ERDENE
RESOURCE DEVELOPMENT

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

Opinion

We have audited the consolidated financial statements of Erdene Resource Development Corporation (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity has experienced losses and negative cash flows from operations in 2019 and 2018, and does not have sufficient capital to fund its operations and planned expenditures beyond the third quarter of 2020 without additional financing.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in the auditors' report is Douglas Reid.

KPMG LLP

Chartered Professional Accountants

Halifax, Canada

March 12, 2020

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position
(Canadian dollars)

	Notes		**December 31, 2019**		December 31, 2018
Assets					
Cash and cash equivalents		**$**	**5,106,863**	$	1,748,249
Receivables			**70,361**		113,412
Prepaid expenses			**69,029**		34,633
Current assets			**5,246,253**		1,896,294
Exploration and evaluation assets	**6**		**21,483,517**		15,687,348
Right-of-use asset	**7**		**137,064**		-
Property, plant and equipment	**8**		**105,998**		125,277
Non-current assets			**21,726,579**		15,812,625
Total Assets		**$**	**26,972,832**	**$**	17,708,919
Liabilities and Equity					
Trade and other payables		**$**	**591,999**	$	224,387
Lease liability	**7**		**25,697**		-
Current liabilities			**617,696**		224,387
Lease liability	**7**		**113,553**		-
Convertible loan	**10**		**6,260,521**		-
Non-current liabilities			**6,374,074**		-
Total Liabilities			**6,991,770**		224,387
Shareholders' Equity					
Share capital	**12**	**$**	**109,466,565**	$	104,003,644
Contributed surplus			**16,829,920**		16,110,116
Accumulated other comprehensive loss			**(1,958,616)**		(955,713)
Deficit			**(104,356,807)**		(101,673,515)
Total Shareholders' Equity			**19,981,062**		17,484,532
Total Liabilities and Equity		**$**	**26,972,832**	$	17,708,919

Commitments (Note 9)
Subsequent Event (Note 17)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"
________________________________ Director

Signed "John P. Byrne"
________________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

	Notes	For the year ended December 31, 2019	2018
Operating Expenses			
Exploration and evaluation	**13**	**$ 1,090,786**	$ 1,595,675
Corporate and administration	**14**	**1,615,724**	2,120,390
Loss from operating activities		**2,706,510**	3,716,065
Finance income		**(36,512)**	(50,816)
Interest expense		**165,934**	-
Change in fair value of financial instrument		**(178,972)**	-
Foreign exchange loss (gain)		**26,332**	(8,259)
Net Loss		**$ 2,683,292**	$ 3,656,990
Other comprehensive loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		**1,002,903**	60,858
Other comprehensive loss		**1,002,903**	60,858
Total comprehensive loss		**$ 3,686,195**	$ 3,717,848
Basic and diluted loss per share		**$ 0.02**	$ 0.02
Basic weighted average number of shares outstanding		**178,522,823**	155,104,960

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity
(Canadian dollars)

	Notes	Number of shares		Share capital		Contributed surplus		Accumulated other comprehensive loss		Deficit		Total equity
Balance at January 1, 2018		145,963,086	$	99,890,270	$	13,775,386	$	(894,855)	$	(98,016,525)	$	14,754,276
Total comprehensive loss for the period:												
Net loss		-		-		-		-		(3,656,990)		(3,656,990)
Other comprehensive loss		-		-		-		(60,858)		-		(60,858)
Private placements, net of share issue costs	12	14,834,580		3,706,199		1,301,176		-		-		5,007,375
Options exercised	12	1,628,750		407,175		(152,450)						254,725
Share-based compensation		-		-		1,186,004						1,186,004
Total transactions with owners		16,463,330		4,113,374		2,334,730		-		-		6,448,104
Balance at December 31, 2018		162,426,416	$	104,003,644	$	16,110,116	$	(955,713)	$	(101,673,515)	$	17,484,532
Balance at January 1, 2019		**162,426,416**	**$**	**104,003,644**	**$**	**16,110,116**	**$**	**(955,713)**	**$**	**(101,673,515)**	**$**	**17,484,532**
Total comprehensive loss for the period:												
Net loss		**-**		**-**		**-**		**-**		**(2,683,292)**		**(2,683,292)**
Other comprehensive loss		**-**		**-**		**-**		**(1,002,903)**		**-**		**(1,002,903)**
Private placements, net of share issue costs	**12**	**25,922,044**		**4,895,464**		**414,401**		**-**		**-**		**5,309,865**
Options exercised	**12**	**1,105,000**		**276,900**		**(107,100)**						**169,800**
Issue of shares from DSU plan	**12**	**1,615,030**		**290,557**		**(290,557)**						**-**
Share-based compensation		**-**		**-**		**703,060**		**-**		**-**		**703,060**
Total transactions with owners		**28,642,074**		**5,462,921**		**719,804**		**-**		**-**		**6,182,725**
Balance at December 31, 2019		**191,068,490**	**$**	**109,466,565**	**$**	**16,829,920**	**$**	**(1,958,616)**	**$**	**(104,356,807)**	**$**	**19,981,062**

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

	Notes		For the year ended December 31, 2019		2018
Cash flows from operating activities:					
Net loss		**$**	**(2,683,292)**	$	(3,656,990)
Items not involving cash:					
Depreciation and amortization			**32,248**		20,904
Share-based compensation			**703,060**		1,186,004
Finance income			**(36,512)**		(50,816)
Interest expense capitalized	**10**		**162,051**		-
Foreign exchange not related to cash			**26,332**		(8,259)
Fair value change on convertible debenture			**(178,972)**		-
Change in non-cash working capital			**392,315**		74,124
Cash flows from operating activities			**(1,582,770)**		(2,435,033)
Cash flows from financing activities:					
Issue of common shares, net of issue costs	**12**		**5,309,865**		5,007,375
Proceeds on issuance of convertible loan, net of issue costs	**10**		**6,357,763**		-
Proceeds on exercise of stock options	**12**		**169,800**		254,725
Repayment of lease liability			**(7,604)**		-
Cash flows from financing activities			**11,829,824**		5,262,100
Cash flows from investing activities:					
Expenditures on exploration and evaluation assets			**(6,804,128)**		(4,363,017)
Expenditures on property, plant and equipment			**(10,653)**		(16,077)
Interest received			**36,512**		50,816
Cash flows from investing activities			**(6,778,269)**		(4,328,278)
Effect of exchange rate changes on cash balances			**(110,171)**		24,258
Increase (decrease) in cash and cash equivalents			**3,358,614**		(1,476,953)
Cash and cash equivalents, beginning of period			**1,748,249**		3,225,202
Cash and cash equivalents, end of period		**$**	**5,106,863**	$	1,748,249

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

1. Nature of operations:

Erdene Resource Development Corporation (“Erdene” or the “Corporation”) is a Canadian based resource company focused on the exploration and development of precious and base metal deposits in Mongolia. The Corporation’s common shares are listed on the Toronto Stock Exchange under the symbol "ERD" and the Mongolian Stock Exchange under the symbol “ERDN”. The address of the Corporation’s registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1.

Erdene is a late exploration stage business focusing on the acquisition, exploration and development of gold and other precious and base metal properties in southwest Mongolia. Currently, the Corporation’s principal development is the Khundii Gold Project, located in Bayankhongor province in Mongolia.

In October 2019, Erdene announced results of an independent Technical Report for the Khundii Gold Project, including a Pre-Feasibility Study for its Bayan Khundii gold deposit and an updated Preliminary Economic Assessment for its Altan Nar deposit, which is located 16 kilometres north of the Bayan Khundii gold deposit. The continued operations of the Corporation and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of one or more of the properties.

2. Going concern:

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

The Corporation experienced significant losses and negative cash flows from operations for the years ended December 31, 2019 and 2018 and had a deficit of $104,356,807 at December 31, 2019. The Corporation had working capital of $4,628,557 at December 31, 2019, compared to working capital of $1,671,907 at December 31, 2018, representing a $2,956,650 increase. Management estimates current working capital is sufficient to fund the Corporation’s planned expenditures into the third quarter of 2020. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration and evaluation programs is contingent upon securing equity or other forms of financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation’s ongoing exploration and evaluation programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

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

3. Basis of presentation

a) Statement of compliance

The Corporation prepares their annual consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). The significant accounting policies are presented in Note 4 and have been consistently applied in each of the periods presented, except as disclosed in Note 5.

The consolidated financial statements were authorized for issue by Erdene’s Board of Directors on March 12, 2020.

3. Basis of presentation (continued)

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities, as further described herein, which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Critical judgments and estimates in applying accounting policies

The preparation of financial statements in conformity with IFRS requires the Corporation's management to make estimates, judgments and assumptions that materially affect the amounts reported in the consolidated financial statements and accompanying notes. Judgments and estimates are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates. Further information on management's judgments, estimates and assumptions and how they impact accounting policies are described below and also in the relevant notes to the consolidated financial statements.

Judgments

In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

i) *Functional currenc*y: The functional currency for the parent entity, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. The Mongolian subsidiaries have a Mongolian Tugrik functional currency, while the parent entity has a Canadian dollar functional currency.

ii) *Review of asset carrying values and impairment assessment:* Each asset is evaluated every reporting period to determine whether there are indications of impairment. If any indication exists, a formal estimate of recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is the greater of value in use and fair value less costs to sell.

Value in use is generally determined as the present value of future cash flows 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, taxes and royalties, and future capital expenditures. The most significant assets assessed for impairment are exploration and evaluation assets. Indications of impairments include judgement on whether exploration will continue to be funded and if the projects are commercially viable.

Exploration and evaluation assets and expenditures: The application of the Corporation's accounting policy for exploration and evaluation assets and expenditures requires judgment to determine whether future economic benefits are probable, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. There is no assurance the Corporation has, or will have, commercially viable ore bodies. There is no assurance that the Corporation will be able to arrange sufficient financing to bring ore bodies into production.

3. Basis of presentation (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

i) *Exploration and evaluation assets and expenditures:* In addition to applying judgment to determine whether it is probable that future economic benefits will arise from the Corporation's exploration and evaluation assets and expenditures, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Corporation has to apply a number of estimates and assumptions. The publication of a resource pursuant to National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101"), is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred). The estimates directly impact when the Corporation defers its exploration and evaluation expenditures. Any such estimates and assumptions may change as new information becomes available. If information becomes available suggesting the recovery of acquisition costs is unlikely, the relevant capitalized amount is written off in the statement of profit or loss and other comprehensive income or loss in the period when the new information becomes available. The Corporation provides for such differences, where known, based on management's best estimate of the probable outcome of these matters.

ii) *Share-based compensation:* Equity-settled share-based compensation is measured at fair value 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.

iii) *Convertible Debentures*: In 2019 the Corporation issued convertible debentures with an embedded derivative conversion option, allowing the holder to convert any or all amounts outstanding to common shares of Erdene. The embedded derivative conversion option was determined by management to be a liability. This liability is measured at fair value and is revalued at each reporting period. Fair value is measured using a binomial option model and requires the exercise of judgment in relation to variables such as expected volatilities, risk-free interest rates and credit risk spreads based on information available at the time the fair value is measured.

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

4. Summary of significant accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements:

a) Basis of consolidation

For the years ended December 31, 2019 and 2018, the consolidated financial statements include those of Erdene Resource Development Corporation and its wholly owned subsidiaries: Erdene Mongol LLC and Anian Resources LLC (Mongolian exploration companies).

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

4. Summary of significant accounting policies (continued)

b) Foreign currencies

Items included in the financial statements of the Corporation and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). In preparing the financial statements of the individual entities, transactions in currencies other than Erdene's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the statement of loss.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in this case, the exchange rates at the dates of the transactions are used. Equity transactions are translated using the exchange rate at the date of the transaction. Exchange differences arising from assets and liabilities held in foreign currencies, are recognized in other comprehensive income (loss) as cumulative translation adjustments.

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

c) Financial instruments

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 7, Financial Instruments: Disclosures, IAS 32 and IFRS 9, Financial Instruments. Erdene recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and liabilities classified as fair value through profit and loss ("FVTPL"), are measured at fair value, plus transaction costs on initial recognition. Financial assets and liabilities classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Each type of fair value is categorized based on the lowest level of input that is significant to the fair value measurement in its entirety. The following summarizes the Corporation's classification and measurement of financial assets and liabilities:

Type	Classification	Measurement
Cash and cash equivalents	Financial Assets	Fair value
Receivables	Financial Assets	Amortized cost
Trade and other payables	Financial Liabilities	Amortized cost
Convertible debenture - host debt	Financial Liabilities	Amortized cost
Convertible debenture - conversion option	Financial Liabilities	Fair value

The Corporation classifies and measures financial assets and liabilities as described below:

i) Cash and cash equivalents include cash, term deposits, treasury bills and money market investments with original maturities of less than 90 days and are classified as and measured at fair value through profit or loss.

ii) Receivables are classified and measured at amortized cost.

iii) Trade and other payables are classified and measured at amortized cost. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

iv) Convertible debentures are measured at amortized cost and the associated conversion option represents an embedded derivative and is measured at fair value through profit or loss.

4. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets

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

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development, 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:

i) 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

ii) exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned for the future.

e) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use.

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

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

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

4. Summary of significant accounting policies (continued)

f) Leases

At the inception of a contract, Erdene assesses whether a contract is or contains a lease based on whether the contract conveys the right to use an asset for a period of time in exchange for consideration. Contracts identified as leases are recognized as a right-of-use asset within property, plant and equipment and corresponding lease liability within long-term debt on the statement of financial position on the commencement date of the lease.

The right-of-use asset is initially measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made before the commencement date, less any lease incentives received, any initial direct costs and restoration costs expected to be incurred. The right-of-use asset is subsequently amortized on a straight-line basis over the lease-term.

The corresponding lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, Erdene's incremental borrowing rate, or a market comparative. Lease payments include any fixed payments, variable payments that are dependent on an index or a rate in effect at the time of commencement, amounts expected to be paid under residual value guarantees, and the exercise of a purchase option that are reasonably expected to be exercised. The lease liability is subsequently measured at amortized cost using the effective interest method.

Erdene has elected to apply the following practical expedients in accounting for leases:

i) Separable components – Erdene has elected not to separate non-lease components from lease components and account for each lease component and associated non-lease component as a single lease component.
ii) Short-term leases – Erdene has elected to recognize the exemption for leases with a term of 12-months or less.

g) Share-based compensation

Equity-settled share-based awards to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black-Scholes pricing model. The fair value determined at the grant date is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

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

h) Loss per share

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

5. Changes in accounting policies

Erdene has adopted the following new standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 – Leases

The Corporation adopted IFRS 16, Leases with a date of initial application of January 1, 2019 using the modified retrospective approach. Accordingly, the information presented for 2018 has not been restated and is presented, as previously reported, under IAS 17 and related interpretations.

