



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023, and 2022

(Canadian dollars)



KPMG LLP
Purdy's Wharf Tower One
1959 Upper Water Street, Suite 1000
Halifax, NS B3J 3N2
Canada
Tel 902-492-6000
Fax 902-492-1307

INDEPENDENT AUDITOR'S 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, 2023 and December 31, 2022
- the consolidated statements of comprehensive (income) 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 material accounting policy information

(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, 2023 and December 31, 2022, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.



Assessment of loss of control of Erdene Mongol LLC

Description of the matter

We draw attention to note 2(c)i), 3(a) and 5 to the financial statements. On January 10, 2023, the Entity entered into Strategic Alliance and Investment Agreements (the “Agreements”) with Mongolian Mining Corporation (“MMC”) for the development of its Bayan Khundii Gold Project. The terms of the Agreements provide MMC with a 50% equity interest in the Entity’s primary Mongolian subsidiary, Erdene Mongol LLC (“EM”). Control exists when an investor is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Judgment is needed to assess whether the Entity has control over its investees as a result of its right to direct relevant activities. The Agreements included certain governance provisions that no longer gave the Entity rights to unilaterally direct relevant activities of EM. The Entity concluded that control of EM was lost on January 10, 2023.

Why the matter is a key audit matter

We identified the assessment of loss of control of EM as a key audit matter. This matter represented an area of significant risk of material misstatement given the significant auditor judgment required in evaluating the results of our audit procedures due to the complexity of the governance provisions in the Agreements regarding the right to direct relevant activities of EM

How the matter was addressed in the audit

The following are the primary procedures we performed to address the key audit matter:

We compared the underlying terms of the relevant documents and Agreements to the Entity’s accounting memoranda.

We examined the Entity’s board minutes and board committee charters to assess the Entity’s rights under the agreements to direct relevant activities of EM.

We evaluated the Entity’s interpretation and application of the relevant accounting guidance, including consideration of alternative treatments and evaluated the relative merits of the possible alternatives.

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 auditor’s 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 auditor’s 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 Accounting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Carey Blair.

Halifax, Canada

March 29, 2024

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2023	December 31, 2022
Assets			
Cash and cash equivalents		\$ 4,349,599	\$ 7,421,600
Receivables		6,722	76,582
Prepaid expenses		1,455,652	1,361,730
Current assets		5,811,973	8,859,912
Investment in associate	5	51,248,731	-
Exploration and evaluation assets	6	1,961,506	43,054,156
Property, plant and equipment	7	21,155	545,704
Right-of-use assets		19,581	73,594
Non-current assets		53,250,973	43,673,454
Total Assets		\$ 59,062,946	\$ 52,533,366
Liabilities and Equity			
Trade and other payables		\$ 163,212	\$ 826,409
Lease liabilities		22,939	59,662
Current liabilities		186,151	886,071
Lease liabilities		-	22,940
Non-current liabilities		-	22,940
Total Liabilities		186,151	909,011
Shareholders' Equity			
Share capital	10	\$ 158,086,286	\$ 157,880,069
Contributed surplus	10	30,147,989	28,727,197
Accumulated other comprehensive loss		(849,598)	(5,952,986)
Deficit		(128,507,882)	(129,029,925)
Total Shareholders' Equity		58,876,795	51,624,355
Total Liabilities and Equity		\$ 59,062,946	\$ 52,533,366

Commitments (Note 8)

Subsequent events (Notes 5 & 15)

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 (Income) Loss

(Canadian dollars)

		For the years ended December 31,	
	Notes	2023	2022
Operating Expenses			
Exploration and evaluation	11	\$ 847,010	\$ 3,798,676
Corporate and administration	12	3,137,735	2,218,984
Loss from operating activities		3,984,745	6,017,660
Loss from investment in associate	5	2,278,370	-
Finance income		(269,609)	(58,383)
Interest expense		2,417	11,044
Foreign exchange loss		26,897	15,916
Gain on loss of control of subsidiary	5	(6,544,863)	-
Net (Income) Loss		\$ (522,043)	\$ 5,986,237
Other comprehensive (income) loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		7,508	2,926,628
Foreign currency translation difference realized on loss of control of subsidiary	5	(5,110,896)	-
Other Comprehensive (Income) Loss		(5,103,388)	2,926,628
Total Comprehensive (Income) Loss		\$ (5,625,431)	\$ 8,912,865
Basic and diluted (income) loss per share		\$ (0.00)	\$ 0.02
Basic weighted average number of shares outstanding		344,411,575	306,202,307
Diluted weighted average number of shares outstanding		345,969,947	306,202,307

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 income (loss)	Deficit	Total equity
Balance at January 1, 2023		344,300,376	\$ 157,880,069	\$ 28,727,197	\$ (5,952,986)	\$ (129,029,925)	\$ 51,624,355
Total comprehensive income for the period:							
Net income		-	-	-	-	522,043	522,043
Other comprehensive income		-	-	-	5,103,388	-	5,103,388
Options exercised	10	250,000	90,350	(29,850)	-	-	60,500
Issue of shares from DSU plan	10	337,800	115,867	(115,867)	-	-	-
Share-based compensation	10	-	-	1,566,509	-	-	1,566,509
Total transactions with owners		587,800	206,217	1,420,792	-	-	1,627,009
Balance at December 31, 2023		344,888,176	\$ 158,086,286	\$ 30,147,989	\$ (849,598)	\$ (128,507,882)	\$ 58,876,795
Balance at January 1, 2022		294,379,845	\$ 145,153,510	\$ 26,648,556	\$ (3,026,358)	\$ (123,043,688)	\$ 45,732,020
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(5,986,237)	(5,986,237)
Other comprehensive loss		-	-	-	(2,926,628)	-	(2,926,628)
Private placements, net of share issue costs	10	49,860,531	12,703,159	1,079,795	-	-	13,782,954
Options exercised	10	60,000	23,400	(6,300)	-	-	17,100
Share-based compensation	10	-	-	1,005,146	-	-	1,005,146
Total transactions with owners		49,920,531	12,726,559	2,078,641	-	-	14,805,200
Balance at December 31, 2022		344,300,376	\$ 157,880,069	\$ 28,727,197	\$ (5,952,986)	\$ (129,029,925)	\$ 51,624,355

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

		For the years ended December 31,	
	Notes	2023	2022
Cash flows from (used in) operating activities:			
Net income (loss)		\$ 522,043	\$ (5,986,237)
Items not involving cash:			
Depreciation and amortization		36,959	136,580
Share-based compensation	10	1,566,509	1,005,146
Finance income		(269,609)	(58,383)
Foreign exchange not related to cash		26,897	15,916
Loss from investment in associate	5	2,278,370	-
Gain on loss of control of subsidiary	5	(6,544,863)	-
Change in non-cash operating working capital		337,159	(250,385)
Cash flows used in operating activities		(2,046,535)	(5,137,363)
Cash flows from (used in) financing activities:			
Issue of common shares, net of issue costs	10	-	13,782,954
Proceeds on exercise of stock options	10	60,500	17,100
Repayment of lease liabilities		(32,621)	(63,041)
Cash flows from financing activities		27,879	13,737,013
Cash flows from (used in) investing activities:			
Expenditures on exploration and evaluation assets	6	(1,043,280)	(7,971,955)
Expenditures on property, plant and equipment	7	(3,085)	(296,747)
Interest received		269,609	58,383
Loss of cash from deconsolidation of subsidiary		(254,049)	-
Cash flows used in investing activities		(1,030,805)	(8,210,319)
Effect of exchange rate changes on cash balances		(22,540)	(30,782)
Increase in cash and cash equivalents		(3,072,001)	358,549
Cash and cash equivalents, beginning of period		7,421,600	7,063,051
Cash and cash equivalents, end of period		\$ 4,349,599	\$ 7,421,600

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

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. Currently, the Corporation’s principal development is the Bayan Khundii Gold Project, located in Bayankhongor province, 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.

The Corporation’s primary business focus is the exploration and development of its properties in Mongolia, principally the Bayan Khundii Gold Project.

2. Basis of presentation

a) Statement of compliance

The Corporation prepares their annual consolidated financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS”). The material accounting policies are presented in Note 3 and have been consistently applied in each of the periods presented, except as disclosed in Note 4.

The consolidated financial statements were authorized for issue by Erdene’s Board of Directors on March 27, 2024.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except as disclosed in Note 3.

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.

- i) *Determination of significant influence*: Judgment is needed to assess whether the Corporation has control over its investees as a result of its right to direct relevant activities or, when control is not retained, its interest meets the definition of significant influence and therefore would be accounted for under the equity method. Management makes this determination based on its legal ownership interest and through an analysis of the Corporation’s participation in entities’ decision making processes. Immediately after the Corporation lost control of Erdene Mongol LLC (“EM”), its Mongolian subsidiary, on January 10, 2023 (Note 5), management determined it was able to exert significant influence over EM and accounted for this investment as an associate under the equity method.
- ii) *Impairment of investment in associate*: The Corporation follows the guidance of IAS 28, Investments in Associates and Joint Ventures to assess whether there are impairment indicators which may lead to the recognition of an impairment loss with respect to its net investment in an associate. This determination requires significant judgement in evaluating if a decline in fair value is significant or prolonged, which triggers a formal impairment test. In making this judgement, the Corporation’s management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its carrying amount, the volatility of the investment and the financial health and business outlook for the investee, including factors such as the current and expected status of the investee’s exploration and development projects and changes in financing cash flows.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

2. Basis of presentation (continued)

c) Critical judgments and estimates in applying accounting policies (continued)

iii) *Functional currency*: 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 and the parent has a Canadian dollar functional currency.

iv) *Recoverability of exploration and evaluation assets*: At the end of each reporting period, the Corporation assesses its exploration and evaluation assets to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Corporation has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists or an exploration and evaluation asset is determined to be technically feasible and commercially viable, and therefore reclassified to property, plant and equipment, a formal estimate of the recoverable amount is made, which is considered to be the greater of the fair value less cost of disposal and value in use.

v) *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.

vi) *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.

3. Material accounting policies

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

a) Basis of consolidation

The consolidated financial statements include those of Erdene Resource Development Corporation and its wholly owned subsidiary Anian Resources LLC, for the years ended December 31, 2023 and 2022, as well as those of its wholly owned subsidiary Erdene Mongol LLC up to January 10, 2023. Erdene Mongol LLC was deconsolidated on January 10, 2023, when control ceased to exist as a result of the Strategic Alliance with Mongolian Mining Corporation to develop the Bayan Khundii Gold Project (Note 5).

Control exists when an investor is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the Corporation obtains control and are deconsolidated from the date that control ceases to exist. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. When control of a subsidiary is lost, the Corporation:

- i) derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position;
- ii) recognizes any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRS; and
- iii) recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

3. Material 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 the entity’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 materially 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

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 material to the fair value measurement in its entirety. The following table summarizes the Corporation’s classification and measurement of financial assets and liabilities:

Type	Classification	Measurement
Cash and cash equivalents	Financial Assets	Amortized cost
Receivables	Financial Assets	Amortized cost
Trade and other payables	Financial Liabilities	Amortized cost

The Corporation derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of comprehensive loss.

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive (income) loss.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

3. Material accounting policies (continued)

d) Investment in associate

Associates are entities over which the Corporation has significant influence, but not control. The financial results of the Corporation's investments in its associates are included in the Corporation's results according to the equity method. Under the equity method, the investment is initially recognized at fair value, and the carrying amount is increased or decreased to recognize the Corporation's share of profits or losses of associates after the date of acquisition. The Corporation's share of profits or losses is recognized in the statement of (income) loss and its share of other comprehensive (income) loss of associates is included in other comprehensive (income) loss.

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of (income) loss.

The Corporation assesses at each period end whether there is any objective evidence that its investments in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the statement of (income) loss.

e) 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.

