



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Canadian dollars)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of indicators of impairment for exploration and evaluation assets

Description of the matter:

We draw attention to Notes 2(c)(ii), 3(d), and 5 of the financial statements. The Entity has exploration and evaluation assets of \$29,364,155. Exploration and evaluation assets are assessed for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Entity has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Why the matter is a key audit matter:

We identified the evaluation of indicators of impairment for exploration and evaluation assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of exploration and evaluation assets. This matter was of most significance due to the judgement required in evaluating the results of our audit procedures to assess the Entity's determination of whether the factors, individually or in the aggregate, resulted in an indicator of impairment.

How the matter was addressed in the audit:

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

We assessed the status of the Entity's rights to explore by inspecting license renewals, discussing with management if any rights were not expected to be renewed and inspecting government submissions made during the year.

We compared the actual exploration and evaluation expenditures in 2020 to the budgeted expenditures to assess management's ability to accurately budget.

We read the Entity's exploration and evaluation budget for the upcoming year to determine whether the Entity has plans to incur further exploration and evaluation expenditures.

We read information included in the Entity's technical reports and internal communications to assess if the Entity has decided to continue or discontinue exploration for and evaluation of mineral resources in the specific area.



Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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



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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

Halifax, Canada

March 11, 2021

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents		\$ 12,800,728	\$ 5,106,863
Receivables		89,344	70,361
Prepaid expenses		212,479	69,029
Current assets		13,102,551	5,246,253
Exploration and evaluation assets	5	29,364,155	21,483,517
Right-of-use asset	6	107,693	137,064
Property, plant and equipment	7	239,431	105,998
Non-current assets		29,711,279	21,726,579
Total Assets		\$ 42,813,830	\$ 26,972,832
Liabilities and Equity			
Trade and other payables		\$ 582,356	\$ 591,999
Lease liability	6	27,853	25,697
Current liabilities		610,209	617,696
Lease liability	6	85,699	113,553
Convertible loan	9	-	6,260,521
Non-current liabilities		85,699	6,374,074
Total Liabilities		695,908	6,991,770
Shareholders' Equity			
Share capital	11	\$ 136,618,086	\$ 109,466,565
Contributed surplus	11	25,937,667	16,829,920
Accumulated other comprehensive loss		(2,964,666)	(1,958,616)
Deficit		(117,473,165)	(104,356,807)
Total Shareholders' Equity		42,117,922	19,981,062
Total Liabilities and Equity		\$ 42,813,830	\$ 26,972,832

Commitments (Note 8)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"

Director

Signed "John P. Byrne"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

		For the years ended December 31,	
	Notes	2020	2019
Operating Expenses			
Exploration and evaluation	12	\$ 1,372,811	\$ 1,090,786
Corporate and administration	13	1,868,905	1,615,724
Loss from operating activities		3,241,716	2,706,510
Finance income		(62,858)	(36,512)
Interest expense		1,661,960	165,934
Change in fair value of convertible loan	9	8,412,081	(178,972)
Foreign exchange loss (gain)		(136,541)	26,332
Net Loss		\$ 13,116,358	\$ 2,683,292
Other comprehensive loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		1,006,050	1,002,903
Other comprehensive loss		1,006,050	1,002,903
Total comprehensive loss		\$ 14,122,408	\$ 3,686,195
Basic and diluted loss per share		\$ 0.06	\$ 0.02
Basic weighted average number of shares outstanding		216,535,792	178,522,823

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity (Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at January 1, 2019		162,426,416	\$ 104,003,644	\$ 16,110,116	\$ (955,713)	\$ (101,673,515)	\$ 17,484,532
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(2,683,292)	(2,683,292)
Other comprehensive loss		-	-	-	(1,002,903)	-	(1,002,903)
Private placements, net of share issue costs	11	25,922,044	4,895,464	414,401	-	-	5,309,865
Options exercised	11	1,105,000	276,900	(107,100)	-	-	169,800
Issue of shares from DSU plan	11	1,615,030	290,557	(290,557)	-	-	-
Share-based compensation		-	-	703,060	-	-	703,060
Total transactions with owners		28,642,074	5,462,921	719,804	-	-	6,182,725
Balance at December 31, 2019		191,068,490	\$ 109,466,565	\$ 16,829,920	\$ (1,958,616)	\$ (104,356,807)	\$ 19,981,062
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		-	-	-	-	(13,116,358)	(13,116,358)
Other comprehensive loss		-	-	-	(1,006,050)	-	(1,006,050)
Private placements, net of share issue costs	11	44,444,441	10,727,732	8,206,644	-	-	18,934,376
Issue of shares on convertible loan conversion	9	30,043,290	15,768,935	-	-	-	15,768,935
Options exercised	11	2,175,000	521,890	(177,590)	-	-	344,300
Issue of shares from DSU plan	11	719,212	132,964	(132,964)	-	-	-
Share-based compensation		-	-	1,211,657	-	-	1,211,657
Total transactions with owners		77,381,943	27,151,521	9,107,747	-	-	36,259,268
Balance at December 31, 2020		268,450,433	\$ 136,618,086	\$ 25,937,667	\$ (2,964,666)	\$ (117,473,165)	\$ 42,117,922

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

		For the years ended December 31,	
	Notes	2020	2019
Cash flows from (used in) operating activities:			
Net loss		\$ (13,116,358)	\$ (2,683,292)
Items not involving cash:			
Depreciation and amortization		54,391	32,248
Share-based compensation		1,211,657	703,060
Finance income		(62,858)	(36,512)
Interest expense	9	1,653,178	162,051
Foreign exchange not related to cash		(136,541)	26,332
Fair value change on convertible loan		8,412,081	(178,972)
Change in non-cash operating working capital		(172,509)	392,315
Cash flows used in operating activities		(2,156,959)	(1,582,770)
Cash flows from (used in) financing activities:			
Issue of common shares, net of issue costs	11	18,934,376	5,309,865
Proceeds on issuance of convertible loan, net of issue costs	9	-	6,357,763
Proceeds on exercise of stock options	11	344,300	169,800
Repayment of lease liability		(25,697)	(7,604)
Interest paid on convertible loan	9	(608,302)	-
Cash flows from financing activities		18,644,677	11,829,824
Cash flows from (used in) investing activities:			
Expenditures on exploration and evaluation assets	5	(8,873,361)	(6,804,128)
Expenditures on property, plant and equipment	7	(175,630)	(10,653)
Interest received		62,858	36,512
Cash flows used in investing activities		(8,986,133)	(6,778,269)
Effect of exchange rate changes on cash balances		192,280	(110,171)
Increase in cash and cash equivalents		7,693,865	3,358,614
Cash and cash equivalents, beginning of period		5,106,863	1,748,249
Cash and cash equivalents, end of period		\$ 12,800,728	\$ 5,106,863

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 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, Mongolia.

In August 2020, Erdene completed a Feasibility Study for its Bayan Khundii Gold Project, titled “Bayan Khundii Gold Project Feasibility Study, NI 43-101 Technical Report”. 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

a) Statement of compliance

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

The consolidated financial statements were authorized for issue by Erdene’s Board of Directors on March 11, 2021.

b) Basis of measurement

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

c) Critical judgments and estimates in applying accounting policies

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

- i) *Functional currency:* The functional currency for the parent entity, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. The Mongolian subsidiaries have a Mongolian Tugrik functional currency, while the parent entity has a Canadian dollar functional currency.
- ii) *Recoverability of exploration and evaluation assets:* At the end of each reporting period, the Corporation assesses its exploration and evaluation assets to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Corporation has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

2. Basis of presentation (continued)

are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the greater of the fair value less cost of disposal and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital expenditures, exploration potential and operating costs. Fair value of exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and risks to the asset. If the Corporation does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through comparison to similar market assets and, where available, industry benchmarks.

