



## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2019 and 2018

*(Canadian dollars)*  
*(Unaudited)*

Prepared by management – See Notice to Reader

## **NOTICE TO READER**

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Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice to this effect. These unaudited condensed consolidated interim financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed consolidated interim statements of financial position of Erdene Resource Development Corporation as at June 30, 2019 and December 31, 2018 and the unaudited condensed consolidated interim statements of comprehensive loss, changes in equity and cash flows for the three and six months ended June 30, 2019 and 2018. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the June 30, 2019 and 2018 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Consolidated Interim Statements of Financial Position

(Canadian dollars)

(Unaudited)

	Notes	June 30, 2019	December 31, 2018
<b>Assets</b>			
Cash		\$ 353,842	\$ 1,748,249
Receivables		157,343	113,412
Prepaid expenses		92,560	34,633
		<b>603,745</b>	<b>1,896,294</b>
Exploration and evaluation assets	6	18,642,296	15,687,348
Property, plant and equipment		119,180	125,277
		<b>18,761,476</b>	<b>15,812,625</b>
<b>Total Assets</b>		<b>\$ 19,365,221</b>	<b>\$ 17,708,919</b>
<b>Liabilities and Equity</b>			
Trade and other payables		\$ 753,436	\$ 224,387
<b>Total Liabilities</b>		<b>\$ 753,436</b>	<b>\$ 224,387</b>
<b>Shareholders' Equity</b>			
Share capital	8	\$ 106,504,651	\$ 104,003,644
Contributed surplus		16,576,663	16,110,116
Accumulated other comprehensive loss		(1,524,036)	(955,713)
Deficit		(102,945,493)	(101,673,515)
<b>Total Shareholders' Equity</b>		<b>18,611,785</b>	<b>17,484,532</b>
<b>Total Liabilities and Equity</b>		<b>\$ 19,365,221</b>	<b>\$ 17,708,919</b>

Commitments (Note 7)

Subsequent Events (Note 13)

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

Approved on behalf of the Board:

Signed "John P. Byrne"

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Director

Signed "T. Layton Croft"

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Director

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Consolidated Interim Statements of Comprehensive Loss

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2019	2018	2019	2018
<b>Operating Expenses</b>					
Exploration and evaluation		\$ 246,036	\$ 673,015	\$ 423,586	\$ 899,602
Corporate and administration	9	497,928	791,439	844,244	1,278,047
Loss from operating activities		743,964	1,464,454	1,267,830	2,177,649
Finance income		(7,425)	(9,404)	(17,657)	(21,214)
Foreign exchange loss (gain)		18,752	(15,579)	21,805	(15,301)
<b>Net Loss</b>		<b>\$ 755,291</b>	<b>\$ 1,439,471</b>	<b>\$ 1,271,978</b>	<b>\$ 2,141,134</b>
Other comprehensive loss (income):					
Foreign currency translation difference arising on translation of foreign subsidiaries		378,326	79,379	568,323	(305,070)
<b>Other comprehensive loss (income)</b>		<b>378,326</b>	<b>79,379</b>	<b>568,323</b>	<b>(305,070)</b>
<b>Total comprehensive loss</b>		<b>\$ 1,133,617</b>	<b>\$ 1,518,850</b>	<b>\$ 1,840,301</b>	<b>\$ 1,836,064</b>
Basic loss per share		\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Basic weighted average number of shares outstanding		174,204,930	149,901,990	170,472,971	147,008,699

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Consolidated Interim Statements of Changes in Equity

(Canadian dollars)

(Unaudited)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
<b>Balance at January 1, 2018</b>		145,963,086	\$ 99,890,270	\$ 13,775,386	\$ (894,855)	\$ (98,016,525)	\$ 14,754,276
<b>Total comprehensive loss for the period:</b>							
Net loss		-	-	-	-	(2,141,134)	(2,141,134)
Other comprehensive income		-	-	-	305,070	-	305,070
Private placements, net of share issue costs		14,834,580	3,650,261	1,357,750			5,008,011
Options exercised		978,125	274,950	(100,700)			174,250
Share-based compensation		-	-	892,014			892,014
<b>Total transactions with owners</b>		15,812,705	3,925,211	2,149,064	-	-	6,074,275
<b>Balance at June 30, 2018</b>		161,775,791	\$ 103,815,481	\$ 15,924,450	\$ (589,785)	\$ (100,157,659)	\$ 18,992,487
<b>Balance at January 1, 2019</b>		162,426,416	\$ 104,003,644	\$ 16,110,116	\$ (955,713)	\$ (101,673,515)	\$ 17,484,532
<b>Total comprehensive loss for the period:</b>							
Net loss		-	-	-	-	(1,271,978)	(1,271,978)
Other comprehensive loss		-	-	-	(568,323)	-	(568,323)
Private placements, net of share issue costs	8	11,014,544	2,194,102	225,692			2,419,794
Options exercised	8	1,105,000	276,900	(107,100)			169,800
Issue of shares from DSU plan	8	175,069	30,005	(30,005)			-
Share-based compensation	8	-	-	377,960			377,960
<b>Total transactions with owners</b>		12,294,613	2,501,007	466,547	-	-	2,967,554
<b>Balance at June 30, 2019</b>		174,721,029	\$ 106,504,651	\$ 16,576,663	\$ (1,524,036)	\$ (102,945,493)	\$ 18,611,785

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Condensed Consolidated Interim Statements of Cash Flows

(Canadian dollars)

(Unaudited)

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2019	2018	2019	2018
<b>Cash flows from operating activities:</b>					
Net loss		\$ (755,291)	\$ (1,439,471)	\$ (1,271,978)	\$ (2,141,134)
Items not involving cash:					
Depreciation and amortization		5,764	5,382	11,277	10,424
Share-based compensation		325,509	776,668	377,960	892,014
Finance income		(7,425)	(9,404)	(17,657)	(21,214)
Foreign exchange not related to cash		18,752	(15,579)	21,805	(15,301)
Change in non-cash working capital		359,843	267,059	435,182	261,428
Cash flows from operating activities		<b>(52,848)</b>	<b>(415,345)</b>	<b>(443,411)</b>	<b>(1,013,783)</b>
<b>Cash flows from financing activities:</b>					
Issue of common shares, net of issue costs	8	-	5,008,011	2,419,794	5,008,011
Proceeds on exercise of stock options	8	124,300	64,875	169,800	174,250
Cash flows from financing activities		<b>124,300</b>	<b>5,072,886</b>	<b>2,589,594</b>	<b>5,182,261</b>
<b>Cash flows from investing activities:</b>					
Expenditures on exploration and evaluation assets		(1,561,424)	(1,789,160)	(2,324,957)	(2,280,479)
Repurchase of NSR royalty	7	(1,200,000)	-	(1,200,000)	-
Expenditures on property, plant and equipment		(3,323)	(1,447)	(9,593)	(9,748)
Interest received		7,425	9,404	17,657	21,214
Cash flows from investing activities		<b>(2,757,322)</b>	<b>(1,781,203)</b>	<b>(3,516,893)</b>	<b>(2,269,013)</b>
Effect of exchange rate changes		<b>(20,605)</b>	18,737	<b>(23,697)</b>	22,092
Increase (decrease) in cash and cash equivalents		<b>(2,706,475)</b>	2,895,075	<b>(1,394,407)</b>	1,921,557
Cash and cash equivalents, beginning of period		3,060,317	2,251,684	1,748,249	3,225,202
Cash and cash equivalents, end of period		\$ 353,842	\$ 5,146,759	\$ 353,842	\$ 5,146,759

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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### 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.

The Corporation has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Corporation and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of the properties.

