



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2019 and 2018

(Canadian dollars)
(Unaudited)

Prepared by management – See Notice to Reader

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice to this effect. These unaudited condensed consolidated interim financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed consolidated interim statements of financial position of Erdene Resource Development Corporation as at September 30, 2019 and December 31, 2018 and the unaudited condensed consolidated interim statements of comprehensive loss, changes in equity and cash flows for the three and nine months ended September 30, 2019 and 2018. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2019 and 2018 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Financial Position

(Canadian dollars)

(Unaudited)

	Notes	September 30, 2019	December 31, 2018
Assets			
Cash		\$ 406,422	\$ 1,748,249
Receivables		130,218	113,412
Prepaid expenses		111,916	34,633
		648,556	1,896,294
Exploration and evaluation assets	6	20,178,438	15,687,348
Property, plant and equipment		115,123	125,277
		20,293,561	15,812,625
Total Assets		\$ 20,942,117	\$ 17,708,919
Liabilities and Equity			
Trade and other payables		\$ 678,454	\$ 224,387
Total Liabilities		\$ 678,454	\$ 224,387
Shareholders' Equity			
Share capital	8	\$ 108,527,738	\$ 104,003,644
Contributed surplus		16,744,863	16,110,116
Accumulated other comprehensive loss		(1,425,066)	(955,713)
Deficit		(103,583,872)	(101,673,515)
Total Shareholders' Equity		20,263,663	17,484,532
Total Liabilities and Equity		\$ 20,942,117	\$ 17,708,919

Commitments (Note 7)

Subsequent Events (Note 13)

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

Approved on behalf of the Board:

Signed "John P. Byrne"

_____ Director

Signed "T. Layton Croft"

_____ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Comprehensive Loss

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended		For the nine months ended	
		September 30,		September 30,	
		2019	2018	2019	2018
Operating Expenses					
Exploration and evaluation	9	\$ 307,595	\$ 404,652	\$ 731,181	\$ 1,304,254
Corporate and administration	10	342,303	335,239	1,186,547	1,613,286
Loss from operating activities		649,898	739,891	1,917,728	2,917,540
Finance income		(6,242)	(17,746)	(23,899)	(38,960)
Foreign exchange loss (gain)		(5,277)	21,339	16,528	6,038
Net Loss		\$ 638,379	\$ 743,484	\$ 1,910,357	\$ 2,884,618
Other comprehensive loss (income):					
Foreign currency translation difference arising on translation of foreign subsidiaries		(98,970)	589,718	469,353	284,648
Other comprehensive loss (income)		(98,970)	589,718	469,353	284,648
Total comprehensive loss		\$ 539,409	\$ 1,333,202	\$ 2,379,710	\$ 3,169,266
Basic loss per share		\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02
Basic weighted average number of shares outstanding		183,828,442	161,775,791	174,973,716	152,689,891

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at January 1, 2018		145,963,086	\$ 99,890,270	\$ 13,775,386	\$ (894,855)	\$ (98,016,525)	\$ 14,754,276
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(2,884,618)	(2,884,618)
Other comprehensive income		-	-	-	(284,648)	-	(284,648)
Private placements, net of share issue costs		14,834,580	3,650,261	1,357,750			5,008,011
Options exercised		978,125	274,950	(100,700)			174,250
Share-based compensation		-	-	922,629			922,629
Total transactions with owners		15,812,705	3,925,211	2,179,679	-	-	6,104,890
Balance at September 30, 2018		161,775,791	\$ 103,815,481	\$ 15,955,065	\$ (1,179,503)	\$ (100,901,143)	\$ 17,689,900
Balance at January 1, 2019		162,426,416	\$ 104,003,644	\$ 16,110,116	\$ (955,713)	\$ (101,673,515)	\$ 17,484,532
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(1,910,357)	(1,910,357)
Other comprehensive loss		-	-	-	(469,353)	-	(469,353)
Private placements, net of share issue costs	8	21,022,044	4,017,137	338,168			4,355,305
Options exercised	8	1,105,000	276,900	(107,100)			169,800
Issue of shares from DSU plan	8	1,315,091	230,057	(230,057)			-
Share-based compensation	8	-	-	633,736			633,736
Total transactions with owners		23,442,135	4,524,094	634,747	-	-	5,158,841
Balance at September 30, 2019		185,868,551	\$ 108,527,738	\$ 16,744,863	\$ (1,425,066)	\$ (103,583,872)	\$ 20,263,663

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Cash Flows

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended		For the nine months ended	
		September 30,		September 30,	
		2019	2018	2019	2018
Cash flows from operating activities:					
Net loss		\$ (638,379)	\$ (743,484)	\$ (1,910,357)	\$ (2,884,618)
Items not involving cash:					
Depreciation and amortization		5,699	5,150	16,976	15,574
Share-based compensation		255,776	30,615	633,736	922,629
Finance income		(6,242)	(17,746)	(23,899)	(38,960)
Foreign exchange not related to cash		(5,277)	21,339	16,528	6,038
Change in non-cash working capital		(68,052)	(14,514)	367,130	246,914
Cash flows from operating activities		(456,475)	(718,640)	(899,886)	(1,732,423)
Cash flows from financing activities:					
Issue of common shares, net of issue costs	8	1,935,511	-	4,355,305	5,008,011
Proceeds on exercise of stock options	8	-	-	169,800	174,250
Cash flows from financing activities		1,935,511	-	4,525,105	5,182,261
Cash flows from investing activities:					
Expenditures on exploration and evaluation assets		(1,438,157)	(1,205,333)	(3,763,114)	(3,485,812)
Repurchase of NSR royalty	7	-	-	(1,200,000)	-
Expenditures on property, plant and equipment		(960)	(831)	(10,553)	(10,579)
Interest received		6,242	17,746	23,899	38,960
Cash flows from investing activities		(1,432,875)	(1,188,418)	(4,949,768)	(3,457,431)
Effect of exchange rate changes		6,419	(29,047)	(17,278)	(6,955)
Increase (decrease) in cash and cash equivalents		52,580	(1,936,105)	(1,341,827)	(14,548)
Cash and cash equivalents, beginning of period		353,842	5,146,759	1,748,249	3,225,202
Cash and cash equivalents, end of period		\$ 406,422	\$ 3,210,654	\$ 406,422	\$ 3,210,654

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)
(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

1. Nature of operations

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

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

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

2. Going concern

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

The Corporation experienced significant losses and negative cash flows from operations for the interim period ended September 30, 2019 and for the years ended December 31, 2018 and 2017 and had a deficit of \$103,583,872 at September 30, 2019. The Corporation had a working capital deficit of \$29,898 at September 30, 2019, compared to working capital of \$1,671,907 at December 31, 2018, representing a \$1,701,805 decrease. With the recent receipt of proceeds from the Convertible Loan and concurrent Private Placement (see note 13), management estimates current working capital is sufficient to fund the Corporation’s planned expenditures into Q3 2020. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration and evaluation programs is contingent upon securing equity or other forms of financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation’s ongoing exploration and evaluation programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)
(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

2. Going concern (continued)

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

3. Basis of presentation

These unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 (the "Interim Financial Statements") have been prepared in accordance with IAS 34 - Interim Financial Reporting. The Interim Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018 ("Annual Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These unaudited condensed consolidated interim financial statements were authorized for issue on behalf of the Board of Directors on November 7, 2019.

4. Changes in Accounting Policies

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

IFRS 16 – Leases

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

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance.

As the Corporation's current office space and staff accommodation leases have terms of less than 12 months, there is no impact to the Corporation.

5. Seasonality

The corporation's business experiences a seasonal pattern in which exploration expenditures and investments in exploration and evaluation assets are concentrated in the second and third quarters of the year due to weather conditions in Mongolia.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

6. Exploration and evaluation assets

	Khundii Gold Project	Zuun Mod Moly/Copper	Ulaan & Other	Total
Balance, January 1, 2018	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843
Additions	4,291,555	70,074	1,388	4,363,017
Effect of movements in exchange rates	(62,077)	(4,143)	(4,292)	(70,512)
Balance, December 31, 2018	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348
Balance, January 1, 2019	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348
Additions	3,694,121	67,091	1,902	3,763,114
Repurchase of NSR Royalty (Note 7)	1,200,000	-	-	1,200,000
Effect of movements in exchange rates	(418,542)	(32,808)	(20,674)	(472,024)
Balance, September 30, 2019	\$ 18,405,889	\$ 866,009	\$ 906,540	\$ 20,178,438

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

Khundii Gold Project

The Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Bayan Khundii Mining License, including the Bayan Khundii resource, the contiguous 2,205 hectare Khundii exploration license, and the 4,669 hectare Tsenkher Nomin exploration license including the Altan Nar gold, silver, lead, zinc resource. Prior to December 31, 2018, Exploration and evaluation expenditures on the Khundii license and the Tsenkher Nomin license were disclosed separately. Erdene made the decision in late 2018 to develop these licenses concurrently and has aggregated associated exploration and evaluation assets and expenditures.

