodip, core and density logs led to some uncertainty in seam thickness in the offshore holes. The potential seam thickness error from the low resolution of the geophysical logs is in the order of +/- 0.15 m, while the potential thickness error from the mismatching data sets may be up to 0.6 m.
- The quality of lithological data collected from the offshore holes is variable; some are adequate while others do not appear to have captured all relevant information.
- No geotechnical data (rock strength, discontinuity descriptions etc) was recorded in core descriptions in the offshore holes, however relevant data, such as roof and floor conditions from the nearby historical underground mines is a useful guide to indicative underground mining conditions likely to be experienced at Donkin.
- Drill hole spacing is such that sandstone channels or other zones of geotechnical significance, if present, are unlikely to be detected by drilling. The re-processed seismic data has not identified any such strata anomalies.
- Drill hole spacing is inadequate to identify local variability in seam floor dip, seam rolls etc, if present.

- The accuracy of the ship navigation with respect to the seismic surveys is likely to be within 20 m-50 m of actual position. Resolution in the vertical direction appears to be quite good, within 5 m, and some faults with interpreted throws in excess of 5 m have been resolved.
- There is a paucity of core loss records, thereby making a judgment on reliability of drill results less certain. The core that was recovered was cut in half prior to analysis. The 1978-1979 coal cores were supplemented by sidewall cores, which are not representative of the whole seam quality. The 1977 holes recovered sidewall cores only.
- There is a general lack of reliable coal quality information especially in the east and northeast of the license.
- No seam gas content and strata permeability measurements were recorded in the Donkin drill holes.

While these issues need to be addressed in the future, none is considered to be material to the viability of the project as a whole. Where there was doubt, a conservative seam thickness was chosen so that coal resources were unlikely to be overestimated. The issue of poorly understood core loss has not yet been resolved, however the main impact is on the accuracy of some of the detailed coal quality data and in general, the influence of core loss will tend to underestimate the quality of the deposit since the better quality, friable, vitrinite-rich coal is the most likely to be affected by core loss. The impact on the resource estimate is not considered to be significant.

Mineralization - Coal Quality

Coal quality data for the Donkin Project in the Harbour Seam was obtained from five sources:

- A series of bore cores drilled in the late 1970s, which were sampled on a ply-by-ply basis prior to extensive raw coal analysis. Seam composites of the ply samples were created and subjected to washability and clean coal analysis.
- A series of five channel samples extracted from the Harbour Seam at the base of the tunnel. These samples were analyzed on a ply-by-ply basis similar to the bore cores, and subjected to composite seam washability and clean coal analysis. The sampling was undertaken in an easterly direction commencing with sample T2 near the end of the tunnel. The remaining four channel samples (named SS1 to SS4) were extracted 10 m to 20 m apart in an easterly direction from sample T2, across the face of the bulk sample area.
- A bulk sample was extracted from the Harbour Seam at the base of the tunnel. Several thousand tonnes of coal were extracted and washed through the Victoria Junction wash plant in July 1985. Various feed, product and reject streams were subjected to a range of raw, washability and clean coal analysis. A pilot scale subsample (74-tonnes) from the bulk site was also subjected to detailed testing by CAN-Met at its Devon facility.
- A 400-kg channel sample was extracted from the Harbour Seam Museum Site at Glace Bay. This sample was analyzed in Australia in August 2006 as a basis for quality comparisons with the existing data. The channel sample was subjected to intensive breakage and liberation pre-treatment with subsequent, raw coal, sizing, washability and clean coal analysis.
- An additional strip sample (DCH01) was extracted near the T2 channel sample in October 2007. This sample was analyzed by ACIRL Ltd. in Maitland, Australia to confirm likely coal quality at the base of the tunnel.

Coal quality data for the Donkin Project for the Hub Seam was based on the series of bore hole cores drilled in the late 1970s. No mineral processing or metallurgical testing has taken place. Once the Harbour Seam exploration

program advances far enough downdip, it may be possible to drill core holes upwards into the Hub Seam and collect sufficient samples for washability testing.

Raw Coal Quality – Harbour Seam

- The Harbour Seam increases in depth in a northerly direction from 250 m at the bulk sample site to 670 m at hole H8A approximately 5 km to the north. The seam generally appears to thicken in an easterly direction from 2 m at P2 to 3.6 m at P3, 5 km to the east.
- The bore cores to the west had full seam raw ash in the range 15% to 20%. The ash decreased to < 10% from a line east of the tunnel sites.
- Hole P2 in the southwest recorded TS percent in excess of 8% as did H8D, 2 km to 3 km north of the tunnel site, whereas the regions east had levels below 4%.
- Calorific value dry, ash free (CVdaf) was approximately 15,000 Btu/lb throughout.
- Volatile matter dry, ash free (VMdaf) appeared to increase from 34% to 37% in the west to 38% to 39% in the east. Raw crucible swell number (“CSN”) appeared to increase from 5.5 to 6 in the west to 7.5 in the east.
- Ultimate carbon, hydrogen and nitrogen were typically 82%, 5.5% and 1.4%, respectively (dry, ash free basis).
- Initial ash deformation temperatures were very low (often <1,100°C) due to the presence of iron in pyrite. T2 reported 37% iron oxides in ash, but other results in excess of 50% have been observed where the ash (silicon and aluminum source) is very low.
- Chlorine in coal was high (0.10% to 0.20%).
- Phosphorus in coal was generally low (<0.03%).
- Vitrinite was generally high (often exceeding 80%). Reflectance is not fully understood across the Donkin Lease but appeared to range from 0.90 to 1.10, indicating the coal may be suitable to produce semi-soft to semi-hard coking coal.
- Gieseler fluidity on raw coal generally exceeded 10,000Mddm.
- Hardgrove Grindability Index (“HGI”) was 60 to 65.

Raw coal results from the six channel samples (including the September 2007 channel) in the tunnel region suggest the coal quality characteristics of the Harbour Seam may be variable over short distances. TS varied from 4.45% (DCH01) to 4.02% (T2) to 3.29% to 3.45% moving easterly to the other strip samples over an estimated length of approximately 50 m. Raw ash varied from approximately 9% at T2/DCH01 to 5.8% at SS2 increasing to 7.7% at SS4. The average result of all six strip samples has been assumed to represent raw quality at the base of the tunnel. The average ash was 7.8%, and the average TS was 3.97%.

On a ply-by-ply basis, all of the channel samples had a thin, high ash band (0.03-m to 0.05-m thick, ash 47% to 60%) approximately 0.2 m to 0.5 m from the top of the sampled section. Ash in the section above the band varied from 10% to 15%. The basal ply in all cases exceeded 10% in TS. Sulphur in the top plys was more variable sample to sample but often well in excess of 5%. The high sulphur results are generally due to the presence of pyrite with a background organic level within the plys generally of 1% to 2%. The high sulphur ply in SS1, 0.15 m from the top of the seam, had 12% pyritic sulphur. Most plys had little or no sulfate sulphur. All samples had a central section in

excess of 2-m thick with ash <4%. TS in this section generally varied from 1% to 3% within the plys and averaged slightly in excess of 2% for all channel samples.

Washability

At low density, such as 1.40, the coal has high mass (often >90%) and low intrinsic ash. There is a tendency for the lowest density fractions to contain lower incremental TS; however, the sulphur rises rapidly above F1.40 (cumulative at T2 1.99%, cumulative at DCH01 2.70%). The sulphur results for T2 and DCH01 indicate that the pyritic sulphur is very finely disseminated and will not likely liberate well during washing except at extremely low density (<1.40).

On a full seam basis, sulphur washed to 2.8% to 3.2%. Sulphur ranged from 2.7% to 2.9% in the optimum central section. Both the roof and floor coal plys for DCH01 realized high sulphur at low (1.40) and high (1.60) cut point densities (4.4% to 5.2% and 4.7% to 5.0%, respectively). Yield ranged from 87% to 92% in the central section and 78% to 84% in the full seam. Product ash ranged from 2.7% to 3.3% (central section) and 3.1% to 3.8% (full seam).

Reject Handling

The likelihood of acid drainage from reject coals is a strong possibility with all plant designs for Donkin coal if traditional stockpiling of coarse materials and dam storage of flotation tails are followed. An alternative reject handling system that requires investigation may be to filter the flotation tailings and dispose of the solids with coarse rejects (dry co-disposal). Treatment of the dry rejects with limestone or possibly power station fly ash as the reject exits the plant may reduce the likelihood of acid drainage being a problem for future mine rehabilitation.

Product Specifications

Apart from a reduction in ash and sulphur, most of the properties of raw or washed coal will be very similar for Harbour seam coal. “Hard” washing of the coal at low density to realize an ultralow ash coking coal product will reduce sulphur slightly and ash more significantly whereas washing at high density will primarily only remove freely liberated pyritic sulphur and most stone (ash) components. A potential clean coal specification profile for the coal (utilizing raw and clean coal properties) is presented in Table 2, below.

Table 2 - Typical Product Specifications

	Raw Coal	Washed Coal
Total Moisture %	6.0	10.0
Air Dried Moisture %	1.0	1.0
Ash % (ad)	8.0	3.0
Volatile Matter % (ad)	37.0	39.0
Total Sulphur % (ad)	4.50	3.00
CV Btu/lb (gar)	12,800	13,000

Notes:

- The specifications are derived from the six strip samples at the base of the tunnel and may not reflect variation in quality across the lease.
- The raw coal specification assumes minimal out-of-seam dilution.
- Total sulphur (“TS”) specifications are based on the higher results from DCH01 rather than an average of the strip samples.

Average raw coal quality for the Hub Seam based on the drill hole data is shown in Table 3, below. Partings and out-of-seam dilution are not included.

Table 3 - Summary of Raw Coal Quality, Hub Seam

	Thickness (m)	Ash % (ad)	VM % (ad)	Sulphur % (ad)	Gross calorific value Btu/lb (ad)	CSN	In situ Density (g/cc @ 6% moisture)
Average	2.4	15.3	32.1	5.7	12,479	6.9	1.40

Detailed Specifications: Table 4, below, presents a range of additional product properties that may be applied to either raw or washed coal for the Harbour Seam. Similar Hub Seam data is not available. The following properties should be noted.

- CSN and Gieseler maximum fluidity of 7 and >10,000 Mddm, respectively.
- High vitrinite content (typically 80%)
- Moderate rank (typically 1.00 Romax)
- Low initial ash deformation and flow temperatures (1,100°C and 1,300 °C), respectively, due to the high iron from pyrite
- Low to moderate phosphorus (market dependent) in coal (typically 0.03%)
- High (market dependent) chlorine in coal (typically 0.15%)

Table 4 - Additional Product Specifications

Ash Fusion (Celsius reducing)	Spec	Range
Initial Deformation Temperature	1100	1050 – 1150
Flow Temperature	1300	1200 – 1400

Ash Chemistry (oxides of ash, % dry)		
Silicon	20	15 – 40
Aluminum	20	15 – 25
Iron	50	35 – 55

CSN	7	7 to 8
Gieseler Fluidity M ddm	>10000	10000 – 25000

Chlorine in coal (% dry)	0.15	0.12 – 0.2
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Phosphorus in coal (% dry)	0.03	0.01 – 0.04
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Vitrinite % (by vol)	80	75 – 85
Reflectance	1.00	0.90 - 1.10

Hardgrove Grindability Index	65	60 – 70
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Ultimates (% daf)		
Carbon	83.0	80 – 85
Hydrogen	5.4	5.2 – 5.5
Nitrogen	1.3	1.2 – 1.5
Oxygen	7.0	5 - 10

Coking Studies

The Harbour Seam coal has many excellent coking coal properties including:

- low ash;
- low phosphorus; and,
- high CSN and fluidity.

However, pilot scale studies on coke strength and reactivity conducted on several raw and clean coal composites derived from strip sample DCH01 (Table 5, below) suggest the coal has low to moderate coke strength after reaction (CSR typically 25).

ACIRL Ltd's carbonization facility offered the opinion that the coke test results are typical of a semi-soft coking coal with a reactive ash composition. The high reactivity (CRI) and resultant low coke strength after reaction (CSR) are a result of the low rank and ash characteristics. Both the raw and clean coke composites have extremely high iron in the ash, which contributes significantly to the high CRI.

Setting aside the high sulphur, the coal suits a semi-soft market. The impact of iron on coke strength may be minimized by appropriate blending with other materials.

Table 5 - Coke Strength Results: Mid-Section Clean Coal Composite, Strip Sample DCH01

Carbonization Report			
Sample:2_2R_1B Clean Coal Composite			
Coke Reactivity Index (CRI)	58.4	59.5	59.0
Coke Strength after Reaction (CSR)	24.5	26.2	25.4

Similar testing is not available for the Hub Seam.

Mineral Resource Estimates

A geological model of the Donkin Coal Resource Block was developed using ECS-Surpac MINEX software on the basis of offshore drill hole seam intersections and data from the Harbour Seam workings in No 20 and No 26 collieries. The coal seam depth and thickness records that formed the basis of the Minex geological model were derived from a combination of the geological descriptions, density logs, geodip logs and coal analysis information.

Framework Developed from GSC Paper 88-21

Geological Survey of Canada Paper 88-21, "A Standardized Coal Resource/Reserve Reporting System for Canada", is referenced by National Instrument 43-101 for the preparation of Mineral Resource/Mineral Reserve estimates on coal deposits. GSC Paper 88-21 outlines definitions, concepts and parameters used to determine coal resource and reserve quantities, and provide a framework to facilitate consistent categorization of coal quantities found within various depositional and tectonic regimes.

- Geology Type: Low-Type A structural Complexity
- Deposit Type: Underground
- Exploitation Feasibility: Immediate and Future Interest
- Assurance of Existence: Measured, Indicated, Inferred

Geology Type: Paper 88-21 specifically recognizes the lateral continuity and consistency of coal seams in the Sydney Coalfield as typifying the least complex coal deposits in Canada, based on the extensive mining history in the area (Low-Type A Structural Complexity). In the Sydney Coalfield, data from borehole intersections spaced several kilometers apart can be correlated with confidence. At Donkin, the network of exploration drill holes, generally between 1.5 km and 2.5 km apart, is strongly augmented by the regular grid of seismic survey lines, the Harbour Seam exposure in the pit bottom area at the base of the two Donkin access tunnels and the Harbour Seam workings throughout No.20 Colliery, a short distance to the west of the Donkin Resource Block.

Deposit Type: All coal resources/reserves reported within the Donkin License fall within the "underground" category. Coal resources that are deeper than 700 m rock cover are present at Donkin and would be classified as "non-conventional" at this stage and have not been included in this resource statement. "Sterilized" resources are those that are unavailable for mining due to legislative, environmental or other restrictions. At Donkin, coal within 75 m of an offshore borehole that intersects the coal seam in question, is unable to be mined. In addition, seams under less than 200 m of solid rock cover are not currently considered for longwall mining. An estimate of in situ resources of coal in the three seams where the rock cover is between 100 m and 200 m thick is included in the inferred category. Room-and-pillar mining would be possible in parts of these areas, as it has in other submarine mines in the Sydney Coalfield. No coal resources were estimated for coal under less than 100 m cover.

Exploitation Feasibility: At Donkin, resources of immediate interest are considered to be those within the envelope defined by the offshore drill holes. All resources outside this envelope were considered as resources of future interest.

Assurance of Existence

Measured - There are no Measured Resources within Donkin Resource Block.

Indicated - Indicated resources are those resources within the envelope of offshore drill holes where the combination of drill spacing, coal quality data and seismic survey data provides sufficient confidence in the reliability of the data point and the seam continuity between data points to warrant a classification of Indicated.

Inferred - All coal resources outside the envelope defined by the offshore drill holes, are considered to be of Inferred status. Within the drill hole envelope, the eastern portion of the area is classified as Inferred because the coal quality and seam thicknesses reported in the easternmost drill hole (H8B) is of lesser confidence than in other holes.

Resources Categories based on CIM Definition Standards

After developing resource block boundaries using Paper 88-21 guidelines as a framework, these resource block categories were converted to equivalent CIM Definition categories. The limits and considerations applied to the resource estimate include:

- A density of 1.3 g/cc was applied to coal volumes to estimate tonnages of in situ coal for all seams.
- A minimum of 100 m of rock between the seabed and the seam. Coal occurring between 100 m and 200 m cover may be suitable for room and pillar extraction.
- A maximum depth below the sea floor of 700 m for the Harbour Seam.
- An exclusion zone of 75 m radius was applied to the drill hole centered on the projected position of the drill hole in the seam.
- An exclusion zone of 150 m was applied to the Donkin fault, due to the uncertainties in its position and character as well as the extent of disturbance to the coal seams.

- Resources were not estimated within 100 m of the existing Harbour Seam working in No.20 mine to the west of the Donkin license.

Summary of Coal Resources

The Donkin coal resource was subdivided into a number of blocks and coal resources in each block were classified according to CIM Definition Standards. The blocks may have different aerial extent for each seam and are divided internally on the basis of depth of cover and resource classification status (Indicated and Inferred). The following table provides a summary of the coal resources for each coal seam within the Donkin license area. The resource is shown in Table 6, below, and is expressed in millions of tonnes ("Mt").

Table 6: Summary – Donkin Coal Resource Estimates

Seam	Typical Seam Thickness Range (m)	Resource within drill hole limits (Mt)		Resource outside drill hole limits (Mt)	
		Indicated	Inferred	Indicated	Inferred
Hub	3.2 – 4.0	73	38	19	57
Harbour	1.8 – 3.6	101	15	100	115
Total Resources Hub & Harbour Seams		174	53	119	172

Mineral Reserve Estimates

As defined by the Canadian Institute of Mining, Metallurgy, and Petroleum:

“Mineral Reserves are those parts of Mineral Resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the Qualified Person(s) making the estimates, is the basis of an economically viable project after taking account of all relevant processing, metallurgical, economic, marketing, legal, environment, socio-economic and government factors. Mineral Reserves are inclusive of diluting material that will be mined in conjunction with the Mineral Reserves and delivered to the treatment plant or equivalent facility. The term ‘Mineral Reserve’ need not necessarily signify that extraction facilities are in place or operative or that all governmental approvals have been received. It does signify that there are reasonable expectations of such approvals.”

The Donkin Export Coking Coal Pre-Feasibility Study determined the most practical and an economical mining method for the Donkin underground resource as room-and-pillar mining with partial pillar extraction utilizing continuous miners for mining equipment. Longwall equipment is an alternate method.

Effectively, reserves were limited to the internal area defined by the drill holes with the exception of drill hole H8B, which was considered only to support an Inferred Resource determination. The drill hole boundary limits the maximum overburden thickness to less than 700 m (approximately 550 m), which historically in adjacent mines has been the depth of overburden where “sandstone outbursts” are more likely. Minimum overburden thickness is approximately 175 m at the Harbour Seam intersection with the tunnels. The minimum overburden thickness to accommodate full extraction mining is considered to be 200 m.

Minimum Harbour Seam thickness is 1.8 m. Minimum extraction thickness is 2.2 m. The Hub Seam minimum thickness is 1.5 m with an average thickness of 2.5 m. A 10% OSD (approximately 20% ROM ash) was considered in reserve calculations. The specific gravity (SG) for all calculations was 1.45. A barrier of approximately 75 m was left on either side of the Donkin Fault. Mains or submains can be extended across the fault. For the mine plan, a 100m barrier surrounds each drill hole.

To meet the quality requirements for a metallurgical coal market, the mining recoverable coal will require processing through a coal preparation plant. Ash and sulphur are the two coal quality constituents that need to be

reduced. The end result is that the quantity of coal available for marketing is reduced. The coal processing yield was set at 81%.

The Probable Reserves are shown in Table 7 below. Probable mineable reserves are the tonnes recovered during the mining process. Probable saleable reserves are the tonnes remaining following coal preparation. The Probable mineable reserves are a subset of the Indicated in-situ resources. The reserves are within an area that has a reasonable likelihood for receiving the necessary environmental and mining permits.