### 2. Going concern

These unaudited condensed consolidated interim 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 experienced significant losses and negative cash flows from operations for the interim period ended June 30, 2019 and for the years ended December 31, 2018 and 2017 and had a deficit of \$102,945,493 at June 30, 2019. The Corporation had a working capital deficit of \$149,691 at June 30, 2019, compared to working capital of \$1,671,907 at December 31, 2018, representing a \$1,821,598 decrease. With the receipt of Private Placement gross proceeds of \$2,001,500 on July 9, 2019 (see note 13), management estimates current working capital is sufficient to fund the Corporation’s planned expenditures into September of 2019. 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 consolidated interim 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.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)  
(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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### 3. Basis of presentation

These unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 (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, 2018 (“Annual Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed consolidated interim financial statements were authorized for issue on behalf of the Board of Directors on August 1, 2019.

### 4. Changes in Accounting Policies

Erdene has adopted the following new and revised standard, effective January 1, 2019.

#### IFRS 16 – Leases

The Corporation adopted IFRS 16 Leases with a date of initial application of January 1, 2019 using the modified retrospective approach. Accordingly, the information presented for 2018 has not been restated and is presented, as previously reported, under IAS 17 and related interpretations.

IFRS 16 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.

As the Corporation’s current office space and staff accommodation leases have terms of less than 12 months, there is no impact to the Corporation.

### 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.



# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

### 6. Exploration and evaluation assets

	Khundii Gold Project	Zuun Mod Moly/Copper	Ulaan & Other	Total
Balance, January 1, 2018	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843
Additions	4,291,555	70,074	1,388	4,363,017
Effect of movements in exchange rates	(62,077)	(4,143)	(4,292)	(70,512)
Balance, December 31, 2018	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348
Balance, January 1, 2019	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348
Additions	2,255,964	67,091	1,902	2,324,957
Repurchase of NSR Royalty (Note 7)	1,200,000	-	-	1,200,000
Effect of movements in exchange rates	(503,797)	(39,267)	(26,945)	(570,009)
Balance, June 30, 2019	\$ 16,882,477	\$ 859,550	\$ 900,269	\$ 18,642,296

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 Gold Project

The Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Bayan Khundii Mining License, including the Bayan Khundii resource, the contiguous 2,205 hectare Khundii exploration license, and the 4,669 hectare Tsenkher Nomin exploration license including the Altan Nar gold, silver, lead, zinc resource. Prior to December 31, 2018, Exploration and evaluation expenditures on the Khundii license and the Tsenkher Nomin license were disclosed separately. Erdene made the decision in late 2018 to develop these licenses concurrently and has aggregated associated exploration and evaluation assets and expenditures.

Erdene received the Bayan Khundii mining license on August 5, 2019 from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of a portion of its legacy Khundii exploration license. The Bayan Khundii mining license covers 2,309 hectares, including the Bayan Khundii Resource reported in "Bayan Khundii Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report", dated November 1, 2018 and prepared by RPMGlobal Asia Limited. Additionally, the mining license includes Erdene's highly prospective Altan Arrow, Khundii North and Khundii West targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years.

The Corporation maintains an exploration license for 2,205 hectares of the legacy Khundii exploration license that were not converted to a mining license as part of its application. This exploration license is in its tenth 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, Erdene only capitalized license costs associated with Khundii.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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### 6. Exploration and evaluation assets (continued)

The Tsenkher Nomin exploration license is in its tenth 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 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. The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. The Corporation will continue to evaluate its options in light of technological and market factors.

#### Ulaan & Other

The Ulaan exploration license covers an area of approximately 1,780 hectares, situated immediately adjacent to the Khundii license. The exploration license is in its fourth 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. Erdene evaluated the acquisition considering IFRS 3, Business Combinations, and concluded that the transaction constituted the acquisition of a collection of assets, not a business.

Provided Erdene spends a minimum of US\$600,000 on work expenditures on the property by August 30, 2020, 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 this date by spending a minimum of US\$100,000 per annum 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.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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### 7. Commitments

Operating commitments are as follows:

	June 30, 2019	December 31, 2018
Less than 1 year	59,311	41,957
Between 1 and 5 years	-	-
<b>Total</b>	<b>\$ 59,311</b>	<b>\$ 41,957</b>

The Corporation has leases for office space in Canada and Mongolia, as well as staff accommodation in Mongolia that expire within the next 12 months.

The Corporation must spend a total of US\$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 US\$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. On April 12, 2019, Erdene repurchased 50% of the NSR Royalty for \$1.2 million, reducing the NSR Royalty to 1%.

### 8. Share Capital

#### Authorized

An unlimited number of common shares with no par value.

#### Issued

On February 28, 2019 the Corporation closed a non-brokered private placement financing for gross proceeds to the Corporation of \$2,533,345. The Corporation issued an aggregate of 11,014,544 Units of the Corporation at a price of \$0.23 per Unit. Each Unit consists of one common share and one Warrant. Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.40 if exercised within twelve months of the closing date and at a price of \$0.50 if exercised more than twelve months after the closing date. The Corporation paid finder's fees of \$62,116 and issued 270,070 finder's warrants in connection with the Offering. The finder's warrants are exercisable on the same terms as the unit Warrants. In addition, the Corporation paid \$51,435 in share issue costs on the private placement, resulting in net proceeds of \$2,419,794.

#### Share-Based Compensation

For the six months ended June 30, 2019, the Corporation charged a total of \$377,960 of share-based compensation expense to the statement of comprehensive loss (2018 – \$892,014) of which \$93,777 is attributable to exploration expenses (2018 – \$355,037).

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

### 8. Share Capital (continued)

#### 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. During the six months ended June 30, 2019, the Corporation issued 1,105,000 shares on the exercise of options, generating gross proceeds of \$169,800.

In the second quarter of 2019, 2,520,000 options were granted to officers, directors and employees of the Corporation at a weighted average exercise price of \$0.20. 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 \$227,500 (2018 – \$804,600) to share-based compensation included in exploration expenses and corporate and administration expenses. On June 18, 2019, 230,000 options expired.

Option transactions and the number of options outstanding at June 30, 2019 are summarized below:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding at January 1, 2019	<b>11,335,000</b>	<b>\$ 0.43</b>
Granted	<b>2,520,000</b>	<b>0.20</b>
Expired	<b>(230,000)</b>	<b>0.16</b>
Exercised	<b>(1,105,000)</b>	<b>0.15</b>
Outstanding at June 30, 2019	<b>12,520,000</b>	<b>\$ 0.42</b>

At June 30, 2019, the Corporation had the following options outstanding:

<b>Range of prices</b>	<b>Number of options exercisable</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price of exercisable options</b>
\$0.15 - \$0.24	<b>4,690,000</b>	<b>3.32</b>	<b>\$ 0.18</b>
\$0.25 - \$0.49	<b>5,010,000</b>	<b>3.19</b>	<b>0.38</b>
\$0.50 - \$0.87	<b>2,820,000</b>	<b>2.78</b>	<b>0.86</b>
	<b>12,520,000</b>	<b>3.15</b>	<b>\$ 0.42</b>

#### Warrants

During the six months ended June 30, 2019, the Corporation issued 11,014,544 warrants and 270,070 finder's warrants as part of the February 28, 2019 non-brokered private placement financing. The warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of \$0.40 if exercised within twelve months of the closing date and at a price of \$0.50 if exercised more than twelve months after the closing date.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

### 8. Share Capital (continued)

Warrant transactions and the number of warrants outstanding at June 30, 2019 are summarized below:

	Number of warrants	Weighted average exercise price
Outstanding at January 1, 2019	12,389,904	\$ 0.65
Issued	11,284,614	0.40 - 0.50
Expired	(1,075,324)	1.20
Outstanding at June 30, 2019	22,599,194	\$ 0.53

The remaining contractual lives of warrants outstanding at June 30, 2019, are as follows:

Weighted average exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
\$0.40 - \$0.50	11,284,614	1.69
\$0.51 - \$0.60	11,314,580	1.92
	22,599,194	1.81

#### 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 six months ended June 30, 2019, the Corporation granted 762,391 DSUs with a fair value of \$0.20 per DSU (2018 – 212,564 DSUs with fair value of \$0.40 per DSU). The fair value of \$150,460 (2018 – \$84,914) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

Also, during the six months ended June 30, 2019, Erdene issued 175,069 shares from the DSU plan at \$0.17 per DSU (2018 - nil).

