CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2018 and 2017

(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 interim consolidated financial statements, they must be accompanied by a notice to this effect. These unaudited condensed interim consolidated financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed interim consolidated statements of financial position of Erdene Resource Development Corporation as at September 30, 2018 and December 31, 2017 and the unaudited condensed interim consolidated statements of comprehensive loss, changes in equity and cash flows for the three and nine months ended September 30, 2018 and 2017. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2018 and 2017 condensed interim consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Condensed Interim Consolidated Statements of Financial Position
(Canadian dollars)
(Unaudited)

	Notes		September 30, 2018		December 31, 2017
Assets					
Current assets:					
Cash		**$**	**3,210,654**	$	3,225,202
Receivables			**136,940**		148,069
Prepaid expenses			**73,925**		47,479
			3,421,519		3,420,750
Non-current assets:					
Exploration and evaluation assets	**6**		**14,591,791**		11,394,843
Property, plant and equipment			**123,104**		130,283
			14,714,895		11,525,126
Total Assets		**$**	**18,136,414**	**$**	14,945,876
Liabilities and Equity					
Current liabilities:					
Trade and other payables		**$**	**446,514**	$	191,600
Total Liabilities		**$**	**446,514**	$	191,600
Shareholders' Equity					
Share capital	**8**	**$**	**103,815,481**	$	99,890,270
Contributed surplus			**15,955,065**		13,775,386
Accumulated other comprehensive loss			**(1,179,503)**		(894,855)
Deficit			**(100,901,143)**		(98,016,525)
Total Shareholders' Equity			**17,689,900**		14,754,276
Total Liabilities and Equity		**$**	**18,136,414**	$	14,945,876

Commitments (Note 7)

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

Approved on behalf of the Board:

Signed "Dr. Anna G. Biolik"
____________________________ Director

Signed "T. Layton Croft"
____________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss
(Canadian dollars)
(Unaudited)

	Notes	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Operating Expenses					
Exploration		**$ 404,652**	$ 317,209	**$ 1,304,254**	$ 1,288,186
Corporate and administration	**9**	**335,239**	383,204	**1,613,286**	2,108,396
Loss from operating activities		**739,891**	700,413	**2,917,540**	3,396,582
Finance income		**(17,746)**	(25,334)	**(38,960)**	(74,487)
Foreign exchange loss		**21,339**	38,155	**6,038**	55,936
Net Loss		**$ 743,484**	$ 713,234	**$ 2,884,618**	$ 3,378,031
Other comprehensive loss:					
Foreign currency translation difference arising on translation of foreign subsidiaries		**589,718**	469,407	**284,648**	424,832
Other comprehensive loss		**589,718**	469,407	**284,648**	424,832
Total comprehensive loss		**$ 1,333,202**	$ 1,182,641	**$ 3,169,266**	$ 3,802,863
Basic and diluted loss per share		**$ 0.01**	$ 0.00	**$ 0.02**	$ 0.02
Basic and diluted weighted average number of shares outstanding		**161,775,791**	145,877,895	**152,689,891**	141,890,154

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated 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, 2017		126,810,031	$ 86,783,669	$ 11,952,465	$ (636,283)	$ (93,989,060)	$ 4,110,791
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(3,378,031)	(3,378,031)
Other comprehensive loss		-	-	-	(424,832)	-	(424,832)
Private placements, net of share issue costs		18,465,555	12,925,317	322,597	-	-	13,247,914
Options exercised		687,500	181,285	(55,310)			125,975
Share-based compensation		-	-	1,440,255	-	-	1,440,255
Total transactions with owners		19,153,055	13,106,602	1,707,542	-	-	14,814,144
Balance at September 30, 2017		145,963,086	$ 99,890,271	$ 13,660,007	$ (1,061,115)	$ (97,367,091)	$ 15,122,072
Balance at January 1, 2018		**145,963,086**	**$ 99,890,270**	**$ 13,775,386**	**$ (894,855)**	**$ (98,016,525)**	**$ 14,754,276**
Total comprehensive loss for the period:							
Net loss		**-**	**-**	**-**	**-**	**(2,884,618)**	**(2,884,618)**
Other comprehensive income		**-**	**-**	**-**	**(284,648)**	**-**	**(284,648)**
Private placements, net of share issue costs	**8**	**14,834,580**	**3,650,261**	**1,357,750**			**5,008,011**
Options exercised	**8**	**978,125**	**274,950**	**(100,700)**			**174,250**
Share-based compensation	**8**	**-**	**-**	**922,629**			**922,629**
Total transactions with owners		**15,812,705**	**3,925,211**	**2,179,679**	**-**	**-**	**6,104,890**
Balance at September 30, 2018		**161,775,791**	**$ 103,815,481**	**$ 15,955,065**	**$ (1,179,503)**	**$ (100,901,143)**	**$ 17,689,900**

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Cash flows from operating activities:					
Net loss		**$ (743,484)**	$ (713,234)	**$ (2,884,618)**	$ (3,378,031)
Items not involving cash:					
Depreciation and amortization		**5,150**	6,135	**15,574**	13,310
Share-based compensation		**30,615**	32,818	**922,629**	1,440,255
Finance income		**(17,746)**	(25,334)	**(38,960)**	(74,487)
Foreign exchange not related to cash		**21,339**	38,155	**6,038**	55,936
Change in non-cash working capital		**(14,514)**	(9,079)	**246,914**	211,217
Cash flows from operating activities		**(718,640)**	(670,539)	**(1,732,423)**	(1,731,800)
Cash flows from financing activities:					
Issue of common shares, net of issue costs	**8**	**-**	-	**5,008,011**	13,247,914
Proceeds on exercise of stock options	**8**	**-**	75,725	**174,250**	125,975
Cash flows from financing activities		**-**	75,725	**5,182,261**	13,373,889
Cash flows from investing activities:					
Expenditures on exploration and evaluation assets		**(1,205,333)**	(3,193,038)	**(3,485,812)**	(7,021,421)
Expenditures on property, plant and equipment		**(831)**	(415)	**(10,579)**	(72,403)
Interest received		**17,746**	25,334	**38,960**	74,487
Cash flows from investing activities		**(1,188,418)**	(3,168,119)	**(3,457,431)**	(7,019,337)
Effect of exchange rate changes		**(29,047)**	(45,998)	**(6,955)**	(76,306)
Increase (decrease) in cash and cash equivalents		**(1,936,105)**	(3,808,931)	**(14,548)**	4,546,446
Cash and cash equivalents, beginning of period		**5,146,759**	9,426,586	**3,225,202**	1,071,209
Cash and cash equivalents, end of period		**$ 3,210,654**	$ 5,617,655	**$ 3,210,654**	$ 5,617,655

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

1. Nature of operations

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

2. Going concern

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. However, in making its assessment, management is aware of material uncertainties related to events or conditions that cast significant doubt upon the Corporation's ability to continue as a going concern, as described in the following paragraphs.

The Corporation is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Corporation experienced significant losses and negative cash flows from operations for the interim period ended September 30, 2018 and for the years ended December 31, 2017 and 2016 and had a deficit of $100,901,143 at September 30, 2018. The Corporation had working capital of $2,975,005 at September 30, 2018, compared to $3,229,150 at December 31, 2017, representing a $254,145 reduction. Management estimates current working capital is sufficient to fund the Corporation's planned expenditures until the first quarter of 2019; which could be extended with the deferral of planned expenditures. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity or other forms of financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required in the future.

These condensed interim consolidated financial statements do not reflect the adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying amounts of the assets, the reported revenues and expenses, and the statement of financial position classifications used.

3. Basis of presentation

These unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 (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 consolidated financial statements for the year ended December 31, 2017 ("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 interim consolidated financial statements were authorized for issue on behalf of the Board of Directors on November 9, 2018.

4. Changes in Accounting Policies

Erdene has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

<u>IFRS 15 – Revenue from Contracts with Customers</u>

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. Given that the Corporation does not have revenue from contracts with customers, there is currently no impact from adoption of the standard.

<u>IFRS 9 – Financial Instruments</u>

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Corporation adopted IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene. Refer to accounting policies and Note 10 in the unaudited condensed interim consolidated financial statements.