Table 7: Probable Reserves

Seam	Indicated Insitu Resource (Mt)	Probable¹ Mineable Reserve (Mt)	Probable² Saleable Reserve (Mt)
Hub	73	28	23
Harbour	101	30	25
Total	174	58	48

Notes:

- (1) Extracted ROM tonnes
- (2) Tonnes after coal preparation

The reserves are based on the assumption that the Harbour Seam coal and 50% of the Hub Seam coal are marketable as a metallurgical coal, and the other 50% of the Hub Seam Coal is marketable as a thermal product with the pricing structure projected by the marketing study prepared for the PFS.

There are no environmental nor environmental permitting issues to which the estimate of mineral resources and mineral reserves may be materially affected except for the regulatory approvals presently being sought to provide nominally 2.7 Mtpa product coal suitable for the international export coking coal markets.

Mining Operations

In early 2010 the project underwent a thorough review of all available options, and it was decided to conduct a pre-feasibility study of an option whereby multiple CMs would be utilized to produce ROM coal that would subsequently be washed to produce a coal product that is suitable for export sales into the international coking coal market.

The March 2011 PFS expanded on a previous study by modifying the mine plans to incorporate the Hub Seam, continued refinement of the transportation options, and completing independent and internal marketing studies and evaluations. Although the transportation options are still undergoing evaluation, the marine option is the preferred alternative. The marketing study indicates that there is demand for the quantity and quality of coal that will be produced at the mine in international export metallurgical and thermal coal markets as well as domestic thermal coal markets.

Only underground mining methods have been considered for extraction of the coal resource. There have been several submarine mines that have operated off the coast of Cape Breton Island adjacent to the Donkin License area, but none are currently active. Most of these mines have used the room-and-pillar or longwall mining methods or both.

The mine proposed in the PFS is projected to produce approximately 3.5 Mtpa of ROM coal and 2.75 Mtpa of clean processed coal. The geological model provided grid information on the seam thicknesses, roof and floor elevations, and coal quality parameters of air dried ash, air dried sulphur and relative density. These grids were used as inputs along with the mine design parameters to produce a ROM coal production sequence.

The Harbour and Hub seams are the target seams with the Harbour Seam targeted for the initial exploration seam due to the tunnels being in place for this initial development. The Harbour Seam mine layout is designed with main development headings running east and west of the access tunnels at a depth between 200m and 600m beneath the sea floor. Pillar extraction is planned for both seams extracting between 50% and 70% of the remaining pillars. The mine layout can facilitate changing to an alternate mining method such as a longwall and insures that mining in the Hub Seam is completed prior to secondary mining in the Harbour Seam directly below the Hub Seam.

The Hub Seam will be accessed through a 550-m drift developed from the Harbour Seam to intersect the Hub Seam above at a depth of approximately 200 m. A second drift will need to be developed for a return airway with an additional ventilation shaft being required in Year-9 as mining extends further from the drifts. Coal transport from the Hub Seam will be via a surge bin between the two seams with a capacity of 3,500 tonnes feeding the main conveyor in the Harbour Seam.

The initial phase of mining is referred to as the exploration phase. The intent is to deploy one CM section in the Harbour Seam one year after securing an off-take agreement for the ROM coal. The exploration phase will provide the opportunity to collect multiple Harbour Seam bulk samples for testing, geotechnical information on the roof, floor and coal, data on both the Donkin and an unnamed fault, data on gas desorption.

Initial mine development and production will only have the two existing tunnels available for access, ventilation and transport of coal out of the mine. A risk review has determined that utilization of the eastern existing tunnel as a return airway and conveyor drift during the initial mining phase would allow final use of that tunnel as the return airway following the construction of a third tunnel that is required prior to the commencement of the third CM section.

Gas management requirements have been determined from a review of operational experience in the Phalen and Harbour seams of adjacent mines, published gas reservoir characteristics, anecdotal evidence from previous mine management together with results of the 2008 - 2009 pit bottom drilling program.

Processing and Transportation

The coal handling and preparation plant ("**CHPP**") utilized in the PFS is of a design and construction that is similar to many such plants that are in current operation at existing Xstrata coal mines, and as such provides for a high degree of certainty and confidence in the capital cost and operating cost estimates that are included in the study.

The proposed CHPP system involves the following items.

- A raw coal stockpile, reclaim and sizing system to prepare a minus 50 mm raw coal feed to the CHPP.
- A 650 tonnes per hour (tph) processing plant featuring a single stage large diameter dense medium cyclone to process coal, spirals to process the mid-size material and flotation to beneficiate the fine coal.
- A product sampling and reclaim system to prepare product coal ready for loading on to a barge or rail.
- A dry disposal reject handling system.

The washability characteristics of the Donkin coal channel samples are considered to be excellent. There are relatively large proportions of material in the low density fractions (>70% mass at F1.30), little near gravity material and relatively low proportions of high density material (<3% mass at S2.00).

The selected process is focused on the production of a single product suitable for marketing as a coking coal but that is also marketable as a thermal coal. Review of historical and recent washability data showed the Harbour Seam coal has excellent coking coal properties including:

- Low ash;
- Low phosphorus; and
- High CSN fluidity.

Sulphur levels, however, are high and the selected process must attempt to maximize the removal of sulphur to improve the marketability of the coal. The washability and sizing data suggests sulphur reduction is possible by employing a lower (dense medium based) cut point with only a relatively low loss of yield. It was concluded that the most appropriate selection and the one which represents least risk will be a plant with the following configuration:

- Single stage dense medium cyclone ("DMC") coarse coal circuit;
- Spirals mid-size coal circuit; and,
- Flotation fine coal circuit.

Only proven conventional technologies were considered for the CHPP. In recognition of the cold weather operating environment for the Donkin site, and the preference to keep as much as possible of the CHPP processing equipment indoors, Jameson Cells flotation technology was selected.

To reduce the potential of acid leach from a conventional tailings dam, a full dry disposal system for CHPP reject is proposed. The dry disposal system would dispose of the combined streams of dewatered tailings and coarse reject. This combined stream will be conveyed from the CHPP by a fixed stacking conveyor and discharged onto a conical stockpile. Dozers will be employed to push the stockpiled rejects to an adjacent void. Any possible environmental issues regarding potential acid leaching from the rejects stockpile will be investigated further at the next phase of the project.

The CHPP will process 3.50 Mtpa (as) ROM of Donkin coal and incorporate the following major components in the design.

- A raw coal stockpile reclaim system incorporating three coal feeders onto a reclaim conveyor located in a tunnel
- A two stage reduction crushing station
- A plant feed system comprising a plant feed conveyor with associated weigher and primary sampling facilities
- A CHPP consisting of a single DMC module for coarse coal processing, spirals for mid-size coal processing and flotation for the finer fraction
- Belt filters to dewater the tailings for combining with the coarse and fine reject prior to conveying to a rejects stockpile
- A product handling system comprising product conveyors, radial stacker and stockpile
- Product reclaim by dozer push to reclaim feeders and onto a reclaim conveyor located in a tunnel. Conveying of reclaimed product coal to a transfer station for transfer to a barge or rail loading facility.
- Fire protection system
- Raw coal dust suppression
- Distribution from the output side of the high voltage transformer on the main substation of the electrical site supply
- Fully integrated control system and communications
- Offices, workshop, laboratory, crib rooms and ablutions required directly for operation and control of the CHPP

There were two transportation cases evaluated within the PFS. The variation in cases only applies to the methodology by which the product coal is transported to the point at which coal is loaded into ocean-going vessels.

Case 1: Rail Option – product coal is reclaimed to a rail loadout bin that loads coal wagons for transportation of the coal by rail to Sydney Port. The rail option has been assessed on the basis of a rail link being constructed from Donkin Mine to the existing Sydney Coal Rail Line at Victoria Junction to transport coal to the former Sydney Steel Corporation (Sysco) dock at Sydney Harbour.

Case 2: Marine Option – product coal is reclaimed to an overland conveyor that traverses the onshore section from the product stockpile to accommodate the direct loading of 3,000-tonne coastal barges. A barge will then be moved to a near shore transshipment location where the barge grab crane will load the product coal to Capesize ocean-going vessels. This transshipment area is located southwest of the Cape Morien headland and is approximately 4.5 nautical miles from the direct loading area.

The transportation options are still being evaluated. Capital cost estimates have been developed for both options.

Production

Full production on a ROM bases is projected to be approximately 3.5 Mtpa. Exploration phase production with one CM section is expected to be 375,000 ROM tonnes for the first 2 years, all from the Harbour Seam. In Year-3, production is expected to be 642,000 ROM tonnes, of which 68,000 tonnes are from the Hub Seam. Three additional CM sections are added in Year-4, and production steadily increases until full production is achieved in Year-7. A commensurate increase in ventilation capacity will be required during this period in addition to the completion of the third tunnel prior to the third miner section starting production. It should be noted that the start of production is dependent on the receipt of all necessary permits and plans and the availability of contactors to complete the pre-production construction.

Table 8, Production Schedule, shows the ROM production for the first 11 years of mining (assuming a start date in 21012, which did not occur) along with total tonnes mined to Year-29.

The CHPP includes all of the material handling, coal processing equipment and stockpiles necessary to process the 3.5 Mtpa ROM extracted by the mine and produce approximately 2.75 Mtpa of clean saleable coal with quality parameters suitable for sale into international coking and thermal coal market and domestic thermal coal markets. The processing yield selected for the PFS study is 81%, which includes consideration for OSD. The PFS target product specification is shown in Table 9, below. Calorific value and CSN appear to be at the upper end of the range of expected quality parameters.

Table 9 - Assumed Product Target Specifications

Quality Parameter	Specification
Total Moisture %	8.0
Ash % (ad)	4.0
CSN	8.5
Total Sulfur % (ad)	3.0
Calorific Value (Btu/lb ar)	13,500

At the proposed rate of production, the mine exhausts the Harbour Seam reserves in Year-30 and the Hub Seam reserves in approximately Year-35. There are Inferred Resources to the east, north and west of the proposed mine that can be accessed from the proposed mine. Additional data on the suitability of these resources for mining will be collected during mining of the reserve area.

Table 8 - Production Schedule

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2040
Production - ROM tonnes (x 000)	375	373	642	1,419	2,648	3,129	3,259	3,350	3,641	3,303	3,700	78,715
Yield	100%	100%	100%	86%	81%	81%	81%	81%	81%	81%	81%	81%
Production - Clean tonnes (x 000)	375	373	642	1,216	2,145	2,534	2,640	2,714	2,949	2,675	2,997	63,759
Hub Seam												
CM1												
Primary				464	115	459	516	359	512	487	306	10,175
Secondary					514	258	229	492	294	344	593	9,591
Total CM1	0	0	0	464	629	717	745	851	806	831	899	19,766
CM2												
Primary				357	246	480	435	305	314	468	520	9,770
Secondary					398	247	330	548	567	376	317	9,592
Total CM2	0	0	0	357	644	727	765	853	881	844	837	19,362
Harbour Seam												
CM3												
Primary				301	541	438	460	680	345	810	284	11,293
Secondary					175	416	435	151	632		696	7,636
Total CM3	0	0	0	301	716	854	895	831	977	810	980	18,929
CM4												
Primary				297	486	394	485	686	378	742	394	11,679
Secondary					173	437	369	129	599	76	590	7,589
Total CM4	0	0	0	297	659	831	854	815	977	818	984	19,268
CM5 - Exploration												
Primary - Harbour	375	373	574									1,322
Primary - Hub			68									68
Total CM4 - Exploration	375	373	642	0	0	0	0	0	0	0	0	1,390
Total Harbour (ROM tonnes x 000)	375	373	574	598	1,375	1,685	1,749	1,646	1,954	1,628	1,964	39,519
Total Hub (ROM tonnes x 000)	0	0	68	821	1,273	1,444	1,510	1,704	1,687	1,675	1,736	39,196

Markets

The coal quality of Donkin's two target seams, the Harbour and Hub seams, are characterized by low ash, high energy, high vitrinite content, high fluidity, high swell and elevated levels of sulphur. Subject to further coal testing to be carried out during the exploration phase of the project, approximately 75% of product coal from Donkin is targeted to be marketed as a coking coal into international coking coal markets. The geographic location of Donkin make Europe and Brazil the most likely target markets. Coal quality testing and further market assessment are planned to be undertaken during the exploration phase to confirm the product quality and marketability.

During the exploration phase, coal will be marketed as a ROM thermal coal product.

Based on data currently available, the following are the key features of the Donkin coking coal product.

- Low Ash - the expected level of 4% ad is well below the typical range for hard coking coal of 7%- 10.5% and would attract a pricing premium.
- Caking Properties - the expected CSN of 8.5 places it within the range for premium hard coking coals of 8-9.
- Plasticity - Donkin is a high fluidity coal with an expected maximum fluidity of greater than 10000 ddpn. This characteristic enables its use as a coke blend component with lower fluidity coals and enhances its marketability.
- Sulphur - the expected product sulphur content of 3% ad is above the typical range for hard coking coal which ranges to a maximum of 0.8% ad. While the sulphur content will attract a pricing penalty, which has been incorporated to the valuation model, it does not preclude the use of this coal in coking coal blends for the manufacturing of coke.

Environmental Considerations

The Donkin Mine has an existing environmental permit which allows for development works to prepare an unwashed thermal coal product at the mine both on the surface and underground, and the use of a CM system for a period of up to two years to remove an average of 2,000 tonnes of coal per day (approximately 0.5 Mtpa), load it onto trucks and transport to either domestic or export customers, only during the times of 0600 hours and 2000 hours, Monday to Saturday. There are no current requirements regarding bond posting, remediation and reclamation other than those typical of an operation which are covered under the site's Environmental Management System, presently being enhanced to address regulatory requirements including Environmental Management, Environmental Protection and Contingency Plan requirements.

The information in the following paragraph is an update of the environmental approval process since the receipt of the Donkin Coal Technical Report.

In June 2011, a draft Project Description document was filed with Federal and Provincial regulators. This was the initial step in the Environmental Assessment ("EA") process. The document seeks approval for the 2.75 Mtpa export coking and thermal coal underground mine and utilizing the marine transportation option. On November 14, 2011, the Canadian Environmental Assessment Agency ("CEA Agency") announced their decision that the Donkin Export Coking Coal Project is to undergo a comprehensive-study-type environmental assessment. The CEA Agency prepared and released draft Environmental Impact Statement ("EIS") Guidelines for the project which will guide the EIS preparation and identify minimum information requirements. The public was invited to submit comments to the CEA Agency by December 29, 2011. All comments were reviewed and considered before the final EIS Guidelines was finalized and issued to XCDM on February 7, 2012. On July 16, 2012, XDCM filed the EIS with the CEA Agency triggering a 60-day public review period. Written comments must be sent to the CEA Agency no later than September 14, 2012. It is anticipated that environmental approval will be received in the first half of 2013.

Tax, Royalty and Lease Costs

The following tax, royalty and lease rates were used as part of the economic analysis.

- Net Federal Tax Rate on Resource Income – 15% (effective from 2012)
- Nova Scotia Income Tax Rate – 16%
- Capital Tax Rate Nova Scotia – 0.05%
- Special Lease - \$1.00/year for the first four years of the lease (to April 2013) then \$136,192/year
- Royalty - CAD\$1.09/short ton, CAD\$1.22/tonne (XCDM Assumption)
- Carbon Tax – CAD\$2.00 Contingency

Capital and Operating Cost Estimates

Estimated capital cost for rail and marine transport cases are outlined in Tables 19.3 and 19.4, respectively, of the Donkin Coal Technical Report. Both tables provide initial capital estimates. Sustaining and replacement capital is estimated at \$4.50/tonne. The author of the Donkin Coal Technical Report considered both estimates to be reasonable for the proposed projects as defined in the PFS.

Operating cost estimates for the rail and marine transportation options, are outlined in Tables 19.5 and 19.6, respectively, of the Donkin Coal Technical Report. The first 10 years of the project are based on actual estimates while the remaining project life is based on an average figure.

Economic Analysis

A marketing study prepared by AME Consulting Pty Limited ("AME") indicates that the Donkin Project Harbour Seam high sulphur coal can be marketed as a semi-hard or standard hard coking coal discounted for its relatively high sulphur content to international markets in Europe, Brazil and to some extent in Asia and at volumes of near 1.2 Mtpa and as a thermal coal in similar markets at volumes of approximately 0.65 Mtpa. The forecast for long-term realization is projected at US\$159/tonne for standard hard coking coal, US\$151/tonne for semi-hard coking coal and US\$90/tonne for thermal coal.

Xstrata Coal, on behalf of XCDM also completed an analysis of the potential realization for the Donkin coal. Xstrata's long-term realization for the coking coal product is US\$156.7/tonne and for the thermal product is US\$122.2/tonne. The coking coal product is consistent with the AME study while the thermal product realization is significantly higher. The thermal product realization reflects a transportation advantage into local markets. The economic analysis is based on Xstrata Coal's pricing estimates.

Net cash position for the rail and marine options are presented in Tables 19.7 and 19.8, respectively, of the Donkin Coal Technical Report. Table 10, below, summarizes the economic analyses for the marine and rail options. Peak funding is the maximum negative cumulative undiscounted cash flow of the project.

Table 10 - Project Valuation

Financial Parameters	Marine Case (@LT)	Rail Case (@LT)
NPV @ 8% (CAD\$ M)	1,060	952
Internal Rate of Return (%)	36.0	32.5
Payback Period (years)	7	7
Peak Funding (CAD\$ M)	331	374

Conclusions

The following conclusions are based on the PFS and the Donkin Coal Technical Report:

- The Donkin Project Harbour Seam can be reasonably accessed through the two existing tunnels once the tunnels are rehabilitated. The Hub Seam can be accessed from two slopes proposed to be driven between the Harbour and Hub seams.
- The room-and-pillar mining method utilizing "place change" CMs is a reasonable and cost effective method of extracting the resource. The mine plan can be easily modified to take advantage of longwall mining if the mining conditions are suitable and the coal market will support the increased production.
- The first 20 years of mining in the room-and-pillar mine plan presented in this Technical Report are located within the Indicated resource boundary of the MBGS Technical Report. The mine plan shows the extension into Inferred resource areas once additional coal thickness, coal quality and geotechnical data are acquired. This additional data can and should be acquired during mining. The project economics are based on Indicated resource only.
- Methane management/ventilation will be critical to successfully mining both the Harbour and Hub seams.
- Other than at the base of the two tunnels, additional off-shore exploration data (other than indirect data) will probably not be obtained. The reasons include the high cost of drilling in an ocean environment and any drill hole that penetrates the coal seams sterilizes the resources adjacent to the drill hole and significantly impacts potential mine plans. Based on the mine plan, the mining extractable coal reserves within the Indicated resource are summarized in the following table.

Seam	Indicated Insitu Resource tonne (Mt)	Probable¹ Mineable Reserves tonne (Mt)	Probable² Saleable Reserves tonne (Mt)
Hub	73	28	23
Harbour	101	30	25
Total	174	58	48

Notes:

- (1) Extracted run-of-mine tonnes
- (2) Tonnes after coal preparation

- Approximately 75% of the coal is being targeted at the international metallurgical coal market and 25% at the local and export thermal coal markets. Metallurgical coal quality advantages include low ash, low phosphorus, and high crucible swell number (CSN) and fluidity. Quality limitations include high sulphur and iron in the ash (from pyrite and contributes to high reactivity). High calorific value and location relative to local markets are the primary thermal coal advantages while sulphur and iron in the ash are the primary disadvantages.
- Hub Seam metallurgical and thermal coal quality data is limited and not considered sufficient for coal quality representation to potential customers.
- Production based on the mine plan is estimated at 3.5 million tonnes per annum (Mtpa) run-of-mine (ROM) and 2.75 Mtpa clean saleable.
- The capital investment for the project ranges from approximately CAD\$550M to CAD\$497M and includes mine access, mine equipment, coal processing, ancillary facilities, transportation to a port facility, a 20 % contingency factor and CAD\$94.211 for a Feasibility Study. The reason for the range in capital is that both rail and marine transportation options are still being considered although the lower capital investment cost marine option is preferred.

