



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

(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 June 30, 2020 and December 31, 2019 and the unaudited condensed consolidated interim statements of comprehensive loss, changes in equity and cash flows for the three and six months ended June 30, 2020 and 2019. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2020 and 2019 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)

	Notes	June 30, 2020	December 31, 2019
Assets			
Cash and cash equivalents		\$ 1,915,353	\$ 5,106,863
Receivables		118,414	70,361
Prepaid expenses		50,716	69,029
Current assets		2,084,483	5,246,253
Exploration and evaluation assets	4	24,848,526	21,483,517
Right-of-use asset	5	122,379	137,064
Property, plant and equipment		99,944	105,998
Non-current assets		25,070,849	21,726,579
Total Assets		\$ 27,155,332	\$ 26,972,832
Liabilities and Equity			
Trade and other payables		\$ 1,085,439	\$ 591,999
Lease liability	5	26,786	25,697
Current liabilities		1,112,225	617,696
Lease liability	5	99,890	113,553
Convertible loan	7	13,185,450	6,260,521
Non-current liabilities		13,285,340	6,374,074
Total Liabilities		14,397,565	6,991,770
Shareholders' Equity			
Share capital	8	\$ 109,862,154	\$ 109,466,565
Contributed surplus		16,804,518	16,829,920
Accumulated other comprehensive loss		(1,832,123)	(1,958,616)
Deficit		(112,076,782)	(104,356,807)
Total Shareholders' Equity		12,757,767	19,981,062
Total Liabilities and Equity		\$ 27,155,332	\$ 26,972,832

Commitments (Note 6)

Subsequent event (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)

	Notes	For the three months ended		For the six months ended	
		June 30,		June 30,	
		2020	2019	2020	2019
Operating Expenses					
Exploration and evaluation	9	\$ 134,046	\$ 246,036	\$ 311,241	\$ 423,586
Corporate and administration	10	351,984	497,928	726,058	844,244
Loss from operating activities		486,030	743,964	1,037,299	1,267,830
Finance income		(343)	(7,425)	(17,339)	(17,657)
Interest expense		502,991	-	1,114,261	-
Change in fair value of financial instrument		5,740,401	-	5,564,698	-
Foreign exchange loss		(51,094)	18,752	21,056	21,805
Net Loss		\$ 6,677,985	\$ 755,291	\$ 7,719,975	\$ 1,271,978
Other comprehensive loss (income):					
Foreign currency translation difference					
arising on translation of foreign subsidiaries		1,139,669	378,326	(126,493)	568,323
Other comprehensive loss (income)		1,139,669	378,326	(126,493)	568,323
Total comprehensive loss		\$ 7,817,654	\$ 1,133,617	\$ 7,593,482	\$ 1,840,301
Basic and diluted loss per share		\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.01
Basic weighted average number					
of shares outstanding		192,167,922	174,204,930	191,890,375	170,472,971

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)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
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		-	-	-	-	(1,271,978)	(1,271,978)
Other comprehensive loss		-	-	-	(568,323)	-	(568,323)
Private placements, net of share issue costs		11,014,544	2,194,102	225,692	-	-	2,419,794
Options exercised		1,105,000	276,900	(107,100)			169,800
Issue of shares from DSU plan		175,069	30,005	(30,005)			-
Share-based compensation		-	-	377,960			377,960
Total transactions with owners		12,294,613	2,501,007	466,547	-	-	2,967,554
Balance at June 30, 2019		174,721,029	\$ 106,504,651	\$ 16,576,663	\$ (1,524,036)	\$ (102,945,493)	\$ 18,611,785
Balance at January 1, 2020		191,068,490	\$ 109,466,565	\$ 16,829,920	\$ (1,958,616)	\$ (104,356,807)	\$ 19,981,062
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(7,719,975)	(7,719,975)
Other comprehensive income		-	-	-	126,493	-	126,493
Options exercised	8	1,150,000	262,625	(90,125)			172,500
Issue of shares from DSU plan	8	719,212	132,964	(132,964)			-
Share-based compensation	8	-	-	197,687			197,687
Total transactions with owners		1,869,212	395,589	(25,402)	-	-	370,187
Balance at June 30, 2020		192,937,702	\$ 109,862,154	\$ 16,804,518	\$ (1,832,123)	\$ (112,076,782)	\$ 12,757,767

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)

	Notes	For the three months ended		For the six months ended	
		June 30,		June 30,	
		2020	2019	2020	2019
Cash flows from operating activities:					
Net loss		\$ (6,677,985)	\$ (755,291)	(7,719,975)	\$ (1,271,978)
Items not involving cash:					
Depreciation and amortization		12,945	5,764	25,969	11,277
Share-based compensation		133,167	325,509	197,687	377,960
Finance income (loss)		(343)	(7,425)	(17,339)	(17,657)
Interest expense capitalized	7	500,730	-	1,109,606	-
Foreign exchange not related to cash		(123,977)	18,752	(51,827)	21,805
Fair value change on convertible loan		5,813,284	-	5,637,581	-
Change in non-cash working capital		438,243	359,843	465,871	435,182
Cash flows from operating activities		96,064	(52,848)	(352,427)	(443,411)
Cash flows from financing activities:					
Issue of common shares, net of issue costs		-	-	-	2,419,794
Proceeds on exercise of stock options		172,500	124,300	172,500	169,800
Repayment of lease liability		(6,353)	-	(12,574)	-
Cash flows from financing activities		166,147	124,300	159,926	2,589,594
Cash flows from investing activities:					
Expenditures on exploration and evaluation assets	4	(1,902,456)	(1,561,424)	(3,237,191)	(2,324,957)
Repurchase of NSR royalty		-	(1,200,000)	-	(1,200,000)
Expenditures on property, plant and equipment		(1,401)	(3,323)	(4,119)	(9,593)
Interest received		343	7,425	17,339	17,657
Cash flows from investing activities		(1,903,514)	(2,757,322)	(3,223,971)	(3,516,893)
Effect of exchange rate changes on cash balances		(120,593)	(20,605)	224,962	(23,697)
Increase (decrease) in cash and cash equivalents		(1,761,896)	(2,706,475)	(3,191,510)	(1,394,407)
Cash and cash equivalents, beginning of period		3,677,249	3,060,317	5,106,863	1,748,249
Cash and cash equivalents, end of period		\$ 1,915,353	\$ 353,842	1,915,353	\$ 353,842

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 six months ended June 30, 2020 and 2019

1. Nature of operations:

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

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

In July 2020, Erdene announced results of an independent Bankable Feasibility Study for its Bayan Khundii Gold Project. The continued operations of the Corporation and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of one or more of the properties.

2. Basis of presentation

These unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 (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 audited consolidated financial statements for the year ended December 31, 2019 (“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 August 13, 2020.

3. 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.

4. Exploration and evaluation assets

	Khundii Gold District	Zuun Mod, Ulaan & Other	Total
Balance, January 1, 2019	\$ 13,930,310	\$ 1,757,038	\$ 15,687,348
Additions	6,735,135	68,993	6,804,128
Effect of movements in exchange rates	(897,504)	(110,455)	(1,007,959)
Balance, December 31, 2019	\$ 19,767,941	\$ 1,715,576	\$ 21,483,517
Balance, January 1, 2020	\$ 19,767,941	\$ 1,715,576	\$ 21,483,517
Additions	3,184,486	52,705	3,237,191
Effect of movements in exchange rates	114,851	12,967	127,818
Balance, June 30, 2020	\$ 23,067,278	\$ 1,781,248	\$ 24,848,526

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

4. Exploration and evaluation assets (continued)

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 District

The Khundii Gold District is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Khundii mining license, including the Bayan Khundii reserve, the contiguous 2,205 hectare Khundii exploration license, and the 4,669 hectare Altan Nar mining license including the Altan Nar gold, silver, lead and zinc resource. Until September 30, 2018, Exploration and evaluation expenditures on the Khundii and Altan Nar licenses were disclosed separately.