<u>IFRS 2 – Share-based Payments</u>

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The Corporation adopted amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene.

4. Changes in Accounting Policies (continued)

IAS 12: Income taxes

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Corporation adopted amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene.

IFRIC 22: Foreign currency transactions and advance consideration

On December 8, 2016 the IASB issued IFRIC Interpretation 22. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Corporation adopted IFRIC 22 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene.

New accounting standards not yet adopted:

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

IFRS 16 – Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. In January 2016 the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. As the Company currently has limited exposure to leases, no material impact is expected from the future adoption of the standard.

IFRIC 23: Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2019. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

5. Seasonality

The corporation’s business experiences a seasonal pattern in which exploration expenditures and investments in exploration and evaluation assets are concentrated in the second and third quarters of the year due to weather conditions in Mongolia.

(Canadian dollars)

6. Exploration and evaluation assets

	Khundii Gold	Tsenkher Nomin Gold	Zuun Mod Moly/Copper	Ulaan & Other	Total
Balance, January 1, 2017	$ 1,786,195	$ 551,271	$ 728,164	$ 581	$ 3,066,211
Additions	6,109,190	1,480,569	74,062	949,326	8,613,147
Effect of movements in exchange rates	(179,997)	(46,396)	(36,431)	(21,691)	(284,515)
Balance, December 31, 2017	$ 7,715,388	$ 1,985,444	$ 765,795	$ 928,216	$ 11,394,843
Balance, January 1, 2018	**$ 7,715,388**	**$ 1,985,444**	**$ 765,795**	**$ 928,216**	**$ 11,394,843**
Additions	**2,708,298**	**700,138**	**70,074**	**7,302**	**3,485,812**
Effect of movements in exchange rates	**(199,464)**	**(51,390)**	**(20,026)**	**(17,984)**	**(288,864)**
Balance, September 30, 2018	**$ 10,224,222**	**$ 2,634,192**	**$ 815,843**	**$ 917,534**	**$ 14,591,791**

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

Khundii

The license is located in Bayankhongor province in Mongolia. The 4,514 hectare Khundii license includes the Bayan Khundii and Altan Arrow gold prospects. The license is in its eighth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On July 1, 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to this, the Corporation only capitalized the license costs associated with Khundii.

Tsenkher Nomin

The license is located in Bayankhongor province in Mongolia. The 4,669 hectare Tsenkher Nomin license includes the Altan Nar gold, silver, lead, zinc prospect and has an annual renewal in December. 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. On January 1, 2015, having received the initial resource estimate for the Altan Nar prospect, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to 2015, the Corporation only capitalized the license costs associated with Altan Nar.

Zuun Mod/Khuvyn Khar

The property is located in Bayankhongor Province in Mongolia. The 6,041 hectare Zuun Mod property contains a molybdenum-copper resource. The mining license was issued in 2011 and is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms.

(Canadian dollars)

6. Exploration and evaluation assets (continued)

Ulaan & Other

The Ulaan exploration license covers an area of approximately 1,780 hectares, situated immediately adjacent to the Khundii license. The exploration license is in its third year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On August 30, 2017, Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that holds the property. Provided Erdene spends a minimum of US$600,000 on work expenditures on the property over three years, it has the right to acquire the remaining 49% of the shares of Leader, or at Erdene's option, a portion of the property, for the then fair market value of the property or the portion to be acquired. Erdene may extend the option beyond three years by spending a minimum of US$100,000 per annum on work expenditures thereafter.

In April 2013, the Corporation entered into an agreement with Teck Resources Limited ("Teck"), to fund and explore the Corporation's mineral tenements in the Trans Altai region of southwest Mongolia. Under the Teck Alliance, two licenses were staked in early 2015, totaling 1,552 hectares. No major exploration work has been completed on these licenses to date.

7. Commitments

Operating lease rentals are payable as follows:

	September 30, 2018	December 31, 2017
Less than 1 year	**57,691**	62,936
Between 1 and 5 years	**-**	41,957
Total	**$ 57,691**	$ 104,893

The Corporation has an operating lease for office space in Dartmouth, Nova Scotia that expires August 31, 2019.

In 2018, minimum exploration expenditures of USD$1.50 per hectare are required on the Corporation's Tsenkher Nomin and Khundii licenses (USD$7,004 and USD$6,771 respectively).

The Corporation must spend a total of USD$600,000 over three years to have the right to purchase any (or all) of the remaining 49% of Leader (Ulaan). The Corporation can extend the option period beyond three years by spending an additional USD$100,000 per year on exploration work (see Note 6).

On April 21, 2016 the Corporation granted Sandstorm Gold Ltd. ("Sandstorm") a 2% net smelter returns royalty ("NSR Royalty") on Erdene's Tsenkher Nomin and Khundii licenses. Erdene has an option to buy-back 50% of the NSR Royalty for $1.2 million, to reduce the NSR Royalty to 1%, which expires April 14, 2019. Sandstorm has been given a right of first refusal on future stream or royalty financings related to the Khundii and Tsenkher Nomin licenses.

(Canadian dollars)

8. Share Capital

Authorized

An unlimited number of common shares with no par value.

Issued

On June 8, 2018, the Corporation closed a non-brokered common share private placement for gross proceeds of $4.12 million, issuing 10,834,580 units at a price of $0.38 per unit. Each unit consisted of one common share of the Corporation and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.60 for 30 months from the closing date. The Corporation paid finder's fees in the aggregate of $182,400 and issued 480,000 finder's warrants in connection with the private placement. Each finder's warrant is exercisable into one common share of the corporation at $0.60 per share, for a period of 30 months from the closing date. The total fair value on the grant date of the 11,314,580 warrants issued was $1,357,750 ($0.12 per warrant). All securities issued pursuant to the private placement are subject to a four-month hold period from the closing date.

On June 14, 2018, the Corporation closed a financing in connection with a secondary listing of its common shares on the Mongolian Stock Exchange (MSE) for gross proceeds of $1.36 million. This makes the Corporation the first cross-listed company on the MSE. In this transaction, the Corporation issued 4,000,000 common shares at a price of $0.34 per share. The Corporation paid a cash commission of 7% of the gross proceeds to the underwriters of $95,200. The shares issued under the Mongolia offering commenced trading on the MSE on June 19, 2018. Under current Mongolian regulations, the shares listed on the MSE may only be traded through facilities of the MSE until de-listed or until cross-border trades are permitted by Mongolian authorities. In addition, all shares issued pursuant to the Mongolia offering are subject to a four-month hold period in Canada from the closing date of the Mongolia Offering.

Stock Based Compensation

For the nine months ended September 30, 2018, the Corporation charged a total of $922,629 of stock-based compensation expense to the statement of comprehensive loss (2017 – $1,440,255) of which $359,413 is attributable to exploration expenses (2017 – $595,324).

Stock Options

Options granted under the Corporation's option plan vest immediately and are exercisable over a period of five years. Any consideration paid by the optionee on the exercise of options is recorded in share capital. Option transactions and the number of options outstanding at September 30, 2018 are summarized as follows:

	Number of options	Weighted average exercise price
Outstanding at January 1, 2018	**9,703,750**	**$ 0.40**
Granted	**3,060,000**	**0.40**
Expired	**(100,000)**	**0.40**
Exercised	**(978,125)**	**0.18**
Outstanding at end of period	**11,685,625**	**$ 0.42**

(Canadian dollars)

8. Share Capital (continued)

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model and resulted in a charge of $804,600 (2017 – $1,341,800) to share based compensation included in exploration expenses and in corporate and administration expenses.