DSU transactions and number of DSUs outstanding at June 30, 2019 are summarized as follows:

	Number of DSUs	Weighted average grant price
Outstanding at January 1, 2019	3,954,118	\$ 0.19
Granted	762,391	0.20
Issued	(175,069)	0.17
Outstanding at June 30, 2019	4,541,440	\$ 0.19

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

### 9. Exploration and evaluation expenses

The following table summarizes Exploration and evaluation expenses for the three and six month periods ended June 30, 2019 and 2018:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Depreciation and amortization	3,623	3,814	7,229	7,362
Direct costs	120,744	235,281	227,802	370,324
Employee compensation costs	32,269	88,075	94,778	166,879
Share-based compensation	89,400	345,845	93,777	355,037
	<b>\$ 246,036</b>	<b>\$ 673,015</b>	<b>\$ 423,586</b>	<b>\$ 899,602</b>

### 10. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the three and six month periods ended June 30, 2019 and 2018:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Administrative services	\$ 94,207	\$ 149,359	\$ 204,123	\$ 270,652
Depreciation and amortization	2,153	1,554	4,065	3,053
Directors fees and expenses	37,091	51,107	65,009	75,142
Investor relations and marketing	23,093	24,978	55,316	90,149
Office and sundry	30,205	34,783	62,123	64,166
Professional fees	46,087	55,676	77,886	117,978
Regulatory compliance	22,568	26,481	70,805	86,803
Share-based compensation	236,109	430,823	284,183	536,977
Travel and accommodations	6,415	16,678	20,734	33,127
	<b>\$ 497,928</b>	<b>\$ 791,439</b>	<b>\$ 844,244</b>	<b>\$ 1,278,047</b>

### 11. Financial instruments

#### Credit Risk:

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

	Carrying Amount	
	June 30, 2019	December 31, 2018
Cash	\$ 353,842	\$ 1,748,249
Receivables	157,343	113,412
	<b>\$ 511,185</b>	<b>\$ 1,861,661</b>

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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### 11. Financial instruments (continued)

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 June 30, 2019, \$136,519 or approximately 39% of the balance of cash was held in banks outside Canada (December 31, 2018 – \$66,342 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.

The corporation does not have sufficient working capital to meet budgeted expenditures for 2019 and must obtain additional financing to avoid disruption to its operations (see note 2).

#### 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 June 30, 2019, 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.

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

	June 30, 2019	December 31, 2018
Cash	\$ 172,040	\$ 96,157
Trade and other receivables	-	-
Trade and other payables	(35,884)	(24,244)
	\$ 136,156	\$ 71,913

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$13,600 (December 31, 2018 - \$7,200).

# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

### 11. Financial instruments (continued)

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

	June 30, 2019	December 31, 2018
Cash	\$ 10,024	\$ 3,432
Trade and other receivables	3,890	7,218
Trade and other payables	(178,258)	(22,159)
	<b>\$ (164,344)</b>	<b>\$ (11,509)</b>

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$16,400 (December 31, 2018 - \$1,200).

#### 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 are as follows:

	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	\$ 353,842	\$ -	\$ -	\$1,748,249	\$ -	\$ -
Receivables	-	157,343	-	-	113,412	-

### 12. 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.

	Six months ended June 30,	
	2019	2018
Salaries and other short-term employee benefits	\$ 444,124	\$ 568,502
Share-based compensation	290,946	767,971
	<b>\$ 735,070</b>	<b>\$ 1,336,473</b>



# ERDENE RESOURCE DEVELOPMENT CORPORATION

## Notes to Condensed Consolidated Interim Financial Statements

(Canadian dollars)

(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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### 13. Subsequent Events

On July 9, 2019 the Corporation closed a non-brokered private placement, for 10,007,500 units of the Company (the "Units") at a price of \$0.20 per Unit, for gross proceeds of \$2,001,500. Each Unit consisted of one common share and one-half ( $\frac{1}{2}$ ) of one common share purchase warrant (each whole warrant, a "Warrant"). Warrants are exercisable by the holder into one common share of the Company within two years of the closing date, at a price of \$0.30. Erdene paid finder's fees in the aggregate of \$35,760 and issued 108,800 finder's warrants in connection with the Offering. The finder's warrants are exercisable on the same terms as the unit Warrants.

Erdene received Mining License MV-021444 for its Bayan Khundii resource on August 5, 2019 from the Mineral Resource and Petroleum Authority of Mongolia ("MRPAM"). The Bayan Khundii mining license covers 2,309 hectares, including the Bayan Khundii Resource reported in "Bayan Khundii Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report", dated November 1, 2018 and prepared by RPMGlobal Asia Limited. Additionally, the mining license includes Erdene's highly prospective Altan Arrow, Khundii North and Khundii West targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. Erdene maintains an exploration license for the remaining 2,205 hectares of the legacy Bayan Khundii exploration license that were not converted to a mining license as part of its application.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and six months ended June 30, 2019 and 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Three and six months ended June 30, 2019

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*This Management Discussion and Analysis ("MD&A"), dated August 9, 2019, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Company" or the "Corporation") and should be read in conjunction with the Corporation's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and 2018, audited consolidated financial statements for the years ended December 31, 2018 and 2017, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").*

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

*The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2018, a copy of which is available on the Corporation's SEDAR document page at [www.sedar.com](http://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 two mining licenses 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 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 December 2018, Erdene announced a positive Preliminary Economic Assessment ("PEA") study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Erdene commenced a NI 43-101 Pre-Feasibility Study ("PFS"), led by Tetra Tech Inc., in March 2019. Work on the Khundii Gold Project PFS is progressing to schedule and preliminary reports have been received for the resource estimate, mining, geotechnical, metallurgical, processing, waste rock and hydrogeological workstreams. In addition, vendor quotes have been requested for key plant and fleet components. We continue on track for a PFS announcement date in late Q3 2019. Concurrently, work is well underway on the Environmental and Social Impact Assessment, led by Sustainability East Asia, LLC. On August 5, 2019 Erdene received the Bayan Khundii mining license from the Mineral Resource and Petroleum Authority of Mongolia ("MRPAM").

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.

## Highlights and Significant Subsequent Events

### Khundii Gold Project – 100% Erdene

- Received the Bayan Khundii Mining License on August 5, 2019:
  - The license is valid for an initial term of 30 years and can be extended to 70 years.
  - Altan Nar mining license application is underway.
- Completed an 1,800m drill program at Bayan Khundii in support of the PFS:
  - Results included 112m grading 5.9 g/t gold at Midfield, including 8m of 45 g/t gold.
  - Intersected new high-grade zone at Midfield, beginning at 7m, including 14m of 14 g/t gold.
  - Drilled 2m of 39 g/t gold below the proposed pit limits and 3m of 40 g/t gold, 210m west of the proposed pit boundary.
  - Discovered high-grade gold in a previously untested area, intersecting 1m of 51.9 g/t gold.
- Advanced the NI 43-101 PFS led by Tetra Tech, Inc:
  - Preliminary results have been received for the resource estimate, mining, geotechnical, metallurgical, processing, waste rock and hydrogeological workstreams.
  - Vendor quotes have been requested for key plant and fleet components.
  - PFS announcement scheduled for late Q3 2019 with report to be filed in mid-Q4.
  - PFS to focus on Bayan Khundii with Altan Nar reported at PEA level, under the same Khundii Gold Project Technical Report.

