



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022, and 2021

(Canadian dollars)



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Erdene Resource Development Corporation

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- 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, 2022 and December 31, 2021, 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 "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022.

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 auditor's 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 \$43,054,156. 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 2022 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 intentions for substantive expenditures on further exportation for and evaluation of mineral resources.



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 auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



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

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

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

We also:

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

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

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



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

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

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

Chartered Professional Accountants

Halifax, Canada

March 9, 2023

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2022	December 31, 2021
Assets			
Cash and cash equivalents		\$ 7,421,600	\$ 7,063,051
Receivables		76,582	23,784
Prepaid expenses		1,361,730	1,012,450
Current assets		8,859,912	8,099,285
Exploration and evaluation assets	5	43,054,156	37,928,453
Right-of-use assets	6	73,594	143,200
Property, plant and equipment	7	545,704	373,379
Non-current assets		43,673,454	38,445,032
Total Assets		\$ 52,533,366	\$ 46,544,317
Liabilities and Equity			
Trade and other payables		\$ 826,409	\$ 660,456
Lease liabilities	6	59,662	65,560
Current liabilities		886,071	726,016
Lease liabilities	6	22,940	86,281
Non-current liabilities		22,940	86,281
Total Liabilities		909,011	812,297
Shareholders' Equity			
Share capital	10	\$ 157,880,069	\$ 145,153,510
Contributed surplus	10	28,727,197	26,648,556
Accumulated other comprehensive loss		(5,952,986)	(3,026,358)
Deficit		(129,029,925)	(123,043,688)
Total Shareholders' Equity		51,624,355	45,732,020
Total Liabilities and Equity		\$ 52,533,366	\$ 46,544,317

Commitments (Note 8)

Subsequent event (Note 15)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"

Director

Signed "John P. Byrne"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss (Canadian dollars)

	Notes	For the years ended December 31,	
		2022	2021
Operating Expenses			
Exploration and evaluation	11	\$ 3,798,676	\$ 3,745,840
Corporate and administration	12	2,218,984	1,973,800
Loss from operating activities		6,017,660	5,719,640
Finance income		(58,383)	(55,015)
Interest expense		11,044	9,335
Foreign exchange loss (gain)		15,916	(103,437)
Net Loss		\$ 5,986,237	\$ 5,570,523
Other comprehensive loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		2,926,628	61,692
Other Comprehensive Loss		2,926,628	61,692
Total Comprehensive Loss		\$ 8,912,865	\$ 5,632,215
Basic and diluted loss per share		\$ 0.02	\$ 0.02
Basic weighted average number of shares outstanding		306,202,307	276,139,787

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, 2021		268,450,433	\$ 136,618,086	\$ 25,937,667	\$ (2,964,666)	\$ (117,473,165)	\$ 42,117,922
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(5,570,523)	(5,570,523)
Other comprehensive loss		-	-	-	(61,692)	-	(61,692)
Private placements, net of share issue costs	10	17,484,662	5,593,409	-	-	-	5,593,409
Options exercised	10	900,000	492,275	(173,875)	-	-	318,400
Warrants exercised	10	7,544,750	2,449,740	(186,314)	-	-	2,263,426
Share-based compensation		-	-	1,071,078	-	-	1,071,078
Total transactions with owners		25,929,412	8,535,424	710,889	-	-	9,246,313
Balance at December 31, 2021		294,379,845	\$ 145,153,510	\$ 26,648,556	\$ (3,026,358)	\$ (123,043,688)	\$ 45,732,020
Balance at January 1, 2022		294,379,845	\$ 145,153,510	\$ 26,648,556	\$ (3,026,358)	\$ (123,043,688)	\$ 45,732,020
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(5,986,237)	(5,986,237)
Other comprehensive loss		-	-	-	(2,926,628)	-	(2,926,628)
Private placements, net of share issue costs	10	49,860,531	12,703,159	1,079,795	-	-	13,782,954
Options exercised	10	60,000	23,400	(6,300)	-	-	17,100
Share-based compensation		-	-	1,005,146	-	-	1,005,146
Total transactions with owners		49,920,531	12,726,559	2,078,641	-	-	14,805,200
Balance at December 31, 2022		344,300,376	\$ 157,880,069	\$ 28,727,197	\$ (5,952,986)	\$ (129,029,925)	\$ 51,624,355

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

		For the years ended December 31,	
	Notes	2022	2021
Cash flows from (used in) operating activities:			
Net loss		\$ (5,986,237)	\$ (5,570,523)
Items not involving cash:			
Depreciation and amortization		136,580	82,448
Share-based compensation		1,005,146	1,071,078
Finance income		(58,383)	(55,015)
Foreign exchange not related to cash		15,916	(103,437)
Change in non-cash operating working capital		(250,385)	(669,081)
Cash flows used in operating activities		(5,137,363)	(5,244,530)
Cash flows from (used in) financing activities:			
Issue of common shares, net of issue costs	10	13,782,954	5,593,409
Proceeds on exercise of stock options	10	17,100	318,400
Proceeds on exercise of warrants	10	-	2,263,426
Repayment of lease liabilities		(63,041)	(35,857)
Cash flows from financing activities		13,737,013	8,139,378
Cash flows from (used in) investing activities:			
Expenditures on exploration and evaluation assets	5	(7,971,955)	(8,646,027)
Expenditures on property, plant and equipment	7	(296,747)	(179,329)
Interest received		58,383	55,015
Cash flows used in investing activities		(8,210,319)	(8,770,341)
Effect of exchange rate changes on cash balances		(30,782)	137,816
Increase (decrease) in cash and cash equivalents		358,549	(5,737,677)
Cash and cash equivalents, beginning of period		7,063,051	12,800,728
Cash and cash equivalents, end of period		\$ 7,421,600	\$ 7,063,051

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, 2022, and 2021

1. Nature of operations:

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

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 operation 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 9, 2023.

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.

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2022, and 2021

2. Basis of presentation (continued)

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

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, 2022, and 2021, 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 the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the statement of loss.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2022, and 2021

3. Summary of significant accounting policies (continued)

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

c) Financial instruments

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

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

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

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2022, and 2021

3. Summary of significant accounting policies (continued)

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.

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 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 RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2022, and 2021

3. Summary of significant accounting policies (continued)

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

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

g) Share-based compensation

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

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

h) Loss per share

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

The Corporation uses the treasury stock method to compute the dilutive effect of options, warrants and other similar instruments. Under this method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Corporation at the average market price during the period. 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 and revised standards, along with any consequential amendments, effective January 1, 2022. These changes were made in accordance with applicable transitional provisions.

IAS 16 – Property, Plant and Equipment

The Corporation adopted the amendment to IAS 16 Property, Plant and Equipment, issued on May 14, 2020, by the IASB, that 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 application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

The Corporation adopted the amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, issued on May 14, 2020, by the IASB, specifying which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2022, and 2021

4. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments

The Corporation adopted the amendment to IFRS 9 Financial Instruments, issued on May 14, 2020, by the IASB, clarifying which fees to include in the test in assessing whether to derecognize a financial liability. The application of the amendment has been made on a prospective basis and did not have an 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 has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

5. Exploration and evaluation assets

	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	Total
Balance, January 1, 2021	\$ 22,850,206	\$ 3,827,267	\$ 1,799,625	\$ 887,057	\$ 29,364,155
Additions	8,126,412	428,052	1,716	89,847	8,646,027
Effect of movements in exchange rates	(65,619)	(9,018)	(3,841)	(3,251)	(81,729)
Balance, December 31, 2021	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ 37,928,453
Balance, January 1, 2022	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ 37,928,453
Additions	7,628,060	288,818	1,726	53,351	7,971,955
Effect of movements in exchange rates	(2,355,325)	(277,165)	(110,749)	(103,013)	(2,846,252)
Balance, December 31, 2022	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ 43,054,156

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

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 mid-2023. Additionally, the mining license includes Erdene's highly prospective Dark Horse target.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

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5. Exploration and evaluation assets (continued)

Altan Nar Gold Project

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

Ulaan

The Ulaan exploration license covers an area of approximately 1,780 hectares, immediately west of the Khundii mining license. The exploration license is in its eighth 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.

Zuun Mod Copper & Molybdenum Resource & Other

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041-hectare molybdenum-copper Mining License. The mining license was issued in 2011. The Zuun Mod molybdenum-copper deposit has significant potential for development provided molybdenum prices remain strong. In late 2021, the Corporation completed a strategic and economic review of the property in light of rising commodity prices which confirmed the potential viability of the property. The Corporation will continue to evaluate its options in light of technological and market factors.