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

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

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

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

Zuun Mod & Ulaan

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

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 sixth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

4. Exploration and evaluation assets (continued)

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

5. Leases

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

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

Balance, January 1, 2019	\$	-
Additions		146,854
Depreciation		(9,790)
Balance, December 31, 2019	\$	137,064
Balance, January 1, 2020	\$	137,064
Additions		-
Depreciation		(14,685)
Balance, June 30, 2020	\$	122,379

The maturity analysis of the office lease liability at June 30, 2020 is as follows:

	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	Total
Lease payments	\$ 34,511	\$ 34,522	\$ 34,951	\$ 40,876	\$ 144,860
Finance charges	(7,725)	(5,612)	(3,489)	(1,358)	(18,184)
Total liability	\$ 26,786	\$ 28,910	\$ 31,462	\$ 39,518	\$ 126,676

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

6. Commitments

In 2020, minimum exploration expenditures of USD\$10 per hectare are required on the Corporation's Altan Nar and Khundii licenses (USD\$46,690 and USD\$22,050 respectively). The Corporation was required to spend a total of US\$600,000 over three years to have the right to purchase any (or all) of the remaining 49% of Leader Exploration LLC. At June 30, 2020, the Corporation had spent in excess of US\$600,000. The Corporation can extend the option period by spending an additional US\$100,000 per year on exploration work (see Note 4).

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

6. Commitments (continued)

On March 31, 2020, the Corporation entered into a Term Credit Facility Agreement (“Credit Facility”) for an aggregate principal amount of up to US\$250,000. The Credit Facility is available to the Corporation, as and when required, until the earlier of March 31, 2023, and the date the Corporation completes an alternative financing. Interest on principal outstanding under the Credit Facility will be charged at a rate of 10% per annum. The Credit Facility is unsecured and is subordinated to borrowings from the European Bank for Reconstruction and Development.

7. Convertible Loan

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

Key terms of the Loan include:

- Coupon rate of 10% payable in cash, or capitalized, at the Corporation’s option, annually
- The Loan matures in October 2022
- The Loan is convertible, in whole or in part, at the election of the EBRD, into common shares 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 converts prior to or on the first, second, or third anniversary, respectively, of the date of the Loan Agreement.
- Any capitalized interest on the date of the conversion will be payable, at EBRD’s option, in cash or shares of the Corporation at the prevailing market price of the common shares of the Corporation (5-day Volume Weighted Average Price).
- The Loan can be prepaid at the Corporation’s option following the earliest of 24 months from the date of the initial advance, delivery of a NI 43-101 Bankable Feasibility Study, or a change of control of Erdene, subject to payment of a premium of 25% of the principle amount.

The Loan is secured by a pledge over the shares of Erdene’s Mongolian subsidiary, Erdene Mongol LLC.

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

At the dates of issue in November 2019, the Loan and its components were measured at fair value as follows:

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

The changes in the value of the host liability component of the Loan are as follows:

	June 30, 2020	December 31, 2019
Carrying value, beginning of period	\$ 4,333,370	\$ 4,251,640
Interest expense in the period, capitalized	1,109,606	162,051
Effect of movement in exchange rates	177,742	(80,321)
Closing balance	\$ 5,620,718	\$ 4,333,370

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

7. Convertible Loan (continued)

The Conversion option is recorded at fair value, and the value at June 30, 2020 is determined using a binomial option valuation model, with the following key assumptions: volatility of 82%, risk free rate of 0.3%, and conversion option term of 2.3 years.

The changes in the Conversion option component of the Loan are as follows:

	June 30, 2020	December 31, 2019
Conversion option, beginning of period	\$ 1,927,151	\$ 2,106,123
Fair value adjustment	5,637,581	(178,972)
Closing balance	\$ 7,564,732	\$ 1,927,151

8. Share Capital and Contributed Surplus

Authorized

An unlimited number of common shares with no par value.

Deferred Share Units

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

During the six months ended June 30, 2020, the Corporation granted 549,127 DSUs with an average fair value of \$0.24 per DSU (2019 – 762,391 DSUs with fair value of \$0.20 per DSU). The fair value of \$129,438 (2019 – \$150,460) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Also, during the six months ended June 30, 2020, Erdene issued 719,212 shares from the DSU plan at an average value of \$0.18 per DSU (2019 – 175,069 shares at \$0.17 per DSU).

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Five day volume weighted average price at grant date	\$ 0.24	\$ 0.20

The following table summarizes the continuity of DSUs for the six months ended June 30, 2020 and 2019:

	June 30, 2020 Number of DSUs	June 30, 2019 Number of DSUs
Outstanding at January 1	4,636,850	3,954,118
Granted	549,127	762,391
Issued	(719,212)	(175,069)
Outstanding at June 30	4,466,765	4,541,440

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

8. Share Capital and Contributed Surplus (continued)

Warrants

The following table summarizes the continuity of warrants for the six months ended June 30, 2020 and 2019:

	June 30, 2020		June 30, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	30,252,774	\$ 0.49	12,389,904	\$ 0.65
Issued	-	-	11,284,614	0.40 - 0.50
Expired	-	-	(1,075,324)	1.20
Outstanding at June 30	30,252,774	\$ 0.49	22,599,194	\$ 0.53
Exercisable at June 30	30,252,774	\$ 0.49	22,599,194	\$ 0.53

The remaining contractual lives of warrants outstanding at June 30, 2020, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
\$0.30	7,653,550	1.13
\$0.50	11,284,614	0.67
\$0.60	11,314,580	0.44
	30,252,744	0.70

Stock options

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

During the six months ended June 30, 2020, 550,000 options were granted at a weighted average exercise price of \$0.22. On June 25, 2020 250,000 options were surrendered.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

8. Share Capital and Contributed Surplus (continued)

The changes in stock options during the six months ended June 30, 2020 and 2019 were as follows:

	June 30, 2020		June 30, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	12,305,000	\$ 0.41	11,335,000	\$ 0.43
Granted	550,000	0.22	2,520,000	0.20
Expired/Surrendered	(250,000)	0.20	(230,000)	0.16
Exercised	(1,150,000)	0.15	(1,105,000)	0.15
Outstanding at June 30	11,455,000	\$ 0.43	12,520,000	\$ 0.42
Exercisable at June 30	11,455,000	\$ 0.43	12,520,000	\$ 0.42

The remaining contractual lives of options outstanding at June 30, 2020, are as follows:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price of exercisable options
\$0.16 - \$0.24	3,900,000	3.34	\$ 0.19
\$0.25 - \$0.49	4,910,000	2.24	0.38
\$0.50 - \$0.89	2,645,000	1.78	0.86
	11,455,000	2.51	\$ 0.43

Share-Based Compensation

For the six months ended June 30, 2020, the Corporation charged a total of \$197,687 of stock-based compensation expense to the statement of comprehensive loss (2019 – \$377,960) of which \$20,898 is attributable to exploration expenses (2019 – \$93,777).

9. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the three and six months ended June 30, 2020 and 2019:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Depreciation & amortization	\$ 3,719	\$ 3,623	\$ 7,381	\$ 7,229
Direct costs	63,214	120,744	154,630	227,802
Employee compensation costs	50,722	32,269	128,332	94,778
Share-based compensation	16,391	89,400	20,898	93,777
	\$ 134,046	\$ 246,036	\$ 311,241	\$ 423,586

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

10. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the three and six months ended June 30, 2020 and 2019.

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Administrative services	\$ 84,542	\$ 94,207	\$ 180,894	\$ 204,123
Depreciation and amortization	9,261	2,153	18,577	4,065
Directors fees and expenses	-	37,091	44,583	65,009
Investor relations and marketing	25,440	23,093	86,399	55,316
Office and sundry	19,366	30,205	40,405	62,123
Professional fees	69,401	46,087	107,857	77,886
Regulatory compliance	27,199	22,568	64,387	70,805
Share-based compensation	116,775	236,109	176,789	284,183
Travel and accommodations	-	6,415	6,167	20,734
	\$ 351,984	\$ 497,928	\$ 726,058	\$ 844,244

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	
	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,915,353	\$ 5,106,863
Receivables	118,414	70,361
	\$ 2,033,767	\$ 5,177,224

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At June 30, 2020, \$191,493 or 10% of the balance of cash was held in banks outside Canada (December 31, 2019 - \$60,511 or 1%).

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 have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

11. Financial instruments (continued)

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 June 30, 2020, the Corporation's convertible loan and term credit facility agreement, carry a fixed interest rate of 10% and hence, they are not subject to interest rate risk fluctuations.

b) Foreign currency risk

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

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

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

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,759,962	\$ 4,854,316
Trade and other receivables	-	-
Trade and other payables	(296,340)	(155,219)
Convertible loan	(13,185,450)	(6,260,521)
	\$ (11,721,828)	\$ (1,561,424)

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$1,172,200 (December 31, 2019 - \$156,100).