Exploration and evaluation assets are assessed for impairment at each reporting period, or when facts and circumstances indicate that the carrying amount may exceed their recoverable amount. In circumstances where indicators of impairment exist, an impairment test is required to determine if the carrying amount of the exploration and evaluation asset exceeds its estimated recoverable amount. To the extent this occurs, the asset is assessed for impairment and any impairment 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 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 material operations in relation to the area are continuing or planned for the future.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and a decision has been made to proceed with development. Such exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognized, before reclassification to property, plant and equipment as mine development costs.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

3. Material accounting policies (continued)

f) 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 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 commences when the property, plant and equipment assets are considered available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

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) Income (Loss) per share

The Corporation presents basic and diluted income or loss per share data for its common shares. Basic income or 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 income or 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.

The Corporation uses the treasury stock method to compute the dilutive effect of options, warrants and other similar instruments. Under this method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Corporation at the average market price during the period.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

4. Changes in accounting policies

Erdene has adopted the following amendments, effective January 1, 2023. These changes were made in accordance with applicable transitional provisions.

IAS 1 – Disclosure of Accounting Policies

In February 2021, the IASB issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 Making Materiality Judgements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The Corporation adopted these amendments, effective January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of “material”, rather than “significant”, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management updated the accounting policy disclosures in Note 3 Material accounting policies in certain instances in line with the amendments.

New accounting standards not yet adopted

IAS 1 – Presentation of Financial Statements

In October 2022, the IASB finalized issuance of Classification of Liabilities as Current or Non-Current, which made amendments to IAS 1 Presentation of Financial Statements, providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or noncurrent depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The Corporation anticipates that the application of these amendments will not have a material effect on the Consolidated Financial Statements.

5. Investment in Associate

On January 10, 2023, the Corporation entered into Strategic Alliance and Investment Agreements (the “Agreements”) with Mongolian Mining Corporation (“MMC”) for the development of its Bayan Khundii Gold Project. The key economic terms of these agreements are as follows:

- MMC to invest US\$40 million through a series of convertible promissory notes in return for a 50% equity interest in Erdene’s primary Mongolian subsidiary, Erdene Mongol LLC (“EM”), which holds the Khundii and Altan Nar mining licenses, as well as the Ulaan exploration license.
- Erdene will retain a 50% equity interest in EM and a 5.0% Net Smelter Return (“NSR”) royalty on all production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within 5 kilometres of these licenses, beyond the first 400,000 ounces of gold recovered.

Subsequent to year end, on January 23, 2024, EM issued shares representing 50% of its equity to MMC in connection with the conversion of the convertible promissory notes.

While Erdene maintained ownership of 100% of the equity of EM during the year ended December 31, 2023, the Agreements included certain governance provisions that no longer gave the Corporation rights to unilaterally direct relevant activities of EM. The Corporation concluded that control of EM was lost and derecognized the assets and liabilities of EM on January 10, 2023. However, Management determined that Erdene maintained significant influence over the decision-making process of EM and began using the equity method to account for this investment from this date.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

5. Investment in Associate (continued)

At the date that control of this subsidiary was lost, the Corporation calculated the fair value of its investment retained in EM as \$53,527,101 using the value implied by MMC's investment, as such value was agreed through negotiation between arm's length, market participants. Consequently, a gain of \$6,544,863 was recognized, net of \$5,110,896 of foreign currency translation difference realized on loss of control, in its consolidated statement of comprehensive income for the year ended December 31, 2023.

The following tables summarize the financial information relating to Erdene's investment in EM on January 10, 2023, which was immediately prior to deconsolidation. The amounts disclosed are before intercompany eliminations:

As at	January 10, 2023
Cash and cash equivalents	\$ 254,049
Receivables	69,558
Other current assets	43,236
Current assets	366,843
Current liabilities	(1,145,712)
Current net assets	(778,869)
Exploration and evaluation assets (Note 6)	42,130,165
Property, plant and equipment (Note 7)	520,046
Non-current assets	42,650,211
Total net assets	41,871,342

The following tables is a summary of the consolidated financial information of EM on a 100% basis, taking into account fair value adjustments made by the Corporation for equity accounting purposes. A reconciliation of EM's summarized financial information to the Corporation's investment carrying value is as follows:

As at	December 31, 2023
Total current assets	\$ 10,692,069
Total non-current assets	96,529,698
Total current liabilities	(55,973,036)
Total non-current liabilities	-
Total net assets	\$ 51,248,731
For the year ended December 31,	2023
Revenue	\$ -
Net loss	2,278,370

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

5. Investment in Associate (continued)

As at	December 31, 2023
Net assets of EM	\$ 51,248,731
Erdene Resource Development Corporation ownership	100.00%
Erdene's share of EM's net assets	51,248,731
Carrying value of investment in EM	51,248,731

6. Exploration and evaluation assets

	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	Total
Balance, January 1, 2023	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ 43,054,156
Deconsolidation (Note 5)	(36,183,734)	(4,257,954)	(1,688,477)	-	(42,130,165)
Additions	-	-	-	1,043,280	1,043,280
Effect of movements in exchange rates	-	-	-	(5,765)	(5,765)
Balance, December 31, 2023	\$ -	\$ -	\$ -	\$ 1,961,506	\$ 1,961,506
Balance, January 1, 2022	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ 37,928,453
Additions	7,628,060	288,818	1,726	53,351	7,971,955
Effect of movements in exchange rates	(2,355,325)	(277,165)	(110,749)	(103,013)	(2,846,252)
Balance, December 31, 2022	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ 43,054,156

Mongolian mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of twelve years. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. With the loss of control of its subsidiary EM as at January 10, 2023, the Corporation's exploration and evaluation assets for its Bayan Khundii, Altan Nar and Ulaan licenses are reported within its Investment in associate from this date.

Bayan Khundii Gold Project

The Bayan Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309-hectare Khundii mining license, issued in August 2019, from the Mineral Resource and Petroleum Authority of Mongolia. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in "Bayan Khundii Gold Project Feasibility Study Update, NI 43-101 Technical Report", dated September 25, 2023.

Altan Nar Gold Project

The Altan Nar Gold Project is located in Bayankhongor province in Mongolia, approximately 16km north of Erdene's Bayan Khundii Gold Project. Erdene received the 4,669-hectare Altan Nar mining license including the Altan Nar gold, silver, lead and zinc resource, on March 5, 2020, from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of its legacy Tsenkher Nomin exploration license.

Ulaan

The Ulaan exploration license covers an area of approximately 1,780 hectares, immediately west of Bayan Khundii. The exploration license is in its ninth year of a maximum 12-year term.

Zuun Mod Copper & Molybdenum Resource & Other

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041-hectare molybdenum-copper mining license, issued in 2011. In 2021, the Corporation completed a strategic and economic review of the property which confirmed the potential viability of the property. Exploration in 2023 expanded mineralization at the large porphyry deposit, further demonstrating the potential of the project.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

7. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2023	\$ 115,961	\$ 468,387	\$ 222,271	\$ 806,619
Deconsolidation (Note 5)	(115,961)	(407,073)	(141,302)	(664,336)
Additions	-	-	3,085	3,085
Effect of movements in exchange rates	-	(11)	(15)	(26)
Balance, December 31, 2023	\$ -	\$ 61,303	\$ 84,039	\$ 145,342
Depreciation & depletion				
Balance, January 1, 2023	\$ (42,192)	\$ (122,854)	\$ (95,869)	\$ (260,915)
Deconsolidation (Note 5)	42,192	64,883	37,215	144,290
Depreciation	-	(653)	(6,935)	(7,588)
Effect of movements in exchange rates	-	11	15	26
Balance, December 31, 2023	\$ -	\$ (58,613)	\$ (65,574)	\$ (124,187)
Carrying amounts				
At December 31, 2023	\$ -	\$ 2,690	\$ 18,465	\$ 21,155
Cost				
Balance, January 1, 2022	\$ 130,843	\$ 326,322	\$ 125,890	\$ 583,055
Additions	-	185,638	111,109	296,747
Disposals	-	(1,768)	(5,788)	(7,556)
Effect of movements in exchange rates	(14,882)	(41,805)	(8,940)	(65,627)
Balance, December 31, 2022	\$ 115,961	\$ 468,387	\$ 222,271	\$ 806,619
Depreciation & depletion				
Balance, January 1, 2022	\$ (34,523)	\$ (98,484)	\$ (76,669)	\$ (209,676)
Depreciation	(12,234)	(32,222)	(28,484)	(72,940)
Disposals	-	1,615	5,201	6,816
Effect of movements in exchange rates	4,565	6,237	4,083	14,885
Balance, December 31, 2022	\$ (42,192)	\$ (122,854)	\$ (95,869)	\$ (260,915)
Carrying amounts				
At December 31, 2022	\$ 73,769	\$ 345,533	\$ 126,402	\$ 545,704

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

8. Commitments

Sandstorm Gold Ltd. ("Sandstorm") holds a 1% net smelter returns royalty ("NSR Royalty") on Erdene's Altan Nar, Khundii and Ulaan licenses held by EM, that is guaranteed by the Corporation. Sandstorm has been given a right of first refusal on future stream or royalty financings related to these licenses.

Sandbox Royalties Corp. holds a 1.5% NSR Royalty on Erdene's Zuun Mod license. Erdene has the option to buy down a portion of the royalty if certain production milestones are achieved.

9. 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, 2023	December 31, 2022
Statutory tax rates	29.0%	29.0%
Income taxes (recovery) computed at the statutory rates	\$ 151,000	\$ (1,736,000)
Benefit of temporary differences not recognized	6,541,000	700,000
Expenses not deductible for tax purposes	458,000	365,000
Effect of foreign tax rates	14,000	609,000
Loss from investment in associate not recognized	661,000	-
Permanent differences arising from loss of control of subsidiary	(7,825,000)	-
Other	0	62,000
Provision for income taxes	\$ -	\$ -

The enacted tax rates in Canada 29.0% (2022 – 29.0%) and Mongolia 10.0% (2022 – 10.0%) where the Corporation operates are applied in the tax provision calculation.

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

	December 31, 2023	December 31, 2022
Non-capital losses carried forward	\$ 212,000	\$ 1,014,000
Deferred income tax assets	212,000	1,014,000
Unrealized foreign exchange	(212,000)	(1,014,000)
Net deferred income tax assets (liabilities)	\$ -	\$ -

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

9. Income taxes (continued)

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

	December 31, 2023		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 23,867,000	\$ 86,000	\$ 23,953,000
Property, plant and equipment	272,000	-	272,000
Share issuance costs	707,000	-	707,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	26,176,000	3,994,000	30,170,000
	\$ 51,400,000	\$ 4,080,000	\$ 55,480,000

	December 31, 2022		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 21,060,000	\$ 3,014,000	\$ 24,074,000
Property, plant and equipment	268,000	-	268,000
Share issuance costs	1,227,000	-	1,227,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	9,418,000	15,155,000
	\$ 28,670,000	\$ 12,432,000	\$ 41,102,000

As at December 31, 2023, 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, 2023	December 31, 2022
2023	-	349,000
2024	5,000	488,000
2025	6,000	685,000
2026	1,535,000	-
Thereafter	23,138,000	26,047,000
	\$ 24,684,000	\$ 27,569,000

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

10. Share capital and contributed surplus

Authorized

An unlimited number of common shares with no par value.

Issued

On December 22, 2022, the Corporation closed a non-brokered private placement equity financing for gross proceeds of \$7,000,248. The Corporation issued an aggregate of 25,926,844 units of the Corporation (the "Units") at a price of \$0.27 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant (each whole warrant, a "Warrant"). Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.40. Erdene paid finder's fees in the aggregate of \$127,699 and issued 97,031 finder's warrants, with the same terms as the Warrants, in connection with the financing. In addition, the Corporation incurred \$53,836 in share issue costs, resulting in net proceeds of \$6,818,713.

On August 4, 2022, the Corporation completed the final close of a non-brokered private placement equity financing for gross proceeds of \$7,180,106. The Corporation issued an aggregate of 23,933,687 units of the Corporation (the "Units") at a price of \$0.30 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant (each whole warrant, a "Warrant"). Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.45. Erdene paid finder's fees in the aggregate of \$151,048 and issued 236,826 finder's warrants, with the same terms as the Warrants, in connection with the financing. In addition, the Corporation incurred \$64,817 in share issue costs, resulting in net proceeds of \$6,964,241.

Warrants

On December 21, 2022, 13,060,452 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 24 months of the closing date and expires on December 21, 2024.