Erdene received the Bayan Khundii mining license on August 5, 2019 from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of a portion of its legacy Khundii exploration license. The Bayan Khundii mining license includes the Bayan Khundii Resource reported in "Bayan Khundii Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report", dated November 1, 2018 and prepared by RPMGlobal Asia Limited. Additionally, the mining license includes Erdene's highly prospective Altan Arrow, Khundii North and Khundii West targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years.

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

6. Exploration and evaluation assets (continued)

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

The Tsenkher Nomin exploration license is in its tenth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On January 1, 2015, having received the initial resource estimate for the Altan Nar prospect, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to 2015, the Corporation only capitalized license costs associated with Altan Nar.

Zuun Mod/Khuvyn Khar

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041 hectare molybdenum-copper Mining License. The mining license was issued in 2011 and is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. The Corporation will continue to evaluate its options in light of technological and market factors.

Ulaan & Other

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

Provided Erdene spends a minimum of US\$600,000 on work expenditures on the property by August 30, 2020, it has the right to acquire the remaining 49% of the shares of Leader, or at Erdene's option, a portion of the property, for the then fair market value of the property or the portion to be acquired. Erdene may extend the option beyond this date by spending a minimum of US\$100,000 per annum thereafter.

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

7. Commitments

Operating commitments are as follows:

	September 30, 2019	December 31, 2018
Less than 1 year	\$ 83,895	\$ 41,957
Between 1 and 5 years	-	-
Total	\$ 83,895	\$ 41,957

The Corporation has leases for office space in Canada and Mongolia, as well as staff accommodation in Mongolia that expire within the next 12 months.

The Corporation must spend a total of US\$600,000 over three years to have the right to purchase any (or all) of the remaining 49% of Leader (Ulaan). The Corporation can extend the option period beyond three years by spending an additional US\$100,000 per year on exploration work (see Note 6).

On April 21, 2016 the Corporation granted Sandstorm Gold Ltd. ("Sandstorm") a 2% net smelter returns royalty ("NSR Royalty") on Erdene's Tsenkher Nomin and Khundii licenses. On April 12, 2019, Erdene repurchased 50% of the NSR Royalty for \$1.2 million, reducing the NSR Royalty to 1%.

8. Share Capital

Authorized

An unlimited number of common shares with no par value.

Issued

On February 28, 2019 the Corporation closed a non-brokered private placement financing for gross proceeds to the Corporation of \$2,533,345. The Corporation issued an aggregate of 11,014,544 Units of the Corporation at a price of \$0.23 per Unit. Each Unit consists of one common share and one Warrant. Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.40 if exercised within twelve months of the closing date and at a price of \$0.50 if exercised more than twelve months after the closing date. The Corporation paid finder's fees of \$62,116 and issued 270,070 finder's warrants in connection with the Offering. In addition, the Corporation paid \$51,435 in share issue costs on the private placement, resulting in net proceeds of \$2,419,794.

On July 9, 2019 the Corporation closed a non-brokered private placement financing for gross proceeds to the Corporation of \$2,001,500. The Corporation issued an aggregate of 10,007,500 units of the Corporation at a price of \$0.20 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant. Warrants are exercisable by the holder into one common share of the Company within two years of the closing date, at a price of \$0.30. Erdene paid finder's fees in the aggregate of \$35,860 and issued 108,800 finder's warrants in connection with the Offering. In addition, the Corporation paid \$30,129 in share issue costs on the private placement, resulting in net proceeds of \$1,935,511.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

8. Share Capital (continued)

Share-Based Compensation

For the nine months ended September 30, 2019, the Corporation charged a total of \$633,736 of share-based compensation expense to the statement of comprehensive loss (2018 – \$922,629) of which \$225,785 is attributable to exploration expenses (2018 – \$359,413).

Stock Options

Options granted under the Corporation's option plan vest immediately and are exercisable over a period of five years. Any consideration paid by the optionee on the exercise of options is recorded in share capital. During the nine months ended September 30, 2019, the Corporation issued 1,105,000 shares on the exercise of options, generating gross proceeds of \$169,800.

In the second quarter of 2019, 2,520,000 options were granted to officers, directors and employees of the Corporation at a weighted average exercise price of \$0.20. The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model and resulted in a charge of \$227,500 (2018 – \$804,600) to share-based compensation included in exploration and evaluation expenses and corporate and administration expenses. On June 18, 2019, 230,000 options expired.

Option transactions and the number of options outstanding at September 30, 2019 are summarized below:

	Number of options	Weighted average exercise price	
Outstanding at January 1, 2019	11,335,000	\$	0.43
Granted	2,520,000		0.20
Expired	(230,000)		0.16
Exercised	(1,105,000)		0.15
Outstanding at June 30, 2019	12,520,000	\$	0.42

At September 30, 2019, the Corporation had the following options outstanding:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price of exercisable options	
\$0.15 - \$0.24	4,690,000	3.07	\$	0.18
\$0.25 - \$0.49	5,010,000	2.93		0.38
\$0.50 - \$0.87	2,820,000	2.53		0.86
	12,520,000	2.89	\$	0.42

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

8. Share Capital (continued)

Warrants

During the first quarter of 2019, the Corporation issued 11,014,544 warrants and 270,070 finder's warrants as part of the February 28, 2019 non-brokered private placement financing. The 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 if exercised within twelve months of the closing date and at a price of \$0.50 if exercised more than twelve months after the closing date.

In the third quarter of 2019, the Corporation issued 5,003,750 warrants and 108,800 finder's warrants as part of the July 9, 2019 non-brokered private placement financing. The warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.30.

Warrant transactions and the number of warrants outstanding at September 30, 2019 are summarized below:

	Number of warrants	Weighted average exercise price
Outstanding at January 1, 2019	12,389,904	\$ 0.65
Issued	16,397,164	0.30 - 0.50
Expired	(1,075,324)	1.20
Outstanding at September 30, 2019	27,711,744	\$ 0.48

The remaining contractual lives of warrants outstanding at September 30, 2019, are as follows:

Weighted average exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
\$0.30 - \$0.50	16,397,164	1.53
\$0.51 - \$0.60	11,314,580	1.19
	27,711,744	1.39

Deferred Share Units

Deferred Share Units ("DSU") granted under the Corporation's plan to directors and employees have no expiration date and are redeemable upon termination of service. During the nine months ended September 30, 2019, the Corporation granted 1,987,901 DSUs with a fair value of \$0.20 per DSU (2018 – 326,755 DSUs with fair value of \$0.36 per DSU). The fair value of \$406,236 (2018 – \$118,029) was charged to share based compensation included in exploration and evaluation expenses and corporate and administration expenses.

Also, during the nine months ended September 30, 2019, Erdene issued 1,315,091 shares from the DSU plan at an average value of \$0.17 per DSU (2018 - nil).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

8. Share Capital (continued)

DSU transactions and number of DSUs outstanding at September 30, 2019 are summarized as follows:

	Number of DSUs	Weighted average grant price
Outstanding at January 1, 2019	3,954,118	\$ 0.19
Granted	1,987,901	0.20
Issued	(1,315,091)	0.17
Outstanding at September 30, 2019	4,626,928	\$ 0.19

9. Exploration and evaluation expenses

The following table summarizes Exploration and evaluation expenses for the three and nine month periods ended September 30, 2019 and 2018:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Depreciation and amortization	\$ 3,533	\$ 3,758	\$ 10,762	\$ 11,120
Direct costs	126,113	321,697	366,943	692,020
Employee compensation costs	45,941	74,821	127,691	241,701
Share-based compensation	132,008	4,376	225,785	359,413
	\$ 307,595	\$ 404,652	\$ 731,181	\$ 1,304,254

10. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the three and nine month periods ended September 30, 2019 and 2018:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Administrative services	\$ 82,615	\$ 134,947	\$ 286,763	\$ 405,599
Depreciation and amortization	2,163	1,527	6,228	4,580
Directors fees and expenses	52,267	28,384	117,276	103,526
Investor relations and marketing	22,305	51,346	77,621	141,495
Office and sundry	29,684	24,779	91,782	88,945
Professional fees	(21,483)	50,130	56,403	168,108
Regulatory compliance	29,462	10,247	100,267	97,050
Share-based compensation	123,768	26,239	407,951	563,216
Travel and accommodations	21,522	7,640	42,256	40,767
	\$ 342,303	\$ 335,239	\$ 1,186,547	\$ 1,613,286

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

11. 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	
	September 30, 2019	December 31, 2018
Cash	\$ 406,422	\$ 1,748,249
Receivables	130,218	113,412
	\$ 536,640	\$ 1,861,661

The Corporation manages credit risk by holding the majority of its cash with a Canadian Schedule I bank, where management believes the risk of loss to be low. At September 30, 2019, \$24,937 or approximately 6% of the balance of cash was held in banks outside Canada (December 31, 2018 – \$66,342 or 4%).