- Finalized metallurgical test work program for Bayan Khundii, led by Blue Coast Research:
  - Tested two master and 13 variability composites at grades from 1.07 g/t to 10.8 g/t gold.
  - Recovered 91 – 96% of gold using a 48 hour leach, cyanide concentration of 0.5 – 1.0 g/l and a primary grind of 80% passing 75µm – expected recovery of 93% at a deposit average grade of 3.5 g/t gold.
  - Grindability testing (Bond Ball Work index, SMC, and Abrasion index) confirmed the Bayan Khundii material as moderately hard to hard, and moderately abrasive to abrasive.
- Drilled 17 holes (1,800m) for the Hydrogeological – Process Water Exploration Program:
  - Identified water resources with flow rates expected to support the planned 1,800 tonne per day processing plant within 3 kilometres of the proposed plant.
  - Phase two, to establish the water reserve for registration and permitting is underway.
- Started the Environmental and Social Impact Assessment (ESIA) led by Sustainability East Asia LLC
  - Program will satisfy Mongolian requirements for Detailed Environmental Impact Assessment, the company's policy and commitments, and selected international standards.
  - Environmental and social data collection underway, with impact and management plans targeted for completion in late Q3 2019, and public consultation scheduled for Q3-Q4.
- Initiated Q3 19 Exploration and Technical Program:
  - Field work to commence in September including exploration, geotechnical and hydrology drilling.
  - District scale geophysical compilation and interpretation program underway that is expected to provide new drill targets on license.
  - Maintained focus on priority acquisition targets through the government tender process and in the secondary market.

## Corporate

- Closed a non-brokered private placement for gross proceeds of \$2,001,500 on July 9, 2019:
  - Proceeds will fund completion of the PFS, mining license applications and exploration.
  - Management and Directors subscribed for 8% of the private placement and collectively have purchased 1.3 million shares since the beginning of Q2-2019.
- Repurchased 50% of the Khundii NSR Royalty from Sandstorm Gold on April 12, 2019:
  - Fair value of the NSR royalty implied by the Khundii Gold Project PEA was well in excess of the C\$1.2 million repurchase price.
- Recorded a net loss of \$755,291 for the three months ended June 30, 2019, compared to a net loss of \$1,439,471 for the comparative 2018 period.
  - Incurred Exploration expenditures, including capitalized costs, of \$1,807,460 compared to \$2,462,175 as reduced drilling in 2019 more than offset the increase in mining studies costs associated with the Khundii Gold Project PFS.
  - Corporate and administrative expenses, excluding non-cash share-based compensation and depreciation were \$261,819 in the quarter versus \$360,616 in the comparative period due primarily to lower staffing costs as a result of personnel changes and the timing of performance bonuses.

## Strategy and Outlook

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

In February 2019, Erdene filed a positive PEA study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Prepared by RPM Global, this independent study confirmed the high-return, low-capital and low-operating cost potential of the project, that will form the cornerstone development in the emerging Khundii Gold District. The Khundii Gold 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.

Erdene commenced a NI 43-101 PFS, led by Tetra Tech Inc., in March 2019. Work on the Khundii Gold Project PFS is progressing to schedule and preliminary reports have been received for the resource estimate, mining, geotechnical, metallurgical, processing, waste rock and hydrogeological workstreams. In addition, vendor quotes have been requested for key plant and fleet components and we continue on track for a PFS announcement date in late Q3 2019. Concurrently, work is well underway on the Environmental and Social Impact Assessment, led by Sustainability East Asia, LLC.

Management, with Tetra Tech's guidance, has made a decision to focus the PFS on the Bayan Khundii gold deposit based on the following factors:

- the results of the Q2 2019 Bayan Khundii drill program and the anticipated positive impact on the Bayan Khundii resource estimate;
- a focus on the Bayan Khundii development is the most efficient and economic path to development from both the technical studies and permitting perspectives;
- a review of the Altan Nar project highlighted significant upside and a need to complete further exploration to assess the overall resource potential prior to development; and
- the need for additional metallurgical testing to identify the optimum processing circuit for the Altan Nar polymetallic ore to maximize recovery of gold and base metals.

As a result, Bayan Khundii will be reported at the PFS level while Altan Nar will be reported at a PEA level. For purposes of these studies, Tetra Tech will assume that Altan Nar ore is processed through the Bayan Khundii processing circuit. Results of these studies will be combined in a single Khundii Gold Project Technical Report, per NI 43-101 guidelines that require projects sharing infrastructure to be included in the same Technical Report. Results for the Khundii Gold Project Technical Report are scheduled to be announced in late Q3 2019 with the report filed in mid-Q4.

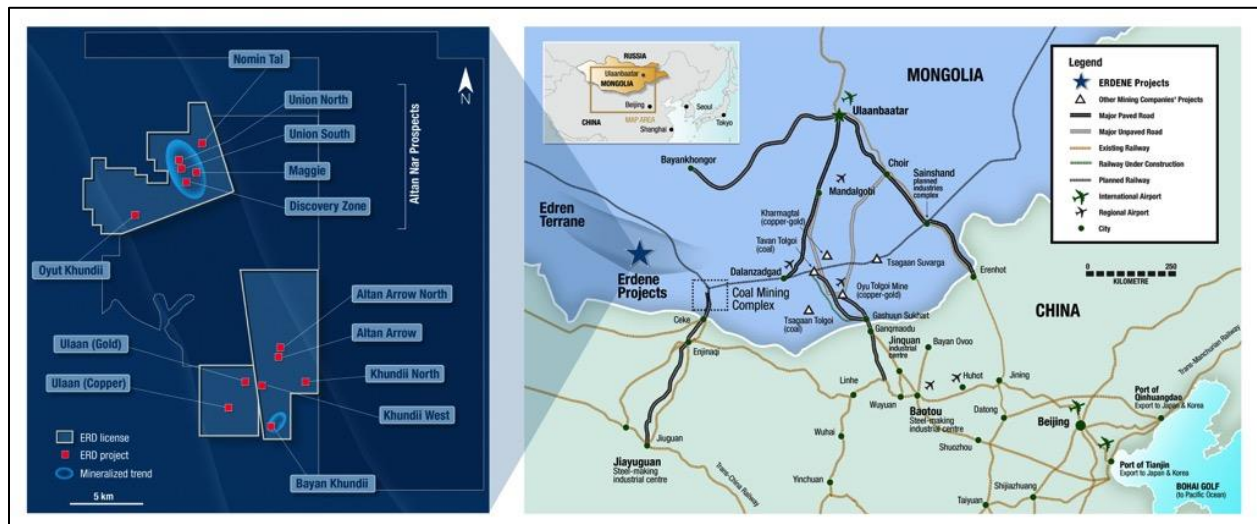
Altan Nar remains an important component of the Khundii Gold Project and Erdene will continue to progress through the key studies and the licensing process to support the development of the resource.

Erdene received Mining License MV-021444 for its Bayan Khundii resource on August 5, 2019 from the Mineral Resource and Petroleum Authority of Mongolia ("MRPAM"). The Bayan Khundii mining license covers 2,309 hectares, including the Bayan Khundii Resource reported in "Bayan Khundii Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report", dated November 1, 2018 and prepared by RPMGlobal Asia Limited. Additionally, the mining license includes Erdene's highly prospective Altan Arrow, Khundii North and Khundii West targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. Erdene maintains an exploration license for the remaining 2,205 hectares of the legacy Bayan Khundii exploration license that were not converted to a mining license as part of its application.

Erdene is planning to drill on its Bayan Khundii license at Altan Arrow and Khundii North in H2 2019 and continues to evaluate opportunities for acquisition throughout the Khundii District. Over the past decade Erdene has developed the largest proprietary geologic database of Southwest Mongolia's mineralization that has led to the identification of more than 20 high-priority targets for acquisition. Mongolia's Ministry of Mining and Heavy Industry re-opened the region to tenders in late 2018, and Erdene intends to participate as its target parcels come to auction.

# Development and Exploration Projects

## Erdene's Khundii Gold District in Southwest Mongolia



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 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, 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](http://www.sedar.com).