At September 30, 2018, the Corporation had the following options outstanding:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price of exercisable options	
$0.01 - $0.24	**4,005,625**	**1.19**	**$**	**0.15**
$0.25 - $0.49	**4,860,000**	**3.90**		**0.38**
$0.50 - $0.99	**2,820,000**	**3.53**		**0.86**
	11,685,625	**2.88**	**$**	**0.42**

Deferred Share Units

Deferred Share Units ("DSU") granted under the Corporation's plan to directors and employees have no expiration date and are redeemable upon termination of service. During the nine months ended September, 2018, the Corporation granted 326,755 DSUs with a fair value of $0.36 per DSU (2017 – 115,123 DSUs with fair value of $0.86 per DSU). The fair value of $118,029 (2017 – $98,455) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

DSU transactions and number of DSUs outstanding at September 30, 2018 are summarized as follows:

	Number of DSUs	Weighted average grant price	
Outstanding at January 1, 2018	**3,410,186**	**$**	**0.17**
Granted	**326,755**		**0.36**
Outstanding at end of period	**3,736,941**	**$**	**0.19**

(Canadian dollars)

8. Share Capital (continued)

Warrants

Warrant transactions and the number of warrants outstanding at September 30, 2018 are summarized as follows:

	Number of warrants	Weighted average exercise price
Outstanding at January 1, 2018	**1,075,324**	**$ 1.20**
Issued	**11,314,580**	**0.60**
Outstanding at end of period	**12,389,904**	**$ 0.65**

The remaining contractual lives of warrants outstanding at September 30, 2018, are as follows:

Weighted average exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
$0.01 - $0.99	**11,314,580**	**2.19**
$1.00 - $1.99	**1,075,324**	**0.40**
	12,389,904	**2.03**

9. Corporate and administration

The following table summarizes corporate and administration expenses during the three and nine-month periods ended September 30, 2018 and 2017:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Administrative services	**$ 134,947**	$ 111,001	**$ 405,599**	$ 454,275
Depreciation and amortization	**1,527**	1,635	**4,580**	4,999
Directors fees and expenses	**28,384**	55,118	**103,526**	140,080
Investor relations and marketing	**51,346**	49,472	**141,495**	240,142
Office and sundry	**24,779**	29,811	**88,945**	87,448
Professional fees	**50,130**	31,440	**168,108**	105,678
Regulatory compliance	**10,247**	59,435	**97,050**	136,363
Share-based compensation	**26,239**	27,310	**563,216**	844,931
Travel and accommodations	**7,640**	17,982	**40,767**	94,480
	$ 335,239	$ 383,204	**$ 1,613,286**	$ 2,108,396

(Canadian dollars)

10. 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	
	September 30, 2018	**December 31, 2017**
Cash	**$ 3,210,654**	$ 3,225,202
Receivables	**136,940**	148,069
	$ 3,347,594	$ 3,373,271

The Corporation manages credit risk by holding the majority of its cash with a Canadian Schedule I bank, where management believes the risk of loss to be low. At September 30, 2018, $133,928 or approximately 4% of the balance of cash was held in banks outside Canada (December 31, 2017 – $113,555 or 4%).

Liquidity Risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2018, the Corporation had a cash balance of $3,210,654 (December 31, 2017 - $3,225,202) to settle current liabilities of $446,514 (December 31, 2017 - $191,600).

Market Risk:

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

a) Interest rate risk

As of September 30, 2018, the Corporation has no interest-bearing debt and is not exposed to significant interest rate risk.

b) Foreign currency risk

The Corporation operates in Mongolia, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash balances are primarily held with Canadian financial institutions. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favourable rates in line with the Corporation's budgets; otherwise, the Corporation does not use any form of hedging against fluctuations in foreign exchange.

(Canadian dollars)

10. Financial instruments (continued)

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

	September 30, 2018	December 31, 2017
Cash	**$ 225,389**	$ 212,116
Trade and other receivables	**-**	7,424
Trade and other payables	**(23,814)**	(13,767)
	$ 201,575	$ 205,773

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately $20,200 (December 31, 2017 - $20,600).

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

	September 30, 2018	December 31, 2017
Cash	**$ 6,053**	$ 25,328
Trade and other receivables	**13,131**	7,158
Trade and other payables	**(212,486)**	(71,012)
	$ (193,302)	$ (38,526)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately $19,300 (December 31, 2017 - $3,900).

c) Price risk

The Corporation's financial instruments are not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

Fair Value:

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:

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	**$3,210,654**	**$ -**	**$ -**	$3,225,202	$ -	$ -

(Canadian dollars)

11. Related Party Transactions

Key management includes members of the Board, the President & CEO, the Vice-President & CFO, the Vice-President Exploration, the Vice-President Operations and the Vice-President Regulatory Affairs & Strategy. The aggregate total compensation paid to key management for employee services is shown below.

	Nine months ended September 30	
	2018	**2017**
Salaries and other short-term employee benefits	**$ 720,710**	$ 835,500
Share-based payments	**427,264**	589,965
	$ 1,147,974	$ 1,425,465

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2018

Contents

*This Management Discussion and Analysis ("**MD&A**"), dated November 14, 2018, 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 interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017, audited consolidated financial statements for the years ended December 31, 2017 and 2016 and the notes thereto. The condensed interim 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 Annual Information Form for the year ended December 31, 2017, a copy of which is available on the Corporation's SEDAR document page at www.sedar.com.

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

Company Overview

Erdene Resource Development Corporation is a Canadian based resource company focused on the acquisition, exploration, and development of precious and base metal deposits in underexplored and highly prospective Mongolia. The Company has interests in four exploration licenses as well as a mining license in Southwest Mongolia, where exploration success has led to the discovery of the Khundii Gold District. Erdene is listed on the Toronto Stock Exchange (TSX: ERD) and the Mongolian Stock Exchange (MSE: ERDN).

Erdene's deposits are located in the Edren Terrane, within the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. Although epithermal gold and porphyry copper-gold deposits are well documented across the border in China and along the Belt's westward trend, exploration in Mongolia was limited until the mid-1990's, when the country opened it's doors to foreign investment. Since that time, exploration in southeast Mongolia led to the discovery of the world-class Oyu Tolgoi gold-copper deposit. Erdene has been the leader in exploration in Mongolia's southwest and is responsible for the discovery of the Khundii Gold District. Within the Khundii Gold District, the Company has discovered multiple high-grade gold and base metal prospects, two of which are being considered for development: Bayan Khundii and Altan Nar. In addition, the Company discovered and defined a large molybdenum-copper resource on its 100% owned Zuun Mod project, 40 kilometres to the east.

In September 2018, Erdene reported a maiden mineral resource estimate for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Erdene has commenced a Preliminary Economic Assessment ("PEA") study of the Khundii Gold Project, scheduled to be completed in late Q4 2018.

While focused on development of the Khundii Gold Project, Erdene continues to explore the broader Khundii Gold District. The region hosts the full spectrum of arc-related base and precious metal systems, including copper-molybdenum porphyries, intermediate sulphidation / carbonate base metal gold deposits, and low sulphidation epithermal gold and gold-silver systems. Exploration of the district remains in the early stages, however, results to date demonstrate the potential for additional discoveries.

Third Quarter Highlights

Khundii Gold Project – 100% Erdene

- Announced a maiden mineral resource estimate for the Khundii Gold Project[1]:
    - At a cut-off grade of 0.7 g/t gold, Measured and Indicated resource of 751,000 ounces gold at an average grade of 2.3 g/t gold and Inferred resource of 291,000 ounces gold at an average grade of 1.8 g/t gold.
    - At a higher cut-off grade of 1.4 g/t gold, Measured and Indicated resource of 642,000 ounces gold at an average grade of 3.7 g/t gold, (including 357,000 ounces gold at an average grade of 5.2 g/t gold at the Bayan Khundii deposit) and Inferred ounces total 250,000 ounces at 2.3 g/t for the Khundii Gold Project.
    - Including precious and base metals, 886,000 ounces gold equivalent ("AuEq") at an average grade of 2.7 g/t AuEq Measured and Indicated and 382,000 ounces AuEq at an average grade of 2.3 g/t AuEq, Inferred.
- Released final results from the Q2 2018 Bayan Khundii drill program, including 81.4 metres of 2.6 g/t gold and 17 metres of 9.2 g/t gold at hole BKD-254 in the North Midfield Zone extension.
- Commenced a PEA for the Khundii Gold Project with delivery scheduled for late Q4 2018.
- Initiated geotechnical and hydrogeological studies to support the permitting process and economic studies for the Khundii Gold Project.

[1] RPM recommended cut-off grade for Bayan Khundii is 0.6 g/t gold and Altan Nar is 0.7 g/t AuEq above a pit and 1.4 g/t AuEq below the same pit shell.