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

At the date of adoption, the Corporation recognized no right-of-use assets or lease liabilities as all of the Corporation's office space and staff accommodation leases had terms of less than 12 months.

The Corporation entered a five-year lease for its head office space, effective September 1, 2019. See Note 7 for further details on the Corporation's accounting for this lease in accordance with IFRS 16.

IFRIC 23: Uncertainty over income tax treatments

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

As the Corporation does not currently recognize deferred tax liabilities and assets, there were no impacts to the financial statements as a result of the adoption of IFRIC 23.

New accounting standards not yet adopted

The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective date falls within annual periods beginning subsequent to the current reporting period.

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively. The application of this amendment is not expected to have a material impact to the Corporation.

IFRS 3 – Business Combinations

On October 22, 2018 the IASB issued an amendment to IFRS 3 Business Combinations to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively. The application of this amendment is not expected to have a material impact to the Corporation.

(Canadian dollars)

6. Exploration and evaluation assets

		Khundii Gold Project		Zuun Mod Moly/Copper		Ulaan & Other		Total
Balance, January 1, 2018	$	9,700,832	$	765,795	$	928,216	$	11,394,843
Additions		4,291,555		70,074		1,388		4,363,017
Effect of movements in exchange rates		(62,077)		(4,143)		(4,292)		(70,512)
Balance, December 31, 2018	$	13,930,310	$	831,726	$	925,312	$	15,687,348
Balance, January 1, 2019	**$**	**13,930,310**	**$**	**831,726**	**$**	**925,312**	**$**	**15,687,348**
Additions		**6,735,135**		**67,091**		**1,902**		**6,804,128**
Effect of movements in exchange rates		**(897,504)**		**(70,018)**		**(40,437)**		**(1,007,959)**
Balance, December 31, 2019	**$**	**19,767,941**	**$**	**828,799**	**$**	**886,777**	**$**	**21,483,517**

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

Khundii Gold Project

The Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Khundii mining license, including the Bayan Khundii reserve, the contiguous 2,205 hectare Khundii exploration license, and the 4,669 hectare Altan Nar mining license including the Altan Nar gold, silver, lead and zinc resource. Until September 30, 2018, Exploration and evaluation expenditures on the Khundii and Altan Nar licenses were disclosed separately. Erdene made the decision in late 2018 to develop these licenses concurrently and has aggregated associated exploration and evaluation assets and expenditures.

Erdene received the Khundii mining license on August 5, 2019 from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of a portion of its legacy Khundii exploration license. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in "Khundii Gold Project NI 43-101 Technical Report", dated December 4, 2018 and prepared by Tetra Tech, Inc. Additionally, the mining license includes Erdene's highly prospective Khar Mori, Altan Arrow, Khundii North and Khundii West targets.

The Corporation maintains an exploration license for 2,205 hectares of the legacy Khundii exploration license that were not converted to a mining license as part of its application. This exploration license is in its tenth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia.

On July 1, 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to this, Erdene only capitalized license costs associated with Bayan Khundii.

Erdene received the Altan Nar mining license on March 5, 2020 from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of its legacy Tsenker Nomin exploration license. On January 1, 2015, having received the initial resource estimate for the Altan Nar prospect, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to 2015, the Corporation only capitalized license costs associated with Altan Nar.

(Canadian dollars)

6. Exploration and evaluation assets (continued)

Zuun Mod/Khuvyn Khar

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041 hectare molybdenum-copper Mining License. The mining license was issued in 2011. The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. The Corporation will continue to evaluate its options in light of technological and market factors.

Ulaan & Other

The Ulaan exploration license covers an area of approximately 1,780 hectares, situated immediately adjacent to the Khundii license. The exploration license is in its fourth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On August 30, 2017, Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that holds the property. Erdene evaluated the acquisition considering IFRS 3, Business Combinations, and concluded that the transaction constituted the acquisition of a collection of assets, not a business.

Provided Erdene spends a minimum of US$600,000 on work expenditures on the property by August 30, 2020, it has the right to acquire the remaining 49% of the shares of Leader, or at Erdene's option, a portion of the property, for the then fair market value of the property or the portion to be acquired. As at December 31, 2019, the Corporation has incurred the minimum work expenditures to acquire the remaining shares; however, Erdene may extend the option indefinitely by spending a minimum of US$100,000 per annum.

In April 2013, the Corporation entered into an agreement with Teck Resources Limited ("Teck"), to fund and explore the Corporation's mineral tenements in the Trans Altai region of southwest Mongolia. Under the Teck Alliance, two licenses were staked in early 2015, totaling 1,552 hectares. No major exploration work has been completed on these licenses to date.

7. Leases

The Company entered a five-year lease for its head office, with an effective date of September 1, 2019. The lease is reflected on the balance sheet as a right-of-use asset, with an associated lease liability. The discount rate applied to the lease is 7%.

Additional information on the right-of-use asset is as follows:

Description	Additions	Depreciation	Carrying Amount
Office	**$ 146,854**	**$ (9,790)**	**$ 137,064**

The maturity analysis of the office lease liability at December 31, 2019 is as follows:

	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	Total
Lease payments	$ 34,480	$ 34,522	$ 34,693	$ 58,395	**$ 162,090**
Finance charges	(8,783)	(6,669)	(4,553)	(2,835)	**(22,840)**
Total liability	**$ 25,697**	**$ 27,853**	**$ 30,140**	**$ 55,560**	**$ 139,250**

The Corporation also has leases for office space and staff accommodation in Mongolia that expire within the next 12 months. The Corporation has elected not to apply the requirements of IFRS 16 to these payments and the Corporation expenses lease payments for these facilities as incurred.

(Canadian dollars)

8. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2018	$ 98,105	$ 107,674	$ 195,958	$ 401,737
Additions	-	3,497	12,580	16,077
Effect of movements in exchange rates	(233)	(110)	(189)	(532)
Balance, December 31, 2018	$ 97,872	$ 111,061	$ 208,349	$ 417,282
Depreciation & depletion				
Balance, January 1, 2018	$ (11,365)	$ (78,076)	$ (182,013)	$ (271,454)
Depreciation	(9,938)	(4,463)	(6,503)	(20,904)
Effect of movements in exchange rates	178	103	72	353
Balance, December 31, 2018	$ (21,125)	$ (82,436)	$ (188,444)	$ (292,005)
Carrying amounts				
At January 1, 2018	$ 86,740	$ 29,598	$ 13,945	$ 130,283
At December 31, 2018	$ 76,747	$ 28,625	$ 19,905	$ 125,277

	Vehicles & field equipment	**Equipment, furniture & fixtures**	**Software & computers**	**Total**
Cost				
Balance, January 1, 2019	**$ 97,872**	**$ 111,061**	**$ 208,349**	**$ 417,282**
Additions	**-**	**100**	**10,553**	**10,653**
Effect of movements in exchange rates	**(7,691)**	**(3,721)**	**(2,075)**	**(13,487)**
Balance, December 31, 2019	**$ 90,181**	**$ 107,440**	**$ 216,827**	**$ 414,448**
Depreciation & depletion				
Balance, January 1, 2019	**$ (21,125)**	**$ (82,436)**	**$ (188,444)**	**$ (292,005)**
Depreciation	**(9,431)**	**(4,466)**	**(8,561)**	**(22,458)**
Effect of movements in exchange rates	**2,073**	**2,184**	**1,756**	**6,013**
Balance, December 31, 2019	**$ (28,483)**	**$ (84,718)**	**$ (195,249)**	**$ (308,450)**
Carrying amounts				
At January 1, 2019	**$ 76,747**	**$ 28,625**	**$ 19,905**	**$ 125,277**
At December 31, 2019	**$ 61,698**	**$ 22,722**	**$ 21,578**	**$ 105,998**

(Canadian dollars)

9. Commitments

In 2020, minimum exploration expenditures of USD$10 per hectare are required on the Corporation's Altan Nar and Khundii licenses (USD$46,690 and USD$22,050 respectively).The Corporation was required to spend a total of US$600,000 over three years to have the right to purchase any (or all) of the remaining 49% of Leader Exploration LLC. At December 31, 2019, the Corporation had spent in excess of US$600,000. The Corporation can extend the option period by spending an additional US$100,000 per year on exploration work (see Note 6).

On April 14, 2016 the Corporation granted Sandstorm Gold Ltd. ("Sandstorm") a 2% net smelter returns royalty ("NSR Royalty") on Erdene's Tsenkher Nomin and Khundii licenses. On April 12, 2019, Erdene repurchased 50% of the NSR Royalty for $1.2 million, reducing the NSR Royalty to 1%. Sandstorm has been given a right of first refusal on future stream or royalty financings related to the Khundii and Tsenkher Nomin licenses.

Gallant Minerals Limited is entitled to a 1.5% NSR Royalty on the Zuun Mod License, subject to a buy-down provision. There are no minimum exploration work commitments for the Zuun Mod mining license.

10. Convertible Loan

On October 11, 2019, Erdene executed a US$5 million (C$6.6 million) Convertible Loan ("Loan") with the European Bank for Reconstruction and Development ("EBRD"). The Loan was funded by way of an initial advance of US$2.5 million on November 4, 2019, and a second advance of US$2.5 million on November 25, 2019.

Key terms of the Loan include:

- Principal amount of US$5.0 million
- Coupon rate of 10% payable in cash, or capitalized, at the Corporation's option, annually
- The Loan matures in October 2022
- The Loan is convertible, in whole or in part, at the election of the EBRD, into common shares of the Corporation at a conversion price (in respect of the principal amount drawn down under the Loan) of C$0.20 per share, subject to a conversion premium of 10%, 20% or 30%, respectively, if EBRD exercises its conversion option prior to or on the first, second, or third anniversary, respectively, of the date of the Loan Agreement, provided that certain other conditions have been met
- Any capitalized interest on the date of the conversion will be payable, at EBRD's option, in cash or shares of the Corporation at the prevailing market price of the common shares of the Corporation (5-day Volume Weighted Average Price)
- The Loan can be prepaid at the Corporation's option following the earliest of 24 months from the date of the initial advance, delivery of a NI 43-101 Bankable Feasibility Study, or a change of control of Erdene, subject to payment of a premium of 25% of the principle amount.

The Loan is secured by a pledge over the shares of Erdene's Mongolian subsidiary.

For accounting purposes, the Loan represents a hybrid financial instrument, consisting of a host loan obligation, and embedded derivative instruments comprising the conversion and prepayment features of the Loan. The Corporation accounts for the host loan obligation at amortized cost, accreted to maturity over the term of the Loan. The embedded conversion and prepayment options are accounted for as a financial liability measured at fair value through profit or loss.

At the dates of issue, the Loan and its components were measured at fair value as follows:

Host liability component at issue date	$	**4,505,902**
Conversion and prepayment options at issue date		**2,106,123**
Financing costs		**(254,262)**
Net proceeds from issue	$	**6,357,763**

(Canadian dollars)

10. Convertible Debentures (continued)

The changes in the host liability component of the Loan at December 31, 2019 are as follows:

		December 31, 2019
Host liability component at issue date	$	**4,505,902**
Less: deferred finance costs		**(254,262)**
Interest expense in the period capitalized		**162,051**
Effect of movement in exchange rates		**(80,321)**
Balance at December 31, 2019	$	**4,333,370**

The Conversion option is recorded at fair value, and the value at December 31, 2019 is determined using a binomial option valuation model, with the following key assumptions: volatility of 65%, risk free rate of 1.6%, and conversion option term of 2.8 years.

		December 31, 2019
Conversion option at issue date	$	**2,106,123**
Fair value adjustment		**(178,972)**
Balance at December 31, 2019	$	**1,927,151**

11. Income taxes

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

		December 31, 2019		December 31, 2018
Statutory tax rates		31%		31%
Income taxes (recovery) computed at the statutory rates	**$**	**(832,000)**	$	(1,134,000)
Benefit of temporary differences not recognized		**439,000**		551,000
Expenses not deductible for tax purposes		**239,000**		384,000
Effect of foreign tax rates		**154,000**		199,000
Provision for income taxes	**$**	**-**	$	-

The enacted tax rates in Canada 31% (31% in 2018) and Mongolia 25% (25% in 2018) where the Corporation operates are applied in the tax provision calculation.

The following table reflects the Company's deferred tax assets (liabilities):

		December 31, 2019		December 31, 2018
Non-capital losses carried forward		**80,000**		-
Deferred income tax assets		**80,000**		-
Convertible loan		**(80,000)**		-
Net deferred income tax assets (liabilities)	**$**	**-**	$	-

(Canadian dollars)

11. Income taxes (continued)

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

	December 31, 2018		
	Canada	Mongolia	Total
Non-capital losses carried forward	$ 16,845,000	$ 1,694,000	$ 18,539,000
Property, plant and equipment	228,000	-	228,000
Share issuance costs	1,305,000	-	1,305,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,885,000	14,622,000
	$ 24,493,000	$ 10,579,000	$ 35,072,000

	December 31, 2019		
	Canada	**Mongolia**	**Total**
Non-capital losses carried forward	**$ 18,472,000**	**$ 1,683,000**	**$ 20,155,000**
Property, plant and equipment	**239,000**	**-**	**239,000**
Share issuance costs	**1,248,000**	**-**	**1,248,000**
Intangible assets	**378,000**	**-**	**378,000**
Exploration and evaluation assets	**5,737,000**	**8,574,000**	**14,311,000**
	$ 26,074,000	**$ 10,257,000**	**$ 36,331,000**

As at December 31, 2019, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	December 31, 2019	**December 31, 2018**
2019	**-**	333,000
2020	**353,000**	381,000
2021	**438,000**	473,000
2022	**469,000**	507,000
2023	**423,000**	-
Thereafter	**18,729,000**	16,845,000
	$ 20,412,000	$ 18,539,000

12. Share Capital and Contributed Surplus

Authorized

An unlimited number of common shares with no par value.

Issued

On February 28, 2019 the Corporation closed a non-brokered private placement equity financing for gross proceeds to the Corporation of $2,533,345. The Corporation issued an aggregate of 11,014,544 Units of the Corporation at a price of $0.23 per Unit. Each Unit consists of one common share and one Warrant. Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date,

(Canadian dollars)

12. Share Capital and Contributed Surplus (continued)

at a price of $0.40 if exercised within twelve months of the closing date and at a price of $0.50 if exercised more than twelve months after the closing date. The Corporation paid finder's fees of $62,116 and issued 270,070 finder's warrants in connection with the Offering. In addition, the Corporation paid $38,106 in share issue costs on the private placement, resulting in net proceeds of $2,433,123.