6. Leases

The Corporation entered a five-year lease for its head office, with an effective date of September 1, 2019. Additionally, the Corporation entered a two-year lease for office space in Mongolia, with an effective date of October 1, 2021. These leases are reflected on the balance sheet as right-of-use assets, with associated lease liabilities. The discount rates applied to the leases are 7% and 15%, respectively.

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

Balance, January 1, 2021	\$	107,693
Additions		74,640
Depreciation		(38,703)
Effect of movement in exchange rates		(430)
Balance, December 31, 2021	\$	143,200
Balance, January 1, 2022	\$	143,200
Additions		-
Depreciation		(63,645)
Effect of movements in exchange rates		(5,961)
Balance, December 31, 2022	\$	73,594

The maturity analysis of the lease liabilities at December 31, 2022, is as follows:

	Within 1 year	1 - 2 years	Total
Lease payments	\$ 63,359	\$ 23,358	\$ 86,717
Finance charges	(3,697)	(418)	(4,115)
Total liabilities	\$ 59,662	\$ 22,940	\$ 82,602

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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6. Leases (continued)

The Corporation also has leases for office space, staff accommodation and storage in Mongolia with initial lease terms of less than 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 \$85,076 (2021 - \$73,940).

7. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2021	\$ 131,748	\$ 191,144	\$ 223,953	\$ 546,845
Additions	-	139,997	39,332	179,329
Disposals	-	(3,800)	(137,555)	(141,355)
Effect of movements in exchange rates	(905)	(1,019)	160	(1,764)
Balance, December 31, 2021	\$ 130,843	\$ 326,322	\$ 125,890	\$ 583,055
Depreciation & depletion				
Balance, January 1, 2021	\$ (21,586)	\$ (86,568)	\$ (199,260)	\$ (307,414)
Depreciation	(12,970)	(15,792)	(15,047)	(43,809)
Disposals	-	3,800	137,555	141,355
Effect of movements in exchange rates	33	76	83	192
Balance, December 31, 2021	\$ (34,523)	\$ (98,484)	\$ (76,669)	\$ (209,676)
Carrying amounts				
At December 31, 2021	\$ 96,320	\$ 227,838	\$ 49,221	\$ 373,379

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2022, and 2021

7. Property, plant and equipment (continued)

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2022	\$ 130,843	\$ 326,322	\$ 125,890	\$ 583,055
Additions	-	185,638	111,109	296,747
Disposals	-	(1,768)	(5,788)	(7,556)
Effect of movements in exchange rates	(14,882)	(41,805)	(8,940)	(65,627)
Balance, December 31, 2022	\$ 115,961	\$ 468,387	\$ 222,271	\$ 806,619
Depreciation & depletion				
Balance, January 1, 2022	\$ (34,523)	\$ (98,484)	\$ (76,669)	\$ (209,676)
Depreciation	(12,234)	(32,222)	(28,484)	(72,940)
Disposals	-	1,615	5,201	6,816
Effect of movements in exchange rates	4,565	6,237	4,083	14,885
Balance, December 31, 2022	\$ (42,192)	\$ (122,854)	\$ (95,869)	\$ (260,915)
Carrying amounts				
At December 31, 2022	\$ 73,769	\$ 345,533	\$ 126,402	\$ 545,704

8. Commitments

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

The Zuun Mod License is subject to a 1.5% NSR Royalty. Erdene has the option to buy down a portion of the royalty if certain production milestones are achieved.

9. Income taxes

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

	December 31, 2022	December 31, 2021
Statutory tax rates	29.0%	29.0%
Income taxes (recovery) computed at the statutory rates	\$ (1,736,000)	\$ (1,615,000)
Benefit of temporary differences not recognized	700,000	579,000
Expenses not deductible for tax purposes	365,000	417,000
Effect of foreign tax rates	609,000	619,000
Other	62,000	-
Provision for income taxes	\$ -	\$ -

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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For the years ended December 31, 2022, and 2021

9. Income taxes (continued)

The enacted tax rates in Canada 29.0% (2021 – 29.0%) and Mongolia 10.0% (2021 – 10.0%) where the Corporation operates are applied in the tax provision calculation.

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

	December 31, 2022	December 31, 2021
Non-capital losses carried forward	\$ 1,014,000	\$ -
Deferred income tax assets	1,014,000	-
Unrealized foreign exchange	(1,014,000)	-
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, 2021		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 22,339,000	\$ 2,172,000	\$ 24,511,000
Property, plant and equipment	260,000	-	260,000
Share issuance costs	1,438,000	-	1,438,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	9,674,000	15,411,000
	\$ 30,152,000	\$ 11,846,000	\$ 41,998,000

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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9. Income taxes (continued)

As at December 31, 2022, 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, 2022	December 31, 2021
2022	-	444,000
2023	349,000	396,000
2024	488,000	554,000
2025	685,000	778,000
Thereafter	26,047,000	22,339,000
	\$ 27,569,000	\$ 24,511,000

10. Share capital and contributed surplus

Authorized

An unlimited number of common shares with no par value.

Issued

On December 22, 2022, the Corporation closed a non-brokered private placement equity financing for gross proceeds of \$7,000,248. The Corporation issued an aggregate of 25,926,844 units of the Corporation (the "Units") at a price of \$0.27 per Unit. Each Unit consisted of one common share and one-half (1/2) of one common share purchase warrant (each whole warrant, a "Warrant"). Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.40. Erdene paid finder's fees in the aggregate of \$127,699 and issued 97,031 finder's warrants, with the same terms as the Warrants, in connection with the financing. In addition, the Corporation incurred \$53,836 in share issue costs, resulting in net proceeds of \$6,818,713.

On August 4, 2022, the Corporation completed the final close of a non-brokered private placement equity financing for gross proceeds of \$7,180,106. The Corporation issued an aggregate of 23,933,687 units of the Corporation (the "Units") at a price of \$0.30 per Unit. Each Unit consisted of one common share and one-half (1/2) of one common share purchase warrant (each whole warrant, a "Warrant"). Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.45. Erdene paid finder's fees in the aggregate of \$151,048 and issued 236,826 finder's warrants, with the same terms as the Warrants, in connection with the financing. In addition, the Corporation incurred \$64,817 in share issue costs, resulting in net proceeds of \$6,964,241.

On October 12, 2021, the Corporation closed a non-brokered private placement offering of common shares on the Mongolian Stock Exchange ("MSE") for gross proceeds of MNT14,249,999,530 (\$6,171,093). The private placement consisted of the sale of 17,484,662 common shares at a price of MNT815 (\$0.353). Erdene paid a cash commission to the underwriters of \$401,031. In addition, the Corporation incurred \$176,653 in share issue costs on the private placement, resulting in net proceeds of \$5,593,409.

Warrants

On December 21, 2022, 13,060,452 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.40 if exercised within 24 months of the closing date and expires on December 21, 2024.

On August 4, 2022, 12,203,670 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.45 if exercised within 24 months of the closing date and expires on August 4, 2024.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2022, and 2021

10. Share capital and contributed surplus (continued)

During the year ended December 31, 2022, 44,845,052 warrants expired.

During the year ended December 31, 2021, 7,544,750 warrants were exercised at a weighted average exercise price of \$0.30. Additionally, 22,707,994 warrants expired during 2021.

The following table summarizes the continuity of the warrants for the years ended December 31, 2022, and 2021:

	December 31, 2022		December 31, 2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	44,845,052	\$ 0.60	75,097,796	\$ 0.55
Issued	25,264,122	0.42	-	-
Exercised	-	-	(7,544,750)	0.30
Expired	(44,845,052)	0.60	(22,707,994)	0.55
Outstanding at December 31	25,264,122	\$ 0.42	44,845,052	\$ 0.60
Exercisable at December 31	25,264,122	\$ 0.42	44,845,052	\$ 0.60

The remaining contractual lives of warrants outstanding at December 31, 2022, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
0.42	25,264,122	1.76
	25,264,122	1.76

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

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

Expected volatility is estimated considering historic average share price volatility.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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10. Share capital and contributed surplus (continued)

Stock options

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

During the year ended December 31, 2022, 4,355,000 options were granted at a weighted average exercise price of \$0.31 (2021 – 3,925,000 options granted at average exercise price of \$0.38). Also, 60,000 options were exercised at an average price of \$0.29, generating proceeds of \$17,100 (2021 – 900,000 options exercised at average price of \$0.35 for proceeds of \$318,400). During the year ended December 31, 2022, 2,595,000 options expired (2021 – 960,000 options expired).

