



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2023 and 2022

(Canadian dollars)
(Unaudited)

Prepared by management – See Notice to Reader

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice to this effect. These unaudited condensed consolidated interim financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed consolidated interim statements of financial position of Erdene Resource Development Corporation as at June 30, 2023, and December 31, 2022, and the unaudited condensed consolidated interim statements of comprehensive loss, changes in equity and cash flows for the three and six months ended June 30, 2023, and 2022. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2023, and 2022 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Financial Position

(Canadian dollars)

(Unaudited)

	Notes	June 30, 2023	December 31, 2022
Assets			
Cash and cash equivalents		\$ 12,254,812	\$ 7,421,600
Receivables		75,102	76,582
Prepaid expenses		1,613,482	1,361,730
Current assets		13,943,396	8,859,912
Exploration and evaluation assets	4	47,952,745	43,054,156
Right-of-use assets	5	34,266	73,594
Property, plant and equipment	6	834,726	545,704
Non-current assets		48,821,737	43,673,454
Total Assets		\$ 62,765,133	\$ 52,533,366
Liabilities and Equity			
Trade and other payables		\$ 384,632	\$ 826,409
Lease liabilities	5	33,694	59,662
Convertible promissory notes	8	13,771,986	-
Current liabilities		14,190,312	886,071
Lease liabilities	5	5,824	22,940
Non-current liabilities		5,824	22,940
Total Liabilities		14,196,136	909,011
Shareholders' Equity			
Share capital	9	\$ 157,911,469	\$ 157,880,069
Contributed surplus	9	29,926,022	28,727,197
Accumulated other comprehensive loss		(6,592,051)	(5,952,986)
Deficit		(132,676,443)	(129,029,925)
Total Shareholders' Equity		48,568,997	51,624,355
Total Liabilities and Equity		\$ 62,765,133	\$ 52,533,366

Commitments (Note 7)

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

Approved on behalf of the Board:

Signed "John P. Byrne"

Director

Signed "Kenneth W. MacDonald"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Comprehensive Loss

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2023	2022	2023	2022
Operating Expenses					
Exploration and evaluation	10	\$ 1,195,072	\$ 1,212,084	\$ 1,553,360	\$ 1,993,708
Corporate and administration	11	1,391,455	475,599	1,971,566	921,045
Loss from operating activities		2,586,527	1,687,683	3,524,926	2,914,753
Finance income		(82,168)	(4,943)	(166,264)	(11,270)
Interest expense		347,333	2,992	520,326	6,515
Foreign exchange (gain) loss		(344,111)	12,016	(232,470)	18,906
Net Loss		\$ 2,507,581	\$ 1,697,748	\$ 3,646,518	\$ 2,928,904
Other comprehensive loss:					
Foreign currency translation difference arising on translation of foreign subsidiaries		164,665	535,965	639,065	1,751,657
Other comprehensive loss		164,665	535,965	639,065	1,751,657
Total comprehensive loss		\$ 2,672,246	\$ 2,233,713	\$ 4,285,583	\$ 4,680,561
Basic and diluted loss per share		\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Basic weighted average number of shares outstanding		344,371,805	294,431,274	344,336,288	294,405,701

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at January 1, 2023		344,300,376	\$ 157,880,069	\$ 28,727,197	\$ (5,952,986)	\$ (129,029,925)	\$ 51,624,355
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(3,646,518)	(3,646,518)
Other comprehensive loss		-	-	-	(639,065)	-	(639,065)
Options exercised	9	100,000	31,400	(11,400)	-	-	20,000
Share-based compensation		-	-	1,210,225	-	-	1,210,225
Total transactions with owners		100,000	31,400	1,198,825	-	-	1,230,225
Balance at June 30, 2023		344,400,376	\$ 157,911,469	\$ 29,926,022	\$ (6,592,051)	\$ (132,676,443)	\$ 48,568,997
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		-	-	-	-	(2,928,904)	(2,928,904)
Other comprehensive loss		-	-	-	(1,751,657)	-	(1,751,657)
Options exercised	9	60,000	23,400	(6,300)	-	-	17,100
Share-based compensation		-	-	157,994	-	-	157,994
Total transactions with owners		60,000	23,400	151,694	-	-	175,094
Balance at June 30, 2022		294,439,845	\$ 145,176,910	\$ 26,800,250	\$ (4,778,015)	\$ (125,972,592)	\$ 41,226,553

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Consolidated Interim Statements of Cash Flows

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended		For the six months ended	
		June 30,		June 30,	
		2023	2022	2023	2022
Cash flows from (used in) operating activities:					
Net loss		\$ (2,507,581)	\$ (1,697,748)	(3,646,518)	\$ (2,928,904)
Items not involving cash:					
Depreciation and amortization		42,478	33,435	77,568	65,592
Share-based compensation		1,152,993	81,581	1,210,225	157,994
Finance income		(82,168)	(4,943)	(166,264)	(11,270)
Foreign exchange not related to cash		(344,111)	12,016	(232,470)	18,906
Change in non-cash operating working capital		(103,830)	212,758	(688,559)	136,628
Cash flows used in operating activities		(1,842,219)	(1,362,901)	(3,446,018)	(2,561,054)
Cash flows from (used in) financing activities:					
Proceeds on exercise of stock options	9	20,000	17,100	20,000	17,100
Proceeds on issuance of convertible promissory notes	8	6,875,114	-	13,528,663	-
Repayment of lease liability		(26,325)	(15,525)	(42,480)	(30,821)
Interest capitalized on convertible promissory notes	8	346,242	-	517,385	-
Cash flows from financing activities		7,215,031	1,575	14,023,568	(13,721)
Cash flows from (used in) investing activities:					
Expenditures on exploration and evaluation assets	4	(4,283,322)	(1,820,331)	(5,362,216)	(3,943,279)
Expenditures on property, plant and equipment	6	(320,767)	(41,680)	(337,816)	(116,540)
Interest received		82,168	4,943	166,264	11,270
Cash flows used in investing activities		(4,521,921)	(1,857,068)	(5,533,768)	(4,048,549)
Effect of exchange rate changes on cash balances		(309,176)	(22,473)	(210,570)	(44,268)
Increase (decrease) in cash and cash equivalents		541,715	(3,240,867)	4,833,212	(6,667,592)
Cash and cash equivalents, beginning of period		11,713,097	3,636,326	7,421,600	7,063,051
Cash and cash equivalents, end of period		\$ 12,254,812	\$ 395,459	12,254,812	\$ 395,459

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2023 (the “Interim Financial Statements”) have been prepared in accordance with IAS 34 – Interim Financial Reporting. The Interim Financial Statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2022 (“Annual Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed consolidated interim financial statements were authorized for issue on behalf of the Board of Directors on August 1, 2023.