- The regulatory and community environment are supportive of the Donkin Project.
- The economic analysis for the preferred marine option generates a net present value (NPV) of CAD\$1,060M at an 8% discount rate and an internal rate of return (IRR) of 36.0%.

Recommendations

The following recommendations are based on the Donkin Coal Technical Report.

- XCDM should proceed with the preparation of the Donkin Project Feasibility Study including the exploration phase.
- Customers in the identified market regions should be contacted, provided detailed coal quality specifications for the Harbour Seam and the limited data for the Hub Seam coal, and queried as to reasonable sales volumes.
- Continuation of the work on the plans and licenses necessary to start construction and operate the mine.
- Implementation of the exploration plan to facilitate data acquisition and analysis.

DESCRIPTION OF AMALCO SHARES

Following the completion of the Arrangement, Amalco will be authorized to issue an unlimited number of Amalco Shares, of which approximately 49,255,990 will be issued and outstanding. Holders of Amalco Shares will be entitled to 1 vote per share at meetings of holders of Amalco Shares, to receive dividends if, as and when declared by the Amalco board of directors and to receive *pro rata* the remaining property and assets of Amalco upon its liquidation, dissolution or winding-up, subject to the rights of shares having priority over the Amalco Shares. All Amalco Shares outstanding after the Arrangement will be fully paid and non-assessable.

DIVIDENDS

There are no restrictions that could prevent Amalco from paying dividends. Any decision to pay dividends on its shares will be made by Amalco's board of directors on the basis of Amalco's earnings, financial requirements and other conditions existing at such future time.

PRO FORMA CONSOLIDATED CAPITALIZATION

The following sets forth the consolidated capitalization of Amalco after giving effect to the Arrangement as described in Schedule H to the Circular, "*Amalco's Pro Forma Financial Statements*".

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding After Giving Effect to the Arrangement
common shares	unlimited	49,255,990

Notes:

- (1) In addition, it is anticipated that there will be 2,401,977 Amalco Options outstanding after giving effect to the Arrangement. See "*Fully Diluted Share Capital*" and "*Options to Purchase Securities*", below.
- (2) The pro forma deficit of Amalco as at June 30, 2012 is \$18,141,518.

FULLY DILUTED SHARE CAPITAL

The following describes and summarizes the diluted share capital of Amalco after giving effect to the Arrangement.

	Number and Percentage of Amalco Shares Outstanding (Diluted) After Giving Effect to the Arrangement	
Issued to Erdene Shareholders in connection with Arrangement	47,901,450	92.73%
Issued to APM Shareholders other than Erdene in connection with Arrangement	1,354,540	2.62%
Reserved for issuance pursuant to Erdene Options outstanding	2,376,500	4.60%
Reserved for issuance pursuant to APM Options outstanding	25,477	.05%
	51,752,967	100%

MARKET FOR SECURITIES

[The TSXV has conditionally accepted the Arrangement and the listing of the Amalco Shares to be issued or issuable pursuant to the Arrangement, subject to Amalco fulfilling the requirements of the TSXV. Final TSXV acceptance, if and when granted, will be subject to Amalco fulfilling all of the requirements of the TSXV. There can be no assurance that TSXV acceptance will be forthcoming or whether, once listed, Amalco will be able to maintain such listing.]

OPTIONS TO PURCHASE SECURITIES

It is contemplated that 2,401,977 Amalco Options will be granted in connection with the Arrangement in accordance with the terms of the Arrangement Agreement.

The following table sets forth information in respect of the Amalco Options that will be held upon completion of the Arrangement:

Holder	Number of Amalco Options	Expiration Date
4 officers of Amalco ⁽¹⁾⁽²⁾	125,000	June 25, 2014
	37,500	April 15, 2015
	50,000	October 8, 2015
	150,000	July 5, 2017
	117,500	August 27, 2017
4 directors of Amalco who are not also officers of Amalco ⁽¹⁾⁽³⁾	150,000	June 27, 2014
	120,000	April 15, 2015
	100,000	October 8, 2015
	200,000	August 27, 2017
Officers of all subsidiaries of Amalco	Nil	--
Employees of Amalco	Nil	--
Employees of Erdene and others who will be providing services to Amalco pursuant to a management arrangement or written agreement ⁽¹⁾	10,006	April 4, 2013
	10,250	October 10, 2013
	137,500	September 20, 2014
	100,000	April 15, 2015
	57,500	March 22, 2016
	110,000	August 27, 2017

Holder	Number of Amalco Options	Expiration Date
Directors of Erdene who will not be performing services for Amalco ⁽¹⁾	642,500	12 months from Effective Date
Employees of Erdene who will not be providing services to Amalco ⁽¹⁾	258,250	90 days from Effective Date
Former director of APM	25,477 ⁽⁴⁾	12 months from Effective Date

Notes:

- (1) Pursuant to the terms of the Arrangement, the exercise price of Amalco Options issued on the exchange of Erdene Options shall be calculated as twice the amount determined when the exercise price of the Erdene Option for which it was exchanged is multiplied by a fraction, the numerator of which is the fair market value of an Amalco Common Share and the denominator of which is the sum of the fair market value of an Erdene New Share and the fair market value of an Amalco Common Share, provided that such exercise price shall not be less than \$0.265 per Amalco Share. The exercise price shall be determined following the Effective Date when each of the Amalco Common Shares and the Erdene New Shares have traded on the TSXV and the TSX, respectively, for 10 trading days. For the purposes hereof, "fair market value" means the volume weighted average trading price of the share on the TSX or the TSXV, as the case may be, for the 10 trading days immediately preceding.
- (2) The 4 officers of Amalco will be John P.A. Budreski, Kenneth W. MacDonald, Michael A. MacDonald and D. Suzan Frazer.
- (3) The 4 directors of Amalco who are not officers of Amalco are Peter C. Akerley, Philip L. Webster, John P. Byrne and Charles G. Pitcher.
- (4) Pursuant to the terms of the Arrangement, the exercise prices of these Amalco Options will be \$1.40 as to 12,739 of the Options and \$1.88 as to the remaining 12,738 Options.

In addition to the Amalco Options detailed above, the board of directors of Amalco, in its discretion, may in the future grant additional options to employees and consultants of Amalco in accordance with the terms of the Amalco Stock Option Plan.

AVAILABLE FUNDS AND PRINCIPAL PURPOSES

Available Funds

The following table sets out information respecting Amalco's sources of cash until April 30, 2014. The amounts shown in the table are estimates only and are based on the best information available to Erdene as at September 25, 2012.

Sources	Amount
Pro Forma Working Capital as at June 30, 2012⁽¹⁾	<u>\$1,956,000</u>

Note:

- (1) The pro forma working capital at June 30, 2012 is made up of cash of \$2,081,000 less current liabilities of \$124,000. Pursuant to the Arrangement Agreement, Erdene agreed that ERI will have sufficient cash such that, following the Arrangement, Amalco will have sufficient cash (after repayment of all amounts owing by Amalco to Erdene and after making allowance for payables) to meet the requirements of the TSXV for the listing of the Amalco Shares. Accordingly, the pro forma working capital position at June 30, 2012 reflects an equity injection from Erdene of \$1,950,000 and the repayment by Amalco to Erdene of the secured promissory note balance of \$550,000 immediately upon the Arrangement becoming effective. Also reflected in the June 30, 2012 pro forma working capital balance are the estimated costs of the arrangement of \$300,000, which includes professional fees, listing fees, printing and miscellaneous costs, and a total loan injection of \$250,000 from an Amalco executive who has committed to make a loan to Amalco, on the Effective Date, in the amount of \$250,000 bearing interest at commercial bank prime plus 2%, secured by Amalco's real property located in Georgia, USA and repayable 3 years from the Effective Date. See Schedule K – "Amalco's Unaudited Pro Forma Financial Statements".

Principal Purposes of Funds

Amalco will spend the funds available to it after the Effective Date to further Amalco's stated business objectives. See "Narrative Description of the Business of Amalco – Stated Business Objectives".

The following table sets out information respecting Amalco's intended uses of funds available to it on completion of the Arrangement, for a 12-month period. The amounts shown in the table are estimates only and are based on the best information available to Erdene as at September 25, 2012.

Uses	Amount
Donkin Joint Venture expenditures funded by Amalco ⁽¹⁾	
- July 1 to October 31, 2012	\$99,000
- November 1, 2012 to October 31, 2013	298,000
General and administrative expenses (July 1 to Oct. 31, 2012)	89,000
General and administrative expenses (12 month period November 1, 2012 to October 31, 2013)	879,000
Unallocated working capital	<u>591,000</u>
Total	<u>\$1,956,000</u>

Note:

- (1) Pursuant to the Donkin Joint Venture Agreement, when the management committee for the joint venture has determined to proceed to the next phase of the Donkin Coal Project, the "continuous miner exploration phase", Xstrata is obliged to pay, on behalf of Amalco, all subsequent called sums owing by Amalco, up to \$10 million, being a portion of the amount of expenditures Amalco has incurred to date in connection with the Donkin Coal Project. Despite the management committee not having yet determined whether or not to proceed to the continuous miner exploration phase, Xstrata has agreed to fund up to \$1 million of Amalco's funding obligation during 2012 but only while Xstrata remains a 75% joint venture partner. From January 1 to August 31, 2012, Xstrata funded approximately \$786,000 of Amalco's obligations. The "Donkin Joint Venture expenditures funded by Amalco" as shown above reflect only those costs to be incurred by Amalco relating to the Donkin joint venture that will not be funded by Xstrata or its successor.

While Amalco intends to spend the available funds as set out above, there may be circumstances where for sound business reasons a reallocation of funds may be necessary. The actual amount that Amalco spends in connection with each intended use of available funds may vary significantly from the amount specified above, and will depend upon a number of factors, including those referred to in "Risk Factors" below and "Risk Factors" in the Circular. Amalco may require additional funds in order to fulfil all of Amalco's expenditure requirements and to meet its objectives, in which case Amalco expects to either issue additional Amalco Shares or incur indebtedness. There is no assurance that additional funding required by Amalco will be available if required.

PRINCIPAL SECURITYHOLDERS

Following the Arrangement, to the knowledge of the directors and officers of Erdene, there will be no person or corporation beneficially owning, directly or indirectly, or exercising control or direction over securities carrying in excess of 10% of the voting rights attached to the Amalco Shares.

DIRECTORS AND OFFICERS

Following the completion of the Arrangement, the officers and directors of Amalco are expected to be as follows:

Name and Municipality of Residence	Principal Occupation for Past Five Years	Position with Amalco	Position held with APM and/or Erdene and Date of Appointment	Amalco Shares Beneficially Owned after Giving Effect to the Proposed Arrangement⁽²⁾
John P.A. Budreski Vancouver, British Columbia	Independent Businessman, January 2012 to present; Vice Chairman of Cormark Securities Inc. (an investment banking company) from March 2009 to January 2012; Independent Businessman, December 2007-February 2009; and President and CEO of Orion Securities Inc. (an investment	President, Chief Executive Officer and Director	Director of Erdene since January 18, 2012	30,000 (0.06%)

Name and Municipality of Residence	Principal Occupation for Past Five Years	Position with Amalco	Position held with APM and/or Erdene and Date of Appointment	Amalco Shares Beneficially Owned after Giving Effect to the Proposed Arrangement ⁽²⁾
	banking company) from March 2005-November 2007			
Peter C. Akerley Dartmouth, Nova Scotia	President and CEO of Erdene	Chair of the Board	President, CEO and director of Erdene since February 25, 2003	299,767 (0.61%)
John P. Byrne ⁽¹⁾ Toronto, Ontario	President, Petroleum Corporation of Canada Exploration Ltd. (an oil production company) and President, Petroleum Corporation of Canada Limited (an investment holding company)	Director	Director of Erdene since August 25, 2004	1,017,250 (2.07%)
Charles G. Pitcher ⁽¹⁾ Bobcaygeon, Ontario	President and COO of Wilson Creek Coal, LLP, subsidiary of Corsa Coal Corp. (in the business of mining, processing and selling of metallurgical coal) (2012-present); CEO of United Silver Corp. (mining and contracting services and the development of a silver mine) (2009-2011) and CEO of Western Coal Corp. (exploration and development of metallurgical coal mining properties and now a subsidiary of Walter Energy, Inc.) (2002-2008)	Director	Director of APM since July 9, 2012	Nil
Philip L. Webster ⁽¹⁾ Montreal, Quebec	President, Imperial Windsor Group Inc. (an investment holding company)	Director	Director of Erdene since June 14, 2006; Director of APM since February 27, 2009	632,445 (1.3%)
Kenneth W. MacDonald	President and CEO of APM and Vice-President and CFO of Erdene	Chief Financial Officer	CFO and a director of Erdene since February 25, 2003; Vice-President of Erdene since 2007; President, CEO and Director of APM, since February 27, 2009	324,197 (0.66%)
Michael A. MacDonald, Dartmouth, Nova Scotia	Director of Exploration (Mongolia) of Erdene from September 2011 to date and Executive Director, Minerals Resources Branch, of the Nova Scotia Department of Natural Resources, Province of Nova Scotia from April 1997 to August 2011	Vice-President Technical	Director of Exploration in Mongolia for Erdene since September, 2011	6,000 (0.01%)

Name and Municipality of Residence	Principal Occupation for Past Five Years	Position with Amalco	Position held with APM and/or Erdene and Date of Appointment	Amalco Shares Beneficially Owned after Giving Effect to the Proposed Arrangement ⁽²⁾
D. Suzan Frazer	Partner, McInnes Cooper (a law firm), Halifax, N.S.	Corporate Secretary	Corporate Secretary of Erdene since March 14, 2003; Corporate Secretary of APM since February 27, 2009	86,500 (0.18%)

Notes:

- (1) Proposed member of the Audit Committee.
- (2) Amalco Shares beneficially owned, directly or indirectly, or over which control a direction is exercised, as of the Effective Date of the Arrangement, is based upon information furnished to Erdene by the above individuals.

Following completion of the Arrangement, it is expected that the officers and directors of Amalco will own, control or direct, directly or indirectly, in the aggregate, 2,286,625 Amalco Shares, representing approximately 4.6% of the outstanding Amalco Shares.

The board of directors of Amalco will be comprised of 5 directors, 3 of whom are expected to be "independent" within the meaning of National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"). Directors are considered to be independent if they have no direct or indirect material relationship with Amalco. A "material relationship" is a relationship which could, in the view of a corporation's board of directors, be reasonably expected to interfere with the exercise of the directors' independent judgment. In addition, certain individuals, by definition, will be deemed to have a "material relationship" with Amalco and therefore are deemed not to be independent.

John P. Byrne, Charles G. Pitcher and Philip L. Webster are expected to be independent of Amalco following completion of the Arrangement. Peter C. Akerley and John P.A. Budreski are not expected to be considered independent, for the following reasons:

- (a) John P. A. Budreski will be president and chief executive officer of Amalco; and
- (b) Peter C. Akerley is and will continue to be president and chief executive officer of Erdene, which will provide management and other services to Amalco. See "*Proposed Executive Compensation*". In addition, Mr. Akerley may be engaged to provide consulting services to Amalco.

Following completion of the Arrangement, it is anticipated that Messrs. Byrne, Pitcher and Webster, all of whom are expected to be independent of Amalco and are financially literate, will form the audit committee of Amalco and will adopt an audit committee charter as required by NI 52-110, which is expected to be substantially in the form attached as Appendix I to this Schedule. It is also anticipated that Amalco will have regard to the recommendations of National Policy 58-201- *Corporate Governance Guidelines* when considering its corporate governance policies.

Management

John P.A. Budreski - Mr. Budreski was formerly a Vice Chairman of Cormark Securities Inc. and prior to that, President and CEO of Orion Securities Inc. which was sold to Macquarie Group in 2007. He has over 25 years of broad experience in the resource and resource financing industries. Mr. Budreski is also a Director of Sandstorm Gold Ltd., Sandstorm Metals & Energy Ltd., and Alaris Royalty Corp. Mr. Budreski has a Bachelor of Engineering from Dalhousie/TUNS University in Halifax, Nova Scotia and an MBA from the University of Calgary, Alberta. It is anticipated that Mr. Budreski will be appointed president, CEO and a director of Amalco and that he will devote approximately 2/3 of his time to the business and affairs of Amalco.

Kenneth W. MacDonald - Mr. MacDonald has been Vice-President, Chief Financial Officer and a director of Erdene since March 2003. Mr. MacDonald was appointed Vice-President Business Strategy of Erdene in 2007. On February 27, 2009 Mr. MacDonald was appointed President and CEO of APM upon the reverse takeover of Beta Minerals Inc. by Erdene. 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 ERI in June 2006. From 1985 to September 1992, he was involved as Vice-President Finance with public and private corporations in the resource sector. Prior to 1985, Mr. MacDonald, a chartered accountant, was a senior manager with one of Canada's major accounting firms. It is anticipated that Mr. MacDonald will be appointed chief financial officer of Amalco and that he will devote approximately 50% of his time to the business and affairs of Amalco pursuant to a management arrangement between Amalco and Erdene.

Michael A. MacDonald - Mr. MacDonald joined Erdene in 2011 and is a professional geoscientist with 35 years of experience in mineral exploration, management, executive leadership and research. From 1982 to 2011, he held several public sector positions with the government of Nova Scotia, Canada, including research scientist, industry liaison, director of the province's geological survey and executive director of the minerals branch. Mr. MacDonald has published extensively on a broad range of topics including geochemical exploration for metallic mineral deposits and the geology and economic potential of granitic terranes. In the private sector, he has experience in exploration for base and precious metals, and oil and gas throughout Canada and Mongolia. It is anticipated that Mr. MacDonald will be appointed VP - Technical of Amalco and that he will devote approximately 80% of his time to the business and affairs of Amalco pursuant to a management arrangement between Amalco and Erdene.

Peter C. Akerley - Mr. Akerley has been the president and chief executive officer of Erdene since March 2003. Mr. Akerley is a geologist who previously provided corporate development, exploration and managerial services for projects in Canada, Guyana, Mexico, the Philippines, the United States of America and Mongolia to junior and senior exploration and mining companies. Mr. Akerley has a BSc (1988) from Saint Mary's University in Halifax. He is also a director of Temex Resources Corporation, a company listed on the TSXV. It is anticipated that Mr. Akerley will be appointed Chair of the Board of Amalco and that, during a transitional period following the Arrangement, Mr. Akerley will devote up to 25% of his time to the business and affairs of Amalco pursuant to the management arrangement between Erdene and Amalco.

None of the proposed members of management of Amalco currently have in place non-competition or non-disclosure agreements with respect to Amalco.

Corporate Cease Trade Orders or Bankruptcies

No proposed director or executive officer of Amalco is, or within 10 years prior to the date of the Circular has been, a director, chief executive officer or chief financial officer of any company that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as disclosed below, no proposed director or executive officer of Amalco, or a shareholder expected to hold a sufficient number of securities of Amalco to affect materially the control of Amalco:

- (i) is, or within 10 years prior to the date of the Circular has been, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to

bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- (ii) has, within 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

John P.A. Budreski, who was a director of EarthFirst Canada Inc., a company engaged in the development of wind power and related generated facilities, when it obtained creditor protection under the *Companies' Creditor Arrangement Act* (Canada) (the "CCAA") on November 4, 2008. The CCAA process has now been completed and EarthFirst Canada Inc. has been amalgamated with another company and no longer exists as a separate entity.

Penalties or Sanctions

No proposed director or executive officer of Amalco, or a shareholder expected to hold a sufficient number of securities of Amalco to affect materially the control of Amalco, has been subject to (i) 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.

Conflicts of Interest

Except as otherwise noted in the Circular to which this Schedule is attached, there are no existing or potential conflicts of interest among Amalco and its proposed directors and officers except that certain of the directors and officers serve as directors, officers and members of management of other public companies and therefore it is possible that a conflict may arise between their duties as a director, officer or member of management of such other companies and their duties as a director and officer of Amalco.

