



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021, and 2020

(Canadian dollars)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

Opinion

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

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of indicators of impairment for exploration and evaluation assets

Description of the matter:

We draw attention to Notes 2(c)(ii), 3(d), and 5 of the financial statements. The Entity has exploration and evaluation assets of \$37,928,453. Exploration and evaluation assets are assessed for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Entity has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Why the matter is a key audit matter:

We identified the evaluation of indicators of impairment for exploration and evaluation assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of exploration and evaluation assets. This matter was of most significance due to the judgement required in evaluating the results of our audit procedures to assess the Entity's determination of whether the factors, individually or in the aggregate, resulted in an indicator of impairment.

How the matter was addressed in the audit:

The primary procedures we performed to address this key audit matter included the following:

We assessed the status of the Entity's rights to explore by inspecting license renewals, discussing with management if any rights were not expected to be renewed and inspecting government submissions made during the year.

We compared the actual exploration and evaluation expenditures in 2021 to the budgeted expenditures to assess management's ability to accurately budget.

We read the Entity's exploration and evaluation budget for the upcoming year to determine whether the Entity has plans to incur further exploration and evaluation expenditures.



We read information included in the Entity's technical reports and internal communications to assess if the Entity has decided to continue or discontinue exploration for and evaluation of mineral resources in the specific area.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



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

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

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

We also:

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

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

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



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

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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

Halifax, Canada

March 8, 2022

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2021	December 31, 2020
Assets			
Cash and cash equivalents		\$ 7,063,051	\$ 12,800,728
Receivables		23,784	89,344
Prepaid expenses		1,012,450	212,479
Current assets		8,099,285	13,102,551
Exploration and evaluation assets	5	37,928,453	29,364,155
Right-of-use assets	6	143,200	107,693
Property, plant and equipment	7	373,379	239,431
Non-current assets		38,445,032	29,711,279
Total Assets		\$ 46,544,317	\$ 42,813,830
Liabilities and Equity			
Trade and other payables		\$ 660,456	\$ 582,356
Lease liabilities	6	65,560	27,853
Current liabilities		726,016	610,209
Lease liabilities	6	86,281	85,699
Non-current liabilities		86,281	85,699
Total Liabilities		812,297	695,908
Shareholders' Equity			
Share capital	11	\$ 145,153,510	\$ 136,618,086
Contributed surplus	11	26,648,556	25,937,667
Accumulated other comprehensive loss		(3,026,358)	(2,964,666)
Deficit		(123,043,688)	(117,473,165)
Total Shareholders' Equity		45,732,020	42,117,922
Total Liabilities and Equity		\$ 46,544,317	\$ 42,813,830

Commitments (Note 8)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"

Director

Signed "John P. Byrne"

Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

	Notes	For the years ended	
		December 31,	
		2021	2020
Operating Expenses			
Exploration and evaluation	12	\$ 3,745,840	\$ 1,372,811
Corporate and administration	13	1,973,800	1,868,905
Loss from operating activities		5,719,640	3,241,716
Finance income		(55,015)	(62,858)
Interest expense		9,335	1,661,960
Change in fair value of convertible loan	9	-	8,412,081
Foreign exchange gain		(103,437)	(136,541)
Net Loss		\$ 5,570,523	\$ 13,116,358
Other comprehensive loss:			
Foreign currency translation difference			
arising on translation of foreign subsidiaries		61,692	1,006,050
Other Comprehensive Loss		61,692	1,006,050
Total Comprehensive Loss		\$ 5,632,215	\$ 14,122,408
Basic and diluted loss per share		\$ 0.02	\$ 0.06
Basic weighted average number of shares outstanding		276,139,787	216,535,792

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity (Canadian dollars)

	Notes	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at January 1, 2020		191,068,490	\$ 109,466,565	\$ 16,829,920	\$ (1,958,616)	\$ (104,356,807)	\$ 19,981,062
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(13,116,358)	(13,116,358)
Other comprehensive loss		-	-	-	(1,006,050)	-	(1,006,050)
Private placements, net of share issue costs	11	44,444,441	10,727,732	8,206,644	-	-	18,934,376
Issue of shares on convertible loan conversion	9	30,043,290	15,768,935	-	-	-	15,768,935
Options exercised	11	2,175,000	521,890	(177,590)	-	-	344,300
Issue of shares from DSU plan	11	719,212	132,964	(132,964)	-	-	-
Share-based compensation		-	-	1,211,657	-	-	1,211,657
Total transactions with owners		77,381,943	27,151,521	9,107,747	-	-	36,259,268
Balance at December 31, 2020		268,450,433	\$ 136,618,086	\$ 25,937,667	\$ (2,964,666)	\$ (117,473,165)	\$ 42,117,922
Balance at January 1, 2021		268,450,433	\$ 136,618,086	\$ 25,937,667	\$ (2,964,666)	\$ (117,473,165)	\$ 42,117,922
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(5,570,523)	(5,570,523)
Other comprehensive loss		-	-	-	(61,692)	-	(61,692)
Private placements, net of share issue costs	11	17,484,662	5,593,409	-	-	-	5,593,409
Options exercised	11	900,000	492,275	(173,875)	-	-	318,400
Warrants exercised	11	7,544,750	2,449,740	(186,314)	-	-	2,263,426
Share-based compensation		-	-	1,071,078	-	-	1,071,078
Total transactions with owners		25,929,412	8,535,424	710,889	-	-	9,246,313
Balance at December 31, 2021		294,379,845	\$ 145,153,510	\$ 26,648,556	\$ (3,026,358)	\$ (123,043,688)	\$ 45,732,020

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

		For the years ended December 31,	
	Notes	2021	2020
Cash flows from (used in) operating activities:			
Net loss		\$ (5,570,523)	\$ (13,116,358)
Items not involving cash:			
Depreciation and amortization		82,448	54,391
Share-based compensation		1,071,078	1,211,657
Finance income		(55,015)	(62,858)
Interest expense	9	-	1,653,178
Foreign exchange not related to cash		(103,437)	(136,541)
Fair value change on convertible loan		-	8,412,081
Change in non-cash operating working capital		(669,081)	(172,509)
Cash flows used in operating activities		(5,244,530)	(2,156,959)
Cash flows from (used in) financing activities:			
Issue of common shares, net of issue costs	11	5,593,409	18,934,376
Proceeds on exercise of stock options	11	318,400	344,300
Proceeds on exercise of warrants	11	2,263,426	-
Repayment of lease liability		(35,857)	(25,697)
Interest paid on convertible loan	9	-	(608,302)
Cash flows from financing activities		8,139,378	18,644,677
Cash flows from (used in) investing activities:			
Expenditures on exploration and evaluation assets	5	(8,646,027)	(8,873,361)
Expenditures on property, plant and equipment	7	(179,329)	(175,630)
Interest received		55,015	62,858
Cash flows used in investing activities		(8,770,341)	(8,986,133)
Effect of exchange rate changes on cash balances		137,816	192,280
(Decrease) increase in cash and cash equivalents		(5,737,677)	7,693,865
Cash and cash equivalents, beginning of period		12,800,728	5,106,863
Cash and cash equivalents, end of period		\$ 7,063,051	\$ 12,800,728

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

1. Nature of operations:

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

In August 2020, Erdene completed a Feasibility Study for its Bayan Khundii Gold Project, titled “Bayan Khundii Gold Project Feasibility Study, NI 43-101 Technical Report”. The continued operation of the Corporation and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of one or more of the properties.

2. Basis of presentation

a) Statement of compliance

The Corporation prepares their annual consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). The significant accounting policies are presented in Note 3 and have been consistently applied in each of the periods presented, except as disclosed in Note 4.

The consolidated financial statements were authorized for issue by Erdene’s Board of Directors on March 8, 2022.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities, as further described herein, which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Critical judgments and estimates in applying accounting policies

The preparation of financial statements in conformity with IFRS requires the Corporation’s management to make estimates, judgments and assumptions that materially affect the amounts reported in the consolidated financial statements and accompanying notes. Judgments and estimates are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates. Further information on management’s judgments, estimates and assumptions and how they impact accounting policies are described below and also in the relevant notes to the consolidated financial statements.