Between July 8, 2022 and August 4, 2022, 12,203,670 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 \$0.45 if exercised within 24 months of the closing date with expiry dates between July 8, 2024 and August 4, 2024.

During the years ended December 31, 2023 and 2022, no warrants were exercised. Also, during the year ended December 31, 2023, no warrants expired (2022 – 44,845,052 warrants expired).

The following table summarizes the continuity of the warrants for the years ended December 31, 2023, and 2022:

	December 31, 2023		December 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	25,264,122	\$ 0.42	44,845,052	\$ 0.60
Issued	-	-	25,264,122	0.42
Expired	-	-	(44,845,052)	0.60
Outstanding at December 31	25,264,122	\$ 0.42	25,264,122	\$ 0.42
Exercisable at December 31	25,264,122	\$ 0.42	25,264,122	\$ 0.42

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

10. Share capital and contributed surplus (continued)

The remaining contractual lives of warrants outstanding at December 31, 2023, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
0.42	25,264,122	0.76
	25,264,122	0.76

The fair value of each warrant granted is estimated at the time of grant using a Black-Scholes warrant pricing model with weighted-average assumptions for grants as follows, and recorded in contributed surplus:

	Year Ended	
	December 31, 2022	
Share price at grant date	\$	0.29
Exercise price	\$	0.42
Risk-free interest rate		3.5%
Expected life		2.0 years
Expected volatility		46%
Expected dividends		0.0%
Weighted average grant date fair value	\$	0.04

Expected volatility is estimated considering historic average share price volatility.

Omnibus equity incentive plan and Legacy Plans

The Corporation adopted an omnibus equity incentive plan (the "Omnibus Plan") which was approved by the shareholders of the Corporation on June 22, 2023. The Omnibus Plan provides the Corporation with share-related mechanisms, including incentive stock options, deferred share units ("DSUs"), restricted share units ("RSUs"), and performance share units ("PSUs"), to attract, retain and motivate qualified directors, employees and consultants of the Corporation and its subsidiaries. The Omnibus Plan replaced legacy plans including an incentive stock option plan and a DSU plan (the "Legacy Plans"). Awards granted under these legacy plans remain in place under the terms of their initial issuance.

The Omnibus Plan is a variable plan and the aggregate number of common shares that may be issued upon the exercise or settlement of awards granted under the Omnibus Plan, together with awards outstanding under the Legacy Plans, shall not exceed 10% of the Corporation's total issued and outstanding common shares at any time.

Details on the outstanding awards under the Omnibus Plan and Legacy Plans are included below:

Stock options

All stock options currently outstanding were granted under the terms of the Corporation's Legacy Plans (the "Plans"). The Plans included 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

10. Share capital and contributed surplus (continued)

During the year ended December 31, 2023, 6,325,000 options were granted at a weighted average exercise price of \$0.36 (2022 – 4,355,000 options granted at average exercise price of \$0.31). Also 3,145,000 options expired (2022 – 2,595,000 options expired). During the year ended December 31, 2023, 250,000 options were exercised at an average price of \$0.24, generating proceeds of \$60,500 (2022 – 60,000 options exercised at average price of \$0.29, for proceeds of \$17,100).

Changes in stock options during the years ended December 31, 2023, and 2022 were as follows:

	December 31, 2023		December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	17,555,000	\$ 0.36	15,855,000	\$ 0.45
Granted	6,325,000	0.36	4,355,000	0.31
Expired	(3,145,000)	0.40	(2,595,000)	0.87
Exercised	(250,000)	0.24	(60,000)	0.29
Outstanding at December 31	20,485,000	\$ 0.35	17,555,000	\$ 0.36
Exercisable at December 31	20,485,000	\$ 0.35	17,555,000	\$ 0.36

All stock options granted in 2023 and 2022 vested immediately and have a five-year term. The following table summarizes information concerning options outstanding at December 31, 2023 and 2022.

Expiry date	December 31, 2023		December 31, 2022	
	Number of Options	Exercise price	Number of Options	Exercise price
February 4, 2023	-	-	50,000	0.50
March 13, 2023	-	-	100,000	0.40
June 14, 2023	-	-	2,780,000	0.40
October 15, 2023	-	-	150,000	0.27
June 20, 2024	2,060,000	0.20	2,165,000	0.20
November 29, 2024	100,000	0.18	100,000	0.18
December 20, 2024	50,000	0.18	50,000	0.18
February 11, 2025	50,000	0.27	50,000	0.27
May 13, 2025	500,000	0.22	500,000	0.22
August 27, 2025	3,155,000	0.49	3,160,000	0.49
December 1, 2025	200,000	0.38	200,000	0.38
January 29, 2026	100,000	0.43	100,000	0.43
June 23, 2026	3,180,000	0.37	3,245,000	0.37
August 18, 2026	350,000	0.43	450,000	0.43
October 28, 2026	100,000	0.43	100,000	0.43
September 27, 2027	4,160,000	0.31	4,180,000	0.31
December 30, 2027	175,000	0.30	175,000	0.30
May 9, 2028	6,305,000	0.36	-	-
	20,485,000	\$ 0.35	17,555,000	\$ 0.36

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

10. Share capital and contributed surplus (continued)

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 during the years ended December 31, 2023 and 2022 as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Share price at grant date	\$ 0.36	\$ 0.31
Exercise price	\$ 0.36	\$ 0.31
Risk-free interest rate	3.2%	3.0%
Expected life	4.4 years	3.7 years
Expected volatility	56%	62%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.17	\$ 0.15

Expected volatility is estimated considering historic average share price volatility.

Options issued in 2023 resulted in a charge of \$1,078,275 to share based compensation included in exploration expenses and in corporate and administration expenses (2022 – \$629,030).

Deferred share units

In 2013, the Corporation adopted a DSU plan. Under the Erdene DSU plan, the Corporation may grant DSUs to eligible plan members in such numbers 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. The provisions of DSUs issued under the Omnibus Plan adopted on June 22, 2023, are consistent with those of the DSU plan.

During the year ended December 31, 2023, the Corporation granted 1,492,778 DSUs with an average fair value of \$0.33 per DSU (2022 – 1,183,910 DSUs with fair value of \$0.32 per DSU). The fair value of \$488,234 (2022 – \$376,116) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Also in the year, Erdene settled 337,800 DSUs through the issuance of 337,800 shares at an average value of \$0.34 per DSU (2022 – no shares issued).

	Year Ended December 31, 2023	Year Ended December 31, 2022
Five day volume weighted average price at grant date	\$ 0.33	\$ 0.32

The following table summarizes the continuity of DSUs for the years ended December 31, 2023, and 2022:

	December 31, 2023 Number of DSUs	December 31, 2022 Number of DSUs
Outstanding at January 1	7,287,272	6,103,362
Granted	1,492,778	1,183,910
Issued	(337,800)	-
Outstanding at December 31	8,442,250	7,287,272

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

10. Share capital and contributed surplus (continued)

Share-based compensation

For the year ended December 31, 2023, the Corporation charged a total of \$1,566,509 of stock-based compensation expense to the statement of comprehensive loss (2022 – \$1,005,146), reflecting the fair value of options and DSUs granted under the Omnibus Plan and the Legacy Plans.

11. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2023, and 2022:

	For the year ended December 31	
	2023	2022
Depreciation & amortization	\$ -	\$ 91,292
Direct costs	111,087	2,566,711
Employee compensation costs	71,694	720,447
Share-based compensation	664,229	420,226
	\$ 847,010	\$ 3,798,676

12. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2023, and 2022:

	For the year ended December 31	
	2023	2022
Administrative services	\$ 935,025	\$ 703,051
Depreciation and amortization	36,958	38,089
Directors fees and expenses	122,244	126,754
Investor relations and marketing	318,225	124,672
Office and sundry	105,686	102,738
Professional fees	504,095	380,691
Regulatory compliance	109,322	115,853
Share-based compensation	902,280	584,920
Travel and accommodations	103,900	42,216
	\$ 3,137,735	\$ 2,218,984

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

13. 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, 2023	December 31, 2022
Cash and cash equivalents	\$ 4,349,599	\$ 7,421,600
Receivables	6,722	76,582
	\$ 4,356,321	\$ 7,498,182

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, 2023, \$33,759 or 1% of the balance of cash was held in banks outside Canada (2022 - \$268,376 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. All of the Corporation's financial liabilities are expected to be settled within the next twelve months.

Market risk:

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

a) Interest rate risk

The Corporation invests excess cash in interest bearing savings accounts, which are subject to interest rate risk.

b) Foreign currency risk

The functional currency of the Corporation is the Canadian dollar, and the functional currency of the Corporation's subsidiary and associate is the Mongolian tugrik. Additionally, the Corporation incurs expenses 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 the Corporation's net investment in its Mongolian subsidiary and associates. The Corporation maintains US dollar bank accounts in Canada.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

13. Financial instruments (continued)

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

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 1,050,778	\$ 311,141
Trade and other payables	(5,949)	(215,506)
	\$ 1,044,829	\$ 95,635

A 10% change in the US dollar exchange rate would affect net and comprehensive (gain) loss and deficit by approximately \$104,500 (December 31, 2022 - \$9,600).

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

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 876	\$ 35,194
Trade and other receivables	2,138	69,559
Trade and other payables	(18)	(61,274)
	\$ 2,996	\$ 43,479

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive (gain) loss and deficit by approximately \$300 (December 31, 2022 - \$4,300).

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:

- Level 1: 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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial assets and liabilities are approximately equal to their carrying values given the short term to maturity of such instruments.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2023, and 2022

14. 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,	
	2023	2022
Directors' fees and other compensation	\$ 168,000	\$ 125,000
Share-based compensation to directors	520,400	292,125
Executive compensation and benefits	1,616,957	1,450,459
Share-based compensation to key management	554,382	324,839
	\$ 2,859,739	\$ 2,192,423

15. Subsequent Events

On February 8, 2024, the Corporation announced the execution of debt finance agreements for up to US\$80 million with MMC to fund construction of the Bayan Khundii Gold Project. The financing has been structured as a shareholder loan from MMC to EM. The shareholder loan is for up to US\$50 million, and may be drawn in up to five tranches, in multiples of at least US\$5 million. The loan will mature five years from the date of first draw, and accrue interest at a rate of 13.8%, paid quarterly in arrears. EM has the option to capitalize the first four interest payments. The loan will be repayable in full upon maturity. A further US\$30 million, under the same terms, is available at MMC's discretion.

This shareholder loan is secured by a 50% guarantee by Erdene and Erdene's interests in the Project, including its shares of EM and its NSR interest, as well as preferential rights over the Khundii, Altan Nar and Ulaan licenses. For so long as the loan is outstanding, MMC will be granted priority voting rights under the Strategic Alliance agreement between the parties and a right of first refusal over Erdene's Zuun Mod project. Additionally, Erdene has the right to purchase 50% of the loan and participate as a lending shareholder on the same terms as MMC.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2023

Contents

	Page No.
Company Overview	3
Highlights and Significant Subsequent Events	4
Strategy and Outlook	5
Development and Exploration Projects	6
NI 43-101 Technical Reports – Resources and Reserves	6
Khundii Minerals District	7
Khundii Minerals District Exploration	10
Acquisitions	14
Selected Annual Financial Information	14
Discussion of Operations	15
Fourth Quarter	17
Summary of Quarterly Results	17
Liquidity and Capital Resources	17
Outstanding Share Data	18
Contractual Obligations	18
Other Financing Arrangements and Commitments	18
Off-Balance Sheet Arrangements	19
Critical Accounting Estimates	19
Adoption of New Accounting Standards and Future Changes in Accounting Policies	19
Financial Instruments and Other Risks	20
Disclosure Controls and Internal Controls Over Financial Reporting	21
Qualified Person	21
Other Information	22

This Management Discussion and Analysis (“MD&A”), dated March 27, 2024, 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, 2023 and 2022, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS”).

This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical fact, including statements concerning the timing of production at Bayan Khundii and expectations 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 latest Annual Information Form, a copy of which is available on the Corporation’s SEDAR+ document page at www.sedarplus.ca.

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.