Changes in stock options during the years ended December 31, 2022, and 2021 were as follows:

	December 31, 2022		December 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	15,855,000	\$ 0.45	13,790,000	\$ 0.46
Granted	4,355,000	0.31	3,925,000	0.38
Expired	(2,595,000)	0.87	(960,000)	0.36
Exercised	(60,000)	0.29	(900,000)	0.35
Outstanding at December 31	17,555,000	\$ 0.36	15,855,000	\$ 0.45
Exercisable at December 31	17,555,000	\$ 0.36	15,855,000	\$ 0.45

ERDENE RESOURCE DEVELOPMENT CORPORATION

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10. Share capital and contributed surplus (continued)

All stock options granted in 2022 and 2021 vested immediately and have a five-year term. The following table summarizes information concerning options outstanding at December 31, 2022.

Expiry date	December 31, 2022		December 31, 2021	
	Number of Options	Exercise price	Number of Options	Exercise price
March 31, 2022	-	-	2,445,000	0.87
July 18, 2022	-	-	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	2,780,000	0.40
October 15, 2023	150,000	0.27	150,000	0.27
June 20, 2024	2,165,000	0.20	2,195,000	0.20
November 29, 2024	100,000	0.18	100,000	0.18
December 20, 2024	50,000	0.18	50,000	0.18
February 11, 2025	50,000	0.27	50,000	0.27
May 13, 2025	500,000	0.22	500,000	0.22
August 27, 2025	3,160,000	0.49	3,160,000	0.49
December 1, 2025	200,000	0.38	200,000	0.38
January 29, 2026	100,000	0.43	100,000	0.43
June 23, 2026	3,245,000	0.37	3,275,000	0.37
August 18, 2026	450,000	0.43	450,000	0.43
October 28, 2026	100,000	0.43	100,000	0.43
September 27, 2027	4,180,000	0.31	-	-
December 30, 2027	175,000	0.30	-	-
	17,555,000	\$ 0.36	15,855,000	\$ 0.45

The fair value of each option granted is estimated at the time of grant using a Black-Scholes option pricing model with weighted-average assumptions for grants during the years ended December 31, 2022 and 2021 as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Share price at grant date	\$ 0.31	\$ 0.38
Exercise price	\$ 0.31	\$ 0.38
Risk-free interest rate	3.0%	0.7%
Expected life	3.7 years	3.5 years
Expected volatility	62%	64%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.15	\$ 0.17

Expected volatility is estimated considering historic average share price volatility.

Options issued in 2022 resulted in a charge of \$629,030 to share based compensation included in exploration expenses and in corporate and administration expenses (2021 – \$653,525).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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10. Share capital and contributed surplus (continued)

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, 2022, the Corporation granted 1,183,910 DSUs with an average fair value of \$0.32 per DSU (2021 – 1,070,526 DSUs with fair value of \$0.39 per DSU). The fair value of \$376,116 (2021 – \$417,553) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Erdene settled no DSUs from the plan during the years ended December 31, 2022 and 2021.

	Year Ended December 31, 2022	Year Ended December 31, 2021
Five day volume weighted average price at grant date	\$ 0.32	\$ 0.39

The following table summarizes the continuity of DSUs for the years ended December 31, 2022, and 2021:

	December 31, 2022 Number of DSUs	December 31, 2021 Number of DSUs
Outstanding at January 1	6,103,362	5,032,836
Granted	1,183,910	1,070,526
Outstanding at December 31	7,287,272	6,103,362

Share-based compensation

For the year ended December 31, 2022, the Corporation charged a total of \$1,005,146 of stock-based compensation expense to the statement of comprehensive loss (2021 – \$1,071,078) of which \$420,226 is attributable to exploration expenses (2021 – \$439,463), reflecting the fair value of stock options and DSUs issued, as noted above.

11. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2022, and 2021:

	For the year ended December 31	
	2022	2021
Depreciation & amortization	\$ 91,292	\$ 45,131
Direct costs	2,566,711	2,806,841
Employee compensation costs	720,447	454,405
Share-based compensation	420,226	439,463
	\$ 3,798,676	\$ 3,745,840

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (Canadian dollars)

For the years ended December 31, 2022, and 2021

12. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2022, and 2021:

	For the year ended December 31	
	2022	2021
Administrative services	\$ 703,051	\$ 549,525
Depreciation and amortization	38,089	37,350
Directors fees and expenses	126,754	113,831
Investor relations and marketing	124,672	211,425
Office and sundry	102,738	95,843
Professional fees	380,691	243,142
Regulatory compliance	115,853	80,104
Share-based compensation	584,920	631,615
Travel and accommodations	42,216	10,965
	\$ 2,218,984	\$ 1,973,800

13. Financial instruments

Credit risk:

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

	Carrying Amount	
	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 7,421,600	\$ 7,063,051
Receivables	76,582	23,784
	\$ 7,498,182	\$ 7,086,835

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, 2022, \$268,376 or 4% of the balance of cash was held in banks outside Canada (2021 - \$270,113 or 4%).

Liquidity risk:

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

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, 2022, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2022, and 2021

13. Financial instruments (continued)

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

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

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 311,141	\$ 3,373,167
Trade and other payables	(215,506)	(334,937)
	\$ 95,635	\$ 3,038,230

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$9,600 (December 31, 2021 - \$303,800).

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

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 35,194	\$ 19,012
Trade and other receivables	69,559	19,198
Trade and other payables	(61,274)	(99,422)
	\$ 43,479	\$ (61,212)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$4,300 (December 31, 2021 - \$6,100).

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.

14. Related parties

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

	Year ended December 31,	
	2022	2021
Directors' fees and other compensation	\$ 125,000	\$ 127,913
Share-based compensation to directors	292,125	283,500
Executive compensation and benefits	1,450,459	1,246,976
Share-based compensation to key management	324,839	293,773
	\$ 2,192,423	\$ 1,952,162

ERDENE RESOURCE DEVELOPMENT CORPORATION

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15. Subsequent Event

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

- MMC to invest US\$40 million in return for a 50% equity interest in Erdene’s Mongolian subsidiary, Erdene Mongol LLC (“EM”), holding the Khundii and Altan Nar mining licenses and the Ulaan exploration license through a three-stage transaction.
- Erdene will retain a 50% equity interest in EM and a 5.0% Net Smelter Return (“NSR”) royalty on all production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within 5 kilometres of these licenses, beyond the first 400,000 ounces of gold recovered.
- The first stage of the transaction, completed in January 2023, saw MMC invest US\$5 million in EM in the form of a convertible note to finance exploration, and an updated Feasibility Study (“FS”) and Life of Mine (“LOM”) Plan for the Bayan Khundii Gold Project.
- The second stage of the transaction will see MMC invest an additional US\$5 million in the form of a convertible note, upon delivery of the updated FS, to complete pre-development and exploration work in advance of a Bayan Khundii construction decision.
- The third stage of the transaction will see MMC invest a further US\$30 million once EM has reached a construction decision, providing equity capital for the Bayan Khundii Gold Project, targeting close in Q3 2023.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2022

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This Management Discussion and Analysis (“MD&A”), dated March 9, 2023, 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, 2022, and 2021, 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.

In preparing this MD&A, the Corporation makes reference to “Exploration and evaluation expenditures”, a non-GAAP financial performance measure. Management believes Exploration and evaluation expenditures, comprised of capitalized and operating expenditures attributable to exploration and evaluation activities, is a valuable indicator of the total investment in the Corporation’s properties for the period of the financial statements. For a detailed reconciliation of this non-GAAP financial performance measure to the most directly comparable measures under IFRS, please see pages 15 and 16 of this MD&A. The non-GAAP financial performance measure set out in this MD&A is intended to provide additional information to investors and does not have any standardized meaning under IFRS, and therefore may not be comparable to other issuers, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Company Overview

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

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

The discovery of the KMD is the result of more than 17 years of exploration by Erdene in an underexplored region of southwestern Mongolia. Over this period, Erdene has defined the Altan Nar (“AN”) and Bayan Khundii (“BK”) epithermal gold deposits, the Ulaan and Dark Horse gold prospects, the Zuun Mod Mo-Cu porphyry deposit, and several prospects and advanced exploration projects. Collectively, these discoveries form the core of the KMD, covering an area approximately 50 by 100 kilometres, elongated northwest.