- i) *Functional currency*: The functional currency for the parent entity, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. The Mongolian subsidiaries have a Mongolian Tugrik functional currency, while the parent entity has a Canadian dollar functional currency.

Recoverability of exploration and evaluation assets: At the end of each reporting period, the Corporation assesses its exploration and evaluation assets to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Corporation has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

2. Basis of presentation (continued)

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the greater of the fair value less cost of disposal and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital expenditures, exploration potential and operating costs. Fair value of exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and risks to the asset. If the Corporation does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through comparison to similar market assets and, where available, industry benchmarks.

- iii) *Asset acquisitions*: The Corporation applies judgment in determining whether the exploration and evaluation assets it acquires are considered to be asset acquisitions or business combinations. Key factors in this determination are whether reserves have been established, whether the project is capable of being managed as a business by a market participant, and the nature of the additional work to convert resources into reserves. The Corporation has considered all exploration and evaluation assets acquired to date to be asset acquisitions.
- iv) *Share-based compensation*: Equity-settled share-based compensation is measured at fair value at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.
- v) *Provision for site restoration*: Management's assessment that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

d) COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and efforts to contain it have had a significant effect on commodity prices and global capital markets. The Corporation adopted certain operating and preventative procedures in response to COVID-19, and associated restrictions implemented by the Government of Mongolia, including remote working, travel restrictions, and increased sanitation. As a result, the Corporation has been able to continue operating safely during the pandemic. Notwithstanding the proactive and considered actions taken to maintain a safe workplace, it is possible that in the future there will be negative impacts on operations that could have a material adverse effect on the Corporation's results of operations and financial position. The Corporation had \$7,373,269 in working capital at December 31, 2021, which is sufficient to meet to meet the Corporation's minimum obligations for a period of at least 12 months from the balance sheet date.

3. Summary of significant accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements:

a) Basis of consolidation

For the years ended December 31, 2021, and 2020, the consolidated financial statements include those of Erdene Resource Development Corporation and its wholly owned subsidiaries: Erdene Mongol LLC and Anian Resources LLC (Mongolian exploration companies).

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

3. Summary of significant accounting policies (continued)

Intercompany balances and transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign currencies

Items included in the financial statements of the Corporation and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the statement of loss.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in this case, the exchange rates at the dates of the transactions are used. Equity transactions are translated using the exchange rate at the date of the transaction. Exchange differences arising from assets and liabilities held in foreign currencies, are recognized in other comprehensive income (loss) as cumulative translation adjustments.

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

c) Financial instruments

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

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

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

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

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive loss. In accounting for the conversion of convertible loan liabilities, the Corporation’s accounting policy is to measure the equity issued at the carrying value of the convertible loan immediately prior to conversion, such that no gain or loss is recognized on reclassification.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

3. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time a property, or an area's potential has been determined, as approved by the Board, in which case subsequent exploration and evaluation costs are capitalized.

Exploration and evaluation assets are initially measured at cost and classified as tangible assets. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to exploration or evaluation of a project. Where a project is determined to be technically or commercially feasible and a decision has been made to proceed with development, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

Exploration and evaluation assets are assessed for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount. In circumstances where indicators of impairment exist, an impairment test is required to determine if the carrying amount of the exploration and evaluation asset exceeds its estimated recoverable amount. To the extent this occurs, the asset is assessed for impairment and any impairment is fully provided against the carrying amount, in the financial year in which this is determined.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognized, before reclassification.

Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- i) such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- ii) exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned for the future.

e) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to working condition for their intended use.

Depreciation of property, plant and equipment is calculated using the declining balance method to allocate cost, net of residual value, over the estimated useful life at the following rates:

Asset	Basis	Rate
Vehicles & field equipment	Declining balance	30%
Equipment, furniture & fixtures	Declining balance	20%
Software & computers	Declining balance	33%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

3. Summary of significant accounting policies (continued)

f) Leases

At the inception of a contract, Erdene assesses whether a contract is or contains a lease based on whether the contract conveys the right to use an asset for a period of time in exchange for consideration. Contracts identified as leases are recognized as a right-of-use asset within property, plant and equipment and corresponding lease liability within long-term debt on the statement of financial position on the commencement date of the lease.

The right-of-use asset is initially measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made before the commencement date, less any lease incentives received, any initial direct costs and restoration costs expected to be incurred. The right-of-use asset is subsequently amortized on a straight-line basis over the lease-term.

The corresponding lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, Erdene's incremental borrowing rate, or a market comparative. Lease payments include any fixed payments, variable payments that are dependent on an index or a rate in effect at the time of commencement, amounts expected to be paid under residual value guarantees, and the exercise of a purchase option that are reasonably expected to be exercised. The lease liability is subsequently measured at amortized cost using the effective interest method.

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

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

g) Share-based compensation

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

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

h) Loss per share

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

The Corporation uses the treasury stock method to compute the dilutive effect of options, warrants and other similar instruments. Under this method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the period. All share options are currently anti-dilutive to loss per share, and as a result, basic and diluted loss per share are the same.

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4. Changes in accounting policies

Erdene did not adopt any accounting standards during the year ended December 31, 2021, that materially impacted the Corporation's financial statements.

New accounting standards not yet adopted

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

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or noncurrent depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023, and are to be applied retrospectively, with early adoption permitted. The Corporation is currently assessing the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Corporation has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Corporation has not yet fulfilled all its obligations on or after January 1, 2022, with early adoption permitted. The Corporation has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

IFRS 9 – Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The Corporation has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

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5. Exploration and evaluation assets

	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	Total
Balance, January 1, 2020	\$ 16,164,725	\$ 3,561,166	\$ 887,366	\$ 870,260	\$ 21,483,517
Additions	7,436,420	391,875	971,400	73,666	8,873,361
Effect of movements in exchange rates	(750,939)	(125,774)	(59,141)	(56,869)	(992,723)
Balance, December 31, 2020	\$ 22,850,206	\$ 3,827,267	\$ 1,799,625	\$ 887,057	\$ 29,364,155
Balance, January 1, 2021	\$ 22,850,206	\$ 3,827,267	\$ 1,799,625	\$ 887,057	\$ 29,364,155
Additions	8,126,412	428,052	1,716	89,847	8,646,027
Effect of movements in exchange rates	(65,619)	(9,018)	(3,841)	(3,251)	(81,729)
Balance, December 31, 2021	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ 37,928,453

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. Mining licenses are issued for an initial term of 30 years with two 20-year extensions possible. These rights are held in good standing through the payment of annual license fees.

Bayan Khundii Gold Project

The Bayan Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Khundii mining license, issued in August 2019, from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of a portion of its legacy Khundii exploration license. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in "Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report", dated August 31, 2020, and prepared by Roma Oil and Mining Associates Limited. The Corporation is currently completing construction readiness activities on the project in advance of a decision to proceed to construction, anticipated in early 2022. Additionally, the mining license includes Erdene's highly prospective Dark Horse target.

Altan Nar Gold Project

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

Zuun Mod Copper & Molybdenum Resource

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041 hectare molybdenum-copper Mining License. The mining license was issued in 2011. The Zuun Mod molybdenum-copper deposit has significant potential for development provided molybdenum prices remain strong. In late 2021, the Corporation initiated a strategic and economic review of the property in light of rising commodity prices. 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, immediately west of the Khundii mining license. The exploration license is in its seventh year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On August 30, 2017, Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that holds the license. On December 10, 2020, Erdene acquired a 100% interest in the Ulaan exploration license with the purchase of the remaining 49% interest in Leader Exploration LLC for US\$750,000.

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6. Leases

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

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

Balance, January 1, 2020	\$	137,064
Additions		-
Depreciation		(29,371)
Balance, December 31, 2020	\$	107,693
Balance, January 1, 2021	\$	107,693
Additions		74,640
Depreciation		(38,703)
Effect of movements in exchange rates		(430)
Balance, December 31, 2021	\$	143,200

The maturity analysis of the lease liabilities at December 31, 2021, is as follows:

	Within 1 year	1 - 2 years	2 - 3 years	Total
Lease payments	\$ 77,141	\$ 67,213	\$ 23,358	\$ 167,712
Finance charges	(11,581)	(3,871)	(419)	(15,871)
Total liabilities	\$ 65,560	\$ 63,342	\$ 22,939	\$ 151,841

The Corporation also has leases for office space, staff accommodation and storage in Mongolia with initial lease terms of less than 12 months. The Corporation has elected not to apply the requirements of IFRS 16 to these leases and the Corporation expenses lease payments for these facilities as incurred, totaling \$73,940 (2020 - \$89,803).