On July 9, 2019 the Corporation closed a non-brokered private placement equity financing for gross proceeds to the Corporation of $2,001,500. The Corporation issued an aggregate of 10,007,500 units of the Corporation at a price of $0.20 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant. Warrants are exercisable by the holder into one common share of the Company within two years of the closing date, at a price of $0.30. Erdene paid finder's fees in the aggregate of $35,860 and issued 108,800 finder's warrants in connection with the Offering. In addition, the Corporation paid $38,588 in share issue costs on the private placement, resulting in net proceeds of $1,927,052.

On November 29, 2019 the Corporation closed a non-brokered private placement equity financing for gross proceeds to the Corporation of $980,000. The Corporation issued an aggregate of 4,900,000 units of the Corporation at a price of $0.20 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant. Warrants are exercisable by the holder into one common share of the Company within two years of the closing date, at a price of $0.30. Erdene paid finder's fees in the aggregate of $18,200 and issued 91,000 finder's warrants in connection with the Offering. In addition, the Corporation paid $12,110 in share issue costs on the private placement, resulting in net proceeds of $949,690.

<u>Deferred Share Units</u>

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

During the year ended December 31, 2019, the Corporation granted 2,297,762 DSUs with an average fair value of $0.20 per DSU (2018 – 543,932 DSUs with fair value of $0.31 per DSU). The fair value of $462,010 (2018 – $166,894) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Also, during the year ended December 31, 2019, Erdene issued 1,615,030 shares from the DSU plan at an average value of $0.18 per DSU (2018 – nil).

	Year Ended December 31, 2019	**Year Ended December 31, 2018**
Five day volume weighted average price at grant date	**$ 0.20**	$ 0.31

The following table summarizes the continuity of DSUs for the years ended December 31, 2019 and 2018:

	December 31, 2019 Number of DSUs	**December 31, 2018 Number of DSUs**
Outstanding at January 1	**3,954,118**	3,410,186
Granted	**2,297,762**	543,932
Issued	**(1,615,030)**	-
Outstanding at December 31	**4,636,850**	3,954,118

(Canadian dollars)

12. Share Capital and Contributed Surplus (continued)

Warrants

On February 28, 2019, 11,284,614 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.40 if exercised within twelve months of the closing date and at a price of $0.50 if exercised more than twelve months after the closing date and expires on February 28, 2021.

On July 9, 2019, 5,112,550 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.30 for 24 months and expires on July 9, 2021.

On October 25, 2019, 1,906,000 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.30 for 24 months and expires on October 25, 2021.

On November 29, 2019, 635,000 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.30 for 24 months and expires on November 29, 2021.

On February 22, 2019, 1,075,324 compensation warrants expired.

The following table summarizes the continuity of the warrants for the years ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	**12,389,904**	**$ 0.65**	1,075,324	$ 1.20
Issued	**18,938,164**	**0.39**	11,314,580	0.60
Expired	**(1,075,324)**	**1.20**	-	-
Outstanding at December 31	**30,252,744**	**$ 0.47**	12,389,904	$ 0.65
Exercisable at December 31	**30,252,744**	**$ 0.47**	12,389,904	$ 0.65

The remaining contractual lives of warrants outstanding at December 31, 2019, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
$0.30	**7,653,550**	**1.63**
$0.40 - $0.50	**11,284,614**	**1.16**
$0.60	**11,314,580**	**0.94**
	30,252,744	**1.20**

Share-Based Compensation

For the year ended December 31, 2019, the Corporation charged a total of $703,060 of stock-based compensation expense to the statement of comprehensive loss (2018 – $1,186,004) of which $230,292 is attributable to exploration expenses (2018 – $473,150).

(Canadian dollars)

12. Share Capital and Contributed Surplus (continued)

Stock options

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

During the year ended December 31, 2019, 2,670,000 options were granted at a weighted average exercise price of $0.20. Also 1,105,000 options were exercised at an average price of $0.15 generating proceeds of $169,800. During the year ended December 31, 2019, 595,000 options expired (2018 – 100,000 options).

The changes in stock options during the years ended December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	**11,335,000**	**$ 0.43**	9,703,750	$ 0.40
Granted	**2,670,000**	**0.20**	3,360,000	0.39
Expired	**(595,000)**	**0.42**	(100,000)	0.40
Exercised	**(1,105,000)**	**0.15**	(1,628,750)	0.16
Outstanding at December 31	**12,305,000**	**$ 0.41**	11,335,000	$ 0.43
Exercisable at December 31	**12,305,000**	**$ 0.41**	11,335,000	$ 0.43

All stock options granted in 2019 and 2018 vested immediately and have a five-year term. The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2019.

(Canadian dollars)

12. Share Capital and Contributed Surplus (continued)

	December 31, 2019			December 31, 2018		
Expiry date	**Number of Options**	**Exercise price**		Number of Options	Exercise price	
January 8, 2019	**-**	**$**	**-**	325,000	$	0.14
June 18, 2019	**-**		**-**	935,000		0.16
June 5, 2020	**1,050,000**		**0.15**	1,100,000		0.15
July 2, 2020	**100,000**		**0.15**	100,000		0.15
December 22, 2020	**855,000**		**0.16**	895,000		0.16
June 15, 2021	**1,825,000**		**0.36**	1,950,000		0.36
March 31, 2022	**2,445,000**		**0.87**	2,620,000		0.87
July 18, 2022	**150,000**		**0.89**	150,000		0.89
February 4, 2023	**50,000**		**0.50**	50,000		0.50
March 13, 2023	**100,000**		**0.40**	100,000		0.40
June 14, 2023	**2,785,000**		**0.40**	2,810,000		0.40
October 15, 2023	**150,000**		**0.27**	150,000		0.27
November 8, 2023	**150,000**		**0.24**	150,000		0.24
June 20, 2024	**2,495,000**		**0.20**	-		-
November 29, 2024	**100,000**		**0.18**	-		-
December 20, 2024	**50,000**		**0.18**	-		-
	12,305,000	**$**	**0.41**	11,335,000	$	0.43

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

	Year Ended December 31, 2019		**Year Ended December 31, 2018**	
Share price at grant date	**$**	**0.19**	$	0.49
Exercise price	**$**	**0.20**	$	0.39
Risk-free interest rate		**1.4%**		2.0%
Expected life		**3.8 years**		4.0 years
Expected volatility		**63%**		77%
Expected dividends		**0.0%**		0.0%
Weighted average grant date fair value	**$**	**0.09**	$	0.30

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

Options issued in 2019 resulted in a charge of $241,050 to share based compensation included in exploration expenses and in corporate and administration expenses (2018 – $1,019,110).

(Canadian dollars)

12. Share Capital and Contributed Surplus (continued)

The remaining contractual lives of options outstanding at December 31, 2019, are as follows:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)		Weighted average exercise price of exercisable options
$0.14 - $0.24	**4,800,000**	**2.88**	**$**	**0.18**
$0.25 - $0.49	**4,860,000**	**2.71**		**0.38**
$0.50 - $0.89	**2,645,000**	**2.28**		**0.86**
	12,305,000	**2.68**	**$**	**0.41**

13. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2019 and 2018:

	For the year ended December 31			
		2019		**2018**
Depreciation & amortization	**$**	**14,224**	$	14,733
Direct costs		**650,482**		811,155
Employee compensation costs		**195,788**		296,637
Share-based compensation		**230,292**		473,150
	$	**1,090,786**	$	1,595,675

14. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2019 and 2018.

	For the year ended December 31			
		2019		**2018**
Administrative services	**$**	**373,799**	$	535,118
Depreciation and amortization		**18,051**		6,194
Directors fees and expenses		**178,409**		132,841
Investor relations and marketing		**109,963**		201,074
Office and sundry		**107,841**		123,271
Professional fees		**202,576**		236,394
Regulatory compliance		**105,234**		116,567
Share-based compensation		**472,768**		712,854
Travel and accommodations		**47,083**		56,077
	$	**1,615,724**	$	2,120,390

15. Financial instruments

Credit Risk:

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

	Carrying Amount			
		December 31, 2019		**December 31, 2018**
Cash and cash equivalents	**$**	**5,106,863**	$	1,748,249
Receivables		**70,361**		113,412
	$	**5,177,224**	$	1,861,661

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2019, $60,511 or 1% of the balance of cash was held in banks outside Canada (2018 - $66,342 or 4%).

Liquidity Risk:

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

The Corporation does not have sufficient working capital to meet budgeted expenditures for 2020 and must obtain additional financing to avoid disruption to its operations (see note 2).

Market Risk:

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

a) Interest rate risk

As of December 31, 2019, the Corporation's convertible debentures carry a fixed interest rate of 10% and hence, they are not subject to interest rate risk fluctuations.

b) Foreign currency risk

The functional currency of the Corporation is the Canadian dollar and the functional currency of the Corporation's subsidiaries is the Mongolian tugrik. Additionally, the Corporation incurs expenses and has received financing in US dollars. Consequently, fluctuations of the Canadian dollar in relation to other currencies impacts the fair value of financial assets, liabilities and operating results. Financial assets and liabilities subject to currency translation risk primarily include US dollar denominated cash, accounts payable and accrued liabilities, as well as Mongolian tugrik denominated cash, accounts payable and accrued liabilities. The Corporation maintains Canadian and US dollar bank accounts in Canada.

The Corporation is also exposed to foreign exchange risk on its US dollar denominated Convertible Debentures. At maturity the US$5 million principal amount of the Convertible Debentures, as well as any capitalized interest is due in full. Accordingly, the Corporation is subject to risks associated with fluctuations in the Canadian/US dollar exchange rate that may make the Convertible Debentures more costly to repay.

(Canadian dollars)

15. Financial instruments (continued)

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

		December 31, 2019		December 31, 2018
Cash and cash equivalents	**$**	**4,854,316**	$	96,157
Trade and other receivables		**-**		-
Trade and other payables		**(155,219)**		(24,244)
Convertible loan		**(1,927,151)**		-
	$	**2,771,946**	$	71,913

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately $277,200 (December 31, 2018 - $7,200).

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

		December 31, 2019		December 31, 2018
Cash and cash equivalents	**$**	**7,963**	$	3,432
Trade and other receivables		**5,877**		7,218
Trade and other payables		**(69,501)**		(22,159)
	$	**(55,661)**	$	(11,509)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately $5,600 (December 31, 2018 - $1,200).

c) Price risk

The Corporation's financial instruments are not exposed to direct price risk other than that associated with commodity price fluctuations impacting the mineral exploration and mining industries as the Corporation has no significant revenues.

Fair Value:

Assets and liabilities measured at fair value in the consolidated statements of financial position, or disclosed in the notes to the financial statements, are categorized using a fair value hierarchy that reflects the significance of the inputs used in determining the fair values:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Canadian dollars)

15. Financial instruments (continued)

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

	December 31, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets and liabilities measured at fair value:						
Cash and cash equivalents	**$ 5,106,863**	**$ -**	**$ -**	$ 1,748,249	$ -	$ -
Receivables	**-**	**70,361**	**-**	-	113,412	-
Conversion option on the convertible loan	**-**	**(1,927,151)**	**-**	-	-	-

16. Related Parties

The Corporation has defined key management personnel as senior executive officers, as well as the Board of Directors. The total remuneration of key management personnel and the Board of Directors was as follows:

	Year ended December 31, 2019	2018
Directors' fees	**$ 161,977**	$ 111,500
Share-based compensation to directors	**245,700**	343,600
Executive compensation and benefits	**470,746**	386,892
Share-based compensation to key management	**245,306**	440,573
	$ 1,123,729	$ 1,282,565

During the year ended December 31, 2019, certain directors, officers and employees of the Corporation received short-term advances. All advances were repaid in full prior to December 31, 2019.

17. Subsequent Event

On March 5, 2020 the Corporation received mining license MV-021547 for its Altan Nar project from the Mineral Resource and Petroleum Authority of Mongolia. This mining license is valid for 30 years, with an option to extend for up to a total of 70 years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2019

Contents

*This Management Discussion and Analysis ("**MD&A**"), dated March 12, 2020, relates to the operating results and financial condition of Erdene Resource Development Corporation ("**Erdene**" or the "**Company**" or the "**Corporation**") and should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2019 and 2018, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("**IFRS**").*

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities, budgeted financial results and events or developments that the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions (including, but not limited to, assumptions in connection with the continuance of the Corporation and its subsidiaries as a going concern, general economic and market conditions, mineral prices, and the accuracy of mineral resource estimate), 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, exploration and evaluation results, continued availability of capital and financing and general economic, market or business conditions.

The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2019, a copy of which is available on the Corporation's SEDAR document page at www.sedar.com.

Any financial outlook or future-oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of the Corporation as of the date of this MD&A. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such outlook or information should not be used for purposes other than for which it is disclosed in this MD&A.

Company Overview

Erdene Resource Development Corporation is a Canadian based resource company focused on the acquisition, exploration, and development of high-grade, near surface, precious and base metals deposits in underexplored and highly prospective Mongolia. The Company has interests in three exploration and three mining licenses in Southwest Mongolia, where exploration success has led to the discovery of the Khundii Gold District. Erdene is listed on the Toronto (TSX: ERD) and Mongolian (MSE: ERDN) Stock Exchanges.

Erdene's deposits are located in the Edren Terrane, within the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. Although epithermal gold and porphyry copper-gold deposits are well documented in China and along the Belt's western trend, exploration in Mongolia was limited until the mid-1990's, when the country opened to foreign investment. Since that time, the Oyu Tolgoi copper-gold deposit has been developed in Southeast Mongolia, and Erdene has discovered the Khundii Gold District in the country's southwest. Within the Khundii Gold District, the Company has discovered multiple high-grade gold and base metal prospects, two of which are being developed: Bayan Khundii ("Bayan Khundii" or "BK") and Altan Nar ("Altan Nar" or "AN"). In addition, the Company holds a large molybdenum-copper resource at its 100% owned Zuun Mod project, 33 kilometres to the east of Bayan Khundii.

Erdene announced the positive results of a NI 43-101 Pre-Feasibility Study ("PFS") for BK and an updated Preliminary Economic Assessment ("PEA") for AN, led by Tetra Tech Inc. ("Tetra Tech") on October 21, 2019. An Environmental and Social Impact Assessment ("ESIA"), led by Sustainability East Asia, LLC is largely complete with results expected to be announced in the first half of 2020. The Company launched a Bankable Feasibility Study ("BFS") and Front-End Engineering and Design ("FEED") work for BK in December 2019, which should position the Company to reach a development decision in mid-2020. Erdene is targeting first gold production in late 2021, as the initial step in the Company's journey to become a major regional gold producer.