Regional Exploration

- Completed the 2018 exploration campaign, drilling 25 holes totaling 3,452 metres at seven targets along the 11.4 kilometre Khundii license, focused at Altan Arrow and Khundii North:
  - Approximately 70% of the drill holes on the Bayan Khundii license have intersected anomalous gold mineralization (defined as >0.1 g/t). Three holes intersected greater than 20 g/t gold over 1 to 2 metre intervals.
  - Extended the western extension of the Altan Arrow main gold mineralized structure by 500 metres, indicating a broad corridor of anomalous gold over a 1.2 kilometre trend (open along strike) up to 400 metres south of the main structure.
  - Testing of structural splays south of the main Altan Arrow zone returned anomalous gold mineralized intersects at depth (approximately 100 metres vertical depth).
  - Three shallow holes in the southern portion of Khundii North intersected wide zones of intense multi-phase, epithermal quartz stockwork and breccia from surface to a vertical depth of 66 metres within an altered monzonite with associated anomalous gold mineralization, up to 2.1g/t.
  - Initiated a high-density magnetic survey to refine targets based on improved definition of alteration zones, structural intersections and zones of dilation in advance of future drilling.
- Concluded an initial scout drill program at its 51% owned Ulaan license totalling 1,050 metres in three widely spaced holes over a 1.3 kilometre area in the central portion of the license:
  - Intersected volcanic rocks locally hosting sheeted to stockwork quartz-pyrite veining, associated with elevated copper values and a distinct zonation from propylitic alteration at surface to phyllic alteration at depth.
- Mongolia's Ministry of Mining and Heavy Industry re-opened the land tender system in Q3 2018:
  - Erdene has assembled the largest proprietary geologic database in southwest Mongolia and has identified potentially 22 high-priority targets for acquisition.
  - Alliance with Teck Resources Limited ("Teck") to participate in tenders in certain regions.

Corporate

- Erdene was the first foreign company to cross-list on the Mongolian Stock Exchange in June 2018:
  - Approximately 6,000 Mongolians hold shares representing 6% of Erdene's stock.
  - Over 1,000,000 shares traded in Mongolia since the listing.
- At the date of this MD&A, the Corporation had approximately $2.26 million in working capital.

Outlook and Strategy

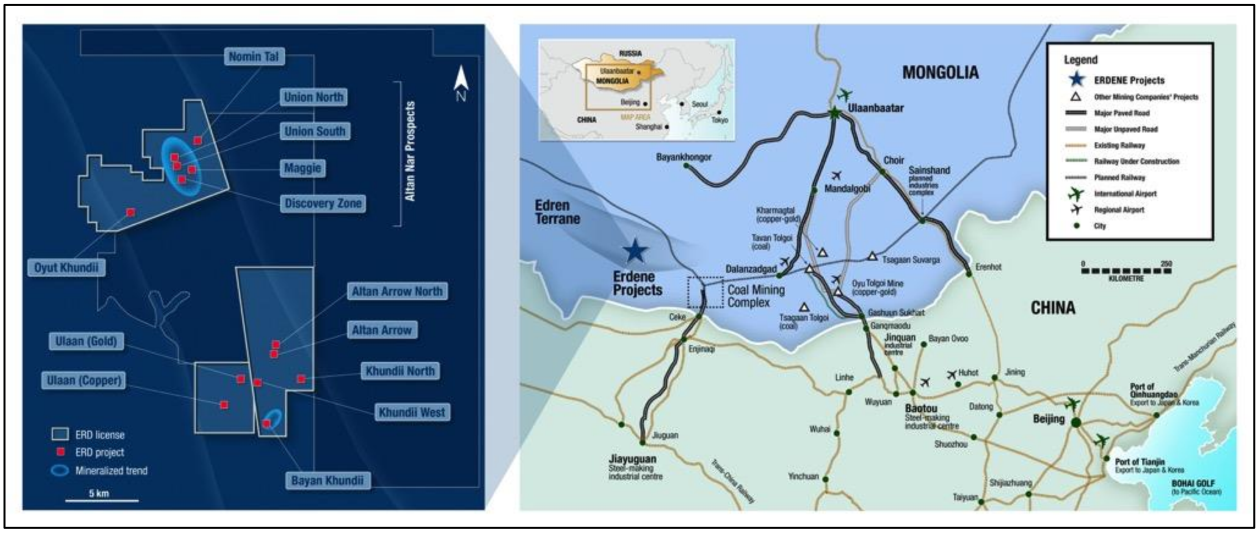
Erdene is focused on two strategic priorities – advancing the Khundii Gold Project toward production and expanding precious and base metal resources in the Khundii Gold District through exploration and acquisition.

Following the announcement of the independent resource estimate for the Khundii Gold Project in September 2018, Erdene commenced a PEA study, scheduled to be delivered in late Q4 2018. The Project's initial development is expected to focus on a high grade, open pit mine beginning at the Bayan Khundii Striker Zone, expanding into adjacent zones within Bayan Khundii, prior to incorporating resources from the Altan Nar deposit. The Corporation has formed a Mining Studies Team and initiated mining, geotechnical, metallurgical, waste management and hyrdrogeological studies to support development and mining license applications in 2019.

The Khundii District offers exceptional discovery potential, which would create significant shareholder value. This District lies within the trend of the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. Modern exploration along the trend in Southwest Mongolia has been limited to shallow holes but results to date are compelling and a testament to the high probability of additional discovery. Erdene is drilling prospects within its license portfolio at Altan Arrow and Khundii North and evaluating opportunities for acquisition throughout the Khundii District. Over the past decade Erdene has developed a proprietary geologic database of Southwest Mongolia's mineralization that has led to the identification of more than 20 high-priority targets for acquisition. Erdene will participate in license tenders following the reopening of the land licensing system in Q3 2018 by Mongolia's Ministry of Mining and Heavy Industry.

Development and Exploration Projects

Erdene's Khundii Gold District in Southwest Mongolia



Erdene has been the exploration leader in Southwest Mongolia over the past decade and is responsible for the discovery of the Khundii Gold District. The District is comprised of multiple high-grade gold and base metal prospects, two of which are being considered for the Khundii Gold Project development: Bayan Khundii and Altan Nar. In addition, the Company discovered and defined a large molybdenum-copper resource on its 100% owned, Zuun Mod project, 40 kilometres to the east.

On September 15, 2018, the Company announced a maiden resource estimate for the Khundii Gold Project. Apart from Zuun Mod, the Company's other targets on its property interests are early stage and do not contain any mineral resource estimates as defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). With the exception of those deposits already delineated, the potential quantities and grades disclosed in this MD&A are conceptual in nature, and there has been insufficient exploration to define a mineral resource estimate for other targets disclosed herein. It is uncertain if further exploration will result in these targets being delineated as a mineral resource. Additional information about our projects is also summarized in our AIF and the respective NI 43-101 Technical Reports and can be viewed under the Company's issuer profile on SEDAR at www.sedar.com.

Khundii Gold Project

The Khundii Gold Project includes the Company's high-grade Bayan Khundii and Altan Nar deposits, located 16 kilometres apart. Erdene announced the maiden resource estimate for this project, dated September 12, 2018, prepared in accordance with NI 43-101 by RPMGlobal Asia Limited ("RPM"). The Mineral Resource incorporates 255 diamond drill holes totaling 42,656 metres, completed between Q4 2015 and Q2 2018. The Mineral Resource is contained within a near-surface, shallow-dipping and strongly mineralized system (intercepts up to 2,200 g/t gold over a 1 metre interval as previously reported) that extends over an area of 1.2 kilometres (NE-SW) by 200 to 400 metres (NW-SE). Grade capping for the purposes of the Bayan Khundii deposit resource estimate averaged 51 g/t gold for high-grade domains (range from 8 g/t to 250 g/t gold) and a maximum of 1.5 g/t gold for the low and medium grade domains.

RPM estimated the Khundii Gold Project Mineral Resource at a number of gold cut-offs, however, RPM recommended reporting the Bayan Khundii Mineral Resource at a 0.6 g/t gold cut-off and the Altan Nar Mineral Resource a 0.7 g/t AuEq above a pit and 1.4 g/t AuEq below the same pit shell.