Within the KMD, the Company’s priority is to advance the high-grade, open-pit Bayan Khundii gold project to production while expanding resources at its other deposits and prospects. The Company announced results of an independent Feasibility Study for BK in 2020 (“2020 FS”) and since this time has progressed permitting, procurement, and construction readiness activities in advance of a construction decision. Although COVID-19 has led to supply chain issues, particularly at Mongolia’s land borders with China, that have delayed the start of construction, Erdene has completed much of the preparatory work for the Bayan Khundii Gold Project. Over the past twelve months, Erdene has received regulatory approval for the Project’s detailed design, secured construction permits for the majority of the key facilities, and placed orders for critical long lead time items.

In January 2023, Erdene entered a Strategic Alliance with Mongolian Mining Corporation (“MMC”), the Country’s largest independent miner. Under the terms of the Strategic Alliance, MMC will invest US\$40 million for a 50% interest in Erdene’s Mongolian subsidiary, Erdene Mongol LLC (“EM”), which holds the Khundii and Altan Nar mining licenses and the Ulaan exploration license through a three-stage transaction. Erdene will retain a 50% equity interest in EM as well as a 5% Net Smelter Return royalty on all production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within five kilometres of these licenses, after the first 400,000 ounces of gold recovered. Erdene maintains a 100% interest in the Zuun Mod copper-molybdenum project.

The first stage of the Strategic Alliance was completed in mid January 2023, with MMC advancing US\$5 million by way of a convertible note to finance an updated Feasibility Study (“FS”) and Life of Mine (“LOM”) Plan for the Bayan Khundii Gold Project, as well as exploration in areas adjacent to BK. MMC will invest an additional US\$5 million upon delivery of the updated FS to complete pre-development and exploration work. The third stage of the partnership will see MMC invest a further US\$30 million once EM has reached a construction decision, providing equity capital for the Bayan Khundii Gold Project, targeting close in Q3 2023.

The FS will incorporate updated reserves from Bayan Khundii as well as recently discovered, near surface, reserves from the Dark Horse prospect. The FS will bring forward grade, targeting a 15 – 25% increase in average annual gold production over the initial five years compared to the 2020 FS. Additional design and value engineering work will also optimize plant throughput alongside capital and operating cost updates with a scheduled completion by mid-2023. Erdene solicited updated quotations for certain major plant equipment and non-process infrastructure items in mid-2022, and consistent with macro-economic trends, saw increases of 25 to 50% compared to the 2020 FS, though steel, copper and fuel prices have come off recent highs with the reopening of land borders with China.

Erdene remains in discussion with Export Development Canada (“EDC”) for the senior secured debt component of the BK project finance. Due diligence for the loan was slowed by COVID, but is largely complete, with EDC’s technical consultants delivering their report in January 2022. The debt package will be finalized upon the delivery of the updated FS. Concurrently, discussions continue with other financiers to secure the balance of capital for development.

During 2022, the Company drilled approximately 10,000 metres on the Ulaan and Khundii licenses. Exploration at the Ulaan SE discovery intersected some of the widest intervals of mineralization in the KMD

to date, as well as an interpreted high-grade, gold bearing feeder structure. Exploration in near surface zones at Bayan Khundii confirmed, and in some cases extended, the mineralization that is planned to be mined in the first phases of the Bayan Khundii development. In the northern part of the Khundii license, drilling expanded mineralization at surface and at depth, along the 1.5 kilometer Dark Horse Mane trend, and confirmed the prospectivity of the new East Mane target.

In late 2021, Erdene initiated a review of its Zuun Mod project, one of Asia's largest undeveloped molybdenum-copper deposits. The review included an assessment of resource growth opportunities and the completion of a conceptual project assessment by RPMGlobal. RPM's work suggested a large, long-life, low-strip mining operation at then current resource prices. The potential growth opportunities are significant with the molybdenum deposit remaining open in all directions and multiple satellite targets for both molybdenum and copper within the 16 km circumference alteration area. With molybdenum prices approximately doubling between late 2022 and early 2023, and copper prices forecast to remain strong, unlocking the value of the Zuun Mod project, as well as the Khuvyn Khar copper-silver prospect located on the license, will be a priority in the coming months.

Furthermore, Erdene sees the potential to increase resources through the acquisition of licenses in this under-explored portion of the prolific gold and copper producing Central Asian Orogenic Belt. The KMD hosts the full spectrum of arc-related base and precious metal systems, including copper-molybdenum porphyries, intermediate sulphidation/carbonate base metal gold deposits, and low sulphidation epithermal gold and gold-silver systems. As the longest established Company operating in southwest Mongolia, and through its partnership with MMC, Erdene is positioned to increase its land holdings in this highly prospective terrain.

Highlights and Significant Subsequent Events

Bayan Khundii Gold Project

- Progressed construction readiness and engineering for the Bayan Khundii Gold Project
 - Completed detailed design and engineering for process plant and 12 of 14 non-process facilities
 - Launched optimization studies on mine planning, gravity recovery and gold processing
 - Completed preliminary works including camp expansion, communications infrastructure upgrade and project controls software implementation
 - Expanded hazard identification program and initiated participatory environmental monitoring
 - Received updated quotations for major equipment supply and construction works
- Advanced regulatory approvals and secured key permits for mine development
 - Received regulatory approval of the detailed engineering and design for the CIP process plant and integrated mineral waste facility ("IWF")
 - Obtained approval for 11 project facilities and received construction permits for eight facilities
 - Received regulatory approval of the Project's 2022 environmental management works
- Conducted community engagement programs in preparation for construction
 - Renewed Local Cooperation Agreement with Provincial and Sub-Provincial governments
 - Trained more than 100 local residents and employed 30 community members at site in 2022
 - Planted over 10,000 trees at the two-hectare vegetation area as part of the Company's one million tree commitment in support of the Mongolian President's Billion Trees Program

Khundii Minerals District Exploration

- Drilled 10,223 metres over 80 diamond (including extensions) and 278 reverse circulation ("RC") holes at the Dark Horse Mane and Ulaan Southeast prospects and the Bayan Khundii deposit
 - Provided further support for Erdene's thesis that the Khundii-Ulaan hydrothermal alteration trend shows the potential to host a multi-million ounce gold resource
- Expanded mineralization at the 1.5 km Dark Horse Mane trend, located 2 kms north of Bayan Khundii
 - Mineralization remains open to the north, south and at depth and demonstrates potential for near-surface, high-grade oxide gold mineralization across the KMD
 - Intersected high-grade, near-surface gold in Dark Horse Mane South and extended mineralization at depth in Dark Horse Mane North
 - Confirmed potential of new East Mane target, 500 metres east of Dark Horse Mane

- Highlight intercepts from the 2022 Dark Horse exploration program include:
 - AAD-178: 160.4 g/t gold over 3 metres within 42.8 g/t gold over 15 metres
 - AAD-218: 39.6 g/t gold over 6 metres within 12 metres of 20.2 g/t gold
 - AAD-217: 34.4 g/t gold over 3 metres within 11 metres of 13.0 g/t gold
 - AAD-215: 13.7 g/t gold over 1 metre within 18.6 metres of 4.6 g/t gold
- Traced mineralization at Ulaan Southeast over a 200-metre strike to a depth of 450 metres, that remains open to the west and at depth, including an interpreted high-grade feeder zone
 - Multiple holes returned wide zones (30 to 75 metres) averaging over 3 g/t gold and intersections in the projected feeder zone intercepted very high-grade mineralization
 - Highlights from the 2022 Ulaan program include:
 - UDH-21: 8.7 g/t gold over 27 metres within 335 metres of 1.1 g/t gold (including extension)
 - UDH-35: 3.55 g/t gold over 53 metres within 217 metres of 1.07 g/t gold
 - UDH-15: 1.98 g/t gold over 91 metres within 364 metres of 0.79 g/t gold
 - UDH-53: 24.9 g/t gold over 2 metres within 27 metres of 3.47 g/t gold
- Intersected high-grade mineralization in projected Bayan Khundii Gold Project starter pits
 - Highlight intercepts confirmed, and locally extended high-grade zones modelled in BK reserves
 - BKD-358: 29.6 g/t gold over 4 metres within 16 metres of 8 g/t gold
 - BKD-361: 68.0 g/t gold over 2 metres within 10 metres of 14.4 g/t gold
 - BKD-369: 32.6 g/t gold over 2 metres within 20 metres of 10.4 g/t gold
 - BKD-354: 67.5 g/t gold over 1m within 7m of 11.8 g/t gold
 - BKD-356: 39.6 g/t gold over 1m within 10m of 5.7 g/t gold
 - Collected ore for gravity processing test work from very high-grade zones