- iii) *Asset acquisitions*: The Corporation applies judgment in determining whether the exploration and evaluation assets it acquires are considered to be asset acquisitions or business combinations. Key factors in this determination are whether reserves have been established, whether the project is capable of being managed as a business by a market participant, and the nature of the additional work to convert resources into reserves. The Corporation has considered all exploration and evaluation assets acquired to date to be asset acquisitions.
- iv) *Share-based compensation*: Equity-settled share-based compensation is measured at fair value at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.
- v) *Convertible Loan*: In 2019 the Corporation issued a convertible loan with an embedded derivative conversion option, allowing the holder to convert any or all amounts outstanding to common shares of Erdene. The embedded derivative conversion option was determined by management to be a liability. This liability was measured at fair value and was revalued at each reporting period. Fair value was measured using a binomial option model and required the exercise of judgment in relation to variables such as expected volatilities, risk-free interest rates and credit risk spreads based on information available at the time the fair value was measured.
- vi) *Provision for site restoration*: Management's assessment that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

d) COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and efforts to contain it have had a significant effect on commodity prices and global capital markets. The Corporation adopted certain operating procedures in response to COVID-19, and associated restrictions implemented by the Government of Mongolia, including remote working, travel restrictions, and increased sanitation. As a result, the Corporation has been able to continue operating safely during the pandemic. Notwithstanding the proactive and considered actions taken to maintain a safe workplace, it is possible that in the future there will be negative impacts on operations that could have a material adverse effect on the Corporation's results of operations and financial position. The Corporation had \$12,492,342 in working capital at December 31, 2020, providing sufficient liquidity to manage through this period of uncertainty.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

3. Summary of significant accounting policies

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

a) Basis of consolidation

For the years ended December 31, 2020 and 2019, the consolidated financial statements include those of Erdene Resource Development Corporation and its wholly owned subsidiaries: Erdene Mongol LLC and Anian Resources LLC (Mongolian exploration companies).

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

b) Foreign currencies

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

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

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

c) Financial instruments

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

3. Summary of significant accounting policies (continued)

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

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

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive loss. In accounting for the conversion of convertible loan liabilities, the Corporation's accounting policy is to measure the equity issued at the carrying value of the convertible loan immediately prior to conversion, such that no gain or loss is recognized on reclassification.

d) Exploration and evaluation assets

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

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

Exploration and evaluation assets are assessed for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount. In circumstances where indicators of impairment exist, an impairment test is required to determine if the carrying amount of the exploration and evaluation asset exceeds its estimated recoverable amount. To the extent this occurs, the asset is assessed for impairment and any impairment is fully provided against the carrying amount, in the financial year in which this is determined.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognized, before reclassification.

Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- i) such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- ii) exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned for the future.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

3. Summary of significant accounting policies (continued)

e) Property, plant and equipment

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

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

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

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

f) Leases

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

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

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

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

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

g) Share-based compensation

Equity-settled share-based awards to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black-Scholes pricing model. The fair value

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

3. Summary of significant accounting policies (continued)

determined at the grant date is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

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

h) Loss per share

The Corporation presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares.

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

4. Changes in accounting policies

Erdene has adopted the following new standards, along with any consequential amendments, effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

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

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The application of this amendment did not have a material impact on the Corporation.

IFRS 3 – Business Combinations

On October 22, 2018, the IASB issued an amendment to IFRS 3 Business Combinations to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The application of this amendment did not have a material impact on the Corporation.

New accounting standards not yet adopted

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

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or noncurrent depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively, with early adoption permitted. The Corporation is currently assessing the financial impact of the amendments and expects to apply the amendments at the effective date.

ERDENE RESOURCE DEVELOPMENT CORPORATION

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4. Changes in accounting policies (continued)

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Corporation has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IFRS 9 – Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

5. Exploration and evaluation assets

	Bayan Khundii	Altan Nar	Zuun Mod	Ulaan & Other	Total
Balance, January 1, 2019	\$ 10,947,301	\$ 2,955,725	\$ 831,726	\$ 952,596	\$ 15,687,348
Additions	5,951,335	767,125	67,091	18,577	6,804,128
Effect of movements in exchange rates	(733,911)	(161,684)	(70,018)	(42,346)	(1,007,959)
Balance, December 31, 2019	\$ 16,164,725	\$ 3,561,166	\$ 828,799	\$ 928,827	\$ 21,483,517
Balance, January 1, 2020	\$ 16,164,725	\$ 3,561,166	\$ 828,799	\$ 928,827	\$ 21,483,517
Additions	7,436,420	391,875	64,512	980,554	8,873,361
Effect of movements in exchange rates	(750,939)	(125,774)	(55,030)	(60,980)	(992,723)
Balance, December 31, 2020	\$ 22,850,206	\$ 3,827,267	\$ 838,281	\$ 1,848,401	\$ 29,364,155

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.

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5. Exploration and evaluation assets (continued)

Bayan Khundii Gold Project

The Bayan Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Khundii mining license, issued in August 2019, from the Mineral Resource and Petroleum Authority of Mongolia, 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 “Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report”, dated August 31, 2020 and prepared by Roma Oil and Mining Associates Limited. The Corporation is currently completing construction readiness activities on the project in advance of a decision to proceed to construction, anticipated in 2021.

Additionally, the mining license includes Erdene’s highly prospective Altan Arrow, Dark Horse, Khundii North and Khundii West targets. On July 1, 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy.

Altan Nar Gold Project

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

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

Ulaan & Other

The Ulaan exploration license covers an area of approximately 1,780 hectares, situated immediately adjacent to the Khundii mining 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 license. 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. On December 10, 2020 Erdene acquired a 100% interest in the Ulaan exploration license with the purchase of the remaining 49% interest in Leader Exploration LLC for US\$750,000.

The Corporation maintains an exploration license for 2,205 hectares of the legacy Khundii exploration license that were not converted to a mining license in 2019. 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.

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6. Leases

The Corporation 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		(29,371)
Balance, December 31, 2020	\$	107,693

The maturity analysis of the office lease liability at December 31, 2020 is as follows:

	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	Total
Lease payments	\$ 34,522	\$ 34,693	\$ 35,037	\$ 23,358	\$ 127,610
Finance charges	(6,669)	(4,553)	(2,417)	(419)	(14,058)
Total liability	\$ 27,853	\$ 30,140	\$ 32,620	\$ 22,939	\$ 113,552

The Corporation also has leases for office space, staff accommodation and storage in Mongolia that expire within the next 12 months. The Corporation has elected not to apply the requirements of IFRS 16 to these leases and the Corporation expenses lease payments for these facilities as incurred, totaling \$89,803 (2019 - \$113,831).

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7. Property, plant and equipment

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

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2020	\$ 90,181	\$ 107,440	\$ 216,827	\$ 414,448
Additions	82,169	92,731	12,453	187,353
Disposals	(32,868)	(2,478)	(3,596)	(38,942)
Effect of movements in exchange rates	(7,734)	(6,549)	(1,731)	(16,014)
Balance, December 31, 2020	\$ 131,748	\$ 191,144	\$ 223,953	\$ 546,845
Depreciation & depletion				
Balance, January 1, 2020	\$ (28,483)	\$ (84,718)	\$ (195,249)	\$ (308,450)
Depreciation	(9,973)	(6,007)	(9,040)	(25,020)
Disposals	15,338	2,336	3,596	21,270
Effect of movements in exchange rates	1,532	1,821	1,433	4,786
Balance, December 31, 2020	\$ (21,586)	\$ (86,568)	\$ (199,260)	\$ (307,414)
Carrying amounts				
At January 1, 2020	\$ 61,698	\$ 22,722	\$ 21,578	\$ 105,998
At December 31, 2020	\$ 110,162	\$ 104,576	\$ 24,693	\$ 239,431

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8. Commitments

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.

9. Convertible Loan

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

On October 9, 2020, the EBRD exercised its conversion option in respect of the entire principal amount of the Convertible Loan, receiving 30,043,290 common shares of the Corporation. Additionally, the Corporation paid cash interest of US\$457,639 to the EBRD, accrued to the date of extinguishment of the Loan. The carrying amount of the host liability of \$5,429,703 and the fair value of the conversion option of \$10,339,232, at the conversion date, were recorded as additions to share capital with the extinguishment of the liabilities.