Liquidity Risk:

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

The corporation does not have sufficient working capital to meet budgeted expenditures for 2019 and must obtain additional financing to avoid disruption to its operations (see note 2).

Market Risk:

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

a) Interest rate risk

As of September 30, 2019, the Corporation has no interest-bearing debt and is not exposed to significant interest rate risk.

b) Foreign currency risk

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

11. Financial instruments (continued)

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

	September 30, 2019	December 31, 2018
Cash	\$ 77,306	\$ 96,157
Trade and other payables	(13,368)	(24,244)
	\$ 63,938	\$ 71,913

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$6,400 (December 31, 2018 - \$7,200).

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

	September 30, 2019	December 31, 2018
Cash	\$ 3,405	\$ 3,432
Receivables	(615)	7,218
Trade and other payables	(206,408)	(22,159)
	\$ (203,618)	\$ (11,509)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$20,400 (December 31, 2018 - \$1,200).

c) Price risk

The Corporation's financial instruments are not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

Fair Value:

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

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	\$ 406,422	\$ -	\$ -	\$1,748,249	\$ -	\$ -
Receivables	-	130,218	-	-	113,412	-

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

12. Related Party Transactions

Key management includes members of the Board, the President & CEO, the Vice-President & CFO, the Vice-President Exploration, the Vice-President Operations and the Vice-President Regulatory Affairs & Strategy. The aggregate total compensation paid to key management for employee services is shown below.

	Nine months ended September 30,	
	2019	2018
Salaries and other short-term employee benefits	\$ 699,155	\$ 720,710
Share-based compensation	397,776	427,264
	\$ 1,096,931	\$ 1,147,974

13. Subsequent Events

On October 15, 2019 Erdene entered into a definitive Loan Agreement for a US\$5 million (C\$6.6 million) Convertible Loan with the European Bank for Reconstruction and Development ("EBRD"). The Loan will be funded by way of an initial advance of US\$2.5 million, which was received on November 4, 2019, with the remaining US\$2.5 million available at Erdene's option within 45 days of the date of the Loan Agreement, upon satisfaction of certain conditions precedent. The Loan carries an interest rate of 10% per annum, which may be capitalized at the Corporation's option and will mature 36 months after the date of the Loan Agreement. The Loan can be prepaid following the earliest of 24 months from the date of the initial advance, delivery of a NI 43-101 Bankable Feasibility Study, or a change of control of Erdene, subject to a 25% premium. The Loan is convertible in whole or in part at the election of the EBRD into common shares of the Corporation at a conversion price (in respect of the principal amount drawn down under the Loan) of C\$0.20 per share, subject to a conversion premium of 10%, 20% or 30%, respectively, if EBRD exercises its conversion option prior to or on the first, second, or third anniversary, respectively, of the date of the Loan Agreement, provided that certain other conditions have been met. Any capitalized interest on the date of the conversion will be payable, at EBRD's option, in cash or shares of the Corporation at the prevailing market price of the common shares of the Corporation (5 day Volume Weighted Average Price). The Loan is secured by a pledge over the shares of Erdene's Mongolian subsidiary that holds the Project.

Also, on October 15, 2019, Erdene announced a non-brokered private placement of units of the Corporation for maximum proceeds of C\$1.6 million. Erdene will issue, up to 8,000,000 units at a price of C\$0.20 per Unit. Each Unit will consist of one common share and one-half ($\frac{1}{2}$) 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 C\$0.30. As at November 7, 2019, Erdene has received commitments for proceeds of C\$855,000.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
Three and nine months ended September 30, 2019

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This Management Discussion and Analysis ("MD&A"), dated November 7, 2019, 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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and 2018, audited consolidated financial statements for the years ended December 31, 2018 and 2017, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

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

The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2018, a copy of which is available on the Corporation's SEDAR document page at www.sedar.com.

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

Company Overview

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

Erdene's deposits are located in the Edren Terrane, within the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. Although epithermal gold and porphyry copper-gold deposits are well documented in China and along the Belt's westward trend, exploration in Mongolia was limited until the mid-1990's, when the country opened to foreign investment. Since that time, the world-class Oyu Tolgoi gold-copper deposit has been defined in Southeast Mongolia, and Erdene has discovered the Khundii Gold District in the country's southwest. Within the Khundii Gold District, the Company has discovered multiple high-grade gold and base metal prospects, two of which are being developed: Bayan Khundii ("Bayan Khundii" or "BK") and Altan Nar ("Altan Nar" or "AN"). In addition, the Company holds a large molybdenum-copper resource at its 100% owned Zuun Mod project, 40 kilometres to the east.

In December 2018, Erdene announced a positive Preliminary Economic Assessment ("PEA") study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Erdene commenced a NI 43-101 Pre-Feasibility Study ("PFS") for BK and an updated PEA for AN study, led by Tetra Tech Inc. ("Tetra Tech"), in March 2019, and the results of these studies were announced on October 21, 2019. Concurrently, work is underway on an Environmental and Social Impact Assessment ("ESIA"), led by Sustainability East Asia, LLC. The company intends to undertake a Bankable Feasibility Study for BK in December 2019, which should position the company to reach a development decision in mid-2020. Erdene is targeting first gold production in 2021, as the initial step in the company's journey to become a major regional gold producer.

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

Highlights and Significant Subsequent Events

Khundii Gold Project – 100% Erdene

- Announced compelling results of a NI 43-101 Technical Report led by Tetra Tech comprised of the Bayan Khundii PFS and an updated Altan Nar PEA:
 - Post-tax Net Present Value at a 5% discount rate (NPV5%) of US\$97 million and a 42% Internal Rate of Return (IRR) for the BK PFS.
 - Post-tax NPV5% and IRR of US\$24 million and 92%, respectively, for the updated AN PEA, reflecting the second phase of the development utilizing BK infrastructure.
 - BK Life of Mine ("LOM") Earnings Before Interest, Taxes and Depreciation of US\$211 million.
 - BK Measured and Indicated Resources of 520,700 ounces gold at an average grade of 3.16 g/t gold, a 20% increase from the September 2018 resource estimate.
 - BK Proven and Probable Reserves of 422,000 ounces gold at an average grade of 3.7 g/t gold.
 - LOM head grade of 3.73 g/t gold for the BK PFS and 3.46 g/t gold for the updated AN PEA.
 - Project life of 11 years, comprised of a one year pre-production period, six-year operating life for BK, three-year operating life for AN, and one year mine closure.
 - Average annual gold production of 61,000 ounces in the BK PFS and 45,300 ounces of gold and 205,000 ounces of silver in the updated AN PEA.
 - All-in sustaining cost ("AISC") of US\$746/ounce of gold recovered for the BK PFS and for the updated AN PEA, US\$931/ounce of gold equivalent ("AuEq"; see definition in Table 1, Note 2).
 - BK PFS Initial Capital US\$40 million and US\$2 million incremental capital for AN PEA.
 - Payback period of less than 2 years for BK PFS.
 - Significant benefits to Mongolia, including royalties and taxes of US\$82 million and 300 local jobs.