Other Reporting Issuer Experience

The following table sets out the proposed directors and officers of Amalco that are, or have been within the past 5 years, directors, officers or promoters of other reporting issuers:

Name	Name and Jurisdiction of Reporting Issuer	Name of Trading Market	Position	From	To
Peter C. Akerley	Erdene, CBCA Temex Resources Corporation, Ontario	TSX TSXV	President, CEO and Director	Feb 25/03	Present
			Director	Jan 21/05	Present
John P.A. Budreski	Erdene, CBCA Sandstorm Gold Ltd., BC Sandstorm Metals & Energy Ltd., BC Alaris Royalty Corp., CBCA	TSX TSXV TSXV TSXV	Director	Jan 18/12	Present
			Director	June 11/09	Present
			Director	Jan 4/10	Present
			Director	July 31/08	Present
			Director	Dec/07	March/09
	Cel-Loc Location Technologies Inc.	TSXV	Director	May/08	May/09
John P. Byrne	Erdene, CBCA	TSX	Director	Aug 25/04	Present

Ken W. MacDonald	Erdene, CBCA	TSX	CFO and Director	Feb 25/03	Present
			VP Business Strategy	March 23/07	Present
	APM, CBCA	TSXV	President, CEO and Director	Feb 27/09	Present
Charles G. Pitcher	APM, CBCA	TSXV	Director	July 9/12	Present
	Corsa Coal Corp., CBCA	TSXV	Director	April 27/12	Present
	Western Coal Corp., BC	TSX /Alternative Investment Market of the London Stock Exchange	Director	Dec 4/02	Sept 9/10
			Chief Executive Officer	Dec 4/02	May 25/04
			Chief Operations Officer	May 25/04	Oct 19/04
	PBS Coal Limited, CBCA	TSXV	Director	2008	2008
	Wildcat Exploration Ltd., Manitoba	TSXV	Director	June 4/09	Present
United Silver Corp., BC	TSX	Director	July 15/10	Nov 4/11	
Philip L. Webster	Erdene, CBCA	TSX	Director	June 14/06	Present
	APM, CBCA	TSXV	Director	Feb 27/09	Present
D. Suzan Frazer	Erdene, CBCA	TSX	Corporate Secretary	March 14/03	Present
	APM, CBCA	TSXV	Corporate Secretary	Feb 27/09	Present
	Acadian Mining Corporation, CBCA	TSX			
	Buchans Minerals Corporation, CBCA	TSXV	Corporate Secretary	June 6/06	Present
	Buchans River Ltd., CBCA	TSXV	Corporate Secretary	Sept 8/06	Present
	Zephyr Minerals Ltd., CBCA	TSXV	Corporate Secretary	Dec 15/06	January/11 ⁽¹⁾
			June 14/10	Present	

Notes:

(1) Buchans River Ltd. ceased to be a reporting issuer in August 2008, following a plan of arrangement with Royal Roads Corp. and was dissolved in January, 2011.

PROPOSED EXECUTIVE COMPENSATION

Following the Arrangement, it is anticipated that Amalco will have 2 executive officers: John P.A. Budreski, president and chief executive officer and Kenneth W. MacDonald, chief financial officer. During a transitional period following the Arrangement, it is expected that Mr. Akerley will also be providing management services to Amalco.

Following the Effective Date, it is anticipated that Mr. Budreski will be an employee of Amalco, will receive a salary of \$12,500 per month and will devote approximately 2/3 of his time to the business and affairs of Amalco. It is also anticipated that Erdene will provide management, administration, financial and regulatory updating services for Amalco, including the services of Messrs. Kenneth MacDonald and Peter Akerley, for an aggregate fee of approximately \$14,835 per month for salaries. Mr. Kenneth MacDonald and Mr. Peter Akerley will devote approximately 50% and up to 25%, respectively, of their time to the business and affairs of Amalco and \$1800 and \$1600 of the aggregate monthly fee to be paid by Amalco to Erdene for management and administrative salaries is attributable to their management services, respectively.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No current or former directors, executive officers or employees of Amalco, or associates or affiliates of any of these persons, have been indebted to Amalco or its subsidiaries at any time since January 1, 2012, being the beginning of Amalco's first and current financial year, other than "Routine Indebtedness" as that term is defined in applicable securities legislation.

STOCK OPTION PLAN

Introduction

The Amalco Stock Option Plan (the "**Plan**") , which is the same as the APM Stock Option Plan, *mutatis mutandis*, is a 10% "rolling" stock option plan that permits the granting of incentive stock options from time to time in accordance with applicable regulatory policies.

The purpose of the Plan is to advance the interests of Amalco by encouraging the directors, officers, employees and consultants of Amalco, and of its subsidiaries and affiliates, if any, to acquire Amalco Shares thereby increasing their proprietary interest in Amalco, encouraging them to remain associated with Amalco and furnishing them with additional incentive in their efforts on behalf of Amalco in the conduct of its affairs. The Plan was drafted to comply with the policies of the TSXV.

The following information is intended as a brief description of the Plan, and is qualified in its entirety by reference to the Plan itself, which is attached as Exhibit I to APM's management information circular dated November 5, 2004 and is incorporated herein by reference, subject to an amendment to the Plan relating to employer tax withholding and remittance requirements approved by APM's board of directors on May 19, 2011 and described in its management information circular dated May 20, 2011. Copies of the November 5, 2004 and May 20, 2011 management information circulars can be found on SEDAR at www.sedar.com. In addition, upon request, Erdene will promptly provide a copy of the Plan free of charge to any Erdene Shareholder. To request a copy of the Plan, Shareholders should contact Michael O'Keefe at Erdene Resource Development Corporation, Suite 1480, 99 Wyse Road, Dartmouth, Nova Scotia, B3A 4S5, Telephone (902) 466-7255, Fax (902) 423-6432.

The Plan

The Plan will be administered by the board of directors of Amalco, but may be administered by a special committee of directors if one is appointed by the board of Amalco.

The aggregate number of Amalco Shares that may be reserved for issuance under the Plan shall not exceed 10% of the issued and outstanding Amalco Shares of Amalco from time to time. The number of Amalco Shares subject to an option to a participant shall be determined by the board of Amalco, but no participant shall be granted an option which exceeds the maximum number of shares permitted by the TSXV or any stock exchange on which the Amalco Shares are then listed, or other regulatory body having jurisdiction.

The exercise price of the Amalco Shares covered by each option shall be determined by the board of Amalco, provided that the exercise price shall not be less than the price permitted by the TSXV or any stock exchange on which the Amalco Shares are then listed, or other regulatory body having jurisdiction.

The maximum term of an option is 5 years, provided that participant's options expire 90 days after his ceasing to act for Amalco, except upon the death of a participant, in which case his estate shall have 12 months in which to exercise the outstanding options.

No options are transferable or assignable.

Subject to the approval of the TSXV, the board of Amalco has the discretion to amend or terminate the Plan; provided however, no amendment shall alter the terms of any outstanding options unless approval of Amalco's shareholders, or disinterested approval of Amalco's shareholders, as the case may be, is obtained.

Outstanding Amalco Options

It is anticipated that an aggregate of 2,401,977 Amalco Options will be issued pursuant to the terms of the Arrangement. See "*Options to Purchase Securities*" above.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

To the knowledge of the directors and officers of APM, Amalco will have no securities subject to escrow or contractual restrictions on transfer following the completion of the Arrangement.

RISK FACTORS

An investment in the securities of Amalco should be considered speculative due to the nature of Amalco's business, Amalco's stage of development and other factors. A prospective securityholder should carefully consider the factors set forth below. See "*Risk Factors*" in the Circular for certain considerations relevant to the Arrangement.

Exploration, Development and Mining Risks

Resource exploration, development and operations are highly speculative and characterized by a number of significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. Substantial expenditures are required to establish mineral resources and mineral reserves, to develop metallurgical processes to extract the mineral resources and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining.

The Donkin Coal Project is in the early development stage only and is without a known body of commercial ore. Development of the Donkin Coal Project would follow only if further favourable results are obtained. Until the Donkin Coal Project reaches the production stage, Amalco will not have any significant revenue and will be entirely dependent on future financings for its income. There is no guarantee that the Donkin Coal Project will ever reach the production stage.

No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. Whether a mineral deposit will be commercially viable depends on a number of factors, including but not limited to: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; mineral prices; and government regulations, including but not limited to regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot accurately be predicted, but the combination of these factors may result in Amalco not receiving an adequate return on invested capital.

Volatility of Coal Prices

The market price of coal is volatile and is affected by numerous factors that are beyond the control of Amalco. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events, as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by the operation of the Donkin Coal Project.

No Assurance of Title

While the operation of the Donkin Coal Project has registered its mineral leases with the appropriate mining authorities and has filed all pertinent information to industry standards, this should not be construed as a guarantee of title. In addition, the claims have not been legally surveyed, and therefore, the precise boundaries and locations of such claims may be in doubt and may be challenged. Amalco's properties may also be subject to prior unregistered agreements or transfers or native land claims, and title may be affected by these and other undetected defects.

Uninsurable Risks

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and Amalco and the operator of the Donkin Coal Project may decide not to take out insurance against such risks as a result of high premiums or other reasons.

Environmental and Safety Regulations and Risks

All of Amalco's operations will be subject to environmental regulations, which can make operations expensive or prohibit them altogether.

Amalco may be subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products that could occur as a result of its mineral exploration, development and production. In addition, environmental hazards may exist on a property in which Amalco directly or indirectly holds an interest that are unknown to Amalco at present that have been caused by previous or existing owners or operators of the property. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties.

To the extent Amalco is subject to environmental liabilities, the payment of such liabilities or the costs that it may incur to remedy environmental pollution would reduce funds otherwise available to it and could have a material adverse effect on Amalco. If Amalco is unable to fully remedy an environmental problem, it might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy. The potential exposure may be significant and could have a material adverse effect on Amalco.

There is no assurance that future changes in environmental regulation, if any, will not adversely affect Amalco's operations. Amalco intends to minimize potential risks and liabilities associated with pollution of the environment and the disposal of waste products by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to international environmental standards. There is also a risk that the environmental laws and regulations may become more onerous, making Amalco's operations more expensive.

Non-Operator

Amalco is a 25% owner of the Donkin Coal Project and is not the project operator. There is no assurance that the current operator, or its successor, if any, will continue with the development of the project in a manner that is beneficial, or most beneficial, to Amalco. Amalco's rights and obligations in connection with the Donkin Coal Project are subject to the terms of a joint venture agreement and a sales agency agreement with the majority owner of the Donkin Coal Project.

Future Losses and Production Expenses

There can be no assurance that significant losses will not occur in the near future or that Amalco will be profitable in the future. Amalco's operating expenses and capital expenditures may increase in subsequent years as consultants, personnel and equipment associated with advancing exploration, development and, if warranted, commercial production of the Donkin Coal Project and any other properties Amalco may acquire are added as needed.

Competition

The international coal mining industry is highly competitive and Amalco will compete with other mining companies, many of which have greater resources and experience.

Marketability

The marketability of coal owned by Amalco, or which may be acquired or discovered by Amalco, will be affected by numerous factors beyond the control of Amalco. These factors include market fluctuations, the proximity and capacity of coal markets and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting coal and environmental protection. A combination of one or more of these factors may result in Amalco not receiving an adequate return on invested capital.

Additional Funding Requirements

Substantial additional funds will be required for Amalco's financial commitments and for the establishment of any future mining operations. No assurances can be given that Amalco will be able to raise the additional funding that may be required for such activities.

Reserve and Resource Estimates

The coal reserves and resources for the Donkin Coal Project, as set forth in this Schedule in "*Donkin Coal Project*", are only estimates. No assurance can be given that the estimated coal reserves and resources will be recovered or at what rate they will be recovered.

Limited Operating History

There is no assurance that Amalco will earn profits in the future, or that profitability, if achieved, will be sustained. If Amalco does not have sufficient capital to fund its operations, it may be required to forego certain business opportunities, or be subject to having its interest diluted or lost in existing properties.

Future Capital Requirements

Amalco will require additional financing in order to grow and expand its operations. Amalco will require additional financing in order to bring the Donkin Coal Project into production. It is possible that required future financing will not be available or, if available, will not be available on favourable terms.

Dependence on Management and Employees

Shareholders of Amalco will rely upon the experience and expertise of the management and employees of Amalco and of the operator of the Donkin Coal Project. Amalco's success is dependent upon its ability to attract and retain experienced management and employees. The loss of any key personnel could have an adverse effect on Amalco.

Management of Growth

Any expansion of Amalco's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that Amalco will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it may experience. There can be no assurance that Amalco will be able to manage growth successfully. Any inability of Amalco to manage growth successfully could have a material adverse effect on Amalco's business, financial condition and results of operations.

Government Regulations

Amalco may be subject to various laws, regulations, regulatory actions and court decisions that may have negative effects on Amalco. Changes in the regulatory environment imposed upon Amalco could adversely affect the ability of Amalco to attain its corporate objectives.

Equipment Costs

The recent growth in global mining activities has created a demand for mining equipment and related supplies that is currently in excess of supply. As a result, future operations could be adversely affected if Amalco or its contractors encounter difficulties obtaining equipment, tires and other supplies on a timely basis, expansion activities, construction projects underway, production and productivity, and costs could be materially affected.

Litigation

Legal proceedings may arise from time to time in the course of Amalco's business. There have been a number of cases where the rights and privileges of mining and exploration companies have been the subject of litigation. Such litigation may be brought against Amalco in the future from time to time or Amalco may be subject to another form of litigation.

Health and Safety

Amalco's activities are and will continue to be subject to health and safety standards and regulations. Failure to comply with such requirements may result in fines and/or penalties being assessed against Amalco.

AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditor of Amalco will be KPMG, LLP Chartered Accountants, at Suite 1500, Purdy's Wharf, Tower I, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2. KPMG LLP has been the auditor of APM since March 2009.

The registrar and transfer agent for the Amalco Shares will be Computershare Investor Services Inc. at its office in Halifax, Nova Scotia.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

With the exception of the sale of APM's operating assets on June 29, 2012 to Paul Coughlan, then an officer of APM, and to a company controlled by Paul Coughlan and David Avant, then also an officer of APM, none of the directors, executive officers or principal APM Shareholders or associates or affiliates of any of these persons, had any material interest, direct or indirect, in any transactions since the beginning of the last completed financial year of APM or in any proposed transaction that, in either case, has materially affected or would materially affect Amalco or its subsidiaries. See Schedule I to the Circular of APM dated September 25, 2012, filed on SEDAR under APM's profile.

EXPERTS

Information relating to Amalco's mineral properties contained herein, in the Circular, in the documents incorporated by reference therein and in the Schedules thereto has been derived from reports prepared by the experts listed below and has been included in reliance on such person's expertise.

None of McInnes Cooper, counsel to Erdene or Lynn R. Patriquin, Donald M. Fraser or Marston & Marston Inc., each being companies or persons who have prepared reports relating to Amalco's mineral properties, or any director, officer, employee or partner thereof, as applicable, received or has received a direct or indirect interest in the property of Amalco or of any associate or affiliate of Amalco. As at the date hereof, the aforementioned persons, and the directors, officers, employees and partners, as applicable, of each of the aforementioned companies and partnerships beneficially owned, directly or indirectly, in the aggregate, less than 1% of the securities of Amalco.

None of the aforementioned persons, nor any director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships is currently expected to be elected, appointed or employed as a director, officer or employee of Amalco or of an associate or affiliate of Amalco, other than D. Suzan Frazer, partner of McInnes Cooper, who is the corporate secretary of Erdene and is the proposed corporate secretary of Amalco.

KPMG LLP, chartered accountants, reports that it is independent of Amalco within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia.

MATERIAL CONTRACTS

Following the Arrangement, the only material contracts of Amalco, including those contracts that were material contracts for APM and ERI, are as follows:

- (a) Donkin Joint Venture Agreement dated October 15, 2008, among Xstrata Coal Donkin Limited, 6531954 Canada Inc. and Xstrata Coal Donkin Management Limited with respect to the Donkin Coal Project.
- (b) Donkin Sales Agency Agreement dated October 16, 2012 among Xstrata Coal Donkin Limited, 6531954 Canada Inc., Xstrata Coal Donkin Management Limited and Xstrata Coal Marketing Limited whereby Amalco appoints Xstrata Coal Marketing Limited as its exclusive and sole agent for the sale of its coal from the Donkin Coal Project.
- (c) Loan Agreement dated September 17, 2012 between APM and John P.A. Budreski providing for a secured loan to Amalco on the Effective Date in the amount of \$250,000.

OTHER MATERIAL FACTS

To the knowledge of the directors of Erdene, there are no material facts about Amalco that are not disclosed above which are necessary in order for this Schedule to contain full, true and plain disclosure of all material facts relating to Amalco following the Arrangement, assuming the completion of the Arrangement.

MORIEN RESOURCES CORP.
AUDIT COMMITTEE CHARTER

1.0 PURPOSE

The Audit Committee ("**Committee**") is a standing committee of the board of directors ("**Board**") of Morien Resources Corp. ("**Corporation**") charged with assisting the Board in fulfilling its responsibility to the shareholders and investment community. The Committee's role is to:

- (a) serve as an independent and objective party to oversee the Corporation's accounting and financial reporting processes, internal control system and audits of its financial statements;
- (b) review and appraise the audit efforts of the Corporation 's external auditor; and
- (c) provide an open avenue of communication among the independent auditor, financial and senior management and the Board.

2.0 COMMITTEE MEMBERSHIP

- 2.1 The Board shall annually appoint a minimum of three (3) directors to the Committee, the majority of whom shall be independent of management and free from any material relationship which, in the opinion of the Board, would interfere with the director's exercise of independent judgment as a member of the Committee.
- 2.2 All members of the Committee must be financially literate or, if not financially literate at the time of their appointments, must become so within a reasonable period of time following their appointments.
- 2.3 Members of the Committee shall be appointed at the first meeting of the Board held following the annual general meeting of the Corporation.
- 2.4 Any member may resign from the Committee and may be removed and replaced by the Board at any time. A Committee member may resign by providing notice in writing or by electronic transmission to the Corporation's secretary. Such resignation shall take effect upon receipt thereof or at any later time specified therein. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.
- 2.5 A member of the Committee will automatically cease to be a member at such time as that individual ceases to be a director of the Corporation.

3.0 CHAIR OF THE COMMITTEE

- 3.1 The Board shall in each year appoint a chair of the Committee ("**Chair**") from among the members of the Committee. In the Chair's absence, or if the position is vacant, the Committee may select another member to act as interim Chair.
- 3.2 The Chair shall have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and shall, in any event, advise all other members of any decisions made or powers exercised as soon as practicable thereafter.
- 3.3 The Chair shall be responsible to:
 - (a) ensure the Committee meets regularly and performs its duties as set out herein; and
 - (b) report to the Board on the activities of the Committee.

4.0 RESPONSIBILITIES

4.1 The Committee is responsible to:

- (a) make recommendations to the Board regarding the selection and compensation of the external auditor to be engaged to prepare or issue an auditor's report or perform other audit, review or attest services for the Corporation who shall report directly to the Committee. The external auditor shall be accountable to the Board and the Committee;
- (b) obtain and review a report from the external auditor at least annually regarding:
 - (i) the external auditor's internal quality-control procedures;
 - (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the external audit firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm;
 - (iii) any steps taken to deal with any such issues; and
 - (iv) all relationships between the external auditor and the Corporation including non-audit services,
- (c) evaluate the qualifications, performance and independence of the external auditor, including considering whether the external auditor's quality controls are adequate and whether the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal auditors, if any, and to present its conclusions with respect to the external auditor to the Board;
- (d) satisfy itself of the rotation of the audit partners as required by law and consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the external auditing firm on a regular basis;
- (e) meet with the external auditor and financial management of the Corporation to review and approve the scope of the proposed audit for the current year and the audit procedures to be used;
- (f) oversee the work of the external auditor engaged to prepare or issue an auditor's report or perform other audit, review or attest services for the Corporation, including the resolution of any disagreements between management and the external auditor regarding financial reporting;
- (g) pre-approve all non-audit services to be provided to the Corporation or any of its subsidiaries by the Corporation's external auditor;
- (h) recommend to the Board the compensation of the independent auditor;
- (i) review with management and, where appropriate, the external auditor:
 - (i) the Corporation's interim and annual audited financial statements and footnotes, management's discussion and analysis and any annual or interim financial news releases before the Corporation publicly discloses this information;
 - (ii) any significant changes required in the external auditor's audit plan and any serious difficulties or disputes with management encountered during the course of the audit; and
 - (iii) other matters related to the conduct of the audit that are to be communicated to the Committee under generally accepted auditing standards;

- (j) satisfy itself that the Corporation's interim and annual audited financial statements are fairly presented in accordance with applicable Canadian generally accepted accounting principles and recommend to the Board whether the annual financial statements should be approved and included in the Corporation's annual report;
- (k) review with the external auditor and management the quality of the Corporation's accounting principles as applied in its financial reporting process and any proposed changes in accounting principles;
- (l) satisfy itself that the Corporation has implemented appropriate systems of internal control over accounting, financial reporting and the safeguarding of the Company's assets and other "risk management" functions (including the identification of significant risks and the establishment of appropriate procedures to manage those risks and the monitoring of corporate performance in light of applicable risks) affecting the Corporation's assets, management and financial and business operations and that these are operating effectively;
- (m) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and for the confidential, anonymous submission by the Corporation's employees of concerns regarding questionable accounting or auditing matters;
- (n) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation; and
- (o) perform any other activities consistent with this charter, the Corporation's By-Laws and governing law, as the Committee or the Board deems necessary or appropriate.