While focused on development of the Khundii Gold Project, Erdene continues to explore the broader Khundii Gold District. The region hosts the full spectrum of arc-related base and precious metal systems, including copper-molybdenum porphyries, intermediate sulphidation/carbonate base metal gold deposits, and low sulphidation epithermal gold and gold-silver systems. Exploration of the district remains in the early stages, however, results to date demonstrate the potential for additional discoveries.

Highlights and Significant Subsequent Events

Khundii Gold Project – 100% Erdene

- Announced compelling results of a NI 43-101 Technical Report led by Tetra Tech comprised of the Bayan Khundii PFS and an updated Altan Nar PEA (results at US$1,300/oz gold price, unless noted):
    - Post-tax Net Present Value at a 5% discount rate (NPV5%) of US$97 million and a 42% Internal Rate of Return (IRR) for the BK PFS.
    - Post-tax NPV5% of US$166 million and 66% IRR at US$1,600/oz gold price for the BK PFS.
    - Post-tax NPV5% and IRR of US$24 million and 92%, respectively, for the updated AN PEA, reflecting the second phase of the development utilizing BK infrastructure.
    - BK Life of Mine ("LOM") earnings before interest, taxes and depreciation of US$211 million.
    - BK Measured and Indicated Resources of 520,700 ounces gold at an average grade of 3.16 g/t gold, a 20% increase from the September 2018 resource estimate. Additional inferred resources of 103,000 ounces of 3.68 g/t gold.
    - BK Proven and Probable Reserves of 422,000 ounces gold at an average grade of 3.7 g/t gold.
    - LOM head grade of 3.73 g/t gold for the BK PFS and 3.46 g/t gold for the updated AN PEA.
    - Project life of 11 years, comprised of a one-year pre-production period, six-year operating life for BK, three-year operating life for AN, and one-year mine closure.
    - Average annual gold production of 61,000 ounces in the BK PFS and 45,300 ounces of gold and 205,000 ounces of silver in the updated AN PEA.

- All-in sustaining cost ("AISC") of US$746/ounce of gold recovered for the BK PFS and for the updated AN PEA, US$931/ounce of gold equivalent[1]
- BK PFS Initial Capital US$40 million and US$2 million incremental capital for AN PEA.
- Payback period of less than 2 years for BK PFS.
- Significant benefits to Mongolia, including royalties and taxes of US$82 million and 300 local jobs.

- Commenced the BK BFS and associated FEED Work:
  - The studies will be delivered by a consortium of consultants with experience operating in Mongolia and relationships with Asian firms that are well positioned to provide equipment and capital.
- Received the Khundii Mining License on August 5, 2019 and the Altan Nar Mining License on March 5, 2020:
  - Mining licenses are valid for an initial term of 30 years and can be extended up to a total of 70 years, providing long-term tenure over the land package underpinning the Khundii Gold District.
- Completed hydrological drilling and established a water resource for Bayan Khundii:
  - The Mongolian Ministry of Environment and Tourism approved a water reserve and flow rate to be utilized for the planned processing plant and infrastructure of the Khundii Gold Project.
- Concluded the BFS geotechnical drill program for Bayan Khundii in late Q4 2019:
  - Results will be incorporated into the BFS and are expected to result in a safe steepening of pit walls, as the PFS slopes were conservative in the absence of geotechnical data.
- Conducted additional metallurgical testing on Bayan Khundii ore:
  - Blue Coast Research performed further work to optimize cyanidation, dewatering, and the comminution circuit for input into the plant design for the BFS.
- Substantially completed the ESIA led by Sustainability East Asia and the Mongolian statutory Detailed Environmental Impact Assessment ("DEIA) for BK, built upon the ESIA, is largely complete in advance of public consultation, which is scheduled to take place in H1 2020:
  - The study assessed potential impacts on local climate and air quality, water resources, traffic, and the economy in the context of nearby communities and on-site personnel.
  - ESIA will be disclosed in the first half of 2020, following Board and lender reviews.
- Obtained several key permits and regulatory approvals required for construction:
  - Mineral Resource and Petroleum Authority approved the BK Statutory Technical and Economic Assessment ("Mongolian Feasibility Study").
  - Mongolian Ministry of Environment and Tourism approved a water reserve and flow rate to be utilized for the planned processing plant and infrastructure of the Khundii Gold Project.
  - Land Arrangement Plan approved by the local community granting access to the 100-hectare area required to construct the BK open-pit and associated surface infrastructure.

Exploration

- Completed the 2019 exploration campaign, drilling 22 holes totaling 4,367 metres at Bayan Khundii and Altan Nar which returned some of the strongest results to date:
  - Bayan Khundii – Midfield Zone: Confirmation drilling for the PFS Resource intersected 112 metres of 5.9 g/t gold, including 8 metres of 45 g/t gold and 1 metre intervals of 81, 95 and 129 g/t gold at BKD-261
  - Bayan Khundii – Striker and Midfield Zones: Definition drilling intersected 32 metres of 2.4 g/t gold in BKD-269 and 37 metres of 1.7 g/t gold in BKD-270 demonstrating continuity of mineralization within the BK deposit.
  - Bayan Khundii South Extension: Step-out drilling, under cover, 350 metres south of the BK deposit. BKD-268 intersected anomalous gold mineralization up to 1 metre of 2.45 g/t gold within the same altered volcanic unit which hosts the high-grade BK gold deposit.

[1] For the purpose of the PEA, gold equivalent (AuEq) is based on saleable gold and silver only, at metal values of US$1,300 for gold and US$17.50 for silver. No value is assigned to lead and zinc as it is not recoverable in the current processing design

- Altan Nar – Discovery Zone: Expanded the high-grade portion of the Central Gap Zone with 45.7 g/t gold, 93.4 g/t silver, 1.54% lead and 3.40% zinc over 7 metres beginning at approximately 70 metres vertical depth, within a broader 23 metre interval grading 17 g/t gold at TND-135.
- Altan Nar – Discovery Zone: Confirmed high-grade mineralization north of the Gap Zone with 12.2 g/t gold over 10 metres including 2 metres of 52.9 g/t gold at TND-134 and 10 metres of 4.68 g/t gold at TND-138.
- Dark Horse (Khar Mori): New, high-grade gold discovery on the Khundii Mining license, 3.5 kilometres north of the BK deposit, with high-grade surface rock samples grading up to 87.8 g/t gold.

Corporate

- Raised C$11.9 million in 2019 through a convertible loan and equity financings to complete the Bayan Khundii Gold Project PFS and BFS, repurchase the Sandstorm NSR royalty and fund exploration and general working capital:
    - Closed a US$5 million (C$6.6 million) convertible loan financing with the European Bank for Reconstruction and Development ("EBRD") in November 2019.
    - Raised $5.3 million in equity through a series of non-brokered private-placement offerings.
    - Current working capital of $3.8 million will fund the Company through completion of the Bankable Feasibility Study.
- Repurchased 50% of the Khundii NSR royalty from Sandstorm Gold on April 12, 2019:
    - The implied value of the NSR royalty is well in excess of the C$1.2M million repurchase price.
- Recorded a net loss of $2,683,292 for the year ended December 31, 2019, compared to a net loss of $3,656,990 for the year ended December 31, 2018:
    - Exploration and Evaluation expenditures, including capitalized costs, of $6,694,914 in 2019 exceeded costs of $5,958,692 for 2018 as increased technical consultant costs associated with the Khundii Gold Project PEA, the Bayan Khundii PFS and the updated Altan Nar PEA more than offset lower exploration activity.
    - Corporate and administrative expenses, excluding non-cash, share-based compensation and depreciation were $1,142,956 in 2019 versus $1,407,536 in 2018 primarily due to lower staffing costs as a result of personnel changes and reduced marketing spend.

Strategy and Outlook

Erdene is focused on two strategic priorities – advancing the Khundii Gold Project to production and expanding precious and base metal resources in the Khundii Gold District through exploration and acquisition.

In February 2019, Erdene filed a positive PEA study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Prepared by RPM Global ("RPM"), this independent study confirmed the high-return, low-capital and low-operating cost potential of the project, that will form the cornerstone development in the emerging Khundii Gold District. The Khundii Gold Project's initial development is expected to focus on a high grade, open-pit mine beginning at the Bayan Khundii Striker Zone, expanding into adjacent zones within Bayan Khundii, prior to incorporating resources from the Altan Nar deposit.

Erdene proceeded immediately to a NI 43-101 PFS for BK and an updated PEA for AN, led by Tetra Tech, and announced results of these studies on October 21, 2019. Incorporating an updated Bayan Khundii resource, an initial Reserve Estimate for BK, and independent quotes for most major cost centers, Tetra Tech confirmed the high-return, low-capital and operating cost potential of the Khundii Gold Project.

In late 2019, Erdene launched the Bankable Feasibility Study ("BFS") and Front-End Engineering and Design ("FEED") work required for permitting, project finance, and board approval to construct the Bayan Khundii Gold Project. These studies will be delivered by a consortium of international and Mongolian consultants and will incorporate an updated mine design study, FEED for the processing plant and associated infrastructure, a hydrogeological study, detailed waste management plans, and an updated economic model. The Company expects to deliver the BFS in mid-2020.

Further details on the firms conducting these studies are as follows:

- Roma Group Ltd. ("Roma"), a leading regional provider of engineering, business and asset valuations, risk advisory, corporate and M&A advisory services will manage the preparation of the NI 43-101 BFS Technical Report as well as the hydrology-hydrogeological and geotechnical studies, cost estimation and financial modelling workstreams. Roma is listed on the Hong Kong Stock Exchange and has significant experience leading technical studies and valuation projects for major regional and Mongolian mining and financial firms.
- Several Mongolian companies are providing in-country services and support for the BFS and FEED Study, including Soil Trade LLC ("Soil Trade"), a geotechnical engineering firm, LOBO Erdene LLC ("LOBO"), an engineering and construction firm, Project Mining LLC ("Project Mining"), a mining engineering consulting firm; and Eco Trade LLC ("Eco Trade"), an environmental consulting firm. Erdene is working closely with local specialists to ensure compliance with Mongolian regulations.
- O2 Mining Ltd. ("O2") will assist with the BFS mine design and planning (including closure) and co-lead the FEED Study for non-process infrastructure and Mongolian construction permitting workstreams. O2 is a Hong Kong-based engineering firm with significant experience in mine development in Australasia, including the commissioning and operation of three gold and coal mines in Mongolia.
- Auralia Mining Consulting ("Auralia"), has been engaged to confirm final mineral reserve modelling and mine design optimization. Auralia is a Perth, Australia-based consulting firm with expertise in mine engineering and resource modelling and extensive experience with gold projects with companies such as Barrick and Gold Road Resources.
- 360-Global Inc. ("360-Global") will carry out process plant design and engineering for the BFS and FEED Studies. 360-Global is a consulting firm with offices in the Philippines and Australia, specialized in full cycle design services and experienced with gold processing infrastructure globally.
- ATC Williams Pty Ltd, ("ATCW") will undertake mineral waste and tailings facility design and management and mine closure planning. ATCW is based in Melbourne, Australia and has extensive experience in mineral waste and tailings transport, storage, closure and water management, including at the Oyu Tolgoi project in Mongolia.
- Blue Coast Research Ltd ("BCR") will continue to provide metallurgical testing support for the Khundii Gold Project. BCR has extensive experience with gold deposits and has carried out all of the Bayan Khundii and Altan Nar metallurgical test work to date.

Since the launch of these studies, five (5) process-water production bore holes were established within 3.2 kilometres of the proposed location of the Bayan Khundii processing facility. A water resource sufficient to meet the anticipated process plant requirement for the life of the BK facility has been registered and approved by the Ministry of Environment and Tourism. In addition, a water well has been established, registered and approved within 200 metres of the proposed camp.

Six (6) geotechnical drill holes (745 metres) were bored in Q4 2019 to assess the strength and stability of the various lithologies within the proposed Bayan Khundii open-pit. These data will be used to determine pit slope stability for mine planning, and it is anticipated that engineers will be able to safely increase pit slope angles as the PFS incorporated conservative slope assumptions due to a lack of data.

In the latter half of 2019, a series of representative composites and whole drill core from the proposed BK open-pit were shipped to BCR in British Columbia, Canada for further metallurgical testing. Metallurgical test results will provide engineers with data to further optimize the comminution (grinding) circuit; to determine the ideal grind size for optimized gold recovery; determine the most efficient dewatering procedures to maximize water recovery; determine carbon adsorption characteristics for the gold recovery circuit; optimize percent solids of the process plant slurry, and; detoxification test work designed to minimize cyanide in tailings. Much of the test work has been completed and is being used by the process design engineers to optimize the BK process plant design for the BFS.