Key terms of the Loan included:

- Principal amount of US\$5.0 million
- Coupon rate of 10% payable in cash, or capitalized, at the Corporation's option, annually
- The Loan was 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 exercised 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 was 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)

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

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

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9. Convertible Loan (continued)

The following table summarizes the continuity of the host liability component of the loan for the years ended December 31, 2020 and 2019:

	2020	2019
Balance, January 1	\$ 4,333,370	\$ -
Carrying value, date of issue	-	4,251,640
Interest expense, capitalized	608,302	84,978
Accretion of discount	1,044,876	77,073
Effect of movement in exchange rates	51,457	(80,321)
Less: Interest paid	(608,302)	-
Less: Conversion of loan	(5,429,703)	-
Balance, December 31	\$ -	\$ 4,333,370

The following table summarizes the continuity of the conversion option component of the loan for the years ended December 31, 2020 and 2019:

	2020	2019
Balance, January 1	\$ 1,927,151	\$ -
Carrying value, date of issue	-	2,106,123
Fair value adjustment	8,412,081	(178,972)
Less: Conversion of loan	(10,339,232)	-
Balance, December 31	\$ -	\$ 1,927,151

The fair value of the conversion option was determined using a binomial option valuation model, using the following key assumptions:

	Conversion Date October 9, 2020	Year Ended December 31, 2019
Expected volatility	79%	65%
Risk-free interest rate	0.2%	1.6%
Conversion option term	2.0 years	2.8 years
Credit spread	24.8%	27.4%
Underlying share price	\$ 0.490	\$ 0.175
Exchange rate (C\$:US\$)	0.762	0.770

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10. Income taxes

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

	December 31, 2020	December 31, 2019
Statutory tax rates	29.5%	31.0%
Income taxes (recovery) computed at the statutory rates	\$ (3,869,000)	\$ (832,000)
Benefit of temporary differences not recognized	520,000	439,000
Expenses not deductible for tax purposes	3,221,000	239,000
Effect of foreign tax rates	128,000	154,000
Provision for income taxes	\$ -	\$ -

The enacted tax rates in Canada 29.5% (31% in 2019) and Mongolia 25% (25% in 2019) where the Corporation operates are applied in the tax provision calculation.

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

	December 31, 2020	December 31, 2019
Non-capital losses carried forward	\$ 495,000	\$ 754,000
Deferred income tax assets	495,000	754,000
Convertible loan	-	(80,000)
Unrealized foreign exchange	(495,000)	(674,000)
Net deferred income tax assets (liabilities)	\$ -	\$ -

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

	December 31, 2019		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 16,297,000	\$ 1,683,000	\$ 17,980,000
Property, plant and equipment	239,000	-	239,000
Share issuance costs	1,248,000	-	1,248,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,574,000	14,311,000
	\$ 23,899,000	\$ 10,257,000	\$ 34,156,000

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10. Income taxes (continued)

	December 31, 2020		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 18,559,000	\$ 1,801,000	\$ 20,360,000
Property, plant and equipment	250,000	-	250,000
Share issuance costs	1,678,000	-	1,678,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,017,000	13,754,000
	\$ 26,602,000	\$ 9,818,000	\$ 36,420,000

As at December 31, 2020, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	December 31, 2020	December 31, 2019
2020	-	353,000
2021	410,000	438,000
2022	440,000	469,000
2023	396,000	423,000
2024	554,000	
Thereafter	20,265,000	18,729,000
	\$ 22,065,000	\$ 20,412,000

11. Share Capital and Contributed Surplus

Authorized

An unlimited number of common shares with no par value.

Issued

On August 11, 2020, the Corporation closed a non-brokered private placement equity financing for gross proceeds of \$19,999,998. The private placement consisted of the sale of 33,333,333 Subscription Receipts at a price of \$0.45 per Subscription Receipt, to 2176423 Ontario Ltd., an entity controlled by Mr. Eric Sprott, and the concurrent sale of 11,111,108 Units at a price of \$0.45 per Unit. Each Unit consisted of one common share and one Warrant. Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date at a price of \$0.60 per Common Share. The Subscription Receipts were converted to Units on August 11, 2020, following the receipt of approvals from shareholders holding more than 50% of the Common Shares by written consent in accordance with the requirements of the TSX and the European Bank for Reconstruction and Development. Erdene paid finder's fees in the aggregate of \$918,725 and issued 400,611 finder's warrants in connection with the private placement. In addition, the Corporation paid \$146,897 in share issue costs on the private placement, resulting in net proceeds of \$18,934,376.

In 2019, the Corporation closed three non-brokered private placement equity financings for gross proceeds of \$5,514,845, issuing an aggregate of 25,922,044 Units of the Corporation, at a weighted average price of \$0.21 per Unit. The 25,922,044 Units were comprised of 25,922,044 common shares and 18,938,614 warrants,

ERDENE RESOURCE DEVELOPMENT CORPORATION

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11. Share Capital and Contributed Surplus (continued)

exercisable by the holder into one common share of the Corporation within two years of the closing dates, at exercise prices between \$0.30 and \$0.50. The Corporation also paid finder's fees of \$116,176 and issued 469,870 finder's warrants in connection with the Offerings, and incurred share issue costs of \$88,804, resulting in net proceeds of \$5,309,865.

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 year ended December 31, 2020, the Corporation granted 1,115,198 DSUs with an average fair value of \$0.34 per DSU (2019 – 2,297,762 DSUs with fair value of \$0.20 per DSU). The fair value of \$378,007 (2019 – \$462,010) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Also, during the year ended December 31, 2020, Erdene issued 719,212 shares from the DSU plan at an average value of \$0.18 per DSU (2019 – 1,615,030 shares at \$0.18 per DSU).

	Year Ended December 31, 2020	Year Ended December 31, 2019
Five day volume weighted average price at grant date	\$ 0.34	\$ 0.20

The following table summarizes the continuity of DSUs for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	Number of DSUs	Number of DSUs
Outstanding at January 1	4,636,850	3,954,118
Granted	1,115,198	2,297,762
Issued	(719,212)	(1,615,030)
Outstanding at December 31	5,032,836	4,636,850

Warrants

On August 11, 2020, 44,845,052 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.60 if exercised within 24 months of the closing date and expires on August 11, 2022.

In 2019, the Corporation issued 18,938,164 warrants as part of three separate non-brokered private placement equity financings at exercise prices between \$0.30 and \$0.50. All warrants expire in 24 months. In February 2019, 1,075,324 compensation warrants expired.

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11. Share Capital and Contributed Surplus (continued)

The following table summarizes the continuity of the warrants for the years ended December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	30,252,744	\$ 0.47	12,389,904	\$ 0.65
Issued	44,845,052	0.60	18,938,164	0.39
Expired	-	-	(1,075,324)	1.20
Outstanding at December 31	75,097,796	\$ 0.55	30,252,744	\$ 0.47
Exercisable at December 31	75,097,796	\$ 0.55	30,252,744	\$ 0.47

The remaining contractual lives of warrants outstanding at December 31, 2020, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
\$0.30	7,653,550	0.63
\$0.40 - \$0.50	11,284,614	0.16
\$0.60	56,159,632	1.32
	75,097,796	1.08

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

	Year Ended	Year Ended
	December 31, 2020	December 31, 2019
Share price at grant date	\$ 0.53	\$ 0.20
Exercise price	\$ 0.60	\$ 0.39
Risk-free interest rate	0.3%	1.7%
Expected life	2.0 years	2.0 years
Expected volatility	70%	52%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.18	\$ 0.02

Expected volatility is estimated considering historic average share price volatility.

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11. Share Capital and Contributed Surplus (continued)

Share-Based Compensation

For the year ended December 31, 2020, the Corporation charged a total of \$1,211,657 of stock-based compensation expense to the statement of comprehensive loss (2019 – \$703,060) of which \$522,970 is attributable to exploration expenses (2019 – \$230,292).