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

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 2,833	\$ 7,963
Trade and other receivables	7,992	5,877
Trade and other payables	(182,661)	(69,501)
	\$ (171,836)	\$ (55,661)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$17,200 (December 31, 2019 - \$5,600).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

11. Financial instruments (continued)

c) Price risk

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

Fair Value:

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	June 30, 2020			December 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets and liabilities measured at fair value:						
Cash and cash equivalents	\$ 1,915,353	\$ -	\$ -	\$ 5,106,863	\$ -	\$ -
Receivables	-	118,414	-	-	70,361	-
Conversion option on the convertible loan	-	(7,564,732)	-	-	(1,927,151)	-

12. Related Parties

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

	Six months ended June 30,	
	2020	2019
Directors' fees	\$ 29,500	\$ 53,500
Share-based compensation to directors	152,000	189,700
Executive compensation and benefits	424,530	390,624
Share-based compensation to key management	38,289	101,246
	\$ 644,319	\$ 735,070

13. Subsequent Event

On August 11, 2020, Erdene closed a non-brokered private placement of approximately \$20 million, led by a \$15 million strategic investment from Mr. Eric Sprott. The private placement consisted of the sale of 33,333,333 subscription receipts at a price of \$0.45 per Subscription Receipt, to an entity controlled by Mr. Eric Sprott and the concurrent sale of 11,111,108 units of the Company at a price of \$0.45 per Unit. Each Unit consists of one common share and one Warrant, with each Warrant exercisable into one common share of the Company within two years of the closing date, at a price of \$0.60 per share. The Subscription Receipts were converted to Units

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

13. Subsequent Event (continued)

on August 11, 2020. Erdene will pay finder's fees in the aggregate of up to \$907,625 and issue up to 400,611 finder's warrants in connection with the Private Placement. The finder's warrants are exercisable on the same terms as the Warrants.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2020 and 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
Three and six months ended June 30, 2020

Contents

	Page No.
Company Overview	3
Highlights and Significant Subsequent Events	3
Strategy and Outlook	5
Development and Exploration Projects	6
Khundii Gold District	6
District Scale Exploration	13
Acquisitions	15
Discussion of Operations	16
Summary of Quarterly Results	19
Liquidity and Capital Resources	19
Outstanding Share Data	20
Contractual Obligations	20
Other Financing Arrangements and Commitments	20
Off-Balance Sheet Arrangements	21
Critical Accounting Estimates	21
Financial Instruments and Other Risks	22
Disclosure Controls and Internal Controls Over Financial Reporting	23
Qualified Person	24
Other Information	24

This Management Discussion and Analysis (“MD&A”), dated August 13, 2020, relates to the operating results and financial condition of Erdene Resource Development Corporation (“Erdene” or the “Company” or the “Corporation”) and should be read in conjunction with the Corporation’s unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and 2019, audited consolidated financial statements for the years ended December 31, 2019 and 2018, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards (“IFRS”).

This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical fact, that address reserve potential, exploration drilling, exploitation activities, budgeted financial results and events or developments that the Corporation expects, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions (including, but not limited to, assumptions in connection with the continuance of the Corporation and its subsidiaries as a going concern, general economic and market conditions, mineral prices, and the accuracy of mineral resource and reserve estimates), 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 and the impact of COVID-19.

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

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

Company Overview

Erdene Resource Development Corporation is a Canadian based resource company focused on the acquisition, exploration, and development of high-grade, near surface, precious and base metals deposits in underexplored and highly prospective Mongolia. The Company has interests in three exploration licenses and three mining licenses in southwest Mongolia, where exploration success has led to the discovery of the Khundii Gold District. Erdene is listed on the Toronto 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 western trend, exploration in Mongolia was limited until the mid-1990's, when the country opened to foreign investment. Since that time, the Oyu Tolgoi copper-gold deposit has been developed in Southeast Mongolia, and Erdene has discovered the Khundii Gold District in the country's southwest. Within the Khundii Gold District, the Company has discovered multiple high-grade gold and base metal prospects, two of which are being developed: Bayan Khundii ("Bayan Khundii" or "BK") and Altan Nar ("Altan Nar" or "AN"). In addition, the Company holds a large molybdenum-copper resource at its 100% owned Zuun Mod project, 33 kilometres east of Bayan Khundii.

Erdene is rapidly progressing BK towards gold production, as the initial step in becoming a major regional gold producer. On July 20, 2020, the company announced the positive results of an independent Bankable Feasibility Study ("BFS"), incorporating detailed mine design and scheduling, front-end engineering design for the processing plant and site infrastructure, a hydrogeological assessment, mineral waste facility design, comprehensive capital and operating cost estimation, and an updated economic model. An Environmental and Social Impact Assessment ("ESIA"), led by Sustainability East Asia, LLC has also been completed for the Project. In June 2020, the Company appointed HCF International as project finance advisor, with a mandate to secure the debt financing required for BK. Erdene is rapidly progressing through pre-construction activities, aiming to make a construction decision in the fourth quarter of 2020, with first gold production as soon as early 2022.

While focused on development of the Bayan 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.

In late January 2020, Erdene adopted protective measures, including international travel restrictions, remote working and enhanced health care support to minimize the impact of COVID-19 on staff, stakeholders and operations. To date, operations have not been materially impacted by COVID 19.

Highlights and Significant Subsequent Events

Bayan Khundii Gold Project – 100% Erdene

- Announced positive results of the BK BFS on July 20 (results at US\$1,400/oz gold price, unless noted):
 - After-tax Net Present Value of US\$100 million (NPV5%) and 42% Internal Rate of Return (IRR), increasing to US\$216 million and 77% IRR, respectively, at current gold price of US\$1,800/oz
 - Life of Mine Earnings Before Interest, Taxes and Depreciation of US\$257 million, increasing to US\$400M at a US\$1,800/oz gold price
 - 381,700 ounces gold recovered over the initial phase of the Khundii Gold District development
 - All-in sustaining cost ("AISC") of US\$733/ounce and upfront capital costs of US\$59 million
 - Measured and Indicated Resources of 521,000 ounces gold at an average grade of 3.16 g/t gold
 - Proven and Probable Reserves of 409,000 ounces gold at an average grade of 3.71 g/t gold
 - Average annual gold production of 63,500 ounces, including 77,600 ounces in Year 2
 - Eight-year project, including one-year pre-production, six-year operating life and one-year closure
 - Payback period of less than 2 years
 - Adjacent high-grade resources and recent discoveries provide high probability growth options
 - Significant benefits to Mongolia, including Life of Mine royalties and taxes of US\$103 million and approximately 400 new direct jobs in Bayankhongor Province

- Completed the ESIA and the Mongolian statutory Detailed Environmental Impact Assessment (“DEIA”) for BK, built upon the ESIA, has been fully drafted in advance of public consultations:
 - These studies provide detailed background information, assessment, and management commitments for major impact domains, including climate and air quality, water, biodiversity conservation, economy and employment, land use, cultural heritage, occupational and community health, safety, and security, and transport
 - Public consultations are planned in late Q3 2020, following which the company will submit the BK DEIA to the Mongolian government for approval
- Obtained several key permits and regulatory approvals required for mine development:
 - Land use permits issued, granting access to an initial approximately 100-hectare area required to construct the BK open-pit and associated surface infrastructure
 - Tax stabilization certificate conditionally approved, fixing tax rates for a period of nine years on no less favourable terms than the current conditions in place in Mongolia

Exploration

- Confirmed three new near-surface, high-grade gold zones on the Khundii Mining License:
 - Discovered a very high-grade gold zone starting at surface in the Midfield SE zone:
 - Intersected 5.5 metres of 125.9 g/t, including 1 metre of 581.6 g/t gold, in BKD-288, beginning 11.5 metres down hole
 - Drilled 15 metres of 25.6 g/t including 1 metre of 338 g/t gold beginning at 14.9 metres in BKD274, 40 metres north of BKD-288
 - Intersected anomalous mineralization in 16 of 18 holes, all within 25 metres from the surface
 - Area is classified as waste or low-grade stockpile material in the current resource model
 - Intersected anomalous (≥ 0.2 g/t) gold in all 11 holes in a 100m x 50m area at Striker SW
 - BKD-292 intersected 15 metres of 29 g/t gold beginning 0.9 metres from drill collar, including one metre of 353 g/t gold
 - Trenched high-grade zones at recently discovered Khar Mori (Dark Horse) prospect
 - Returned 6 metres grading 8.8 g/t gold, including 1 metre of 50.8 g/t gold on the main Dark Horse structure in trench KMT-01
 - Trenched 4 metres of 14 g/t gold, including 1 metre of 45.3 g/t gold at KMT-03 on a structural intersection zone 850 metres east southeast of KMT-01