In preparing this MD&A, the Corporation makes reference to “Exploration and evaluation expenditures”, a non-GAAP financial performance measure. Management believes Exploration and evaluation expenditures, comprised of capitalized and operating expenditures attributable to exploration and evaluation activities, including those of its wholly owned subsidiary, Erdene Mongol LLC, that is reported as an Investment in Associate under IFRS, is a valuable indicator of the total investment in the Corporation’s and its wholly owned Associate’s properties for the period of the financial statements. For a detailed reconciliation of this non-GAAP financial performance measure to the most directly comparable measures under IFRS, please see page 15 of this MD&A. The non-GAAP financial performance measure set out in this MD&A is intended to provide additional information to investors and does not have any standardized meaning under IFRS, and therefore may not be comparable to other issuers, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Company Overview

Erdene Resource Development Corporation is a Canadian based resource company focused on the acquisition, exploration, and development of large, high-grade, near surface, precious and base metals deposits in under-explored and highly prospective Mongolia. Erdene is listed on the Toronto Stock Exchange (TSX: ERD) and Mongolian Stock Exchange (MSE: ERDN).

The Company holds interests in three mining licenses and an exploration license in southwest Mongolia, where exploration success has led to the discovery of the Khundii Minerals District (“KMD”). The KMD is located within the Trans Altai Terrane of the Central Asian Orogenic Belt (“CAOB”). The CAOB extends 2,500 kilometres from the Ural Mountains to eastern China. The belt hosts several world class porphyry and porphyry related copper and gold deposits, including one of the world’s largest gold deposits, Muruntau, in Uzbekistan, as well as Rio Tinto’s Oyu Tolgoi copper-gold deposit, located approximately 650 kilometres east of the KMD in southeast Mongolia.

The discovery of the KMD is the result of almost 20 years of exploration by Erdene in an under-explored region of southwest Mongolia. Over this period, Erdene has defined the Altan Nar (“AN”), Bayan Khundii (“BK”) and Dark Horse Mane (“DH”) epithermal gold deposits, the Ulaan and Greater Dark Horse gold prospects, the Zuun Mod (“ZM”) molybdenum-copper porphyry deposit, and several prospects. Collectively, these discoveries form the core of the KMD, covering an area approximately 50 by 100 kilometres, elongated northwest.

In January 2023, Erdene entered a Strategic Alliance with Mongolian Mining Corporation (“MMC”), the Country’s largest independent miner, to develop the KMD. Under the terms of the Strategic Alliance, MMC invested US\$40 million for a 50% interest in Erdene’s Mongolian subsidiary, Erdene Mongol LLC (“EM”), which holds the Khundii and Altan Nar mining licenses and the Ulaan exploration license through a series of convertible promissory notes. Erdene retains a 50% equity interest in EM as well as a 5% Net Smelter Return (“NSR”) royalty on all production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within five kilometres of these licenses, after the first 400,000 ounces of gold recovered. Erdene also maintains a 100% interest in the Zuun Mod copper-molybdenum project. The strategic alliance was formally closed on January 23, 2024.

Following announcement of the Strategic Alliance, Erdene launched an updated Feasibility Study (“2023 FS”) and Life of Mine (“LOM”) Plan for the BK Gold Project and reported results in mid-August. Prepared by the same consortium of consultants as the 2020 Feasibility Study (“2020 FS”), the 2023 FS incorporated updated reserves from BK as well as recently discovered, near surface, reserves from Dark Horse, resulting in a 25% increase in recovered gold compared to the 2020 FS. Additional design and value engineering work increased plant throughput to 650,000 tonnes per annum, 8% greater than the previous study. The 2023 FS confirmed the Project’s strong economics, with an after-tax net present value at a 5% discount rate (“NPV_{5%}”) of US\$223 million at a gold price of US\$2,000 an ounce, given modest estimated capital and all-in sustaining costs (“AISC”) of US\$100 million and US\$869/ounce, respectively.

Over the past twelve months, EM has received Mongolian regulatory approval for the Project’s detailed design, secured construction permits for all key facilities and placed orders for critical long lead time items. On January 15, 2024, Erdene and MMC reached a formal decision to commence construction at Bayan Khundii. This decision was followed by the announcement on February 8, 2024, of the execution of financing documents between MMC and Erdene for the capital required for construction.

The construction decision follows the successful completion of the Project’s early works program over the second half of 2023. Representing approximately 12% of total construction effort, EM built temporary construction facilities, including aggregate crushing and concrete batch plants, fuel depot and construction camp, construction roads, and completed site leveling, excavation, and poured reinforced concrete footings and installed columns for the Project’s process plant. With the ramp-up of activity in late February 2024, construction is expected to be substantially complete by year end with technical and state commissioning planned for Q1 2025. The Project is on schedule and budget to achieve operations commissioning and first gold in Q2 2025.

The 2023 gold exploration program included approximately 1,000 metres of drilling and induced polarization (“IP”) gradient array surveys over nine square kilometres of the 20 km² Greater Dark Horse prospect. The program identified several areas of near-surface mineralization, with 16 of 18 holes intersecting anomalous gold (greater than 0.1 g/t Au) and/or indicator elements. Gold, together with antimony, arsenic and molybdenum are characteristic of the Dark Horse deposit and were instrumental in the initial discovery of the high-grade, near-surface Dark Horse Mane gold mineralized trend. Additionally, a 500-metre trenching program completed across the Greater Dark Horse and Ulaan prospects, targeting near-surface supergene enriched oxide zones returned anomalous mineralization from multiple trenches.

Concurrently, Erdene is progressing its ZM project, one of Asia's largest undeveloped molybdenum-copper deposits. In May 2023, the Company completed a 4,100-metre drill program at this property. Results from multiple drill holes along the current resource boundary expanded mineralization and intersections within the core of the deposit exceeded the average block grades in the vicinity. Additionally, the discovery of resource-grade mineralization in an exploration hole 1.7 kilometres north of the deposit further demonstrates the upside potential of this large copper-molybdenum porphyry complex, which remains open in all directions. Erdene will complete further market, technical and economic studies in the coming months, building upon a conceptual assessment of the project completed by RPMGlobal in late 2021.

Furthermore, Erdene sees the potential to increase resources through the acquisition of licenses in this under-explored portion of the prolific gold and copper producing CAOB. The KMD 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. As the longest established Company operating in southwest Mongolia, and through its partnership with MMC, Erdene is well positioned to expand its license portfolio in Mongolia.

Highlights and Significant Subsequent Events

Bayan Khundii Gold Project

- Announced formal construction decision for Bayan Khundii on January 15, 2024
 - Awarded the Project's Engineering, Procurement and Construction ("EPC") services contract to MCS Property LLC ("MCSP"), a leading Mongolian construction firm and affiliate of MMC
 - Entered a power purchase agreement ("PPA") with MCS International LLC ("MCSI"), a long-standing energy services and power generation company and affiliate of MMC
 - Construction ramp-up starting in February 2024 with substantial completion scheduled for end of 2024 – commissioning scheduled for Q1 2025 and first gold planned in Q2 2025
- Completed early works, site establishment and major procurement for Bayan Khundii
 - Early works and site establishment, including installation of temporary facilities and process plant civils and footings complete – represents ~12% of total project construction
 - Approximately 330 employees and contractors on site during peak – no lost time incidents
 - Long lead and critical equipment orders on track with first deliveries received in late Q4 2023
- Delivered Bayan Khundii NI 43-101 Feasibility Study Update (US\$1,800/oz gold price, unless noted)
 - Base Case after-tax NPV_{5%} of US\$170 million and Internal Rate of Return ("IRR") of 35% increasing to US\$223 million and 42%, respectively, at gold price of US\$2,000/oz
 - Life of Mine Earnings Before Interest, Taxes and Depreciation of US\$451 million, increasing to US\$540 million at a US\$2,000/oz gold price
 - Total recovered gold of 476,000 ounces, a 25% increase compared to the 2020 FS with an average gold recovery rate of 93%
 - All-in sustaining cost ("AISC") of US\$869 per ounce and upfront capital costs of US\$88 million, plus a 12% contingency, and pre-production costs of US\$2 million
 - Measured and Indicated Resources of 674,700 ounces gold at an average grade of 2.6 g/t gold, and 319,000 ounces silver at an average grade of 1.38 g/t silver
 - Proven and Probable Reserves of 513,700 ounces gold at an average grade 4.0 g/t gold, and 220,500 ounces silver at an average grade of 1.7 g/t silver
 - Average annual gold production of 86,900 ounces during years 2 through 5 – Life of Mine annual average production of 74,200 ounces gold
 - Adjacent high-grade resources and recent discoveries provide high probability growth options
- Delivered on increased community and stakeholder commitments
 - Conducted equipment operator training for 80 residents of Bayankhongor province, the majority of who entered full-time operator employment at MMC to gain further experience before deploying to Bayan Khundii
 - Completed community support projects, including the installation of a municipal potable water treatment facility, public education sanitation facilities and herder livelihoods support initiatives
 - Remitted 2023 annual planned donations to local government development programs, in accordance with the statutory Local Cooperation Agreement

Khundii Minerals District Exploration

- Conducted 2023 gold exploration program at the Greater Dark Horse gold prospect
 - Drilled 1,040 metres intersecting anomalous gold and/or indicator elements in 16 of 18 holes
 - Executed IP survey over 9 km² area identifying several targets for follow-up
 - Completed ~500 metre trenching program testing near surface supergene oxide targets similar to those intersected at Dark Horse Mane, returning anomalous mineralization in several areas
- Completed 4,100 metre drill program at Zuun Mod Moly-Copper deposit
 - Expanded mineralization on periphery of current NI 43-101 mineral resource
 - Intersected high-grade mineralization in a step-out hole, located 1.7km north of the deposit, demonstrating the potential to expand resources

Corporate

- Closed strategic alliance with MMC on January 23, 2024 to advance construction of BK Project
 - MMC invested US\$40 million for a 50% equity interest in EM, the company holding the BK Project
 - Erdene retains a 50% equity interest in EM as well as a 5% NSR royalty on production from the Khundii District after the first 400,000 ounces of gold production and 100% interest in Zuun Mod
- Secured BK Finance from strategic partner MMC
 - Up to US\$80 million shareholder loan to EM, the entity co-owned by Erdene and MMC
 - Five-year bullet maturity, bearing interest at 13.8%, payable in arrears
 - Secured by Erdene's interests in EM
- Recorded net income of \$522,043 for the year ended December 31, 2023, compared to a net loss of \$5,986,237 for the year ended December 31, 2022
 - Exploration and evaluation expenses totaled \$847,010 for the year ended December 31, 2023, compared to \$3,798,676 in 2022, with the year-on-year change primarily due to the reporting of EM's activity as an Investment in Associate in the current year due to the loss of the control of the subsidiary following the Strategic Alliance with MMC, partially offset by regional exploration work incurred by Erdene
 - Total exploration and evaluation expenditures, including capitalized expenditures and those incurred by EM, which are reported through the equity method of accounting for IFRS, totaled \$7,266,375 for the year ended December 31, 2023, compared to \$11,770,631 in the prior year primarily due lower drilling activity during the current year as well as reduced spending on engineering and design work for the Bayan Khundii Gold Project following the commencement of early construction works
 - Corporate and administrative expenses totaled \$3,137,735 for the year ended December 31, 2023, compared to \$2,218,984 for the year ended December 31, 2022, with the year-on-year change primarily due an increase in the allocation of management effort to corporate activities following the strategic alliance with MMC, inflationary salary adjustments, and increased marketing, professional fees, non-cash share-based compensation and travel costs
 - Non-cash gain on loss of control of EM of \$6,544,863 and loss from investment in associate of \$2,278,370 due to the change in the basis of accounting for Erdene's investment in EM to equity accounting following the signing of the Strategic Alliance and Investment Agreements with MMC in January 2023

Strategy and Outlook

Erdene is focused on the discovery and development of precious and industrial metal deposits in the KMD. Erdene's two near-term strategic priorities are advancing BK to production with MMC, and through exploration and acquisition, expanding and subsequently developing other deposits in the KMD.