Corporate

- Entered Strategic Alliance with Mongolian Mining Corporation
 - MMC to invest US\$40 million for a 50% equity interest in Erdene's Mongolian subsidiary that holds the Khundii and Altan Nar mining licenses and the Ulaan exploration license
 - Erdene retains 50% of EM and a 5.0% NSR royalty on production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within 5 kilometres, beyond the first 400,000 ounces of gold recovered, as well as 100% interest in Zuun Mod Mo-Cu project
 - Closed the first stage of the transaction in January 2023, with MMC investing US\$5 million to finance an updated Bayan Khundii Gold Project Feasibility Study and exploration
- Raised \$14.2 million of equity, led by \$5.4 million investment from Eric Sprott
 - Closed financings in July and December 2022 of \$7.2 million and \$7.0 million, respectively
 - Eric Sprott remains the Company's largest shareholder, owning 18% (20% partially diluted)
- Progressed due diligence for the Bayan Khundii Project Finance with EDC and other financiers
 - EDC due diligence complete pending finalization of project mine plan, schedule and budget, anticipated in mid-2023 and key loan terms agreed
 - Discussions are proceeding in parallel with Mongolian and International financiers on subordinated debt and other non-equity instruments
- Recorded a net loss of \$5,986,237 for the Year ended December 31, 2022, compared to a net loss of \$5,570,523 for the year ended December 31, 2021
 - Exploration and evaluation expenditures, including capitalized expenditures, totaled \$11,770,631 for the Year ended December 31, 2022, compared to \$12,391,867 for the prior year, as lower drilling costs due to less activity as well as a reduction in design and engineering work while the Company awaited a construction decision more than offset higher camp costs attributable to an expansion to prepare for construction and increased salaries due to growth in the team and cost of living adjustments
 - Corporate and administrative expenses totaled \$2,218,984 for the Year ended December 31, 2022, compared to \$1,973,800 for the year ended December 31, 2021, with the year on year increase primarily due to higher administrative salaries due to cost of living adjustments and additional professional fees in support of pre-development and financing work for the Bayan Khundii Gold Project

Strategy and Outlook

Erdene is focused on the development and expansion of precious and base metal deposits in the Khundii Minerals District discovered by Erdene's technical team over a decade ago. Erdene's two near term strategic priorities are advancing BK to production, and through exploration and acquisition, expanding and subsequently developing other deposits in the KMD.

In January 2023, the Company announced a Strategic Alliance with Mongolian Mining Corporation to develop BK. Mongolian Mining Corporation is the largest, private producer and exporter of high-quality washed hard coking coal in Mongolia. MMC owns and operates the Ukhaa Khudag and the Baruun Naran open pit coking coal mines, both located in Umnugovi Aimag (South Gobi Province), Mongolia. The shares of MMC are listed on the main board of the Hong Kong Stock Exchange (HKEx: 975), and the company has a current market capitalization of approximately US\$450 million.

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

Since announcing the results of an independent BFS for BK in mid-2020, Erdene has advanced permitting, procurement, and construction readiness activities in advance of a construction decision. Although slowed by restrictions on the movement of goods and services into Mongolia from China, Erdene has received the majority of the permits required to commence the Project build, including the mining license, the Mongolian detailed environmental impact assessment, land and water use permissions and construction permits. With the relaxation of China's zero COVID policies, and the Strategic Alliance with MMC, the Company expects to reach a construction decision for Bayan Khundii in mid-2023, upon the completion of an updated FS.

Exploration results to date suggest the greater Khundii-Ulaan alteration zone, including the BK Deposit, Dark Horse prospect and Ulaan, are part of the same, large, gold-bearing hydrothermal system, that shows the potential to host a multimillion-ounce gold deposit. Exploration in 2022 further supports this thesis, with high-grade intercepts at Dark Horse, Ulaan SE and Bayan Khundii, and positive results from regional RC and diamond drilling. These results, as well as those from drilling since the last Khundii District resource update in 2019, are being incorporated into an updated NI 43-101 report, which will be incorporated into the updated FS.

In Q2 2023, Erdene will commence a program to advance the Zuun Mod project, one of Asia's largest undeveloped molybdenum-copper deposits towards a development decision. Erdene will complete further market, technical and economic studies as well as permitting work in the coming months, to build upon the conceptual assessment completed by RPMGlobal (formally Minarco-Mine Consult) RPM in late 2021. In addition, a modest drill program will be completed to test areas identified by the ERD technical team and in the last NI 43-101 report considered as high potential areas for resource expansion and discovery within the large porphyry complex.

Erdene continues to evaluate acquisition opportunities throughout the Khundii Minerals 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. The Company expects that through its partnership with MMC, it will be an active participant in license tenders in the KMD.

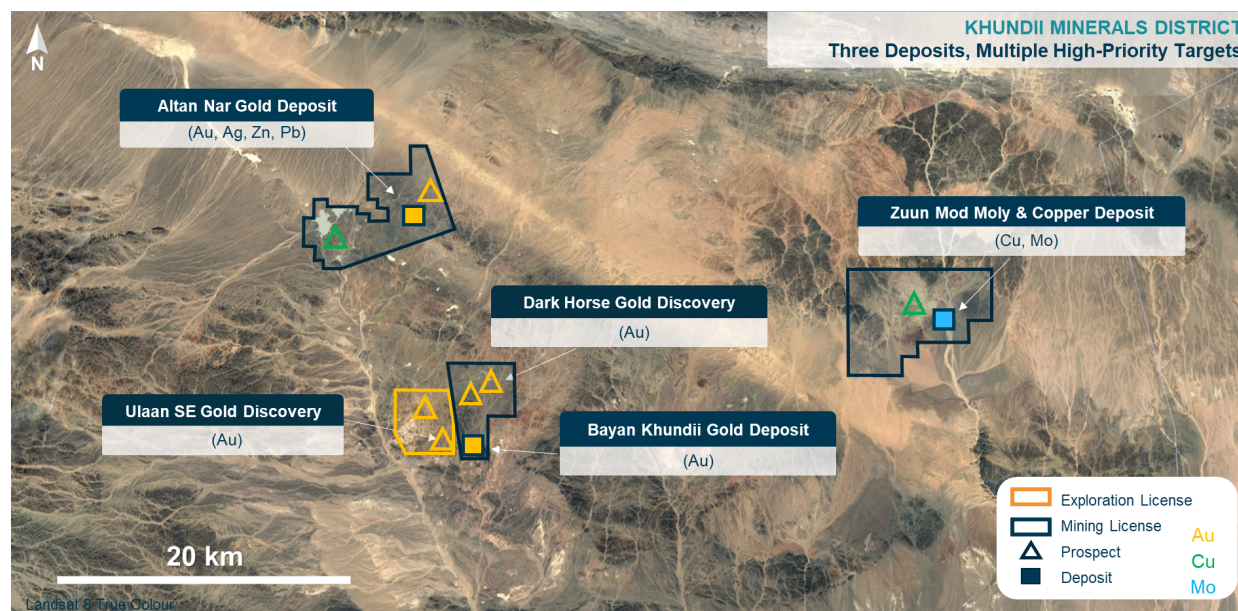
Development and Exploration Projects

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 a Prefeasibility Study (“PFS”) prepared by Tetra Tech, Inc. The reserve announced October 21, 2019, has been superseded by a Mineral Reserve estimate, dated July 1, 2020, prepared by Auralia Mining Consulting. In conjunction with the Company’s MD&A for the three and six months ended June 30, 2021, and 2020, the Company announced an updated mineral resource estimate for the Bayan Khundii deposit with an effective date of June 17, 2021, prepared by Tetra Tech.

Apart from Zuun Mod, the Company’s other targets are early stage and do not contain any mineral resource estimates, as defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects (“NI 43-101”). 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 Minerals District



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

The Bayan Khundii gold project is located on the 2,309-hectare Khundii mining license held by Erdene’s Mongolian subsidiary, Erdene Mongol LLC. The Khundii mining license includes the Bayan Khundii 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.