3. Changes in accounting policies

Erdene has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2023. These changes were made in accordance with applicable transitional provisions.

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 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 Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

4. Exploration and evaluation assets

	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	Total
Balance, January 1, 2023	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ 43,054,156
Additions	4,348,125	64,003	1,495	948,593	5,362,216
Effect of movements in exchange rates	(388,723)	(41,450)	(16,319)	(17,135)	(463,627)
Balance, June 30, 2023	\$ 40,143,136	\$ 4,280,507	\$ 1,673,653	\$ 1,855,449	\$ 47,952,745
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 a feasibility study update and construction readiness activities on the Bayan Khundii Gold Project in advance of a decision to proceed to construction, anticipated in the second half of 2023. Additionally, the mining license includes Erdene's highly prospective Dark Horse target.

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 ninth 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 economic viability of the property. The Corporation will continue to evaluate its options in light of technological and market factors.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

5. 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. The Mongolian office lease was terminated on June 30, 2023, which resulted in the derecognition of the right-of-use asset and associated lease liability.

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

Balance, January 1, 2023	\$	73,594
Depreciation		(30,833)
Disposals		(7,946)
Effect of movements in exchange rates		(549)
Balance, June 30, 2023	\$	34,266
Balance, January 1, 2022	\$	143,200
Depreciation		(63,645)
Effect of movement in exchange rates		(5,961)
Balance, December 31, 2022	\$	73,594

The maturity analysis of the lease liabilities at June 30, 2023, is as follows:

	Within 1 year	1 - 2 years	Total
Lease payments	\$ 35,037	\$ 5,839	\$ 40,876
Finance charges	(1,343)	(15)	(1,358)
Total lease liabilities	\$ 33,694	\$ 5,824	\$ 39,518

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 as incurred, totaling \$46,795 for the six months ended June 30, 2023 (2022 - \$42,276).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

6. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2023	\$ 115,961	\$ 468,387	\$ 222,271	\$ 806,619
Additions	206,792	163,050	19,348	389,190
Disposals	(69,269)	-	-	(69,269)
Effect of movements in exchange rates	(1,704)	(8,198)	(2,621)	(12,523)
Balance, June 30, 2023	\$ 251,780	\$ 623,239	\$ 238,998	\$ 1,114,017
Depreciation & depletion				
Balance, January 1, 2023	\$ (42,192)	\$ (122,854)	\$ (95,869)	\$ (260,915)
Depreciation	(4,584)	(20,345)	(13,786)	(38,715)
Disposals	17,895	-	-	17,895
Effect of movements in exchange rates	355	1,325	764	2,444
Balance, June 30, 2023	\$ (28,526)	\$ (141,874)	\$ (108,891)	\$ (279,291)
Carrying amounts				
At June 30, 2023	\$ 223,254	\$ 481,365	\$ 130,107	\$ 834,726

	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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

7. 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.

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

8. Convertible promissory notes

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 promissory 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, completed in May 2023, saw MMC invest an additional US\$5 million in the form of a convertible note 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 Project, expected in late Q3 2023.

On January 16, 2023, EM executed a US\$5 million convertible promissory note agreement with MMC under the terms of the Investment Agreement. The convertible promissory 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%. The convertible promissory note, and any accrued interest, is 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.

On May 2, 2023, EM executed a second US\$5 million convertible promissory note agreement with MMC under the terms of the Investment Agreement. The second convertible promissory note also bears interest at a rate equal to SOFR as at the date the amount is advanced plus 8%. The second convertible promissory note, and any accrued interest, is expected to be converted to an additional 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.

For accounting purposes, the notes represent hybrid financial liabilities, consisting of host loan obligations, and conversion options of the promissory notes. The Corporation accounts for the host loan obligations and conversion options at fair value through profit and loss, which will initially be the transaction prices of US\$5 million. Subsequent to the date of recognition, the fair value is expected to equal the transaction prices, plus accrued interest, due to the relatively short term to maturity of the conversion option.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

8. Convertible promissory notes (continued)

The change in the value of the convertible promissory notes during the period ended June 30, 2023, is as follows:

	June 30, 2023
Carrying value, April 1	\$ 6,930,895
Convertible promissory notes issued	6,875,114
Interest expense in the period, capitalized	346,242
Effect of movement in exchange rates	<u>(380,265)</u>
Balance at June 30	<u>\$ 13,771,986</u>

9. Share capital and contributed surplus

Authorized

An unlimited number of common shares with no par value.

Warrants

The following table summarizes the continuity of the warrants for the six months ended June 30, 2023, and 2022:

	June 30, 2023		June 30, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	25,264,122	\$ 0.42	44,845,052	\$ 0.60
Outstanding at June 30	25,264,122	\$ 0.42	44,845,052	\$ 0.60
Exercisable at June 30	25,264,122	\$ 0.42	44,845,052	\$ 0.60

The warrants outstanding at June 30, 2023, expire in July, August and December of 2024.

Omnibus equity incentive plan and Legacy Plans

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

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

For the six months ended June 30, 2023, the Corporation charged a total of \$1,210,225 of stock-based compensation expense to the statement of comprehensive loss (2022 – \$157,994), reflecting the fair value of options and DSUs granted under the Omnibus Plan and the Legacy Plans. Details on the outstanding awards under the Omnibus Plan and Legacy Plans are included below:

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

9. Share capital and contributed surplus (continued)

Stock options

The Corporation's Legacy Plans included a rolling 10% incentive stock option plan (the "Plan") under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. Under the Plan, the terms and conditions of each grant of options are determined by the Board of Directors. If there are no terms specified upon grant, options vest immediately on the grant date. All stock options currently outstanding were granted under the terms of the Plan.