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7. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2020	\$ 90,181	\$ 107,440	\$ 216,827	\$ 414,448
Additions	82,169	92,731	12,453	187,353
Disposals	(32,868)	(2,478)	(3,596)	(38,942)
Effect of movements in exchange rates	(7,734)	(6,549)	(1,731)	(16,014)
Balance, December 31, 2020	\$ 131,748	\$ 191,144	\$ 223,953	\$ 546,845

Depreciation & depletion				
Balance, January 1, 2020	\$ (28,483)	\$ (84,718)	\$ (195,249)	\$ (308,450)
Depreciation	(9,973)	(6,007)	(9,040)	(25,020)
Disposals	15,338	2,336	3,596	21,270
Effect of movements in exchange rates	1,532	1,821	1,433	4,786
Balance, December 31, 2020	\$ (21,586)	\$ (86,568)	\$ (199,260)	\$ (307,414)

Carrying amounts				
At December 31, 2020	\$ 110,162	\$ 104,576	\$ 24,693	\$ 239,431

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2021	\$ 131,748	\$ 191,144	\$ 223,953	\$ 546,845
Additions	-	139,997	39,332	179,329
Disposals	-	(3,800)	(137,555)	(141,355)
Effect of movements in exchange rates	(905)	(1,019)	160	(1,764)
Balance, December 31, 2021	\$ 130,843	\$ 326,322	\$ 125,890	\$ 583,055

Depreciation & depletion				
Balance, January 1, 2021	\$ (21,586)	\$ (86,568)	\$ (199,260)	\$ (307,414)
Depreciation	(12,970)	(15,792)	(15,047)	(43,809)
Disposals	-	3,800	137,555	141,355
Effect of movements in exchange rates	33	76	83	192
Balance, December 31, 2021	\$ (34,523)	\$ (98,484)	\$ (76,669)	\$ (209,676)

Carrying amounts				
At December 31, 2021	\$ 96,320	\$ 227,838	\$ 49,221	\$ 373,379

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8. Commitments

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

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

9. Convertible loan

On October 11, 2019, Erdene executed a US\$5 million (C\$6.6 million) Convertible Loan (“Loan”) with the European Bank for Reconstruction and Development (“EBRD”). The Loan was funded by way of an initial advance of US\$2.5 million on November 4, 2019, and a second advance of US\$2.5 million on November 25, 2019.

On October 9, 2020, the EBRD exercised its conversion option in respect of the entire principal amount of the Convertible Loan, receiving 30,043,290 common shares of the Corporation. Additionally, the Corporation paid cash interest of US\$457,639 to the EBRD, accrued to the date of extinguishment of the Loan. The carrying amount of the host liability of \$5,429,703 and the fair value of the conversion option of \$10,339,232, at the conversion date, were recorded as additions to share capital with the extinguishment of the liabilities.

Key terms of the Loan included:

- Principal amount of US\$5.0 million
- Coupon rate of 10% payable in cash, or capitalized, at the Corporation’s option, annually
- The Loan was convertible, in whole or in part, at the election of the EBRD, into common shares of the Corporation at a conversion price (in respect of the principal amount drawn down under the Loan) of C\$0.20 per share, subject to a conversion premium of 10%, 20% or 30%, respectively, if EBRD exercised its conversion option prior to or on the first, second, or third anniversary, respectively, of the date of the Loan Agreement
- Any capitalized interest on the date of the conversion was payable, at EBRD’s option, in cash or shares of the Corporation at the prevailing market price of the common shares of the Corporation (5-day Volume Weighted Average Price)

For accounting purposes, the Loan represented a hybrid financial instrument, consisting of a host loan obligation, and embedded derivative instruments comprised of the conversion and prepayment features of the Loan. The Corporation accounted for the host loan obligation at amortized cost, accreted to maturity over the term of the Loan. The embedded conversion and prepayment options were accounted for as financial liabilities measured at fair value through profit or loss.

At the dates of issue, the Loan and its components were measured at fair value as follows:

Host liability	\$	4,505,902
Conversion and prepayment options		2,106,123
Financing costs		(254,262)
Net proceeds from issue	\$	6,357,763

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Notes to Consolidated Financial Statements

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9. Convertible loan (continued)

The following table summarizes the continuity of the host liability component of the loan for the year ended December 31, 2020:

Balance, January 1, 2020	\$	4,333,370
Interest expense, capitalized		608,302
Accretion of discount		1,044,876
Effect of movement in exchange rates		51,457
Less: Interest paid		(608,302)
Less: Conversion of loan		(5,429,703)
Balance, December 31, 2020	\$	-

The following table summarizes the continuity of the conversion option component of the loan for the year ended December 31, 2020:

Balance, January 1, 2020	\$	1,927,151
Fair value adjustment		8,412,081
Less: Conversion of loan		(10,339,232)
Balance, December 31, 2020	\$	-

The fair value of the conversion option was determined using a binomial option valuation model, using the following key assumptions:

	Conversion Date
	October 9, 2020
Expected volatility	79%
Risk-free interest rate	0.2%
Conversion option term	2.0 years
Credit spread	24.8%
Underlying share price	\$ 0.490
Exchange rate (C\$:US\$)	0.762

10. Income taxes

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

	December 31,	December 31,
	2021	2020
Statutory tax rates	29.0%	29.5%
Income taxes (recovery) computed at the statutory rates	\$ (1,615,000)	\$ (3,869,000)
Benefit of temporary differences not recognized	579,000	521,000
Expenses not deductible for tax purposes	417,000	3,221,000
Effect of foreign tax rates	619,000	127,000
Provision for income taxes	\$ -	\$ -

The enacted tax rates in Canada 29.0% (29.5% in 2020) and Mongolia 10% (10% in 2020) where the Corporation operates are applied in the tax provision calculation.

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10. Income taxes (continued)

The following temporary differences, non-capital losses and capital losses have not been recognized in the consolidated financial statements.

	December 31, 2020		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 20,265,000	\$ 1,801,000	\$ 22,066,000
Property, plant and equipment	250,000	-	250,000
Share issuance costs	1,677,000	-	1,677,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,017,000	13,754,000
	\$ 28,307,000	\$ 9,818,000	\$ 38,125,000

	December 31, 2021		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 22,339,000	\$ 2,173,000	\$ 24,512,000
Property, plant and equipment	260,000	-	260,000
Share issuance costs	1,438,000	-	1,438,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	9,674,000	15,411,000
	\$ 30,152,000	\$ 11,847,000	\$ 41,999,000

As at December 31, 2021, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	December 31, 2021	December 31, 2020
2021	-	410,000
2022	444,000	440,000
2023	396,000	396,000
2024	554,000	555,000
Thereafter	23,118,000	20,265,000
	\$ 24,512,000	\$ 22,066,000

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11. Share capital and contributed surplus

Authorized

An unlimited number of common shares with no par value.

Issued

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

On August 11, 2020, the Corporation closed a non-brokered private placement equity financing for gross proceeds of \$19,999,998. The private placement consisted of the sale of 33,333,333 Subscription Receipts at a price of \$0.45 per Subscription Receipt, to 2176423 Ontario Ltd., an entity controlled by Mr. Eric Sprott, and the concurrent sale of 11,111,108 Units at a price of \$0.45 per Unit. Each Unit consisted 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 \$0.60 per common share. The Subscription Receipts were converted to Units on August 11, 2020, following the receipt of approvals from shareholders holding more than 50% of the common shares by written consent in accordance with the requirements of the TSX and the European Bank for Reconstruction and Development. Erdene paid finder's fees in the aggregate of \$918,725 and issued 400,611 finder's warrants in connection with the private placement. In addition, the Corporation paid \$146,897 in share issue costs on the private placement, resulting in net proceeds of \$18,934,376.