Bayan Khundii Gold Deposit

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. Definition drill programs completed in 2016 through 2018 identified three main areas over an 800-metre strike length and within 150 metres of surface. These areas of very high-grade gold mineralization over significant widths include: Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, 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-261 returned 112 metres of 5.9 g/t gold, both in the Midfield Zone, and BKD-231 in North Midfield, returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold.

During Q1 2021, Erdene engaged Tetra Tech, Inc. (“Tetra Tech”) to prepare an updated Mineral Resource Estimate (“Mineral Resource”), incorporating 2020 drilling at Striker West, Striker, Midfield and Midfield North, and reflecting prevailing gold prices.

The updated Bayan Khundii Mineral Resource incorporates 95 additional drill holes totaling 12,889 metres and an updated structural interpretation study completed by Erdene at Bayan Khundii since the previous October 1, 2019, mineral resource estimate was announced. In total, the updated Bayan Khundii Mineral Resource incorporates 350 diamond drill holes totaling 55,791 metres, along with 1,075 metres of trenching from 23 trenches.

The Bayan Khundii updated Mineral Resource conforms to NI 43-101, Companion Policy 43-101CP, and the CIM Definition Standards for Mineral Resources and Mineral Reserves. The Mineral Resource was prepared by Tetra Tech and has an effective date of June 17, 2021. The reported Mineral Resource is based on information provided to Tetra Tech by Erdene and verified where possible by Tetra Tech. Data verification and statistical analyses were carried out by Tetra Tech in support of the Mineral Resource. The details of the parameters used in preparing the updated Mineral Resource, including data verification, sample preparation, analysis and security, are included in the Company’s Q2 2021 MD&A, available on the Company’s website or SEDAR.

The June 2021 Mineral Resource for Bayan Khundii is provided below under the *Mineral Resources and Reserves* section of this MD&A.

In Q3 2022, Erdene completed a near surface drill program comprised of 25 PQ diamond core holes, totaling 612 metres (averaging 17 metres vertical depth) in three target areas within or near the planned Bayan Khundii economic pit. The objectives of this program were to establish higher confidence in continuity of grade and geometry of the shallow, very high-grade potential starter pit areas located at the Midfield Southeast, Striker South and Striker zones of the Bayan Khundii deposit and to collect material for gravity processing metallurgical test work. The drilling program intersected multiple high-grade intervals, confirming the continuity of near-surface high-grade gold mineralization at Midfield SE, Striker, and Striker South. Multiple holes returned assays greater than 10 g/t gold. These results will be incorporated into the updated Bayan Khundii Feasibility Study that is expected to be completed in mid-2023.

Dark Horse

The greater Dark Horse prospect area (approximately 20 square kilometres) is located in the northern portion of the Khundii mining and Ulaan exploration licenses and is characterized by elevated gold in soil anomalism with multiple surface rock-chip, trench and drill core samples assaying greater than 1 g/t gold. Trace element anomalism, geophysical anomalies related to alteration and mineralization, structures interpreted to represent conduits for mineralizing fluids, and alteration signatures supporting an epithermal mineralization model characterize the greater Dark Horse prospect area. To date the Company has completed 24,092 metres of drilling in 218 holes ranging in vertical depths from 8 to 318 metres within the greater Dark Horse prospect portion of the Khundii mining license, including 28 holes totaling 2,355 metres in 2022.

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

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

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

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

RC drilling in Q2 2022 identified several prospects within the broader Dark Horse Mane prospect. Multiple RC holes at East Mane, an 8-hectare area, 500 metres east of Dark Horse Mane, returned anomalous gold (up to 0.22 g/t gold over 3 metres) and pathfinder elements (antimony and arsenic). The East Mane area also exhibits structural and geological similarities to high-grade Dark Horse Mane South mineralization.

Ulaan Southeast

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

Highlight interceptions at Ulaan SE since the initial discovery include:

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

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

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

Khundii Minerals District

The total Khundii Minerals District gold resource is calculated by adding resources from 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 June 17, 2021. The Altan Nar Mineral Resource Estimate, prepared by RPMGlobal, has an effective date of May 7, 2018.

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

Cut-Off Grade ^(1,2)	Resource Classification	Quantity (Mt)	Grade (Au g/t)	Gold (Koz)
Recommended (3)	Measured & Indicated	13.3	2.12	903
	Inferred	3.9	1.76	222
1.0	Measured & Indicated	6.3	3.77	768
	Inferred	3.3	1.99	211
1.4	Measured & Indicated	5.2	4.42	738
	Inferred	3.0	2.12	204

Notes:

(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 0.40 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.

Bayan Khundii Gold Deposit

Resource

The 2021 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 recommended cut-off grade of 0.40 g/t gold. The assumptions and parameters utilized to establish the cut-off grade and pit shell are reported in notes following the table below and support reasonable prospects for eventual economic extraction. Mineral Resources are inclusive of Mineral Reserves (reported below). For further details on the updated Bayan Khundii mineral resource estimate, please see the Company's Q2 MD&A dated August 12, 2021.

Cut-off Grade (1)	Resource Classification	Quantity (tonnes)	Grade Au g/t	Gold oz
0.4 g/t Au	Measured	3,031,000	2.39	232,700
	Indicated	5,269,000	2.08	352,400
	Measured & Indicated	8,301,000	2.19	585,100
	Inferred	512,000	2.18	35,900

Notes:

- (1) Cut-off grades have been calculated using a gold price of \$1,600 /ounce, milling and G&A costs of \$16.0 / tonne, and mining costs of \$3.0 / tonne, and an assumed gold recovery of 95%.
- (2) Bulk density of 2.66 for mineralized domains.
- (3) Numbers may not add exactly due to rounding.
- (4) Conforms to NI 43-101, Companion Policy 43-101CP, and the CIM Definition Standards for Mineral Resources and Mineral Reserves.
- (5) Mineral resources which are not mineral reserves do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate.

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 estimate. 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%.
- (7) The Mineral Reserve is based on the October 1, 2019, mineral resource estimate.

Altan Nar Gold-Polymetallic Deposit

RPMGlobal calculated the mineral resource estimate for Altan Nar in May 2018 at a number of gold cut-offs, however, RPM recommends reporting the Altan Nar mineral resource at cut-off of 0.7 g/t AuEq2 (see definition for AuEq2 in note 8 below) above a pit and 1.4 g/t AuEq2 below the same pit shell. For further details on the Altan Nar mineral resource estimate, please see the Company's Altan Nar Gold-Polymetallic Project NI 43-101 Technical Report dated March 29, 2021.

Cut-off AuEq2 g/t	Resource Classi- fication	Quantity (Mt)	Grade				Contained Metal					
			Au	Ag	Zn	Pb	AuEq2	Au	Ag	Zn	Pb	AuEq2
			g/t	g/t	g/t	g/t	g/t	Koz	Koz	Kt	Kt	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.

Technical Studies

On July 20, 2020, Erdene announced the results of an independent Bankable Feasibility Study for the BK 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 2020 FS envisions a high-grade, open pit mine beginning at surface in the southern portion of the BK deposit (Striker and Gold Hill), expanding northward into adjacent zones at Midfield and North Midfield. The Project incorporates conventional crushing and grinding, leach and a Carbon in Pulp plant with processing capacity of 1,800 tonnes per day. The 2020 FS 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. The 2020 FS 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 2020 FS 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 2020 FS assumes processing of ROM material via a conventional crush and grind circuit and a carbon in pulp plant. Plant design by 360-Global has been based on testing at Blue Coast Research which has established optimal processing parameters, including; grind size of 80% passing 60 microns; design inputs for comminution circuit, low cyanide concentration in leach circuit (0.5 g/litre sodium cyanide); 36-hour retention time; carbon adsorption parameters and detoxification reagent dosages. The process circuit has been designed to maximize water recovery with the most efficient dewatering process (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.

Since the Company released results of the 2020 FS in mid-2020, Erdene has advanced permitting, procurement, and construction readiness activities to prepare for construction, while continuing to explore for additional resources. As announced in January 2023, as part of the Strategic Alliance with Mongolian Mining Corporation, Erdene is undertaking an updated FS for BK incorporating additional resources and reserves from recent exploration, as well as design and engineering work to optimize plant throughput and bring forward grade, as well as current capital and operating costs. The Company and MMC expect to complete an internal FS update near the end of the first quarter of 2023 and an independent study by mid-2023.