A summarized sensitivity analysis of the grade and tonnage relationships at various cut-off grades is shown in the table below:

Cut-Off Grade (2)	Resource Classification	Quantity (Mt)	Gold Grade (g/t)	Gold Ounces (000)	AuEq Grade (g/t)	AuEq Ounces (000)
0.2	Measured & Indicated	23.6	1.2	904	1.4	1,046
	Inferred	16.8	0.8	416	1.0	511
0.4	Measured & Indicated	15.1	1.7	824	2.0	965
	Inferred	8.6	1.2	342	1.6	436
0.6 / 0.7 (3)	**Measured & Indicated**	**10.1**	**2.3**	**751**	**2.7**	**886**
	Inferred	**5.2**	**1.8**	**291**	**2.3**	**382**
1.0	Measured & Indicated	6.8	3.1	678	3.7	803
	Inferred	3.9	2.1	261	2.9	349
1.4	**Measured & Indicated**	**5.5**	**3.7**	**642**	**4.3**	**755**
	Inferred	**3.4**	**2.3**	**250**	**3.0**	**333**

(1) Combined resources from Bayan Khundii and Altan Nar.
(2) Cut-off grades for Altan Nar are AuEq and for Bayan Khundii are gold only.
(3) RPM recommended cut-off grade for Bayan Khundii is 0.6 g/t gold and Altan Nar is 0.7 g/t AuEq above a pit and 1.4 g/t AuEq below the same pit shell.

The Bayan Khundii (“Rich Valley”) gold project is located on Erdene’s 100%-owned, 4,514 hectare, Khundii exploration license in southwest Mongolia, 16 kilometres south of the Corporation’s Altan Nar gold-polymetallic project. The license is in its eighth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia.

The resource 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. Bayan Khundii has become the highest priority project for the Corporation based on its high grades, proximity to surface, and favorable metallurgy. The Corporation has completed 42,656 metres of diamond drilling at Bayan Khundii, comprised of 255 diamond drill holes. Drilling has identified three main areas of very high-grade gold mineralization with strong continuity, the Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization Jurassic cover. The high-grade gold zones within these three areas can be very wide, grading in excess of 5 g/t gold over more than 50 metres. Step-out drilling in 2017 indicated that mineralization encountered in the Midfield Zone, located 200 metres northeast from Striker Zone, extends for at least 280 meters further to the northeast under younger cover. The Midfield and North Midfield Zones have returned some of the highest grades and the longest mineralized intervals at Bayan Khundii; BKD-98 returned 80 metres of 6.0 g/t gold from 42 metres depth, and BKD-231 returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold.

The 100%-owned Altan Nar (“Golden Sun”) deposit is located on the Corporation’s 4,669 hectare Tsenkher Nomin exploration license, 16 kilometres northwest of Bayan Khundii. 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. 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”), are the most advanced targets. These properties host wide zones of high-grade, near-surface mineralization, and were the focus of an updated resource estimate released in Q2 2018, as well as detailed metallurgical processing test-work, infill drilling and trenching completed in Q3 2015. In Q4 2016, the Corporation drill tested a structural intersection in DZ (hole TND-101) that returned consistent mineralization from surface to 170 metres depth, with high-grade gold intersections not previously observed at Altan Nar. This was an exploratory hole drilled perpendicular to a cross-cutting feature observed in geophysical surveys. Results from follow-up drilling of this high-grade zone in 2017 intersected several mineralized zones, with results including 5 metres of 29.7 g/t gold within 20 metres of 10.3 g/t gold at 97 metres depth (hole TND-110). Some of the updated mineral resources announced in Q2 2018 were from the remaining 16 targets, however, most of these are still considered early-stage and are interpreted by the Corporation as having good potential for hosting additional resources.

Various technical studies have been and continue to be undertaken in support of the mining license permitting process and related economic studies for the Bayan Khundii and Altan Nar gold projects.

District Scale Exploration

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

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

Altan Arrow Gold Target

The Altan Arrow target is located 3.5 kilometres north of the Bayan Khundii gold deposit, along a gold bearing structure in the central portion of the Bayan Khundii license. Drilling has concentrated in an area along and south of the main structure, where several high-grade zones have been intersected, including 39 g/t over 1m and 24 g/t and 70 g/t over 2 metres. Overall, 85% of the 20 holes (2,552 metres) drilled at Altan Arrow have intersected anomalous gold.

Erdene drilled 10 holes at Altan Arrow in 2018, totaling 1,412 metres, to test extension along trend of the main structure and at depth. Current year drilling extended the mineralized structure 500 metres to the west where AAD-18 intersected multiple 2 to 4 metre wide zones of anomalous gold in epithermal quartz adularia veins and stockwork breccias zones containing up to 1.3 g/t gold. Current exploration drill testing of the main mineralized structure indicates a broad corridor of anomalous gold over a 1.2 kilometre trend (open along strike) and up to 400 metres south of the main structure in what is interpreted as secondary structural splays. In addition, drill testing of these structural splays, south of the main zone, returned multiple intersects at deeper levels then typically tested (approximately 100 metres vertical depth) with gold grades ranging from 0.2 to 2.6 g/t with anomalous Ag, Mo, Pb, Zn and Sb (AAD-25). Exploration results suggest gold mineralization within the greater district is controlled by structure typically hosted by zones of major dilatancy and structural intersections. Such zones commonly have associated alteration events that are magnetite destructive, resulting in zones of low magnetic response. In advance of future drilling the company has initiated a high-density magnetic survey to refine targets within these alteration zones.

Khundii North Gold Target

The Khundii North target is located 4 kilometres northeast of the Bayan Khundii gold deposit, on the Bayan Khundii license, and was drill tested for the first time in 2018. The area was identified in surface exploration mapping in late 2017, when sampling of quartz vein material returned high grade gold mineralization of up to 22 g/t gold from a structurally controlled quartz vein stockwork and breccia zone traced over 650 metres. Five holes, totaling 656 metres and averaging 93 metres vertical depth have now tested the structure, comprised of three in the south and two in the north, separated by approximately 500 metres. Although the northern holes returned only minor levels of anomalous gold, the southern holes have intersected wide zones of intense multi-phase epithermal quartz stockwork and breccia at depth within an altered monzonite. These stockwork zones are continuous, with up to 35 metre widths (AAD-29) and have associated anomalous gold, locally up to 2.1 g/t over 1 metre intervals (AAD-30) and locally anomalous copper (>500ppm). The Khundii North target provides a new high priority area for future exploration.

Central Structure Zone Gold Target

In Q3 2018 the company tested a new target on the Bayan Khundii license, 800 metres northwest of the Bayan Khundii deposit. The Central Structure Zone (“CSZ”) target has very limited surface exposure and was identified as a drill target based on similar geophysical features to the Bayan Khundii deposit. Three shallow holes (AAD-31-33) testing an average vertical depth of 75 metres were collared along a 500 metre trend. Although the style of quartz veining and the hematite/speculurite veinlets in the volcanic host intersected display similar characteristics to that of the main zones at Bayan Khundii, gold content was not anomalous. Clay alteration in this area was identified as smectite suggesting the area is marginal to the higher temperature illite bearing gold zones observed at Bayan Khundii. Given this zone is separated from the main Bayan Khundii zone by an unaltered volcanic host, it is proposed that CSZ occurs at shallower paleo setting above the higher temperature gold mineralized illite zone. Additional structural, geophysical and spectral mapping is underway to determine whether drilling of deeper targets should be undertaken within the CSZ target.

Ulaan Copper-Gold Porphyry Target

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license ("Ulaan Property"), situated immediately west of its high-grade Bayan Khundii gold project. The Ulaan Property covers approximately 1,780 hectares and hosts a 3-kilometre diameter, intense alteration zone with characteristics thought to be related to a porphyry intrusion at depth. The exploration license is in its third 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. Provided Erdene spends a minimum of US$600,000 on the Ulaan Property over the next three years, it has the right to acquire the remaining 49% of the property for the then fair market value. Erdene may extend the option beyond three years by spending a minimum of US$100,000 per annum thereafter.

Rock chip and stream sediment geochemical sampling identified anomalous concentrations of gold, copper and molybdenum in the surrounding area, and recently completed geophysical surveys have produced a number of follow-up targets.