Warrants

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

On August 11, 2020, 44,845,052 warrants were issued as part of the non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.60 if exercised within 24 months of the closing date and expires on August 11, 2022.

The following table summarizes the continuity of the warrants for the years ended December 31, 2021, and 2020:

	December 31, 2021		December 31, 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	75,097,796	\$ 0.55	30,252,744	\$ 0.47
Issued	-	-	44,845,052	0.60
Exercised	(7,544,750)	0.30	-	-
Expired	(22,707,994)	0.55	-	-
Outstanding at December 31	44,845,052	\$ 0.60	75,097,796	\$ 0.55
Exercisable at December 31	44,845,052	\$ 0.60	75,097,796	\$ 0.55

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11. Share capital and contributed surplus (continued)

The remaining contractual lives of warrants outstanding at December 31, 2021, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
\$0.60	44,845,052	0.61
	44,845,052	0.61

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

	Year Ended	
	December 31, 2020	
Share price at grant date	\$	0.53
Exercise price	\$	0.60
Risk-free interest rate		0.3%
Expected life		2.0 years
Expected volatility		70%
Expected dividends		0.0%
Weighted average grant date fair value	\$	0.18

Expected volatility is estimated considering historic average share price volatility.

Stock options

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

During the year ended December 31, 2021, 3,925,000 options were granted at a weighted average exercise price of \$0.38 (2020 – 3,910,000 options granted at average exercise price of \$0.45). Also 900,000 options were exercised at an average price of \$0.35 generating proceeds of \$318,400 (2020 – 2,175,000 options exercised at average price of \$0.16 for proceeds of \$344,300). During the year ended December 31, 2021, 960,000 options expired (2020 – 250,000 options forfeited).

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11. Share capital and contributed surplus (continued)

The changes in stock options during the years ended December 31, 2021, and 2020 were as follows:

	December 31, 2021		December 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	13,790,000	\$ 0.46	12,305,000	\$ 0.41
Granted	3,925,000	0.38	3,910,000	0.45
Expired / Forfeited	(960,000)	0.36	(250,000)	0.22
Exercised	(900,000)	0.35	(2,175,000)	0.16
Outstanding at December 31	15,855,000	\$ 0.45	13,790,000	\$ 0.46
Exercisable at December 31	15,855,000	\$ 0.45	13,790,000	\$ 0.46

All stock options granted in 2021 and 2020 vested immediately and have a five-year term. The following table summarizes information concerning outstanding options at December 31, 2021.

Expiry date	December 31, 2021		December 31, 2020	
	Number of Options	Exercise price	Number of Options	Exercise price
June 15, 2021	-	-	1,825,000	0.36
March 31, 2022	2,445,000	0.87	2,445,000	0.87
July 18, 2022	150,000	0.89	150,000	0.89
February 4, 2023	50,000	0.50	50,000	0.50
March 13, 2023	100,000	0.40	100,000	0.40
June 14, 2023	2,780,000	0.40	2,780,000	0.40
October 15, 2023	150,000	0.27	150,000	0.27
June 20, 2024	2,195,000	0.20	2,230,000	0.20
November 29, 2024	100,000	0.18	100,000	0.18
December 20, 2024	50,000	0.18	50,000	0.18
February 11, 2025	50,000	0.27	50,000	0.27
May 13, 2025	500,000	0.22	500,000	0.22
August 27, 2025	3,160,000	0.49	3,160,000	0.49
December 1, 2025	200,000	0.38	200,000	0.38
January 29, 2026	100,000	0.43	-	-
June 23, 2026	3,275,000	0.37	-	-
August 18, 2026	450,000	0.43	-	-
October 28, 2026	100,000	0.43	-	-
	15,855,000	\$ 0.45	13,790,000	\$ 0.46

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11. Share capital and contributed surplus (continued)

The fair value of each option granted is estimated at the time of grant using a Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Share price at grant date	\$ 0.38	\$ 0.44
Exercise price	\$ 0.38	\$ 0.45
Risk-free interest rate	0.7%	0.3%
Expected life	3.5 years	3.7 years
Expected volatility	64%	70%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.17	\$ 0.21

Expected volatility is estimated considering historic average share price volatility.

Options issued in 2021 resulted in a charge of \$653,525 to share based compensation included in exploration expenses and in corporate and administration expenses (2020 – \$833,650).

Deferred share units

In 2013, the Corporation adopted a deferred share unit (“DSU”) plan to align the long-term incentive compensation of certain officers, directors and senior management with the drivers of long-term shareholder value. Under the Erdene DSU plan, the Corporation may grant DSUs to eligible plan members in such number and at such times as is determined by the Board of Directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, DSUs vest immediately and plan members are credited with the DSUs granted to them. Upon termination or death of the plan member, the Corporation pays the then market value of the plan member’s shares either in cash or in shares, at the sole discretion of the Corporation. Since the type of payout is at the discretion of the Corporation, and the Corporation does not intend to cash settle awards under the plan, the plan is accounted for as an equity settled plan.

During the year ended December 31, 2021, the Corporation granted 1,070,526 DSUs with an average fair value of \$0.39 per DSU (2020 – 1,115,198 DSUs with fair value of \$0.34 per DSU). The fair value of \$417,553 (2020 – \$378,007) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Erdene issued no shares from the DSU plan during the year ended December 31, 2021 (2020 – 719,212 shares at \$0.18 per DSU).

	Year Ended December 31, 2021	Year Ended December 31, 2020
Five day volume weighted average price at grant date	\$ 0.39	\$ 0.34

The following table summarizes the continuity of DSUs for the years ended December 31, 2021, and 2020:

	December 31, 2021 Number of DSUs	December 31, 2020 Number of DSUs
Outstanding at January 1	5,032,836	4,636,850
Granted	1,070,526	1,115,198
Issued	-	(719,212)
Outstanding at December 31	6,103,362	5,032,836

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11. Share capital and contributed surplus (continued)

Share-based compensation

For the year ended December 31, 2021, the Corporation charged a total of \$1,071,078 of stock-based compensation expense to the statement of comprehensive loss (2020 – \$1,211,657) of which \$439,463 is attributable to exploration expenses (2020 – \$522,970), reflecting the fair value of stock options and DSUs issued, as noted above.

12. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2021, and 2020:

	For the year ended December 31	
	2021	2020
Depreciation & amortization	\$ 45,131	\$ 17,541
Direct costs	2,806,841	522,761
Employee compensation costs	454,405	309,539
Share-based compensation	439,463	522,970
	\$ 3,745,840	\$ 1,372,811

13. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2021, and 2020.

	For the year ended December 31	
	2021	2020
Administrative services	\$ 549,525	\$ 459,085
Depreciation and amortization	37,350	36,850
Directors fees and expenses	113,831	64,647
Investor relations and marketing	211,425	223,136
Office and sundry	95,843	81,221
Professional fees	243,142	219,014
Regulatory compliance	80,104	87,676
Share-based compensation	631,615	688,687
Travel and accommodations	10,965	8,589
	\$ 1,973,800	\$ 1,868,905

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

14. Financial instruments

Credit risk:

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

	Carrying Amount	
	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 7,063,051	\$ 12,800,728
Receivables	23,784	89,344
	\$ 7,086,835	\$ 12,890,072

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2021, \$270,113 or 3% of the balance of cash was held in banks outside Canada (2020 - \$133,130 or 1%).

Liquidity risk:

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

Market risk:

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

a) Interest rate risk

As of December 31, 2021, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

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

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

	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 3,373,167	\$ 292,895
Trade and other payables	(334,937)	(223,503)
	\$ 3,038,230	\$ 69,392

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$303,800 (December 31, 2020 - \$6,900).