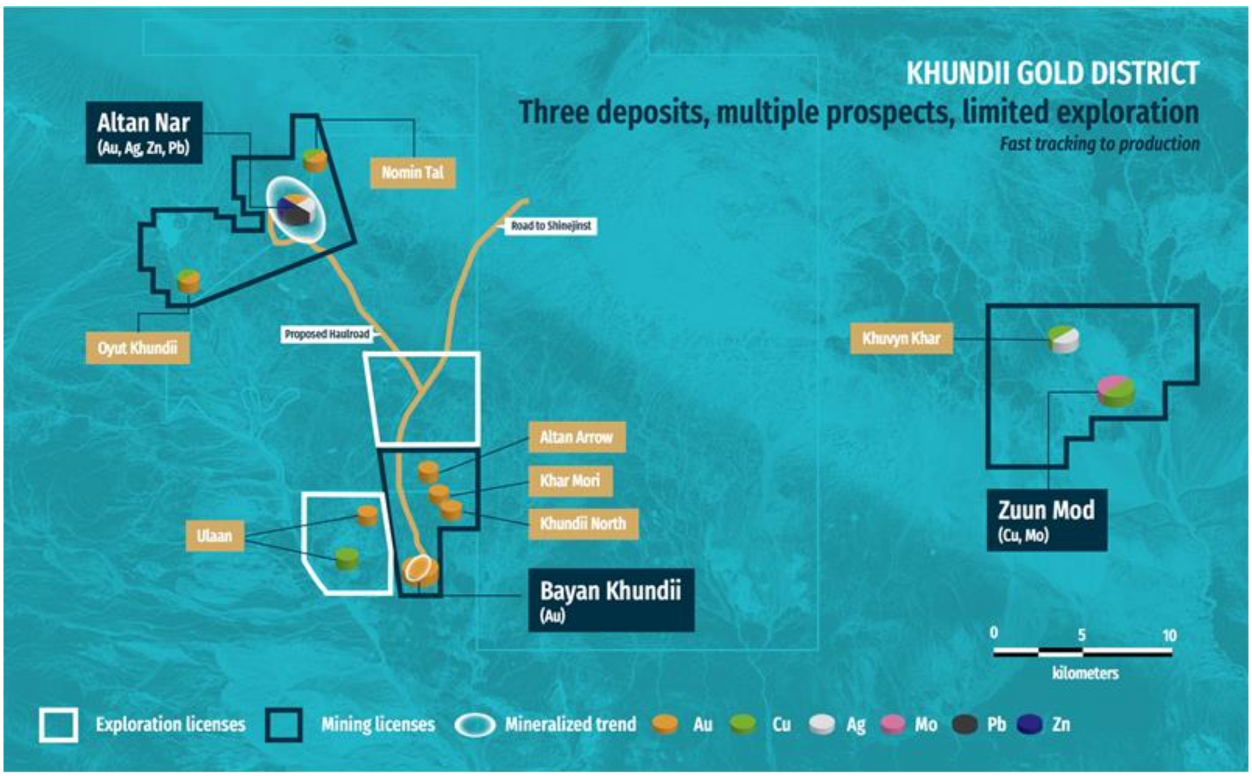
Concurrently, the Project's Environmental and Social Impact Assessment, led by Sustainability East Asia, LLC has been mostly completed. Given the Project's modest initial scale and commitment to industry-leading avoidance and mitigation measures, the Project's benefits are expected to outweigh the low and moderate residual anticipated impacts from the operations. The Mongolian statutory Detailed Environmental Impact Assessment ("DEIA) for BK, built upon the ESIA, is mainly complete in advance of the public consultation, which is scheduled to take place in H1 2020.

Erdene received Mining License MV-021444 for its Bayan Khundii resource on August 5, 2019 from the Mineral Resource and Petroleum Authority of Mongolia (“MRPAM”). The Khundii mining license covers 2,309 hectares, including the Bayan Khundii Reserve and the highly prospective Khar Mori, Altan Arrow, Khundii North and Khundii South targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. Erdene maintains an exploration license for the remaining 2,205 hectares of the legacy Bayan Khundii exploration license that were not converted to a mining license as part of its application. On November 1, 2019 MRPAM council approved Erdene’s Altan Nar resource registration application and the Company received the Altan Nar mining license on March 5, 2020.

Erdene continues to explore the potential for additional discoveries on its Khundii and Altan Nar licenses and is evaluating acquisition opportunities throughout the Khundii District. Over the past decade Erdene has developed the largest proprietary geologic database of Southwest Mongolia’s mineralization that has led to the identification of more than 20 high-priority targets for acquisition. Mongolia’s Ministry of Mining and Heavy Industry re-opened the region to tenders in late 2018, and though none of Erdene’s targets have been released to tender, the Company will participate when its priority parcels come to market.

Development and Exploration Projects

Erdene’s Khundii Gold District in Southwest Mongolia



On September 15, 2018, the Company announced a maiden resource estimate for the Khundii Gold Project, including the Bayan Khundii and Altan Nar deposits. On October 21, 2019, Erdene announced an updated Bayan Khundii Resource as well as a Bayan Khundii Mineral Reserve, as part of the PFS prepared by Tetra Tech. Apart from Zuun Mod, the Company’s other targets are early stage and do not contain any mineral resource estimates, as defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). With the exception of those deposits already delineated, potential quantities and grades disclosed in this MD&A are conceptual in nature, and there has been insufficient exploration to define a mineral resource estimate for other targets disclosed herein. It is uncertain if further exploration will result in these targets being delineated as a mineral resource. Additional information about our projects is also summarized in our AIF and the respective NI 43-101 Technical Reports and can be viewed under the Company’s issuer profile on SEDAR at www.sedar.com.

Khundii Gold Project

The Khundii Gold Project is comprised of the Company's high-grade, near-surface Bayan Khundii and Altan Nar deposits. The Bayan Khundii ("Rich Valley") gold project is located on Erdene's 100%-owned, 2,309 hectare Khundii mining license. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in "Khundii Gold Project NI 43-101 Technical Report", dated December 4, 2019 and prepared by Tetra Tech, Inc., as well as Erdene's highly prospective Khar Mori, Altan Arrow, Khundii North and Khundii South targets.

The Bayan Khundii deposit was discovered in Q2 2015, with initial drill results reported in Q4 2015; the first hole returned 7 metres of 27.5 g/t gold at 14 metres depth. Step-out drilling in 2017 indicated that mineralization encountered in the Midfield Zone, (located 200 metres northeast from the initial Striker Zone discovery), extends for at least an additional 280 meters to the northeast under post-mineralization cover. The Midfield and North Midfield Zones have returned some of the highest grades and widest mineralized intervals at Bayan Khundii. BKD-98 returned 80 metres of 6.0 g/t gold from 42 metres depth, and BKD-231 returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold. Drilling has identified three main areas of very high-grade gold mineralization with strong continuity: Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization cover. The high-grade gold zones within these three areas can be very wide, with intervals including 112 metres of 5.9 g/t gold (BKD-261, 2019 drilling).

Bayan Khundii has become the highest priority project for the Corporation based on its grade, proximity to surface, and favorable metallurgy. The Corporation has completed 45,377 metres of diamond drilling at Bayan Khundii over 270 diamond drill holes and advanced the project through independent studies to the feasibility stage.

In September 2019, the Company completed a 1,114-metre drill program on the Khundii mining license. Drilling included three exploration holes to test the Khundii North, Khundii South and CSZ targets as well as limited drilling within the Bayan Khundii deposit to test for extensions of gold mineralization in areas of lower density historical drilling and to gather samples for metallurgical testing. Exploration drill results included the intersection of up to 2.45 g/t gold at Khundii South, located approximately 350 metres south of the BK deposit, and alteration consistent with known gold mineralization within the Bayan Khundii deposit. Two holes were also drilled at Bayan Khundii from Striker to Midfield in an area with limited previous drilling with the aim of increasing confidence in the resources in this area. These two holes intersected high-grade gold, including 6.6 g/t gold over 6.3 metres within 32 metres of 2.4 g/t gold in BKD-269 and 4.7 g/t gold over 7 metres within 37 metres of 1.7 g/t gold in BKD-270.

Surface exploration in early Q4-2019 focused on a previously untested area of the Khundii Mining License now referred to as the Khar Mori prospect. Located 3.5 kilometres north of the BK deposit, geochemical rock-chip samples returned up to 32.9 g/t gold. Follow-up surface exploration in late Q4-2019, including detailed geologic mapping and geochemical sampling (rock chip and soil) identified multiple samples grading over 5 g/t gold, including an 87.8 g/t gold rock chip sample hosted within comb quartz-adularia veins. The Q4-2019 program expanded the Khar Mori prospect westward to an area approximately 1.5 by 2 kilometre area, connecting with the adjacent Altan Arrow gold prospect to the northwest.

Finally, a large diameter (PQ) hole was drilled in the center of the Striker zone to collect whole core for further metallurgical testing of high-grade material. The metallurgical test work will provide input to the grinding and processing parameters of the BFS currently underway.

The 100%-owned Altan Nar ("Golden Sun") deposit is located on the Corporation's 4,669 hectare Altan Nar mining license, 16 kilometres northwest of Bayan Khundii. The mining license was issued on March 5, 2020 and is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. The license hosts 18 mineralized (gold, silver, lead, zinc) target areas within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, Discovery Zone ("DZ") and Union North ("UN"), host wide zones of high-grade, near-surface mineralization, and are the focus of a Resource Estimate released in Q2 2018 and incorporated into the updated Altan Nar PEA.

Altan Nar is an intermediate sulphidation, carbonate-base metal gold ("CBMG") deposit, with similarities to prolific gold deposits such as Barrick Gold's Porgera mine (Papua New Guinea), Rio Tinto's formerly producing Kelian mine (Indonesia), Lundin Gold's Fruta Del Norte deposit (Ecuador), and Continental Gold's Buritica project (Colombia). CBMG deposits generally occur above porphyry intrusions in arc settings and may extend for more than 500 metres vertically.

Altan Nar received limited exploration over the past two years as the Company's resources were focused on the Bayan Khundii discovery. In late Q4-2019, the Company drilled five holes totaling 667 metres in DZ.

Four holes tested the high-grade core area of the Discovery Zone, over a 130-metre strike length, 70 metres of which remains untested by drilling (“Gap Zone”). The fifth hole tested the southern extension of the deposit.

Results from the Q4-2019 program, including the intersection of 45.7 g/t gold, 93.4 g/t silver, 1.54% lead and 3.40% zinc over 7 metres beginning at approximately 70 metres vertical depth, within 23 metres grading 17 g/t gold, are amongst the strongest to date. Many of the Q4-2019 high-grade intersections are locally outside or in areas of previously low-grade resource blocks and therefore expand the DZ high-grade core indicating consistency in high-grade mineralization within the identified ore horizon. These results are expected to positively impact the resource at Altan Nar and open the way for further expansion along strike and elsewhere in the district. The program also demonstrated continuity of anomalous gold and base metals along the structural corridor to the south of the DZ, which will be tested further in upcoming programs.

To date, Indicated Mineral Resources have been established for the Discovery Zone and Union North prospects. The remaining 16 targets at Altan Nar appear very prospective and the Company intends to complete further drilling on the license to increase its understanding of the system.

Mineral Resources and Reserves

Erdene announced an updated resource estimate for the Khundii Gold Project, dated October 1, 2019, prepared in accordance with NI 43-101 by Tetra Tech. The total Khundii Gold Project resource was calculated by adding the resource from both the Bayan Khundii and Altan Nar deposits and calculating the weighted average grades. The Bayan Khundii Mineral Resource estimate, prepared by Tetra Tech, has an effective date of October 1, 2019. RPMGlobal calculated the Mineral Resource estimate for the Altan Nar deposit. For further details on the Altan Nar Mineral Resource estimate, please see the Company’s May 10, 2018 news release and RPM’s Altan Nar Gold Project 43-101 document, 21 June 2018.

A summarized sensitivity analysis of the grade and tonnage relationships at various cut-off grades for the Khundii Gold Project is shown in the table below[1]:

Cut-Off Grade[1,2]	Resource Classification	Quantity (Mt)	Grade (Au g/t)	Gold (Koz)
0.4	Measured & Indicated	14.0	1.91	863
	Inferred	4.8	1.91	295
Recommended[3]	**Measured & Indicated**	10.1	2.59	839
	Inferred	4.3	2.10	289
1.0	Measured & Indicated	6.5	3.65	762
	Inferred	3.6	2.38	275
1.4	Measured & Indicated	5.2	4.33	727
	Inferred	3.2	2.56	266

(1) Combined resources from Bayan Khundii and Altan Nar.
(2) Cut-off grades for Altan Nar are AuEq2 and for Bayan Khundii are gold only. For the AN resource estimate, Gold Equivalent (“AuEq2”) calculations assume metal prices of US $1,310 per ounce gold, US $18 per ounce silver, and US $2,400 per tonne lead and US $3,100 per tonne zinc.
(3) Tetra Tech recommended cut-off grade for Bayan Khundii is 0.55 g/t gold and RPM recommended cut-off grade for Altan Nar is 0.7 g/t AuEq2 above a pit and 1.4 g/t AuEq2 below the same pit shell.

The updated Bayan Khundii Mineral Resource estimate prepared by Tetra Tech is based on the combination of geological modeling, geostatistics, and conventional block modeling using the Ordinary Kriging method of grade interpolation in Datamine Studio RM™ software. The QAQC sampling protocols and corresponding sample preparation and shipment procedures have been reviewed by Tetra Tech.

The Mineral Resource estimate has been constrained to a conceptual pit shell and is reported at a cut-off grade of 0.55 g/t gold. The assumptions and parameters utilized to establish the cut-off grade and pit shell are reported in notes following the table below and support reasonable prospects for eventual economic extraction.

Cut-off Grade[1]	Resource Classification	Quantity (Mt)	Grade (Au g/t)	Gold (Koz)
0.55	Measured	1.4	3.77	171
	Indicated	3.7	2.93	350
	Measured & Indicated	**5.1**	**3.16**	**521**
	Inferred	0.9	3.68	103

(1) The Statement of Estimates of Mineral Resources has been compiled under the supervision of Mr. Cameron Norton who is a full-time employee of Tetra Tech and a P. Geo. Mr. Norton has sufficient experience that is relevant to the style of mineralization

and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.

(2) *All Mineral Resource figures reported in the table above represent estimates based on drilling completed up to April 22, 2019. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.*

(3) *Mineral Resources are reported on a dry in-situ basis.*

(4) *The Mineral Resources is reported at a 0.55 g/t Au cut-off. Cut-off parameters were selected based on Tetra Tech's internal cut-off calculator, which indicated that a break-even cut-off grade of 0.55 g/t Au, assuming an open cut mining method, a gold price of USD $1,350 per ounce, an open mining cost of USD $2 per tonne, a processing cost of USD $16 per tonne milled, a G&A cost of $5 per tonne, and a gold recovery of 95%.*

(5) *The mineral resource estimate has been constrained to a preliminary optimized pit shell which assumed a gold price of USD $2,000 and the economic potential tested using the above parameters.*

(6) *The mineral resource estimate assumes an average density of 2.66 t/m3 for the mineralized domains.*

(7) *Mineral Resources referred to above, have not been subject to detailed economic analysis and therefore, have not been demonstrated to have actual economic viability.*

(8) *Measured and Indicated mineral resources do not have demonstrated economic viability. Inferred mineral resources have a greater amount of uncertainty as to their existence and potential economic and legal feasibility, do not have demonstrated economic viability, and are exclusive of mineral reserves.*

The updated Bayan Khundii resource estimate has resulted in a 20% increase in the grade and ounces of contained gold for the combined Measured and Indicated resources. This increase is due to the results of 2019 infill drilling that confirmed continuity of the high-grade mineralization and a reinterpretation of the geologic model by the Tetra Tech resource modeler.

The total Bayan Khundii Mineral Reserve is shown below. The Mineral Reserve has been estimated by Tetra Tech, using the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves to conform to the Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects is based on the updated October 1, 2019, Mineral Resource. The Mineral Reserve includes both Proven and Probable Mineral Reserves that were converted from Measured and Indicated Mineral Resources. Tonnes and grades were calculated for the mining blocks, and allowances for dilution and mining recovery were applied to estimate the Mineral Reserve Statement.