- Received the Bayan Khundii Mining License on August 5, 2019:
 - The license is valid for an initial term of 30 years and can be extended to 70 years.
 - Received Mongolian Mineral Council approval for the Altan Nar resource registration on November 1, 2019 – Altan Nar Mining License expected by the end of 2019.
- Advanced the ESIA led by Sustainability East Asia:
 - Baseline scoping and data collection completed in September, establishing framework for impacts assessment and mitigation planning.
 - Mongolian Detailed Environmental Impact Assessment for BK largely complete in advance of public consultation and submission to the government in Q4.
 - Final impact assessment and management plans expected by late Q4.
- Completed an exploration and infill drill program on the Khundii mining license in September:
 - Bayan Khundii South Extension: Step-out drilling, under cover, 350 metres south of the BK deposit, intersected the gold mineralized altered volcanic unit characteristic of the high-grade BK gold deposit.
 - Khar Mori Gold Discovery: New, high-grade gold discovery on the Khundii Mining license, 4.5 kilometres north of the BK deposit, with surface rock samples grading up to 32.9 g/t gold.
 - Bayan Khundii – Striker and Midfield Zones: Definition drilling intersected 32 metres of 2.4 g/t gold in BKD269 and 37 metres of 1.7 g/t gold in BKD-270 demonstrating the continuity of mineralization within the BK deposit.
 - Khundii North (“KN”) & CSZ Gold Target Results: Drilling confirms quartz stockwork breccia body at depth (KN) and a thick sequence of sulphide-rich, altered volcanic rocks (CSZ).
- Concluded process water reserve drilling and testing:
 - Established a six hole bore field with sufficient reserves to support the BK processing plant.
 - Two water wells have been established near the proposed accommodation camp.
 - State approval of the water reserves is expected by year end.
- Initiated the Q4 19 Exploration and Technical Program:
 - A 700 metre program is planned on the 51% owned Ulaan license to test the potential of the alteration system at depth (650m) as well as two shallower targets (~200m).
 - Geotechnical drilling will test the potential of steepening pit slope angles, which will potentially reduce the stripping ratio in the upcoming Feasibility Study.
 - District geophysical compilation and interpretation program to identify new on-license targets.

Corporate

- Announced a C\$8 million financing led by the European Bank for Reconstruction and Development (“EBRD”):
 - Comprised of a US\$5 million (C\$6.6 million) convertible loan agreement and concurrent C\$1.6 million, non-brokered private placement.
 - First Tranche of US\$2.5 million drawn under EBRD loan and commitments for \$855,000 under the private placement received at the date of the MD&A.
 - Proceeds will largely fund the company through to a project development decision.
- Recorded a net loss of \$638,379 for the three months ended September 30, 2019, compared to a net loss of \$743,484 for the comparative 2018 period.
 - Exploration and Evaluation expenditures, including capitalized costs, of \$1,745,752 compared to \$1,609,985 as the costs associated with the PFS more than offset lower drilling activity.
 - Corporate and administrative expenses, excluding non-cash share-based compensation and depreciation were \$216,372 in the quarter versus \$307,473 in the comparative period due primarily to lower staffing costs as a result of personnel changes and the timing of performance bonuses as well as reduced professional fees.

Strategy and Outlook

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

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

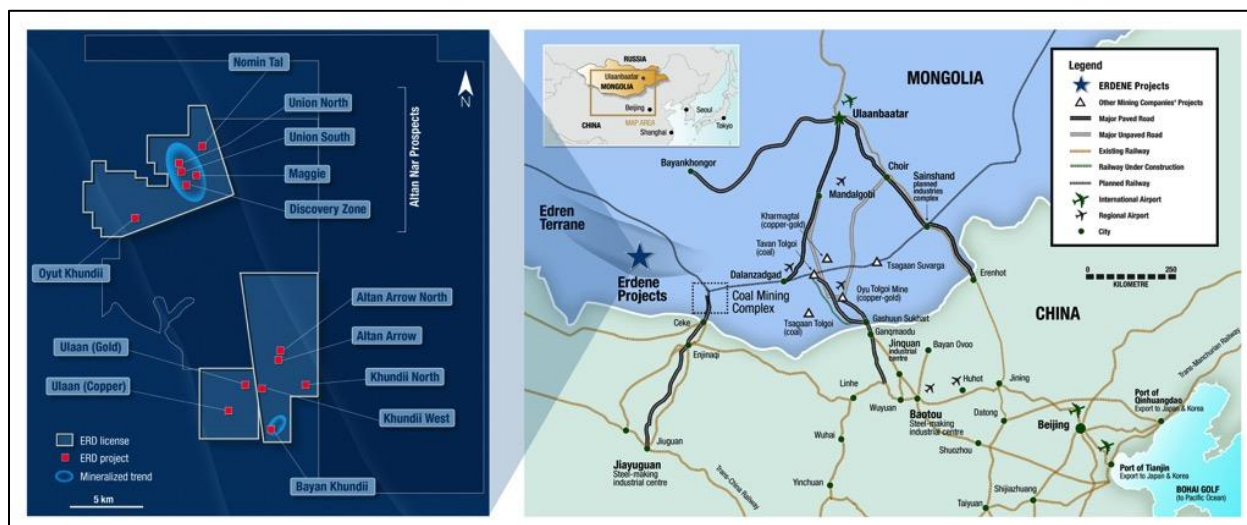
Erdene commenced a NI 43-101 PFS for BK and an updated PEA for AN, led by Tetra Tech, in March 2019. Results of these studies were announced on October 21, 2019. Incorporating an updated Bayan Khundii resource, an initial Reserve Estimate for BK, and independent quotes for most major cost centres, Tetra Tech confirmed the high return, low capital and operating cost potential of the Khundii Gold Project. Concurrently, work is well underway on the Project’s Environmental and Social Impact Assessment, led by Sustainability East Asia, LLC. The Mongolian statutory Detailed Environmental Impact Assessment (“DEIA”) for BK, built upon the ESIA, is largely complete in advance of public consultation, which will take place in the coming weeks. Erdene is preparing its final impact assessment and management plans and anticipates filing its Mongolian DEIA before the end of the current year.

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

Erdene is planning to continue to explore the potential of additional discoveries on its Bayan Khundii license in Q4 2019 and continues to evaluate opportunities for acquisition throughout the Khundii District. Over the past decade Erdene has developed the largest proprietary geologic database of Southwest Mongolia’s mineralization that has led to the identification of more than 20 high-priority targets for acquisition. Mongolia’s Ministry of Mining and Heavy Industry re-opened the region to tenders in late 2018, and Erdene intends to participate as its target parcels come to auction.

Development and Exploration Projects

Erdene's Khundii Gold District in Southwest Mongolia



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

Khundii Gold Project

The Khundii Gold Project is comprised of the Company's high-grade, near-surface Bayan Khundii and Altan Nar deposits. The Bayan Khundii ("Rich Valley") gold project is located on Erdene's 100%-owned, 2,309 hectare Bayan Khundii mining license, and contiguous 2,205 hectare Khundii exploration license in southwest Mongolia. Erdene received Mining License MV-021444 for its Bayan Khundii resource on August 5, 2019. The Bayan Khundii mining license includes the Bayan Khundii Resource reported in "Bayan Khundii Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report", dated November 1, 2018 and prepared by RPMGlobal Asia Limited, as well as Erdene's highly prospective Altan Arrow, Khundii North and Khundii West targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. Erdene maintains an exploration license for the remaining 2,205 hectares of the legacy Bayan Khundii exploration license that were not converted to a mining license as part of its application. This exploration license is in its tenth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia.

The Bayan Khundii prospect was discovered in Q2 2015, with initial drill results reported in Q4 2015; the first hole returned 7 metres of 27.5 g/t gold at 14 metres depth. Bayan Khundii has become the highest priority project for the Corporation based on its grade, proximity to surface, and favorable metallurgy. The Corporation has completed 45,377 metres of diamond drilling at Bayan Khundii over 270 diamond drill holes. Drilling has identified three main areas of very high-grade gold mineralization with strong continuity: Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization cover. The high-grade gold zones within these three areas can be very wide, grading up to almost 6 g/t gold over more than 110 metres.

Step-out drilling in 2017 indicated that mineralization encountered in the Midfield Zone, (located 200 metres northeast from the initial Striker Zone discovery), extends for at least an additional 280 meters to the northeast under post-mineralization cover. The Midfield and North Midfield Zones have returned some of the highest grades and widest mineralized intervals at Bayan Khundii. BKD-98 returned 80 metres of 6.0

g/t gold from 42 metres depth, and BKD-231 returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold.

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

Exploration in a previously untested area of the Khundii Mining License, at the Khar Mori prospect, 4.5 kilometres north of the BK deposit and one kilometre southeast of the Altan Arrow prospect, returned rock-chip samples of up to 32.9 g/t gold. The gold-bearing samples are characterized by quartz veins and stockwork hosted within massive tourmaline. An additional sample containing 8.4 g/t gold was collected 500m west of the 32.9 g/t gold sample, providing a sizeable target area for future exploration. Although exploration is at an early stage, this is an exciting discovery considering the very high-grade gold on surface, greenfield exploration status and relative proximity to the BK deposit. A detailed soil and rock-chip sampling and mapping program will be undertaken in the coming weeks to determine the orientation and potential of gold mineralization in advance of drilling.