Khundii Minerals District Exploration

Erdene's has been the leader in exploration in southwest Mongolia over the past decade and is responsible for the discovery of the KMD comprised of multiple high-grade gold and base metal prospects. In addition to the Bayan Khundii Project and the Altan Nar deposit, the Company has identified several other prospects, the most advanced of which are described below.

Khundii-Ulaan Epithermal Gold Potential

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

Exploration results to date suggest the greater Khundii-Ulaan alteration zone and known gold occurrences are part of the same, large, gold-bearing hydrothermal system which remains largely under-explored. Gold mineralization identified to date is hosted within an expansive, white mica and silica altered tuffaceous sequence exposed around the periphery of the Khundii-Ulaan hydrothermal alteration system. Quartz vein textures and clay alteration compositions indicate a large-scale epithermal type gold mineralization environment existed within the Khundii-Ulaan system with the tuffaceous lithologies acting as preferred hosts for gold mineralization. Exploration planning is currently underway to test multiple high-priority geological, geochemical and geophysical targets across the Khundii-Ulaan target area.

Regional drilling has been restricted to shallow targets with average drill depths of about 100 metres with approximately 70% of regional drill holes having intersected anomalous gold mineralization (defined as >0.1 g/t gold). Success has been driven by the abundance of untested, near surface geochemical and geophysical targets in a region that has had no previous modern exploration. Recent exploration successes testing shallow targets, and the definition of three deposits, exposed at surface, are testament to the discovery potential of this new district. During Q2 2022, the Company completed a 278-hole RC drill program to test shallow targets across the greater Dark Horse area principally on the Khundii License. Results from this work generated multiple new targets, several of which were drill tested in Q3 2022, leading to the confirmation of the new East Mane prospect, approximately 500 metres east of the Dark Horse Mane.

Furthermore, Erdene continues to evaluate opportunities throughout the Trans Altai 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 four licenses, drilling of selected targets and evaluation of acquisition targets on private and government held ground.

Ulaan Copper-Gold Porphyry Target

On August 30, 2017, the Corporation's Mongolian subsidiary 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 Mongol LCC acquired the remaining 49% interest in the property. The exploration license is in its seventh 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.

In addition to the Ulaan Southeast gold prospect discovery, the Ulaan license hosts 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 of the Ulaan Copper-Gold Porphyry target.

Zuun Mod Molybdenum-Copper Project

The Zuun Mod Molybdenum-Copper Project is a porphyry molybdenum-copper deposit located in southwest Mongolia on the Company's Khuvyn Khar license. This project is approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC, a wholly owned subsidiary of the Corporation, and has an initial term of 30 years that can be extended for up to 70 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter returns royalty ("NSR Royalty") of 1.5% held by Sandbox Royalties, subject to a buy-down provision.

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

In Q2 2023, Erdene will commence a program to advance the Zuun Mod project, one of Asia's largest undeveloped molybdenum-copper deposits towards a development decision. Erdene will complete further market, technical and economic studies as well as permitting work in the coming months, building upon the conceptual economic assessment completed by RPMGlobal (formally Minarco-Mine Consult) in late 2021. In addition, a modest drill program will be completed in the coming months to test areas showing potential for resource expansion and discovery within the large porphyry complex. Exploration results are expected by mid-year, and will inform Erdene's strategy to develop the resource.

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). Erdene intends to conduct follow-up exploration on the license in 2023.

Acquisitions

Mongolia's Ministry of Mining and Heavy Industry periodically issues areas for exploration. Erdene has established the largest proprietary geologic database of Southwest Mongolia with a priority list of acquisition targets. The Company will participate in the tendering process as its priority targets are opened for tender. The Company has also been evaluating privately held licenses for acquisition. Through its Strategic Alliance with MMC, Erdene will be an active participant in tenders or license acquisitions in the KMD.

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, 2022, 2021 and 2020 respectively:

Fiscal Year Ended December 31	2022	2021	2020
Revenues	Nil	Nil	Nil
Loss for the year	\$ 5,986	\$ 5,571	\$ 13,116
Basic and diluted loss per share	\$ 0.02	\$ 0.02	\$ 0.06
Total assets	\$ 52,533	\$ 46,544	\$ 42,814
Total long-term liabilities	23	86	86

Discussion of Operations

Years ended December 31, 2022 and 2021

The tables below detail exploration and evaluation expenditures for the years ended December 31, 2022 and 2021. The Bayan Khundii Gold Project was the focus of the Corporation's efforts during these periods.

Year ended Dec. 31, 2022	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Exploration & field support	\$ 3,162,114	\$ 169,553	\$ 1,204,383	\$ 235,653	\$ -	\$ 4,771,703
Mining studies & pre-development costs	4,228,315	107,541	87,324	56,757	-	4,479,937
Mongolian office costs	-	-	-	-	1,102,603	1,102,603
Share-based compensation	-	-	-	-	420,225	420,225
Stakeholder relations	810,678	944	375	12,825	-	824,822
Travel & other	127,835	11,341	11,116	21,049	-	171,341
Total exploration expenditures	8,328,942	289,379	1,303,198	326,284	1,522,828	11,770,631
Capitalized expenditures	(7,628,060)	(288,818)	(1,726)	(53,351)	-	(7,971,955)
Expensed exploration costs 2022	\$ 700,882	\$ 561	\$ 1,301,472	\$ 272,933	\$ 1,522,828	\$ 3,798,676
E&E assets, January 1, 2022						
E&E assets, January 1, 2022	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ -	\$ 37,928,453
Additions	7,628,060	288,818	1,726	53,351	-	7,971,955
Effect of movements in exchange rates	(2,355,325)	(277,165)	(110,749)	(103,013)	-	(2,846,252)
E&E assets, December 31, 2022	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ -	\$ 43,054,156

Year ended Dec. 31, 2021	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Exploration & field support	\$ 3,164,311	\$ 226,905	\$ 1,439,325	\$ 213,138	\$ -	\$ 5,043,679
Mining studies & pre-development costs	4,870,371	109,660	45,732	149,136	-	5,174,899
Mongolian office costs	-	-	-	-	498,642	498,642
Share-based compensation	-	-	-	-	439,463	439,463
Stakeholder relations	833,971	296,769	35,286	12,407	-	1,178,433
Travel & other	40,864	-	2,334	13,553	-	56,751
Total exploration expenditures	8,909,517	633,334	1,522,677	388,234	938,105	12,391,867
Capitalized expenditures	(8,126,412)	(428,052)	(1,716)	(89,847)	-	(8,646,027)
Expensed exploration costs 2021	\$ 783,105	\$ 205,282	\$ 1,520,961	\$ 298,387	\$ 938,105	\$ 3,745,840
E&E assets, January 1, 2021						
	\$ 22,850,206	\$ 3,827,267	\$ 1,799,625	\$ 887,057	\$ -	\$ 29,364,155
Additions	8,126,412	428,052	1,716	89,847	-	8,646,027
Effect of movements in exchange rates	(65,619)	(9,018)	(3,841)	(3,251)	-	(81,729)
E&E assets, December 31, 2021	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ -	\$ 37,928,453

Exploration and evaluation expenditures, including capitalized expenditures, totaled \$11,770,631 for the Year ended December 31, 2022, compared to \$12,391,867 for the year ended December 31, 2021.

Exploration & field support expenses of \$4,771,703 in 2022 were less than prior year expenses of \$5,043,679, as higher camp and other support costs following the expansion of the camp in anticipation of construction, were more than offset by lower drilling and assaying expenditures as the Company drilled approximately 10,000 metres in 2022 compared to approximately 20,000 metres in the prior year.

Mining studies & pre-development costs for the year ended December 31, 2022 were \$694,962 less than for the year ended December 31, 2021, primarily due to a reduction in consulting activity related to detailed engineering and design as this work is largely complete in advance of a construction decision, as well as a reduction in deposits on long-lead items, as the deposit on the comminution circuit placed in 2022 was approximately \$500,000 less than the deposit placed for the mills in 2021.

Mongolian office costs for the year ended December 31, 2022, were \$603,961 higher than the prior year primarily due to the recruitment of additional staff in anticipation of construction as well as increased expenditures on government relations and community engagement.

Non-cash, share-based compensation expenses were \$19,238 less than the previous year due to the impact of a lower share price on the valuation of the Company's stock options grant.

Stakeholder relations costs for the year ended December 31, 2022, were \$353,611 less than for the year ended December 31, 2021, due to lower commitments under the cooperation agreement signed with local communities in support of the Bayan Khundii Gold Project.