Three wide spaced holes were drilled during Q3 2018, totaling 1,050 metres over a 1.3 kilometre area in the central portion of the license. The 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. The most westerly hole tested a positive gravity anomaly and coincident IP chargeability anomaly to 300 metres depth. The two other holes tested coincident moderate to high chargeability and magnetic high signatures associated with high temperature sericite clay alteration. Pyrite mineralization was observed throughout with most intense concentrations coincident with the zones of high chargeability. The most easterly hole, UDH-02 provided the most encouraging results exhibiting sheeted to stockwork quartz-pyrite veining locally, associated with elevated copper values (100 to 300ppm over 60m) relative to the background copper levels established in UDH-01 and UDH-03. UDH-02 also exhibits a distinct zonation from propylitic into phyllic alteration at depth. The phyllic alteration coincides with an increase in pyrite mineralization occurring both as disseminations and veinlets as well as increasing magnetic intensity. Continued work including spectral analysis of clay minerals and age dating is now underway. A comprehensive review of all results will be completed prior to decisions on future exploration.

Zuun Mod Molybdenum Project

The Zuun Mod Molybdenum Project is a porphyry molybdenum-copper deposit located in southwest Mongolia on the Company's Khuvyn Khar license. This project is approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The railhead is located 50 kilometres south of the Nariin Sukhait and Ovoot Tolgoi coal mines. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC**,** a wholly owned subsidiary of the Corporation, and has an initial term of 30 years. This project was acquired from Gallant Minerals Limited in 2005 and is subject to a net smelter returns royalty ("NSR Royalty") of 1.5%, subject to a buy-down provision.

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

The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. Market demand for molybdenum has recently improved, with the price of molybdenum oxide rising to approximately US$12.00 per pound from approximately US$7.25 per pound in 2017. The Corporation will continue to evaluate its options in light of technological and market factors. Discovery of additional copper mineralization at Khuvyn Khar could provide synergies for the advancement of the Zuun Mod molybdenum deposits.

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

Khuvyn Khar Copper-Silver Project

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

Acquisitions

Mongolia's Ministry of Mining and Heavy Industry announced a re-opening of the licensing system during Q3 2018. Erdene has established the largest proprietary geologic database of Southwest Mongolia with a priority list of potential acquisitions. The Company will participate in the tendering process as its priority targets are released. The Company has also been evaluating privately held licenses for acquisition. Erdene's alliance with Teck remains active and the companies continue to work together in Southwest Mongolia.

Discussion of Operations

Three months ended September 30, 2018 and 2017

The tables below details exploration and evaluation expenditures for the three months ended September 30, 2018 and 2017. Exploration efforts during the period were focused on the Khundii, Tsenkher Nomin and Ulaan licenses.

Period ended September 30, 2018	Khundii	Tsenkher Nomin	Zuun Mod	Ulaan & Other	Total
Exploration expenditures					
Drilling, trenching, sampling and assaying	**274,308**	**26,799**	**696**	**188,360**	**490,163**
License costs	**-**	**-**	**-**	**-**	**-**
Mining Studies and permitting	**447,974**	**294,738**	**-**	**-**	**742,712**
Exploration, camp and field	**(23,649)**	**(10,158)**	**10,061**	**118,931**	**95,185**
Stakeholder relations	**92,978**	**46,486**	**-**	**14,852**	**154,316**
Travel and other	**35,355**	**15,251**	**1,072**	**(5,501)**	**46,177**
Share-based compensation	**-**	**-**	**-**	**4,376**	**4,376**
Mongolian office costs	**-**	**-**	**-**	**77,056**	**77,056**
Total exploration expenditures	**826,966**	**373,116**	**11,829**	**398,074**	**1,609,985**
Capitalized expenditures	(826,966)	(373,116)	-	(5,251)	(1,205,333)
Expensed exploration costs 2018	**-**	**-**	**11,829**	**392,823**	**404,652**
E&E assets, July 1, 2018	**$ 9,798,720**	**$ 2,361,141**	**$ 860,735**	**$ 949,838**	**$ 13,970,434**
Additions	**826,966**	**373,116**	**-**	**5,251**	**1,205,333**
Effect of movements in exchange rates	**(401,464)**	**(100,065)**	**(44,892)**	**(37,555)**	**(583,976)**
E&E assets, September 30, 2018	**$ 10,224,222**	**$ 2,634,192**	**$ 815,843**	**$ 917,534**	**$ 14,591,791**

Period ended September 30, 2017	**Khundii**	**Tsenkher Nomin**	**Zuun Mod**	**Ulaan & Other**	**Total**
Exploration expenditures					
Drilling, trenching, sampling and assaying	958,261	567,595	662	16,191	**1,542,709**
License costs	-	-	-	975,186	**975,186**
Mining studies and permitting	70,454	53,058	-	-	**123,512**
Exploration, camp and field	427,403	86,718	9,116	110,120	**633,357**
Stakeholder relations	12,115	10,796	-	8,653	**31,564**
Travel and other	12,542	18,910	-	54,637	**86,089**
Share-based compensation	-	-	-	5,508	**5,508**
Mongolian office costs	-	-	-	112,322	**112,322**
Total exploration expenditures	1,480,775	737,077	9,778	1,282,617	**3,510,247**
Capitalized expenditures	**(1,480,775)**	**(737,077)**	**-**	**(975,186)**	**(3,193,038)**
Expensed exploration costs 2017	**-**	**-**	**9,778**	**307,431**	**317,209**

E&E assets, July 1, 2017	**$ 5,084,167**	**$ 1,030,655**	**$ 818,589**	**$ 960**	**$ 6,934,371**
Additions	1,480,775	737,077	-	975,186	**3,193,038**
Effect of movements in exchange rates	(292,606)	(77,550)	(68,405)	(40,738)	**(479,299)**
E&E assets, September 30, 2017	**$ 6,272,336**	**$ 1,690,182**	**$ 750,184**	**$ 935,408**	**$ 9,648,110**

Corporate and administrative expenses totaled $335,239 for the three months ended September 30, 2018, compared to $383,204 for the same period in 2017, a $47,965 decrease (see table below). Administrative services increased by $23,946 compared to 2017 due to additional staffing required to support increased activity. Directors fees and expenses were $26,734 lower than the prior year as the board made a site visit to Mongolia in Q3 2017. Regulatory compliance expenses for the current period were $49,188 less than the prior year quarter due to a reduction is TSX fees associated with changes made in Q3 2017 to the corporation's incentive stock option plan and an internal control review that was performed in Q3 2017.

	For the three months ended September 30, 2018	**2017**	**Change**
Administrative services	**$ 134,947**	$ 111,001	$ 23,946
Depreciation and amortization	**1,527**	1,635	(108)
Directors fees and expenses	**28,384**	55,118	(26,734)
Investor relations and marketing	**51,346**	49,472	1,874
Office and sundry	**24,779**	29,811	(5,032)
Professional fees	**50,130**	31,440	18,690
Regulatory compliance	**10,247**	59,435	(49,188)
Share-based compensation	**26,239**	27,310	(1,071)
Travel and accommodations	**7,640**	17,982	(10,342)
	$ 335,239	$ 383,204	$ (47,965)

Nine months ended September 30, 2018 and 2017

The following tables detail exploration and evaluation expenditures for the nine months ended September 30, 2018 and 2017. Exploration efforts during the period were focused on the Khundii, Tsenkher Nomin and Ulaan licenses.