Stock options

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

During the year ended December 31, 2020, 3,910,000 options were granted at a weighted average exercise price of \$0.45 (2019 – 2,670,000 options granted at average exercise price of \$0.20). Also 2,175,000 options were exercised at an average price of \$0.16 generating proceeds of \$344,300 (2019 – 1,105,000 options exercised at average price of \$0.15 for proceeds of \$169,800). During the year ended December 31, 2020, 250,000 options were forfeited (2019 – 100,000 options expired).

The changes in stock options during the years ended December 31, 2020 and 2019 were as follows:

	December 31, 2020		December 31, 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	3,910,000	0.45	2,670,000	0.20
Expired / Forfeited	(250,000)	0.22	(595,000)	0.42
Exercised	(2,175,000)	0.16	(1,105,000)	0.15
Outstanding at December 31	13,790,000	\$ 0.46	12,305,000	\$ 0.41
Exercisable at December 31	13,790,000	\$ 0.46	12,305,000	\$ 0.41

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

11. Share Capital and Contributed Surplus (continued)

All stock options granted in 2020 and 2019 vested immediately and have a five-year term. The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2020.

Expiry date	December 31, 2020		December 31, 2019	
	Number of Options	Exercise price	Number of Options	Exercise price
June 5, 2020	-	\$ -	1,050,000	\$ 0.15
July 2, 2020	-	-	100,000	0.15
December 22, 2020	-	-	855,000	0.16
June 15, 2021	1,825,000	0.36	1,825,000	0.36
March 31, 2022	2,445,000	0.87	2,445,000	0.87
July 18, 2022	150,000	0.89	150,000	0.89
February 4, 2023	50,000	0.50	50,000	0.50
March 13, 2023	100,000	0.40	100,000	0.40
June 14, 2023	2,780,000	0.40	2,785,000	0.40
October 15, 2023	150,000	0.27	150,000	0.27
November 8, 2023	-	-	150,000	0.24
June 20, 2024	2,230,000	0.20	2,495,000	0.20
November 29, 2024	100,000	0.18	100,000	0.18
December 20, 2024	50,000	0.18	50,000	0.18
February 11, 2025	50,000	0.27	-	-
May 13, 2025	500,000	0.22	-	-
August 27, 2025	3,160,000	0.49	-	-
December 1, 2025	200,000	0.38	-	-
	13,790,000	\$ 0.46	12,305,000	\$ 0.41

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

	Year Ended	
	December 31, 2020	December 31, 2019
Share price at grant date	\$ 0.44	\$ 0.19
Exercise price	\$ 0.45	\$ 0.20
Risk-free interest rate	0.3%	1.4%
Expected life	3.7 years	3.8 years
Expected volatility	70%	63%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.21	\$ 0.09

Expected volatility is estimated considering historic average share price volatility.

Options issued in 2020 resulted in a charge of \$833,650 to share based compensation included in exploration expenses and in corporate and administration expenses (2019 – \$241,050).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

11. Share Capital and Contributed Surplus (continued)

The remaining contractual lives of options outstanding at December 31, 2020, are as follows:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price of exercisable options
\$0.14 - \$0.24	2,880,000	3.65	\$ 0.20
\$0.25 - \$0.49	8,265,000	2.93	0.42
\$0.50 - \$0.89	2,645,000	1.28	0.86
	13,790,000	2.76	\$ 0.46

12. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2020 and 2019:

	For the year ended December 31	
	2020	2019
Depreciation & amortization	\$ 17,541	\$ 14,224
Direct costs	522,761	650,482
Employee compensation costs	309,539	195,788
Share-based compensation	522,970	230,292
	\$ 1,372,811	\$ 1,090,786

13. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2020 and 2019.

	For the year ended December 31	
	2020	2019
Administrative services	\$ 459,085	\$ 373,799
Depreciation and amortization	36,850	18,051
Directors fees and expenses	64,647	178,409
Investor relations and marketing	223,136	109,963
Office and sundry	81,221	107,841
Professional fees	219,014	202,576
Regulatory compliance	87,676	105,234
Share-based compensation	688,687	472,768
Travel and accommodations	8,589	47,083
	\$ 1,868,905	\$ 1,615,724

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

14. Financial instruments

Credit Risk:

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

	Carrying Amount	
	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 12,800,728	\$ 5,106,863
Receivables	89,344	70,361
	\$ 12,890,072	\$ 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 December 31, 2020, \$133,130 or 1% of the balance of cash was held in banks outside Canada (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.

a) Interest rate risk

As of December 31, 2020, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The functional currency of the Corporation is the Canadian dollar, and the functional currency of the Corporation's 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, accrued liabilities and the convertible loan, 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's exposure to US dollar currency risk was as follows:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 292,895	\$ 4,854,316
Trade and other payables	(223,503)	(155,219)
Convertible loan	-	(5,084,978)
	\$ 69,392	\$ (385,881)

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

14. Financial instruments (continued)

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$6,900 (December 31, 2019 - \$38,600).

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

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 889	\$ 7,963
Trade and other receivables	5,460	5,877
Trade and other payables	(87,043)	(69,501)
	\$ (80,694)	\$ (55,661)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$8,100 (December 31, 2019 - \$5,600).

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:

	December 31, 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	\$ 12,800,728	\$ -	\$ -	\$ 5,106,863	\$ -	\$ -
Receivables	-	89,344	-	-	70,361	-
Conversion option on the convertible loan	-	-	-	-	(1,927,151)	-

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2020 and 2019

15. Related Parties

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

	Year ended December 31,	
	2020	2019
Directors' fees	\$ 63,199	\$ 104,567
Share-based compensation to directors	440,500	212,700
Executive compensation and benefits	1,136,357	944,699
Share-based compensation to key management	386,099	284,326
	\$ 2,026,155	\$ 1,546,292

During the year ended December 31, 2020, certain directors and officers of the Corporation received short-term advances. All such advances were repaid in full prior to December 31, 2020.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2020

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This Management Discussion and Analysis (“MD&A”), dated March 11, 2021, relates to the operating results and financial condition of Erdene Resource Development Corporation (“Erdene” or the “Company” or the “Corporation”) and should be read in conjunction with the Corporation’s audited consolidated financial statements for the years ended December 31, 2020 and 2019, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards (“IFRS”).

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

The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under “Risk Factors” in the Corporation’s latest Annual Information Form, 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 mining licenses and two exploration licenses in southwest Mongolia, where exploration success has led to the discovery of the Khundii Gold District. The Company is focused on advancing its high-grade, open-pit Bayan Khundii gold project (“Bayan Khundii” or “BK”) to production, while expanding resources in the Khundii Gold District. Erdene is listed on the Toronto Stock Exchange (TSX: ERD) and 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 (“KGD”), the Company has discovered multiple high-grade gold and base metal prospects, two of which are being developed: Bayan Khundii and Altan Nar (“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. On July 20, 2020, the Company announced 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. An Environmental and Social Impact Assessment (“ESIA”), led by Sustainability East Asia LLC, has also been completed for the Project. In October 2020, the Company executed a mandate letter with Export Development Canada (“EDC”) for an up to US\$55 million senior secured debt facility to develop BK, subject to satisfactory diligence. Erdene is undertaking construction readiness activities and expects to commence construction in 2021; however, the Company will consider the potential impacts of COVID-19 on the movement of people and equipment prior to making a decision to commence construction.

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 2020, Erdene intersected high-grade gold in multiple holes at its Dark Horse prospect, located 3.5 km north of the Bayan Khundii gold deposit. Dark Horse is the most significant zone of gold mineralization in the KGD since the discovery of the Bayan Khundii gold deposit.

COVID-19

In late January 2020, the Government of Mongolia instituted limitations on public gatherings, suspended in-person classroom learning, and implemented international border controls in response to COVID-19. The Canadian Government adopted similar measures in March 2020, as have most governments globally during 2020. Furthermore, on November 12, 2020, following the first instances of community spread of COVID-19, the Mongolian Government announced restrictions on the movement of people within the country.