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2021, and 2020

14. Financial instruments (continued)

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

	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 19,012	\$ 889
Trade and other receivables	19,198	5,460
Trade and other payables	(99,422)	(87,043)
	\$ (61,212)	\$ (80,694)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$6,100 (December 31, 2020 - \$8,100).

c) Price risk

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

15. Related parties

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

	Year ended December 31,	
	2021	2020
Directors' fees and other compensation	\$ 127,913	\$ 63,199
Share-based compensation to directors	283,500	440,500
Executive compensation and benefits	1,246,976	1,136,357
Share-based compensation to key management	293,773	386,099
	\$ 1,952,162	\$ 2,026,155

During the year ended December 31, 2021, certain directors and officers of the Corporation received short-term advances. All such advances were repaid in full prior to December 31, 2021.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2021

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This Management Discussion and Analysis (“MD&A”), dated March 8, 2022, relates to the operating results and financial condition of Erdene Resource Development Corporation (“Erdene” or the “Company” or the “Corporation”) and should be read in conjunction with the Corporation’s audited consolidated financial statements for the years ended December 31, 2021, and 2020, and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards (“IFRS”).

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

The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under “Risk Factors” in the Corporation’s latest Annual Information Form, a copy of which is available on the Corporation’s SEDAR document page at www.sedar.com.

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

Company Overview

Erdene Resource Development Corporation is a Canadian based resource company focused on the acquisition, exploration, and development of large, high-grade, near surface, precious and base metals deposits in underexplored and highly prospective Mongolia. The Company has interests in three mining licenses and two exploration licenses in southwest Mongolia, where exploration success has led to the discovery of the Khundii Gold District (“KGD”). The Company is focused on advancing its high-grade, open-pit Bayan Khundii gold project (“Bayan Khundii” or “BK”) to production, while expanding resources in the KGD. Erdene is listed on the Toronto Stock Exchange (TSX: ERD) and Mongolian Stock Exchange (MSE: ERDN).

Erdene’s deposits are located in the Trans Altai 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 in China and along the Belt’s western trend, exploration in Mongolia was limited until the mid-1990’s, when the country opened to foreign investment. Since that time, the world-class Oyu Tolgoi copper-gold deposit has been developed by Rio Tinto in Southeast Mongolia, and Erdene has discovered the Khundii Gold District in the country’s southwest. Within the Khundii Gold District, the Company has discovered multiple high-grade gold and base metal deposits and prospects, two of which are being developed: Bayan Khundii and Altan Nar (“AN”). In addition, the Company holds a large molybdenum-copper resource at its 100% owned Zuun Mod project, 33 kilometres east of Bayan Khundii.

Erdene is advancing BK towards construction and gold production. The Company completed an independent Bankable Feasibility Study (“BFS”) in 2020, incorporating detailed mine design and scheduling, front-end engineering design for the processing plant and site infrastructure, a hydrogeological assessment, mineral waste facility design, comprehensive capital and operating cost estimation. Concurrently, the Company completed an Environmental and Social Impact Assessment (“ESIA”) for the Project. In 2021, the Company entered a Local Cooperation Agreement (“LCA”) with the Bayankhongor Provincial Government, the host community for the BK Gold Project. Key terms of the LCA include milestone-based community investments tied to permitting, construction and first production, as well as training, employment and local procurement commitments. Additionally, in late 2021, the Mongolian Ministry of Environment and Tourism approved Erdene’s Detailed Environmental Impact Assessment (“DEIA”).

The Company executed a mandate letter with Export Development Canada (“EDC”) for an up to US\$55 million senior secured debt facility to develop BK in late 2020. Due diligence for the loan is largely complete, with EDC’s technical consultants delivering their report in January 2022. Counsel for Erdene and EDC are finalizing loan documentation in advance of financial close, expected in mid-2022. In early October 2021, Erdene closed an oversubscribed MSE offering for gross proceeds of approximately US\$5 million to fund early works and exploration. Erdene is in discussions with local and international financiers to secure the balance of capital for development.

Erdene is completing permitting, procurement, and construction readiness activities for BK. In late February 2022, the local government provided construction permits for eight key facilities. The Company has ordered the comminution and elution circuits, critical long lead time items, and is scheduled to receive final proposals for the remaining construction packages in early Q2 2022. Consistent with macro-economic trends, the Company is seeing cost escalation compared to the estimates in the feasibility study. Erdene will provide a fulsome update on schedule and budget upon receipt of final proposals. The Company intends to commence preparatory works in the coming weeks, with construction ramping up in mid-2022.

While focused on the development of the Bayan Khundii Gold Project, Erdene believes there is a very high probability that the broader KGD hosts a multi-million ounce gold inventory. Management is employing a strategy of establishing a foundation in the Bayan Khundii Project that will provide a platform from which to rapidly expand operations, while continuing exploration throughout the KGD. The KGD 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.

In 2021, Erdene announced two significant new discoveries at Dark Horse and Ulaan. Multiple holes intersected high-grade gold, near surface at the Dark Horse prospect, 2.4 km north of Bayan Khundii. Since that time, the Company has defined a 1.5 km mineralized trend (Dark Horse Mane), that remains open along strike and at depth. Additionally, drilling in the southern portion of the Ulaan license in Q3 2021 led to a new discovery, returning the thickest intervals of gold mineralization intercepted in the KGD to date, including exceptionally high-grade zones. The Ulaan discovery remains open at depth and to the west.

These recent exploration results support Erdene's thesis that the Khundii-Ulaan alteration trend, including the Bayan Khundii Project and the Dark Horse and Ulaan prospects, has the potential to host a multimillion-ounce gold deposit. Erdene is targeting total resources of over two million gold equivalent ounces by the end of 2022. Furthermore, management sees the potential to add resources beyond this target through further discoveries in this underexplored portion of the prolific gold and copper producing Central Asian Orogenic Belt.

COVID-19

In late January 2020, the Government of Mongolia instituted limitations on public gatherings, suspended in-person classroom learning, and implemented international border controls in response to COVID-19. The Canadian Government adopted similar measures in March 2020, as did most governments globally during 2020. With the first confirmed cases of community transmission of COVID-19 in November 2020, the Government of Mongolia further restricted the movement of people and the delivery of goods and services. While restrictions were eased in early 2021, precautionary measures were subsequently reintroduced in late Q1 2021 following an increase in the number of reported cases in Mongolia.

In March 2021, Bayankhongor Province, where Erdene's projects are located, reported its first confirmed case of community transmission of COVID-19, leading to the imposition of restrictions on the movement of people within and to/from the province. Furthermore, in late June 2021, Bayankhongor province and the sub-province of Shinejinst, the communities in which Erdene operates, imposed states of emergency due to worsening community spread of COVID-19 in the area. Although the Company temporarily halted field work in late June in response, Company staff and contractors returned to site in early August 2021 to commence follow-up exploration work, which has continued without interruption due to COVID since this date. Additionally, Canadian and International staff and consultants resumed travel to Mongolia in Q3 2021. On February 14, 2022, the Government of Mongolia fully reopened its borders to vaccinated international travelers, allowing the Company's staff and key contractors to travel to the Country with minimal disruption.

However, Mongolia continues to see disruptions at its land borders with China, given the latter's zero COVID policies. These disruptions have impacted the availability and prices of industrial and consumer goods required for the construction of the Bayan Khundii Gold Project. Although the impact of COVID-19 on the Company's operations has been modest to date, COVID-19 has the potential to further delay or increase the costs of the Bayan Khundii Development. The Company is monitoring the situation and assessing the impact on the Bayan Khundii Gold Project construction schedule and budget. Erdene does not intend to ramp up to full construction until there is certainty that supplies can readily be imported to Mongolia. The Company will provide further details on the impact of COVID-19 on its operations and the Bayan Khundii Gold Project as they become available.

Erdene is working with Mongolian and Canadian authorities to implement and maintain controls to protect the health and well-being of its workers as well as the communities in which the Company operates.