Corporate

- Closed \$20 million financing led by \$15 million strategic investment from Eric Sprott
 - Proceeds will be used to advance exploration of the Khundii Gold District and development of the Bayan Khundii Gold Project and for working capital and general corporate purposes
- Recorded a net loss of \$6,677,985 for the three months ended June 30, 2020, compared to a net loss of \$755,291 for the comparative 2019 period.
 - Exploration and Evaluation expenditures, including capitalized costs of \$2,036,502 in Q2 2020 exceeded expenditures of \$1,807,460 for Q2 2019 as increased technical consultant costs associated with the Bayan Khundii Bankable Feasibility Study more than offset lower exploration activity
 - Corporate and administrative expenses, excluding non-cash, share-based compensation and depreciation were \$225,948 for the three months ended June 30, 2020 versus \$259,666 in the prior year quarter as lower directors’ fees and travel costs more than offset increased professional fees
 - Non-cash, fair value adjustments of \$5,740,401 and accrued interest expense of \$502,991 in the current quarter relate to the convertible loan from the European Bank for Reconstruction and Development (“EBRD”) secured in Q4 2019

Strategy and Outlook

Erdene is focused on two strategic priorities – advancing the Bayan 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 its Bayan Khundii and Altan Nar deposits in the Khundii Gold District. 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 initial development envisioned in the PEA was to focus on a high grade, open-pit mine beginning at the Bayan Khundii Striker Zone, expanding into adjacent zones within Bayan Khundii, prior to incorporating resources from the Altan Nar deposit.

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

In July 2020, Erdene announced positive results of an independent BFS for the Bayan Khundii Gold Project. The Study envisions a high-grade, open-pit mine, beginning at surface in the southern portion of the Bayan Khundii deposit (Striker and Gold Hill), and expanding northward into adjacent zones at Midfield and Midfield NE. The development incorporates conventional crushing and grinding, leach and a Carbon in Pulp (“CIP”) plant with processing capacity of 1,800 tonnes per day.

In June 2020, Erdene completed an independent Environmental and Social Impact Assessment in accordance with the Performance Requirements of the European Bank for Reconstruction and Development (“EBRD”). The study was led by Sustainability East Asia LLC, in consortium with Eco Trade LLC and Ramboll Australia Pty Ltd. Concurrently, the Mongolian statutory DEIA for the Project has been prepared by Eco Trade LLC in accordance with the applicable national standards. Local stakeholder consultations on the DEIA are planned for Q3 2020. Following the consultations, the company will submit its statutory DEIA to the Ministry of Environment and Tourism of Mongolia for approval.

Erdene has obtained many of the key permits required to construct the Bayan Khundii Gold Project over the past 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 Khundii mining license covers 2,309 hectares, including the Bayan Khundii Reserve and the highly prospective Khar Mori, Altan Arrow, Khundii North and Khundii South targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. Erdene maintains an exploration license for the remaining 2,205 hectares of the legacy Bayan Khundii exploration license that were not converted to a mining license as part of its application. On November 1, 2019 MRPAM council approved Erdene’s Altan Nar resource registration application and the Company received the Altan Nar mining license on March 5, 2020.

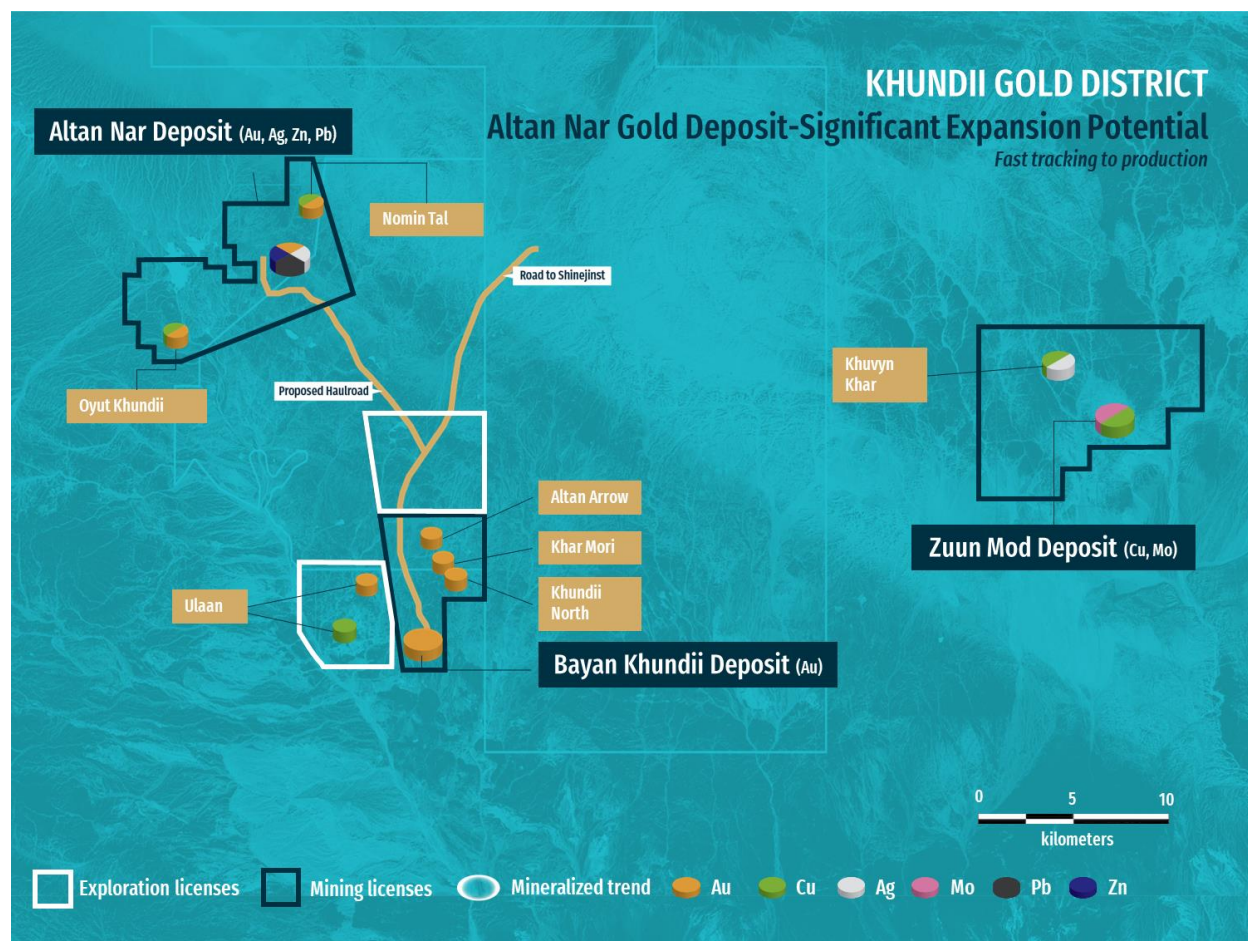
The Company’s Statutory Technical and Economic Assessment (“Mongolian Feasibility Study”) was approved by the Mineral Resource and Petroleum Authority in early 2020. The Mongolian Ministry of Environment and Tourism approved a water reserve and flow rate to be utilized for the planned processing plant and infrastructure of the Bayan Khundii Gold Project. Additionally, the Project’s Land Arrangement Plan and associated land use permissions have been approved by the local government, granting access to the 100-hectare area required to construct the BK open-pit and associated surface infrastructure. Detailed design of the surface infrastructure facilities is well advanced, with site geotechnical investigations completed and technical drawings for several facilities undergoing regulatory review. Upon approval of the drawings as well as the Project’s statutory Detailed Environmental Impact Assessment, the Company may apply for permission to commence construction.

In June 2020, the Company engaged HCF International to act as Project Finance advisor, with primary responsibility for securing debt. HCF is working with Erdene to secure the full financing package by the end of 2020. It is anticipated that senior debt financing could comprise as much as 70% of the total financing package given the Project’s strong cashflows. Erdene closed a \$20 million equity financing, led by a \$15 million investment by Eric Sprott in August 2020. Funds from this financing will be used to initiate early construction works at Bayan Khundii in advance of project finance and continue exploration in the Khundii Gold District.