Changes in stock options during the six months ended June 30, 2023 and 2022 were as follows:

	June 30, 2023		June 30, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	17,555,000	\$ 0.36	15,855,000	\$ 0.45
Granted	6,325,000	0.36	-	-
Expired	(3,080,000)	0.40	(2,445,000)	0.87
Exercised	(100,000)	0.20	(60,000)	0.29
Outstanding at June 30	20,700,000	\$ 0.35	13,350,000	\$ 0.38
Exercisable at June 30	20,700,000	\$ 0.35	13,350,000	\$ 0.38

Deferred share units

In 2013, the Corporation adopted a DSU plan. Under the Erdene DSU plan, the Corporation may grant DSUs to eligible plan members in such numbers and at such times as is determined by the Board of Directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, DSUs vest immediately and plan members are credited with the DSUs granted to them. Upon termination or death of the plan member, the Corporation pays the then market value of the plan member's shares either in cash or in shares, at the sole discretion of the Corporation. Since the type of payout is at the discretion of the Corporation, and the Corporation does not intend to cash settle awards under the plan, the plan is accounted for as an equity settled plan. The provisions of DSUs issued under the Omnibus Plan adopted on June 22, 2023, are consistent with those of the DSU plan.

During the six months ended June 30, 2023, the Corporation granted 360,918 DSUs under the Omnibus Plan and Legacy Plan with an average fair value of \$0.37 per DSU (2022 – 441,744 DSUs with fair value of \$0.36 per DSU). The fair value of \$131,950 (2022 – \$157,994) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

9. Share capital and contributed surplus (continued)

The following table summarizes the continuity and five-day volume weighted average price at grant date of DSUs for the six months ended June 30, 2023 and 2022:

	June 30, 2023	June 30, 2022
	Number of DSUs	Number of DSUs
Outstanding at January 1	7,287,272	6,103,362
Granted	360,918	441,744
Outstanding at June 30	7,648,190	6,545,106

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Five day volume weighted average price at grant date	\$ 0.37	\$ 0.36

10. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the three and six months ended June 30, 2023 and 2022:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Depreciation & amortization	\$ 14,190	\$ 23,988	\$ 30,941	\$ 46,711
Direct costs	509,439	998,761	742,143	1,552,210
Employee compensation costs	173,044	169,415	268,966	355,314
Share-based compensation	498,399	19,920	511,310	39,473
	\$ 1,195,072	\$ 1,212,084	\$ 1,553,360	\$ 1,993,708

11. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the three and six months ended June 30, 2023 and 2022:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Administrative services	\$ 385,169	\$ 150,991	\$ 565,340	\$ 293,881
Depreciation and amortization	9,214	9,527	18,594	19,047
Directors fees and expenses	29,672	43,004	63,744	69,254
Investor relations and marketing	83,159	43,896	166,645	67,309
Office and sundry	28,271	25,680	54,065	50,482
Professional fees	145,395	91,959	248,572	166,114
Regulatory compliance	29,639	19,254	91,964	100,557
Share-based compensation	654,594	61,661	698,915	118,521
Travel and accommodations	26,342	29,627	63,727	35,880
	\$ 1,391,455	\$ 475,599	\$ 1,971,566	\$ 921,045

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

12. Financial instruments

Credit risk:

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

	Carrying Amount	
	June 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 12,254,812	\$ 7,421,600
Receivables	75,102	76,582
	\$ 12,329,914	\$ 7,498,182

The Corporation manages credit risk by holding the majority of its corporate cash and cash equivalents with high quality financial institutions, where management believes the risk of loss to be low.

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

The Corporation has cash balances and interest-bearing debt. The Corporation's current policy is to invest excess cash in interest bearing savings accounts. The convertible promissory notes as detailed in Note 8 bear interest based on the SOFR rate, for which a 1% increase or decrease would result in an increase or decrease of annual interest expense of approximately \$135,000.

b) Foreign currency risk

The functional currency of the Corporation is the Canadian dollar, and the functional currency of the Corporation's subsidiaries is the Mongolian tugrik. Additionally, the Corporation incurs expenses 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 is also exposed to foreign exchange risk on its US dollar denominated convertible promissory note. If the MMC Strategic Alliance is terminated without prior to conversion, the balance outstanding on the convertible promissory note, as well as any capitalized interest, is due within 60 days. Accordingly, the Corporation is subject to risks associated with fluctuations in the Canadian/US dollar exchange rate that may make the convertible promissory note more costly to repay.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

12. Financial instruments (continued)

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

	June 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 7,862,340	\$ 311,141
Trade and other payables	(48,162)	(215,506)
Convertible promissory note	(13,771,986)	-
	\$ (5,957,808)	\$ 95,635

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$595,800 (December 31, 2022 - \$9,600).

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

	June 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 24,172	\$ 35,194
Trade and other receivables	70,518	69,559
Trade and other payables	(142,165)	(61,274)
	\$ (47,475)	\$ 43,479

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$4,700 (December 31, 2022 - \$4,300).

c) Price risk

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

Fair Value:

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

12. Financial instruments (continued)

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

	June 30, 2023			December 31, 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets and liabilities measured at fair value:						
Convertible promissory notes	\$ -	\$ -	\$ 13,771,986	\$ -	\$ -	\$ -

13. Related parties

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

	Six months ended June 30,	
	2023	2022
Directors' fees and other compensation	\$ 85,500	\$ 68,500
Share-based compensation to directors	414,800	75,400
Executive compensation and benefits	989,893	539,663
Share-based compensation to key management	377,265	45,807
	\$ 1,867,458	\$ 729,370



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2023 and 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS
Three and six months ended June 30, 2023

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This Management Discussion and Analysis (“MD&A”), dated August 1, 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 unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2023 and 2022, 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 17 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 Minerals District (“KMD”). The KMD is located within the Trans Altai Terrane of the Central Asian Orogenic Belt (“CAOB”). The CAOB extends 2,500 kilometres from the Ural Mountains to eastern China. The belt hosts several world class porphyry and porphyry related copper and gold deposits, including one of the world’s largest gold deposits, Muruntau, in Uzbekistan, as well as Rio Tinto’s Oyu Tolgoi copper-gold deposit, located approximately 650 kilometres east of the KMD in southeast Mongolia.

The discovery of the KMD is the result of more than 17 years of exploration by Erdene in an underexplored region of southwest 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 (“ZM”) molybdenum-copper 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 is advancing the high-grade, open-pit BK 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 led to supply chain issues, particularly at Mongolia’s land borders with China, that 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, and commenced early construction works.

