

Overview

The past year has been one of the most productive in Erdene's history. In the last twelve months we established the Khundii Gold Project as one of the highest-grade, open-pittable gold projects globally, with an industry-leading projected return on investment for an advanced-stage project. This cornerstone Project is in an under-explored region of the one of the world's great gold belts, where our technical team possesses unrivalled experience and knowledge of opportunities for further discovery.

2018 began with the completion of drilling and technical studies in support of the maiden independent mineral resource for our Bayan Khundii gold deposit, as well as an updated resource for the neighbouring Altan Nar gold-polymetallic deposit. The year culminated with the December announcement of a robust Preliminary Economic Assessment ("PEA") study for the Khundii Gold Project, incorporating both of these resource estimates. Prepared by RPM Global, this independent study confirmed the high-return, low-capital and low-operating cost potential of the Project, the anchor development in the emerging Khundii Gold District. Erdene commenced a Pre-Feasibility Study ("PFS") for the Khundii Gold Project in March 2019.

While we are focused on developing and expanding the Khundii Gold Project, we continue to explore the broader Khundii Gold District. The region hosts the full spectrum of arc-related base and precious metal systems, including copper-molybdenum porphyries, intermediate sulphidation/carbonate base metal gold deposits, and low sulphidation epithermal gold and gold-silver systems. Over the past decade, our team has developed a proprietary geologic database for southwestern Mongolia. This has led to the identification of more than 20 high-priority targets for acquisition. In late 2018, Mongolia's Ministry of Mining and Heavy Industry re-opened the region to new license acquisitions through an open tendering process. We intend to bid aggressively as our priority targets become available. This District offers exceptional discovery potential which could create significant shareholder value.

Khundii Gold Project

In December 2018, we announced the results of an independent PEA¹ study for our 100%-owned Khundii Gold Project in southwest Mongolia. Highlights of the PEA are as follows:

- After-tax NPV at 5% discount rate and US\$1,200/oz gold price of US\$99 million and IRR of 56%
- Pre-tax NPV5% of US\$135 million and IRR of 70%
- Initial capital expenditure of US\$32 million, using a contract mining fleet
- Bottom quartile all-in sustaining cash cost of US\$714/oz of gold recovered
- Life of mine head grade of 3.42 g/t gold – 3x global average for open pit gold mines
- Average annual gold production of 51,200 oz with an eight-year mine life
- Payback of 2 years

¹ The PEA is by nature, a preliminary economic study, based in part on Inferred Resources. Inferred Resources are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, which is required for a prefeasibility study or feasibility study. Mineral resources that are not mineral reserves do not have demonstrated economic viability and there is no certainty that the PEA will be realized.

The PEA envisions a high-grade, open-pit mine beginning at Bayan Khundii, eventually incorporating resources from Altan Nar. The development includes a conventional gravity separation circuit and a carbon in pulp plant with processing capacity of 1,800 tonnes per day. Over an eight-year operating life, the mine is projected to produce 412,000 ounces (ozs) at an average grade of 3.42 g/t gold.

The PEA is based on the resource announced in September that includes 751,000 ozs of 2.3 g/t gold Measured and Indicated Resources and 291,000 ozs of Inferred Resources at 1.8 g/t gold, as well significant silver, lead and zinc. The heart of this resource is 642,000 ozs grading 3.7 g/t gold (Measured & Indicated, at cut-off of 1.4 g/t gold). At that higher cut-off, the very high-grade Bayan Khundii near-surface gold zones contain 357,000 ozs of 5.2 g/t gold, of Measured and Indicated material.

The PEA in-pit resources comprise 2.7 million mineable tonnes from the Bayan Khundii resource at an average head grade of 3.65 g/t gold, of which 98% are Measured and Indicated Resources, and 1.9 million mineable tonnes at an average head grade of 3.11 g/t gold, of which 70% are Measured and Indicated Resources from Altan Nar. The PEA assumes an 82% recovery of modelled resources, and approximately 130,000 ozs of high-grade material is outside the pit perimeter as defined in the PEA.

With these strong results, Erdene commenced a NI 43-101 Pre-Feasibility Study (“PFS”), led by Tetra-Tech Inc., in March 2019 which is scheduled to be announced in Q3 2019. Concurrently, Erdene’s Mining Studies Team is undertaking mining, geotechnical, metallurgical, waste management and hydrogeological studies in support.

In April 2019, we received Mineral Resources and Petroleum Authority of Mongolia (MRPAM) Resource Council approval for our Bayan Khundii resource registration application. We expect to receive the mining license by the end of June 2019. The Altan Nar license application process is also underway. Mongolian mining licenses are valid for an initial 30-year term, with provisions to renew for two additional 20-year terms, providing security of tenure.

Increasingly, our industry is focused on large-volume, capital-intensive, low-grade developments, launched in times of strong gold prices, which leads to declining returns and unstable businesses in periods of falling gold prices. With the Khundii Gold Project development, we are pursuing a modest scale, high-grade project, utilizing simple processing, with a forecasted high return on investment. This approach minimizes operational and financial risk, protects current shareholder capital, and is expected to provide near-term cash flows to reinvest in further exploration or acquisition.

Project Leadership

Project engineering and permitting work is being conducted under the guidance of our Technical Committee, chaired by Cameron McRae, a member of Erdene’s Board of Directors. Cameron is the former President of Oyu Tolgoi LLC, where he led the construction and commissioning of the US\$6 billion copper-gold mine, Mongolia’s largest mining project by a large margin, and one of the top-five globally. He is joined on the Technical Committee by David Mosher, former President and CEO of High River Gold Mines, developer of gold mines in Burkina Faso and Russia, and Chris Cowan, a mining executive with over 40 years of experience.