In January 2024, the Company closed the Strategic Alliance with MMC announced in January 2023 to develop the gold deposits of the KMD. MMC is the largest private producer and exporter of high-quality washed hard coking coal in Mongolia. MMC owns and operates the Ukhaa Khudag and the Baruun Naran open pit coking coal mines, both located in Umnugovi Aimag (South Gobi Province), Mongolia. The shares of MMC are listed on the main board of the Hong Kong Stock Exchange (HKEx: 975), and the company has a current market capitalization of over US\$1 billion.

MMC's largest beneficial shareholder is MCS Group, one of Mongolia's leading conglomerates. MCS has operated in Mongolia for 30 years, and has operations in engineering and construction, energy, communications, property, mining, consumer goods, health, and hospitality. MCS employs approximately 10,000 staff in Mongolia and is one of the Country's largest private taxpayers.

Erdene's exploration and pre-development capabilities, MMC's mining and operational expertise and the ability of MCS Group companies to provide complimentary engineering, infrastructure and energy solutions creates the ideal platform to develop the KMD for the benefit for all stakeholders.

Construction at the Bayan Khundii Gold Project is well underway with the completion of early works, including final design and engineering works, establishment of temporary construction facilities, including aggregate crushing and concrete batch plant, earth works and civils for the Project's process plant during the second half of 2023. The Company reached a formal construction decision for Bayan Khundii in early 2024 and executed the Engineering, Procurement and Construction contract with MCS Properties, and the Project's Power Purchase Agreement has been executed with MCS International, one of Mongolia's leading private energy companies. Work has started on full construction with over 300 contractors now on site. Construction is expected to be substantially complete by year end, with commissioning planned for the first quarter of 2025 and first gold expected in mid-2025.

Erdene's exploration suggests the greater Khundii-Ulaan alteration zone, including the BK Deposit, Dark Horse prospect and Ulaan, are part of the same, large, gold-bearing hydrothermal system, that shows the potential to host a multimillion-ounce gold deposit. The 2023 gold exploration program, focusing on the Greater Dark Horse and Ulaan prospects, provided a number of new targets for follow-up.

In 2023, Erdene completed a 4,100 metre drill program at its ZM project, one of Asia's largest undeveloped molybdenum-copper deposits, successfully expanding mineralization at this deposit. Along with the exploration work, Erdene will complete further market, technical and economic studies as well as permitting work in the coming months to build upon the conceptual assessment completed by RPMGlobal (formally Minarco-Mine Consult) in late 2021. Beyond the ZM Deposit, the broader license hosts several high-potential copper and molybdenum prospects. The northern portion of the ZM porphyry complex hosts a large area of disseminated copper mineralization within several kilometres of phyllic and potassic altered quartz monzonite and granodiorite intrusives. Multiple copper mineralized zones have been intersected in wide-spaced drilling, including 34 metres of 1.3% copper and 9.24 g/t silver from 308 to 342 metres (hole ZMD-121). The large ZM porphyry complex remains largely untested and management sees several potential areas for resource expansion and discovery across the license.

Erdene continues to evaluate acquisition opportunities throughout the KMD. 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. The Company expects that through its partnership with MMC, it will be an active participant in license tenders in the KMD. Additionally, the Company will selectively evaluate precious and industrial metals opportunities in other parts of the country where the Company's historical work has demonstrated prospectivity.

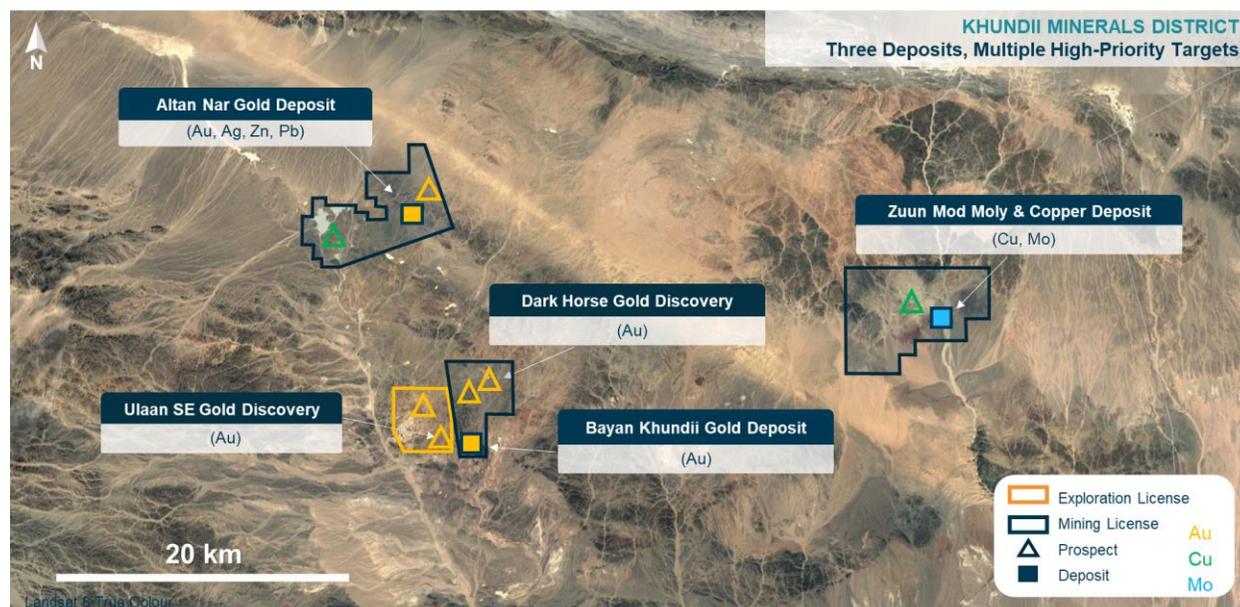
Development and Exploration Projects

NI 43-101 Technical Reports – Resources and Reserves

On September 15, 2018, the Company announced a resource estimate for the Bayan Khundii and Altan Nar deposits. Since this date, the Company has commissioned progressive technical reports, prepared to the standards defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") for its Bayan Khundii Gold Project. Most recently, on September 25, 2023, the Company filed the Technical Report entitled "Bayan Khundii Gold Project, Feasibility Study Update, NI 43-101 Technical Report" with an effective date of August 15, 2023, prepared by a consortium of International and Mongolian firms with significant experience operating in Mongolia and internationally, led by O2 Mining Ltd and Roma Group Ltd.

Apart from Altan Nar, Dark Horse and Zuun Mod, the Company's other targets are early stage and do not contain any mineral resource estimates as defined by NI 43-101. Except for 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.sedarplus.ca.

Khundii Minerals District



The Khundii Minerals District includes the Company's high-grade, near-surface Bayan Khundii, Dark Horse Mane and Altan Nar deposits, Ulaan SE and Greater Dark Horse prospects and the Zuun Mod Molybdenum-Copper resource.

The Bayan Khundii Gold Project is located on the 2,309-hectare Khundii mining license held by Erdene's Mongolian subsidiary, Erdene Mongol LLC. The Khundii mining license includes the Bayan Khundii and Dark Horse mineral resources and reserves reported in "Bayan Khundii Gold Project, Feasibility Study Update, NI 43-101 Technical Report".

Bayan Khundii Gold Project

On August 15, 2023, Erdene announced the results of an updated independent Bankable Feasibility Study for the Bayan Khundii Gold Project. The report, titled "Bayan Khundii Gold Project Feasibility Study Update, NI 43-101 Technical Report", dated September 25, 2023, and with an effective date of August 15, 2023, was prepared by international and Mongolian firms with significant experience operating in Mongolia. The study incorporates detailed mine design and scheduling, front-end engineering and design for the processing plant and site infrastructure, a hydrogeological assessment, mineral waste facility design, comprehensive capital and operating cost estimation, and an updated economic model.

The 2023 FS envisions a high-grade, open pit mine beginning at surface in the southern portion of the BK deposit (Striker and Gold Hill), expanding northward into adjacent zones at Midfield and North Midfield. The Dark Horse deposit will commence mining concurrently with BK from the third year of operations. The Project incorporates conventional crushing and grinding, leach and a Carbon in Pulp plant with processing capacity of 1,950 tonnes per day. The 2023 FS includes 4.0 million mineable tonnes from the BK resource at an average diluted head grade of 4.0 g/t gold, all of which are Proven and Probable Reserves. The 2023 FS is based on an open-pit mining operation targeting 650,000 tonnes per year of feed material for the processing plant. The total mineable mineralized plant feed is 4.0 million tonnes at an average diluted head grade of 4.0 g/t gold and average strip ratio of 10.9:1 (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. 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 ("IWF") adjacent to the pit, and ore hauled to a crusher or run-of-mine ("ROM") pad adjacent to the processing plant.

As part of the 2023 FS, an updated BK Gold Deposit Mineral Resource Estimate ("BK Mineral Resource") was prepared in accordance with NI 43-101 and CIM standards by AGP Mining Consultants Inc. ("AGP") with an effective date of April 20, 2023. The BK Mineral Resource was prepared by Paul Daigle, P.Geo., who is a qualified person ("QP") as defined by NI 43-101.

The Mineral Resource has been constrained to a conceptual pit shell and is reported at a cut-off grade of 0.40 g/t gold. The assumptions and parameters utilized to establish the cut-off grade and pit shell are reported below in notes to the resource table.

BK Gold Deposit – Mineral Resource Estimate Summary, April 2023

Resource Classification	Quantity (Mt)	Gold Grade (Au g/t)	Ounces Gold (Koz)	Silver Grade (Ag g/t)	Ounces Silver (Koz)
Measured	4.0	3.03	394	1.44	187
Indicated	3.3	2.04	219	1.22	131
M&I	7.4	2.58	613	1.34	319
Inferred	0.2	1.08	6	1.32	8

Notes:

1. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
2. Summation errors may occur due to rounding.
3. The effective date of the Mineral Resources is April 20, 2023.
4. Open pit mineral resources are reported within an optimized constraining shell.
5. Open pit cut-off grade is 0.4 g/t Au based on the following parameters:
 - Gold Price of US\$2,000/oz Au
 - Gold recovery of 95%
 - Mining Costs of US\$3.00/t
 - Milling Costs and G&A of US\$22.00/t
 - Capping of gold grades was 200 g/t Au and 50 g/t Ag on 1m composite values.
 - The density varies between 2.58 g/cm³ and 2.66 g/cm³ depending on lithology.

Dark Horse Mane Mineral Resource Estimate

As part of the 2023 FS, the Company reported the maiden mineral resource estimate for the Dark Horse Mane Gold Deposit (“Dark Horse Mineral Resource”) discovered in 2021 and located just two kilometres north of the BK Gold Deposit. The Dark Horse Mineral Resource was prepared in accordance with NI 43-101 and CIM standards by RPM Global (“RPM”) with an effective date of November 1, 2022.

The Dark Horse Mineral Resource is reported above a gold cut-off grade of 0.35 g/t gold for oxide and transition mineralization and 1.02 g/t gold for fresh mineralization. The Mineral Resource has been constrained to a conceptual pit shell. The assumptions and parameters utilized to establish the cut-off grade and pit shell are reported below in notes to the resource table.

Dark Horse Gold Deposit – Mineral Resource Estimate Summary, November 2022

Type	Indicated Mineral Resource			Inferred Mineral Resource		
	Tonnes (Kt)	Gold Grade g/t Au	Ounces Gold (K oz)	Tonnes (Kt)	Gold Grade g/t Au	Ounces Gold (K oz)
Oxide	578	3.0	56.2	75	1.1	2.7
Transitional	99	1.5	4.8	109	1.2	4.1
Fresh	5	4.9	0.7	-	-	-
Total	682	2.8	61.7	184	1.2	6.8

Notes:

1. The Statement of Estimates of Mineral Resources has been compiled under the supervision of Mr. Oyunbat Bat-Ochir who is a full-time employee of RPM and a Member of the Australian Institute of Geoscientists. Mr. Bat-Ochir 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 Resources figures reported in the table above represent estimates at November 1, 2022. 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 Resource is reported using a 0.35 g/t Au cut-off grade in oxide and transition mineralisation and 1.02 g/t Au cut-off in fresh mineralisation and is constrained above conceptual optimised pit shell. Cut-off parameters were selected based on an RPM internal cut-off calculator, assuming an open cut mining method with 5% ore loss and 10% dilution, a gold price of US \$1,723 per ounce, a mining cost of US \$3 per tonne and a processing cost of US\$16 per tonne milled and processing recovery of 90% for oxide, 87% for transitional and 30% for fresh Au mineralisation. The conceptual optimised pit shell was constructed using a gold price of US\$ 2,000 per ounce, which is 1.4 times the long-term consensus forecast price.
5. Mineral Resources referred to above, have not been subject to detailed economic analysis and therefore, have not been demonstrated to have actual economic viability.