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 a total of 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 promissory note to finance an updated Feasibility Study (“2023 FS”) and Life of Mine (“LOM”) Plan for the BK Gold Project. Since this time, Glogex Consulting, a leading Mongolian geology and mining consulting firm, has assisted Erdene and MMC in preparing an internal update of the 2020 FS. In early May, MMC advanced the second tranche of US\$5 million to EM to undertake pre-development 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, which is expected in Q3 2023.

Work on the 2023 FS is nearing completion, with results scheduled to be announced in mid Q3 2023. The FS is being prepared by the same consortium of consultants as the 2020 FS and incorporates updated reserves from BK as well as recently discovered, near surface, reserves from Dark Horse into an updated mine plan. The 2023 FS is expected to bring forward grade, targeting a 15-25% increase in average annual gold production compared to the 2020 FS. Additional design and value engineering work will also optimize plant throughput, targeting 650,000 tonnes per annum, alongside capital and operating cost updates. Working with MMC, Erdene has received update quotations for major plant equipment and non-process infrastructure items, and consistent with macro-economic trends, expects cost increases of 25 to 50% compared to the 2020 FS.

Erdene remains in discussion with international financial institutions 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 early 2022. The debt package will be finalized following the delivery and final review of the 2023 FS. Concurrently, discussions continue with other financiers to secure the balance of capital for development.

During the second quarter of 2023, Erdene's exploration team carried out the first phase of the 2023 gold exploration program, drilling approximately 1,000 metres and conducting an induced polarization ("IP") gradient array survey over nine square kilometres of the 20 km² Greater Dark Horse prospect at BK. The program identified multiple areas of near-surface gold and indicator element anomalism, with 16 of 18 holes intersecting anomalous gold (greater than 0.1 g/t Au) or indicator elements. Gold, together with antimony, arsenic and molybdenum are characteristic of the Dark Horse deposit and were instrumental in the initial discovery of the high-grade, near-surface Dark Horse Mane gold mineralized trend.

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

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

Highlights and Significant Subsequent Events

Bayan Khundii Gold Project

- Progressed early works, site establishment and procurement for the BK Gold Project
 - Completed detailed design and engineering for 12 of 14 facilities and commenced shop fabrication drawings for process plant
 - Commenced next stage works for longest lead items under contract, including Mills, Elution Plant, and Filter Presses
 - Initiated site preparation for construction, including access road repairs, temporary facilities, earth works, and batch plant installation
- Progressed the NI 43-101 Feasibility Study for the Project
 - Substantially completed the hydrogeological, metallurgy, geotechnical, mining, processing and cost estimation works for the 2023 FS update
 - Updated NI 43-101 2023 FS scheduled to be delivered in mid-Q3 2023
- Advanced regulatory approvals and secured key permits for mine development
 - Obtained approval for 12 project facilities and received construction permits for nine facilities, including the process plant
 - Received regulatory approval of the Project's 2023 operational plans
- Launched 2023 community engagement program
 - Established Bayankhongor province branch office in early Q2
 - Held community information sessions in advance of construction
 - Implemented measures for the company's herder livelihood support program and local cooperation activities

Khundii Minerals District Exploration

- Completed 4,100 metre drill program at ZM
 - Expanded mineralization on the fringes of current resource
 - Discovered resource grade mineralization 1.7km from current deposit
- Conducted first phase of 2023 gold exploration program at the Greater Dark Horse prospect at BK
 - Drilled 1,040 metres intersecting anomalous gold and/or indicator elements in 16 of 18 shallow holes
 - Completed IP survey over 9km² area identifying several targets for follow-up exploration

Corporate

- Closed the second tranche of the MMC Strategic Alliance
 - MMC has invested US\$10M into Erdene Mongol through convertible promissory notes
 - Final advance tranche of US\$30M expected in Q3, following delivery of the NI 43-101 Feasibility Study update
- Progressed BK Project Finance with international financial institutions
 - Due diligence largely complete, pending review of 2023 FS update
 - Discussions proceeding in parallel with financiers for the balance of project capital
- Recorded a net loss of \$2,507,581 for the three months ended June 30, 2023, compared to a net loss of \$1,697,748 for the three months ended June 30, 2022
 - Exploration and evaluation expenditures, including capitalized expenditures, totaled \$5,478,394 for the three months ended June 30, 2023, compared to \$3,032,415 for the comparative prior year quarter due to an increased drilling activity, expenditures on the FS update, payments on long-lead items, and an increase in non-cash share-based compensation due to the timing of the annual options grant
 - Corporate and administrative expenses totaled \$1,391,455 for the three months ended June 30, 2023, compared to \$475,599 for the three months ended June 30, 2022, with the year-on-year increase primarily due to expenditures associated with the negotiation and announcement of the MMC Strategic Alliance as well as higher administrative salaries due to the timing of annual performance bonuses and cost-of-living adjustments due to the timing of the annual performance grants

Strategy and Outlook

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

In January 2023, the Company announced a Strategic Alliance with MMC to develop the gold deposits of the KMD. MMC is the largest private producer and exporter of high-quality washed hard coking coal in Mongolia. MMC owns and operates the Ukhaa Khudag and the Baruun Naran open pit coking coal mines, both located in Umnugovi Aimag (South Gobi Province), Mongolia. The shares of MMC are listed on the main board of the Hong Kong Stock Exchange (HKEx: 975), and the company has a current market capitalization of approximately US\$400 million.

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

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

Since announcing the results of the 2020 FS, Erdene has advanced permitting, procurement, and construction readiness activities. 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 close of the second tranche of the MMC Strategic Alliance, the Company executed an early works contract with MCS Properties, an affiliate of MMC, in late June. The early works contract scope includes final design and engineering works, establishment of temporary construction facilities, including aggregate crushing and concrete batch plant, and earth works. The Company expects to reach a formal construction decision for Bayan Khundii later in 2023, following the final close of the Strategic Alliance and the arrangement of debt financing.

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

In Q2 2023, Erdene completed a 4,100-metre drill program at its ZM project, one of Asia's largest undeveloped molybdenum-copper deposits, successfully expanding mineralization at this deposit. Along with the exploration work, Erdene will complete further market, technical and economic studies as well as permitting work in the coming months, to build upon the conceptual assessment completed by RPMGlobal (formally Minarco-Mine Consult) in late 2021. Beyond the ZM Deposit, the broader license hosts several high-potential copper and molybdenum prospects. The northern portion of the ZM porphyry complex hosts a large area of disseminated copper mineralization within several kilometres of phyllic and potassic altered quartz monzonite and granodiorite intrusives. Multiple copper mineralized zones have been intersected in wide-spaced drilling, including 34 metres of 1.3% copper and 9.24 g/t silver from 308 to 342 metres (hole ZMD-121). The large ZM porphyry complex remains largely untested and management sees several potential areas for resource expansion and discovery across the license.