In response, Erdene implemented operational changes to ensure the safety and productivity of its people. In the field, daily health and safety briefings, body temperature checks, enhanced hygiene protocols, and additional personal protective equipment have been instituted. With these measures, our team delivered an injury-free field exploration and technical program, completing approximately 15,000 metres of drilling in 2020. The Company’s corporate and administrative teams adopted remote working practices and enhanced hygiene measures during 2020 that allowed operations to continue without significant disruption.

Though the impact of COVID-19 on the Company’s operations has been modest to date, the COVID-19 pandemic continues to evolve. The Company will monitor the impact of COVID-19 on its operations in 2021, particularly potential disruptions to the Bayan Khundii Gold Project schedule or budget, prior to reaching a construction decision, which is expected in mid-2021.

Highlights and Significant Subsequent Events

Bayan Khundii Gold Project – 100% Erdene

- Announced positive results of the BK BFS in July 2020 (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
 - 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
- Commenced construction readiness activities for the Bayan Khundii Gold Project:
 - Detailed design and engineering for the Carbon-in-Pulp (“CIP”) processing plant and mine support infrastructure is underway and expected to be submitted for approval in Q1 2021
 - The balance of the technical drawings for site infrastructure are expected to be submitted for approval in Q1 2021, allowing for a rapid construction ramp up beginning mid-2021
 - Tender and contracting for critical facilities and services has been initiated
 - Environmental monitoring stations were installed in Q4 2020 and are currently operating
 - Constructability review, value engineering, and HAZOPS development are also underway
- Continued stakeholder engagement for the ESIA and the Mongolian statutory Detailed Environmental Impact Assessment (“DEIA”):
 - European Bank for Reconstruction and Development (“EBRD”) ESIA public disclosure period satisfactorily completed in Q3 2020
 - Additional baseline studies are ongoing, collecting targeted social and environmental data in line with the ESIA commitments
 - Public consultations are ongoing for the Mongolian DEIA
- Obtained certain key permits and advanced 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
 - Completed regulatory review of the site general arrangement

Exploration

- Completed the 2020 exploration campaign, drilling 109 holes totaling 14,931 metres at Bayan Khundii and the new Dark Horse prospect:
 - BK – Midfield North: Expansion drilling on both the western and eastern sides of the proposed Bayan Khundii economic pit returned high-grade mineralized intersections:
 - BKD-302 – Eastern flank extension: 3.9 g/t gold over 22.4 metres, including 2 metres of 27.5 g/t gold beginning 127 metres down hole (vertical 115m)
 - BKD-304 – Western flank extension: 3.9 g/t gold over 12 metres, including 1 metre of 38.9 g/t gold beginning 206 metres down hole (vertical 144m)

- BK – Midfield SE: Discovered a very high-grade gold zone starting at surface, in an area classified as waste or low-grade stockpile material in the current resource model:
 - BKD-288 – 5.5 metres of 125.9 g/t, including 1 metre of 581.6 g/t gold, beginning 11.5 metres down hole
 - BKD-274 – 15 metres of 25.6 g/t, including 1 metre of 338 g/t gold, beginning at 14.9 metres, 40 metres north of BKD-288
 - Intersected anomalous mineralization in 16 of 18 holes, all within 25 metres from the surface
- BK – Striker SW: At the southern end of the Bayan Khundii economic pit, expanded shallow areas of high-grade mineralization beyond the economic pit and outside of the current resource:
 - BKD-292 – 15 metres of 29 g/t gold, beginning 0.9 metres from drill collar, including one metre of 353 g/t gold
 - BKD-310 – 4.0 g/t gold over 10 metres, including 1 metre of 24.5 g/t gold beginning 14 metres down hole, and 44 metres of 1.0 g/t gold, including 1 metre of 16.2 g/t starting 64 metres down hole
 - BKD-312 – 20.8 g/t gold over 3 metres, including 1 metre of 51.7 g/t gold beginning 13 metres down hole
- Results from Bayan Khundii drilling in 2020 are being incorporated into an updated resource estimate, expected to be completed in Q2 2021
- Dark Horse: Maiden drilling at 100% owned prospect, discovered in Q4 2019, 3.5 kilometres north of the BK Gold Deposit, has defined a new N-S structure over a 1.2 km mineralized trend:
 - AAD-41 – 10.8 g/t gold over 1 metre, at 29 metres vertical depth
 - AAD-48 – 30.6 g/t gold over 1 metre, within a 7-metre zone of highly anomalous gold (up to 0.2 g/t), beginning 27 metres from surface
 - AAD-51 – 3 metres of 5.6 g/t gold, beginning 138 metres downhole and 10 metres of 0.9 g/t gold, starting 222 metres downhole
 - AAD-57 – 16 metres of 0.6 g/t gold, beginning 52 metres downhole, and 48 metres of 1.2 g/t gold, beginning 194 metres downhole, including 30 metres of 1.7 g/t gold
 - AAD-58 – 45 metres of 5.97 g/t gold, beginning 10 metres downhole, including 1 metre of 82.5 g/t gold within 8 metres of 27.1 g/t gold
 - AAD-61 – 130 metres of 0.53 g/t gold, beginning 10 metres downhole, located 500 metres north of AAD-58
 - An evaluation and interpretation program is underway, including geophysics, clay mineral analysis, petrography, mineralogy, fluid inclusion work and 3-D modelling

Corporate

- Closed \$20 million financing led by \$15 million strategic investment from Eric Sprott on August 11, 2020:
 - 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
- Announced conversion of US\$5 million convertible loan held by the EBRD on October 9, 2020:
 - EBRD, one of the largest foreign investors in Mongolia, now holds a significant equity interest
- Executed a mandate letter with EDC for the Bayan Khundii Project Finance:
 - Contemplates a senior secured debt facility of up to US\$55 million, subject to the satisfactory completion of due diligence and documentation
 - Diligence is well underway and progressing largely to schedule
- Acquired 100% interest in the Ulaan license, adjacent to Bayan Khundii, in December 2020:
 - Consolidates 100% interest in the majority of the Khundii-Ulaan alteration system hosting multiple epithermal gold and porphyry copper-gold targets

- Recorded a net loss of \$13,116,358 for the year ended December 31, 2020, compared to a net loss of \$2,683,292 for the year ended December 31, 2019:
 - Exploration and evaluation expenditures, including capitalized expenditures, totaled \$9,276,028 for the year ended December 31, 2020, compared to \$6,694,914 for the year ended December 31, 2019, largely due to increased exploration work as the Company drilled over 15,000 metres in the current year, compared to approximately 5,000 metres in the prior year. Additionally, expenditures on the Bayan Khundii Feasibility Study, Detailed Engineering and Design and Construction Readiness activities exceeded those on the Prefeasibility Study in the prior year
 - Corporate and administrative expenses totaled \$1,868,905 for the year ended December 31, 2020, compared to \$1,615,724 for the year ended December 31, 2019 due to higher administrative salaries, expanded investor relations costs and increased non-cash, share-based compensation costs
 - Non-cash, change in fair value expenses of \$8,412,081 and interest expense of \$1,661,960 in the current year related to the EBRD convertible loan, which was converted in October 2020

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 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. The Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report, dated August 31, 2020, was filed on SEDAR on September 1, 2020.

In June 2020, the Company completed an independent ESIA in accordance with the Performance Requirements of the EBRD. The study was led by Sustainability East Asia LLC, in consortium with Eco Trade LLC and Ramboll Australia Pty Ltd. The EBRD disclosed the ESIA for public comment on June 12, and on August 12, 2020, the disclosure period concluded. 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 ongoing but have been impacted by COVID-19 restrictions on public gatherings. The Company expects to submit its statutory DEIA to the Ministry of Environment and Tourism of Mongolia for approval in mid-2021.

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 Dark Horse, 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.