Finally, a hole was drilled in the center of the Striker zone to collect whole core for metallurgical testing. The metallurgical test work will provide input to the grinding and processing parameters of the upcoming definitive feasibility study.

The 100%-owned Altan Nar (“Golden Sun”) deposit is located on the Corporation’s 4,669 hectare Tsenkher Nomin exploration license, 16 kilometres northwest of Bayan Khundii. The exploration license is in its tenth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year. The license hosts 18 mineralized (gold, silver, lead, zinc) target areas within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, Discovery Zone (“DZ”) and Union North (“UN”), host wide zones of high-grade, near-surface mineralization, and are the focus of a Resource Estimate released in Q2 2018 and incorporated into the updated Altan Nar PEA. The remaining 16 targets have received minimal exploration but appear very prospective. The Corporation intends to complete further drilling on the license to increase its understanding of the system.

Mineral Resources and Reserves

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

A summarized sensitivity analysis of the grade and tonnage relationships at various cut-off grades for the Khundii Gold Project is shown in the table below¹:

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

(1) Combined resources from Bayan Khundii and Altan Nar.

(2) Cut-off grades for Altan Nar are AuEq and for Bayan Khundii are gold only. For the AN resource estimate, Gold Equivalent (“AuEq”) calculations assume metal prices of US \$1,310 per ounce gold, US \$18 per ounce silver, and US \$2,400 per tonne lead and US \$3,100 per tonne zinc.

(3) Tetra Tech recommended cut-off grade for Bayan Khundii is 0.55 g/t gold and RPM recommended cut-off grade for Altan Nar is 0.7 g/t AuEq above a pit and 1.4 g/t AuEq below the same pit shell.

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

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

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

- (1) The Statement of Estimates of Mineral Resources has been compiled under the supervision of Mr. Cameron Norton who is a full-time employee of Tetra Tech and a P. Geo. Mr. Norton has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.
- (2) All Mineral Resource figures reported in the table above represent estimates based on drilling completed up to April 22, 2019. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.
- (3) Mineral Resources are reported on a dry in-situ basis.
- (4) The Mineral Resources is reported at a 0.55 g/t Au cut-off. Cut-off parameters were selected based on Tetra Tech's internal cut-off calculator, which indicated that a break-even cut-off grade of 0.55 g/t Au, assuming an open cut mining method, a gold price of USD \$1,350 per ounce, an open mining cost of USD \$2 per tonne, a processing cost of USD \$16 per tonne milled, a G&A cost of \$5 per tonne, and a gold recovery of 95%.
- (5) The mineral resource estimate has been constrained to a preliminary optimized pit shell which assumed a gold price of USD \$2,000 and the economic potential tested using the above parameters.
- (6) The mineral resource estimate assumes an average density of 2.66 t/m³ for the mineralized domains.
- (7) Mineral Resources referred to above, have not been subject to detailed economic analysis and therefore, have not been demonstrated to have actual economic viability.
- (8) Measured and Indicated mineral resources do not have demonstrated economic viability. Inferred mineral resources have a greater amount of uncertainty as to their existence and potential economic and legal feasibility, do not have demonstrated economic viability, and are exclusive of mineral reserves.

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

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

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

Notes:

- (1) The effective date of the Mineral Reserve estimate is October 15th, 2019. The QP for the estimate is Ms. Maurie Phifer, P.Eng. of Tetra Tech.
- (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 methods.
- (4) Reserves are reported on a dry in-situ basis.
- (5) Waste to ore cut-offs were determined using a Net Smelter Return ("NSR") for each block in the model. NSR is calculated using prices and process recoveries for each metal accounting for all off-site losses, transportation, smelting and refining charges. NSR cut-off was calculated to be \$22.93 and includes 5% royalty deduction.
- (6) Reserves are based on a gold price of \$1267/oz, mining cost of \$2.5/tonne, milling costs of \$16.46/tonne feed, G&A costs of \$6.58/tonne.
- (7) Mineral Reserves include dilution of 9% and losses of 5%.

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

Cut-off AuEq g/t	Resource Classification	Quantity (Mt)	Grade					Contained Metal				
			Au g/t	Ag g/t	Zn g/t	Pb g/t	AuEq ² g/t	Au Koz	Ag Koz	Zn Kt	Pb Kt	AuEq ² 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 2 ("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.

Prefeasibility Study

On October 21, 2019, Erdene announced results of an independent Technical Report for the 100%-owned, high-grade, open-pit, Khundii Gold Project in southwest Mongolia, including a PFS for its Bayan Khundii Gold Deposit and an updated PEA for its Altan Nar Deposit. The Technical Report also includes an updated mineral resource as well as a statement of mineral reserves for Bayan Khundii. The Technical Report was prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects by Tetra Tech.

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

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

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

Key Project metrics are presented in the following table:

		BK PFS	AN PEA
Gold Price	US\$/oz	1,300	1,300
Production Profile			
Average Head Grade Over Life of Mine ¹	g/t gold	3.73	3.46
Project Life ²	years	7	4
Operating Life	years	6	3
Target Production Rate Per Day ³	tpd	1,800	1,800
Average Annual Saleable Gold ⁴	oz	61,000	48,000
Peak Annual Saleable Gold ⁴	oz	75,000	53,200
Average Gold Recovery Rate Over Life of Mine	%	91%	67%
Strip Ratio	t:t	10.2	7.6
Operating Costs			
Life of Mine ("LOM") Average Cash Cost ⁵	US\$/oz	741	929
LOM Cash Cost plus Sustaining Cost (AISC) ⁵	US\$/oz	746	931
Pre-Tax Net Present Value			
5% discount rate	US\$M	124	31
7.5% discount rate	US\$M	107	24
10% discount rate	US\$M	92	19
After-Tax Net Present Value			
5% discount rate	US\$M	97	24
7.5% discount rate	US\$M	83	19
10% discount rate	US\$M	71	15
Internal Rate of Return and Payback			
Pre-Tax Internal Rate of Return	%	48%	110%
After-Tax Internal Rate of Return	%	42%	92%
Payback Period Post-Construction ⁵	years	1.8	1.1
Capital Requirements			
Pre-production Capital Cost, including contingency	US\$M	39.9	2.2
LOM Sustaining Capital Cost	US\$M	2.5	nil

(1) Average diluted head grade of mineralized rock fed to process plant.

(2) Project life comprising one year pre-production period, approximately nine years operating life and one year mine closure.

(3) Assumes process plant operates for 8,000 hours per annum to achieve the target production rate of 600 ktpa.

(4) Reported numbers for saleable gold for Bayan Khundii and gold equivalent ("AuEq") for Altan Nar. For the purpose of the PEA, gold equivalent (AqEq) is based on saleable gold and silver only, at metal values of US\$1,300 for gold and US\$17.50 for silver. No value is assigned to lead and zinc as it is not recoverable in the current processing design.

(5) Operating costs reported in terms of saleable gold ounces for Bayan Khundii and AuEq ounces for Altan Nar; cost includes Royalty and Charges at US\$77/oz.

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

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

Gold Price Sensitivity Analysis	Units	US\$1,200	US\$1,300	US\$1,400	US\$1,500
NPV (5% discount rate)	US\$M	73	97	121	144
NPV (7.5% discount rate)	US\$M	61	83	105	125
NPV (10% discount rate)	US\$M	50	70	91	109
IRR	%	34%	42%	50%	58%

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

Gold Price Sensitivity Analysis	Units	US\$1,200	US\$1,300	US\$1,400	US\$1,500
NPV (5% discount rate)	US\$M	18	24	30	37
NPV (7.5% discount rate)	US\$M	14	19	24	29
NPV (10% discount rate)	US\$M	11	15	19	23
IRR	%	71%	92%	113%	134%

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

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

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

For the updated PEA base case, ore from Altan Nar will be processed at the Bayan Khundii processing plant, utilizing the same conventional crush and grind circuit and carbon in pulp plant. Total mineralized material from Altan Nar processed is 1.8 million tonnes at an average diluted head grade of 3.46 g/t gold and 17 g/t silver. For the Altan Nar deposit, which includes arsenopyritic ore locally, with associated low recoveries, ore mined will only include the free-milling portions of the resource with an average recovery of 67% gold and 62% silver, resulting in a total recovered gold of 136,000 ounces and total recovered silver of 616,000 ounces over the life of the Altan Nar mine, or 144,000 AuEq ounces.