Erdene continues to evaluate acquisition opportunities throughout the KMD. Over the past decade Erdene has developed the largest proprietary geologic database of Southwest Mongolia's mineralization that has led to the identification of more than 20 high-priority targets for acquisition. The Company expects that through its partnership with MMC, it will be an active participant in license tenders in the KMD. Additionally, the Company will selectively evaluate precious and industrial metals opportunities in other parts of the country where the Company's historical work has demonstrated prospectivity.

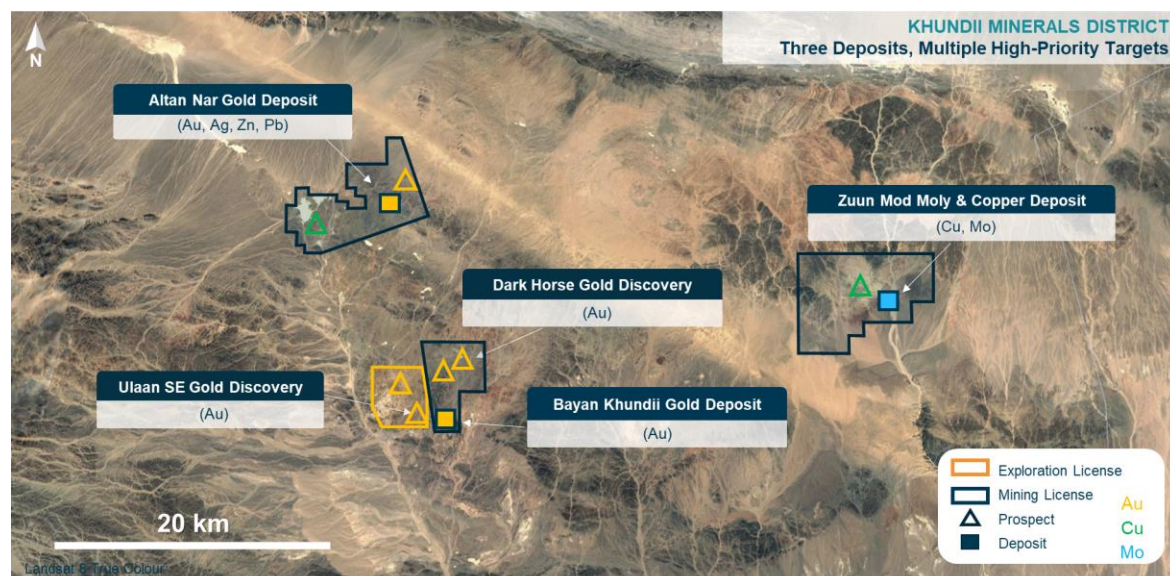
Development and Exploration Projects

NI 43-101 Technical Reports – Resources and Reserves

On September 15, 2018, the Company announced a resource estimate for the Bayan Khundii and Altan Nar deposits. 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 Zuun Mod Molybdenum-Copper resource.

The Bayan Khundii gold project is located on the 2,309-hectare Khundii mining license held by Erdene's Mongolian subsidiary, Erdene Mongol LLC. The Khundii mining license includes the Bayan Khundii 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 scheduled to be released in the coming weeks.

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 25,132 metres of drilling in 236 holes ranging in vertical depths from 8 to 318 metres within the greater Dark Horse prospect, including 18 holes totaling 1,040 metres in 2023.

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

Mane that remains open along strike to the north and south, and at depth. Highlight interceptions at Dark Horse Mane since the initial discovery include:

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

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

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

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

Ulaan Southeast

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

Highlight interceptions at Ulaan SE since the initial discovery include:

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

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

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 few years as the Company's resources were focused on the Bayan Khundii discovery. In late Q4 2019, the Company drilled five holes totaling 667 metres in DZ. Four holes tested the high-grade core area of the Discovery Zone, over a 130-metre strike length, 70 metres of which remains untested by drilling ("Gap Zone"). The fifth hole tested the southern extension of the deposit. Results from the 2019 program, including the intersection of 45.7 g/t gold, 93.4 g/t silver, 1.54% lead and 3.40% zinc over 7 metres beginning at approximately 70 metres vertical depth, within 23 metres grading 17 g/t gold, are amongst the strongest to date. Many of the 2019 high-grade intersections are locally outside or in areas of previously low-grade resource blocks and therefore expand the DZ high-grade core indicating consistency in high-grade mineralization within the identified ore horizon. These results are expected to positively impact the resource at Altan Nar and open the way for further expansion along strike and elsewhere in the district. The program also demonstrated continuity of anomalous gold and base metals along the structural corridor to the south of the DZ, which will be tested further in upcoming programs.

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

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 g/t	Ag g/t	Zn g/t	Pb g/t	AuEq2 g/t	Au Koz	Ag Koz	Zn Kt	Pb Kt	AuEq2 Koz
0.7	Indicated	5.0	2.0	14.8	0.6	0.6	2.8	318	2,350	31.6	29.0	453
	Inferred	3.4	1.7	7.9	0.7	0.7	2.5	186	866	23.7	22.3	277

Notes:

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

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 part of the Strategic Alliance with Mongolian Mining Corporation, Erdene is preparing an updated NI 43-101 Feasibility Study 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. Results of the updated NI 43-101 Feasibility Study are scheduled to be announced in the coming weeks.

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 mineralizing environment existed within the Khundii-Ulaan system with the tuffaceous lithologies acting as preferred hosts for gold mineralization. Exploration planning is currently underway to test multiple high-priority geological, geochemical and geophysical targets across the Khundii-Ulaan target area.