Erdene commenced construction readiness activities for the Bayan Khundii Gold Project in Q3 2020. Detailed design and engineering for the Carbon-in-Pulp (“CIP”) Leach processing plant and mine support infrastructure are progressing on schedule, with expected completion in mid-2021. The general arrangement for the site has gone through regulatory review, alongside which the detailed drawings for key mine support facilities, including offices, mine dry, security guard house, workshop, warehouse, and permanent camp, have been submitted for approval. The balance of the technical drawings are expected to be submitted by mid-2021, allowing a rapid construction ramp up. 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. Concurrently, constructability, value engineering, and HAZOPS review are underway, and tender and contracting for critical facilities and services has begun.

The Company has engaged HCF International to act as Project Finance advisor, with primary responsibility for securing debt. Erdene executed a project finance mandate letter with EDC on November 4, 2020 for senior secured debt financing of up to US\$55 million. EDC's financing is conditional upon the satisfactory completion of due diligence, which is currently underway and expected to conclude in the second quarter of 2021. Erdene closed a \$20 million equity financing, led by a \$15 million investment by Eric Sprott in August 2020, providing the funds to initiate early construction works at Bayan Khundii and continue exploration in the Khundii Gold District.

During 2020, Erdene drilled approximately 15,000 metres on its Khundii mining license, including 10,271 metres over 84 holes (including extending 4 holes for 231 metres) in and around the Bayan Khundii economic pit, and 4,660 metres over 25 holes, at its newly discovered Dark Horse prospect.

Results from drilling at the Midfield North, Midfield SE and Striker SW zones at Bayan Khundii during 2020 included several high-grade intersections outside the current Bayan Khundii economic pit, that have the potential to meaningfully add to Bayan Khundii resources. TetraTech Inc. has been engaged to update the Bayan Khundii mineral resource for this drilling, which is expected to be finalized in Q2 2021.

Drilling at Dark Horse established the prospect as the most significant zone of gold mineralization in Erdene's Khundii District, since the discovery of Bayan Khundii. Erdene has traced mineralization along a 1.2 km N-S trending structure, with the intersection of high-grade mineralization in six holes in a previously untested area. Highlights from these six holes include intersections of 45 metres of 5.97 g/t gold, beginning 10 metres downhole, including 1 metre of 82.5 g/t gold within 8 metres of 27.1 g/t gold at hole AAD-58 and 16 metres of 0.6 g/t gold, beginning 52 metres downhole, and 48 metres of 1.2 g/t gold, beginning 194 metres downhole, including 30 metres of 1.7 g/t gold at hole AAD-57, located 180 metres north of AAD-58.

Erdene completed a 2,000-metre follow up drill program at Dark Horse in late February 2021. Results from this program are expected to be announced near the end of Q1 2021. An evaluation and interpretation program, including geophysics, clay mineral analysis, petrography, mineralogy, fluid inclusion work and 3-D modelling is also underway at Dark Horse to refine targeting in advance of further drilling.

Erdene continues to evaluate 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

NI 43-101 Technical Reports – Resources and Reserves

On September 15, 2018, the Company announced a resource estimate for the Bayan Khundii and Altan Nar deposits. 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"). Except for those deposits already delineated, potential quantities and grades disclosed in this MD&A are conceptual in nature, and there has been insufficient exploration to define a mineral resource estimate for other targets disclosed herein. It is uncertain if further exploration will result in these targets being delineated as a mineral resource. Additional information about our projects is also summarized in our AIF and the respective NI 43-101 Technical Reports and can be viewed under the Company's issuer profile on SEDAR at www.sedar.com.

Khundii Gold District



The Khundii Gold District includes the Company's high-grade, near-surface Bayan Khundii and Altan Nar deposits. The Bayan Khundii 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 "Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report", dated August 31, 2020. In addition, the Khundii mining license hosts Erdene's highly prospective Dark Horse, Altan Arrow and Khundii North targets.

Bayan Khundii

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 55,691 metres of diamond drilling at Bayan Khundii over a series of 350 diamond drill holes and advanced the project through independent studies to the bankable 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 gold, 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 gold 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.

In August 2020, the Company launched a follow up Bayan Khundii program utilizing two rigs. In total, the follow up program comprised 9,346 metres over 54 holes (including four extension holes), in areas peripheral to the Bayan Khundii economic pit. Drilling at the North Midfield and Striker West zones included several high-grade intersections outside the current BK economic pit that have the potential to meaningfully add to Project resources. Highlighted intersections from 2020 drilling include:

- 3.9 g/t gold over 22.4 metres, including 2 metres of 27.5 g/t gold beginning 127 metres down hole (vertical 115m) in BKD-302 (North Midfield);
- 3.9 g/t gold over 12 metres, including 1 metre of 38.9 g/t gold beginning 206 metres down hole (vertical 144m) in BKD-304 (North Midfield);
- 4.0 g/t gold over 10 metres, including 1 metre of 24.5 g/t gold beginning 14 metres down hole in BKD-310 (Striker SW);
- 44 metres of 1.0 g/t gold, including 1 metre of 16.2 g/t starting 64 metres down hole in BKD-312 (Striker SW);
- 28 metres of 2.5 g/t gold, including 1 metre of 36.9 g/t gold within 14 metres of 4.5 g/t gold starting 122 metres downhole in hole BKD-334 (Striker West);
- 38 metres of 1.8 g/t gold, including 1 metre of 23.3 g/t gold within 9 metres of 5.5 g/t gold starting 108 metres downhole in hole BKD-338 (Striker West); and
- 54 metres of 1.2 g/t gold, including 1 metre of 13.1 g/t gold starting 129 metres downhole in hole BKD-339 (Striker West).

With the conclusion of this program, no further drilling is planned in the immediate vicinity of the Bayan Khundii gold deposit at this time. Results to date are being incorporated into a mineral resource update, being prepared by TetraTech, Inc., anticipated to be finalized in Q2 2021.

Dark Horse

In early Q4 2019 Erdene discovered the Dark Horse (Khar Mori) prospect area, 3.5 km north of the BK deposit, on a previously underexplored 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,

Initial drilling at the Dark Horse prospect, consisting of 25 holes totaling 4,660 metres, was completed in the second half of 2020. Results from the exploration program defined a N-S trending, 1.2 km long mineralized structure, establishing Dark Horse as the most significant area of gold mineralization in Erdene's Khundii Gold District since the discovery of the Bayan Khundii gold deposit. Highlight intersections from the drill campaign along this trend include:

- 30.6 g/t gold over 1 metre, in hole AAD-48 beginning 27 metres downhole;
- 16 metres of 0.6 g/t gold beginning 52 metres downhole, and 48 metres of 1.2 g/t gold beginning 194 metres downhole, including 30 metres of 1.7 g/t gold in hole AAD-57;
- 45 metres of 5.97 g/t gold, beginning 10 metres downhole, including 1 metre of 82.5 g/t gold within 8 metres of 27.1 g/t gold in hole AAD-58; and
- 130 metres of 0.53 g/t gold beginning 10 metres downhole in hole AAD-61.

Altan Nar

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

zones of high-grade, near-surface mineralization, and are the focus of a Resource Estimate released in Q2 2018.

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

Altan Nar received limited exploration over the past 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 NI 43-101 Technical Report 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 deposit. The report, titled "Bayan Khundii Gold Project Feasibility Study, NI 43-101 Technical Report", dated August 31, 2020, was prepared by international and Mongolian firms with significant experience operating in Mongolia. The study incorporates detailed mine design and scheduling, front-end engineering and design for the processing plant and site infrastructure, a hydrogeological assessment, mineral waste facility design, comprehensive capital and operating cost estimation, and an updated economic model.

The BFS envisions a high-grade, open-pit mine beginning at surface in the southern portion of the BK deposit (Striker and Gold Hill), expanding northward into adjacent zones at Midfield and North Midfield. The Project incorporates conventional crushing and grinding, leach and a Carbon in Pulp plant with processing capacity of 1,800 tonnes per day. The BFS includes 3.4 million mineable tonnes from the BK resource at an average diluted head grade of 3.7 g/t gold, all of which are Proven and Probable Reserves.