4.2 The Committee may delegate to one or more members the authority to pre-approve non-audit services in satisfaction of Section 4.1(g) above, provided that the pre-approval by any member to whom authority has been delegated must be presented to the Committee at its first scheduled meeting following such pre-approval.

5.0 MEETINGS

- 5.1 The Committee shall meet often as it deems necessary to carry out its responsibilities but not less frequently than quarterly.
- 5.2 No business shall be transacted by the Committee unless a quorum of the Committee is present or the business is transacted by resolution in writing signed by all members of the Committee. A majority of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number, one half of the number of members plus one shall constitute a quorum.
- 5.3 The Chairman will appoint a secretary ("**Secretary**") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a director and can be changed by simple notice from the Chair.
- 5.4 The time and place of meetings of the Committee, and the procedure in all respects of such meetings, shall be determined by the Committee, unless otherwise provided for in the By-Laws of the Corporation or otherwise determined by resolution of the Board.
- 5.5 Meetings may be held in person, by teleconferencing or by videoconferencing.
- 5.6 Any decision made by the Committee shall be determined by a majority vote of the members of the Committee present. A member will be deemed to have consented to any resolution passed or action taken at a meeting of the Committee unless the member dissents.

5.7 The approved minutes of the Committee meetings shall be circulated to the Board forthwith and shall be duly entered in the books of the Corporation.

6.0 ACCESS TO MANAGEMENT AND OUTSIDE ADVISORS

6.1 The Committee shall have full, free and unrestricted access to management and employees and to the relevant books and records of the Corporation.

6.2 The Committee may invite such other persons (e.g., the CEO, CFO, Controller) to its meetings, as it deems necessary.

6.3 The Committee shall have the authority to:

(a) retain independent accounting or other relevant advisors as it may deem necessary or appropriate to allow it to discharge its responsibilities; and

(b) set and pay the compensation of any such advisors, at the expense of the Corporation.

6.4 Any advisors retained shall report directly to the Committee.

7.0 REPORTING REQUIREMENTS

7.1 The Committee shall make regular reports to the Board, through the Chair, following meetings of the Committee.

8.0 ANNUAL REVIEW AND ASSESSMENT

8.1 The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

8.2 The Committee shall review its own performance annually

9.0 REMUNERATION

9.1 The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

SCHEDULE H

AMALCO'S UNAUDITED PRO FORMA FINANCIAL STATEMENTS

See attached

MORIEN RESOURCES CORPORATION

Pro Forma Consolidated Financial Statements

For the six months ended June 30, 2012
And year ended December 31, 2011

(Canadian dollars)
(Unaudited)

MORIEN RESOURCES CORPORATION

Pro Forma Consolidated Statement of Financial Position

As at June 30, 2012

(Canadian dollars)

(Unaudited)

	Advanced Primary	Erdene Resources	Notes	Adjustments	Pro Forma Morien Resources
	\$	\$		\$	\$
ASSETS					
Current assets:					
Cash and cash equivalents	458,900	6,829	4(a)	1,950,000	
			4(a)	(300,000)	
			4(b)	(423,335)	
			4(c)	250,000	1,942,394
Restricted cash	55,356	-			55,356
Trade and other receivables	64,293	76			64,369
Prepaid expenses	18,544	-			18,544
	597,093	6,905		1,476,665	2,080,663
Non-current assets:					
Goodwill	-	5,000,000	4(a)	(5,000,000)	-
Exploration and evaluation assets	-	20,693,468	4(a)	(2,586,519)	18,106,949
Property, plant and equipment	811,712	-			811,712
	811,712	25,693,468		(7,586,519)	18,918,661
TOTAL ASSETS	1,408,805	25,700,373		(6,109,854)	20,999,324
LIABILITIES & EQUITY					
Current liabilities:					
Trade and other payables	124,808	-			124,808
Due to shareholder	423,335	-	4(b)	(423,335)	-
	548,143	-		(423,335)	124,808
Non-current liabilities:					
Note payable to officer and director	-	-	4(c)	250,000	250,000
Deferred tax liability	-	4,916,034	4(a)	(4,916,034)	-
Derivative liability	492	-			492
	492	4,916,034		(4,666,034)	250,492
TOTAL LIABILITIES	548,635	4,916,034		(5,089,369)	375,300
EQUITY					
Share capital	3,666,882		4(a)	19,763,854	23,430,736
Contributed surplus	15,305,030				15,305,030
Accumulated other comprehensive income	29,773				29,773
Deficit	(18,141,515)				(18,141,515)
Shareholders' interest		20,784,339	4(a)	(20,784,339)	-
TOTAL LIABILITIES AND EQUITY	1,408,805	25,700,373		(6,109,854)	20,999,324

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

MORIEN RESOURCES CORPORATION

Pro Forma Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the six months ended June 30, 2012

(Canadian dollars)

(Unaudited)

	Advanced Primary	Erdene Resources	Notes	Adjustments	Pro Forma Morien Resources
	\$	\$		\$	\$
Revenue	253,338	-		-	253,338
Cost of sales	350,141	-		-	350,141
	(96,803)	-		-	(96,803)
Exploration expenses	-	168,996		-	168,996
Corporate and administration	189,179	65,576		-	254,755
Foreign exchange (gain) loss	27	-		-	27
	189,206	234,572		-	423,778
Finance income	(6,255)	(367,650)		-	(373,905)
Finance expense	15,439	-		-	15,439
Net finance income	9,184	(367,650)		-	(358,466)
Net loss	295,193	(133,078)		-	162,115
Other comprehensive (income) loss:					
Foreign currency translation difference					
arising on translation of foreign subsidiaries	(121)	-		-	(121)
Total comprehensive loss	295,072	(133,078)		-	161,994
Basic and diluted loss per share (note 6)					\$ 0.00
Basic and diluted weighted average number of shares outstanding (note 6)					49,255,990

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

MORIEN RESOURCES CORPORATION

Pro Forma Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the twelve months ended December 31, 2011

(Canadian dollars)

(Unaudited)

	Advanced Primary	Erdene Resources	Notes	Adjustments	Pro Forma Morien Resources
	\$	\$		\$	\$
Revenue	701,315	-		-	701,315
Cost of sales	3,864,866	-		-	3,864,866
	(3,163,551)	-		-	(3,163,551)
Exploration expenses	-	468,619		-	468,619
Gain on sale of property, plant and equipment	(130,256)	-		-	(130,256)
Corporate and administration	340,964	1,335,889		-	1,676,853
Foreign exchange (gain) loss	3,243	-		-	3,243
	213,951	1,804,508			2,018,459
Finance income	(52,291)	(698,188)		-	(750,479)
Finance expense	37,357	-		-	37,357
Net finance income	(14,934)	(698,188)		-	(713,122)
Income tax expense	-	12,638		-	12,638
Net loss	3,362,568	1,118,958		-	4,481,526
Other comprehensive (income) loss:					
Foreign currency translation difference					
arising on translation of foreign subsidiaries	(19,116)	-		-	(19,116)
Total comprehensive loss	3,343,452	1,118,958		-	4,462,410
Basis and diluted loss per share (note 6)					\$ 0.09
Basic and diluted weighted average					
 number of shares outstanding (note 6)					49,254,237

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

MORIEN RESOURCES CORPORATION

Notes to Pro Forma Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the Year ended December 31, 2011 and six months ended June 30, 2012

1. Basis of presentation

The accompanying unaudited pro forma consolidated statement of financial position of Morien Resources Corporation ("Morien") as at June 30, 2012 and the unaudited pro forma consolidated statements of comprehensive loss for the six month period ended June 30, 2012 and for the year ended December 31, 2011 (the "Pro Forma Statements") have been prepared in connection with a proposed arrangement agreement (the "Arrangement") whereby:

- Advanced Primary Minerals Corporation ("APM") will acquire all of the issued and outstanding shares of Erdene Resources Inc. ("ERI") by the issuance of 360,028,650 common shares of APM to ERI's parent Erdene Resource Development Corporation ("Erdene").
- APM and ERI will amalgamate to form Morien.
- On the Amalgamation of APM and ERI, each shareholder of APM (including Erdene) will receive one (1) common share of Morien for every 7.85 shares of APM owned by each shareholder.
- Erdene will distribute its Morien shares to the shareholders of Erdene on the basis of one half of one Morien share for each existing common share of Erdene.
- Each option to acquire APM shares shall be exchanged for economically equivalent options to acquire Morien shares.

The pro forma consolidated financial statements have been compiled from and include:

- An unaudited pro forma consolidated statement of financial position combining the unaudited statement of financial position of Erdene Resources as at June 30, 2012 with the unaudited statement of financial position of APM as at June 30, 2012 giving effect to the transactions as if they occurred on June 30, 2012; and
- An unaudited pro forma consolidated statement of loss and comprehensive loss combining the unaudited interim statement of loss and comprehensive loss of Erdene Resources for the six month period ended June 30, 2012 with the unaudited statement of loss and comprehensive loss for APM for the six month period ended June 30, 2012 giving effect to the transactions as if they occurred on January 1, 2011; and
- An unaudited pro forma consolidated statement of loss and comprehensive loss combining the audited statement of loss and comprehensive loss of Erdene Resources for the year ended December 31, 2011 with the audited statement of loss and comprehensive loss for APM for the year ended December 31, 2011 giving effect to the transactions as if they occurred on January 1, 2011.

The unaudited pro forma consolidated financial statements should be read in conjunction with the historical financial statements and notes thereto of Erdene Resources and APM described above.

All of the financial statements used in the preparation of these pro forma consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The unaudited pro forma consolidated financial statements have been compiled using the accounting policies set out in the audited consolidated financial statements of APM for the year ended December 31, 2011.

MORIEN RESOURCES CORPORATION

Notes to Pro Forma Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the Year ended December 31, 2011 and six months ended June 30, 2012

1. Basis of presentation (continued)

Management of APM believes the assumptions used provide a reasonable basis for presenting all of the significant effects of the transaction and the pro forma adjustments give appropriate effect to those assumptions and are appropriately applied in the unaudited pro forma consolidated financial statements.

The pro forma adjustments reflect the Arrangement and are based on available information and certain estimates and assumptions. The unaudited consolidated pro forma financial statements contain no immediate synergies or expenses that would positively or negatively impact existing operations and no assurances can be given that there will be any synergies or operating cost savings in the future. The unaudited consolidated pro forma financial statements are not indicative of the results that actually would have occurred if the events reflected therein had been in effect on the date indicated or of the results which may be obtained in the future.

The pro forma consolidated statement of financial position has been prepared using the current rate method by converting the APM statement of financial position into Canadian dollars using the June 30, 2012 exchange rate of 1.0251 Canadian dollars to one US dollar. The pro forma consolidated statements of loss and comprehensive loss have been prepared by converting the statements of loss and comprehensive loss of APM into Canadian dollars using the average exchange rate for the six month period June 30, 2012 and for the year ended December 31, 2011 of 1.0053 and 0.9887 Canadian dollars to one US dollar, respectively.

2. Significant accounting policies

These unaudited pro forma consolidated financial statements have been compiled using the significant accounting policies, as set out in the audited consolidated financial statements of APM for the years ended December 31, 2011 and 2010.

Management has determined that no adjustments are necessary to conform Erdene Resources' financial statements to the accounting policies used by APM in the preparation of the pro forma financial statements.

3. Assets acquired

Following the completion of the Arrangement, Morien will hold all of Erdene's North American property interests, consisting primarily of its 25% interest in the Donkin Coal Project, with the remaining 75% interest held by Xstrata Coal Donkin Limited ("Xstrata"). Morien will also own Erdene's aggregate interests in Guysborough County, Nova Scotia, which are early stage.

ERI does not meet the definition of a business in accordance with IFRS 3: Business Combinations, so the ERI acquisition will be accounted for as an asset acquisition. In accordance with IFRS 2: Share Based Payments, there is a rebuttable presumption that for equity-settled share-based payment transactions with parties other than employees, the fair value of the goods or services received can be reliably estimated. As such, the value of the APM shares issued in the ERI acquisition will be measured based on the fair value of the ERI assets acquired in the transaction.

MORIEN RESOURCES CORPORATION

Notes to Pro Forma Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the Year ended December 31, 2011 and six months ended June 30, 2012

3. Assets acquired (continued)

The completion of the Arrangement is subject to satisfaction of certain conditions including the approval and acceptance of the Toronto Stock Exchange and the TSX Venture Exchange and approval of Erdene shareholders, approval of the APM disinterested shareholders and the Nova Scotia Supreme Court. The Arrangement may be terminated if certain conditions are not met, with a termination fee payable in certain circumstances.

4. Pro forma assumptions and adjustments

- a) To account for the acquisition of the net assets of ERI at an estimated fair value of \$19,763,854 plus estimated transaction costs of \$300,000, as outlined in the table below:

Identifiable assets acquired and liabilities assumed	
Cash	\$ 1,956,829
Sales tax receivable	76
Exploration and evaluation assets	
Donkin	17,850,262
Black Point	256,687
	<hr/>
	\$ 20,063,854

In consideration for the assets received, APM will issue an aggregate of 360,028,650 shares to Erdene.

The value of the identifiable assets acquired and liabilities assumed is supported by a formal valuation of the range of values representing the fair market value of the ERI assets to be acquired by APM. The accounting value of the asset acquisition will ultimately be determined based on the value of the assets acquired. To the extent that the value is different, it will impact the value assigned to the exploration and evaluation assets acquired in the transaction.

- b) To account for the repayment of the shareholder loan upon the close of the transaction.
- c) To account for a \$250,000 loan from the CEO designate, John Budreski. The loan, bearing interest at commercial bank prime plus 2%, is secured by Morien's real property located in Georgia, USA and repayable three years from close of the arrangement.

MORIEN RESOURCES CORPORATION

Notes to Pro Forma Consolidated Financial Statements

(Canadian dollars)

(Unaudited)

For the Year ended December 31, 2011 and six months ended June 30, 2012

5. Pro forma share capital

	#	\$
APM shares outstanding as at June 30, 2012	26,342,963	3,666,882
Assumed number of APM shares to be issued for acquisition of ERI	360,028,650	19,763,854
Amalgamation share exchange: 1 common share of Morien for every 7.85 shares of APM	(337,115,623)	-
	49,255,990	23,430,736

6. Pro forma loss per share

For the purposes of the unaudited pro forma condensed consolidation financial statements, the loss per share has been calculated using the weighted average number of shares which would have been outstanding after giving effect to the transaction as if they had occurred on January 1, 2011.

Year ended December 31, 2011	
Actual basic weighted average number of APM share outstanding	26,341,210
Assumed number of APM common shares to be issued for acquisition of ERI	360,028,650
Amalgamation share exchange: 1 common share of Morien for every 7.85 shares of APM	(337,115,623)
Pro forma weighted average number of APM shares outstanding	49,254,237
Pro forma net loss	\$ 4,462,401
Pro forma earnings per share - basic and fully diluted	\$ (0.09)
Six months ended June 30, 2012	
Actual basic weighted average number of APM share outstanding	26,342,963
Assumed number of APM common shares to be issued for acquisition of ERI	360,028,650
Amalgamation share exchange: 1 common share of Morien for every 7.85 shares of APM	(337,115,623)
Pro forma weighted average number of APM shares outstanding	49,255,990
Pro forma net loss	\$ 161,994
Pro forma earnings per share - basic and fully diluted	\$ (0.00)

SCHEDULE I

2010 ANNUAL FINANCIAL STATEMENTS OF ERDENE RESOURCES

See attached.

ERDENE RESOURCES

Consolidated Carve-out Financial Statements

For the years ended December 31, 2010 and 2009

(Audited)



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INDEPENDENT AUDITORS' REPORT

To the Directors of Erdene Resource Development Corporation

We have audited the accompanying consolidated carve-out financial statements of Erdene Resources, which comprise the consolidated carve-out balance sheets as at December 31, 2010, December 31, 2009 the consolidated carve-out statements of income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management of Erdene Resource Development Corporation is responsible for the preparation and fair presentation of these consolidated carve-out financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated carve-out financial statements present fairly, in all material respects, the carve-out financial position of Erdene Resources as at December 31, 2010 and December 31, 2009 and its carve-out financial performance and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated carve-out financial statements which indicates that Erdene Resources has no sources of operating cash flows and its future viability is dependent on the ability to secure equity financing or monetizing assets. These conditions, along with other matters as set forth in Note 2 in the consolidated carve-out financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Erdene Resources' ability to continue as a going concern.

Without modifying our opinion, we also draw attention to Note 1 to the consolidated carve-out financial statements which indicates that the consolidated carve-out financial statements present aggregated financial information of various business activities of Erdene Resource Development Corporation ("carve-out business") and that in preparing the consolidated carve-out financial statements common expenses have been allocated to the carve-out business using the method of allocation described in Note 1 to the consolidated carve-out



statements. The consolidated carve out financial statements may not necessarily be indicative of the results that would have been achieved if the carve-out business had operated as an independent entity.