Regional drilling has been restricted to shallow targets with average drill depths of about 100 metres with approximately 70% of regional drill holes having intersected anomalous gold mineralization (defined as >0.1 g/t gold). Success has been driven by the abundance of untested, near surface geochemical and geophysical targets in a region that has had no previous modern exploration. Recent exploration successes testing shallow targets, and the definition of three deposits, exposed at surface, are testament to the discovery potential of this new district. 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, EM 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, EM acquired the remaining 49% interest in the property. This exploration license is in its ninth 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 SE gold prospect, the Ulaan license hosts a porphyry copper prospect primarily based on a broad (5km by 4km) zone of phyllic (quartz-sericite-pyrite) alteration at surface, with characteristics thought to be related to a porphyry intrusion at depth. Rock chip and stream sediment geochemical sampling identified anomalous concentrations of gold, copper and molybdenum in the surrounding area, and geophysical surveys have produced a number of follow-up targets.

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 sericitic 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-sericitic 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. These results along with associated geology, geochemistry and geophysics will inform 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 completed a twelve hole, approximately 4,100 metre drill program at Zuun Mod. Five holes, totaling 2,476 metres, were drilled to confirm continuity of higher-grade mineralization in the central part of the deposit (ZMD-131) and to expand continuity of Indicated Resources at the periphery of the deposit (ZMD-132 to 135). A further seven holes, totaling 1,619 metres (ZMD-136 to 142) tested targets across the greater Zuun Mod porphyry complex.

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

In addition to the molybdenum-copper porphyry deposit, the license hosts a large copper-silver prospect, approximately 2.2 kilometres north of the Zuun Mod deposit. Exploration work at the copper-silver prospect has included geological mapping, vein density mapping, geochemical sampling, geophysical surveys, and wide spaced drilling. Previous drilling intersected 34 metres of 1.3% copper and 9.24 g/t silver from 308 to 342 metres (ZMD-121). The prospect has a very large copper mineralized zone trending over 900 metres with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 to 42 metres).

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

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

Acquisitions

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

Discussion of Operations

Three months ended June 30, 2023 and 2022

The tables below detail exploration and evaluation expenditures for the three months ended June 30, 2023 and 2022.

Quarter ended June 30, 2023	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Camp & field support	\$ 1,047,127	\$ 3,215	\$ 10,005	\$ 310,478	\$ -	\$ 1,370,825
Drilling & analysis	329,810	2,355	-	665,848	-	998,013
Mining studies & pre-development costs	1,863,665	1,029	2,903	67,074	-	1,934,671
Mongolian office costs	-	-	-	-	264,757	264,757
Share-based compensation	-	-	-	-	498,400	498,400
Stakeholder relations	352,346	-	-	2,344	-	354,690
Travel & other	57,038	-	-	-	-	57,038
Total exploration expenditures	3,649,986	6,599	12,908	1,045,744	763,157	5,478,394
Capitalized expenditures	(3,328,130)	(6,599)	-	(948,593)	-	(4,283,322)
Expensed exploration costs 2023	\$ 321,856	\$ -	\$ 12,908	\$ 97,151	\$ 763,157	\$ 1,195,072
E&E assets, April 1, 2023						
	\$ 36,733,445	\$ 4,260,808	\$ 1,668,462	\$ 904,574	\$ -	\$ 43,567,289
Additions	3,328,130	6,599	-	948,593	-	4,283,322
Effect of movements in exchange rates	81,561	13,100	5,191	2,282	-	102,134
E&E assets, June 30, 2023	\$ 40,143,136	\$ 4,280,507	\$ 1,673,653	\$ 1,855,449	\$ -	\$ 47,952,745

Quarter ended June 30, 2022	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Camp & field support	\$ 915,668	\$ 32,162	\$ 277,886	\$ 142,776	\$ -	\$ 1,368,492
Drilling & analysis	178,576	2,528	567,982	606	-	749,692
Mining studies & pre-development costs	489,945	(48)	2,825	54,885	-	547,607
Mongolian office costs	-	-	-	-	210,749	210,749
Share-based compensation	-	-	-	-	19,920	19,920
Stakeholder relations	42,334	-	322	12,825	-	55,481
Travel & other	57,382	10,654	6,018	6,420	-	80,474
Total exploration expenditures	1,683,905	45,296	855,033	217,512	230,669	3,032,415
Capitalized expenditures	(1,721,684)	(45,296)	-	(53,351)	-	(1,820,331)
Expensed exploration costs 2022	\$ (37,779)	\$ -	\$ 855,033	\$ 164,161	\$ 230,669	\$ 1,212,084
E&E assets, April 1, 2022						
	\$ 31,958,297	\$ 4,234,090	\$ 1,746,444	\$ 927,847	\$ -	\$ 38,866,678
Additions	1,721,684	45,296	-	53,351	-	1,820,331
Effect of movements in exchange rates	(431,731)	(49,862)	(19,969)	(18,601)	-	(520,163)
E&E assets, June 30, 2022	\$ 33,248,250	\$ 4,229,524	\$ 1,726,475	\$ 962,597	\$ -	\$ 40,166,846

Exploration and evaluation expenditures, including capitalized expenditures, totaled \$5,478,394 for the three months ended June 30, 2023, compared to \$3,032,415 for the three months ended June 30, 2022.

Camp & field support costs for the three months ended June 30, 2023 were approximately equal to those for the three months ended June 30, 2022 as camp activity was broadly consistent in both periods.

Drilling & Analysis costs for the three months ended June 30, 2023 were \$248,321 greater than for the three months ended June 30, 2022, as the Company drilled approximately 30% more metres in the current period and drilling at Zuun Mod in 2023 was also more expensive due to the costs of mobilization and the depth of the holes.

Mining studies & pre-development costs for the three months ended June 30, 2023, were \$1,387,064 greater than for the three months ended June 30, 2022, due to increased activity associated with the feasibility study update, as well as payments for the purchase of long-lead items in the current year quarter.

Mongolian office costs for the three months ended June 30, 2023, were \$54,008 greater than the prior year quarter primarily due to the timing of annual performance bonuses, which were paid in the second quarter of the current fiscal year, compared to the third quarter of the prior fiscal year.

Similarly, share-based compensation for the three months ended June 30, 2023 was \$478,480 greater than the previous year quarter as annual performance stock option grants were also awarded in the second quarter of the current year, compared to the third quarter of the prior year.

Stakeholder relations costs for the three months ended June 30, 2023, were \$299,209 greater than for the three months ended June 30, 2022, due to the timing of payments under the Local Cooperation Agreement with local communities in support of the Bayan Khundii Gold Project.

Travel & other costs for the current year quarter were \$23,436 less than the prior year quarter due to a decrease in international travel in 2023.