Erdene continues to explore the potential for additional discoveries on its Khundii and Altan Nar licenses and is evaluating acquisition opportunities throughout the Khundii District. Over the past decade Erdene has developed the largest proprietary geologic database of Southwest Mongolia’s mineralization that has led to the identification of more than 20 high-priority targets for acquisition.

Development and Exploration Projects

Khundii Gold District



On September 15, 2018, the Company announced resource estimate for the Bayan Khundii and Altan Nar deposits. On October 21, 2019, Erdene announced an updated Bayan Khundii Resource as well as a Bayan Khundii Mineral Reserve, as part of the PFS prepared by Tetra Tech. The reserve announced October 21, 2019 has been superseded by a Mineral Reserve estimate, dated July 1, 2020, prepared by Auralia Mining Consulting. 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.

The Khundii Gold District includes the Company's high-grade, near-surface Bayan Khundii and Altan Nar deposits. The Bayan Khundii ("Rich Valley") gold project is located on Erdene's 100%-owned, 2,309 hectare Khundii mining license. The Khundii mining license includes the Bayan Khundii Mineral Resources reported in "Khundii Gold Project NI 43-101 Technical Report", dated December 4, 2019 and prepared by Tetra Tech, Inc., and an updated Mineral Reserve estimate, dated July 1, 2020, prepared by Auralia Mining Consulting and reported in a press release dated July 20, 2020. In addition, the Khundii mining license hosts Erdene's highly prospective Dark Horse, Altan Arrow, Khundii North and Khundii South targets.

The Bayan Khundii deposit was discovered in Q2 2015, with initial drill results reported in Q4 2015; the first hole returned 7 metres of 27.5 g/t gold at 14 metres depth. Step-out drilling in 2017 indicated that mineralization encountered in the Midfield Zone, (located 200 metres northeast from the initial Striker Zone discovery), extends for at least an additional 280 metres to the northeast under post-mineralization cover. The Midfield and North Midfield Zones have returned some of the highest grades and widest mineralized intervals at Bayan Khundii. BKD-98 returned 80 metres of 6.0 g/t gold from 42 metres depth, and BKD-231

returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold. Drilling has identified three main areas of very high-grade gold mineralization with strong continuity: Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization cover. The high-grade gold zones within these three areas can be very wide, with intervals including 112 metres of 5.9 g/t gold (BKD-261, 2019 drilling).

Bayan Khundii is the highest priority project for the Corporation based on its grade, proximity to surface, and favorable metallurgy. The Corporation has completed 46,302 metres of diamond drilling at Bayan Khundii over a series of 300 diamond drill holes and advanced the project through independent studies to the feasibility stage.

In June 2020, the Company completed a 925-metre drill program in near-surface areas of the Midfield SE and Striker SW zones of the Bayan Khundii deposit. This program was designed to test for mineralization in zones otherwise classified as waste or low-grade stockpile material with the potential to add significant value at the earliest stages of mining. Results from this program were extremely positive. Highlights of the program include the intersection of 5.5 metres of 125.9 g/t, including 1 metre of 581.6 g/t gold, in BKD-288, beginning 11.5 metres down hole, 15 metres of 25.6 g/t including 1 metre of 338 g/t gold beginning at 14.9 metres in BKD-274, and BKD-292 intersected 15 metres of 29 g/t gold beginning 0.9 metres from drill collar, including one metre of 353 g/t gold. Erdene will incorporate results from the Q2 2020 program, along with those from the planned Q3 program in an updated resource at Bayan Khundii later this year.

In early Q4 2019 Erdene discovered the Dark Horse (Khar Mori) prospect area, 3.5 km north of the BK deposit, on a previously under explored portion of the Khundii Mining License. Surface exploration in late 2019, including detailed geologic mapping and geochemical sampling (rock chip and soil) identified multiple samples grading over 5 g/t gold, including an 87.8 g/t gold rock chip sample hosted within comb quartz-adularia veins. In June 2020, the Company trenched new gold zones at Dark Horse, with assays returning 6 metres grading 8.8 g/t gold, including 1 metre of 50.8 g/t gold, and 4 metres of 14 g/t gold, including 1 metre of 45.3 g/t gold. As a large untested prospect, Dark Horse provides significant discovery potential along strike with a well-defined and continuous gold-in-soil anomaly along a NE trending structure for 1.3 kilometres. In addition, there are several isolated but intense gold-in-soil anomalies at or near NE-NW structural intersections. Initial drilling is planned for Q3 2020. This prospect is considered the best on license target since the identification of Bayan Khundii in 2015.

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

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

Altan Nar received limited exploration over the past two years as the Company's resources were focused on the Bayan Khundii discovery. In late Q4 2019, the Company drilled five holes totaling 667 metres in DZ. Four holes tested the high-grade core area of the Discovery Zone, over a 130-metre strike length, 70 metres of which remains untested by drilling ("Gap Zone"). The fifth hole tested the southern extension of the deposit.

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

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

Mineral Resources and Reserves

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

A summarized sensitivity analysis of the grade and tonnage relationships at various cut-off grades for the Khundii Gold District 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 AuEq2 and for Bayan Khundii are gold only. For the AN resource estimate, Gold Equivalent ("AuEq2") calculations assume metal prices of US \$1,310 per ounce gold, US \$18 per ounce silver, and US \$2,400 per tonne lead and US \$3,100 per tonne zinc.

(3) Tetra Tech recommended cut-off grade for Bayan Khundii is 0.55 g/t gold and RPM recommended cut-off grade for Altan Nar is 0.7 g/t AuEq2 above a pit and 1.4 g/t AuEq2 below the same pit shell.

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

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

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 total Bayan Khundii Mineral Reserve is shown below, as reported in Erdene's press release dated July 20, 2020. The Bayan Khundii July 1, 2020, BFS Mineral Reserve has been estimated by Qualified Person, Mr. Anthony Keers, Director, Auralia Mining Consulting, 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. The Mineral Reserve is based on the October 1, 2019, Mineral Resource, reported herein. 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. The effective date of the Mineral Reserve statement is July 1, 2020.

	Tonnage (Mt)	Grade (g/t Au)	Contained Au (Koz)
Proven Mineral Reserves	1.2	4.2	166
Probable Mineral Reserves	2.2	3.5	244
Mineral Reserve	3.4	3.7	409

Notes:

- (1) The effective date of the Mineral Reserve estimate is July 1, 2020. The QP for the estimate is Mr. Anthony Keers of Auralia Mining Consulting
- (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) Waste to ore cut-offs were determined using a NSR for each block in the model. NSR is calculated using prices and process recoveries for each metal accounting for all off-site losses, transportation, smelting and refining charges.
- (5) Reserves are based on a gold price of \$1400/oz.
- (6) Mineral Reserves were calculated from a diluted "mining" block model which included average dilution of 9% and losses of 1%.

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

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

Notes:

- (1) The Mineral Resources have been constrained by topography and a cut-off of 0.7 g/t AuEq2 above a pit and 1.4 g/t AuEq2 below the same pit shell.
- (2) The Mineral Resource Estimate Summary was compiled under the supervision of Mr. Jeremy Clark who is a full-time employee of RPM and a Member of the Australian Institute of Geoscientists. Mr. Clark has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity that he has undertaken to qualify as a Qualified Person as defined in the CIM Standards of Disclosure.
- (3) All Mineral Resource figures reported in the table above represent estimates as at May 7, 2018. Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.
- (4) Mineral Resource grades are reported in accordance with the CIM Standards.
- (5) Mineral Resources reported on a dry in-situ basis.
- (6) No dilution or ore loss factors have been applied to the reported Resource Estimate
- (7) No allowances have been made for recovery losses that may occur should mining eventually result.
- (8) For the AN resource estimate Gold Equivalent ("AuEq2") calculations assume metal prices of US \$1,310 per ounce gold, US \$18 per ounce silver, and US \$2,400 per tonne lead and US \$3,100 per tonne zinc.

Economic Studies

On July 20, 2020, Erdene announced the results of an independent Bankable Feasibility Study for the Bayan Khundii Gold Project. The independent BFS has been prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects (“NI 43-101”) and incorporates detailed mine design and scheduling, front-end engineering and design for the processing plant and site infrastructure, a hydrogeological assessment, mineral waste facility design, comprehensive capital and operating cost estimation, and an updated economic model. The BFS has been prepared by a consortium of international and Mongolian firms with significant experience operating in Mongolia.

The BFS envisions a high-grade, open-pit mine beginning at surface in the southern portion of the Bayan Khundii deposit (Striker and Gold Hill), and expanding northward into adjacent zones at Midfield and Midfield NE. The development incorporates conventional crushing and grinding, leach and a Carbon in Pulp (“CIP”) plant with processing capacity of 1,800 tonnes per day.