KPMG LLP

Chartered Accountants
September 25, 2012
Halifax, Canada

ERDENE RESOURCES

Consolidated Carve-out Balance Sheets

(Canadian dollars)

(Audited)

	Notes	December 31,	
		2010	2009
ASSETS			
CURRENT			
Cash		\$ 6,875	\$ 3,739
Sales tax receivable		20	216
		6,895	3,955
Goodwill		5,000,000	5,000,000
Resource property interests	5	19,846,030	18,747,002
TOTAL ASSETS		\$ 24,852,925	\$ 23,750,957
LIABILITIES & EQUITY			
Future tax liability	6	\$ 4,916,034	\$ 4,966,113
Shareholder's interest	8	19,936,891	18,784,844
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		\$ 24,852,925	\$ 23,750,957

Nature of operations and going concern (Note 2)

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

ERDENE RESOURCES

Consolidated Carve-out Statements of Income

(Canadian dollars)

(Audited)

	For the year ended	
	December 31,	
	2010	2009
Exploration expenses	\$ 232,837	\$ 98,959
Corporate and administration	561,744	325,227
Loss from operating activities	794,581	424,186
Interest income	780,132	781,158
Income tax expense	19,920	22,599
Deferred tax recovery	(50,079)	-
Net tax expense (recovery)	(30,159)	22,599
Net income	\$ 15,710	\$ 334,373
Basic and diluted earnings per share	\$ 0.00	\$ 0.01
Basic and diluted weighted average number of shares outstanding	30,284,107	30,284,107

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

ERDENE RESOURCES

Consolidated Carve-out Statements of Changes in Equity

For the years ended December 31, 2010 and 2009

(Canadian dollars)

(Audited)

	Shareholder's interest
Balance at January 1, 2009	\$ 17,721,632
Funding provided by Erdene Resource Development Corporation	728,839
Share-based payments allocated to the Company by Erdene Resource Development Corporation	40,568
Net income for the period	293,805
Balance at December 31, 2009	\$ 18,784,844
Funding provided by Erdene Resource Development Corporation	1,136,337
Share-based payments allocated to the Corporation by Erdene Resource Development Corporation	133,937
Net loss for the period	(118,227)
Balance at December 31, 2010	\$ 19,936,891

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

ERDENE RESOURCES

Consolidated Carve-out Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(Canadian dollars)

(Audited)

	For the year ended December 31,	
	2010	2009
Cash provided by (used in):		
Operating activities		
Net income	\$ 15,710	\$ 334,373
Items not involving cash:		
Depreciation and amortization	4,835	5,243
Write-off of property and equipment	-	10,767
Stock-based compensation	133,937	40,568
Interest income	(780,132)	(781,158)
Future income tax recovery	(50,079)	-
Change in non-cash working capital	196	(235,701)
	<u>\$ (675,533)</u>	<u>\$ (625,908)</u>
Financing activities		
Financing provided by		
Erdene Resource Development Corporation	\$ 1,777,697	\$ 1,464,186
	<u>\$ 1,777,697</u>	<u>\$ 1,464,186</u>
Investing activities		
Expenditures on resource property interests and evaluation assets	\$ (1,099,028)	\$ (834,576)
	<u>\$ (1,099,028)</u>	<u>\$ (834,576)</u>
Increase in cash	\$ 3,136	\$ 3,702
Cash, beginning of period	3,739	37
Cash, end of period	<u>\$ 6,875</u>	<u>\$ 3,739</u>
Supplementary cash flow information:		
Income taxes paid	19,920	22,599
Interest paid	-	-

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

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

1 Incorporation and basis of presentation

Erdene Resources Inc. (“ERI”) was formed by amalgamation June 12, 2006 and is domiciled in Canada. The Corporation is a wholly-owned subsidiary of Erdene Resource Development Corporation (“Erdene”). The address of the Corporation’s registered office is Purdy’s Wharf Tower II, Suite 1300, 1969 Upper Water Street, Halifax, Nova Scotia, B3J 3R7.

On August 8, 2012, ERI and Erdene entered into an agreement with Advanced Primary Minerals Corporation (“APM”), pursuant to which APM will acquire, by way of a court approved plan of arrangement (the “Arrangement”), the issued and outstanding shares of ERI. After completing the Arrangement, APM will hold ERI’s 25% interest in the Donkin coal project in Cape Breton, Nova Scotia and 100% of its construction aggregate interests in Guysborough County, Nova Scotia (collectively the “projects”). The Arrangement is subject to approval at special meetings of Erdene and APM shareholders scheduled for October 26, 2012.

The consolidated carve-out financial statements of Erdene Resources (“Erdene Resources” or the “Entity”) are prepared in accordance with Canadian Generally Accepted Accounting Principles (“CGAAP”).

These consolidated carve-out financial statements reflect the assets, liabilities, operations, and cash flows of Erdene Resources, on a continuity of interest basis of accounting with the balance sheet amounts based on the amounts previously recorded by Erdene Resource Development Corporation. They comprise the balance sheets, statements of income, changes in equity and cash flows as if Erdene Resources had been an independent operator during the periods presented. The consolidated carve-out statements of income for the years ended December 31, 2010 and 2009 include the direct general and administrative expenses incurred by Erdene Resources and Erdene on the projects and a pro-rata allocation of Erdene’s general and administrative expenses incurred in each of these periods. The allocation of all corporate and administrative expenses not directly chargeable to the Entity was estimated by using the percentage derived from the ratio of total exploration expenditures incurred on the Donkin and aggregate projects over Erdene’s total exploration expenditures as follows: for the years ended December 31, 2010 – 31% and 2009 – 22%. All exploration expenditures incurred by Erdene and its subsidiaries directly attributable to the projects and not directly charged to Erdene Resources was also allocated to exploration expenditures in preparing these consolidated carve-out financial statements. Erdene’s funding of the carved out exploration assets and liabilities and past operations is presented as shareholder’s interest on the statements of financial position. It is management’s opinion that the methods used are practical and reasonable methods of allocation of assets, liabilities and expenses to Erdene Resources.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

2. Nature of operations and going concern

The Entity is an exploration stage company primarily focused on the development of coal and industrial mineral interests in Nova Scotia, Canada. The Entity is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Entity experienced significant losses and negative cash flows from operations in 2010 and 2009. Erdene Resources has an ongoing requirement for investment to fund development of its projects. Erdene Resources expects to receive additional funding from the successful completion and closing of the Arrangement and thereafter expects to raise additional financing to support future investing and operating activities. There can be no assurance as to the availability or terms upon which such financing might be available. Under the Arrangement, ERI will be capitalized with approximately \$1.4 million of cash. Operations for the years ended December 31, 2010 and 2009 were funded entirely by Erdene.

The ability of the Entity to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Entity's ongoing exploration programs. There is no certainty that the Entity will be able to raise funds as they are required in the future.

These consolidated carve-out financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes the Entity will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Based on the above, management is aware, in making its assessment, of material uncertainties related to events or conditions that cast substantial doubt upon the Entity's ability to continue as a going concern.

These consolidated carve-out financial statements do not reflect the adjustments to the carrying value of assets and liabilities that would be necessary if the Entity were unable to continue as a going concern and realize its assets or discharge its obligations in anything other than the ordinary course of operations.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

3. Summary of significant accounting policies

(a) Principles of consolidation

These consolidated carve-out financial statements are presented in Canadian dollars and include the accounts of the ERI and its wholly owned subsidiary 6531954 Canada Limited. Inter-company accounts and transactions have been eliminated.

(b) Use of estimates

The preparation of the carve-out financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years presented. Significant estimates and assumptions are outlined below. While management believes that these estimates and assumptions are reasonable, actual results could differ.

Critical accounting estimates

- The allocation of amounts from Erdene have been determined on the basis outlined in Note 1 which was subject to management's judgment in determining which expenses should be directly associated with the projects to be transferred and those which should be allocated based on expenditures incurred. Any changes in the amount of the allocation would impact the income for each period presented;
- Estimates of site restoration costs require the Entity to estimate the future costs associated with settlement of the obligation and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change;
- The estimated value of the deferred exploration and evaluation assets recorded in the balance sheets.

(c) Financial instruments

The Entity's financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings. Held-to-maturity financial assets, loans and receivables and other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

The following is a summary of the classification of the Entity's financial assets and liabilities:

- (i) Cash, consisting of deposits in banks are classified as held-for-trading and are measured at fair value.

(d) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Entity's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is tested for impairment annually. The fair value of each reporting unit that includes goodwill is compared to the total carrying amount (including goodwill) of that reporting unit. If the fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value is less than the carrying value, the fair value of the assets and liabilities within the reporting unit are estimated. The difference between the fair value of the assets and liabilities within the reporting unit and the fair value of the entire reporting unit represents the deemed fair value of the goodwill of the reporting unit. When the carrying value of goodwill exceeds the deemed fair value, the excess is charged to earnings in the period in which the impairment is determined.

Goodwill from the Donkin project acquisition by Erdene has been allocated for purposes of preparing these consolidated carve-out financial statements.

(e) Resource property interests

All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has good potential for an economically recoverable resource, in which case subsequent exploration costs and the costs incurred to develop a property will be capitalized. When a resource property is brought into commercial production, the capitalized costs of that property will be depleted over the estimated economic life of the property.

Gains or losses are recognized on property dispositions when the value of the consideration received exceeds or is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the costs, the excess is credited to operations. The aggregate costs related to abandoned properties are charged to operations.

The Entity reviews the carrying values of its resource property interests on a regular basis by reference to the project economics, including the timing of the exploration and/or

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

3. Summary of significant accounting policies (continued)

(e) Resource property interests (continued)

development work, the work programs and exploration results. When the carrying value of a property exceeds its estimated net recoverable amount, an impairment provision is made.

(f) Income taxes

The Entity uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is provided when it is more likely than not that a future tax asset will not be recognized.

(g) Stock-based compensation

Erdene Resources has recorded allocated stock-based compensation expense related to Erdene's stock-based compensation plan. Erdene accounts for all stock-based payments to non-employees and employee awards that are direct awards of stock using the fair value based method. Under the fair value based method, compensation cost attributable to awards to employees is measured at fair value at the grant date. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable at the measurement date.

(h) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge

is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(i) Earnings per share

The Entity presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Entity by the weighted average number of common shares outstanding during the period. The Entity has not issued any dilutive instruments.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

3. Summary of significant accounting policies (continued)

(j) International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board confirmed that January 1, 2011 is the changeover date for publically accountable enterprises to use IFRS. This transition date will require the restatement of amounts reported by the Entity for the year ended December 31, 2010, in order to provide comparative information under IFRS for 2011 interim and annual reports. The Entity will prepare its first consolidated financial statements in accordance with IFRS for the quarter ended March 31, 2011.

4. Financial risk management

Credit risk

The Entity's credit risk is primarily attributable to cash. Cash consists of bank deposits. The Entity manages credit risk by holding the majority of its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Liquidity risk

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

Market risk

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

a) Interest rate risk

The Entity has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The Entity has no foreign operations and is not exposed to any significant foreign currency risk.

c) Price risk

The Entity is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Entity has no significant revenues.

5. Resource property interests

The Entity capitalizes acquisition costs on all properties and is also capitalizing exploration expenses incurred on its Donkin project. The Entity's interest in the Donkin Coal Project is held through Erdene Resources Inc.'s wholly owned subsidiary 6531954 Canada Limited.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

5. Resource property interests (continued)

The cost of resource property interests as at December 31, 2010 and 2009 are as follows:

	Donkin Coal
Balance, January 1, 2009	\$ 17,912,426
Additions	834,576
Balance, December 31, 2009	\$ 18,747,002
Balance, January 1, 2010	\$ 18,747,002
Additions	1,099,028
Balance, December 31, 2010	\$ 19,846,030

a) Donkin

The Entity is a 25% joint venture partner in the Donkin Joint Venture (“DJV”) with Xstrata Coal Donkin Limited (“XCDL”). The DJV was formed to secure the rights to the Donkin Coal Project and to explore, assess, study and, if feasible, develop the high-grade Donkin coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia.

Pursuant to the Joint Venture Agreement, the Entity funded \$10 million in qualifying Canadian Exploration Expenditures (“CEE”) during the exploration program of the Donkin Coal Project. The Entity is responsible to fund 25% of expenditures above \$10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To December 31, 2010, the Entity has advanced a total of \$13,794,703 (2009 - \$12,695,676) in order to meet its commitment. The first \$10 million of the Entity’s capital obligation, upon a positive development decision, will be funded by XCDL.

b) Aggregate:

Erdene continues to explore development opportunities related to crushed stone for export to markets along the eastern seaboard of North America and the Caribbean area. Erdene is in the early stages of an aggregate project in eastern Nova Scotia.

6. Income taxes

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2010 and 2009 are presented below:

	2010	2009
Future tax assets		
Non-capital loss carry forwards	\$ 190,449	\$ 216,290
Intangible assets	109,320	109,320
	299,769	325,610
Less valuation allowance	(249,690)	(278,870)
Net future tax asset	50,079	46,740
Less future tax liabilities		
Resource properties and deferred exploration costs	(4,966,113)	(5,012,853)
Net future tax liabilities	\$ (4,916,034)	\$ (4,966,113)

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

6. Income taxes (continued)

Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 34.0% (2009 - 35.0%) to income before taxes as follows:

	2010	2009
Statutory tax rates	34%	35%
Income taxes (recovery) computed at the statutory rates	\$ (4,913)	\$ 124,940
Expenses not deductible for tax purposes	45,538	14,198
Change in valuation allowance	(29,180)	2,835
Other	(41,604)	(119,374)
Provision for income taxes	\$ (30,159)	\$ 22,599

Included in the determination of total gross tax assets are Canadian non-capital loss carry-forwards of approximately \$541,874 which expire substantially between 2013 and 2030.

7. Capital management

The Entity considers its capital structure to be shareholder's interest which as at December 31, 2010 was \$19,936,891 (December 31, 2009 - \$18,784,844). The Entity's objective when managing capital is to maintain adequate levels of funding to support the exploration and development of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities. Operations for the years ended December 31, 2010 and 2009 were funded entirely by Erdene.

The properties in which the Entity currently has interest are in the exploration stage; as such, the Entity is dependent on its parent company which is dependent on external financing, primarily equity financing, to fund its activities. There can be no assurance that the Entity will be able to continue to raise capital in this manner. To carry out the planned exploration and development and fund administrative costs, the Entity will raise additional amounts as needed.

The Entity is not subject to externally imposed capital requirements.

8. Shareholder's interest

Share capital

The Entity has an unlimited number of class A and class B common shares authorized for issue without par value. The number of common shares outstanding at December 31, 2010 and 2009 are as follows:

	Number of shares	Amount
Class A common shares	12,979,952	\$ 19,627,007
Class B common shares	9,326,500	\$ 10,657,100
	22,306,452	\$ 30,284,107

Stock options and share-based payments

Erdene Resources does not currently have a stock option plan.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

Years ended December 31, 2010 and 2009

8. Shareholder's interest (continued)

Stock options and share-based payments

Erdene had previously issued options to its employees, directors, officers, and certain service providers. The share-based payments expense recorded by Erdene in its financial statements has been recognized in Erdene Resources' consolidated carve-out financial statements pro-rata based on the percentage of exploration expenditures on the projects as compared to total exploration expenditures by Erdene.

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

	Year Ended December		Year Ended December	
	31, 2010		31, 2009	
Exercise price	\$	0.58	\$	0.30
Risk-free interest rate		3.0%		2.4%
Expected life		5 years		5 years
Expected volatility		88%		77%
Expected dividends		0.0%		0.0%

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

SCHEDULE J

2011 ANNUAL AND INTERIM FINANCIAL STATEMENTS OF ERDENE RESOURCES

See attached.

ERDENE RESOURCES

Consolidated Carve-out Financial Statements

For the years ended December 31, 2011 and 2010

(Audited)

For the three and six months ended June 30, 2012 and 2011

(Unaudited)

(Canadian dollars)



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INDEPENDENT AUDITORS' REPORT

To the Directors of Erdene Resource Development Corporation

We have audited the accompanying consolidated carve-out financial statements of Erdene Resources, which comprise the consolidated carve-out statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated carve-out statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated carve-out financial statements present fairly, in all material respects, the consolidated carve-out financial position of Erdene Resources as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated carve-out financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated carve-out financial statements which indicates that Erdene Resources has no sources of operating cash flows and its future viability is dependent on the ability to secure equity financing or monetizing assets. These conditions, along with other matters as set forth in Note 2 in the consolidated carve-out financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Erdene Resources' ability to continue as a going concern.

Without modifying our opinion, we also draw attention to Note 1 to the consolidated carve-out financial statements which indicates that the consolidated carve-out financial statements present aggregated financial information of various business activities of Erdene Resource Development Corporation ("carve-out business") and that in preparing the consolidated carve-out financial statements common expenses have been allocated to



the carve-out business using the method of allocation described in Note 1 to the consolidated carve-out statements. The consolidated carve out financial statements may not necessarily be indicative of the results that would have been achieved if the carve-out business had operated as an independent entity.

KPMG LLP

Chartered Accountants
September 25, 2012
Halifax, Canada

ERDENE RESOURCES

Consolidated Carve-out Statements of Financial Position (Canadian dollars)

	Notes	June 30, 2012 (unaudited)	December 31, 2011 (audited)	December 31, 2010 (audited) (Note 13)	January 1, 2010 (audited) (Note 13)
ASSETS					
CURRENT					
Cash		\$ 6,829	\$ 6,829	\$ 6,875	\$ 3,739
Sales tax receivable		76	-	20	216
		6,905	6,829	6,895	3,955
Goodwill	7	5,000,000	5,000,000	5,000,000	5,000,000
Exploration and evaluation assets	8	20,693,468	21,022,243	19,846,030	18,747,002
TOTAL ASSETS		\$ 25,700,373	\$ 26,029,072	\$ 24,852,925	\$ 23,750,957
LIABILITIES & EQUITY					
Deferred income tax liability	9	\$ 4,916,034	\$ 4,916,034	\$ 4,916,034	\$ 4,966,113
Shareholder's interest	11	20,784,339	21,113,038	19,936,891	18,784,844
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		\$ 25,700,373	\$ 26,029,072	\$ 24,852,925	\$ 23,750,957

Nature of operations and going concern (Note 2)

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

ERDENE RESOURCES

Consolidated Carve-out Statements of Loss and Comprehensive Loss

For the years ended December 31, 2011 and 2010 (audited)

For the three and six months ended June 30, 2012 and 2011 (unaudited)

(Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)	2011 (audited)	2010 (audited)
Exploration expenses	\$ 93,253	\$ 99,364	\$ 168,996	\$ 156,028	\$ 468,619	\$ 232,837
Corporate and administration	26,607	120,459	65,576	878,530	1,335,889	561,744
Loss from operating activities	119,860	219,823	234,572	1,034,558	1,804,508	794,581
Interest income	183,825	174,547	367,650	349,094	698,188	780,132
Income tax expense	-	16,896	-	16,896	12,638	19,920
Deferred tax recovery	-	-	-	-	-	(50,079)
Net tax expense (recovery)	-	16,896	-	16,896	12,638	(30,159)
Net income (loss) and comprehensive income (loss)	\$ 63,965	\$ (62,172)	\$ 133,078	\$ (702,360)	\$ (1,118,958)	\$ 15,710
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.02)	\$ (0.04)	\$ 0.00
Basic and diluted weighted average number of shares outstanding	30,284,107	30,284,107	30,284,107	30,284,107	30,284,107	30,284,107

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

ERDENE RESOURCES

Consolidated Carve-out Statements of Changes in Equity

For the years ended December 31, 2011 and 2010 (audited)

For the six months ended June 30, 2012 (unaudited)

(Canadian dollars)

	Shareholder's interest
Balance at January 1, 2010	\$ 18,784,844
Funding provided by Erdene Resource Development Corporation	1,136,337
Share-based payments allocated to the Company by Erdene Resource Development Corporation	133,937
Net loss for the period	(118,227)
Balance at December 31, 2010	\$ 19,936,891
Funding provided by Erdene Resource Development Corporation	2,295,105
Share-based payments allocated to the Corporation by Erdene Resource Development Corporation	848,307
Net loss for the period	(1,967,265)
Balance at December 31, 2011	\$ 21,113,038
Funding provided by Erdene Resource Development Corporation	(461,777)
Share-based payments allocated to the Corporation by Erdene Resource Development Corporation	306
Net income for the period	132,772
Balance at June 30, 2012	\$ 20,784,339

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

ERDENE RESOURCES

Consolidated Carve-out Statements of Cash Flows

For the years ended December 31, 2011 and 2010 (audited)
 For the six months ended June 30, 2012 and 2011 (unaudited)
 (Canadian dollars)

	Notes	For the six months ended June 30,		For the year ended December 31,	
		2012 (unaudited)	2011 (unaudited)	2011 (audited)	2010 (audited)
Cash provided by (used in):					
Operating activities					
Net income (loss)		\$ 133,078	\$ (702,360)	\$ (1,118,958)	\$ 15,710
Items not involving cash:					
Depreciation and amortization		1,380	2,042	5,744	4,835
Share-based payments		306	656,958	848,307	133,937
Interest income		(367,650)	(349,094)	(698,188)	(780,132)
Deferred tax recovery		-	-	-	(50,079)
Change in non-cash working capital		(76)	(311)	20	196
		\$ (232,962)	\$ (392,765)	\$ (963,075)	\$ (675,533)
Financing activities					
Financing provided by					
Erdene Resource Development Corporation		\$ (95,813)	\$ 952,505	\$ 2,139,242	\$ 1,777,697
		\$ (95,813)	\$ 952,505	\$ 2,139,242	\$ 1,777,697
Investing activities					
(Expenditures on) recovery of exploration and evaluation assets	8	\$ 328,775	\$ (559,728)	\$ (1,176,213)	\$ (1,099,028)
		\$ 328,775	\$ (559,728)	\$ (1,176,213)	\$ (1,099,028)
Increase (decrease) in cash		\$ -	\$ 12	\$ (46)	\$ 3,136
Cash, beginning of period		6,829	6,829	6,875	3,739
Cash, end of period		\$ 6,829	\$ 6,841	\$ 6,829	\$ 6,875

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

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

As at and for the years ended December 31, 2011 and 2010 (audited)

As at June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 (unaudited)
(Canadian dollars)

1. Incorporation and basis of presentation:

Erdene Resources Inc. (“ERI”) was formed by amalgamation June 12, 2006 and is domiciled in Canada. The Corporation is a wholly-owned subsidiary of Erdene Resource Development Corporation (“Erdene”). The address of the Corporation’s registered office is Purdy’s Wharf Tower II, Suite 1300, 1969 Upper Water Street, Halifax, Nova Scotia, B3J 3R7.