BK and DH Reserve Estimate

The Bayan Khundii and Dark Horse Mineral Reserves reported in the 2023 FS have been estimated by Mr. Julien Lawrence, Director, O2 Mining Limited, a Qualified Person as defined by NI 43-101. The total Mineral Reserves for the Bayan Khundii and Dark Horse Mine deposits are shown in the tables below. Mineral Reserves are based on the BK Mineral Resource and Dark Horse Mineral Resource, reported above. Mineral Reserves estimated for the BK and DH deposits are based on Measured and Indicated Resources and have an effective date of August 1, 2023. Reserves were calculated by O2 Mining using FS level engineering designs for the pit and associated process plant operating parameters.

The cut-off grade for mineral reserve calculations is 0.63 g/t gold for the BK Gold Deposit and 0.68 g/t gold for Dark Horse Gold Deposit, based on a gold price of US\$1,816/oz. The reserves, as defined by the regularized block model, contain modelled mineral losses of 2.5% and average internal dilution of 10%, within the ultimate pit.

A summary of the Mineral Reserves estimated for the BK and Dark Horse deposits with an effective date of August 1, 2023 are as follows.

BK Gold Deposit – Mineral Reserve Summary

Classification	Tonnage (Mt)	Grade (g/t Au)	Contained Gold (Koz)	Grade (g/t Ag)	Contained Silver (Koz)
Proven	2.7	4.1	360.2	1.8	159.4
Probable	1.1	3.0	104.7	1.7	61.1
Total	3.8	3.8	464.9	1.8	220.5

Dark Horse Gold Deposit – Mineral Reserve Summary

Classification	Tonnage (Mt)	Grade (g/t Au)	Contained Gold (Koz)
Proven	-	-	-
Probable	0.2	7.0	48.8
Total	0.2	7.0	48.8

Notes:

1. The effective date of the Mineral Reserve estimate is August 1, 2023. The QP for the estimate is Mr. Julien Lawrence of O2 Mining Limited;
2. 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;
3. Reserves estimated assuming open-pit mining method;
4. Waste to ore cut-offs were determined using a 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;
5. Reserves are based on a gold price of US\$1,816/oz; and
6. Mineral Reserves were calculated from a diluted "mining" block model which included average dilution of 10% and losses of 2.5%.

The 2023 FS assumes processing of ROM material via a conventional crush and grind circuit and a carbon in pulp plant. Plant design by 360-Global has been based on testing at Blue Coast Research which has established optimal processing parameters, including grind size of 80% passing 60 microns; design inputs for comminution circuit, low cyanide concentration in leach circuit (0.5 g/litre sodium cyanide), 36-hour retention time, carbon adsorption parameters and detoxification reagent dosages. The process circuit has been designed to maximize water recovery with the most efficient dewatering process to achieve the targeted 15% moisture in tailings, minimize chemical and reagent usage and minimize environmental impact.

The ore-processing plant will be located adjacent to the Bayan Khundii open pit and throughput will target 650,000 ore-tonnes per year, nominally 1,935 tonnes per day. Total mineralized material from BK processed in the plant over the course of the mine life is 4.0 million tonnes at an average diluted head grade of 4.0 g/t gold. Using an estimated mill recovery of 92.7%, total recovered gold over the life of the Bayan Khundii deposit is 476,001 ounces.

Operating costs are based on the mining and processing scenarios outlined above and assume owner mining. Power for operations will be generated through an on-site hybrid diesel and solar generation solution, provided under a power purchase agreement for the duration of the Project. All other activities are assumed to be owner operated. The AISC for Bayan Khundii is estimated at US\$869/oz.

Operating Costs

	LOM (US\$ millions)	US\$/oz	US\$/tonne
Mine Operating Cost	165	347	41
Processing Cost	166	349	41
G&A	20	43	5
Total Site Operating Costs	352	739	88
Royalty and Charges	51	108	13
Sustaining Capital & Closure Costs	10	22	3
All-In Sustaining Cost	414	869	103

Note: Rounding may cause computational discrepancies

Capital Costs

Construction costs, primarily comprising the process plant and supporting infrastructure, accommodation village, and associated engineering and indirect costs are estimated at US\$88 million. Pre-production costs, including first fills and mobile site equipment total US\$2 million. Additionally, a 12% contingency, or US\$10 million, has been provided in arriving at the total estimated capital cost. Sustaining capital of US\$4 million has been included in the mine plan and net mine closure costs are estimated at US\$5 million, accounting for salvage values. Total life of mine capital expenditures for the Bayan Khundii Gold Project are estimated at US\$109 million. Approximately US\$8 million has been incurred to date on early works and site establishment, representing temporary construction facilities and civil works.

Item	US\$ millions
Process Plant	47
Non-Process Infrastructure	14
Construction Indirects	27
Construction Costs	88
Pre-Production Costs	2
Contingency	10
Subtotal Plant and Infrastructure	100
Sustaining Capital	4
Reclamation and Mine Closure	7
Salvage	(2)
Total	109

Note: Rounding may cause computational discrepancies

Khundii Minerals District Exploration

Erdene has been the leader in exploration in southwest Mongolia over the past two decades and is responsible for the discovery of the KMD comprised of multiple high-grade gold and base metal prospects. In addition to the Bayan Khundii Project, the Company has identified several other prospects, particularly within the Khundii-Ulaan Trend, that show the potential to hold gold-copper deposits of scale.

The Khundii mining license and adjoining Ulaan exploration license cover nearly 4,000 hectares of the Khundii-Ulaan hydrothermal alteration zone, which extends from Ulaan over 10 kilometres to the northeast. This alteration trend has a central zone of intense residual silica with a peripheral halo of white mica alteration which hosts the Bayan Khundii gold deposit. This northeast trending alteration area, which incorporates the Ulaan, Bayan Khundii, Dark Horse and other mineralized targets in the area, is associated with a regional structural dilational jog and associated major volcano-plutonic centre, along a northeast trending transform fault. The various styles of alteration and mineralization within the Khundii-Ulaan target area are consistent with a fertile magmatic island arc, with evidence for possible arc migration, and overlapping or telescoped mineralization along major structures.

Exploration results to date suggest the greater Khundii-Ulaan alteration zone and known gold occurrences are part of the same, large, gold-bearing hydrothermal system which remains largely under-explored. Gold mineralization identified to date is hosted within an expansive, white mica and silica altered tuffaceous sequence exposed around the periphery of the Khundii-Ulaan hydrothermal alteration system. Quartz vein textures and clay alteration compositions indicate a large-scale epithermal type gold mineralizing environment existed within the Khundii-Ulaan system with the tuffaceous lithologies acting as preferred

hosts for gold mineralization. Exploration planning is currently underway to test multiple high-priority geological, geochemical and geophysical targets across the Khundii-Ulaan target area.

Regional drilling has been restricted to shallow targets with average drill depths of about 100 metres with approximately 70% of regional drill holes having intersected anomalous gold mineralization (defined as >0.1 g/t gold). 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.

Greater Dark Horse Deposit

The Greater Dark Horse prospect area (approximately 20 square kilometres) is located in the northern portion of the Khundii mining and Ulaan exploration licenses and is characterized by elevated gold in soil anomalism with multiple surface rock-chip, trench and drill core samples assaying greater than 1 g/t gold. Trace element anomalism, geophysical anomalies related to alteration and mineralization, structures interpreted to represent conduits for mineralizing fluids, and alteration signatures supporting an epithermal mineralization model characterize the Greater Dark Horse prospect area. To date, the Company has completed 25,132 metres of drilling in 236 holes ranging in vertical depths from 8 to 318 metres within the Greater Dark Horse prospect, including 18 holes totaling 1,040 metres in 2023.

Most of the drilling to date has been focused on the Dark Horse Mane, discovered in early 2021. Erdene discovered Dark Horse Mane, 2 kilometres north of the Bayan Khundii deposit, when initial drilling returned 6.0 g/t gold over 45 metres, beginning 10 metres downhole, including 8 metres of 27.1 g/t gold (AAD-58). Drilling has since defined a 1.5-kilometre trend of alteration and gold mineralization within the Dark Horse Mane that remains open along strike to the north and south, and at depth. Highlight interceptions at Dark Horse Mane since the initial discovery include:

- AAD-126: 30 metres of 5.6 g/t gold, beginning 10 metres downhole, including 24.1 g/t over six metres, starting 26 metres downhole
- AAD-137: 24.5 metres of 9.4 g/t gold beginning 1.5 metres downhole, including 13.5 metres of 16.1 g/t gold
- AAD-138: 25 metres of 6.1 g/t gold beginning 18 metres downhole, including 8 metres of 17.1 g/t gold
- AAD-177: 23 metres of 11.4 g/t gold beginning 1 metre downhole, including 4 metres of 59.8 g/t gold within 8 metres of 32.2 g/t gold
- AAD-178: 15 metres of 42.8 g/t gold beginning 11 metres downhole, including 3 metres of 160.4 g/t gold within 5 metres of 123.5 g/t gold
- AAD-218: 12 metres of 20.2 g/t gold beginning at surface, including 6 metres 39.6 g/t gold

The Dark Horse Mane is associated with a north-south trending, linear structural corridor which intersects deep seated northeast trending transform faults, believed to be a conduit for primary mineralizing fluids. The N-S structure has been traced over five kilometres, from the southern portion of the Bayan Khundii deposit to the northern extension of Dark Horse Mane. Gold mineralization is hosted within strongly altered tuffaceous and volcanoclastic rocks, crosscut by quartz and quartz-hematite veins and stockwork zones. The Dark Horse Mane shallow oxide zone begins at surface, hosting supergene enriched gold zones with values up to 195 g/t over 1 metre and ranging in thickness from 20 to 60 metres vertical depth with locally deeper oxidation along fractures. The high-grade oxide body exhibits strong continuity along a north-south strike. Mineralization remains open along strike and at depth; however, the core of the near-surface mineralization forms the basis of the Dark Horse Mane Reserve estimate that forms part of the BK Project.

The near surface oxide gold zones discovered at Dark Horse Mane are the result of oxidation of sulfide bearing epithermal veins and hydrothermal breccias within white mica altered host lithologies. Limited deeper drilling has gold bearing epithermal veins and associated white mica and sulfide alteration zones to a depth of up to 230 metres vertically, that remains open at depth. The gold mineralization near surface at Dark Horse Mane is related to broader areas of structurally controlled alteration and mineralization believed to be connected to feeder structures distributing gold bearing fluids over a wide area as these fluids approached the paleo surface. Evidence for these feeder structures includes a series of exposed residual quartz lithocaps, associated locally with increasing copper anomalism at depth interpreted to predate the gold mineralization. These lithocaps are distributed along dominant NE trending structures believed to represent transform faults and potentially feeder conduits from a magmatic porphyry source at depth. The highest-grade gold bearing oxide zones at the southern end of the Dark Horse Mane are located proximal to the residual quartz lithocaps and hosted within tuffaceous to porphyritic volcanoclastic units.

Scout drilling and IP surveys in Q2 2023 identified several new prospects within the Greater Dark Horse prospect. The program identified multiple areas of near-surface gold and indicator element anomalism, with 10 holes intersecting anomalous gold (greater than 0.1 g/t Au) and indicator elements mineralization, and a further 6 holes returning indicator element anomalies. Gold, together with antimony, arsenic and molybdenum, geochemical anomalies are characteristic of the Dark Horse deposit and were instrumental, in conjunction with other geological data, in the initial discovery of the Dark Horse Mine high-grade, near-surface gold mineralization.