This group is supported by a very strong Board of Directors, which in addition to Cameron and David includes Dr. Anna Biolik, Canada’s former ambassador to Mongolia, Layton Croft, a mining executive with 24 years of Mongolia experience, and John Byrne, a seasoned finance and business professional. This group, as well as the Canadian and Mongolian management teams have the skills to see this project through to production.

Chris Cowan, a member of the Erdene team since inception, will be retiring from the Board following our Annual General Meeting. On behalf of the Board of Directors and Management, I would like to thank Chris for his enormous contributions. Chris and I have worked together in Mongolia for over 20 years, and he has been a big part of the Company's success, first as our VP Exploration in Asia, and since 2017, as Chairman of our Board of Directors.

Exploration and Acquisition

The Khundii Gold District lies within the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. Modern exploration in the portion of the Belt located in southwestern Mongolia has been very limited, with the exception of the work carried out by our Company. However, even in our area of greatest focus, the Khundii Gold District, drilling has been limited to approximately 150 metres depth from surface at our two deposits. Given the limited work to date, the degree of success is compelling and speaks to the high probability of further discovery.

Our 9,500-metre 2018 drill program was divided between the Khundii Project and greenfield prospects. It included 4,900 metres of infill drilling at Bayan Khundii, which was incorporated in our September 2018 mineral resource estimate. The remaining drilling was concentrated on the Altan Arrow, Khundii North, Ulaan and CSZ prospects on our Khundii and Ulaan licenses. Approximately 70% of these drill holes intersected anomalous gold mineralization (>0.1 g/t gold), and three holes intersected more than 20 g/t gold over 1 to 2 metre intervals. All of this work demonstrates potential for further discoveries and provides targets for future exploration.

The 2019 drill program calls for almost 6,000 metres of drilling between the Khundii Gold Project and the broader region. Approximately 3,000 metres of drilling is designated for Bayan Khundii and Altan Nar. This will firm up resources for the Pre-Feasibility Study ("PFS"), with the remainder of the drilling focused on the targets proximal to the Bayan Khundii deposit.

We see a number of opportunities to expand resources, through exploration on our licenses and also through acquisition of additional exploration licenses in the region. Over the past decade, our Company has developed the largest proprietary database of southwestern Mongolia's geology and mineralization. We have identified more than 20 priority exploration targets and intend to participate in tender applications for these prospects as they become available. Recently, state-funded mapping programs have been completed in the area, paving the way for new license tenders to be issued for prospective properties in Mongolia's southwestern region.

Social Licence to Operate

Erdene's goal is to create value for all stakeholders through the discovery and development of resource projects in Mongolia. We are committed to sustainable development and we are mindful of our economic, social, and environmental impacts. The Corporation contributes to many initiatives at the local and provincial levels, focused on improving local livelihoods, education and public health. Our partnerships with community stakeholders will continue to enhance our social licence to operate as we proceed towards production.

We received endorsement of our efforts to date in 2018, with the results of an independent stakeholder survey. A team from the University of British Columbia, led by Dr. Jocelyn Fraser, undertook a research project from November 2017 through July 2018 to assess the Company's relationship with its broader stakeholder group. Overall, the researchers noted that Erdene is viewed positively by the community, with residents seeing significant value from the Company's local education and employment programs.

Financial Position

We financed our 2018 achievements by raising \$6 million in June of 2018. This included \$1.4 million from Mongolian investors, when Erdene became the first company to cross-list its shares on the Mongolian Stock Exchange. In February 2019, we completed a \$2.5 million private placement financing, which was oversubscribed from the initial target proceeds of \$1.75 million. These funds were used to launch the PFS and Detailed Environmental Impact Assessment (“DEIA”), to complete the necessary drilling at Bayan Khundii, to support the PFS, and to complete the repurchase of a 1% net smelter return royalty from Sandstorm Gold Limited that was completed in April 2019. Management expects this acquisition to be accretive as the present value of royalty payments implied by the PEA is well in excess of the repurchase price.

Current funds will support operations through early Q3. However, we are managing cash flows until we identify the optimal path for future funding. We are in discussions with several parties, including international financial institutions that act as cornerstone investors in projects like the Khundii Gold Project.

Share performance for 2018 was challenging, consistent with that for most of our peers in the junior precious metals exploration sector. However, Erdene’s current US\$25M market capitalization is approximately one quarter of the value implied by our recent PEA, ignoring the substantial potential of additional resources in the region as well as the molybdenum-copper Zuun Mod deposit for which we hold a mining license. We are optimistic that the market will recognize our efforts to advance this high-quality project and the potential to add ounces given our experience in the region.

Closing

Erdene is focused on two strategic priorities – advancing the Khundii Gold Project toward production of one the world’s highest-grade, open-pit gold mines and expanding precious and base metal resources in the Khundii Gold District through exploration and acquisition.

We have made significant advances over the past year, establishing ounces in the ground, creating a team to move our projects forward, and building our social licence. We are very excited by the potential we see on the ground and are committed to generating maximum value for fellow shareholders through the development and growth of the Khundii Gold Project. Please contact any of us should you have suggestions, questions, comments, or ideas to share.

Sincerely,



Peter C. Akerley
President and CEO
May 22, 2019