On August 8, 2012, ERI and Erdene entered into an agreement with Advanced Primary Minerals Corporation (“APM”), pursuant to which APM will acquire, by way of a court approved plan of arrangement (the “Arrangement”), the issued and outstanding shares of ERI.

After completing the Arrangement, APM will hold ERI’s 25% interest in the Donkin coal project in Cape Breton, Nova Scotia and 100% of its construction aggregate interests in Guysborough County, Nova Scotia (collectively the “projects”). The Arrangement is subject to approval at special meetings of Erdene and APM shareholders.

These consolidated carve-out financial statements reflect the assets, liabilities, operations, and cash flows of Erdene Resources, on a continuity of interest basis of accounting with the statements of financial position amounts based on the amounts previously recorded by Erdene Resources Development Corporation. They comprise the statements of financial position, loss and comprehensive loss, changes in equity and cash flows as if Erdene Resources had been an independent operator during the periods presented. The consolidated carve-out statements of loss and comprehensive loss for the three and six months ended June 30, 2012 and 2011 and for the years ended December 31, 2011 and 2010 include the direct general and administrative expenses incurred by Erdene Resources and Erdene on the projects and a pro-rata allocation of Erdene’s general and administrative expenses incurred in each of these periods. The allocation of all corporate and administrative expenses not directly chargeable to Erdene Resources was estimated by using the percentage derived from the ratio of total exploration expenditures incurred on the Donkin and aggregate projects over Erdene’s total exploration expenditures as follows: for the years ended December 31, 2011 – 27% and 2010 – 31%, and for the three and six months ended June 30, 2012 – 10% and June 30, 2011 – 21%. All exploration expenditures incurred by Erdene and its subsidiaries directly attributable to the projects and not directly charged to Erdene Resources was also allocated to exploration expenditures in preparing these consolidated carve-out financial statements. Erdene’s funding of the carved out exploration assets and liabilities and past operations is presented as shareholder’s interest on the statements of financial position. It is management’s opinion that the methods used are practical and reasonable methods of allocation of assets, liabilities and expenses to Erdene Resources.

The consolidated carve-out financial position as at June 30, 2012 and the results of operations and cash flows for the three and six months ended June 30, 2012 and 2011 are unaudited. The unaudited consolidated carve-out financial statements, in the opinion of management, contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial information for such unaudited periods and the accounting policies applied therein are consistent with those utilized for the years ended December 31, 2011 and 2010.

ERDENE RESOURCES

Notes to Consolidated Carve-out Financial Statements

As at and for the years ended December 31, 2011 and 2010 (audited)

As at June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 (unaudited)
(Canadian dollars)

1. Incorporation and basis of presentation (continued):

The consolidated carve-out financial information included herein may not necessarily reflect the financial position, results of operations or cash flows of Erdene Resources in the future or what the financial position, results of operations or cash flows of Erdene Resources would have been if it had been a separate, stand-alone publicly-held company during the periods presented.

2. Nature of operations and going concern:

The Entity is an exploration stage company primarily focused on the development of coal and industrial mineral interests in Nova Scotia, Canada. The Entity is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Entity experienced significant losses and negative cash flows from operations in 2011 and 2010. Erdene Resources has an ongoing requirement for investment to fund development of its projects. Erdene Resources expects to receive additional funding from the successful completion and closing of the Arrangement and thereafter expects to raise additional financing to support future investing and operating activities. There can be no assurance as to the availability or terms upon which such financing might be available. Under the Arrangement, the Entity will be capitalized with approximately \$1.4 million of cash. Operations for the years ended December 31, 2011 and 2010 and the six months ended June 30, 2012 were funded entirely by Erdene.

The ability of the Entity to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions, legal restrictions, and the results of the Entity's ongoing exploration programs. There is no certainty that the Entity will be able to raise funds as they are required in the future.

These consolidated carve-out financial statements have been prepared on a going concern basis, which assumes the Entity will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Based on the above, management is aware, in making its assessment, of material uncertainties related to events or conditions that cast substantial doubt upon the Entity's ability to continue as a going concern because at June 30, 2012.

These consolidated carve-out financial statements do not reflect the adjustments to the carrying value of assets and liabilities that would be necessary if the Entity were unable to continue as a going concern and realize its assets or discharge its obligations in anything other than the ordinary course of operations.

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(Canadian dollars)

3. Basis of presentation and first-time adoption of IFRS:

a) Statement of compliance

The consolidated carve-out financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated carve-out financial statements of the Entity were their first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied. An explanation of how the transition to IFRS has affected the reported carve-out financial position, financial performance and cash flows to that of the carve-out financial statements of the Entity prepared where the underlying financial reporting framework was pre-transition Canadian Generally Accepted Accounting Principles for public companies is provided in Note 13.

The consolidated carve-out financial statements were authorized for issue by the Board of Directors on September 25, 2012.

b) Basis of measurement

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

Items included in the underlying financial statements of each of the Erdene Resources' subsidiaries are measured using the currency of the primary economic environment in which the Entity operates (the "functional currency"). The consolidated carve-out financial statements are presented in Canadian dollars, which is the functional and presentation currency of Erdene Resources.

c) Use of estimates and judgments

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

Critical accounting estimates

- Estimates of site restoration costs require the Entity to estimate the future costs associated with settlement of the obligation and discount rates applied. Such estimates are necessarily calculated with reference to external sources, all of which are subject to annual review and change.
- The estimated value of the deferred exploration and evaluation assets recorded in the statements of financial position; and
- Estimates of the asset's recoverable amount for non-financial assets, being the greater of value in use and fair value less costs to sell, which requires the Entity to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate net present value.

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Notes to Consolidated Carve-out Financial Statements

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(Canadian dollars)

3. Basis of presentation and first-time adoption of IFRS (continued):

c) Use of estimates and judgments (continued)

Critical accounting judgments

- The allocation of amounts from Erdene have been determined on the basis outlined in Note 1 which was subject to management's judgment in determining which expenses should be directly associated with the projects to be transferred and those which should be allocated based on expenditures incurred. Any changes in the amount of the allocation would impact the comprehensive loss for each period presented;
- Applying judgment in determining whether technical feasibility and commercial viability can be demonstrated for the mineral properties. Once technical feasibility and commercial viability of a property can be demonstrated, exploration and evaluations assets will be reclassified to development properties and are subject to different accounting treatment; and

4. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated carve-out financial statements and in preparing the opening IFRS consolidated carve-out statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by all subsidiaries of the Entity.

a) Basis of consolidation

The consolidated carve-out financial statements include those of Erdene Resources Inc. and its wholly-owned subsidiary, 6531954 Canada Limited.

i) Business combinations

The Entity measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Entity elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Entity incurs in connection with a business combination are expensed as incurred.

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Notes to Consolidated Carve-out Financial Statements

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(Canadian dollars)

4. Summary of significant accounting policies (continued):

a) Basis of consolidation (continued)

ii) Subsidiaries

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

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

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

iii) Transactions eliminated on consolidation

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

b) Financial instruments

i) Financial assets

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

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

The Entity has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables comprise trade and sales tax receivable and cash.

Cash comprises cash on hand and demand deposits.

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(Canadian dollars)

4. Summary of significant accounting policies (continued):

c) Exploration and evaluation assets

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

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

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

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

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

d) Impairment

i) Financial assets (including receivables)

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Entity on terms that the Entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

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(Canadian dollars)

4. Summary of significant accounting policies (continued)

d) Impairment (continued)

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

e) Income taxes

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

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

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

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

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

f) Share-based payments

Erdene Resources does not currently have a stock option plan.

Erdene had previously issued options to its employees, directors, officers, and certain service providers. The share-based payments expense recorded by Erdene in its financial statements has been recognized

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Notes to Consolidated Carve-out Financial Statements

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(Canadian dollars)

4. Summary of significant accounting policies (continued)

f) Share-based payments (continued)

in the Entity's financial statements pro-rata based on the percentage of exploration expenditures on the projects as compared to total exploration expenditures by Erdene.

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

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

g) Earnings per share

The Entity presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Entity by the weighted average number of common shares outstanding during the period. The Entity has not issued any dilutive instruments.

5. Future changes in accounting policies

IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB on November 12, 2009, addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 ("IAS 39") for debt instruments with a mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Entity has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

IAS 1, Presentation of Financial Statements, was amended to revise the presentation of other comprehensive income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Entity has not early adopted the amendments to IAS 1 and is currently evaluating the impact on its financial statements.

The following IFRS standards have been recently issued by the IASB: IFRS 13 *Fair Value Measurement*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 19 *Employee Benefits*. The Entity is assessing the impact of these new standards, but does not expect them to have a significant effect on the consolidated financial statements.

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(Canadian dollars)

5. Future changes in accounting policies (continued)

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* was issued in October 2011, and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that the stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRIC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. The Entity intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The impact of adoption of IFRIC 20 has not yet been determined.

6. Financial instruments

Credit Risk:

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

	Carrying Amount			
	June 30, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Cash	\$ 6,829	\$ 6,829	\$ 6,875	\$ 3,739

The Entity manages credit risk by holding its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Liquidity Risk:

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

Market Risk:

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

a) Interest rate risk

The Entity has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The Entity has no foreign operations and is not exposed to any significant foreign currency risk.

c) Price risk

The Entity is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Entity has no significant revenues.

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Notes to Consolidated Carve-out Financial Statements

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(Canadian dollars)

6. Financial instruments (continued)

Fair Value

The following items shown in the consolidated statement of financial position as at June 30, 2012, December 31, 2011 and 2010, and January 1, 2010, are measured at fair value on a recurring basis using level 1 inputs. The fair value of the financial assets and liabilities at December 31, 2011, using level 2 and 3 inputs, was \$nil (December 31, 2010 – \$nil; January 1, 2010 – \$nil). During the years ended December 31, 2011 and 2010, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

	June 30, 2012		December 31, 2011		December 31, 2010		January 1, 2010
Cash	\$ 6,829	\$	6,829	\$	6,875	\$	3,739

Cash consist of bank balances and is classified in level 1, as measurement inputs are derived from observable, unadjusted quoted prices in active markets. Due to their short-term nature, the carrying value of cash approximates their fair value.

7. Goodwill

For the purpose of impairment testing, goodwill is allocated to the Erdene Resources' cash-generating unit which represents the lowest level within the Entity at which the goodwill is monitored for internal management purposes. For the purpose of impairment testing, the entire amount of goodwill is allocated to the Donkin project.

The Donkin cash-generating unit's impairment test was based on fair value less costs to sell.

As the Donkin Coal project is still in the pre-development stage, the discounted cash flow model utilized by Erdene Resources includes the following significant assumptions: expected future capital costs to develop the project; expected future operating costs; production commencing in 2014 and continuing to 2035; and estimates of the future selling price of the coal resources. Note that the assumptions used by Erdene Resources are based on expected future costs and expected future realized pricing for the coal resources and the actual costs and realized pricing of the coal resources may differ from those used by Erdene Resources and those differences may be material. The cash flows have been discounted using a post-tax discount rate of 8%. The after-tax net present value of the Donkin Coal project provides a value of approximately \$265M for Erdene Resources' interest in the project as compared to a carrying amount of approximately \$26M for the cash generating unit as at December 31, 2011. While there are significant assumptions used in the determination of the estimated fair value less costs to sell that may not be realized, Erdene Resources does not believe there is an impairment of the cash generating unit for any periods presented in the consolidated carve-out financial statements.

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8. Exploration and evaluation assets

	Donkin Coal
Balance, January 1, 2010	\$ 18,747,002
Additions	1,099,028
Balance, December 31, 2010	<u>\$ 19,846,030</u>
Balance, January 1, 2011	\$ 19,846,030
Additions	1,176,213
Balance, December 31, 2011	<u>\$ 21,022,243</u>
Balance, January 1, 2012	\$ 21,022,243
Recovery	(328,775)
Balance, June 30, 2012	<u>\$ 20,693,468</u>

a) Donkin:

The Entity's interest in the Donkin Coal Project is held through a wholly owned subsidiary 6531954 Canada Limited.

The Entity is a 25% joint venture partner in the Donkin Joint Venture ("DJV") with Xstrata Coal Donkin Limited ("XCDL"). The DJV was formed to secure the rights to the Donkin Coal Project and to explore, assess, study and, if feasible, develop the Donkin coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia.

Pursuant to the DJV, the Entity funded \$10 million in qualifying Canadian Exploration Expenditures ("CEE") during the exploration program of the Donkin Coal Project. The Entity is responsible to fund 25% of expenditures above \$10 million incurred during the exploration and development program if it is to maintain its 25% interest in the Donkin Coal Project. To June 30, 2012, the Entity has advanced a total of \$14,642,141 (December 31, 2011 - \$14,970,916, December 31, 2010 - \$13,794,703 and January 1, 2010 - \$12,695,676) in order to meet its commitment. In addition to the Entity's commitment to the exploration and development program, there will be capital obligations upon a positive development decision. In such an event, the first \$10 million of the Entity's capital obligation will be funded by XCDL.

On April 26, 2012 Xstrata announced they were seeking an operating partner to assume their interest in the Donkin Coal Project. Xstrata expects the sale process to be complete in 2012. Xstrata has brought forward up to \$1 million of Entity's development funding while the sale process is carried out.

b) Aggregate:

Erdene Resources continues to explore development opportunities related to crushed stone for export to markets along the eastern seaboard of North America and the Caribbean area. Erdene Resources is in the early stages of an aggregate project in eastern Nova Scotia.

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(Canadian dollars)

9. Income taxes and deferred tax liability

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

	For the year ended December 31,	
	2011	2010
Statutory tax rates	32.50%	34.0%
Income taxes (recovery) computed at the statutory rates	\$ (359,554)	\$ (4,913)
Benefit of tax losses not recognized	(19,578)	1,832
Expenses not deductible for tax purposes	275,700	45,538
Effect of change in enacted tax rates	216	-
Other	115,854	(72,616)
Provision for income taxes	\$ 12,638	\$ (30,159)

The enacted tax rate in Canada of 32.5% (2010 - 34.0%) where the Entity operates is applied in the tax provision calculation. The combined Canadian federal and provincial statutory rate has decreased from the prior period due to a scheduled enacted rate reduction. This decrease has not materially affected the measurement of deferred tax obligations arising from temporary differences as these scheduled reductions were enacted at December 31, 2010.

The following table reflects the Entity's deferred income tax assets (liabilities):

	December 31, 2011	December 31, 2010	January 1, 2010
Resource properties and deferred exploration costs	\$ (4,916,034)	\$ (4,916,034)	\$ (4,966,113)
Deferred income tax liability	\$ (4,916,034)	\$ (4,916,034)	\$ (4,966,113)

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

	December 31, 2011	December 31, 2010	January 1, 2010
Non-capital losses carried forward	\$ 394,607	\$ 380,329	\$ 357,061
Intangible assets	352,644	352,644	352,644
	\$ 747,251	\$ 732,973	\$ 709,705

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(Canadian dollars)

9. Income taxes and deferred tax liability (continued)

As at December 31 2011, the Entity has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	For the year ended December 31,	
	2011	2010
2013	\$ 44,123	44,123
2014	24,422	24,422
Thereafter	487,607	473,329
	\$ 556,152	\$ 541,874

10. Capital management

The Entity considers its capital structure to be shareholder's interest which as at June 30, 2012 totaled \$20,784,339 (December 31, 2011 - \$21,113,038, December 31, 2010 - \$19,936,891, and January 1, 2010 - \$18,784,844). The Entity's objective when managing capital is to maintain adequate levels of funding to support the exploration and development of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities. Operations for the years ended December 31, 2011 and 2010 and the six months ended June 30, 2012 were funded entirely by Erdene.

The properties in which the Entity currently has interest are in the exploration stage; as such, the Entity is dependent on external financing, primarily equity financing, to fund its activities. There can be no assurance that the Entity will be able to continue to raise capital in this manner. To carry out the planned exploration and development and fund administrative costs, the Entity will raise additional amounts as needed.

The Entity is not subject to externally imposed capital requirements.

11. Shareholder's interest:

a) Share capital

The Entity has an unlimited number of class A and class B common shares authorized for issue without par value. The number of common shares outstanding at June 30, 2012, December 31, 2011 and 2010 and January 1, 2010 are as follows:

	Number of shares	Amount
Class A common shares	12,979,952	\$ 19,627,007
Class B common shares	9,326,500	\$ 10,657,100
	22,306,452	\$ 30,284,107

b) Stock options and share-based payments

Erdene Resources does not currently have a stock option plan.

Erdene had previously issued options to its employees, directors, officers, and certain service providers. The share-based payments expense recorded by Erdene in its financial statements has been recognized in

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Notes to Consolidated Carve-out Financial Statements

As at and for the years ended December 31, 2011 and 2010 (audited)

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(Canadian dollars)

11. Shareholder's interest (continued)

b) Stock options and share-based payments (continued)

Erdene Resources' carve-out financial statements pro-rata based on the percentage of exploration expenditures on the projects as compared to total exploration expenditures by Erdene.

Erdene Resources recognized total share-based payments expense in corporate and administration costs of \$299 for the three months ended June 30, 2012 (\$2,673 – June 30, 2011), \$306 for the six months ended June 30, 2012 (\$656,958 – June 30, 2011) in the consolidated carve-out statement of comprehensive loss.

Erdene Resources recognized share-based payments of nil in exploration expense and \$848,307 in corporate and administration costs for the year ended December 31, 2011 (\$12,168 in exploration expense and \$121,769 in corporate and administration cost– December 31, 2010), in the consolidated carve-out statement of comprehensive loss.

There were no stock options issued by Erdene in the three and six months ended June 30, 2012. The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	Year Ended December		Year Ended December	
	31, 2011		31, 2010	
Share price at grant date	\$	1.27	\$	0.58
Exercise price	\$	1.23	\$	0.58
Risk-free interest rate		2.0%		3.0%
Expected life		4.3 years		5.0 years
Expected volatility		98%		88%
Expected dividends		0.0%		0.0%

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

12. Related Parties

Erdene Resources does not have its own management team in place; however, the costs associated with certain parties related to Erdene, including its management, directors and officers, have been allocated to the Entity in these carve-out financial statements.

	Year ended December 31,	
	2011	2010
Directors' fees	\$ 14,850	\$ 15,660
Share-based payments to directors	380,700	54,529
Key management short-term benefits	211,868	179,289
Share-based payments to key management	368,010	54,756
	\$ 975,428	\$ 304,234

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Notes to Consolidated Carve-out Financial Statements

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(Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Directors' fees	\$ 3,663	\$ 2,940	\$ 8,757	\$ 7,140
Share-based payments to directors	-	296,100	-	296,100
Key management short-term benefits	17,154	46,447	34,308	92,893
Share-based payments to key management	-	286,230	-	286,230
	\$ 20,817	\$ 631,717	\$ 43,065	\$ 682,363

13. Transition to IFRS

The underlying consolidated financial statements of the Entity were their first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied. An explanation of how the transition to IFRS has affected the reported carve-out financial position, financial performance and cash flows to that of the carve-out financial statements of the Entity prepared where the underlying financial reporting framework was pre-transition Canadian Generally Accepted Accounting Principles for public companies is provided below.