The BFS includes 3.4 million mineable tonnes from the Bayan Khundii resource at an average diluted head grade of 3.7 g/t gold, all of which are Proven and Probable Reserves.

Key Project metrics are presented in the following table:

	BK BFS	
Gold Price	US\$/oz	1,400
Production Profile		
Average Head Grade Over Life of Mine ¹	g/t gold	3.7
Project Life ²	years	8
Operating Life	years	6
Target Production Rate Per Day ³	tpd	1,800
Average Annual Saleable Gold ⁴	oz	63,500
Peak Annual Saleable Gold ⁴	oz	79,100
Average Gold Recovery Rate Over Life of Mine	%	93%
Strip Ratio	t:t	9.1
Operating Costs		
Life of Mine (“LOM”) Average Cash Cost ⁵	US\$/oz	731
LOM Cash Cost plus Sustaining Cost (AISC) ⁵	US\$/oz	733
Pre-Tax Net Present Value		
5% discount rate	US\$M	145
7.5% discount rate	US\$M	126
10% discount rate	US\$M	109
After-Tax Net Present Value		
5% discount rate	US\$M	100
7.5% discount rate	US\$M	86
10% discount rate	US\$M	73
Internal Rate of Return and Payback		
Pre-Tax Internal Rate of Return	%	55%
After-Tax Internal Rate of Return	%	42%
Payback Period Post-Construction (After-Tax) ⁵	years	1.9
Capital Requirements		
Pre-production Capital Cost, including contingency	US\$M	59
LOM Sustaining Capital Cost	US\$M	5

Notes:

(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 table shows 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 BFS

Price Sensitivity Analysis	Units	US\$1,200	US\$1,400	US\$1,600	US\$1,800	US\$2,000
NPV (5% discount rate)	US\$M	43	100	158	216	274
NPV (7.5% discount rate)	US\$M	33	86	138	190	242
NPV (10% discount rate)	US\$M	25	73	120	168	215
IRR	%	22%	42%	60%	77%	93%

The BK BFS 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 3.4 million tonnes at an average diluted head grade of 3.7 g/t gold and average strip ratio of 9.1:1 (waste tonne: plant feed tonne). Mineralization starts at surface, with the majority of the deposit contained within the top 100 metres. The deposit structure, grades and depth suggest selective open cut mining will be utilized. Mining will use hydraulic excavators in backhoe configuration. Drilled and blasted material will be loaded into haul trucks, with waste rock deposited in an engineered Integrated Waste Facility ("IWF") adjacent to the pit, and ore hauled to a crusher or run-of-mine ("ROM") pad adjacent to the processing plant.

The BK BFS has assumed contract mining based on methodology and costing contained in proposals received from contractors with suitable experience in Mongolia in similar open-pit mining environments. In this scenario the contractor provides the full fleet and personnel to operate the project on a schedule of rates (US\$/tonne material moved) basis. The contractor is proposing a total of 4 x excavators (2 x ore, 2 x waste), 10 x 55t payload trucks, 3 x blasthole drills and a fleet of ancillary and support equipment to deliver the required material movement. The contractor's workforce peaks at approximately 190 personnel to deliver the required schedule of production.

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

The ore-processing plant will be located adjacent to the Bayan Khundii open pit and throughput will target 600,000 ore-tonnes per year, nominally 1,800 tonnes per day. Total mineralized material from BK, processed in the plant over the course of the mine life, is 3.4 million tonnes at an average diluted head grade of 3.7 g/t gold. Using an estimated mill recovery of 93.1%, total recovered gold over the life of the Bayan Khundii deposit is 381,700 ounces.

Operating costs are based on the mining and processing scenarios outlined above and assumes contract mining. Power for operations will be generated through a hybrid diesel and solar generation solution, provided under a power purchase agreement for the duration of the Project. All other activities are assumed to be owner operated. The AISC for Bayan Khundii is estimated at \$733/oz.

Bayan Khundii BFS			
	LOM (US\$M)	US\$/oz	US\$/tonne
Mine Operating Cost	133	350	39
Processing Cost	96	252	28
G&A	13	33	4
Total Site Operating Costs	242	635	71
Royalty and Charges	32	86	10
Sustaining Capital & Closure Costs	5	12	1
All-In Sustaining Cost	279	733	82

Construction costs (Year 0), primarily comprising the process plant and supporting infrastructure, accommodation village, and associated engineering and indirect costs is estimated at US\$46 million. Pre-production costs, including construction readiness, mobile site equipment and pre-strip total \$8M. The capital cost estimate includes a 10% contingency. Sustaining capital of US\$4 million has been included in the mine plan and net mine closure costs are estimated at US\$1 million, including salvage values. Total life of mine capital expenditures for the Bayan Khundii Gold Project are estimated at US\$64 million.

	BK BFS (US\$M)
Process Plant	24
Non-Process Infrastructure	10
Accommodation Village	2
Construction Indirects	6
Engineering & Support	4
Construction Costs	46
Pre-Production Costs	8
Contingency	5
Subtotal Plant and Infrastructure	59
Sustaining Capital	4
Reclamation and Mine Closure	3
Salvage	(2)
Total	64

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

- Additional Resources at Bayan Khundii:
 - The Bayan Khundii Resource includes measured and indicated resources of 521,000 ounces at an average grade of 3.16 g/t gold, and Inferred Resources of 103,000 ounces at a grade of 3.68 g/t gold which could be added to reserves through both additional drilling and rising gold prices.
 - Recent drilling at the Midfield SE and Striker SW zones intersected exceptionally high grade gold, including one metre of 582 g/t gold within an intersection of 5.5 metres grading 126 g/t gold at Midfield SE, in areas of the resource currently classified as waste or sub-grade material. These areas are expected to provide additional high-grade feed in the early phases of development.
 - Very high gold grades observed in drilling in the Striker West portion of the deposit have the potential to add high-grade resources should closer spaced drilling improve continuity.
 - The reported resource is pit constrained based on multiple parameters including a US\$1,350/oz gold price. Multiple high-grade intersections outside the pit provide expansion targets requiring additional drilling in a rising gold price environment.
 - Further drilling is planned for Q3 2020 to confirm the existence of high-grade material within the Bayan Khundii project area.
- Exploration: The Bayan Khundii deposit is 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, including the Khar Mori (Dark Horse) prospect identified in late 2019.
 - Erdene recently trenched new gold zones at Dark Horse, with assays returning 6 metres grading 8.8 g/t gold, including 1 metre of 50.8 g/t gold, and 4 metres of 14 g/t gold, including 1 metre of 45.3 g/t gold. As a large untested prospect, Dark Horse provides significant discovery potential along strike with a well-defined and continuous gold-in-soil anomaly along a NE trending structure for 1.3 kilometres. In addition, there are several isolated but intense gold-in-soil anomalies at or near NE-NW structural intersections. Drilling is planned for Q3 2020.
- Recoveries: Although a 93% gold recovery has been utilized for the BFS, testing of a recent master composite sample, representative of the BK ore, with a head grade of 3.6 g/t gold, returned recoveries averaging 95% indicating an opportunity for increased recoveries in the plant.
- Higher Grade Upside: The very high-grade nature of the Bayan Khundii deposit provides upside should continuity of the ultra-high-grade zones (greater than 20 g/t gold) be established during mining.
- Underground Potential: Further underground mining potential has been identified in conceptual studies for Midfield North and Striker West which, if proven economical through further studies, could lead to a further increase in the economic reserve of the Bayan Khundii Project.

- Additional Resources at Altan Nar: Erdene's Altan Nar deposit, located approximately 16km north of Bayan Khundii, has an established Indicated Resource of 5.0 Mt grading 2.0 g/t gold (318,000 ounces of contained gold) and an Inferred Resource of 3.4 Mt grading 1.7 g/t gold (186,000 ounces of contained gold). Approximately 250,000 ounces of the current Altan Nar resource could potentially be processed by the Bayan Khundii Project processing facility at modest incremental capital cost (see "KGP 2019 Technical Report"). A number of development options for Altan Nar are under consideration.