Project highlights are presented in the table below (results at US\$1,400/oz gold price, unless noted):

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.

(5) Operating costs reported in terms of saleable gold ounces includes Royalty and Charges of 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 to which could be added 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.
 - In August 2020, Erdene commenced a 18,000 metre drill program at its Khundii Gold District. The drilling completed to the end of the year in the area of the Bayan Khundii deposit consisted of 54

- holes, including four extension holes, totaling 9,345 metres. Results included several high-grade intersections outside the Bayan Khundii economic pit in the North Midfield, Striker SW and Striker West areas that have the potential to meaningfully add to Project resources.
- Erdene has engaged Tetra Tech Inc. to prepare an updated resource estimate, incorporating results from recent drilling, utilizing current gold prices. The technical report is expected to be completed in Q2 2021.
 - 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 Dark Horse prospect identified in late 2019.
 - 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. Dark Horse provides significant discovery potential with a well-defined and continuous gold-in-soil anomaly along a NE and N-S 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.
 - In Q3 and Q4 the Company completed 25 exploratory, wide-spaced holes for 4,660 metres, across the Dark Horse prospect. As presented elsewhere herein, the drilling at Dark Horse has returned significant high-grade intersections, including several over a 1.2 km area associated with a N-S trending mineralized structure that can be traced for over 4 km and remain largely untested. Results to date have established Dark Horse as the most significant zone of gold mineralization since the discovery of the Bayan Khundii gold deposit. Follow-up drilling will be carried out in 2021.
 - 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 five 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.

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 will complete 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. In December 2020, Erdene acquired the remaining 49% interest in the property. 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.

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 currently trading at approximately US\$12.00 per pound, compared to 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 Khuvyn Khar license, approximately 2.2 kilometres north of the Zuun Mod molybdenum-copper porphyry deposit. 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.

Selected Annual Financial Information

The following financial data (in Canadian \$ thousands, except per share amounts) are derived from the Corporation's audited consolidated financial statements for the years ended December 31, 2020, 2019 and 2018 respectively:

Fiscal Year Ended December 31	2020	2019	2018
Revenues	Nil	Nil	Nil
Loss for the year	\$ 13,116	\$ 2,683	\$ 3,657
Basic and diluted loss per share	\$ 0.06	\$ 0.02	\$ 0.02
Total assets	\$ 42,814	\$ 26,973	\$ 17,709
Total long-term liabilities	86	\$ 6,374	Nil

Discussion of Operations

Years ended December 31, 2020 and 2019

The tables below detail exploration and evaluation expenditures for the years ended December 31, 2020 and 2019. The Bayan Khundii Gold Project was the focus of the Corporation's efforts during these periods.

Year ended December 31, 2020	Bayan Khundii	Altan Nar	Zuun Mod,		Total
			Ulaan & Other	General & Admin	
E&E expenditures					
Exploration and field support	\$ 3,926,618	\$ 249,885	\$ 258,286	\$ -	\$ 4,434,789
Mining studies and permitting	3,326,309	82,943	21,575	-	3,430,827
Mongolian office costs	-	-	-	432,460	432,460
Share-based compensation	-	-	-	522,970	522,970
Stakeholder relations	151,938	54,560	6,463	-	212,961
Travel and other	31,555	4,487	1,627	204,352	242,021
Total exploration expenditures	7,436,420	391,875	287,951	1,159,782	9,276,028
Capitalized expenditures	(7,436,420)	(391,875)	(64,512)	(10,410)	(7,903,217)
Expensed exploration costs 2020	\$ -	\$ -	\$ 223,439	\$ 1,149,372	\$ 1,372,811
E&E assets, January 1, 2020					
	\$ 16,164,725	\$ 3,561,166	\$ 828,799	\$ 928,827	\$ 21,483,517
Additions	7,436,420	391,875	64,512	10,410	7,903,217
Additional Leader investment	-	-	-	970,144	970,144
Effect of movements in exchange rates	(750,939)	(125,774)	(55,030)	(60,980)	(992,723)
E&E assets, December 31, 2020	\$ 22,850,206	\$ 3,827,267	\$ 838,281	\$ 1,848,401	\$ 29,364,155

Period ended December 31, 2019	Bayan Khundii	Altan Nar	Zuun Mod,		Total
			Ulaan & Other	General & Admin	
E&E expenditures					
Exploration and field support	\$ 1,903,274	\$ 505,745	\$ 411,815	\$ -	\$ 2,820,834
Mining studies and permitting	2,599,561	157,179	32,946	-	2,789,686
Mongolian office costs	-	-	-	292,804	292,804
Share-based compensation	-	-	-	230,292	230,292
Stakeholder relations	84,157	71,738	6,455	-	162,350
Travel and other	164,343	32,463	19	202,123	398,948
Total exploration expenditures	4,751,335	767,125	451,235	725,219	6,694,914
Capitalized expenditures	(4,751,335)	(767,125)	(67,091)	(18,577)	(5,604,128)
Expensed exploration costs 2019	\$ -	\$ -	\$ 384,144	\$ 706,642	\$ 1,090,786
E&E assets, January 1, 2019					
	\$ 10,947,301	\$ 2,955,725	\$ 831,726	\$ 952,596	\$ 15,687,348
Additions	4,751,335	767,125	67,091	18,577	5,604,128
Repurchase of NSR	1,200,000	-	-	-	1,200,000
Effect of movements in exchange rates	(733,911)	(161,684)	(70,018)	(42,346)	(1,007,959)
E&E assets, December 31, 2019	\$ 16,164,725	\$ 3,561,166	\$ 828,799	\$ 928,827	\$ 21,483,517

Exploration and evaluation expenditures, including capitalized expenditures, totaled \$9,276,028 for the year ended December 31, 2020, compared to \$6,694,914 for the year ended December 31, 2019.

Exploration and field support expenses of \$4,434,789 in 2020 were well ahead of prior year expenses of \$2,820,834, as the Company drilled 15,210 metres in 2020, compared to 5,113 metres in 2019, following the launch of the 18,000 metre Khundii drill program in August 2020.

Mining studies and permitting costs for the year ended December 31, 2020 totaled \$3,430,827, \$641,141 higher than for the year ended December 31, 2019, as expenditures on the Bayan Khundii Gold Project Feasibility Study, Detailed Engineering & Design work and Construction Readiness activities in the current year exceeded the costs associated with the Prefeasibility Study and Hydrogeologic testing in the prior year.

Mongolian office costs of \$432,460 for the year ended December 31, 2020 were \$139,656 higher than the prior year primarily due to staffing changes to support marketing and investor relations.

Non-cash, Share-based compensation expenses of \$522,970 for the year ended December 31, 2020, were \$292,678 higher than the previous year due to an increase in the trading price of the Company's shares as well as an increase in the number of options granted to technical staff.

Stakeholder relations costs of \$212,961 for the year ended December 31, 2020 were \$50,611 greater than for the year ended December 31, 2019, due to increased community outreach in advance of development of the Bayan Khundii Gold Project.

Travel and other costs of \$242,021 were \$156,927 below the prior year as international travel was suspended for most of 2020 due to COVID-19.

Erdene began capitalizing exploration costs for its Altan Nar Project in 2015 and commenced capitalizing costs for its Bayan Khundii Gold Project in 2016. For the years ended December 31, 2020 and 2019, Erdene has capitalized all exploration costs associated with these projects.

The following table summarizes corporate and administration expenses for the years ended December 31, 2020 and 2019.