Highlights and Significant Subsequent Events

Bayan Khundii Gold Project – 100% Erdene

- Progressed construction readiness activities for the Bayan Khundii Gold Project:
 - Detailed design and engineering for process and non-process infrastructure ("NPI") 90% complete
 - Contracts awarded for SAG and Ball mills and Gold Room and Elution plant
 - Began recruitment of key personnel and developed project execution plans and manuals in advance of a construction decision
 - Issued requests for proposal for all major mechanical and construction work packages
 - Initiated confirmatory studies for mine water supply, with results expected in Q2 2022
- Advanced local community programs:
 - Executed a Cooperation Agreement with the local government in Q3 2021, supporting development measures in the local communities, including pandemic response support
 - Undertook employment orientation and readiness training with over 120 local residents to prepare individuals for employment during construction and operations
 - Launched local vegetation enhancement program in January 2022

- Obtained key permits and advanced regulatory approvals required for mine development:
 - Project DEIA approved by Ministry of Environment and Tourism in November 2021
 - Regulatory review of detailed drawings well advanced, with nine facilities fully approved, including those planned during the site establishment and initial construction – received construction permits for eight of these facilities in February 2022
- Prepared updated Bayan Khundii Resource Estimate, incorporating 2020 drilling at Striker West, Striker, Midfield and Midfield North, and reflecting current gold prices:
 - 2021 BK Mineral Resource Estimate contains 61,700 more ounces gold (36%) in the Measured category and 2,700 more ounces of gold (1%) in the Indicated category
 - Measured mineral resources within the minable pit, as defined by the 2020 Feasibility Study increased by 47,500 ounces (28%)
 - Confirmed the high-grade nature of the BK deposit with an average grade of 6.59 g/t gold for combined Measured and Indicated Resources, at a cut-off grade of 1.0 g/t gold
 - Additional near surface gold mineralization was identified at Midfield and at Midfield North, results from 2020 drilling allowed for the localized extension of the modeled mineralized domains

Exploration

- Completed 2021 exploration program, drilling 19,706 metres over 154 holes at the new Dark Horse Mane prospect and the Ulaan Southeast discovery, adjacent Bayan Khundii
 - Provides further support to the Company's thesis that the broader Khundii-Ulaan hydrothermal alteration trend hosts a multi-million ounce gold deposit
 - Targeting a total resource inventory of 2 million ounces gold equivalent by the end of 2022
- Defined a 1.5 km trend of alteration within the Dark Horse Mane, characterized by near-surface, high-grade mineralization, that remains open to the north, south and at depth
 - Demonstrates potential for near-surface, high-grade oxide gold mineralization across Khundii Gold District
 - Notable intersections from the 11,608-metre, 126-hole, 2021 Dark Horse Mane program include:
 - AAD-126: 30 metres of 5.63 g/t gold, beginning 10 metres downhole, including 24.12 g/t over six metres, starting 26 metres downhole
 - AAD-137: 24.5 metres of 9.4 g/t gold beginning 1.5 metres downhole, including 13.5 metres of 16.1 g/t gold
 - AAD-138: 25 metres of 6.1 g/t gold beginning 18 metres downhole, including 8 metres of 17.1 g/t gold
 - AAD-177: 23 metres of 11.4 g/t gold beginning 1 metre downhole, including 4 metres of 59.8 g/t gold within 8 metres of 32.2 g/t gold
 - AAD-178: 15 metres of 42.8 g/t gold beginning 11 metres downhole, including 3 metres of 160.4 g/t gold within 5 metres of 123.5 g/t gold
 - 106 of 126 holes in 2021 program intersected anomalous gold mineralization (≥ 0.1 g/t gold) with the remaining 20 holes returning anomalous indicator elements, including antimony, molybdenum and arsenic
- Intersected some of the thickest intervals of gold in the KGD at the Ulaan Southeast discovery, 300 metres west of the Bayan Khundii deposit
 - Gold mineralization has been traced over a 200 x 250 metre area, to a maximum depth of 460 metres, that remains open at depth and to the north and west
 - Multiple holes returned wide zones (30 to 75 metres) averaging over 3 g/t gold
 - Highlights from 8,098 metre, 28-hole 2021 Ulaan program include:
 - UDH-10: 258 metres of 0.98 g/t gold beginning at 92 metres downhole, including 3.77 g/t gold over 40 metres, starting at 99 metres downhole

- UDH-14: 217 metres of 1.07 g/t gold beginning 188 metres downhole, including 3.55 g/t gold over 53 metres
- UDH-15: 364 metres of 0.79 g/t gold beginning 97 metres downhole, including 1.98 g/t gold over 91 metres
- UDH-21: 77 metres of 3.19 g/t gold beginning 115 metres downhole, including 8.74 g/t gold over 27 metres
- UDH-22: 152 metres of 1.71 g/t gold beginning 85 metres downhole, including 3.11 g/t gold over 65 metres

Corporate

- Progressed due diligence for the Bayan Khundii Project Finance with EDC and Mongolian financiers
 - EDC mandate letter contemplates a senior secured debt facility of up to US\$55 million
 - EDC technical diligence report received in January 2022 and environmental and social diligence report finalized in August 2021
 - Loan term negotiation and drafting underway in advance of anticipated mid-2022 financial close
 - Due diligence is proceeding in parallel with Mongolian financial institutions on subordinated debt
- Received Mongolian Tax Stabilization Certificate for Bayan Khundii in December 2021
 - Guarantees the taxes applicable to the Bayan Khundii Gold Project are the more favourable of those currently in effect and prevailing future tax rates
- Closed MSE offering in October 2021 for gross proceeds of approximately US\$5 million
 - Received subscriptions from 1,867 institutional and retail Mongolian investors
 - Offering was 46% over-subscribed and filled pro-rata to orders as is required in Mongolia
 - Company remains the only firm cross-listed on the Mongolian and Toronto Stock Exchanges
 - Further C\$2.3 million raised in 2021 through the exercise of 7,544,750 warrants
- Advanced technical and strategic review of the Zuun Mod/Khuvyn Khar molybdenum-copper project
 - RPMGlobal delivered updated technical and economic analysis in December
 - Strategic discussions ongoing to optimize the Project's value, through options including sale, joint venture partnership, or spinout
- Recorded a net loss of \$5,570,523 for the year ended December 31, 2021, compared to a net loss of \$13,116,358 for the year ended December 31, 2020
 - Exploration and evaluation expenditures, including capitalized expenditures, totaled \$12,391,867 for the year ended December 31, 2021, compared to \$9,276,028 for the prior year, due to increased exploration work as the Company drilled nearly 20,000 metres in the current year, compared to approximately 15,000 metres in the prior year, as well as incremental expenditures on the Bayan Khundii Gold Project Detailed Engineering & Design work and Construction Readiness activities (including deposits on long-lead time items), that exceeded costs associated with the Feasibility Study and Detailed Engineering & Design work in the prior year. Additionally, Stakeholder relations costs were greater in the current year following the execution of a Local Co-operation Agreement ("LCA") for the Bayan Khundii Gold Project
 - Corporate and administrative expenses totaled \$1,973,800 for the year ended December 31, 2021, compared to \$1,868,905 for the year ended December 31, 2020, with the year on year variance largely due to higher administrative salaries and professional fees in support of pre-development and financing work for the Bayan Khundii Gold Project
 - Non-cash, change in fair value expenses of \$8,412,081 and interest expenses of \$1,661,960 in the prior year were attributable to a convertible loan held by the European Bank for Reconstruction and Development ("EBRD"), which was converted in October 2020, resulting in EBRD becoming one of Erdene's largest shareholders

Strategy and Outlook

Erdene is focused on the development of multi-million ounce gold deposits in the Khundii Gold District. The Company sees the Bayan Khundii mine as the foundation for building a leading, multi-asset precious metals producer. Our two strategic priorities include advancing the Bayan Khundii Gold Project to production and expanding precious and base metal resources in the Khundii Gold District through exploration and acquisition, with a near-term target of defining more than two million ounces of near-surface gold equivalent resources by the end of 2022.

In July 2020, Erdene announced positive results of an independent BFS for the Bayan Khundii Gold Project. The Study envisions a high-grade, open-pit mine, beginning at surface in the southern portion of the Bayan Khundii deposit (Striker and Gold Hill), and expanding northward into adjacent zones at Midfield and Midfield NE. The development incorporates conventional crushing and grinding, leach and a Carbon in Pulp (“CIP”) plant with processing capacity of 1,800 tonnes per day. The Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report, dated August 31, 2020, was filed on SEDAR on September 1, 2020.

In June 2020, the Company completed an independent ESIA in accordance with the Performance Requirements of the EBRD. The study was led by Sustainability East Asia LLC, in consortium with Eco Trade LLC and Ramboll Australia Pty Ltd. The EBRD disclosed the ESIA for public comment on June 12, 2020, and on August 12, 2020, the disclosure period concluded. More recently, EDC disclosed the Project’s ESIA in early June 2021, as part of its public consultation process.