### Khundii Gold Project

The Khundii Gold Project is comprised of the Company's high-grade, near-surface Bayan Khundii and Altan Nar deposits. The Bayan Khundii ("Rich Valley") gold project is located on Erdene's 100%-owned, 2,309 hectare Bayan Khundii mining license, and contiguous 2,205 hectare Khundii exploration license in southwest Mongolia. Erdene received Mining License MV-021444 for its Bayan Khundii resource on August 5, 2019. The Bayan Khundii mining license includes the Bayan Khundii Resource reported in "Bayan Khundii Gold Project, Bayankhongor Aimag, Southwest Mongolia, National Instrument 43-101 Mineral Resource Technical Report", dated November 1, 2018 and prepared by RPMGlobal Asia Limited, as well as Erdene's highly prospective Altan Arrow, Khundii North and Khundii West targets. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. Erdene maintains an exploration license for the remaining 2,205 hectares of the legacy Bayan Khundii exploration license that were not converted to a mining license as part of its application. This exploration license is in its tenth 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 Bayan Khundii prospect 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 grade, proximity to surface, and favorable metallurgy. The Corporation has completed 45,702 metres of diamond drilling at Bayan Khundii over 266 diamond drill holes. Drilling has identified three main areas of very high-grade gold mineralization with strong continuity: Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization cover. The high-grade gold zones within these three areas can be very wide, grading up to almost 6 g/t gold over more than 110 metres.

Step-out drilling in 2017 indicated that mineralization encountered in the Midfield Zone, (located 200 metres northeast from the initial Striker Zone discovery), extends for at least an additional 280 meters to the northeast under post-mineralization cover. The Midfield and North Midfield Zones have returned some of the highest grades and widest mineralized intervals at Bayan Khundii. BKD-98 returned 80 metres of 6.0 g/t gold from 42 metres depth, and BKD-231 returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold.

In April 2019 Erdene completed an 1,800 metre diamond drill program to increase resource confidence within the central portions of the Midfield and North Midfield zones in support of the PFS. This program produced some of the strongest mineralized intersections to date including 112 metres grading 5.9 g/t gold within the Midfield zone. The program also established a higher degree of continuity within the North Midfield mineralization zone. Finally, the program expanded mineralization beyond the current resource perimeter in southern Bayan Khundii with the intersection of 51.9 g/t gold over one metre at BKD-266.

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 tenth 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. The license hosts 18 mineralized (gold, silver, lead, zinc) target areas within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, Discovery Zone (“DZ”) and Union North (“UN”), host wide zones of high-grade, near-surface mineralization, and were the focus of an updated resource estimate released in Q2 2018. The remaining 16 targets have received minimal exploration but appear very prospective and the Corporation intends to complete further drilling on the license to increase its understanding of the system.

### **Mineral Resources**

Erdene announced the maiden resource estimate for the Khundii Gold Project, dated September 12, 2018, prepared in accordance with NI 43-101 by RPMGlobal Asia Limited (“RPM”). The Khundii Gold Project Resource includes the Maiden Mineral Resource estimate for the Bayan Khundii deposit and incorporates the significant increase in the NI 43-101 Mineral Resource for the Altan Nar deposit reported in May 2018. The Bayan Khundii 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 gold mineralized system 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.

A summarized sensitivity analysis of the grade and tonnage relationships at various cut-off grades for the Khundii Gold Project is shown in the table below<sup>1</sup>:

Cut-Off Grade <sup>2</sup>	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
<b>0.6 / 0.7 <sup>3</sup></b>	<b>Measured &amp; Indicated</b>	<b>10.1</b>	<b>2.3</b>	<b>751</b>	<b>2.7</b>	<b>886</b>
	<b>Inferred</b>	<b>5.2</b>	<b>1.8</b>	<b>291</b>	<b>2.3</b>	<b>382</b>
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.



## Preliminary Economic Assessment

On December 18, 2018, Erdene announced results of an independent Preliminary Economic Assessment (“PEA”) study for its 100%-owned Khundii Gold Project (the “Project”) in southwest Mongolia. The PEA was prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects (“NI 43-101”) by RPMGlobal Asia Limited.

The PEA envisions 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 development incorporates a conventional gravity separation circuit and a carbon in pulp plant with processing capacity of 1,800 tonnes per day.

The PEA includes 2.7 million minable tonnes from the Bayan Khundii resource at an average head grade of 3.65 g/t gold, of which 98% are Measured and Indicated Resources. The Altan Nar deposit contributes 1.9 million minable tonnes at an average head grade of 3.11 g/t gold, of which 70% are Measured and Indicated Resources.

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

Key Project metrics are presented in the following table:

Assumptions		
Gold Price	US\$/oz	1,200
Production Profile		
Average Head Grade Over Life of Mine <sup>1</sup>	g/t gold	3.42
Project Life <sup>2</sup>	years	11
Operating Life	years	8
Target Production Rate Per Day <sup>3</sup>	tpd	1,800
Average Annual Saleable Gold	oz	51,200
Peak Annual Saleable Gold	oz	68,100
Total Gold Production LOM	oz	412,000
Average Gold Recovery Rate Over Life of Mine	%	82%
Strip Ratio	tonne:tonne	10.5:1
LOM Cash Cost plus Sustaining Cost (AISC) <sup>4</sup>	US\$/oz	714

Project Economics		
Pre-Tax Net Present Value		
5% discount rate	US\$M	135
7.5% discount rate	US\$M	119
10% discount rate	US\$M	105
After-Tax Net Present Value		
5% discount rate	US\$M	99
7.5% discount rate	US\$M	86
10% discount rate	US\$M	76
Internal Rate of Return and Payback		
Pre-Tax Internal Rate of Return	%	70%
After-Tax Internal Rate of Return	%	56%
Payback Period Post-Construction <sup>5</sup>	years	1.8
Capital Requirements		
Pre-production Capital Cost, including contingency	US\$M	32
LOM Sustaining Capital Cost	US\$M	8

(1) Average diluted head grade of mineralised rock fed to process plant.

(2) Project life includes one year pre-production period, eight year operating life and two year mine closure.

(3) Assumes process plant operates for 8,000 hours per annum to achieve the target production rate of 600 ktpa.

(4) Operating costs reported in terms of saleable gold ounces, including Royalty and Refining Charges of US\$62/oz.

(5) Payback period calculated on an undiscounted, after-tax cash flow basis.

The following table shows the change in the after-tax NPV and IRR over a range of gold prices and discount rates, demonstrating the impact of higher gold prices and the Project's resiliency to lower prices:

Gold Price Sensitivity Analysis	Units	US\$1,150	US\$1,200	US\$1,250	US\$1,300
NPV (5% discount rate)	US\$M	86	99	111	124
NPV (7.5% discount rate)	US\$M	75	86	98	110
NPV (10% discount rate)	US\$M	65	76	86	97
IRR	%	50%	56%	62%	68%

The PEA is based on an open-pit mining operation targeting 600,000 tonnes per year of feed material for the process plant. The total mineable mineralised plant feed is 4.6 million tonnes at an average diluted head grade of 3.42 g/t and strip ratio of 10.5:1 (waste tonne:plant feed tonne).

The PEA study assumes processing of ROM material via a conventional gravity separation circuit and a carbon in pulp plant. The ore-processing plant will be located adjacent to the Bayan Khundii open pit and throughput will target 1,800 tonnes per day. Using an estimated mill recovery of 82%, total recovered gold over the project life is 412,000 ounces.

Operating costs are based on the mining and processing scenario outlined above and assumes contract mining. All other activities are assumed to be owner operated. The contingency is estimated at 10% and applied to all cost centres except "Royalty and Charges". The all-in sustaining cost (that is, operating cost and sustaining capital cost) is estimated at US\$714/oz.