	For the years ended December 31,		
	2020	2019	Change
Administrative services	\$ 459,085	\$ 373,799	\$ 85,286
Depreciation and amortization	36,850	18,051	18,799
Directors fees and expenses	64,647	178,409	(113,762)
Investor relations and marketing	223,136	109,963	113,173
Office and sundry	81,221	107,841	(26,620)
Professional fees	219,014	202,576	16,438
Regulatory compliance	87,676	105,234	(17,558)
Share-based compensation	688,687	472,768	215,919
Travel and accommodations	8,589	47,083	(38,494)
	\$ 1,868,905	\$ 1,615,724	\$ 253,181

Corporate and administrative expenses totaled \$1,868,905 for the year ended December 31, 2020, compared to \$1,615,724 for the year ended December 31, 2019.

Administrative services expenditures of \$459,085 for the year ended December 31, 2020 were \$85,286 higher than those in the prior year primarily due to increased staffing costs.

Depreciation and amortization expenses of \$36,850 for the year ended December 31, 2020 were \$18,799 greater than for the year ended December 31, 2019, due to a full year of depreciation on the Company's head office lease, following the adoption of IFRS 16.

Director's fees and expenses were \$64,647 for the year ended December 31, 2020, \$113,762 lower than the prior year, as Director fees were paid in deferred share units for a portion of the year, reported as Share Based Compensation, while fees in 2019 were largely paid in cash.

Investor relations and marketing expenses for the year ended December 31, 2020 were \$113,173 higher than the year ended December 31, 2019 due to the engagement of external investor relations consultants.

Office and sundry expenditures for the year ended December 31, 2020 were \$26,620 less than the prior year as a portion of the lease payments relating to the Company's head office were included in Depreciation and amortization, following the adoption of IFRS 16.

Professional fees of \$219,014 for the year ended December 31, 2020 were \$16,438 greater than the prior year due to a modest increase in legal fees.

Regulatory compliance expenses for the current year were \$17,558 less than for the year ended December 31, 2019, largely due to savings from hosting a virtual annual general meeting in the current year.

Non-cash share-based compensation for 2020 was \$215,919 higher than the previous year due to an increase in the trading price of the Company's shares as well as an increase in the number of instruments issued to Directors, as they received their fees in deferred share units for a portion of the year.

Travel and accommodation expenses were \$38,494 less in 2020 compared to 2019 as international travel was suspended due to COVID-19.

Fourth Quarter

Exploration expenditures, including capitalized expenditures, totaled \$2,180,375 for the three months ended December 31, 2020. Exploration and field support expenditures of \$1,202,489 were attributable to the conclusion of the 2020 exploration program, which included a 4,245 metre drill campaign at Dark Horse on the Bayan Khundii license. Mining studies and permitting expenditures of \$660,946 were incurred to support detailed engineering and design, as well as construction readiness activities for the Khundii Gold Project. Other exploration expenditures of \$316,940 include travel expenses, license costs, and other general expenses related to the Corporation's Mongolian field operations.

Corporate and administrative expenses totaled \$272,972 for the three months ended December 31, 2020, including \$98,743 of salaries and administrative expenditures, \$96,550 of public company operating costs and miscellaneous administrative expenditures, including travel and investor relations totaling \$77,679.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2020				Fiscal 2019			
	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar
Net loss	\$1,525	\$3,871	\$6,678	\$1,042	\$773	\$638	\$755	\$517
Basic loss per share	\$0.00	\$0.02	\$0.03	\$0.01	\$0.01	\$0.00	\$0.01	\$0.00
Total assets	\$42,814	\$44,918	\$27,155	\$27,826	\$26,973	\$20,942	\$19,365	\$19,632

For the three months ended December 31, 2020, the Corporation recognized a net loss of \$1,525,044 compared to a net loss of \$772,935 for the same period in 2019.

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

Liquidity and Capital Resources

At the date of this MD&A, the Corporation had approximately \$11.1 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). 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 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 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

	March 11, 2021	December 31, 2020
Common shares issued and outstanding	268,550,433	268,450,433
Options outstanding	13,890,000	13,790,000
Warrants outstanding	62,663,824	75,097,796
DSU's outstanding	5,032,836	5,032,836
Total instruments outstanding at end of period	350,137,093	362,371,065

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2020:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office leases	\$ 127,610	\$ 34,522	\$ 69,730	\$ 23,358	\$ -
Accounts payable and accrued liabilities	582,356	582,356	-	-	-
	\$ 709,966	\$ 616,878	\$ 69,730	\$ 23,358	\$ -

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. On October 9, 2020, the EBRD exercised its conversion option in respect of the entire principal amount of the Convertible Loan, receiving 30,043,290 common shares of the Company. Additionally, the Company paid cash interest of US\$457,639 to the EBRD, accrued to the date of extinguishment of the Convertible Loan.

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

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

Off-Balance Sheet Arrangements

As at December 31, 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

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

A detailed summary of all of the Corporation's significant accounting policies and the key sources of estimation uncertainty that have a risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next twelve months are included in Note 2 to the consolidated financial statements for the year ended December 31, 2020. While all of the key sources are important to the Corporation's consolidated financial statements, the following key sources have been identified as being critical:

- Recoverability of exploration and evaluation assets;
- Share-based compensation; and
- Convertible loan.

Recoverability of exploration and evaluation assets

In accordance with the Corporation's accounting policy, at the end of each reporting period, the Corporation assesses its exploration and evaluation assets to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Corporation has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the greater of the fair value less cost of disposal and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital expenditures, exploration potential and operating costs. Fair value of exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and risks to the asset. If the Corporation does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through comparison to similar market assets and, where available, industry benchmarks.

Share-based payments

Equity-settled share-based payments issued to employees and directors are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured. The Corporation charged a total of \$1,211,657 of non-cash share-based compensation to the statement of comprehensive loss for the year ended December 31, 2020 (2019 - \$703,060).

Convertible loan

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

Adoption of New Accounting Standards

Erdene adopted the following new and revised standard, effective January 1, 2020.

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

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The application of this amendment did not have a material impact on the Corporation.

IFRS 3 – Business Combinations

On October 22, 2018, the IASB issued an amendment to IFRS 3 Business Combinations to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The application of this amendment did not have a material impact on the Corporation.

Future Changes in Accounting Policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2020, and have not been applied in preparing Erdene's consolidated statements.

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or noncurrent depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively, with early adoption permitted. The Corporation is currently assessing the financial impact of the amendments and expects to apply the amendments at the effective date.

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Corporation has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IFRS 9 – Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

Financial Instruments and Other Risks

Financial Instruments

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

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

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

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

Fair Value

During the periods ended December 31, 2020 and 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 which are recorded at fair value through profit and loss, and the level in the hierarchy.

	December 31, 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	\$ 12,800,728	\$ -	\$ -	\$ 5,106,863	\$ -	\$ -
Receivables	-	89,344	-	-	70,361	-
Convertible loan - conversion option	-	-	-	-	(1,927,151)	-

Credit Risk

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with reputable financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2020, \$133,130 or 1% of the balance of cash was held in banks outside Canada (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 December 31, 2020, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

Foreign Currency Risk

The functional currency of the Corporation is the Canadian dollar, and the functional currency of the Corporation's subsidiaries is the Mongolian tugrik. Additionally, the Corporation incurs expenses 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's exposure to US dollar currency risk was \$69,392 as at December 31, 2020 (December 31, 2019 - \$385,881). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$6,900 (December 31, 2019 - \$38,600).

The Corporation's exposure to Mongolian Tugrik currency risk was (\$80,694) as at December 31, 2020 (December 31, 2019 - (\$55,661)). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$8,100 (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.

Other Risks

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

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Erdene's disclosure controls and procedures as of December 31, 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 December 31, 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 December 31, 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 MD&A that relates to the capital and operating cost estimation for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Julien Lawrence, who is a FAusIMM and the Director of O2 Mining Ltd. The information in this MD&A that relates to the process design and recovery methods for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Jeffrey Jardine, who is a FAusIMM, and is engaged through O2 Mining Ltd. The information in this MD&A that relates to the Bayan Khundii resource estimate is based on information compiled and reviewed by Mr. Cam Norton, who is a P. Geo, and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the Bayan Khundii reserve estimate is based on information compiled and reviewed by 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.