Concurrently, the Mongolian statutory DEIA for the Project was prepared by Eco Trade LLC in accordance with applicable national standards. Local stakeholder consultations on the DEIA were completed in late June 2021, and the Company executed a Local Cooperation Agreement with the Bayankhongor Provincial Government in late July 2021. On October 5, 2021, the Ministry of Environment and Tourism of Mongolia completed its technical review of the Project’s DEIA and in late November 2021, the Ministry formally approved the Company’s submission.

Erdene has obtained many of the key permits required to construct the Bayan Khundii Gold Project over the past eighteen months. 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 Khundii mining license covers 2,309 hectares, including the Bayan Khundii Reserve and the Dark Horse Prospect. The mining license is valid for an initial term of 30 years with the ability to extend to 70 years. On November 1, 2019, MRPAM council approved Erdene’s Altan Nar resource registration application and the Company received the Altan Nar mining license on March 5, 2020. Mongolian mining licenses are valid for an initial term of 30 years with the ability to extend to 70 years.

The Company’s Statutory Technical and Economic Assessment (“Mongolian Feasibility Study”) was approved by the Mineral Resource and Petroleum Authority in early 2020. The Mongolian Ministry of Environment and Tourism approved a water reserve and flow rate to be utilized for the planned processing plant and infrastructure of the Bayan Khundii Gold Project. Additionally, the Project’s Land Arrangement Plan and associated land use permissions have been approved by the local government, granting access to the 100-hectare area required to construct the BK open-pit and associated surface infrastructure.

Detailed design and engineering for the Carbon-in-Pulp (“CIP”) Leach processing plant was completed in Q1 2021 and design work for the mine support infrastructure is progressing on schedule, with approximately 90% of the detailed design completed to date. In March 2021, the Company contracted with CITIC for the comminution circuit for the Project’s processing plant and Erdene contracted with COMO to provide the processing plant’s elution circuit in Q4 2021.

The general arrangement for the site has gone through regulatory review, alongside which the detailed drawings for key mine support facilities, including offices, mine dry, security guard house, workshop, warehouse, and permanent camp, have been submitted for approval, which was received in late February 2022. The balance of the technical drawings are expected to be submitted in the coming months, allowing for construction ramp up. Concurrently, constructability, value engineering, and HAZOPS review are underway, and tender and contracting for critical facilities and services has begun.

The Company engaged HCF International to act as Project Finance advisor, with primary responsibility for securing debt. Erdene executed a project finance mandate letter with EDC on November 4, 2020, for senior secured debt financing of up to US\$55 million. EDC’s financing is conditional upon the satisfactory completion of due diligence, which is largely complete, but has been slowed by COVID-19. Concurrently, the Company is working with Mongolian and international financiers to secure the remaining capital required

for development. Erdene expects to announce commitments for the entire project finance package in the coming months.

During 2021, Erdene drilled 126 holes, totaling 11,608 metres at Dark Horse, tracing gold mineralization along the 1.5 km N-S trending Dark Horse Mane structure, that remains open along strike and at depth. The program intercepted several near surface oxide gold zones along trend, with multiple holes returning intersections exceeding 100 g/t gold intervals. Based on limited analysis to date, Management believes that resources at Dark Horse could be processed by the Bayan Khundii Gold Project circuit. Further work is underway to assess the financial and technical impact of this mineralization on our adjacent, construction ready Bayan Khundii Gold Project

In late June 2021, the Company completed its maiden drill program at the Ulaan Gold prospect, due west of the Bayan Khundii deposit, establishing a significant new discovery just 300 metres from the BK deposit. The 3,204 metre follow-up program completed in Q3 2021 returned the thickest intervals of gold mineralization intercepted in the KGD to date, including exceptionally high-grade zones, and remains open at depth and to the north and west. The Ulaan discovery bears many similarities to the adjacent Bayan Khundii deposit, and is characterized by a gold bearing, intense quartz ± adularia ± hematite veins and stockwork zones within a broad halo of silicified, white mica altered volcanics.

Exploration results to date suggest the greater Khundii-Ulaan alteration zone, including the Bayan Khundii Deposit, Dark Horse prospect and Ulaan discovery, are part of the same, large, gold-bearing hydrothermal system, that shows the potential to host a multimillion-ounce gold deposit. Exploration planning is currently underway to test multiple high-priority geological, geochemical and geophysical targets across the Khundii-Ulaan target area in 2022.

Erdene continues to evaluate acquisition opportunities throughout the Khundii Gold 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.

Development and Exploration Projects

NI 43-101 Technical Reports – Resources and Reserves

On September 15, 2018, the Company announced a resource estimate for the Bayan Khundii and Altan Nar deposits. On October 21, 2019, Erdene announced an updated Bayan Khundii Resource as well as a Bayan Khundii Mineral Reserve, as part of a Prefeasibility Study ("PFS") prepared by Tetra Tech, Inc. The reserve announced October 21, 2019, has been superseded by a Mineral Reserve estimate, dated July 1, 2020, prepared by Auralia Mining Consulting. In conjunction with the Company's MD&A for the three and six months ended June 30, 2021, and 2020, the Company announced an updated mineral resource estimate for the Bayan Khundii deposit with an effective date of June 17, 2021, prepared by Tetra Tech.

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

Khundii Gold District



The Khundii Gold District includes the Company's high-grade, near-surface Bayan Khundii and Altan Nar deposits. The Bayan Khundii gold project is located on Erdene's 100%-owned, 2,309 hectare Khundii mining license. The Khundii mining license includes the Bayan Khundii mineral resources reported in "Khundii Gold Project NI 43-101 Technical Report", dated December 4, 2019, and prepared by Tetra Tech, Inc., and an updated Mineral Reserve estimate, dated July 1, 2020, prepared by Auralia Mining Consulting and reported in "Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report", dated August 31, 2020.

Bayan Khundii

The Bayan Khundii deposit was discovered in Q2 2015, with initial drill results reported in Q4 2015; the first hole returned 7 metres of 27.5 g/t gold at 14 metres depth. Definition drill programs completed in 2016 through 2018 identified three main areas over an 800-metre strike length and within 150 metres of surface. These areas of very high-grade gold mineralization over significant widths include: Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization cover. The Midfield and North Midfield Zones have returned some of the highest grades and widest mineralized intervals at Bayan Khundii. BKD-98 returned 80 metres of 6.0 g/t gold from 42 metres depth and BKD-261 returned 112 metres of 5.9 g/t gold, both in the Midfield Zone, and BKD-231 in North Midfield, returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold.

Bayan Khundii is the highest priority project for the Corporation based on its grade, proximity to surface, and favorable metallurgy. The Corporation has advanced the project through independent studies to the bankable feasibility stage.

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

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

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

The June 2021 Mineral Resource for Bayan Khundii is provided below under the *Mineral Resources and Reserves* section.

Dark Horse

The greater Dark Horse prospect area (38 square kilometres) is located in the northern portion of the Khundii Mining License and is characterized by elevated gold in soil anomalism with multiple surface rock-chip, trench and drill core samples assaying greater than 1 g/t gold. Trace element anomalism, geophysical anomalies related to alteration and mineralization, structures interpreted to represent conduits for mineralizing fluids, and alteration signatures supporting an epithermal mineralization model characterize the greater Dark Horse prospect area. To date the Company has completed 21,673 metres of drilling in 190 holes ranging in vertical depths from 21 to 318 metres within the greater Dark Horse prospect portion of the Khundii mining license, including 126 holes totaling 11,608 metres in 2021.

Most of the drilling to date has been focused on the Dark Horse Mane discovered in early 2021. Erdene discovered the Dark Horse Mane, 2.4 kilometres north of the Bayan Khundii deposit, when initial drilling returned 5.97 g/t gold over 45 metres, beginning 10 metres downhole, including 8 metres of 27.1 g/t gold (AAD-58). Drilling over the past year has defined a 1.5-kilometre trend of alteration and gold mineralization within the Dark Horse Mane that remains open along strike to the north and south, and at depth.

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

Drill intersections of note are provided above under the *Highlights and Significant Subsequent Events/Exploration* section.