Cost Centre	(US\$millions)	Life of Mine	
		US\$/oz	US\$/tonne
Mine Operating Cost	134	326	29
Processing Cost	76	183	16
Site G&A	30	73	7
Product Cost	2	6	1
Royalty (5% NSR) and Charges	26	62	6
Contingency	24	58	5
Total Operating Costs	292	708	64
Sustaining Capital	3	6	1
All-In Sustaining Cost	295	714	65

The initial capital cost (Year 0), primarily comprising construction of the process plant and supporting infrastructure, is estimated at US\$32 million. The PEA contemplates a mining contractor utilizing mining equipment which if purchased outright would add \$38 million to capital costs. All major facilities including the process plant are proposed to be located at the Bayan Khundii site. In Year 3 the supporting infrastructure for the Altan Nar site is constructed at an estimated cost of US\$1 million, including the upgrade of the road to Bayan Khundii. The infrastructure and process plant estimates include a 20% contingency.

Sustaining capital of US\$3 million is included in the mine plan and mine closure costs are estimated at US\$4 million. Total capital expenditures over the life of mine are estimated at US\$40 million.

Item	Bayan Khundii (US \$millions)	Altan Nar (US \$millions)	Total (US \$millions)
Process Plant	16	-	16
Site Buildings	3	-	3
Accommodation Village	2	-	2
Airstrip	1	-	1
Roads	1	1	2
Engineering & Support	4	-	4
Engineering Contingency	5	-	5
<b>Subtotal Plant &amp; Infrastructure</b>	<b>32</b>	<b>1</b>	<b>33</b>
Mine Closure	3	1	4
Sustaining Capital	2	1	3
<b>Total</b>	<b>37</b>	<b>3</b>	<b>40</b>

The Company sees the following opportunities to increase value at the Khundii Gold Project:

- **Higher Grade Upside:** The very high-grade nature of the deposit provides upside, should continuity of the ultra high-grade zones be established during mining. The highest gold values in the block model supporting the PEA are 55 g/t, while more than 40 intersections ranging from 50 g/t to 2,200 g/t gold were encountered during drilling.
- **Additional Resources at Bayan Khundii:** Approximately 60,000 ounces of Indicated Resources and 70,000 ounces of Inferred Resources grading more than 4 g/t are located outside the mineable open pit for the PEA. The majority of these resources are contained within the West Striker Area, approximately 100 metres from the ultimate pit wall, situated at around 100 metres depth. Accessing these resources by underground methods will be considered in a future study.
- **Additional Resources at Altan Nar:** The majority of the resource contained at the Altan Nar Project remains undeveloped in the current PEA. Further drilling and metallurgical work are required to incorporate this material into development scenarios.
- **Exploration Potential:** The Bayan Khundii and Altan Nar deposits are situated in a highly prospective region that has received minimal historical exploration. The Company, through its proprietary regional database and experience in the region, is well positioned to add resources through exploration.
- **Recovery Upside:** The Bayan Khundii mineralized material has an average recovery of 92% in the PEA. However, master composite sample testing indicates that recoveries of up to 99% are possible for high-grade material. For Altan Nar material, an average recovery of 62% has been applied due to arsenopyrite content of the ore. Master composite testing of representative samples from the Discovery Zone pit has returned recoveries of up to 88%. Further metallurgical testing could support higher recoveries.
- **Mine Planning:** The PEA represents the first step toward addressing the viability of a mining operation at the Khundii Gold Project. Further work may identify cost saving opportunities such as improved pit sequencing through pit phasing, waste haul optimization including in-pit dumping, reduced dilution and loss through application of more selective mining techniques and interim pit design targeting improved early grades.
- **Mine Equipment Selection:** There is opportunity to utilize Tier 2 suppliers for non-critical equipment, reducing capital and operating costs.
- **Land Acquisition:** The Mongolian Ministry of Mining and Heavy Industry has recently reopened the tender licensing system, and the Company expects prospective licenses to be released in 2019. The Company has identified multiple priority targets surrounding the district and will be an active participant in the tender processes for these properties.

## **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 six licenses, drilling of selected targets and evaluation of acquisition targets on private and government held ground.

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

### ***South Bayan Khundii Prospect***

Located within the boundaries of the Bayan Khundii mining license, the South Bayan Khundii target is situated 250 metres southwest of the Bayan Khundii gold deposit. Resource expansion drilling completed in early 2019 intersected high-grade gold mineralization (up to 51 g/t gold) within a drill hole (BKD-266) outside the currently defined Bayan Khundii resource boundary. Continuity of mineralization relative to previous, local drill hole intersections suggest the high-grade gold veins are trending to the south where previous exploration drilling is limited. Subsequent to a focused IP dipole-dipole geophysical survey of this location, the Company plans to complete follow up drilling within the South Bayan Khundii prospect area to further test the southern continuity of these high-grade gold veins.

### ***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 mining license. Drilling has concentrated in an area along and south of the main structure, where several high-grade zones have been intersected, including 39 g/t over 1m and 24 g/t and 70 g/t over 2 metres. Overall, 77% of the 21 holes (2,605 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. This work 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 than 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 district is controlled by a structure associated with zones of major dilatancy and structural intersections. Such zones commonly have associated alteration events that are magnetite destructive, resulting in zones of low magnetic response. In advance of future drilling the Corporation plans to complete a comprehensive geophysical interpretation of the Altan Arrow prospect, including high resolution magnetics, IP dipole-dipole and gravity datasets.

### ***Khundii North Gold Target***

The Khundii North target is located 4 kilometres northeast of the Bayan Khundii gold deposit, on the Bayan Khundii mining license, and was initially drill tested in 2018. The area was identified through surface exploration in late 2017, when sampling of quartz vein material returned high grade gold mineralization of up to 22 g/t gold from a structurally controlled quartz vein stockwork and breccia zone traced over a 1,500 metre strike. Five holes, totaling 715 metres and averaging 93 metres vertical depth have now tested the stockwork-breccia body, comprised of three collars in the south and two in the north, separated by approximately 500 metres. Although the northern holes returned only minor levels of anomalous gold, the southern holes intersected wide zones of intense multi-phase epithermal quartz stockwork and breccia at depth within an altered monzonite. These stockwork zones are continuous, with up to 35 metre widths (AAD-29) and have associated anomalous gold, locally up to 2.1 g/t over 1 metre intervals (AAD-30) and locally anomalous copper (>500ppm). The Khundii North target provides a new high priority exploration area. Follow up drilling will test the Khundii North prospect at depth.

### ***Central Structure Zone ("CSZ") Gold Target***

In Q3 2018 the company tested a newly-identified structural target on the Bayan Khundii mining 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/specularite veinlets in the volcanic host intersected display similar characteristics to that of the main zones at Bayan Khundii, gold content was not anomalous. A sample of clay alteration in this area contained 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 possible that CSZ occurs at shallower paleo setting above the higher temperature gold mineralized illite zone. Interpretations of combined IP and magnetic geophysical datasets suggest the targeted altered tuff package within the CSZ prospect extends to depth. The Company intends to drill test these defined locations as part of its future exploration plan.

### ***Ulaan Copper-Gold Porphyry Target***

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license ("Ulaan Property"), immediately west of its high-grade Bayan Khundii deposit. The Ulaan Property covers approximately 1,780 hectares and hosts a 3-kilometre diameter, intense surface alteration zone with characteristics thought to be related to a porphyry intrusion at depth. The exploration license is in its fourth 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 by August 30, 2020, it has the right to acquire the remaining 49% of the property for the then fair market value. Erdene may extend the option beyond this date 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 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 north 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 (ZMD-121). The Project has a very large copper mineralized zone trending over 900 metres with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 to 42 metres).

### **Acquisitions**

Mongolia's Ministry of Mining and Heavy Industry 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 acquisition targets. The Company will participate in the tendering process as its priority targets are opened for tender. The Company has also been evaluating privately held licenses for acquisition. Erdene's alliance with Teck remains active and the companies continue to work together in Southwest Mongolia.