Travel & other costs of \$171,341 were \$114,590 greater than the prior year as international travel resumed in 2022 following minimal travel in 2021 due to COVID-19 related restrictions.

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, 2022 and 2021, Erdene capitalized all exploration costs associated with these projects; however, exploration and evaluation expenditures associated with its Ulaan property were expensed in 2022 and 2021, consistent with Company's capitalization policy.

The following table summarizes corporate and administration expenses for the years ended December 31, 2022 and 2021.

	For the years ended December 31,		
	2022	2021	Change
Administrative services	\$ 703,051	\$ 549,525	\$ 153,526
Depreciation and amortization	38,089	37,350	739
Directors fees and expenses	126,754	113,831	12,923
Investor relations and marketing	124,672	211,425	(86,753)
Office and sundry	102,738	95,843	6,895
Professional fees	380,691	243,142	137,549
Regulatory compliance	115,853	80,104	35,749
Share-based compensation	584,920	631,615	(46,695)
Travel and accommodations	42,216	10,965	31,251
	\$ 2,218,984	\$ 1,973,800	\$ 245,184

Corporate and administrative expenses totaled \$2,218,984 for the Year ended December 31, 2022, compared to \$1,973,800 for the year ended December 31, 2021.

Administrative services expenditures for the year ended December 31, 2022 were \$153,526 higher than those in the prior year primarily due to the recruitment of an in-house investor relations executive as well inflationary cost of living salary adjustments.

Investor relations and marketing expenditures for the year ended December 31, 2022 were \$86,753 less than in the prior year as the employment of an internal investor relations executive led to a reduction in the use of consultants.

Professional fees for the year ended December 31, 2022 were \$137,549 greater than the prior year due to the engagement of financial advisors to assist with capital markets support.

Regulatory compliance expenditures of \$115,853 for the year ended December 31, 2022, were \$35,749 higher than those in the prior year primarily due to higher TSX filing fees which are calculated on the basis of the Company's market capitalization.

Non-cash, share-based compensation expenses were \$46,695 less than the previous year due to the impact of a lower share price on the valuation of the Company's annual stock options grant.

Travel and accommodations costs were \$31,251 greater than the prior year as travel resumed in 2022 following minimal travel in 2021 due to COVID-19 related restrictions.

Depreciation and amortization, Directors fees and expenses and Office and sundry for the year ended December 31, 2022, were not materially different from those incurred in the prior year comparative period.

Fourth Quarter

Exploration expenditures, including capitalized expenditures, totaled \$2,062,752 for the three months ended December 31, 2022. Exploration and field support expenditures of \$999,685 were attributable to the technical staff and camp costs in support of the 2022 exploration program. Mining studies and permitting expenditures of \$507,615 were incurred in support of construction readiness activities for the Khundii Gold Project. Stakeholder relations expenditures of \$194,885 during the fourth quarter were primarily composed of payments under the local co-operation agreement. Other exploration expenditures of \$360,567 includes travel and sundry expenses related to the Corporation's Mongolian field operations as well as Mongolian office costs.

Corporate and administrative expenses totaled \$427,652 for the three months ended December 31, 2022, including \$150,234 of salaries and administrative expenditures, \$33,750 of public company costs, professional fees of \$114,366, non-cash share-based compensation of \$70,512 and miscellaneous administrative expenditures, including travel and investor relations totaling \$58,790.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2022				Fiscal 2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Net loss	\$1,077	\$1,980	\$1,698	\$1,231	\$1,739	\$1,936	\$1,279	\$617
Basic loss per share	\$0.00	\$0.01	\$0.01	\$0.00	\$0.01	\$0.01	\$0.00	\$0.00
Total assets	\$52,533	\$47,785	\$42,495	\$44,230	\$46,544	\$42,319	\$42,411	\$42,454

For the three months ended December 31, 2022, the Corporation recognized a net loss of \$1,076,895 compared to a net loss of \$1,739,119 for the same period in 2021.

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 \$12.5 million of cash and \$6.7 million in working capital, calculated as current assets less current liabilities.

Funds raised have been used to advance the Corporation's projects in Mongolia and to meet administrative costs in support of those programs (see Development and Exploration Projects and Discussion of Operations). The ability of the Corporation to continue with its 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 9, 2023	December 31, 2022
Common shares issued and outstanding	344,300,376	344,300,376
Options outstanding	17,555,000	17,555,000
Warrants outstanding	25,264,122	25,264,122
DSU's outstanding	7,287,272	7,287,272
Total instruments outstanding	394,406,770	394,406,770

Contractual Obligations

The following table summarizes the maturity of the Corporation's contractual obligations at December 31, 2022:

	Total	Less than one year	1 - 2 years
Office leases	\$ 86,717	\$ 63,359	\$ 23,358
Accounts payable and accrued liabilities	826,409	826,409	-
	\$ 913,126	\$ 889,768	\$ 23,358

Other Financing Arrangements and Commitments

MMC Strategic Alliance

On January 16, 2023, the Corporation executed a US\$5 million convertible note agreement with MMC under the terms of the Investment Agreement. The note bears interest at a rate equal to the secured overnight financing rate ("SOFR") established by the Federal Reserve Bank of New York as at the date the amount is advanced plus 8%. However, the convertible note, and any accrued interest, is expected to be converted to a 6.25% equity interest in Erdene Mongol LLC, the Corporation's Mongolian subsidiary, upon the Third Closing of the Investment Agreement, anticipated in Q3 2023.

In the event that the Corporation and MMC do not complete the Third Closing, the note, and any accrued interest, shall be due and payable on the earlier of January 10, 2024, or 60 days following the termination of the Investment Agreement.

Sandstorm Gold Ltd. Royalty Agreement

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

Other

The Zuun Mod License is subject to a 1.5% NSR Royalty. Erdene has the option to buy down a portion of the royalty if certain production milestones are achieved.

Off-Balance Sheet Arrangements

As at December 31, 2022, 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, 2022. 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; and
- Share-based compensation.

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 \$1,005,146 of non-cash share-based compensation to the statement of comprehensive loss for the Year ended December 31, 2022 (2021 - \$1,071,078).

Adoption of New Accounting Standards and Future Changes in Accounting Policies

Erdene has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2022. These changes were made in accordance with applicable transitional provisions.

IAS 16 – Property, Plant and Equipment

The Corporation adopted the amendment to IAS 16 Property, Plant and Equipment, issued on May 14, 2020, by the IASB, that 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 application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

The Corporation adopted the amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, issued on May 14, 2020, by the IASB, specifying which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

IFRS 9 – Financial Instruments

The Corporation adopted the amendment to IFRS 9 Financial Instruments, issued on May 14, 2020, by the IASB, clarifying which fees to include in the test in assessing whether to derecognize a financial liability. The application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the Year ended December 31, 2022, 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 has assessed the

financial impact of the amendments and the application of such amendments is not expected to have a material impact.

Financial Instruments and Other Risks

Financial Instruments

The fair values of the Corporation's financial instruments are considered to approximate the carrying amounts. Financial instruments, including cash and cash equivalents, receivables, and trade and other payables are measured at amortized cost on the Corporation's financial statements.

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, 2022, \$268,376 or 4% of the balance of cash was held in banks outside Canada (2021 - \$270,113 or 4%).

Liquidity Risk

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

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, 2022, 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 in US dollars. Consequently, fluctuations of the Canadian dollar in relation to other currencies impacts the fair value of financial assets, liabilities and operating results. Financial assets and liabilities subject to currency translation risk primarily include US dollar denominated cash, accounts payable and accrued liabilities, as well as the Corporation's net investments in its Mongolian subsidiaries. The Corporation maintains US dollar bank accounts in Canada.

The Corporation's exposure to US dollar currency risk was \$95,635 as at December 31, 2022 (2021 - \$3,038,230). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$9,600 (2021 - \$303,800).

The Corporation's exposure to Mongolian Tugrik currency risk was \$43,479 as at December 31, 2022 (2021 - \$61,212). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$4,300 (2021 - \$6,100).

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, 2022 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, 2022. 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, 2022, 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 Erdene’s properties has been reviewed and approved by Peter Dalton, P. Geo, who is not independent of the Corporation.

The information in this MD&A that relates to the financial models for the BK FS 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 BK FS 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 BK FS is based on information compiled and reviewed by Jeffrey Jardine, who is a FAusIMM, and is engaged through O2 Mining Ltd. The information in this MD&A that relates to the BK resource estimate is based on information compiled and reviewed by 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 BK 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.