Ulaan Southeast

In June 2021, the Company completed the maiden gold exploration program in the southern portion of the Ulaan license, reporting a significant new gold discovery just 300 metres west of the Bayan Khundii Deposit. Results to date, including follow-up drilling in Q2 2022, have confirmed a significant gold discovery at Ulaan SE. Multiple drill holes have returned hundreds of metres (up to 354 metres) of gold mineralization, often ending in mineralization, over an area 200 metres by 250 metres. Gold mineralization begins approximately 80 metres from surface with anomalous gold intersected as shallow as 4 metres depth (UDH-18) and remains open along strike to the west/northwest and at depth. Gold grades up to 156 g/t are related to intense quartz ± hematite veins and stockwork zones enveloped by the same gold bearing silicified, white mica altered lapilli tuff sequence which hosts Erdene's Bayan Khundii epithermal gold deposit, located just east on the Khundii mining license. Structural controls are also similar with northwest striking, southwest dipping veins hosting the gold and intensifying adjacent to bounding structures and/or feeder conduits typically oriented northeast or north. Gold mineralization, particularly the low-grade envelope, also appears to be partially controlled by lithology with low permeability silicified ash tuffs focusing fluid flow and coarser lapilli tuffs acting as a preferred host to mineralization, stratigraphically dipping to the northwest.

Highlight interceptions at Ulaan SE since the initial discovery include:

- UDH-14: 217 metres of 1.1 g/t gold beginning 188 metres downhole, including 3.5 g/t gold over 53 metres
- UDH-21: 335 metres of 1.1 g/t gold beginning 115 metres downhole, including 8.7 g/t gold over 27 metres within 77 metres of 3.2 g/t gold
- UDH-22: 152 metres of 1.7 g/t gold beginning 85 metres downhole, including 3.1 g/t gold over 65 metres
- UDH-35: 23 metres of 13.7 g/t gold within 41 metres of 8.1 g/t gold, beginning 187 metres downhole
- UDH-36: 179 metres of 1.2 g/t gold, beginning 72 metres downhole, including several one-metre intervals, ranging from 10 to 33 g/t gold, and ending in mineralization at 350 metres
- UDH-53: 2 metres of 24.9 g/t gold within 27 metres of 3.5 g/t gold, beginning 248 metres downhole

Together with the Bayan Khundii deposit and Dark Horse prospect, results from drilling at Ulaan Southeast demonstrate the potential scale of mineralization within the nearly 4,000-hectare Khundii-Ulaan Hydrothermal system, which extends from Ulaan over 10 kilometres to the northeast onto the Khundii license.

Furthermore, the central and northern portion of the Ulaan license hosts a porphyry copper prospect primarily based on a 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 geophysical surveys have produced a number of follow-up targets for deeper drilling.

Altan Nar

The Altan Nar deposits are located on the Corporation's 4,669-hectare Altan Nar mining license, 16 kilometres northwest of Bayan Khundii. The AN mining license was received 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.

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 few 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 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 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. 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 Altan Nar mineral resource estimate, please see the Company's Altan Nar Gold-Polymetallic Project NI 43-101 Technical Report dated March 29, 2021.

Cut-off AuEq2 g/t	Resource Classification	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.

Further details on Altan Nar can be found in "Altan Nar Gold-Polymetallic Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Technical Report" dated March 29, 2021, filed on SEDAR+.

Zuun Mod Molybdenum-Copper Project

The Zuun Mod Molybdenum-Copper 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 property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC ("AN"), a wholly owned subsidiary of the Corporation, and has an initial term of 30 years that can be extended for up to 70 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% held by Sandbox Royalties, subject to a buy-down provision.

In 2011, the Corporation released a NI 43-101 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 ("Mlbs") of contained molybdenum and 330.7 Mlbs of contained copper. 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 and 240.5 Mlbs of contained copper.

In 2023, Erdene completed a twelve hole, approximately 4,100 metre drill program at Zuun Mod. Five holes, totaling 2,476 metres, were drilled to confirm continuity of higher-grade mineralization in the central part of

the deposit (ZMD-131) and to expand continuity of Indicated Resources at the periphery of the deposit (ZMD-132 to 135). A further seven holes, totaling 1,619 metres (ZMD-136 to 142) tested targets across the greater Zuun Mod porphyry complex.

Hole ZMD-131 intersected a very wide zone of mineralization, returning 374 metres averaging 0.053% Mo and 0.072% Cu, with multiple zones (28 to 74 metres wide) averaging greater than 0.080% Mo, including a 28-metre interval (252 to 280 metres) averaging 0.140% Mo and 0.121% Cu. All four holes on the periphery of Zuun Mod's Indicated Resources (ZMD-132 to 135), intersected resource-grade mineralization (>0.04% Mo) ranging in thickness from 40 to 187 metres. Several of the exploration holes (ZMD-140 to 142) within the northern Zuun Mod porphyry complex returned anomalous copper mineralization (greater than 0.05% Cu). Approximately one kilometre west of the main deposit area, three holes (ZMD-136 to 138) in a 600-metre east-west target area, returned anomalous molybdenum, copper and silver. In addition, an exploration hole, ZMD-139, located 1.7 kilometres north of the main molybdenum orebody (currently defined by ZMD-135), intersected a significant interval of molybdenum mineralization, (12 metres of 0.067% Mo) hosted by porphyritic granodiorite, typical of the Zuun Mod porphyry complex. No drilling has been carried out between the Zuun Mod deposit and hole ZMD-139, opening up a large area of potential expansion.

In addition to the molybdenum-copper porphyry deposit, the license hosts a large copper-silver prospect, approximately 2.2 kilometres north of the Zuun Mod deposit. Exploration work at the copper-silver prospect 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 prospect 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).

Erdene will complete further market, technical and economic studies to build upon a conceptual assessment of the project completed by RPMGlobal in late 2021. Based on the studies, as well as the results from recent exploration, Erdene will develop a strategy to maximize value from this project.

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+.

Acquisitions

Mongolia's Ministry of Mining and Heavy Industry periodically issues areas for exploration. 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. Through its Strategic Alliance with MMC, Erdene will be an active participant in tenders or license acquisitions in the KMD. Additionally, as the longest tenured foreign explorer operating in Mongolia, the Company will selectively evaluate precious and industrial metal opportunities across the Country.

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, 2023, 2022 and 2021 respectively:

Fiscal Year Ended December 31	2023		2022		2021	
Revenues		Nil		Nil		Nil
(Income) loss for the year	\$	(522)	\$	5,986	\$	5,571
Basic and diluted loss (income) per share	\$	(0.00)	\$	0.02	\$	0.02
Total assets	\$	59,063	\$	52,533	\$	46,544
Total long-term liabilities	\$	-	\$	23	\$	86

Discussion of Operations

Years ended December 31, 2023 and 2022

The tables below detail exploration and evaluation expenditures for the year ended December 31, 2023 and 2022 for the Company, including its wholly owned subsidiary EM, which holds the Bayan Khundii, Altan Nar and Ulaan licenses, that was deconsolidated on January 10, 2023. For the year ended December 31, 2023, expenditures relating to Bayan Khundii, Altan Nar and Ulaan were reported as activity relating to Erdene's Investment in Associate, following the loss of control of EM as a result of the Strategic Alliance with MMC.

Year ended December 31, 2023	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Camp & field support	\$ 673,282	\$ 24,436	\$ 65,687	\$ 435,626	\$ -	\$ 1,199,031
Drilling & analysis	180,302	9,463	2,883	574,466	-	767,114
Mining studies & pre-development costs	1,940,377	50,966	29,938	116,677	-	2,137,958
Mongolian office costs	-	-	-	-	994,595	994,595
Share-based compensation	-	-	-	-	664,229	664,229
Stakeholder relations	1,299,924	129,875	-	29,306	-	1,459,105
Travel & other	44,343	-	-	-	-	44,343
Total E&E expenditures	4,138,228	214,740	98,508	1,156,075	1,658,824	7,266,375
Capitalized expenditures	-	-	-	(1,043,280)	-	(1,043,280)
Expenditures incurred by Associate	(4,138,228)	(214,740)	(98,508)	-	(924,609)	(5,376,085)
Expensed E&E costs 2023	\$ -	\$ -	\$ -	\$ 112,795	\$ 734,215	\$ 847,010

E&E assets, January 1, 2023	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ -	\$ 43,054,156
Deconsolidation of E&E of Associate	(36,183,734)	(4,257,954)	(1,688,477)	-	-	(42,130,165)
Additions	-	-	-	1,043,280	-	1,043,280
Effect of movements in exchange rates	-	-	-	(5,765)	-	(5,765)
E&E assets, December 31, 2023	\$ -	\$ -	\$ -	\$ 1,961,506	\$ -	\$ 1,961,506

Year ended December 31, 2022	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Camp & field support	\$ 3,123,489	\$ 159,478	\$ 466,088	\$ 233,073	\$ -	\$ 3,982,128
Drilling & analysis	764,631	10,075	738,295	2,580	-	1,515,581
Mining studies & pre-development costs	3,502,309	107,541	87,324	56,757	-	3,753,931
Mongolian office costs	-	-	-	-	1,102,603	1,102,603
Share-based compensation	-	-	-	-	420,225	420,225
Stakeholder relations	810,678	944	375	12,825	-	824,822
Travel & other	127,835	11,341	11,116	21,049	-	171,341
Total E&E expenditures	8,328,942	289,379	1,303,198	326,284	1,522,828	11,770,631
Capitalized expenditures	(7,628,060)	(288,818)	(1,726)	(53,351)	-	(7,971,955)
Expensed E&E costs 2022	\$ 700,882	\$ 561	\$ 1,301,472	\$ 272,933	\$ 1,522,828	\$ 3,798,676

E&E assets, January 1, 2022	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ -	\$ 37,928,453
Additions	7,628,060	288,818	1,726	53,351	-	7,971,955
Effect of movements in exchange rates	(2,355,325)	(277,165)	(110,749)	(103,013)	-	(2,846,252)
E&E assets, December 31, 2022	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ -	\$ 43,054,156

Exploration and evaluation expenses totaled \$847,010 for the year ended December 31, 2023, compared to \$3,798,676 in 2022, with the year-on-year change primarily due to the reporting of EM's activity as an Investment in Associate in the current year due to the loss of the control of the subsidiary following the Strategic Alliance with MMC, partially offset by regional exploration work incurred by Erdene.

Total exploration and evaluation expenditures, including capitalized expenditures and those incurred by EM, totaled \$7,266,375 for the year ended December 31, 2023, compared to \$11,770,631 for the year ended December 31, 2022, with the year over year decrease in expenditures primarily due to reduced

drilling in 2023, as the company drilled approximately 5,000 metres in the current year, compared to approximately 10,000 metres in the prior year, as well as less effort on technical studies following commencement of early construction works at the Bayan Khundii Gold Project in the second half of 2023.

Camp & field support costs for the year ended December 31, 2023 were \$2,783,097 less than those for the year ended December 31, 2022, due to a reduction in exploration work in the current year as well as the allocation of a portion of camp & field support costs to early construction works at Bayan Khundii.

Drilling & Analysis costs for the year ended December 31, 2023 were \$748,467 less than for the year ended December 31, 2022, as the Company completed less exploration during the current year.

Mining studies & pre-development costs for the year ended December 31, 2023, were \$1,615,973 less than for the year ended December 31, 2022, as expenditures on the 2023 FS were less than engineering and design costs during the year ended December 31, 2022.

Mongolian office costs for the year ended December 31, 2023, were \$108,008 less than the prior year primarily due to a reduction in advertising and promotion costs which was partially offset by increased legal and accounting fees associated with the strategic alliance with MMC in the current year.

Non-cash share-based compensation for the year ended December 31, 2023 was \$244,004 greater than the previous year due to an increase in the number of stock options granted and the impact of a higher share price on the valuation of the Company's annual stock options grant.

Stakeholder relations costs for the year ended December 31, 2023, were \$634,283 greater than for the year ended December 31, 2022, due to an increase in payments under the Local Cooperation Agreement and additional community investments, including a water sanitation project in the community of Shinejinst.

Travel & other costs for the current year were \$126,998 less than the prior year due to capitalization of international travel costs related to the Bayan Khundii Gold Project to property, plant and equipment in the current year.

The following table summarizes corporate and administration expenses for the year ended December 31, 2023 and 2022.