## **Discussion of Operations**

### **Three months ended June 30, 2019 and 2018**

The tables below detail exploration and evaluation expenditures for the three months ended June 30, 2019 and 2018. The Khundii Gold Project was the focus of the Corporation's efforts during these periods.

<b>Period ended June 30, 2019</b>	<b>Khundii Gold</b>			<b>Total</b>
	<b>Project</b>	<b>Zuun Mod</b>	<b>Ulaan &amp; Other</b>	
<b>Exploration expenditures</b>				
Mining studies and permitting	\$ 913,207	\$ -	\$ -	\$ 913,207
Drilling, trenching, sampling and assaying	293,224	717	426	294,367
Exploration, camp and field	197,251	10,354	68,341	275,946
Share-based compensation	-	-	89,401	89,401
License costs	16,488	67,091	612	84,191
Mongolian office costs	-	-	77,278	77,278
Stakeholder relations	61,540	-	-	61,540
Travel and other	12,011	-	(481)	11,530
Total exploration expenditures	1,493,721	78,162	235,577	1,807,460
Capitalized expenditures	(1,493,721)	(67,091)	(612)	(1,561,424)
<b>Expensed exploration costs 2019</b>	<b>\$ -</b>	<b>\$ 11,071</b>	<b>\$ 234,965</b>	<b>\$ 246,036</b>
<b>E&amp;E assets, April 1, 2019</b>	<b>\$ 14,527,417</b>	<b>\$ 818,492</b>	<b>\$ 916,989</b>	<b>\$ 16,262,898</b>
Additions	1,493,721	67,091	612	1,561,424
Repurchase of NSR	1,200,000	-	-	1,200,000
Effect of movements in exchange rates	(339,425)	(26,033)	(16,568)	(382,026)
<b>E&amp;E assets, June 30, 2019</b>	<b>\$ 16,881,713</b>	<b>\$ 859,550</b>	<b>\$ 901,033</b>	<b>\$ 18,642,296</b>

Period ended June 30, 2018	Khundii Gold			Total
	Project	Zuun Mod	Ulaan & Other	
<b>Exploration expenditures</b>				
Drilling, trenching, sampling and assaying	\$ 917,251	\$ 715	\$ 43,894	\$ 961,860
Exploration, camp and field	554,764	20,132	205,403	780,299
Share-based compensation	-	-	345,844	345,844
Stakeholder relations	102,270	-	-	102,270
License costs	5,223	70,074	2,051	77,348
Travel and other	66,739	-	9,568	76,307
Mining studies and permitting	72,176	-	-	72,176
Mongolian office costs	-	-	46,071	46,071
Total exploration expenditures	1,718,423	90,921	652,831	2,462,175
Capitalized expenditures	(1,718,423)	(70,074)	(663)	(1,789,160)
<b>Expensed exploration costs 2018</b>	<b>\$ -</b>	<b>\$ 20,847</b>	<b>\$ 652,168</b>	<b>\$ 673,015</b>

<b>E&amp;E assets, April 1, 2018</b>	<b>\$ 10,506,264</b>	<b>\$ 796,575</b>	<b>\$ 958,384</b>	<b>\$ 12,261,223</b>
Additions	1,718,423	70,074	663	1,789,160
Effect of movements in exchange rates	(64,826)	(5,914)	(9,209)	(79,949)
<b>E&amp;E assets, June 30, 2018</b>	<b>\$ 12,159,861</b>	<b>\$ 860,735</b>	<b>\$ 949,838</b>	<b>\$ 13,970,434</b>

Exploration expenditures totaled \$1,807,460 for the three months ended June 30, 2019, compared to \$2,462,175 for the comparative period in 2018. Mining studies and permitting costs for the three months ended June 30, 2019 were \$913,207, versus \$72,176 for the three months ended June 30, 2018, as activity increased substantially with the launch of the Khundii Gold Project PFS in March 2019.

Drilling, trenching, sampling and assaying costs were \$294,367 for the second quarter of 2019, versus \$961,860 for the second quarter of 2018. The period over period change was due to reduced activity as Erdene drilled 1,800 metres in the current period in support of the PFS, compared to 4,584 metres in Q2 2018, when work was underway for the maiden Bayan Khundii mineral resource estimate. Exploration, camp and field costs of \$275,926 were proportionally less than prior period expenditures of \$780,299 due to the reduced drilling activity discussed above. Travel and other costs of \$11,530 were also well below the prior year period due to reduced drilling activity.

Non-cash Share-based compensation expenses were \$89,401 for the period ended June 30, 2019, versus \$345,844 during the three months ended June 30, 2018. The period over period decrease was due primarily to a reduction in the fair value of stock options as a result of a lower share price.

Mongolian office costs of \$77,278 for the three months ended June 30, 2019 were \$31,207 higher than the comparative period as certain prior period administrative costs were capitalized as part of the June 2018 Mongolian Stock Exchange public listing.

Stakeholder relations costs of \$28,210 for the three months ended June 30, 2019 were \$43,674 less than for the three months ended June 30, 2018 due to timing of community outreach and advocacy efforts.

License costs for the period ended June 30, 2019 were largely consistent with the prior year quarter.

Erdene began capitalizing exploration costs for its Khundii Gold Project on January 1, 2015, with the receipt of the initial resource estimate for the Khundii Gold Project's Altan Nar deposit. For the three months ended June 30, 2019 and 2018, Erdene has capitalized all exploration costs associated with this Project.

**For the three months ended June 30,**

	2019	2018	Change
Administrative services	\$ 94,207	\$ 149,359	\$ (55,152)
Depreciation and amortization	2,153	1,554	599
Directors fees and expenses	37,091	51,107	(14,016)
Investor relations and marketing	23,093	24,978	(1,885)
Office and sundry	30,205	34,783	(4,578)
Professional fees	46,087	55,676	(9,589)
Regulatory compliance	22,568	26,481	(3,913)
Share-based compensation	236,109	430,823	(194,714)
Travel and accommodations	6,415	16,678	(10,263)
	<b>\$ 497,928</b>	<b>\$ 791,439</b>	<b>\$ (293,511)</b>

Corporate and administrative expenses totaled \$497,928 for the three months ended June 30, 2019, compared to \$791,439 for the prior year comparative period. Administrative services of \$94,207 for the three months ended June 30, 2019 were \$55,152 less than the prior year due to staffing changes and the timing of performance bonuses, which were paid in June 2018 but have been paid in July 2019 during the current year. Director's fees and expenses of \$37,091 for the three months ended June 30, 2019 are \$14,016 less than the prior year period as several directors elected to take all or a portion of their remuneration in the form of non-cash share-based compensation in the current period. Non-cash share-based compensation was \$194,714 lower in the period ended June 30, 2019 due to a softening in Erdene's stock price, which reduced the fair value of the options granted as calculated using the Black-Scholes model, partially offset by an increase in the number of share-based instruments issued due to the change in the director compensation plan noted above.

Current period Depreciation and amortization, Investor relations and marketing, Office and sundry, Professional fees, Regulatory compliance and Travel and accommodations costs were not material or significantly different from those incurred in the prior year's quarter.

**Six months ended June 30, 2019 and 2018**

The tables below detail exploration and evaluation and corporate and administrative expenditures for the six months ended June 30, 2019 and 2018.