District Scale Exploration

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

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

South Bayan Khundii Prospect

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

Khar Mori (Dark Horse) Gold Prospect Area (New Discovery)

Surface exploration in early Q4 2019 focused on a previously under explored portion of the Khundii Mining License now defined as the Dark Horse (Khar Mori) prospect area. Located 3.5 kilometres north of the BK deposit, geochemical rock-chip samples returned up to 32.9 g/t gold. Follow-up surface exploration in late Q4 2019, including detailed geologic mapping and geochemical sampling (rock chip and soil) returned multiple gold in soil anomalies and chip samples grading over 5 g/t gold, including an 87.8 g/t gold chip sample hosted within comb quartz-adularia veins. The Q4 2019 program expanded the Khar Mori prospect area to an approximately 1.5 by 2 kilometre zone comprised of multiple early stage gold exploration targets.

Exploration in Q2 2020 consisted of detailed mapping, higher density soil and rock chip sampling and a series of three trenches (KMT-01 to KMT-03) totaling 180 metres. Trench results exhibited high-grade gold mineralization related to steeply dipping epithermal style comb-quartz stockwork zones, returning 6 metres of 8.8 g/t gold including 1 metre of 50.8 g/t gold (KMT-01) and 4 metres grading 14 g/t gold including 1m of 45.3 g/t gold (KMT-03). The Q2 2020 trenching results in conjunction with soil sampling, rock chip sampling and mapping results have established Dark Horse as a high priority target. Drill targeting is now underway in preparation for initial drill testing scheduled for the second half of 2020.

Altan Arrow Gold Target

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

Drill testing of the main mineralized structure indicates a broad corridor of anomalous gold over a 1.2 kilometre trend (open along strike) and up to 400 metres south of the main structure in what is interpreted as secondary structural splays. In addition, drill testing of these structural splays, south of the main zone, returned multiple intersects at deeper levels than typically tested (approximately 100 metres vertical depth)

with gold grades ranging from 0.2 to 2.6 g/t with anomalous silver, molybdenum, lead, zinc and antimony (AAD-25). Exploration results suggest gold mineralization within the district is controlled by a structure associated with zones of major dilatancy and structural intersections. Such zones commonly have associated alteration events that are magnetite destructive, resulting in zones of low magnetic response. In advance of future drilling the Corporation in the process of completing a comprehensive geophysical interpretation of the Altan Arrow prospect, including high resolution magnetics, IP dipole-dipole and gravity datasets.

Khundii North Gold Target

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

Ulaan Copper-Gold Porphyry Target

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

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

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

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

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in southwest Mongolia on the Company’s Khuvyn Khar license. This project is approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian

Resources LLC, a wholly owned subsidiary of the Corporation, and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter returns royalty ("NSR Royalty") of 1.5%, subject to a buy-down provision.

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

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

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

Khuvyn Khar Copper-Silver Project

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

Acquisitions

Mongolia's Ministry of Mining and Heavy Industry periodically issues areas for exploration. Erdene has established the largest proprietary geologic database of Southwest Mongolia with a priority list of acquisition targets. The Company will participate in the tendering process as its priority targets are opened for tender. The Company has also been evaluating privately held licenses for acquisition.

Discussion of Operations

Three months ended June 30, 2020 and 2019

The tables below detail exploration and evaluation expenditures for the three months ended June 30, 2020 and 2019. The projects within the Khundii Gold District were the focus of the Corporation's efforts during these periods.

Quarter ended June 30, 2020	Khundii Gold District	Zuun Mod & Ulaan	General E&E	Total
E&E expenditures				
Mining studies and permitting	\$ 1,272,660	\$ 8,047	\$ 1,430	\$ 1,282,137
Exploration and field support	573,920	85,423	24,559	683,902
Mongolian office costs	-	-	71,770	71,770
Share-based compensation	-	-	16,390	16,390
Stakeholder relations	7,987	-	(14,941)	(6,954)
Travel and other	(3,559)	-	(7,184)	(10,743)
Total E&E expenditures	1,851,008	93,470	92,024	2,036,502
Capitalized E&E expenditures	(1,851,008)	(51,448)	-	(1,902,456)
Expensed E&E costs 2020	\$ -	\$ 42,022	\$ 92,024	\$ 134,046

E&E assets, April 1, 2020	\$ 22,006,148	\$ 1,817,128	\$ -	\$ 23,823,276
Additions	1,851,008	51,448	-	1,902,456
Effect of movements in exchange rates	(789,878)	(87,328)	-	(877,206)
E&E assets, June 30, 2020	\$ 23,067,278	\$ 1,781,248	\$ -	\$ 24,848,526

Quarter ended June 30, 2019	Khundii Gold District	Zuun Mod & Ulaan	General E&E	Total
E&E expenditures				
Exploration and field support	\$ 685,287	\$ 89,404	\$ 17,471	\$ 792,162
Mining studies and permitting	692,673	759	6,898	700,330
Travel and other	83,769	-	29,172	112,941
Share-based compensation	-	-	89,401	89,401
Mongolian office costs	-	-	80,616	80,616
Stakeholder relations	31,992	9	9	32,010
Total E&E expenditures	1,493,721	90,172	223,567	1,807,460
Capitalized E&E expenditures	(1,493,721)	(67,703)	-	(1,561,424)
Expensed E&E costs 2019	\$ -	\$ 22,469	\$ 223,567	\$ 246,036

E&E assets, April 1, 2019	\$ 14,527,417	\$ 1,735,481	\$ -	\$ 16,262,898
Additions (includes NSR Royalty repurchase)	2,693,721	67,703	-	2,761,424
Effect of movements in exchange rates	(339,425)	(42,601)	-	(382,026)
E&E assets, June 30, 2019	\$ 16,881,713	\$ 1,760,583	\$ -	\$ 18,642,296

Exploration and evaluation expenditures, including capitalized expenditures, totaled \$2,036,502 for the three months ended June 30, 2020, compared to \$1,807,460 for the three months ended June 30, 2019.

Mining studies and permitting costs of \$1,282,137 for the three months ended June 30, 2020 were \$581,807 higher than expenditures for the three months ended June 30, 2019 due to increased consultant spend in support of the Front End Engineering & Design and Bankable Feasibility studies being finalized during the second quarter of 2020.

Exploration and field support expenses of \$683,902 in the second quarter of 2020 were \$108,260 less than the comparative prior year period due to lower drilling in the current year quarter, as Erdene drilled 925 metres in Q2 2020, compared to 1,800 metres in Q2 2019.

Mongolian office costs of \$71,770 for the three months ended June 30, 2020 were \$8,846 lower than the three months ended June 30, 2019 due to reduced travel and IR activities as a result of COVID 19.

Stakeholder relations costs were \$38,964 lower in the current year quarter due to the timing of community outreach programs.

Travel and other costs were \$123,684 lower in Q2 2020 than the prior year comparative period due to travel restrictions associated with COVID-19.

Erdene began capitalizing exploration costs for its Khundii District gold projects on January 1, 2015, with the receipt of the initial resource estimate for the Khundii Gold District's Altan Nar deposit. For the three months ended June 30, 2020 and 2019, Erdene has capitalized all exploration costs associated with this Project.

	For the three months ended June 30,		
	2020	2019	Change
Administrative services	\$ 84,542	\$ 94,207	\$ (9,665)
Depreciation and amortization	9,261	2,153	7,108
Directors fees and expenses	-	37,091	(37,091)
Investor relations and marketing	25,440	23,093	2,347
Office and sundry	19,366	30,205	(10,839)
Professional fees	69,401	46,087	23,314
Regulatory compliance	27,199	22,568	4,631
Share-based compensation	116,775	236,109	(119,334)
Travel and accommodations	-	6,415	(6,415)
	\$ 351,984	\$ 497,928	\$ (145,944)

Corporate and administrative expenses totaled \$351,984 for the three months ended June 30, 2020, compared to \$497,928 for the three months ended June 30, 2019.

Administrative services expenditures of \$84,542 for the three months ended June 30, 2020 were \$9,665 less than the prior year primarily due to staffing changes.

Director's fees and expenses were nil for quarter ended June 30, 2020 as all directors elected to receive their fees in Deferred Share Units starting in Q2 2020.

Office and sundry expenses for Q2 2020 were \$10,839 less than for the quarter ended June 30, 2019 due to a change in the accounting for the head office lease as a result of the prospective adoption of IFRS 16.

Professional fees for the quarter ended June 30, 2020 were \$23,314 more than the prior year comparative period as the corporation engaged a project finance advisor in June 2020.

Non-cash share-based compensation expenses for the three months ended June 30, 2020 were \$119,334 lower than the prior year quarter, as the prior year period included a grant of options to directors, officers and employees of the corporation as part of the annual performance management process.