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

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

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

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

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

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

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

- **Additional Resources at Bayan Khundii:** The Bayan Khundii Resource includes an Inferred Resource of 103,000 ounces of gold at a grade of 3.68 g/t gold which could be added to reserves through additional drilling. Additionally, very high gold grades observed in trenching and drilling in the southwestern portion of the deposit have the potential to provide additional high-grade resources during initial production should closer spaced drilling improve continuity. Recent drilling south of the deposit has intersected high gold grades (greater than 50 g/t) outside the resource boundary that provide expansion targets.
- **Additional Resources at Altan Nar:** The mine plan in the updated PEA incorporates only a portion of the mineral resources defined at Altan Nar. Further metallurgical test work to enhance recovery of gold, silver and base metals could demonstrate the potential to economically extract additional resources.
- **Exploration:** The Bayan Khundii and Altan Nar deposits are situated in a highly prospective region that has received minimal historical exploration. On the Bayan Khundii property, multiple high-grade targets have been established through limited shallow drilling and surface sampling within 4 kilometres of the deposit. The 5.5 kilometre Altan Nar target area remains open along strike and at depth. Additional exploration is required to determine the full potential of both deposits.
- **Geotechnical Studies:** A conservative pit slope has been utilized in the PFS. Additional geotechnical drilling, scheduled for Q4 2019, could support steeper pit walls, reducing the stripping ratio at BK.
- **Recoveries:** Although a 91% gold recovery has been utilized in the BK PFS, test work on material at the current head grade has recovered an average of 93%. Furthermore, master composite sample testing indicated that recoveries of up to 99% are possible from ultra-high-grade material (greater than 22 g/t gold). Further metallurgical test work, scheduled for Q4 2019, could support higher recoveries.
- **Higher Grade Upside:** The very high-grade nature of the Bayan Khundii deposit provides upside should continuity of the ultra-high-grade zones be established during mining.
- **Mine Planning:** The BK PFS and AN PEA represent steps toward addressing the viability of a mining operation at the Khundii Gold Project. Further work may identify opportunities for creating cost savings, such as improved pit sequencing through pit phasing, waste haul optimization, reduced dilution and loss through application of more selective mining techniques and interim pit design targeting improved early grades.
- **Mine Equipment Selection:** There is opportunity to utilize Tier 2 suppliers for non-critical equipment, reducing capital and operating costs.

District Scale Exploration

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

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

South Bayan Khundii Prospect

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

Altan Arrow Gold Target

The Altan Arrow target is located 3.5 kilometres north of the Bayan Khundii gold deposit, along a gold bearing structure in the central portion of the Khundii mining license. Drilling has concentrated in an area along and south of the main structure, where several high-grade zones have been intersected, including 39 g/t over 1m and 24 g/t and 70 g/t over 2 metres. Overall, 77% of the 21 holes (2,605 metres) drilled at Altan Arrow have intersected anomalous gold.

Erdene drilled 10 holes at Altan Arrow in 2018, totaling 1,412 metres, to test extension along trend of the main structure and at depth. This work extended the mineralized structure 500 metres to the west where AAD-18 intersected multiple 2 to 4 metre wide zones of anomalous gold in epithermal quartz adularia veins and stockwork breccias zones containing up to 1.3 g/t gold. Current exploration drill testing of the main mineralized structure indicates a broad corridor of anomalous gold over a 1.2 kilometre trend (open along strike) and up to 400 metres south of the main structure in what is interpreted as secondary structural splays. In addition, drill testing of these structural splays, south of the main zone, returned multiple intersects at deeper levels than typically tested (approximately 100 metres vertical depth) with gold grades ranging from 0.2 to 2.6 g/t with anomalous Ag, Mo, Pb, Zn and Sb (AAD-25). Exploration results suggest gold mineralization within the district is controlled by a structure associated with zones of major dilatancy and structural intersections. Such zones commonly have associated alteration events that are magnetite destructive, resulting in zones of low magnetic response. In advance of future drilling the Corporation in the process of completing a comprehensive geophysical interpretation of the Altan Arrow prospect, including high resolution magnetics, IP dipole-dipole and gravity datasets.

Khundii North Gold Target

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

stockwork veins intersected throughout the drill hole. Additional work will be carried out in Khundii North area including a comprehensive geophysical interpretation of the prospect in Q4 2019.

Khar Mori Gold Target (New Discovery)

In Q3 2019, a regional prospecting and sampling program was completed within the Khundii mining license and returned rock chip samples up to 32.9 g/t gold within a previously unknown area. The new Khar Mori prospect is located approximately 4.5 kilometers north of the Bayan Khundii deposit and approximately 1 kilometer southeast of the Altan Arrow target area. Rock chip samples containing the gold consist of quartz veins and quartz stockwork veining within a tourmaline altered host. An additional sample containing 8.4 g/t gold was collected 500m west of the 32.9 g/t sample suggesting size potential for future exploration and discovery at the new Khar Mori prospect. Although exploration is at an early stage it is an exciting discovery considering the very high-grade gold results, greenfield exploration status and relative proximity to the Bayan Khundii deposit. A detailed soil and rock-chip sampling and mapping program will be undertaken in Q4 2019 to determine the orientation and potential of gold mineralization in advance of drilling on the new Khar Mori Gold target.

Central Structure Zone (“CSZ”) Gold Target

In Q3 2018 the company tested a newly-identified structural target on the Bayan Khundii mining license, 800 metres northwest of the Bayan Khundii deposit. The Central Structure Zone (“CSZ”) target has very limited surface exposure and was identified as a drill target based on similar geophysical features to the Bayan Khundii deposit. Three shallow holes (AAD-31-33) testing an average vertical depth of 75 metres were collared along a 500 metre trend. Although the style of quartz veining and the hematite/specularite veinlets in the volcanic host intersected display similar characteristics to that of the main zones at Bayan Khundii, gold content was not anomalous. Interpretations of combined IP and magnetic geophysical datasets suggest the targeted altered tuff package within the CSZ prospect extends to depth. Q3 2019 exploration drilling targeted an IP geophysical anomaly at a depth of approximately 200 metres. Drilling revealed a thick package of silicified and white mica altered volcanic rocks consisting of tuff and porphyritic dacite with moderate to intense disseminated pyrite, but results did not indicate anomalous gold.

Ulaan Copper-Gold Porphyry Target

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license (“Ulaan Property”), immediately west of its high-grade Bayan Khundii deposit. The Ulaan Property covers approximately 1,780 hectares and hosts a 3-kilometre diameter, intense surface alteration zone with characteristics thought to be related to a porphyry intrusion at depth. The exploration license is in its fourth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. Provided Erdene spends a minimum of US\$600,000 on the Ulaan Property by August 30, 2020, it has the right to acquire the remaining 49% of the property for the then fair market value. Erdene may extend the option beyond this date by spending a minimum of US\$100,000 per annum thereafter.

Rock chip and stream sediment geochemical sampling identified anomalous concentrations of gold, copper and molybdenum in the surrounding area, and recently completed geophysical surveys have produced a number of follow-up targets.

Three wide spaced holes were drilled during Q3 2018, totaling 1,050 metres over a 1.3 kilometre area in the central portion of the license. The holes intersected volcanic to sub-volcanic rocks exhibiting propylitic to phyllic quartz-sericite-pyrite (“QSP”) alteration with varying concentrations of pyrite and locally low-level copper mineralization. The most westerly hole tested a positive gravity anomaly and coincident IP chargeability anomaly to 300 metres depth. The two other holes tested coincident moderate to high chargeability and magnetic high signatures associated with high temperature sericite clay alteration. Pyrite mineralization was observed throughout with most intense concentrations coincident with the zones of high chargeability. The most easterly hole, UDH-02 provided the most encouraging results exhibiting sheeted to stockwork quartz-pyrite veining locally, associated with elevated copper values (100 to 300ppm over 60m) relative to the background copper levels established in UDH-01 and UDH-03. UDH-02 also exhibits a distinct zonation from propylitic into phyllic alteration at depth. The phyllic alteration coincides with an increase in pyrite mineralization occurring both as disseminations and veinlets as well as increasing magnetic intensity. Continued work including spectral analysis of clay minerals and age dating is underway. A 700-metre drilling program is planned for November 2019 to test the alteration system at depth (to 650 metres) as well as two shallower moderate IP chargeability targets (to 200m). One shallow hole will test a quartz-tourmaline breccia zone and the second hole will test a clay alteration zone associated with a geophysical anomaly. Results of this drilling program are expected before year-end.

Zuun Mod Molybdenum Project

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

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

The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. Market demand for molybdenum has recently improved, with the price of molybdenum oxide rising to approximately US\$12.00 per pound from approximately US\$7.25 per pound in 2017. The Corporation will continue to evaluate its options in light of technological and market factors. Discovery of additional copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

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

Khuvyn Khar Copper-Silver Project

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

Acquisitions

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

Discussion of Operations

Three months ended September 30, 2019 and 2018

The tables below detail exploration and evaluation expenditures for the three months ended September 30, 2019 and 2018. The Khundii Gold Project was the focus of the Corporation's efforts during these periods.