	For the years ended December 31,		
	2023	2022	Change
Administrative services	\$ 935,025	\$ 703,051	\$ 231,974
Depreciation and amortization	36,958	38,089	(1,131)
Directors fees and expenses	122,244	126,754	(4,510)
Investor relations and marketing	318,225	124,672	193,553
Office and sundry	105,686	102,738	2,948
Professional fees	504,095	380,691	123,404
Regulatory compliance	109,322	115,853	(6,531)
Share-based compensation	902,280	584,920	317,360
Travel and accommodations	103,900	42,216	61,684
	\$ 3,137,735	\$ 2,218,984	\$ 918,751

Corporate and administrative expenses totaled \$3,137,735 for the year ended December 31, 2023, compared to \$2,218,984 for the year ended December 31, 2022.

Administrative services expenditures for the year ended December 31, 2023, were \$231,974 greater than those in the prior year due to an increase in the allocation of management to corporate activities following the strategic alliance with MMC, as well as cost of living salary increases, as compared to the prior year.

Investor relations and marketing expenditures for the year ended December 31, 2023, were \$193,553 greater than in the previous year due to an increase in marketing activity following the MMC Strategic Alliance as well as the launch of an updated social media program.

Professional Fees for the year ended December 31, 2023 were \$123,404 greater than in the year ended December 31, 2022, due to the engagement of financial advisors to assist with capital markets support.

Non-cash share-based compensation for the year ended December 31, 2023 was \$317,360 greater than the previous year due to the impact of a higher share price on the valuation of the Company's annual stock options grant, as well as an increase in the number of options granted.

Travel and accommodations for the year ended December 31, 2023 was \$61,684 greater than the previous year due to increased travel in support of corporate and investor relations activities.

Depreciation and amortization, Directors fees and expenses, Office and sundry, and Regulatory compliance expenditures for the year ended December 31, 2023, were not materially different from those incurred in the prior year comparative period.

Fourth Quarter

Exploration and evaluation expenses totaled \$42,543 for the three months ended December 31, 2023, representing exploration team salaries and associated support costs for the period. Expenses were much lower than the prior year comparative quarter primarily due to the loss of control of EM following the Strategic Alliance with MMC.

Total exploration expenditures, including expenditures incurred by EM, totaled \$1,613,318 for the three months ended December 31, 2023. Exploration and field support expenditures of \$215,396 were attributable to the technical staff and camp costs in support of the 2023 exploration program. Mining studies and permitting expenditures of \$275,515 were incurred in relation to resource and other technical studies. Stakeholder relations expenditures of \$785,183 during the fourth quarter were primarily composed of payments under the local co-operation agreement. Other exploration expenditures of \$337,224 included travel and sundry expenses related to the Corporation's Mongolian field operations and office costs.

Corporate and administrative expenses totaled \$565,575 for the three months ended December 31, 2023, including \$180,757 of salaries and administrative expenditures, \$32,714 of public company costs, professional fees of \$154,991, non-cash share-based compensation of \$61,282 and miscellaneous administrative expenditures, including travel, office and investor relations totaling \$135,831.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2023				Fiscal 2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Net loss (income)	\$1,583	\$2,144	\$2,796	(\$7,045)	\$1,077	\$1,980	\$1,698	\$1,231
Basic loss (income) per share	\$0.00	\$0.01	\$0.01	(\$0.02)	\$0.00	\$0.01	\$0.01	\$0.00
Total assets	\$59,063	\$60,663	\$62,478	\$64,162	\$52,533	\$47,785	\$42,495	\$44,230

For the three months ended December 31, 2023, the Corporation recognized a net loss of \$1,583,187 compared to a net loss of \$1,076,895 for the same period in 2022.

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 \$3.3 million of cash and working capital of \$4.6 million, calculated as current assets less current liabilities.

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). The ability of the Corporation to continue with its development and exploration programs is contingent upon securing additional funds through the formation of alliances, including the MMC Strategic Alliance, debt financing, asset sales and option and/or joint venture agreements. The timing and availability of additional financing will be determined largely by the close of the third stage of the MMC Strategic Alliance, the conclusion of project finance due diligence and negotiations, the results of the Corporation's ongoing exploration and development programs and general market conditions.

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 development and exploration 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 other than planned expenditures.

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

	March 27, 2024	December 31, 2023
Common shares issued and outstanding	345,538,176	344,888,176
Options outstanding	25,415,000	20,485,000
Warrants outstanding	25,264,122	25,264,122
DSU's outstanding	8,442,250	8,442,250
Total instruments outstanding	404,659,548	399,079,548

Contractual Obligations

The following table summarizes the maturity of the Corporation's contractual obligations at December 31, 2023:

	Total	Less than one year	1 - 2 years
Office leases	\$ 22,939	\$ 22,939	\$ -
Accounts payable and accrued liabilities	163,212	163,212	-
	\$ 186,151	\$ 186,151	\$ -

Other Financing Arrangements and Commitments

MMC Strategic Alliance

In January 2023, Erdene entered a Strategic Alliance with MMC where MMC agreed to invest a total of US\$40 million for a 50% interest in Erdene's Mongolian subsidiary, Erdene Mongol LLC. This investment was structured as a series of promissory notes that were converted into an equity interest in EM on January 23, 2024. Erdene retains a 50% equity interest in EM and a 5.0% Net Smelter Return royalty on production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within five kilometres of these licenses, beyond the first 400,000 ounces gold recovered.

On February 8, 2024, Erdene executed financing documents with MMC to develop the Bayan Khundii Gold Project. The financing has been structured as a shareholder loan from MMC to EM, the entity co-owned by Erdene and MMC that holds the Bayan Khundii mining license, as well as the Altan Nar mining license and highly prospective Ulaan exploration license.

The shareholder loan is for US\$50 million providing the funding for construction of the Bayan Khundii gold mine and processing complex. The loan may be drawn in up to five tranches, in multiples of at least US\$5 million. The loan will mature five years from the date of first draw, and accrue interest at a rate of 13.8%, paid quarterly in arrears. EM has the option to capitalize the first four interest payments. The loan will be repayable in full upon maturity. A further US\$30 million, under the same terms, is available at MMC's discretion. EM is also in discussions with Mongolian commercial banks on financing for up to \$30 million.

This loan is secured by a 50% guarantee by Erdene and Erdene's interests in the Project, including its shares of EM and NSR interest, as well as preferential rights over the Khundii, Altan Nar and Ulaan licenses. For so long as the loan is outstanding, MMC will be granted priority voting rights under the Strategic Alliance agreement between the parties and a right of first refusal over Erdene's Zuun Mod project. Additionally, Erdene has the right to purchase 50% of the loan and participate as a lending shareholder on the same terms as MMC.

Sandstorm Gold Ltd. Royalty Agreement

Sandstorm Gold Ltd. ("Sandstorm") holds a 1% net smelter returns royalty ("NSR Royalty") on EM's Altan Nar, Khundii and Ulaan licenses, guaranteed by Erdene. Sandstorm has been given a right of first refusal on future stream or royalty financings related to these licenses.

Other

Sandbox Royalties Corp. holds a 1.5% NSR Royalty on Erdene's Zuun Mod license. Erdene has the option to buy down a portion of the royalty if certain production milestones are achieved.

Off-Balance Sheet Arrangements

As at December 31, 2023, 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, other than those related to the MMC Strategic Alliance, as detailed above.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires Erdene to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

A detailed summary of the Corporation's significant accounting policies and the key sources of estimation uncertainty that have a risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next twelve months are included in Note 2 to the consolidated financial statements for the year ended December 31, 2023. While all of the key sources are important to the Corporation's consolidated financial statements, the following key sources have been identified as being critical:

- Determination of significant influence over investment in associate; and
- Share-based compensation.

Determination of significant influence

Judgment is needed to assess whether the Corporation has control over its investees as a result of its right to direct relevant activities or, when control is not retained, its interest meets the definition of significant influence and therefore would be accounted for under the equity method. Management makes this determination based on its legal ownership interest and through an analysis of the Corporation's participation in entities' decision making processes. Immediately after the Corporation lost control of EM, its Mongolian subsidiary, on January 10, 2023, management determined it was able to exert significant influence over EM and accounted for this investment as an associate under the equity method.

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 \$1,566,509 of non-cash share-based compensation to the statement of comprehensive loss for the year ended December 31, 2023 (2022 – \$1,005,146).

Adoption of New Accounting Standards and Future Changes in Accounting Policies

Erdene has adopted the following amendments, effective January 1, 2023. These changes were made in accordance with applicable transitional provisions.

IAS 1 – Disclosure of Accounting Policies

In February 2021, the IASB issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 Making Materiality Judgements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The Corporation adopted these amendments, effective January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management updated the accounting policy disclosures in Note 3 Material accounting policies in certain instances in line with the amendments.

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 year ended December 31, 2023 and year ended December 31, 2022, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair value of financial assets and liabilities are approximately equal to their carrying values given the short term to maturity of such instruments.

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, 2023, \$33,759 or 1% of the balance of cash was held in banks outside Canada (2022 - \$268,376 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. All of the Corporation's financial liabilities are expected to be settled within the next twelve months.

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

The Corporation has cash balances that is subject to interest rate if not converted. The Corporation's current policy is to invest excess cash in interest bearing savings accounts, which are subject to interest rate risk.

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 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 the Corporation's net investment in its Mongolian subsidiaries. The Corporation maintains US dollar bank accounts in Canada.

The Corporation's exposure to US dollar currency risk was \$1,044,829 as at December 31, 2023 (December 31, 2022 - \$95,635). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$104,500 (December 31, 2022 - \$9,600).

The Corporation's exposure to Mongolian Tugrik currency risk was \$2,966 as at December 31, 2023 (December 31, 2022 - \$43,479). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$300 (December 31, 2022 - \$4,300).

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.

Other Risks

In conducting its business, the principal risks and uncertainties faced by the Corporation relate primarily to exploration results, permitting, financing 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.sedarplus.ca.

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 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, 2023. 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 and due to the material weakness described below, the CEO and CFO concluded that during the quarter ended December 31, 2023, Erdene's internal controls over financial reporting were not effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Identification of material weakness in internal controls over financial reporting

The Corporation entered and amended certain agreements during the year ended December 31, 2023 which required significant judgement by Management in the interpretation and application of IFRS. During the reporting periods presented, there was a deficiency in the interpretation and application of IFRS that was identified by the external auditor. This material weakness in internal control over financial reporting led to an adjustment to the current period financial statements. This material weakness was determined by Management to be limited to its controls related to the interpretation and application of IFRS where significant judgment is required, relating to the accounting basis for its investment in EM.

In light of the material weakness, Management has committed to consult external technical experts to assist with the interpretation and application of IFRS when the Corporation enters complex or unusual arrangements, where significant subjectivity exists as to the interpretation and application of IFRS.

Qualified Person

Peter Dalton, P.Ge. (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 Parksville 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 Erdene'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 Feasibility Study Update is based on information compiled and reviewed by Mark Reynolds, engaged through O2 Mining Limited. The information in this MD&A that relates to the capital and operating cost estimation for the Bayan

Khundii Feasibility Study is based on information compiled and reviewed by Julien Lawrence, who is a FAusIMM and the Director of O2 Mining Ltd. The information in this MD&A that relates to the process design and recovery methods for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Jeffrey Jardine, who is a FAusIMM, and is engaged through O2 Mining Ltd. The information in this MD&A that relates to the BK Resource Estimate is based on information compiled and reviewed by Paul Daigle, who is a P.Geol., and is an employee of AGP Mining Consultants Inc. The information in this MD&A that relates to the Dark Horse Resource Estimate is based on information compiled and reviewed by Oyunbat Bat-Ochir who is a full-time employee of RPM Global and a Member of the Australian Institute of Geoscientists. The information in this MD&A that relates to the Bayan Khundii reserve estimate is based on information compiled and reviewed by Julien Lawrence. Each of Mr. Reynolds, Mr. Lawrence, Mr. Jardine, Mr. Daigle and Mr. Bat-Ochir has 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. Reynolds, Mr. Lawrence, Mr. Jardine, Mr. Daigle and Mr. Bat-Ochir 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.sedarplus.ca and on the Corporation's website at www.erdene.com.