Depreciation and amortization, Investor relations and marketing, Regulatory compliance, and Travel and accommodations expenditures for the period ended June 30, 2020 were not material or significantly different from those incurred in the prior year comparative period.

Six months ended June 30, 2020 and 2019

The tables below detail exploration and evaluation expenditures for the six months ended June 30, 2020 and 2019. The projects within the Khundii Gold District were the focus of the Corporation's efforts during these periods.

Period ended June 30, 2020	Khundii Gold District	Zuun Mod & Ulaan	General E&E	Total
E&E expenditures				
Mining studies and permitting	\$ 2,124,083	\$ 8,839	\$ 2,665	\$ 2,135,587
Exploration and field support	992,457	111,535	49,668	1,153,660
Mongolian office costs	-	-	167,433	167,433
Stakeholder relations	37,961	92	4,827	42,880
Travel and other	29,985	1,117	(3,128)	27,974
Share-based compensation	-	-	20,898	20,898
Total E&E expenditures	3,184,486	121,583	242,363	3,548,432
Capitalized E&E expenditures	(3,184,486)	(52,705)	-	(3,237,191)
Expensed E&E costs 2020	\$ -	\$ 68,878	\$ 242,363	\$ 311,241
E&E assets, January 1, 2020				
E&E assets, January 1, 2020	\$ 19,767,941	\$ 1,715,576	\$ -	\$ 21,483,517
Additions	3,184,486	52,705	-	3,237,191
Effect of movements in exchange rates	114,851	12,967	-	127,818
E&E assets, June 30, 2020	\$ 23,067,278	\$ 1,781,248	\$ -	\$ 24,848,526

Period ended June 30, 2019	Khundii Gold District	Zuun Mod & Ulaan	General E&E	Total
E&E expenditures				
Exploration and field support	\$ 1,033,262	\$ 117,509	\$ 55,330	\$ 1,206,101
Mining studies and permitting	1,061,039	1,518	13,344	1,075,901
Travel and other	107,349	-	55,554	162,903
Mongolian office costs	-	-	153,886	153,886
Share-based compensation	-	-	93,777	93,777
Stakeholder relations	54,314	733	928	55,975
Total E&E expenditures	2,255,964	119,760	372,819	2,748,543
Capitalized E&E expenditures	(2,255,964)	(68,993)	-	(2,324,957)
Expensed E&E costs 2019	\$ -	\$ 50,767	\$ 372,819	\$ 423,586
E&E assets, January 1, 2019				
E&E assets, January 1, 2019	\$ 13,930,310	\$ 1,757,038	\$ -	\$ 15,687,348
Additions (includes NSR Royalty repurchase)	3,455,964	68,993	-	3,524,957
Effect of movements in exchange rates	(503,797)	(66,212)	-	(570,009)
E&E assets, June 30, 2019	\$ 16,882,477	\$ 1,759,819	\$ -	\$ 18,642,296

	For the six months ended June 30,		
	2020	2019	Change
Administrative services	\$ 180,894	\$ 204,123	\$ (23,229)
Depreciation and amortization	18,577	4,065	14,512
Directors fees and expenses	44,583	65,009	(20,426)
Investor relations and marketing	86,399	55,316	31,083
Office and sundry	40,405	62,123	(21,718)
Professional fees	107,857	77,886	29,971
Regulatory compliance	64,387	70,805	(6,418)
Share-based compensation	176,789	284,183	(107,394)
Travel and accommodations	6,167	20,734	(14,567)
	\$ 726,058	\$ 844,244	\$ (118,186)

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2020			Fiscal 2019			Fiscal 2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Net loss	\$6,678	\$1,042	\$773	\$638	\$755	\$517	\$773	\$743
Basic loss per share	\$0.03	\$0.01	\$0.01	\$0.00	\$0.01	\$0.00	\$0.01	\$0.00
Total assets	\$27,155	\$27,826	\$26,973	\$20,942	\$19,365	\$19,632	\$17,709	\$18,136

For the three months ended June 30, 2020, the Corporation recognized a net loss of \$6,677,985 compared to a net loss of \$755,291 for the same period in 2019. The increase in the net loss in the current period compared to prior periods is primarily attributable to interest expenses and fair value adjustments on the convertible loan entered in Q4 2019.

The Corporation's expenditures vary from quarter to quarter, largely due to the timing of its Mongolian exploration and evaluation programs, as well as the incurrence of economic study expenditures relating to its development of project in the Khundii Gold District. 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 \$19.8 million in working capital.

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

With the receipt of the proceeds from the \$20 million financing that closed on August 11, 2020, management estimates current working capital is sufficient to fund the Corporation's planned expenditures into Q2 2021. The ability of the Corporation to continue with its exploration and development programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

	August 13, 2020	December 31, 2019
Common shares issued and outstanding	237,492,143	191,068,490
DSU's outstanding	4,466,765	4,636,850
Warrants outstanding	75,097,796	30,252,744
Options outstanding	11,345,000	12,305,000
Total instruments outstanding at end of period	328,401,704	238,263,084

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2020:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office leases	\$ 144,860	\$ 34,511	\$ 69,472	\$ 40,877	\$ -
Accounts payable and accrued liabilities	1,085,439	1,085,439	-	-	-
	\$ 1,230,299	\$ 1,119,950	\$ 69,472	\$ 40,877	\$ -

Other Financing Arrangements and Commitments

European Bank of Reconstruction and Development

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

Sandstorm Gold Ltd. Royalty Agreement

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

Other

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

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

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

On March 31, 2020, the Corporation entered into a Term Credit Facility Agreement (“Credit Facility”) for an aggregate principal amount of up to US\$250,000. The Credit Facility is available to the Corporation, as and when required, until the earlier of March 31, 2023, and the date the Corporation completes an alternative financing. Interest on principal outstanding under the Credit Facility will be charged at a rate of 10% per annum. The Credit Facility is unsecured and is subordinated to the borrowings from the European Bank for Reconstruction and Development.

Off-Balance Sheet Arrangements

As at June 30, 2020, 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 \$197,687 of non-cash share-based compensation to the statement of comprehensive loss for the six months ended June 30, 2020 (2019 - \$377,960).

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.

Financial Instruments and Other Risks

Financial Instruments

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

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

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

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

Fair Value

During the six months ended June 30, 2020 and year ended December 31, 2019, 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.

	June 30, 2020			December 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets and liabilities measured at fair value:						
Cash and cash equivalents	\$ 1,915,353	\$ -	\$ -	\$ 5,106,863	\$ -	\$ -
Receivables	-	118,414	-	-	70,361	-
Conversion option on the convertible loan	-	(7,564,732)	-	-	(1,927,151)	-

Other Risks

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

Credit Risk

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At June 30, 2020, \$191,493 or 10% of the balance of cash was held in banks outside Canada (December 31, 2019 - \$60,511 or 1%).

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.

Market Risk

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

Interest rate risk

As of June 30, 2020, the Corporation's convertible loans and credit facility carry a fixed interest rate of 10% and hence, they are not subject to interest rate risk fluctuations.

Foreign Currency Risk

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

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

The Corporation's exposure to US dollar currency risk was (\$11,721,828) as at June 30, 2020 (December 31, 2019 – (\$1,561,424)). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$1,172,200 (December 31, 2019 - \$156,100).

The Corporation's exposure to Mongolian Tugrik currency risk was (\$171,836) as at June 30, 2020 (December 31, 2019 – (\$55,661)). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$17,200 (December 31, 2019 - \$5,600).

Price Risk

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

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Erdene's disclosure controls and procedures as of June 30, 2020 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 June 30, 2020. 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 June 30, 2020, 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 is based on information compiled and reviewed by Kenny Li, CFA, who is an employee of ROMA Group Ltd. The information in this press release that relates to the capital and operating cost estimation for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Julien Lawrence, who is a FAusIMM and the Director of O2 Mining Ltd. The information in this press release that relates to the process design and recovery methods for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Jeffrey Jardine, who is a FAusIMM. and is engaged through O2 Mining Ltd. The information in this press release 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 press release that relates to the Bayan Khundii reserve estimate is based on information compiled and reviewed by Mr. Anthony Keers, who is an MAusIMM (CP Mining) and a Director, Auralia Mining Consulting. Each of Mr. Li, Mr. Lawrence, Mr. Jardine, Mr. Norton and Mr. Keers 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. Li, Mr. Lawrence, Mr. Jardine, Mr. Norton and Mr. Keers 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.