Period ended September 30, 2019	Khundii Gold			Total
	Project	Zuun Mod	Ulaan & Other	
E&E expenditures				
Exploration and field support	\$ 333,701	\$ 11,303	\$ 99,531	\$ 444,535
Mining studies and permitting	999,940	-	-	999,940
Mongolian office costs	-	-	61,499	61,499
Share-based compensation	-	-	132,008	132,008
Stakeholder relations	82,132	-	1,491	83,623
Travel and other	22,384	-	1,763	24,147
Total exploration expenditures	1,438,157	11,303	296,292	1,745,752
Capitalized expenditures	(1,438,157)	-	-	(1,438,157)
Expensed E&E costs 2019	\$ -	\$ 11,303	\$ 296,292	\$ 307,595
E&E assets, July 1, 2019				
	\$ 16,882,477	\$ 859,550	\$ 900,269	\$ 18,642,296
Additions	1,438,157	-	-	1,438,157
Effect of movements in exchange rates	85,255	6,459	6,271	97,985
E&E assets, September 30, 2019	\$ 18,405,889	\$ 866,009	\$ 906,540	\$ 20,178,438

Period ended September 30, 2018	Khundii Gold			Total
	Project	Zuun Mod	Ulaan & Other	
E&E expenditures				
Exploration and field support	\$ 267,300	\$ 10,757	\$ 307,291	\$ 585,348
Mining studies and permitting	742,712	-	-	742,712
Mongolian office costs	-	-	77,056	77,056
Share-based compensation	-	-	4,376	4,376
Stakeholder relations	139,464	-	14,852	154,316
Travel and other	50,606	1,072	(5,501)	46,177
Total exploration expenditures	1,200,082	11,829	398,074	1,609,985
Capitalized expenditures	(1,200,082)	-	(5,251)	(1,205,333)
Expensed E&E costs 2018	\$ -	\$ 11,829	\$ 392,823	\$ 404,652
E&E assets, July 1, 2018				
	\$ 12,159,861	\$ 860,735	\$ 949,838	\$ 13,970,434
Additions	1,200,082	-	5,251	1,205,333
Effect of movements in exchange rates	(501,529)	(44,892)	(37,555)	(583,976)
E&E assets, September 30, 2018	\$ 12,858,414	\$ 815,843	\$ 917,534	\$ 14,591,791

Exploration and evaluation expenditures totaled \$1,745,752 for the three months ended September 30, 2019, compared to \$1,609,985 for the comparative period in 2018. Exploration and field support expenses were \$444,535 for the third quarter of 2019, versus \$585,348 for the third quarter of 2018, as drilling activity was lower due to the Company's focus on the PFS.

Mining studies and permitting costs for the three months ended September 30, 2019 were \$999,940, compared to \$742,712 for the three months ended September 30, 2018, due to the aforementioned focus on the PFS launched in March 2019.

Mongolian office costs of \$61,499 for the three months ended September 30, 2019 were \$15,557 lower than the comparative period due primarily to reduced spending on conferences and marketing activities during the current period.

Non-cash Share-based compensation expenses were \$132,008 for the period ended September 30, 2019, versus \$4,376 during the three months ended September 30, 2018, as discretionary DSU bonuses were granted to staff in Q3 2019.

Stakeholder relations costs of \$83,623 for the three months ended September 30, 2019 were \$70,693 less than for the three months ended September 30, 2018 due to timing of community outreach and advocacy efforts.

Travel and other costs of \$24,247 were also well below the prior year period due to reduced activity in the field and general restraint.

Erdene began capitalizing exploration costs for its Khundii Gold Project on January 1, 2015, with the receipt of the initial resource estimate for the Khundii Gold Project's Altan Nar deposit. For the three months ended September 30, 2019 and 2018, Erdene has capitalized all exploration costs associated with this Project.

	For the three months ended September 30,		
	2019	2018	Change
Administrative services	\$ 82,615	\$ 134,947	\$ (52,332)
Depreciation and amortization	2,163	1,527	636
Directors fees and expenses	52,267	28,384	23,883
Investor relations and marketing	22,305	51,346	(29,041)
Office and sundry	29,684	24,779	4,905
Professional fees	(21,483)	50,130	(71,613)
Regulatory compliance	29,462	10,247	19,215
Share-based compensation	123,768	26,239	97,529
Travel and accommodations	21,522	7,640	13,882
	\$ 342,303	\$ 335,239	\$ 7,064

Corporate and administrative expenses totaled \$342,303 for the three months ended September 30, 2019, compared to \$335,239 for the prior year comparative period. Administrative services of \$82,615 for the three months ended September 30, 2019 were \$52,332 less than the prior year due to staffing changes and the allocation of administrative staff salaries to exploration and evaluation reflecting their effort supporting the PFS.

Director's fees and expenses of \$52,267 for the three months ended September 30, 2019 are \$23,883 more than the prior year period as certain Director's received per diems for additional board work in the quarter. Investor relations and marketing expenses for the period in 2019 were \$29,041 lower than the same period in 2018 as the corporation attended fewer investor conferences.

Professional fees were (\$21,483) for the three months ended September 30, 2019, as a prior period accrual for Corporate Advisory Services was reversed as the services were not provided. Current period Regulatory compliance expenses were \$19,215 greater than Q3 2018 due to changes in the Corporation's DSU and Shareholder Rights plans that were implemented at the 2019 AGM.

Non-cash share-based compensation was \$97,529 higher in the period ended September 30, 2019 as certain directors, officers and employees were granted bonuses in the form of discretionary DSU's. Travel and accommodation costs increased by \$13,882 in Q3 2019 due to increased executive travel to secure additional financing for the Corporation.

Current period Depreciation and amortization, and Office and sundry expenditures were not material or significantly different from those incurred in the prior year's quarter.

Nine months ended September 30, 2019 and 2018

The tables below detail exploration and evaluation and corporate and administrative expenditures for the nine months ended September 30, 2019 and 2018.

Period ended September 30, 2019	Khundii Gold Project	Zuun Mod	Ulaan & Other	Total
E&E expenditures				
Exploration and field support	\$ 1,044,347	\$ 33,090	\$ 255,600	\$ 1,333,037
License costs	16,895	67,091	1,902	85,888
Mining studies and permitting	2,406,918	-	-	2,406,918
Mongolian office costs	-	-	212,047	212,047
Share-based compensation	-	-	225,785	225,785
Stakeholder relations	171,882	-	1,491	173,373
Travel and other	54,079	-	3,168	57,247
Total exploration expenditures	3,694,121	100,181	699,993	4,494,295
Capitalized expenditures	(3,694,121)	(67,091)	(1,902)	(3,763,114)
Expensed E&E costs 2019	\$ -	\$ 33,090	\$ 698,091	\$ 731,181

E&E assets, January 1, 2019	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348
Additions	3,694,121	67,091	1,902	3,763,114
Repurchase of NSR	1,200,000	-	-	1,200,000
Effect of movements in exchange rates	(418,542)	(32,808)	(20,674)	(472,024)
E&E assets, September 30, 2019	\$ 18,405,889	\$ 866,009	\$ 906,540	\$ 20,178,438

Period ended September 30, 2018	Khundii Gold Project	Zuun Mod	Ulaan & Other	Total
E&E expenditures				
Exploration and field support	\$ 2,097,987	\$ 41,704	\$ 659,316	\$ 2,799,007
License costs	5,223	70,074	2,051	77,348
Mining studies and permitting	865,834	-	-	865,834
Mongolian office costs	-	-	220,442	220,442
Share-based compensation	-	-	359,413	359,413
Stakeholder relations	279,412	-	14,852	294,264
Travel and other	159,980	1,072	12,706	173,758
Total exploration expenditures	3,408,436	112,850	1,268,780	4,790,066
Capitalized expenditures	(3,408,436)	(70,074)	(7,302)	(3,485,812)
Expensed E&E costs 2018	\$ -	\$ 42,776	\$ 1,261,478	\$ 1,304,254

E&E assets, January 1, 2018	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843
Additions	3,408,436	70,074	7,302	3,485,812
Effect of movements in exchange rates	(250,854)	(20,026)	(17,984)	(288,864)
E&E assets, September 30, 2018	\$ 12,858,414	\$ 815,843	\$ 917,534	\$ 14,591,791

For the nine months ended September 30,

	2019	2018	Change
Administrative services	\$ 286,763	\$ 405,599	\$ (118,836)
Depreciation and amortization	6,228	4,580	1,648
Directors fees and expenses	117,276	103,526	13,750
Investor relations and marketing	77,621	141,495	(63,874)
Office and sundry	91,782	88,945	2,837
Professional fees	56,403	168,108	(111,705)
Regulatory compliance	100,267	97,050	3,217
Share-based compensation	407,951	563,216	(155,265)
Travel and accommodations	42,256	40,767	1,489
	\$ 1,186,547	\$ 1,613,286	\$ (426,739)

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2019				Fiscal 2018		Fiscal 2017	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Net loss	\$638	\$755	\$517	\$773	\$743	\$1,439	\$702	\$649
Basic loss per share	\$0.00	\$0.01	\$0.00	\$0.01	\$0.00	\$0.01	\$0.00	\$0.00
Total assets	\$20,942	\$19,365	\$19,632	\$17,709	\$18,136	\$19,500	\$14,879	\$14,946

For the three months ended September 30, 2019, the Corporation recognized a net loss of \$638,379 compared to a net loss of \$743,484 for the same period in 2018.