Period ended September 30, 2018	**Khundii**	**Tsenkher Nomin**	**Zuun Mod**	**Ulaan & Other**	**Total**
Exploration expenditures					
Drilling, trenching, sampling and assaying	**1,174,285**	**45,219**	**2,076**	**239,185**	**1,460,765**
License costs	**5,223**	**-**	**70,074**	**2,051**	**77,348**
Mining Studies and permitting	**510,336**	**355,498**	**-**	**-**	**865,834**
Exploration, camp and field	**737,037**	**141,446**	**39,628**	**420,131**	**1,338,242**
Stakeholder relations	**167,849**	**111,563**	**-**	**14,852**	**294,264**
Travel and other	**113,568**	**46,412**	**1,072**	**12,706**	**173,758**
Share-based compensation	**-**	**-**	**-**	**359,413**	**359,413**
Mongolian office costs	**-**	**-**	**-**	**220,442**	**220,442**
Total exploration expenditures	**2,708,298**	**700,138**	**112,850**	**1,268,780**	**4,790,066**
Capitalized expenditures	(2,708,298)	(700,138)	(70,074)	(7,302)	(3,485,812)
Expensed exploration costs 2018	**-**	**-**	**42,776**	**1,261,478**	**1,304,254**
E&E assets, January 1, 2018	**$ 7,715,388**	**$ 1,985,444**	**$ 765,795**	**$ 928,216**	**$11,394,843**
Additions	**2,708,298**	**700,138**	**70,074**	**7,302**	**3,485,812**
Effect of movements in exchange rates	**(199,464)**	**(51,390)**	**(20,026)**	**(17,984)**	**(288,864)**
E&E assets, September 30, 2018	**$10,224,222**	**$ 2,634,192**	**$ 815,843**	**$ 917,534**	**$14,591,791**

Period ended September 30, 2017	**Khundii**	**Tsenkher Nomin**	**Zuun Mod**	**Ulaan & Other**	**Total**
Exploration expenditures					
Drilling, trenching, sampling and assaying	3,221,781	814,626	2,252	16,450	**4,055,109**
License costs	5,464	-	74,282	975,561	**1,055,307**
Mining Studies and permitting	206,088	109,357	-	-	**315,445**
Exploration, camp and field	1,228,064	227,746	35,396	330,175	**1,821,381**
Stakeholder relations	20,975	15,632	-	10,928	**47,535**
Travel and other	76,911	45,154	80	63,999	**186,144**
Share-based compensation	-	-	-	595,324	**595,324**
Mongolian office costs	-	-	-	233,362	**233,362**
Total exploration expenditures	4,759,283	1,212,515	112,010	2,225,799	**8,309,607**
Capitalized expenditures	**(4,759,283)**	**(1,212,515)**	**(74,062)**	**(975,561)**	**(7,021,421)**
Expensed exploration costs 2017	**-**	**-**	**37,948**	**1,250,238**	**1,288,186**
E&E assets, January 1, 2017	**$ 1,786,195**	**$ 551,271**	**$ 728,164**	**$ 581**	**$ 3,066,211**
Additions	4,759,283	1,212,515	74,062	975,561	**7,021,421**
Effect of movements in exchange rates	(273,142)	(73,603)	(52,043)	(40,734)	**(439,522)**
E&E assets, September 30, 2017	**$ 6,272,336**	**$ 1,690,183**	**$ 750,183**	**$ 935,408**	**$ 9,648,110**

Corporate and administrative expenses were $1,613,286 for the nine months ended September 30, 2018, compared to $2,108,396 for the same period in 2017. The reduction in Administrative services compared to 2017 was primarily attributable to lower incentive compensation in 2018. Investor relations and marketing expenditures decreased by $98,647 year over year as the corporation participated in fewer conferences during the current year. Travel and accommodations expenses were also lower than the prior year as a result of attending fewer events. Share-based compensation was $281,715 less than 2017 due to the impact of a softer share price on share-based compensation.

	For the nine months ended September 30,		
	2018	**2017**	**Change**
Administrative services	**$ 405,599**	$ 454,275	$ (48,676)
Depreciation and amortization	**4,580**	4,999	(419)
Directors fees and expenses	**103,526**	140,080	(36,554)
Investor relations and marketing	**141,495**	240,142	(98,647)
Office and sundry	**88,945**	87,448	1,497
Professional fees	**168,108**	105,678	62,430
Regulatory compliance	**97,050**	136,363	(39,313)
Share-based compensation	**563,216**	844,931	(281,715)
Travel and accommodations	**40,767**	94,480	(53,713)
	$ 1,613,286	$ 2,108,396	$ (495,110)

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2018			Fiscal 2017				Fiscal 2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Net Loss	$743	$1,439	$702	$649	$713	$2,069	$596	$492
Basic and diluted loss per share	$0.01	$0.01	$0.00	$0.00	$0.00	$0.02	$0.00	$0.00
Total Assets	$18,136	$19,500	$14,879	$14,946	$15,592	$16,730	$17,208	$4,293

For the nine months ended September 30, 2018, the Corporation recognized a net loss of $2,884,618, or $0.02 per share, compared to a loss of $3,378,031, or $0.02 per share for the same period in 2017.

The Corporation’s expenditures vary from quarter to quarter largely depending on the timing of its Mongolian exploration programs. The corporation’s business experiences a seasonal pattern in which exploration expenditures and investments in exploration and evaluation assets are concentrated in the second and third quarters of the year due to weather conditions in Mongolia. 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 $2.26 million in working capital.

On June 8, 2018, the Corporation closed a non-brokered common share private placement for gross proceeds of $4.12 million. On June 14, 2018, the Corporation closed a financing in connection with a secondary listing of its common shares on the Mongolian Stock Exchange (MSE) for gross proceeds of $1.36 million.

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).

Current working capital is expected to fund the Corporation’s budgeted expenditures to the end of the first quarter of 2019; which could be extended with the deferral of planned expenditures. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

On June 8, 2018, the Corporation closed a non-brokered common share private placement for gross proceeds of $4.12 million, issuing 10,834,580 units at a price of $0.38 per unit. Each unit consisted of one common share of the Corporation and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.60 for 30 months from the closing date. The Corporation paid finder's fees in the aggregate of $182,400 and issued 480,000 finder's warrants in connection with the private placement. Each finder's warrant is exercisable into one common share of the corporation at $0.60 per share, for a period of 30 months from the closing date. The total fair value on the grant date of the 11,314,580 warrants issued was $1,357,750 ($0.12 per warrant). All securities issued pursuant to the private placement are subject to a four-month hold period from the closing date.

On June 14, 2018, the Corporation closed a financing in connection with a secondary listing of its common shares on the Mongolian Stock Exchange (MSE) for gross proceeds of $1.36 million. This makes the Corporation the first cross-listed company on the MSE. In this transaction, the Corporation issued 4,000,000 common shares at a price of $0.34 per share. The Corporation paid a cash commission of 7% of the gross proceeds to the underwriters of $95,200. The shares issued under the Mongolia offering commenced trading on the MSE on June 19, 2018. Under current Mongolian regulations, the shares listed on the MSE may only be traded through facilities of the MSE until de-listed or until cross-border trades are permitted by Mongolian authorities. In addition, all shares issued pursuant to the Mongolia offering are subject to a four-month hold period in Canada from the closing date of the Mongolia Offering.

As of the date of this MD&A, the Corporation had 161,775,791 shares issued and outstanding.

Stock Based Compensation

For the nine months ended September 30, 2018, the Corporation charged a total of $922,629 of stock-based compensation expense to the statement of loss (2017 – $1,440,255) of which $359,413 is attributable to exploration expenditures (2017 – $595,324).

Stock Options

Options granted under the Corporation's option plan vest immediately and are exercisable over a period of five years. Any consideration paid by the optionee on the exercise of options is recorded in share capital. For the nine months ended September 30, 2018, the Corporation granted 3,060,000 options to certain officers, directors and employees of the Corporation. In the third quarter 100,000 options expired. During the nine months ended September 30, 2018, the Corporation received $174,250 on the exercise of 978,125 share purchase options at an average price of $0.18 per share.

The changes in stock options for the nine months ended September 30, 2018 were as follows:

	Number of options	Weighted average exercise price	
Outstanding at January 1, 2018	**9,703,750**	**$**	**0.40**
Granted	**3,060,000**		**0.40**
Expired	**(100,000)**		**0.40**
Exercised	**(978,125)**		**0.18**
Outstanding at end of period	**11,685,625**	**$**	**0.42**

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model and resulted in a charge of $804,600 (2017 – $1,341,800) to share based compensation included in exploration expenses and in corporate and administration expenses.