Erdene capitalized exploration and evaluation costs for its Bayan Khundii, Altan Nar and Zuun Mod projects for the three months ended June 30, 2023 and 2022; however, exploration and evaluation expenditures associated with its Ulaan property were expensed in 2023 and 2022, consistent with Company's capitalization policy.

The following table summarizes corporate and administration expenses for the three months ended June 30, 2023 and 2022.

	For the three months ended June 30,		
	2023	2022	Change
Administrative services	\$ 385,169	\$ 150,991	\$ 234,178
Depreciation and amortization	9,214	9,527	(313)
Directors fees and expenses	29,672	43,004	(13,332)
Investor relations and marketing	83,159	43,896	39,263
Office and sundry	28,271	25,680	2,591
Professional fees	145,395	91,959	53,436
Regulatory compliance	29,639	19,254	10,385
Share-based compensation	654,594	61,661	592,933
Travel and accommodations	26,342	29,627	(3,285)
	\$ 1,391,455	\$ 475,599	\$ 915,856

Corporate and administrative expenses totaled \$1,391,455 for the three months ended June 30, 2023, compared to \$475,599 for the three months ended June 30, 2022.

Administrative services expenditures for the three months ended June 30, 2023, were \$234,178 higher than those in the three months ended June 30, 2022, due to the timing of annual performance bonuses, which were paid in the second quarter of the current fiscal year, versus the third quarter of the prior fiscal year, as well as cost-of-living salary increases in the current year.

Directors fees and expenses for the three months ended June 30, 2023 were \$13,332 less than the previous year comparative quarter as the board of directors met less frequently during the current period.

Investor relations and marketing expenditures for the three months ended June 30, 2023, were \$39,263 greater than in the comparative prior year period due to an increase in investor relations activity following

the MMC Strategic Alliance, as well as increased social media marketing compared to the second quarter of 2022.

Professional fees for the three months ended June 30, 2023, were \$53,436 greater than the prior year due to the engagement of financial advisors to assist with capital markets support and marketing.

Regulatory compliance expenditures for the three months ended June 30, 2023, were \$10,385 greater than those in the prior year quarter due to the timing of payments related to the Corporations Annual General Meeting.

Share-based compensation for the three months ended June 30, 2023 was \$592,933 greater than the previous year quarter as annual performance stock option grants were awarded in the second quarter of the current year, compared to the third quarter of the prior year.

Depreciation and amortization, Office and sundry and Travel and accommodations expenditures for the three months ended June 30, 2023, were not materially different from those incurred in the prior year comparative period.

Six months ended June 30, 2023 and 2022

The tables below detail exploration and evaluation expenditures for the six months ended June 30, 2023 and 2022.

Period ended June 30, 2023	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Camp & field support	\$ 1,352,617	\$ 19,112	\$ 25,898	\$ 380,871	\$ -	\$ 1,778,498
Drilling & analysis	344,921	4,701	-	666,434	-	1,016,056
Mining studies & pre-development costs	2,504,256	40,190	4,386	67,692	-	2,616,524
Mongolian office costs	-	-	-	-	487,147	487,147
Share-based compensation	-	-	-	-	511,310	511,310
Stakeholder relations	361,110	-	-	29,090	-	390,200
Travel & other	115,841	-	-	-	-	115,841
Total exploration expenditures	4,678,745	64,003	30,284	1,144,087	998,457	6,915,576
Capitalized expenditures	(4,348,125)	(64,003)	(1,495)	(948,593)	-	(5,362,216)
Expensed exploration costs 2023	\$ 330,620	\$ -	\$ 28,789	\$ 195,494	\$ 998,457	\$ 1,553,360

E&E assets, January 1, 2023	\$ 36,183,734	\$ 4,257,954	\$ 1,688,477	\$ 923,991	\$ -	\$ 43,054,156
Additions	4,348,125	64,003	1,495	948,593	-	5,362,216
Effect of movements in exchange rates	(388,723)	(41,450)	(16,319)	(17,135)	-	(463,627)
E&E assets, June 30, 2023	\$ 40,143,136	\$ 4,280,507	\$ 1,673,653	\$ 1,855,449	\$ -	\$ 47,952,745

Period ended June 30, 2022	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Camp & field support	\$ 1,598,409	\$ 74,077	\$ 309,556	\$ 204,305	\$ -	\$ 2,186,347
Drilling & analysis	211,401	5,199	572,624	1,361	-	790,585
Mining studies & pre-development costs	1,725,568	69,150	27,994	55,547	-	1,878,259
Mongolian office costs	-	-	-	-	514,395	514,395
Share-based compensation	-	-	-	-	39,473	39,473
Stakeholder relations	412,553	944	322	12,825	-	426,644
Travel & other	70,867	11,341	7,237	11,839	-	101,284
Total exploration expenditures	4,018,798	160,711	917,733	285,877	553,868	5,936,987
Capitalized expenditures	(3,728,052)	(160,150)	(1,726)	(53,351)	-	(3,943,279)
Expensed exploration costs 2022	\$ 290,746	\$ 561	\$ 916,007	\$ 232,526	\$ 553,868	\$ 1,993,708

E&E assets, January 1, 2022	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ -	\$ 37,928,453
Additions	3,728,052	160,150	1,726	53,351	-	3,943,279
Effect of movements in exchange rates	(1,390,801)	(176,927)	(72,751)	(64,407)	-	(1,704,886)
E&E assets, June 30, 2022	\$ 33,248,250	\$ 4,229,524	\$ 1,726,475	\$ 962,597	\$ -	\$ 40,166,846

The following table summarizes corporate and administration expenses for the six months ended June 30, 2023 and 2022.

	For the six months ended June 30,		
	2023	2022	Change
Administrative services	\$ 565,340	\$ 293,881	\$ 271,459
Depreciation and amortization	18,594	19,047	(453)
Directors fees and expenses	63,744	69,254	(5,510)
Investor relations and marketing	166,645	67,309	99,336
Office and sundry	54,065	50,482	3,583
Professional fees	248,572	166,114	82,458
Regulatory compliance	91,964	100,557	(8,593)
Share-based compensation	698,915	118,521	580,394
Travel and accommodations	63,727	35,880	27,847
	\$ 1,971,566	\$ 921,045	\$ 1,050,521

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2023			Fiscal 2022			Fiscal 2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Net loss	\$2,508	\$1,139	\$1,077	\$1,980	\$1,698	\$1,231	\$3,635	\$1,936
Basic loss per share	\$0.01	\$0.00	\$0.00	\$0.01	\$0.01	\$0.00	\$0.01	\$0.01
Total assets	\$62,765	\$57,401	\$52,533	\$47,785	\$42,495	\$44,230	\$46,544	\$42,319

For the three months ended June 30, 2023, the Corporation recognized a net loss of \$2,507,581 compared to a net loss of \$1,697,748 for the same period in 2022.