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

Liquidity and Capital Resources

At the date of this MD&A, the Corporation had approximately \$3.3 million in working capital.

Funds raised have been used to advance the Corporation's projects in Mongolia and to meet administrative costs in support of those programs (see Development and Exploration Projects and Discussion of Operations).

With the receipt of the full proceeds from the Convertible Loan Financing with the European Bank of Reconstruction and Development and Coincident Private Placement, management estimates current working capital is sufficient to fund the Corporation's planned expenditures into Q3 2020. The ability of the Corporation to continue with its exploration and development programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

	November 7, 2019	December 31, 2018
Common shares issued and outstanding	190,143,551	162,426,416
Options outstanding	12,520,000	11,335,000
Warrants outstanding	29,849,244	12,389,904
DSU's outstanding	4,626,928	3,954,118
Total instruments outstanding at end of period	237,139,723	190,105,438

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at September 30, 2019:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office leases	\$ 83,895	\$ 83,895	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	678,454	678,454	-	-	-
	\$ 762,349	\$ 762,349	\$ -	\$ -	\$ -

Other Financing Arrangements and Commitments

European Bank of Reconstruction and Development

On October 15, 2019 Erdene entered into a definitive Loan Agreement for a US\$5 million (C\$6.6 million) Convertible Loan with EBRD. The Loan will be funded by way of an initial advance of US\$2.5 million, which was received on November 4, 2019, with the remaining US\$2.5 million available at Erdene's option within 45 days of the date of the Loan Agreement, upon satisfaction of certain conditions precedent. The Loan carries an interest rate of 10% per annum, which may be capitalized at the Corporation's option, and will mature 36 months after the date of the Loan Agreement. The Loan can be prepaid following the earliest of 24 months from the date of the initial advance, delivery of a NI 43-101 Bankable Feasibility Study, or a change of control of Erdene, subject to a 25% premium. The Loan is convertible in whole or in part at the election of the EBRD into common shares of the Corporation at a conversion price (in respect of the principal amount drawn down under the Loan) of C\$0.20 per share, subject to a conversion premium of 10%, 20% or 30%, respectively, if EBRD exercises its conversion option prior to or on the first, second, or third anniversary, respectively, of the date of the Loan Agreement, provided that certain other conditions have been met. Any capitalized interest on the date of the conversion will be payable, at EBRD's option, in cash or shares of the Corporation at the prevailing market price of the common shares of the Corporation (5 day Volume Weighted Average Price). The Loan is secured by a pledge over the shares of Erdene's Mongolian subsidiary that holds the Project.

Also, on October 15, 2019, Erdene announced a non-brokered private placement of units of the Corporation for maximum proceeds of C\$1.6 million. Erdene will issue, up to 8,000,000 units at a price of C\$0.20 per Unit. Each Unit will consist 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 C\$0.30. As at the date of this MD&A, Erdene has received commitments for proceeds of C\$855,000.

Sandstorm Gold Ltd. Royalty Agreement

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

Alliance with Teck Resources Limited

In April 2013, an alliance was formed with Teck Resources to explore Erdene's mineral tenements in the Trans Altai region of southwest Mongolia. Under the terms of the alliance, Teck agreed to invest \$3 million or acquire 19.9% of the outstanding shares of the Corporation, with eighty-five percent of the proceeds committed to exploration work. In return, Erdene granted Teck the option to acquire up to 75% interest in designated projects through a two-stage option process by funding additional expenditures.

Between Q2 2013 and Q1 2017, Teck invested \$3 million, fulfilling its commitment under the Alliance. During this period, Teck did not elect to acquire direct interests in any Erdene projects explored. However, Teck maintains the right through Q1 2020, to enter into joint venture agreements on certain properties explored under the Alliance.

Other

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

The Corporation must spend a total of USD\$600,000 by August 30, 2020 to have the right to purchase any (or all) of the remaining 49% of Leader Exploration LLC (Ulaan license). The Corporation can extend the option period beyond three years by incurring an additional USD\$100,000 per year on exploration work. If Erdene fails to incur the minimum expenditures, its 51% ownership interest will revert to Leader Exploration LLC.

Off-Balance Sheet Arrangements

As at September 30, 2019, the Corporation had no off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditures. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Share-based payments

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

measured. The Corporation charged a total of \$633,736 of non-cash share-based compensation to the statement of comprehensive loss for the nine months ended September 30, 2019 (2018 - \$922,629).

Taxation

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

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

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

Adoption of New Accounting Standards

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

IFRS 16 – Leases

On January 13, 2016, the IASB issued IFRS 16 Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019.

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

As the Corporation's only current leases, for its head office spaces and staff accommodations, have terms of less than 12 months, there is no impact to the Corporation.

Financial Instruments and Other Risks

Financial Instruments

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

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

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

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

Fair Value

During the periods ended September 30, 2019 and December 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	\$ 406,422	\$ -	\$ -	\$ 1,748,249	\$ -	\$ -
Receivables	-	130,218	-	-	113,412	-

Risks

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

Credit Risk

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with a Canadian Schedule I bank, where management believes the risk of loss to be low. At September 30, 2019, \$24,937 or 6% of the balance of cash and cash equivalents was held in banks outside Canada (December 31, 2018 - \$66,342 or 4%).

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2019, the Corporation had cash and cash equivalents of \$406,422 (December 31, 2018 - \$1,748,249) to settle current liabilities of \$678,454 (December 31, 2018 - \$224,387).

The Corporation is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

Foreign Currency Risk

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

The Corporation's exposure to US dollar currency risk was \$63,938 as at September 30, 2019 (December 31, 2018 - \$71,913). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$6,400 (December 31, 2018 - \$7,200).

The Corporation's exposure to Mongolian Tugrik currency risk was (\$203,618) as at September 30, 2019 (December 31, 2018 - (\$11,509)). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$20,400 (December 31, 2018 - \$1,200).

Price Risk

The Corporation's financial instruments are not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have evaluated the design and effectiveness of Erdene’s disclosure controls and procedures as of September 30, 2019 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Erdene’s internal controls over financial reporting as of September 30, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report “Internal Control – Integrated Framework (2013)”. This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management’s evaluation, the CEO and the CFO have concluded that as of September 30, 2019, Erdene’s internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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

Qualified Person

Peter Dalton, P.Geo. (Nova Scotia) is a qualified person under NI 43-101 and supervises all of the Corporation’s exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar, Blue Coast Research Ltd in 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 the Corporation’s properties has been reviewed and approved by Peter Dalton, P. Geo, who is not independent of the Corporation.

The information in this MD&A that relates to the financial models for the Bayan Khundii Feasibility Study and the Altan Nar Preliminary Economic Assessment is based on information compiled and reviewed by Mark Horan, who is a P.Eng. and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the process design and costing for the Bayan Khundii Feasibility Study and the Altan Nar Preliminary Economic Assessment is based on information compiled and reviewed by Hassan Ghaffari, who is a P.Eng. and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the Bayan Khundii resource estimate is based on information compiled and reviewed by Mr. Cam Norton, who is a P.Geo, and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the Bayan Khundii reserve estimate is based on information compiled and reviewed by Ms. Maurie Phifer, who is a P.Eng., and is an employee of Tetra Tech Inc. Each of Mr. Horan, Mr. Ghaffari, Mr. Norton and Ms. Phifer 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. Horan, Mr. Ghaffari, Mr. Norton and Ms. Phifer is not aware of any potential for a conflict of interest in relation to this work with Erdene.

Other Information

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