As outlined in Note 3, the underlying financial statements of the Entity were their first annual financial statements prepared in accordance with IFRS. The accounting policies set out in Note 4 have been applied in preparing the consolidated carve-out financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated carve-out financial statements for the year ended December 31, 2010 and in the preparation of the an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition)..

IFRS – 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the date of transition with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Entity has complied with all mandatory exemptions to full retrospective application of IFRS. The estimates previously made by the Entity under Canadian GAAP were not revised for application of IFRS. The Entity applied the optional exemptions upon adoption of IFRS as follows:

- Business combination election – The election allows the Entity to adopt IFRS 3(R) prospectively from the date of transition.

Reconciliation of previous Canadian GAAP to IFRS

IFRS 1 requires an Entity to reconcile equity, comprehensive income and cash flows for comparative periods. The Entity's adoption of IFRS did not have a monetary impact on equity, loss and comprehensive loss and operating, investing or financing cash flows in the prior periods. As a result, there were no adjustments to the consolidated carve-out statements of financial position, comprehensive loss, cash flows and changes in shareholders' equity.

SCHEDULE K

MANAGEMENT DISCUSSION AND ANALYSIS FOR ERDENE RESOURCES

For the interim periods ended June 30, 2012 and 2011 and years ended December 31, 2011 and 2010

This management discussion and analysis ("**MD&A**"), dated September 25, 2012, relates to the operating results and financial condition of Erdene Resources. Erdene Resources comprises ERI and its wholly owned subsidiary 6531954 Canada Limited together with certain adjustments to reflect Erdene's carrying values of assets and liabilities as well as to allocate corporate overheads to the entity, with the purpose of showing carve-out financial statements for Erdene's North American assets which are being transferred to APM as part of the Plan of Arrangement.

This MD&A and should be read in conjunction with Erdene Resources' audited consolidated carve-out financial statements for the years ended December 31, 2011 and 2010, unaudited condensed interim consolidated carve-out financial statements for the periods ended June 30, 2012 and 2011, and the notes thereto. The consolidated financial statements of Erdene Resources have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("**IFRS**").

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

Overview

ERI was formed by amalgamation June 12, 2006 and is domiciled in Canada. ERI is a wholly owned subsidiary of Erdene. ERI is a resource exploration and development corporation focused on the development of the Donkin Coal Project in Nova Scotia. ERI also has construction aggregate interests in Guysborough County, Nova Scotia, which are early stage.

Proposed transaction

On August 7, 2012, Erdene entered into a definitive agreement with APM to exchange all of Erdene's North American property interests, comprised primarily of Erdene's interest in the Donkin Coal Project in Cape Breton, Nova Scotia, for APM Shares. The transaction is being completed by way of a court-approved plan of arrangement.

Terms of the Arrangement

The Arrangement Agreement sets out the terms of the statutory plan of arrangement under section 192 of the CBCA involving Erdene, APM, ERI, and the securityholders of Erdene and APM whereby:

- Erdene will transfer all of the issued and outstanding shares of its subsidiary, ERI, a corporation formed under the federal laws of Canada and being the entity that owns or will own Erdene's North American property interests, to APM in exchange for an aggregate of 360,028,650 APM Shares.
- APM and ERI will amalgamate to form Amalco.
- On the amalgamation of APM and ERI, each APM Shareholder (including Erdene) will receive 1 Amalco Share for every 7.85 APM Shares owned by such shareholder.
- Erdene will create a new class of common shares ("**Erdene New Shares**") and will distribute to the Erdene shareholders one-half of one Amalco Share and one half of one Erdene New Share for each existing Erdene Common Share.

Following the Arrangement, Erdene will have 47,901,450 Erdene New Shares outstanding and Amalco will have 49,255,990 shares outstanding, 47,901,450 (97.25%) of which will be held by the Erdene shareholders.

The Arrangement will result in two strategically positioned public companies, with Amalco focused on North America (primarily the Donkin Coal Project) and Erdene focused on minerals exploration and development in Mongolia.

Related Party Transaction

Erdene currently owns approximately 60% of the issued and outstanding APM Shares. Consequently, the Arrangement is a "related party transaction" pursuant to MI 61-101. The board of directors of Erdene appointed an independent committee comprised of 2 directors to lead the valuation process on behalf of Erdene. The independent committee retained Paradigm Capital Inc ("**Paradigm**") as its financial advisor to prepare a formal valuation to meet the requirements of MI 61-101 and to prepare a fairness opinion. Paradigm has advised that, in its opinion, based on the various assumptions and limitations set out in its opinion, the Arrangement is fair, from a financial point of view to the Erdene Shareholders. The Erdene board has concluded that the Arrangement is in the best interest of Erdene and the Erdene Shareholders.

Under MI 61-101, because it is a related party transaction, the Arrangement is required to be approved by greater than 50% of the Erdene Shareholders (excluding the directors and senior officers of each of Erdene and APM) present in person or by proxy at a meeting held to consider the Arrangement.

Closing Conditions

A special meeting of the Erdene Shareholders is expected to be held in Halifax, Nova Scotia in October 2012 to obtain the necessary shareholder approval. Completion of the Arrangement is also subject to satisfaction of certain conditions including the approval and acceptance of the TSX and the TSXV and approval of the Nova Scotia Supreme Court and the APM Shareholders excluding Related Parties as noted above. The Arrangement may be terminated if certain conditions are not met, with a termination fee payable in certain circumstances.

It is currently anticipated that the Arrangement will be completed on or before November 7, 2012.

A copy of the Arrangement Agreement is attached as Schedule B to the Circular and is filed under Erdene's profile on SEDAR at www.sedar.com.

Selected Annual Information

The following information has been extracted from Erdene Resources' audited consolidated financial statements.

Expressed in thousands of Canadian dollars except per share amounts.

Fiscal Year Ended December31	2011	2010	2009
Income (Loss) for the year	\$(1,119)	\$16	\$334
Basic and diluted loss per share	\$0.04	\$0.00	\$0.01
Total assets	\$26,029	\$24,853	\$23,751
Total long-term liabilities	\$4,916	\$4,916	\$4,966
Cash dividends declared	Nil	Nil	Nil

Note: All financial data has been prepared in accordance with IFRS with the exception of certain 2009 data.

Discussion of Operations

Three months ended June 30, 2012 and 2011

Erdene Resources incurred exploration expenses of \$93,253 in the six months ended June 30, 2012 compared to \$99,364 for the same period in 2011. Approximately \$54,000 of the expenses in 2012 (2011 - \$85,000) were related to allocated salaries from Erdene and technical services incurred to advance Erdene Resources' coal and aggregate projects. Approximately \$34,000 of the expenses in 2012 (2011 - \$14,000) were legal and professional fees associated with Erdene Resources' exploration projects.

Corporate and administrative expenses amounted to \$26,607 for the three months ended June 30, 2012 compared to \$120,459 for the same period in 2011. The decrease was mainly due to lower allocated costs from Erdene driven by both lower administrative costs in Erdene and a lower allocation percentage of 10% in 2012 (2011 – 21%).

Erdene Resources recognized \$183,825 (2011 - \$174,547) in interest income on amounts owing from Erdene. The increase was entirely due to the increase in loan balances owing to Erdene Resources.

Net income for the three months ended June 30, 2012 was \$63,965 compared to a loss of \$62,172 for the same period in 2011.

Six months ended June 30, 2012 and 2011

Erdene Resources incurred exploration expenses of \$168,995 in the six months ended June 30, 2012 compared to \$156,028 for the same period in 2011. Erdene Resources was charged approximately \$73,000 in salaries from Erdene related to Donkin in 2012 (2011 - \$4,000). In the first six months of 2012 Erdene Resources incurred approximately \$3,400 in external consulting fees related to its exploration projects compared to approximately \$120,000 in 2011. \$112,000 of the costs incurred in 2011 related to environmental assessments and field studies on Erdene Resources' aggregate interests.

Corporate and administrative expenses amounted to \$65,576 for the six months ended June 30, 2012 compared to \$878,530 for the same period in 2011. \$656,652 of the decrease was due to lower share based payments. The remainder of the decrease was due to a drop in allocated costs from Erdene driven by both lower administrative costs in Erdene and a lower allocation percentage of 10% in 2012 (2011 – 21%).

Net income for the six months ended June 30, 2012 was \$133,078 compared to a loss of \$702,360 for the same period in 2011.

Years ended December 30, 2011 and 2010

Exploration expenses totalled \$468,619 in 2011 compared to \$232,837 in 2010. Approximately \$182,000 of the increase was due to more environmental assessment and field studies carried out on Erdene Resources' aggregate interests in 2011.

Corporate and administrative expenses amounted to \$1,335,889 for the year ended December 31, 2011 compared to \$561,744 in 2010. \$726,538 of the increase was due to higher non-cash share based payments made to certain officers, directors and employees of Erdene and the resulting allocation to Erdene Resources.

Erdene Resources recognized a net loss of \$1,118,958 in 2011 compared to income of \$15,710 in 2010.

Fourth Quarter 2011

There were no unusual events or items during the fourth quarter of 2011 that affected Erdene Resources' financial condition, cash flows or results of operations in a material nature.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Q2 Jun-12	Q1 Mar-12
Revenue	\$ –	\$ –
Income	\$ 64	\$ 69
Basic and diluted loss per share	\$ 0.00	\$ 0.00
Total assets	\$25,700	\$26,029

Erdene Resources has never been an independent reporting unit and quarterly data earlier than 2012 is not available. All financial data has been prepared in accordance with IFRS.

Erdene Resources' expenditures vary from quarter to quarter largely depending on the timing of its exploration and development programs. ERI is not aware of any other specific trends which account for fluctuations in financial results from period to period.

Liquidity and Capital Resources

Erdene Resources had working capital of \$6,905 at June 30, 2012, \$6,829 at December 31, 2011 and \$6,895 at December 31, 2010.

Erdene Resources is operationally dependent on Erdene, for its working capital needs. Erdene is dependent on its joint venture partner and the equity markets for the capital necessary to fund operations. In light of current market conditions, there is significant doubt as to the ability to raise these funds when necessary to meet future obligations.

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

Off-Balance Sheet Arrangements

As at June 30, 2012, Erdene Resources had no material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to Erdene Resources.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

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

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

Share-based payments

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

Fair value of financial instruments, including embedded derivatives

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

Provisions for site restoration

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

Taxation

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

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

Future changes in accounting policies

IFRS 9 Financial instruments ("**IFRS 9**") was issued by the IASB on November 12, 2009, addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 ("**IAS 39**") for debt instruments with a mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit and

loss or at fair value through other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Erdene Resources has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

IAS 1, Presentation of Financial Statements, was amended to revise the presentation of other comprehensive income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. Erdene Resources has not early adopted the amendments to IAS1 and is currently evaluating the impact on its financial statements.

The following IFRS standards have been recently issued by the IASB: IFRS 13 Fair Value Measurement, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities and IAS 19 Employee Benefits. Erdene Resources is assessing the impact of these new standards, but does not expect them to have a significant effect on the condensed consolidated interim financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine was issued in October 2011, and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRIC 20 sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that the stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRIC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity. Erdene Resources intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The impact of adoption of IFRIC 20 has not yet been determined.

Financial Instruments and Other Risks

Erdene Resources' financial instruments consist of cash and receivables. Management does not believe these financial instruments expose Erdene Resources to any significant interest, currency or credit risks. The fair market value of these financial instruments approximates their carrying values, unless otherwise noted.

In conducting its business, the principal risks and uncertainties faced by Erdene Resources relate primarily to exploration results and commodity prices. Exploration for minerals and development of mining operations involve many risks, many of which are outside Erdene Resources' control.

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

Outstanding Share Data

Issued and Outstanding Share Capital

There has been no change to Erdene Resources' share capital during any of the periods covered by this MD&A.

Exploration Results

Donkin Coal Project

Erdene is a 25% joint venture partner in the Donkin Joint Venture ("**DJV**") with Xstrata Coal Donkin Limited ("**Xstrata**"). The DJV was formed to secure the rights to the Donkin Coal Project and to explore, assess, study and, if feasible, develop the high-grade Donkin coking and thermal coal resource. The Donkin Coal Project is located in Cape Breton, Nova Scotia, proximal to deep water ideal for seaborne shipping into the major world markets. Xstrata Coal Donkin Management Limited ("**Xstrata Management**"), a related party to Xstrata, is the manager of the Donkin Coal Project.

In April 2007, the DJV received a National Instrument 43-101 compliant resource report for the Donkin Coal Project from McElroy Bryan Geological Services. The report identified indicated and inferred coal resource estimates for the Donkin deposit and presented information on its geology and coal quality.

In August 2007, the dewatering phase of the project and the subsequent tunnel clearing and refurbishing program was completed to the end of the 3,500m long twin tunnels. This represented a major milestone in the project's development and clears the way for direct access to the Harbour Seam.

In February 2010, Xstrata indicated that it intends to develop the Donkin Coal Project based on sales into the coking coal market. The revised Donkin Coal Project is initially expected to utilize 4 continuous miners added incrementally over the first 18 months of production. In addition, a coal wash plant would be built on site and it is proposed that coal would be shipped from the mine site using a barge to ship system or by rail to Sydney Harbour.

In 2010, a number of key elements of the project were initiated including civil construction, engineering and pre-feasibility studies, environmental assessment studies and consultation with government officials. Mining consulting firm Marston & Marston Inc. ("**Marston**") was engaged to complete an independent NI 43-101 compliant review of the pre-feasibility study of the revised project scope. Marston is an international full-service mine consulting firm headquartered in St. Louis, Missouri with extensive experience in open pit and underground coal mines.

On June 30, 2011, Erdene announced the receipt of a NI 43-101 compliant technical report for the Donkin Project (the "**Report**") from Marston. The purpose of the Report is to present the results of the Pre-Feasibility Study ("**PFS**") on the Donkin Export Coking Coal Project prepared by Xstrata and the reserves defined by the PFS. The Report assesses the viability of a multiple continuous miner ("**CM**") underground operation, producing approximately 3.5 million tonnes per year ("**Mtpa**") Run of Mine ("**ROM**") coal that would be subsequently washed to provide 2.75 Mtpa of product coal suitable for the international export coking and thermal coal markets and domestic thermal coal markets. The Report confirms the technical and economic viability of the Donkin Export Coking Project and supports advancing the project to the next phase. The PFS concludes that Donkin has a \$1.06 billion Net Present Value ("**NPV**") (8% discount rate) based on project development capital of approximately \$500 million and demonstrates the potential for first quartile operating costs.

The coal quality of the Harbour Seam is characterized by low ash, high energy, high vitrinite content, high fluidity, high crucible swell number ("**CSN**") and elevated levels of sulfur. Subject to further coal testing, approximately 75% of product coal from Donkin is targeted to be marketed as a coking coal blend into international coking coal markets with the remaining 25% expected to be marketed to domestic and international thermal coal markets.

The Report restates the coal resources for the Hub and Harbour Seams at Donkin with no change from previously reported resource estimates. The Report also classified a portion of the resources for the Hub and Harbour Seams as reserves. The Indicated Resources for the Hub and Harbour Seams are 73 million tonnes ("Mt") and 101 Mt respectively, for a total Indicated Resource of 174 Mt. Included in these resource numbers are 28 Mt and 30 Mt of Probable Reserves from the Hub and Harbour Seams, respectively, for a total of 58 Mt of Probable Reserves. The effective date for the resource and reserve estimates is May 2011. There are sufficient reserves at Donkin for the first 20 years of mining. These form the basis of the economic analysis. No Inferred tonnages are included in the economic analysis.

In June 2011, a draft Project Description document was filed with Federal and Provincial regulators. This is the initial step in the Environmental Assessment ("EA") process. The document seeks approval for the 2.75 Mtpa export coking and thermal coal underground mine. On November 14, 2011, the Canadian Environmental Assessment Agency ("CEA Agency") announced their decision that the Donkin Export Coking Coal Project is to undergo a comprehensive-study-type environmental assessment. The CEA Agency prepared and released draft Environmental Impact Statement ("EIS") Guidelines for the project which will guide the EIS preparation and identify minimum information requirements. The public was invited to submit comments to the CEA Agency by December 29, 2011. The CEA Agency prepared draft Environmental Impact Statement ("EIS") guidelines and invited public comment. In early February 2012, the CEA Agency issued final EIS Guidelines for the project to Xstrata Management. The EIS guidelines provide minimum information requirements for the preparation of the EA documents.

The feasibility stage will include the initial phase of mining, referred to as the exploration phase. The intent is to deploy one CM section in the Harbour Seam one year after securing an off-take agreement for the ROM coal. The exploration phase will provide the opportunity to collect multiple Harbour Seam bulk samples for testing the coal quality, geotechnical information on the roof, floor and coal, data on structures and gas desorption and underground drilling from the Harbour Seam will allow for collection of data for all categories within the Hub Seam. The additional geological and geotechnical information as well as the results of bulk sample testing by potential customers, will provide information necessary to finalize the mine and plant design and the ultimate production including an evaluation of the viability of using longwall mining equipment. Included in this study would be continued work on the studies, plans, permits and licenses necessary to start construction and operate the mine. The feasibility study is estimated to cost \$94.2 million and is forecasted to be conducted over a 24-month period. The estimated cost includes tunnel rehabilitation, exploration mining along with the cost of the mining equipment and the study. The schedule for this initial development is partially dependent on securing a coal off-take agreement. Full development plans will be based on the outcome of the feasibility study and receipt of all government approvals.

Disclosure Controls and Internal Controls over Financial Reporting

Management is responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to ERI, including its consolidated subsidiaries, is made known to ERI's certifying officers. Erdene's chief executive officer ("CEO") and chief financial officer ("CFO") have each evaluated the effectiveness of ERI's disclosure controls and procedures as at December 31, 2011 and have concluded that these controls and procedures are effective.

Erdene's management, under the supervision of its CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have concluded that internal controls over financial reporting were effective as of December 31, 2011.

There have been no material changes in ERI's internal controls over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, ERI's internal controls over financial reporting.

Outlook

General

Management's short term focus is to complete the reorganization outlined above whereby APM will acquire all of Erdene's North American interests for share consideration and the subsequent distribution of APM Shares to Erdene Shareholders. The objective of this proposed transaction is to maximize shareholder value by creating two strategically-positioned public companies, one focused on the Donkin Coal Project and the other focused on Mongolia minerals exploration and development.

Management's long term goal is to work with Erdene Resources' joint venture partner to bring the Donkin Coal Project into production.

Donkin

On April 26, 2012, Erdene and Xstrata announced that Xstrata is seeking an operating coal company to assume its 75% interest in the Donkin Coal Project. Xstrata cited a change in their business strategy since first acquiring the project, one which now focuses on larger volume mining complexes, as the reason for the choosing to sell their interest in the project.

Xstrata has reported the sale process is expected to be concluded during 2012, with the selection of an entity with the mining experience, technical expertise and financial capability to operate this underground mine safely and efficiently. Erdene has a 60-day right of first refusal on the sale by Xstrata of its interest in the Donkin Coal Project. Erdene has entered into discussions with multiple parties to assess various options to participate in the Xstrata sale process including acting on its right of first refusal.

During the Xstrata sales process the project timelines are being maintained including the recent filing of the EIS for the Donkin Coal Project with the Canadian Environmental Assessment Agency ("CEAA") along with progression of engineering work and obtaining the necessary approvals for commencement of the underground exploration phase. The CEAA approval process is on track and full environmental approval is anticipated in the first half of 2013.

**DSU PLAN RESOLUTION
ERDENE RESOURCE DEVELOPMENT CORP.**

BE IT RESOLVED, as an ordinary Resolution, that:

1. the Deferred Stock Unit Plan allowing for the issuance of a maximum of 2,500,000 Erdene Common Shares or Erdene New Shares, as the case may be, attached to the Management Information Circular of Erdene Resource Development Corporation dated September 25, 2012 as Schedule C, it is hereby approved; and
2. any officer or director of Erdene is hereby authorized, for and on behalf of Erdene, to do all such things and execute all such documents and instruments as may be necessary or desirable to give effect to this resolution.