	Tonnage (Mt)	Grade (g/t Au)	Contained Au (Koz)
Proven Mineral Reserves	1.1	4.4	165
Probable Mineral Reserves	2.4	3.4	256
Total Mineral Reserve	**3.5**	**3.7**	**422**

Notes:

(1) *Rounding may cause some computational discrepancies.*

(2) *The effective date of the Mineral Reserve estimate is October 15th, 2019. The QP for the estimate is Ms. Maurie Phifer, P.Eng. of Tetra Tech.*

(3) *The Mineral Reserve estimates were prepared with reference to the 2014 Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Definition Standards (2014 CIM Definition Standards) and the 2003 CIM Best Practice Guidelines.*

(4) *Reserves estimated assuming open pit mining methods.*

(5) *Reserves are reported on a dry in-situ basis.*

(6) *Waste to ore cut-offs were determined using a Net Smelter Return ("NSR") for each block in the model. NSR is calculated using prices and process recoveries for each metal accounting for all off-site losses, transportation, smelting and refining charges. NSR cut-off was calculated to be $22.93 and includes 5% royalty deduction.*

(7) *Reserves are based on a gold price of $1267/oz, mining cost of $2.5/tonne, milling costs of $16.46/tonne feed, G&A costs of $6.58/tonne.*

(8) *Mineral Reserves include dilution of 9% and losses of 5%.*

RPMGlobal calculated the Mineral Resource estimate for Altan Nar in May 2018 at a number of gold cut-offs, however, RPM recommends reporting the Altan Nar Mineral Resource at cut-off of 0.7 g/t AuEq2 (see definition for AuEq2 in note 8 below) above a pit and 1.4 g/t AuEq2 below the same pit shell. For further details on the Mineral Resource estimate please see the Company's May 10, 2018 news release.

Cut-off AuEq2 g/t	Resource Classi-fication	Quantity (Mt)	Grade					Contained Metal				
			Au g/t	Ag g/t	Zn g/t	Pb g/t	AuEq2 g/t	Au Koz	Ag Koz	Zn Kt	Pb Kt	AuEq2 Koz
0.7	Indicated	5.0	2.0	14.8	0.6	0.6	2.8	318	2,350	31.6	29.0	453
	Inferred	3.4	1.7	7.9	0.7	0.7	2.5	186	866	23.7	22.3	277

Notes:

(1) *The Mineral Resources have been constrained by topography and a cut-off of 0.7 g/t AuEq2 above a pit and 1.4 g/t AuEq2 below the same pit shell.*

(2) *The Mineral Resource Estimate Summary was compiled under the supervision of Mr. Jeremy Clark who is a full-time employee of RPM and a Member of the Australian Institute of Geoscientists. Mr. Clark has sufficient experience that is relevant to the*

style of mineralization and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.

(3) All Mineral Resource figures reported in the table above represent estimates as at May 7, 2018. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.

(4) Mineral Resource grades are reported in accordance with the CIM Standards.

(5) Mineral Resources reported on a dry in-situ basis.

(6) No dilution or ore loss factors have been applied to the reported Resource Estimate

(7) No allowances have been made for recovery losses that may occur should mining eventually result.

(8) For the AN resource estimate Gold Equivalent ("AuEq2") calculations assume metal prices of US $1,310 per ounce gold, US $18 per ounce silver, and US $2,400 per tonne lead and US $3,100 per tonne zinc.

Economic Studies

On October 21, 2019, Erdene announced results of an independent Technical Report for the Khundii Gold Project comprised of a PFS for its Bayan Khundii Gold Deposit and an updated PEA for its Altan Nar Deposit. The Technical Report also includes an updated mineral resource as well as a statement of mineral reserves for Bayan Khundii. The Technical Report was prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects by Tetra Tech.

The Technical Report envisions a high-grade, open-pit mine, beginning at surface at Bayan Khundii, and expanding northward into adjacent zones within the Bayan Khundii deposit. The development incorporates conventional crushing and grinding separation and a carbon in pulp plant with processing capacity of 1,800 tonnes per day. Altan Nar resources will be mined by open-pit mining following the completion of mining at Bayan Khundii, in years 8 to 10 of the Khundii Gold Project mine life. Financial modelling for the Altan Nar PEA has been completed as a marginal analysis, assuming the use of processing infrastructure at Bayan Khundii. Standalone financial modelling of Altan Nar resources has not been undertaken.

The PFS includes 3.5 million mineable tonnes from the Bayan Khundii resource at an average head grade of 3.73 g/t gold, all of which are Proven and Probable Reserves. The Altan Nar PEA contributes 1.8 million mineable tonnes at an average head grade of 3.46 g/t gold and 17 g/t silver, of which 66% are Indicated Resources.

The PEA is by nature, a preliminary economic study, based in part on Inferred Resources. Inferred Resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves which is required for a prefeasibility or feasibility study. Mineral resources that are not mineral reserves do not have demonstrated economic viability and there is no certainty that the PEA will be realized.

Key Project metrics are presented in the following table:

		BK PFS	AN PEA
Gold Price	US$/oz	1,300	1,300
Production Profile			
Average Head Grade Over Life of Mine[1]	g/t gold	3.73	3.46
Project Life[2]	years	7	4
Operating Life	years	6	3
Target Production Rate Per Day[3]	tpd	1,800	1,800
Average Annual Saleable Gold[4]	oz	61,000	48,000
Peak Annual Saleable Gold[4]	oz	75,000	53,200
Average Gold Recovery Rate Over Life of Mine	%	91%	67%
Strip Ratio	t:t	10.2	7.6
Operating Costs			
Life of Mine ("LOM") Average Cash Cost[5]	US$/oz	741	929
LOM Cash Cost plus Sustaining Cost (AISC)[5]	US$/oz	746	931
Pre-Tax Net Present Value			
5% discount rate	US$M	124	31
7.5% discount rate	US$M	107	24
10% discount rate	US$M	92	19
After-Tax Net Present Value			
5% discount rate	US$M	97	24

7.5% discount rate	US$M	83	19
10% discount rate	US$M	71	15
Internal Rate of Return and Payback			
Pre-Tax Internal Rate of Return	%	48%	110%
After-Tax Internal Rate of Return	%	42%	92%
Payback Period Post-Construction [5]	years	1.8	1.1
Capital Requirements			
Pre-production Capital Cost, including contingency	US$M	39.9	2.2
LOM Sustaining Capital Cost	US$M	2.5	nil

(1) Average diluted head grade of mineralized rock fed to process plant.
(2) Project life comprising one year pre-production period, approximately nine years operating life and one year mine closure.
(3) Assumes process plant operates for 8,000 hours per annum to achieve the target production rate of 600 ktpa.
(4) Reported numbers for saleable gold for Bayan Khundii and gold equivalent ("AuEq") for Altan Nar. For the purpose of the PEA, gold equivalent (AqEq) is based on saleable gold and silver only, at metal values of US$1,300 for gold and US$17.50 for silver. No value is assigned to lead and zinc as it is not recoverable in the current processing design.
(5) Operating costs reported in terms of saleable gold ounces for Bayan Khundii and AuEq ounces for Altan Nar; cost includes Royalty and Charges at US$77/oz.

The following tables show the change in the after-tax NPV and IRR over a range of gold prices and discount rates, demonstrating the impact of higher gold prices and the Project's resiliency to lower prices:

Technical Report Sensitivities – After-Tax Gold Price Sensitivity Analysis – BK PFS

Price Sensitivity Analysis	Units	US$1,200	US$1,300	US$1,400	US$1,500	US$1,600	US$1,700
NPV (5% discount rate)	US$M	73	97	121	144	165	188
NPV (7.5% discount rate)	US$M	61	83	105	125	145	165
NPV (10% discount rate)	US$M	50	70	91	109	128	146
IRR	%	34%	42%	50%	58%	66%	73%

Technical Report Sensitivities – After-Tax Gold Price Sensitivity Analysis – AN PEA

Price Sensitivity Analysis	Units	US$1,200	US$1,300	US$1,400	US$1,500	US$1,600	US$1,700
NPV (5% discount rate)	US$M	18	24	30	37	43	49
NPV (7.5% discount rate)	US$M	14	19	24	29	34	39
NPV (10% discount rate)	US$M	11	15	19	23	28	32
IRR	%	71%	92%	113%	134%	154%	173%

The BK PFS is based on an open-pit mining operation targeting 600,000 tonnes per year of feed material for the processing plant. The total mineable mineralized plant feed is 3.5 million tonnes at an average diluted head grade of 3.73 g/t gold and strip ratio of 10.2:1 (waste tonne: plant feed tonne). Mineralization starts at surface, with the majority of the deposit contained within the top 100 metres. The deposit structure, grades and depth suggest selective open cut mining will be utilized. Underground mining below the current open cut pit is not within the PFS scope of work but will be examined in future studies. Mining will use hydraulic excavators in backhoe configuration. Drilled and blasted material will be loaded into haul trucks, with waste rock deposited in an engineered integrated waste facility adjacent to the pit, and ore hauled to a crusher or run-of-mine ("ROM") pad adjacent to the processing plant.

The updated Altan Nar PEA is based on the selective open-pit mining, also targeting 600,000 tonnes per year of mill feed. The total mineable mineralized plant feed is 1.8 million tonnes at an average diluted head grade of 3.46 g/t gold and 17 g/t silver, at a strip ratio of 7.6:1. Resources from Altan Nar, with a 20 kilometre road distance to the processing plant, will be transferred by articulated trucks to Bayan Khundii.

The PFS assumes processing of ROM material via a conventional crush and grind circuit and a carbon in pulp plant. The ore-processing plant will be located adjacent to the Bayan Khundii open pit and throughput will target 600,000 ore-tonnes per year, nominally 1,800 tonnes per day. Total mineralized material from BK processed in the plant over the life of the mine is 3.5 million tonnes at an average diluted head grade of 3.73 g/t gold. Using an estimated mill recovery of 91%, total recovered gold from BK is 382,000 ounces.

For the updated PEA base case, ore from Altan Nar will be processed at the Bayan Khundii processing plant, utilizing the same conventional crush and grind circuit and carbon in pulp plant. Total mineralized material from Altan Nar processed is 1.8 million tonnes at an average diluted head grade of 3.46 g/t gold and 17 g/t silver. For the Altan Nar deposit, which includes arsenopyritic ore locally, with associated low recoveries, ore mined will only include the free-milling portions of the resource with an average recovery of

67% gold and 62% silver, resulting in a total recovered gold of 136,000 ounces and total recovered silver of 616,000 ounces over the life of the Altan Nar mine, or 144,000 AuEq ounces.

Operating costs are based on the mining and processing scenarios outlined above and assumes contract mining. All other activities are assumed to be owner operated. The AISC for Bayan Khundii is estimated at $746/oz and the AISC for Altan Nar is $931/oz AuEq.

	Bayan Khundii PFS			Altan Nar PEA		
	LOM (US$M)	US$/oz	US$/tonne	LOM (US$M)	US$/oz AuEq	US$/tonne
Mine Operating Cost	125	327	35	59	406	32
Processing Cost	113	295	32	56	388	31
G&A	15	40	5	8	60	5
Total Site Operating Costs	**253**	**662**	**72**	**123**	**854**	**68**
Royalty and Charges	30	77	8	11	77	6
Sustaining Capital & Closure Costs	2	7	1	–	–	–
All-In Sustaining Cost	**285**	**746**	**81**	**134**	**931**	**74**

The initial capital cost (Year 0), primarily comprising construction of supporting infrastructure and the process plant, is estimated at US$40 million. The estimates include a 15% contingency. The PFS contemplates the lease of fleet equipment, which if purchased outright, would add $16 million to capital costs. All major facilities including the process plant are proposed to be located at the Bayan Khundii site.

In Year 6 the supporting infrastructure for the Altan Nar site, primarily a haul road and updates to the processing circuit, is constructed at an estimated cost of US$2.2 million, including a 20% contingency.

Sustaining capital of US$1.2 million has been included in the mine plan and mine closure costs are estimated at US$1.3 million. Total capital expenditures across the Khundii Gold Project life are estimated at US$44.6 million.

	BK PFS (US$M)	AN PEA (US$M)
Mine	1.9	1.3
Process Plant	12.1	0.1
Site Buildings	3.9	-
Accommodation Village	1.4	-
Project Services	2.2	-
Early Earthworks	3.0	0.3
Engineering & Support	4.3	-
Pre-Production Costs	10.9	0.5
Subtotal Plant and Infrastructure	**39.9**	**2.2**
Mine Closure	1.3	-
Sustaining Capital	1.2	-
Total	**42.4**	**2.2**

(1) Rounding may cause some computational discrepancies.

The Company sees the following opportunities to enhance value at the Khundii Gold Project:

- Additional Resources at Bayan Khundii: The Bayan Khundii Resource includes an Inferred Resource of 103,000 ounces of gold at a grade of 3.68 g/t gold which could be added to reserves through additional drilling. Additionally, very high gold grades observed in trenching and drilling in the southwestern portion of the deposit have the potential to provide additional high-grade resources during initial production should closer spaced drilling improve continuity. Recent drilling south of the deposit has intersected high gold grades (greater than 50 g/t) outside the resource boundary that provide expansion targets.
- Additional Resources at Altan Nar: The mine plan in the updated PEA incorporates only a portion of the mineral resources defined at Altan Nar. Further metallurgical test work to enhance recovery of gold, silver and base metals could demonstrate the potential to economically extract additional resources.
- Exploration: The Bayan Khundii and Altan Nar deposits are situated in a highly prospective region that has received minimal historical exploration. On the Bayan Khundii property, multiple high-grade targets have been established through limited shallow drilling and surface sampling within 5 kilometres of the deposit. The 5.6 by 1.5 kilometre Altan Nar target area remains open along strike and at depth. Additional exploration is required to determine the full potential of both deposits.
- Geotechnical Studies: A conservative pit slope has been utilized in the PFS. Additional geotechnical drilling, scheduled for Q4 2019, could support steeper pit walls, reducing the stripping ratio at BK.
- Recoveries: Although a 91% gold recovery has been utilized in the BK PFS, test work on material at the current head grade has recovered an average of 93%. Furthermore, master composite sample testing indicated that recoveries of up to 99% are possible from ultra-high-grade material (greater than 22 g/t gold). Further metallurgical test work, scheduled for Q4 2019, could support higher recoveries.
- Higher Grade Upside: The very high-grade nature of the Bayan Khundii deposit provides upside should continuity of the ultra-high-grade zones be established during mining.
- Mine Planning: The BK PFS and AN PEA represent steps toward addressing the viability of a mining operation at the Khundii Gold Project. Further work may identify opportunities for creating cost savings, such as improved pit sequencing through pit phasing, waste haul optimization, reduced dilution and loss through application of more selective mining techniques and interim pit design targeting improved early grades.
- Mine Equipment Selection: There is opportunity to utilize Tier 2 suppliers for non-critical equipment, reducing capital and operating costs.