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

Liquidity and Capital Resources

At the date of this MD&A, the Corporation had approximately \$10.7 million of cash and a working capital deficit of \$1.8 million, calculated as current assets less current liabilities, including US\$10 million of convertible promissory notes related to the MMC Strategic Alliance. Excluding the convertible promissory notes, working capital is \$12.0 million as at the date of this MD&A.

Funds raised have been used to advance the Corporation's projects in Mongolia and to meet administrative costs in support of those programs (see Development and Exploration Projects and Discussion of Operations). The ability of the Corporation to continue with its development and exploration programs is contingent upon securing additional funds through the formation of alliances, including the MMC Strategic Alliance, debt financing, asset sales and option and/or joint venture agreements. The timing and availability of additional financing will be determined largely by the close of the third stage of the MMC Strategic Alliance, the conclusion of project finance diligence and negotiations, the results of the Corporation's ongoing exploration and development programs and general market conditions.

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

	August 1, 2023	December 31, 2022
Common shares issued and outstanding	344,417,990	344,300,376
Options outstanding	20,700,000	17,555,000
Warrants outstanding	25,264,122	25,264,122
DSU's outstanding	7,630,576	7,287,272
Total instruments outstanding	398,012,688	394,406,770

Contractual Obligations

The following table summarizes the maturity of the Corporation's contractual obligations at June 30, 2023:

	Total	Less than one year	1 - 2 years
Office leases	\$ 40,876	\$ 35,037	\$ 5,839
Accounts payable and accrued liabilities	384,632	384,632	-
Convertible promissory note	13,771,986	13,771,986	-
	\$ 14,197,494	\$ 14,191,655	\$ 5,839

Other Financing Arrangements and Commitments

MMC Strategic Alliance

In January 2023, Erdene entered a Strategic Alliance with MMC where MMC agreed to invest a total of US\$40 million for a 50% interest in Erdene's Mongolian subsidiary, Erdene Mongol LLC. This investment has been structured as a series of three promissory notes, that will be converted into an equity interest in EM following a BK construction decision, and certain other conditions.

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%. 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.

On May 2, the Corporation executed a second US\$5 million convertible note agreement with MMC under the terms of the Investment Agreement. Consistent with the convertible note agreement executed in January 2023, the note bears interest at a rate equal to SOFR as at the date the amount is advanced plus 8%. The convertible note, and any accrued interest, is expected to be converted to a further 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.

The final convertible note agreement for US\$30M is expected to be executed, and funds advanced in late Q3 2023.

In the event that the Corporation and MMC do not complete the Third Closing, the notes, and any accrued interest, shall be 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

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

Off-Balance Sheet Arrangements

As at June 30, 2023, the Corporation had no off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

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

A detailed summary of the Corporation's significant accounting policies and the key sources of estimation uncertainty that have a risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next twelve months are included in Note 2 to the consolidated financial statements for the year ended December 31, 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 \$1,210,225 of non-cash share-based compensation to the statement of comprehensive loss for the six months ended June 30, 2023 (2022 - \$157,994).

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, 2023. These changes were made in accordance with applicable transitional provisions.

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 application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

Financial Instruments and Other Risks

Financial Instruments

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

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

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

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

Fair Value

During the six months ended June 30, 2023 and year ended December 31, 2022, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	June 30, 2023			December 31, 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets and liabilities measured at fair value:						
Convertible promissory notes	\$ -	\$ -	\$13,771,986	\$ -	\$ -	\$ -

Credit Risk

The Corporation manages credit risk by holding the majority of its corporate cash and cash equivalents with high quality financial institutions, where management believes the risk of loss to be low.

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

The Corporation has cash balances and interest-bearing convertible debt. The Corporation's current policy is to invest excess cash in interest bearing savings accounts. The convertible promissory note held by MMC bears interest based on the SOFR rate, for which a 1% increase or decrease would result in an increase or decrease of annual interest expense of approximately \$135,000.

Foreign Currency Risk

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

The Corporation is also exposed to foreign exchange risk on its US dollar denominated convertible promissory notes. If the MMC Strategic Alliance is terminated prior to conversion, the balance outstanding on the convertible promissory notes, as well as any capitalized interest, is due within 60 days. Accordingly, the Corporation is subject to risks associated with fluctuations in the Canadian/US dollar exchange rate that may make the convertible promissory note more costly to repay.

The Corporation's exposure to US dollar currency risk was \$5,957,808 as at June 30, 2023 (December 31, 2022 - \$95,635). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$595,800 (December 31, 2022 - \$9,600).

The Corporation's exposure to Mongolian Tugrik currency risk was \$47,475 as at June 30, 2023 (December 31, 2022 - \$43,479). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$4,700 (December 31, 2022 - \$4,300).

Price Risk

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

Other Risks

In conducting its business, the principal risks and uncertainties faced by the Corporation relate primarily to exploration results, permitting, financing and, to a lesser extent, metal and commodity prices. Exploration for minerals and development of mining operations involve many risks, many of which are outside the Corporation's control. In addition to the normal and usual risks of exploration and mining, the Corporation works in remote locations that lack the benefit of infrastructure and easy access. More information on risks is available in the Corporation's Annual Information Form available on SEDAR at www.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 June 30, 2023 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Erdene's internal controls over financial reporting as of June 30, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (2013)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management's evaluation, the CEO and the CFO have concluded that as of June 30, 2023, 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.Ge. (Nova Scotia) is a qualified person under NI 43-101 and supervises all of the Corporation's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar, Blue Coast Research Ltd in Parksville British Columbia, Canada, or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards, field and laboratory splits, and blanks.

The disclosure in this MD&A of scientific or technical information about mineral projects on Erdene's properties has been reviewed and approved by Peter Dalton, P. Geo, who is not independent of the Corporation.

The information in this MD&A that relates to the financial models for the 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.