Period ended June 30, 2019	Khundii Gold			
	Project	Zuun Mod	Ulaan & Other	Total
<b>Exploration expenditures</b>				
Mining studies and permitting	\$ 1,406,978	\$ -	\$ -	\$ 1,406,978
Exploration, camp and field	414,374	20,603	155,101	590,078
Drilling, trenching, sampling and assaying	296,272	1,184	968	298,424
Mongolian office costs	-	-	150,548	150,548
Share-based compensation	-	-	93,777	93,777
Stakeholder relations	89,750	-	-	89,750
License costs	16,995	67,091	1,902	85,988
Travel and other	31,595	-	1,405	33,000
Total exploration expenditures	2,255,964	88,878	403,701	2,748,543
Capitalized expenditures	(2,255,964)	(67,091)	(1,902)	(2,324,957)
<b>Expensed exploration costs 2019</b>	<b>\$ -</b>	<b>\$ 21,787</b>	<b>\$ 401,799</b>	<b>\$ 423,586</b>
<b>E&amp;E assets, January 1, 2019</b>	<b>\$ 13,930,310</b>	<b>\$ 831,726</b>	<b>\$ 925,312</b>	<b>\$ 15,687,348</b>
Additions	2,255,964	67,091	1,902	2,324,957
Repurchase of NSR	1,200,000	-	-	1,200,000
Effect of movements in exchange rates	(503,797)	(39,267)	(26,945)	(570,009)
<b>E&amp;E assets, June 30, 2019</b>	<b>\$ 16,882,477</b>	<b>\$ 859,550</b>	<b>\$ 900,269</b>	<b>\$ 18,642,296</b>



Period ended June 30, 2018	Khundii Gold			Total
	Project	Zuun Mod	Ulaan & Other	
<b>Exploration expenditures</b>				
Exploration, camp and field	\$ 912,290	\$ 29,568	\$ 301,199	\$ 1,243,057
Drilling, trenching, sampling and assaying	918,397	1,380	50,825	970,602
Share-based compensation	-	-	355,037	355,037
Mongolian office costs	-	-	143,386	143,386
Stakeholder relations	139,948	-	-	139,948
Travel and other	109,374	-	18,207	127,581
Mining studies and permitting	123,122	-	-	123,122
License costs	5,223	70,074	2,051	77,348
Total exploration expenditures	2,208,354	101,022	870,705	3,180,081
Capitalized expenditures	(2,208,354)	(70,074)	(2,051)	(2,280,479)
<b>Expensed exploration costs 2018</b>	<b>\$ -</b>	<b>\$ 30,948</b>	<b>\$ 868,654</b>	<b>\$ 899,602</b>
<b>E&amp;E assets, January 1, 2018</b>				
	<b>\$ 9,700,832</b>	<b>\$ 765,795</b>	<b>\$ 928,216</b>	<b>\$ 11,394,843</b>
Additions	2,208,354	70,074	2,051	2,280,479
Effect of movements in exchange rates	250,675	24,866	19,571	295,112
<b>E&amp;E assets, June 30, 2018</b>	<b>\$ 12,159,861</b>	<b>\$ 860,735</b>	<b>\$ 949,838</b>	<b>\$ 13,970,434</b>

	For the six months ended June 30,		Change
	2019	2018	
Administrative services	\$ 204,123	\$ 270,652	\$ (66,529)
Depreciation and amortization	4,065	3,053	1,012
Directors fees and expenses	65,009	75,142	(10,133)
Investor relations and marketing	55,316	90,149	(34,833)
Office and sundry	62,123	64,166	(2,043)
Professional fees	77,886	117,978	(40,092)
Regulatory compliance	70,805	86,803	(15,998)
Share-based compensation	284,183	536,977	(252,794)
Travel and accommodations	20,734	33,127	(12,393)
	<b>\$ 844,244</b>	<b>\$ 1,278,047</b>	<b>\$ (433,803)</b>

## Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2019			Fiscal 2018			Fiscal 2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Net loss	\$755	\$517	\$772	\$744	\$1,439	\$702	\$649	\$713
Basic loss per share	\$0.01	\$0.00	\$0.01	\$0.00	\$0.01	\$0.00	\$0.00	\$0.01
Total assets	\$19,365	\$19,632	\$17,709	\$18,136	\$19,500	\$14,879	\$14,946	\$15,592

For the three months ended June 30, 2019, the Corporation recognized a net loss of \$755,291 compared to a net loss of \$1,439,471 for the same period in 2018.

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

## Liquidity and Capital Resources

At the date of this MD&A, the Corporation had approximately \$1.4 million in working capital.

Funds raised have been used to advance the Corporation's projects in Mongolia and to meet administrative costs in support of those programs (see Development and Exploration Projects and Discussion of Operations).

With the receipt of Private Placement gross proceeds of \$2,001,500 on July 9, 2019, management estimates current working capital is sufficient to fund the Corporation's planned expenditures into September of 2019. The ability of the Corporation to continue with its exploration and development programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional 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

	August 9, 2019	December 31, 2018
Common shares issued and outstanding	184,728,529	162,426,416
Options outstanding	12,520,000	11,335,000
Warrants outstanding	27,711,744	12,389,904
DSU's outstanding	4,541,440	3,954,118
Total instruments outstanding at end of period	229,501,713	190,105,438

## Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2019:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office leases	\$ 59,311	\$ 59,311	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	753,436	753,436	-	-	-
	<b>\$ 812,747</b>	<b>\$ 812,747</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## 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. Additionally, Sandstorm was given a right of first refusal on future stream and/or royalty financings related to the Khundii and Tsenkher Nomin licenses. On April 12, 2019, Erdene exercised its option to repurchase 50% of the NSR Royalty for C\$1.2 million, reducing Sandstorm’s NSR Royalty to 1%.

### Alliance with Teck Resources Limited

In April 2013, an alliance was formed with Teck Resources to 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 its commitment under the Alliance. During this period, Teck did not elect to acquire direct interests in any Erdene projects explored. However, Teck maintains the right through Q1 2020, to enter into joint venture agreements on certain properties explored under the Alliance.

### 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.

The Corporation must spend a total of USD\$600,000 by August 30, 2020 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 incurring an additional USD\$100,000 per year on exploration work. If Erdene fails to incur the minimum expenditures, its 51% ownership interest will revert to Leader Exploration LLC.

## Off-Balance Sheet Arrangements

As at June 30, 2019, 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.

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 and directors are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured. The Corporation charged a total of \$377,960 of non-cash share-based compensation to the statement of comprehensive loss for the six months ended June 30, 2019 (2018 - \$892,014).

### **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 adopted the following new and revised standard, effective January 1, 2019.

### **IFRS 16 – Leases**

On January 13, 2016, the IASB 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.

The Corporation adopted IFRS 16 Leases with a date of initial application of January 1, 2019 using the modified retrospective approach. Accordingly, the information presented for 2018 has not been restated and is presented, as previously reported, under IAS 17 and related interpretations.

As the Corporation's only current leases, for its head office spaces and staff accommodations, have terms of less than 12 months, there is no impact to the Corporation.

## **Financial Instruments and Other Risks**

### **Financial Instruments**

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

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

Level 2: Inputs 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 June 30, 2019 and December 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	\$ 353,842	\$ -	\$ -	\$ 1,748,249	\$ -	\$ -
Receivables	-	157,343	-	-	113,412	-

### 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](http://www.sedar.com).

### Credit Risk

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 June 30, 2019, \$136,519 or 39% of the balance of cash and cash equivalents was held in banks outside Canada (December 31, 2018 - \$66,342 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 June 30, 2019, the Corporation had cash and cash equivalents of \$353,842 (December 31, 2018 - \$1,748,249) to settle current liabilities of \$753,436 (December 31, 2018 - \$224,387).

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.

### 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 \$136,156 as at June 30, 2019 (December 31, 2018 - \$71,913). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$13,600 (December 31, 2018 - \$7,200).

The Corporation's exposure to Mongolian Tugrik currency risk was (\$164,344) as at June 30, 2019 (December 31, 2018 - (\$11,509)). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$16,400 (December 31, 2018 - \$1,200).

## 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 June 30, 2019 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Erdene's internal controls over financial reporting as of June 30, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (2013)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management's evaluation, the CEO and the CFO have concluded that as of June 30, 2019, Erdene's internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

However, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Qualified Person

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

The disclosure in this MD&A of scientific or technical information about mineral projects on the Corporation's properties has been reviewed and approved by Peter Dalton, 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](http://www.sedar.com) and on the Corporation's website at [www.erdene.com](http://www.erdene.com).