District Scale Exploration

Erdene continues to evaluate opportunities throughout the Edren Terrane, within our licenses and elsewhere in the mineralized belt. This has led to the identification of prospects that are being explored through surface surveys on the Company's six licenses, drilling of selected targets and evaluation of acquisition targets on private and government held ground.

Exploration within the licenses has identified significant gold mineralization. Approximately 70% of regional drill holes have intersected anomalous gold mineralization (defined as >0.1 g/t gold), with three holes intersecting greater than 20 g/t gold over 1 to 2 metre intervals. Regional drilling has been restricted to shallow targets with average drill depths of about 100 metres. Success has been driven by the abundance of untested, near surface geochemical and geophysical targets in a region that has had no previous modern exploration. Recent exploration successes testing shallow targets, and the definition of three deposits, exposed at surface, are testament to the discovery potential of this new district.

South Bayan Khundii Prospect

Located within the boundaries of the Khundii mining license, the South Bayan Khundii target is situated 350 metres south-southwest of the Bayan Khundii gold deposit. Resource expansion drilling completed in early 2019 intersected high-grade gold mineralization (up to 51 g/t gold) within a drill hole (BKD-266) outside the currently defined Bayan Khundii resource boundary, at a depth of 264 metres. Follow-up exploration, south of this new discovery, indicated the altered host unit could be traced by geophysics over 500 metres to the south under cover and appeared to be coming closer to surface. Subsequent drilling in Q3, (BKD-268) intersected a 100-metre thick sequence of the same altered volcanic tuff which hosts the Bayan Khundii deposit beginning at 100 metres depth. Multiple 1 metre intervals of anomalous gold (>0.1 g/t) were intersected within the altered unit with up to 1 metre of 2.45 g/t gold. This discovery opens up a large area south of the deposit for additional exploration.

Altan Arrow Gold Target

The Altan Arrow target is located 4.0 kilometres north of the Bayan Khundii gold deposit, along a gold bearing structure in the central portion of the Khundii mining license. Drilling has concentrated in an area along and south of the main structure, where several high-grade zones have been intersected, including 39 g/t gold over 1 metre and 24 g/t gold and 70 g/t gold over 2 metres. Overall, 77% of the 21 holes (2,605 metres) drilled at Altan Arrow have intersected anomalous gold.

Drill testing of the main mineralized structure indicates a broad corridor of anomalous gold over a 1.2 kilometre trend (open along strike) and up to 400 metres south of the main structure in what is interpreted as secondary structural splays. In addition, drill testing of these structural splays, south of the main zone, returned multiple intersects at deeper levels then typically tested (approximately 100 metres vertical depth) with gold grades ranging from 0.2 to 2.6 g/t with anomalous silver, molybdenum, lead, zinc and antimony (AAD-25). Exploration results suggest gold mineralization within the district is controlled by a structure associated with zones of major dilatancy and structural intersections. Such zones commonly have associated alteration events that are magnetite destructive, resulting in zones of low magnetic response. In advance of future drilling the Corporation in the process of completing a comprehensive geophysical interpretation of the Altan Arrow prospect, including high resolution magnetics, IP dipole-dipole and gravity datasets.

Khundii North Gold Target

The Khundii North target is located 4 kilometres northeast of the Bayan Khundii gold deposit, on the Khundii mining license, and was initially drill tested in 2018. The area was identified through surface exploration in late 2017, when sampling of quartz vein material returned high grade gold mineralization of up to 22 g/t gold from a structurally controlled quartz vein stockwork and breccia zone traced over a 1,500 metre strike length. Six holes, totaling 970 metres and averaging 93 metres vertical depth have now tested the stockwork-breccia body, comprised of three collars in the south and two in the north, separated by approximately 500 metres. Although the northern holes returned only minor levels of anomalous gold, the southern holes intersected wide zones of intense multi-phase epithermal quartz stockwork and breccia at depth within an altered monzonite. These stockwork zones are continuous, with up to 35-metre widths (AAD-29) and have associated anomalous gold, locally up to 2.1 g/t over one metre intervals (AAD-30) and locally anomalous copper (>500ppm). In Q3 2019, a single 253 metre drill hole (AAD-38) was completed to test the Khundii North quartz breccia body at depth. Assay results from the drill hole returned modest but anomalous gold values of up to 0.25 g/t gold over 2 metres. Gold anomalism appears to be associated within intervals of quartz stockwork veins intersected throughout the drill hole.

Khar Mori (Dark Horse) Gold Target (New Discovery)

The Khar Mori (Dark Horse) prospect is located 3.5 kilometers north of the Bayan Khundii gold deposit and one kilometer southeast of the Altan Arrow prospect on the Khundii Mining License. The Khar Mori gold prospect was discovered in early Q4-2019 with the collection of a 32.9 g/t gold rock chip sample hosted by massive tourmaline cut by quartz stockwork veins. Follow-up surface exploration in late Q4-2019, consisting of detailed geologic mapping and geochemical sampling (rock chip and soil) identified multiple samples grading greater than 5 g/t gold including an 87.8 g/t gold rock chip sample hosted within a comb of quartz-adularia veins. The Q4-2019 program expanded the Khar Mori prospect westward to an area approximately 1.5 by 2 kilometre area, connecting with the adjacent Altan Arrow gold prospect to the northwest.

In late Q4 2019 an independent expert completed a comprehensive geophysical review of the prospect. Outputs of this analysis include 3D models of gravity, magnetics and IP which provide valuable perspective in future targeting at the Khar Mori and adjacent Altan Arrow prospects.

Ulaan Copper-Gold Porphyry Target

On August 30, 2017 the Corporation acquired a 51% interest in the 1,780-hectare Ulaan exploration license ("Ulaan Property"), immediately west of its high-grade Bayan Khundii deposit. The exploration license is in its sixth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. Having invested more than US$600,000 in the Ulaan property since its acquisition, Erdene has the right to acquire the remaining 49% of the property for fair market value within the next year. Erdene can extend this option by spending a minimum of US$100,000 per annum, going forward.

Ulaan is a porphyry copper prospect primarily based on the broad (5km by 4km) zone of phyllic (quartz-sericite-pyrite) alteration at surface, with characteristics thought to be related to a porphyry intrusion at depth. Rock chip and stream sediment geochemical sampling identified anomalous concentrations of gold, copper and molybdenum in the surrounding area, and recently completed geophysical surveys have produced a number of follow-up targets.

Three wide spaced holes were drilled in 2018, totaling 1,050 metres over a 1.3 kilometre area in the central portion of the license. These holes intersected volcanic to sub-volcanic rocks exhibiting propylitic to phyllic quartz-sericite-pyrite (“QSP”) alteration with varying concentrations of pyrite and locally low-level copper mineralization (100 to 300 ppm over 60 metres).

A 700-metre, three-hole drilling program was completed in Q4-2019 to test the alteration system at depth (to 650 metres), by extending a previous drill hole, and to investigate two shallower moderate IP chargeability targets (to 200 metres). The extension hole showed continuity at depth of the phyllic style alteration and ended within elevated copper, averaging 130 ppm over 22 metres. The entire second hole exhibited sericite alteration and pyrite mineralization with localized zones of tourmaline alteration and quartz veining within an andesite host, however no anomalous geochemistry was encountered. The final hole intersected a broad zone of intense tourmaline-silica-sericite alteration which hosts localized gold bearing quartz-tourmaline breccia and breccia veins from 140 to 202 metres (end of hole). Anomalous gold bearing intervals include: 2 metres of 1.3 g/t gold, 4 metres of 0.29 g/t gold, 2 metres of 0.5 g/t gold and 2 metres of 0.23 g/t gold or 40 metres of 0.15 g/t gold average grade. Anomalous copper, >400 ppm, was also intersected within the anomalous zone. The Erdene technical team is reviewing these results along with associated geology, geochemistry and geophysics to establish the basis for future drill testing on the Ulaan license.

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in southwest Mongolia on the Company’s Khuvyn Khar license. This project is approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The railhead is located 50 kilometres south of the Nariin Sukhait and Ovoot Tolgoi coal mines. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC**,** a wholly owned subsidiary of the Corporation, and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter returns royalty (“NSR Royalty”) of 1.5%, subject to a buy-down provision.

In Q2 2011, the Corporation released a NI 43-101 compliant resource estimate for Zuun Mod containing a Measured and Indicated Resource of 218 million tonnes ("Mt") at an average grade of 0.057% molybdenum, and 0.069% copper at a cut-off grade ("COG") of 0.04% molybdenum. This equates to 273.5 million pounds ("M lbs") of contained molybdenum metal and 330.7 M lbs of contained copper metal. In addition, there is a 168 Mt Inferred Resource at an average grade of 0.052% molybdenum and 0.065% copper, equating to a further 191.8 M lbs of contained molybdenum metal and 240.5 M lbs of contained copper metal.

The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. Market demand for molybdenum has recently improved, with the price of molybdenum oxide ending 2019 at approximately US$11.00 per pound from approximately US$7.25 per pound in 2017. The Corporation will continue to evaluate its options in light of technological and market factors. Discovery of additional copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

Further details on the Zuun Mod resource can be found in the "Technical Report Zuun Mod Porphyry Molybdenum-Copper Project, South-Western Mongolia, National Instrument 43-101 Independent Technical Report" dated June 2011, filed on SEDAR.

Khuvyn Khar Copper-Silver Project

The Khuvyn Khar copper-silver project is located on the Zuun Mod property, approximately 2.2 kilometres north of the Zuun Mod molybdenum-copper porphyry deposit on the Company’s Khuvyn Khar license. Exploration work at Khuvyn Khar has included geological mapping, vein density mapping, geochemical sampling, geophysical surveys, and wide spaced drilling. Previous drilling intersected 34 metres of 1.3% copper and 9.24 g/t silver from 308 to 342 metres (ZMD-121). The Project has a very large copper mineralized zone trending over 900 metres with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 to 42 metres).

Acquisitions

Mongolia’s Ministry of Mining and Heavy Industry announced a re-opening of the licensing system during Q3 2018. Erdene has established the largest proprietary geologic database of Southwest Mongolia with a priority list of acquisition targets. The Company will participate in the tendering process as its priority targets are opened for tender. The Company has also been evaluating privately held licenses for acquisition.

Selected Annual Financial Information

The following financial data (in Canadian $ thousands, except per share amounts) are derived from the Corporation's audited consolidated financial statements for the years ended December 31, 2019, 2018 and 2017 respectively:

Fiscal Year Ended December 31	2019	2018	2017
Revenues	Nil	Nil	Nil
Loss for the year	$ 2,683	$ 3,657	$ 4,027
Basic and diluted loss per share	$ 0.02	$ 0.02	$ 0.03
Total assets	$ 26,973	$ 17,709	$ 14,946
Total long-term liabilities	$ 6,374	Nil	Nil

Discussion of Operations

Years ended December 31, 2019 and 2018

The tables below detail exploration and evaluation expenditures for the years ended December 31, 2019 and 2018. The Khundii Gold Project was the focus of the Corporation's efforts during these periods.

Year ended December 31, 2019	Khundii Gold Project	Zuun Mod	Ulaan & Other	Total
E&E expenditures				
Exploration and field support	**$ 1,486,384**	**$ 113,782**	**$ 490,087**	**$ 2,090,253**
Mining studies and permitting	**3,714,855**	**-**		**3,714,855**
Mongolian office costs	**-**	**-**	**292,804**	**292,804**
Share-based compensation	**-**	**-**	**230,292**	**230,292**
Stakeholder relations	**270,537**	**-**	**4,597**	**275,134**
Travel and other	**63,359**	**-**	**28,217**	**91,576**
Total exploration expenditures	**5,535,135**	**113,782**	**1,045,997**	**6,694,914**
Capitalized expenditures	**(5,535,135)**	**(67,091)**	**(1,902)**	**(5,604,128)**
Expensed exploration costs 2019	**$ -**	**$ 46,691**	**$ 1,044,095**	**$ 1,090,786**
E&E assets, January 1, 2019	**$ 13,930,310**	**$ 831,726**	**$ 925,312**	**$ 15,687,348**
Additions	**5,535,135**	**67,091**	**1,902**	**5,604,128**
Repurchase of NSR	**1,200,000**	**-**	**-**	**1,200,000**
Effect of movements in exchange rates	**(897,504)**	**(70,018)**	**(40,437)**	**(1,007,959)**
E&E assets, December 31, 2019	**$ 19,767,941**	**$ 828,799**	**$ 886,777**	**$ 21,483,517**

Period ended December 31, 2018	Khundii Gold Project	Zuun Mod	Ulaan & Other	Total
E&E expenditures				
Exploration and field support	$ 2,434,562	$ 122,689	$ 781,830	$ 3,339,081
Mining studies and permitting	1,343,667	-	-	1,343,667
Mongolian office costs	-	-	250,043	250,043
Share-based compensation	-	-	473,150	473,150
Stakeholder relations	343,697	-	17,666	361,363
Travel and other	169,629	1,072	20,687	191,388
Total exploration expenditures	4,291,555	123,761	1,543,376	5,958,692
Capitalized expenditures	(4,291,555)	(70,074)	(1,388)	(4,363,017)
Expensed exploration costs 2018	**$ -**	**$ 53,687**	**$ 1,541,988**	**$ 1,595,675**
E&E assets, January 1, 2018	**$ 9,700,832**	**$ 765,795**	**$ 928,216**	**$ 11,394,843**
Additions	4,291,555	70,074	1,388	4,363,017
Effect of movements in exchange rates	(62,077)	(4,143)	(4,292)	(70,512)
E&E assets, December 31, 2018	**$ 13,930,310**	**$ 831,726**	**$ 925,312**	**$ 15,687,348**

Exploration and evaluation expenditures, including capitalized expenditures, totaled $6,694,914 for the year ended December 31, 2019, compared to $5,958,692 for the year ended December 31, 2018.

Exploration and field support expenses of $2,090,253 in 2019 were significantly lower than expenses of $3,339,081 for the year ended December 31, 2018, due to a reduction in drilling and exploration work as the Company's technical staff were focused on supporting the Khundii Gold Project PEA, the Bayan Khundii PFS and the updated Altan Nar PEA. However, Mining studies and permitting costs for the year ended December 31, 2019 were $3,714,855, versus $1,343,667 for the year ended December 31, 2018 due to the studies work. Travel and other costs of $91,576 were also well below the prior year due to reduced exploration activity.