At September 30, 2018, the Corporation had the following options outstanding:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price of exercisable options	
$0.01 - $0.24	**4,005,625**	**1.19**	**$**	**0.15**
$0.25 - $0.49	**4,860,000**	**3.90**		**0.38**
$0.50 - $0.99	**2,820,000**	**3.53**		**0.86**
	11,685,625	**2.88**	**$**	**0.42**

Deferred Stock Units

Deferred Share Units (“DSU”) granted under the Corporation’s plan to directors and employees have no expiration date and are redeemable upon termination of service. During the nine months ended September, 2018, the Corporation granted 326,755 DSUs with a fair value of $0.36 per DSU (2017 – 115,123 DSUs with fair value of $0.86 per DSU). The fair value of $118,029 (2017 – $98,455) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

DSU transactions and number of DSUs outstanding at September 30, 2018 are summarized as follows:

	Number of DSUs	Weighted average grant price	
Outstanding at January 1, 2018	**3,410,186**	**$**	**0.17**
Granted	**326,755**		**0.36**
Outstanding at end of period	**3,736,941**	**$**	**0.19**

Warrants

Warrant transactions and the number of warrants outstanding at September 30, 2018 are summarized as follows:

	Number of warrants	Weighted average exercise price	
Outstanding at January 1, 2018	**1,075,324**	**$**	**1.20**
Issued	**11,314,580**		**0.60**
Outstanding at end of period	**12,389,904**	**$**	**0.65**

The remaining contractual lives of warrants outstanding at September 30, 2018, are as follows:

Weighted average exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
$0.01 - $0.99	**11,314,580**	**2.19**
$1.00 - $1.99	**1,075,324**	**0.40**
	12,389,904	**2.03**

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at September 30, 2018:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office Leases	$57,691	$57,691	$0	$0	$0
Accounts payable and accrued liabilites	446,514	446,514	-	-	-
	$504,205	**$504,205**	**$0**	**$0**	**$0**

Other Financing Arrangements and Commitments

Sandstorm Gold Ltd. Royalty Agreement

On April 14, 2016 the Corporation granted Sandstorm Gold Ltd. ("Sandstorm") a 2% NSR Royalty on Erdene's Tsenkher Nomin (Altan Nar) and Khundii (Bayan Khundii) licenses. Erdene has a 3-year option to buy-back 50% of the NSR Royalty for $1.2 million, to reduce the NSR Royalty to 1%, which expires April 14, 2019. Sandstorm was given a right of first refusal on future stream and/or royalty financings related to the Khundii and/or Tsenkher Nomin licenses.

Alliance with Teck Resources Limited

In April 2013, an alliance was formed with Teck to fund and explore Erdene's mineral tenements in the Trans Altai region of southwest Mongolia. Under the terms of the alliance, Teck agreed to invest $3 million or acquire 19.9% of the outstanding shares of the Corporation, with eighty-five percent of the proceeds committed to exploration work. In return, Erdene granted Teck the option to acquire up to 75% interest in designated projects through a two-stage option process by funding additional expenditures.

Between Q2 2013 and Q1 2017, Teck invested $3 million, fulfilling the initial terms of the Agreement, as outlined above. Teck will continue to have the right, through to Q1 2020, to elect to enter into a joint venture agreement on any designated properties submitted by the Corporation and approved by Teck for acquisition.

Other

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

In 2018, minimum exploration expenditures of USD$1.50 per hectare are required on the Corporation's Tsenkher Nomin and Khundii licenses (USD$7,004 and USD$6,771 respectively).

The Corporation must spend a total of USD$600,000 over three years to have the right to purchase any (or all) of the remaining 49% of Leader Exploration LLC (Ulaan license). The Corporation can extend the option period beyond three years by spending an additional USD$100,000 per year on exploration work.

Off-Balance Sheet Arrangements

As at September 30, 2018, the Corporation had no off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

Events or changes in circumstances, may give rise to significant impairment charges or reversals of impairment in a particular year.

In accordance with the Corporation’s accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. Impairment testing is also performed annually for goodwill.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs, restoration and rehabilitation costs and future capital expenditures. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the income statement.

Share-based payments

Equity-settled share-based payments issued to employees 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 recognized a total of $922,629 in non-cash share-based compensation in the nine months ended September 30, 2018 (2017 - $1,440,255).

Taxation

The Corporation’s accounting policy for taxation requires management’s judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditures, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

No changes have been made the Corporation’s critical accounting estimates in the past two years.

Adoption of New Accounting Standards

Erdene has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. Given that the Corporation does not have revenue from contracts with customers, there is currently no impact from adoption of the standard.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Corporation adopted IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene. Refer to accounting policies and Note 10 in the unaudited condensed interim consolidated financial statements.

IFRS 2 – Share-based payments

The IASB issued amendments to IFRS 2, Share-based Payments, to clarify the classification and measurement of share-based payment transactions. These amendments deal with variations in the final settlement arrangements including; accounting for cash settled share-based payments, classification of share-based payments settled net of tax obligations, and accounting for modifications of share-based payment transactions from cash-settled to equity. The Corporation adopted amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene.

IAS 12 – Income taxes

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Corporation adopted amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene.

IFRIC 22 – Foreign currency transactions and advance consideration

On December 8, 2016 the IASB issued IFRIC Interpretation 22. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Corporation adopted IFRIC 22 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene.

Future Changes in Accounting Policies

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

IFRS 16 Leases: IFRS 16 will replace IAS 17 Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. In January 2016 the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. As the Company currently has limited exposure to leases, no material impact expected from the future adoption of the standard.

IFRIC 23: Uncertainty over income tax treatments

On June 7, 2017 the IASB issued IFRIC Interpretation 23. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning January 1, 2019. The Corporation does not expect the Interpretation to have a material impact on the financial statements.

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 are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

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

Fair Value

During the periods ended September 30, 2018 and December 31, 2017, 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.

	September 30, 2018			**December 31, 2017**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets:						
Cash and cash equivalents	**$ 3,210,654**	**$ -**	**$ -**	$ 3,225,202	$ -	$ -

Risks

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

Credit Risk

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

	Carrying Amount	
	September 30, 2018	**December 31, 2017**
Cash and cash equivalents	**$ 3,210,654**	$ 3,225,202
Receivables	**136,940**	148,069
	$ 3,347,594	$ 3,373,271

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with a Canadian Schedule I bank, where management believes the risk of loss to be low. At September 30, 2018, $133,928 or 4% of the balance of cash and cash equivalents was held in banks outside Canada (December 31, 2017 - $113,555 or 4%).

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of September 30, 2018, the Corporation had a cash and cash equivalents balance of $3,210,654 (December 31, 2017 - $3,225,202) to settle current liabilities of $446,514 (December 31, 2017 - $191,600).

The Corporation is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

Current working capital of $2.26 million is expected to fund the Corporation's budgeted expenditures to the end of the first quarter of 2019; which could be extended with the deferral of planned expenditures. The ability of the Corporation to continue with its exploration programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

Foreign Currency Risk

The Corporation operates in Mongolia, giving rise to foreign currency risk. To limit the Corporation's exposure to this risk, cash and cash equivalents are primarily held with high quality financial institutions in Canada. Based on the timing of the Corporation's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in favorable rates in line with the Corporation's budgets, otherwise the Corporation does not use any form of hedging against fluctuations in foreign exchange.

The Corporation's exposure to US dollar currency risk was $201,575 as at September 30, 2018 (December 31, 2017 - $205,773). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately $20,200 (December 31, 2017 - $20,600).

The Corporation's exposure to Mongolian Tugrik currency risk was $193,302 as at September 30, 2018 (December 31, 2017 - $38,526). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately $19,300 (December 31, 2017 - $3,900).

Price Risk

The Corporation's financial instruments are not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Corporation has no significant revenues.

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Erdene's disclosure controls and procedures as of September 30, 2018 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 September 30, 2018. 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 September 30, 2018, 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.

Qualified Person

Michael A. MacDonald, P.Geo. (Nova Scotia) is a qualified person under NI 43-101 and supervises all of the Corporation's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar, Blue Coast Research Ltd in Parksdale British Columbia, Canada, or ALS Chemex in Vancouver, Canada. In addition to internal checks by SGS Laboratory, Central Geological Laboratory and ALS Chemex, the Corporation incorporates a QA/QC sample protocol utilizing prepared standards, field and laboratory splits, and blanks.

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

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.