Mongolian office costs of $292,804 for the year ended December 31, 2019 were $42,761 higher than the prior year due primarily to increased legal costs and staffing changes to support marketing and government relations.

Non-cash Share-based compensation expenses were $230,292 for the year ended December 31, 2019, versus $473,150 during the year ended December 31, 2018, with the reduction due largely to a softening in the Corporation's share price in 2019.

Stakeholder relations costs of $275,134 for the year ended December 31, 2019 were $86,229 less than for the year ended December 31, 2018 as non-recurring expenses including for community wells were incurred in in 2018, as well as the timing for funding of sponsored academic research in partnership with the University of British Columbia.

Erdene began capitalizing exploration costs for its Khundii Gold Project on January 1, 2015, with the receipt of the initial resource estimate for the Khundii Gold Project's Altan Nar deposit. For the years ended December 31, 2019 and 2018, Erdene has capitalized all exploration costs associated with this Project.

	For the years ended December 31, 2019	2018	Change
Administrative services	**$ 373,799**	$ 535,118	$ (161,319)
Depreciation and amortization	**18,051**	6,194	11,857
Directors fees and expenses	**178,409**	132,841	45,568
Investor relations and marketing	**109,963**	201,074	(91,111)
Office and sundry	**107,841**	123,271	(15,430)
Professional fees	**202,576**	236,394	(33,818)
Regulatory compliance	**105,234**	116,567	(11,333)
Share-based compensation	**472,768**	712,854	(240,086)
Travel and accommodations	**47,083**	56,077	(8,994)
	$ 1,615,724	$ 2,120,390	$ (504,666)

Corporate and administrative expenses totaled $1,615,724 for the year ended December 31, 2019, compared to $2,120,390 for the year ended December 31, 2018. Administrative services of $373,799 for the year ended December 31, 2019 were $161,319 less than the prior year due to staffing changes and the allocation of a portion of head office staff salaries to exploration and evaluation, as certain head-office staff provided support for the technical studies completed in 2019.

Director's fees and expenses of $178,409 for 2019 were $45,568 higher than the prior year due to incremental work by the Board Chair and the Head of the Technical Committee to support the technical studies completed in 2019. Investor relations and marketing expenses for the period in 2019 were $91,111 lower than the same period in 2018 due to staffing changes and as the Company attended fewer investor conferences during the current year.

Professional fees of $202,576 were $33,818 less than the prior year due to lower financial advisory fees associated with strategic financial planning, partially offset by financing costs associated with the EBRD convertible loan.

Non-cash share-based compensation was $240,086 higher in the prior year due largely to a softening in the Corporation's share price in 2019 that impacted the calculation of the fair value of non-cash share-based awards.

Depreciation and amortization, Office and sundry, Regulatory compliance and Travel and accommodations expenditures for 2019 were not material or significantly different from those incurred in the prior year.

Fourth Quarter

Exploration expenditures totaled $2,200,619 for the three months ended December 31, 2019. Mining studies and permitting expenditures of $1,307,937 were incurred to complete the BK PFS and updated AN PEA studies and commence the FS study for the Khundii Gold Project. Drilling, trenching, sampling and analysis expenditures of $671,328 were attributable to the conclusion of the 2019 exploration program, which included a 1,369 metre drill campaign on the Altan Nar and Ulaan licenses, as well as geologic mapping and geochemical sampling work at the Khar Mori prospect on the Khundii Mining license. Other exploration expenditures of $221,354 include travel expenses, license costs, and other general expenses related to the Corporation's Mongolian field operations.

Corporate and administrative expenses totaled $429,177 for the three months ended December 31, 2019, including $151,853 of salaries and administrative expenditures, $212,273 of public company operating costs and miscellaneous administrative expenditures, including travel and investor relations totaling $65,051.

There were no unusual events during the fourth quarter of 2019 that materially affected the Corporation's financial condition, cash flows or results of operations.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2019				Fiscal 2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Net loss	$773	$638	$755	$517	$773	$743	$1,439	$702
Basic loss per share	$0.01	$0.00	$0.01	$0.00	$0.01	$0.00	$0.01	$0.00
Total assets	$26,973	$20,942	$19,365	$19,632	$17,709	$18,136	$19,500	$14,879

For the three months ended December 31, 2019, the Corporation recognized a net loss of $772,935 compared to a net loss of $772,372 for the same period in 2018.

The Corporation's expenditures vary from quarter to quarter, largely due to the timing of its Mongolian exploration and evaluation programs. The Corporation is not aware of any other specific trends which account for fluctuations in financial results from period to period.

Liquidity and Capital Resources

At the date of this MD&A, the Corporation had approximately $3.8 million in working capital.

Funds raised have been used to advance the Corporation's projects in Mongolia and to meet administrative costs in support of those programs (see Development and Exploration Projects and Discussion of Operations). Management estimates current working capital is sufficient to fund the Corporation's planned expenditures into Q3 2020. The ability of the Corporation to continue with its exploration and development programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

	March 12, 2020	December 31, 2019
Common shares issued and outstanding	**191,644,558**	191,068,490
Options outstanding	**12,355,000**	12,305,000
Warrants outstanding	**30,252,744**	30,252,744
DSU's oustanding	**4,050,860**	4,636,850
Total instruments outstanding at end of period	**238,303,162**	238,263,084

Contractual Obligations

The following table summarizes the Corporation’s contractual obligations at December 31, 2019:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office leases	$ 162,090	$ 34,480	$ 69,215	$ 58,395	$ -
Accounts payable and accrued liabilites	591,999	591,999	-	-	-
	$ 754,089	**$ 626,479**	**$ 69,215**	**$ 58,395**	**$ -**

Other Financing Arrangements and Commitments

European Bank of Reconstruction and Development

On October 11, 2019, Erdene executed a US$5 million (C$6.6 million) Convertible Loan (“Loan”) with the European Bank for Reconstruction and Development (“EBRD”). The Loan was funded by way of an initial advance of US$2.5 million on November 4, 2019 and a second advance of US$2.5 million on November 25, 2019. The Loan carries an interest rate of 10% per annum, which may be capitalized at the Corporation’s option, and will mature 36 months after the date of the Loan Agreement. The Loan can be prepaid following the earliest of 24 months from the date of the initial advance, delivery of a NI 43-101 Bankable Feasibility Study, or a change of control of Erdene, subject to a 25% premium. The Loan is convertible in whole or in part at the election of the EBRD into common shares of the Corporation at a conversion price (in respect of the principal amount drawn down under the Loan) of C$0.20 per share, subject to a conversion premium of 10%, 20% or 30%, respectively, if EBRD exercises its conversion option prior to or on the first, second, or third anniversary, respectively, of the date of the Loan Agreement, provided that certain other conditions have been met. Any capitalized interest on the date of the conversion will be payable, at EBRD’s option, in cash or shares of the Corporation at the prevailing market price of the common shares of the Corporation (5 day Volume Weighted Average Price). The Loan is secured by a pledge over the shares of Erdene’s Mongolian subsidiary that holds the Project.

Sandstorm Gold Ltd. Royalty Agreement

On April 14, 2016 the Corporation granted Sandstorm Gold Ltd. (“Sandstorm”) a 2% NSR Royalty on Erdene’s Tsenkher Nomin (Altan Nar) and Khundii (Bayan Khundii) licenses. On April 12, 2019, Erdene exercised its option to repurchase 50% of the NSR Royalty for C$1.2 million, reducing Sandstorm’s NSR Royalty to 1%. Sandstorm holds a right of first refusal on future stream and/or royalty financings related to the Khundii and Tsenkher Nomin licenses.

Other

In 2020, minimum exploration expenditures of USD$10 per hectare are required on the Corporation’s Tsenkher Nomin and Khundii licenses (USD$46,690 and USD$22,050 respectively).

The Corporation was required to spend a total of USD$600,000 by August 30, 2020 to have the right to purchase any (or all) of the remaining 49% of Leader Exploration LLC (Ulaan license), which the Corporation had fulfilled at December 31, 2019. The Corporation can extend the option period indefinitely by incurring an additional USD$100,000 per year on exploration work. If Erdene fails to incur the minimum expenditures, its 51% ownership interest will revert to Leader Exploration LLC.

Gallant Minerals Limited is entitled to a 1.5% NSR Royalty on the Zuun Mod License, subject to a buy-down provision. There are no minimum exploration work commitments for the Zuun Mod mining license.

Off-Balance Sheet Arrangements

As at December 31, 2019, the Corporation had no off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

In accordance with the Corporation's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed, and an impairment loss recognized to the extent that the carrying amount exceeds the 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.

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 and directors 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. The Corporation charged a total of $703,060 of non-cash share-based compensation to the statement of comprehensive loss for the year ended December 31, 2019 (2018 - $1,186,004).

Taxation

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

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

No changes have been made the Corporation's critical accounting estimates in the past two years.

Adoption of New Accounting Standards

Erdene adopted the following new and revised standard, effective January 1, 2019.

IFRS 16 – Leases

The Corporation adopted IFRS 16, Leases with a date of initial application of January 1, 2019 using the modified retrospective approach. Accordingly, the information presented for 2018 has not been restated and is presented, as previously reported, under IAS 17 and related interpretations.

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

At the date of adoption, the Corporation recognized no right-of-use assets or lease liabilities as all of the Corporation's office space and staff accommodation leases had terms of less than 12 months.

The Corporation entered a five-year lease for its head office space, effective September 1, 2019.

IFRIC 23: Uncertainty over income tax treatments

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

As the Corporation does not currently recognize deferred tax liabilities and assets, there were no impacts to the financial statements as a result of the adoption of IFRIC 23.

Future Changes in Accounting Policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2019, and have not been applied in preparing Erdene's consolidated statements:

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively. The application of this amendment is not expected to have a material impact to the Corporation.

IFRS 3 – Business Combinations

On October 22, 2018 the IASB issued an amendment to IFRS 3 Business Combinations to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The effective date of the amendment is for annual periods beginning on or after January 1, 2020 and is to be applied prospectively. The application of this amendment is not expected to have a material impact to the Corporation.

Financial Instruments and Other Risks

Financial Instruments

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes levels to classify the inputs to valuation techniques used to measure fair value.

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

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

Fair Value

During the periods ended December 31, 2019 and December 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	December 31, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets and liabilities measured at fair value:						
Cash and cash equivalents	**$ 5,106,863**	**$ -**	**$ -**	$ 1,748,249	$ -	$ -
Receivables	**-**	**70,361**	**-**	-	113,412	-
Convertible loan - conversion option	**-**	**(1,927,151)**	**-**	-	-	-

Other Risks

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

Credit Risk

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2019, $60,511 or 1% of the balance of cash was held in banks outside Canada (2018 - $66,342 or 4%).

Liquidity Risk

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

The Corporation does not have sufficient working capital to meet budgeted expenditures for 2020 and must obtain additional financing to avoid disruption to its operations.

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.

Interest rate risk

As of December 31, 2019, the Corporation's convertible debentures carry a fixed interest rate of 10% and hence, they are not subject to interest rate risk fluctuations.

Foreign Currency Risk

The functional currency of the Corporation is the Canadian dollar and the functional currency of the Corporation's subsidiaries is the Mongolian tugrik. Additionally, the Corporation incurs expenses and has received financing in US dollars. Consequently, fluctuations of the Canadian dollar in relation to other currencies impacts the fair value of financial assets, liabilities and operating results. Financial assets and liabilities subject to currency translation risk primarily include US dollar denominated cash, accounts payable and accrued liabilities, as well as Mongolian tugrik denominated cash, accounts payable and accrued liabilities. The Corporation maintains Canadian and US dollar bank accounts in Canada.

The Corporation is also exposed to foreign exchange risk on its US dollar denominated Convertible Debentures. At maturity the US$5 million principal amount of the Convertible Debentures, as well as any capitalized interest is due in full. Accordingly, the Corporation is subject to risks associated with fluctuations in the Canadian/US dollar exchange rate that may make the Convertible Debentures more costly to repay.

The Corporation's exposure to US dollar currency risk was $2,771,946) as at December 31, 2019 (December 31, 2018 - $71,913). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately $277,200 (December 31, 2018 - $7,200).

The Corporation’s exposure to Mongolian Tugrik currency risk was ($55,661) as at December 31, 2019 (December 31, 2018 – ($11,509)). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $5,600 (December 31, 2018 - $1,200).

Price Risk

The Corporation’s financial instruments are not exposed to direct price risk other than that associated with commodity price fluctuations impacting the mineral exploration and mining industries as the Corporation has no significant revenues.

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have evaluated the design and effectiveness of Erdene’s disclosure controls and procedures as of December 31, 2019 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

The Management of Erdene, with the participation of the CEO and CFO (collectively “Management”), is responsible for establishing and maintaining adequate internal controls over financial reporting. Erdene’s internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with IFRS.

Management evaluated the design and effectiveness of Erdene’s internal controls over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report “Internal Control – Integrated Framework (2013). This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management’s evaluation, the CEO and the CFO have concluded that as of December 31, 2019, Erdene’s internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

However, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Qualified Person

Peter Dalton, P.Geo. (Nova Scotia) is a qualified person under NI 43-101 and supervises all of the Corporation’s exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar, Blue Coast Research Ltd in Parksdale British Columbia, Canada, or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards, field and laboratory splits, and blanks.

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation’s properties has been reviewed and approved by Peter Dalton, P. Geo, who is not independent of the Corporation.

The information in this MD&A that relates to the financial models for the Bayan Khundii Pre-feasibility Study and the Altan Nar Preliminary Economic Assessment is based on information compiled and reviewed by Mark Horan, who is a P.Eng. and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the process design and costing for the Bayan Khundii Pre-feasibility Study and the Altan Nar Preliminary Economic Assessment is based on information complied and reviewed by Hassan Ghaffari, who is a P.Eng. and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the Bayan Khundii resource estimate is based on information compiled and reviewed by Mr. Cam Norton, who is a P.Geo, and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the Bayan Khundii reserve estimate is based on information compiled and reviewed by Ms. Maurie Phifer, who is a P.Eng., and is an employee of Tetra Tech Inc. Each of Mr. Horan, Mr. Ghaffari, Mr. Norton and Ms. Phifer have sufficient experience, which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they have undertaken to qualify as a Qualified Person, as that term is defined by National Instrument 43-101. Each of Mr. Horan, Mr. Ghaffari, Mr. Norton and Ms. Phifer is not aware of any potential for a conflict of interest in relation to this work with Erdene.

Other Information

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