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

Ulaan Southeast

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

Drill intersections of note are provided above under the *Highlights and Significant Subsequent Events/Exploration* section.

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

Altan Nar

The 100%-owned Altan Nar deposits are located on the Corporation's 4,669 hectare Altan Nar mining license, 16 kilometres northwest of Bayan Khundii. The AN mining license was received on March 5, 2020 and is valid for an initial 30-year term with provision to renew the license for two additional 20-year terms. The license hosts 18 mineralized (gold, silver, lead, zinc) target areas within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, Discovery Zone ("DZ") and Union North ("UN"), host wide zones of high-grade, near-surface mineralization, and are the focus of a Resource Estimate released in Q2 2018.

Altan Nar is an intermediate sulphidation, carbonate-base metal gold ("CBMG") deposit, with similarities to prolific gold deposits such as Barrick Gold's Porgera mine (Papua New Guinea), Rio Tinto's formerly producing Kelian mine (Indonesia), Lundin Gold's Fruta Del Norte deposit (Ecuador), and Continental Gold's Buritica project (Colombia). CBMG deposits generally occur above porphyry intrusions in arc settings and may extend for more than 500 metres vertically.

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

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

Mineral Resources and Reserves

Khundii Gold District

The total Khundii Gold District resource is calculated by adding the resource from both the Bayan Khundii and Altan Nar deposits and calculating the weighted average grades. The Bayan Khundii Mineral Resource Estimate, prepared by Tetra Tech, has an effective date of June 17, 2021. The Altan Nar Mineral Resource Estimate, prepared by RPMGlobal, has an effective date of May 7, 2018.

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

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

Notes:

(1) Combined resources from Bayan Khundii and Altan Nar.

(2) Cut-off grades for Altan Nar are AuEq2 and for Bayan Khundii are gold only. For the AN resource estimate, Gold Equivalent ("AuEq2") calculations assume metal prices of US \$1,310 per ounce gold, US \$18 per ounce silver, and US \$2,400 per tonne lead and US \$3,100 per tonne zinc.

(3) Tetra Tech recommended cut-off grade for Bayan Khundii is 0.40 g/t gold and RPM recommended cut-off grade for Altan Nar is 0.7 g/t AuEq2 above a pit and 1.4 g/t AuEq2 below the same pit shell.

Bayan Khundii Gold Deposit

Resource

The 2021 Bayan Khundii Mineral Resource Estimate, prepared by Tetra Tech, is based on the combination of geological modeling, geostatistics, and conventional block modeling using the Ordinary Kriging method of grade interpolation in Datamine Studio RM™ software. The QAQC sampling protocols and corresponding sample preparation and shipment procedures have been reviewed by Tetra Tech.

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

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

Notes:

(1) Cut-off grades have been calculated using a gold price of \$1,600 /ounce, milling and G&A costs of \$16.0 / tonne, and mining costs of \$3.0 / tonne, and an assumed gold recovery of 95%.

(2) Bulk density of 2.66 for mineralized domains.

(3) Numbers may not add exactly due to rounding.

(4) Conforms to NI 43-101, Companion Policy 43-101CP, and the CIM Definition Standards for Mineral Resources and Mineral Reserves.

(5) Mineral resources which are not mineral reserves do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate.

Reserves

The total Bayan Khundii Mineral Reserve is shown below, as reported in Erdene's press release dated July 20, 2020. The Bayan Khundii July 1, 2020, BFS Mineral Reserve has been estimated by Qualified Person, Mr. Anthony Keers, Director, Auralia Mining Consulting, using the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves to conform to the Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects. The Mineral Reserve is based on the October 1, 2019, mineral resource estimate. The Mineral Reserve includes both Proven and Probable Mineral Reserves that were converted from Measured and Indicated mineral resources. Tonnes and grades were calculated for the mining blocks, and allowances for dilution and mining recovery were applied to estimate the Mineral Reserve Statement. The effective date of the Mineral Reserve statement is July 1, 2020.

	Tonnage (Mt)	Grade (g/t Au)	Contained Au (Koz)
Proven Mineral Reserves	1.2	4.2	166
Probable Mineral Reserves	2.2	3.5	244
Mineral Reserve	3.4	3.7	409

Notes:

- (1) The effective date of the Mineral Reserve estimate is July 1, 2020. The QP for the estimate is Mr. Anthony Keers of Auralia Mining Consulting
- (2) The Mineral Reserve estimates were prepared with reference to the 2014 Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Definition Standards (2014 CIM Definition Standards) and the 2003 CIM Best Practice Guidelines.
- (3) Reserves estimated assuming open pit mining methods
- (4) Waste to ore cut-offs were determined using a NSR for each block in the model. NSR is calculated using prices and process recoveries for each metal accounting for all off-site losses, transportation, smelting and refining charges.
- (5) Reserves are based on a gold price of \$1400/oz.
- (6) Mineral Reserves were calculated from a diluted "mining" block model which included average dilution of 9% and losses of 1%.
- (7) The Mineral Reserve is based on the October 1, 2019, mineral resource estimate.

Altan Nar Gold-Polymetallic Deposit

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

Cut-off AuEq2 g/t	Resource Classification	Quantity (Mt)	Grade					Contained Metal				
			Au g/t	Ag g/t	Zn g/t	Pb g/t	AuEq2 g/t	Au Koz	Ag Koz	Zn Kt	Pb Kt	AuEq2 Koz
0.7	Indicated	5.0	2.0	14.8	0.6	0.6	2.8	318	2,350	31.6	29.0	453
	Inferred	3.4	1.7	7.9	0.7	0.7	2.5	186	866	23.7	22.3	277

Notes:

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

Economic Studies

On July 20, 2020, Erdene announced the results of an independent Bankable Feasibility Study for the Bayan Khundii gold deposit. The report, titled “Bayan Khundii Gold Project Feasibility Study, NI 43-101 Technical Report”, dated August 31, 2020, was prepared by international and Mongolian firms with significant experience operating in Mongolia. The study incorporates detailed mine design and scheduling, front-end engineering and design for the processing plant and site infrastructure, a hydrogeological assessment, mineral waste facility design, comprehensive capital and operating cost estimation, and an updated economic model.

The BFS envisions a high-grade, open-pit mine beginning at surface in the southern portion of the BK deposit (Striker and Gold Hill), expanding northward into adjacent zones at Midfield and North Midfield. The Project incorporates conventional crushing and grinding, leach and a Carbon in Pulp plant with processing capacity of 1,800 tonnes per day. The BFS includes 3.4 million mineable tonnes from the BK resource at an average diluted head grade of 3.7 g/t gold, all of which are Proven and Probable Reserves.

Project highlights are presented in the table below (results at US\$1,400/oz gold price, unless noted):

Production Profile		
Average Head Grade Over Life of Mine ¹	g/t gold	3.7
Project Life ²	years	8
Operating Life	years	6
Target Production Rate Per Day ³	tpd	1,800
Average Annual Saleable Gold ⁴	oz	63,500
Peak Annual Saleable Gold ⁴	oz	79,100
Average Gold Recovery Rate Over Life of Mine	%	93%
Strip Ratio	t:t	9.1
Operating Costs		
Life of Mine (“LOM”) Average Cash Cost ⁵	US\$/oz	731
LOM Cash Cost plus Sustaining Cost (AISC) ⁵	US\$/oz	733
Pre-Tax Net Present Value		
5% discount rate	US\$M	145
7.5% discount rate	US\$M	126
10% discount rate	US\$M	109
After-Tax Net Present Value		
5% discount rate	US\$M	100
7.5% discount rate	US\$M	86
10% discount rate	US\$M	73
Internal Rate of Return and Payback		
Pre-Tax Internal Rate of Return	%	55%
After-Tax Internal Rate of Return	%	42%
Payback Period Post-Construction (After-Tax) ⁵	years	1.9
Capital Requirements		
Pre-production Capital Cost, including contingency	US\$M	59
LOM Sustaining Capital Cost	US\$M	5

Notes:

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

(2) Project life comprising one year pre-production period, approximately nine years operating life and one year mine closure.

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

(4) Reported numbers for saleable gold for Bayan Khundii.

(5) Operating costs reported in terms of saleable gold ounces includes Royalty and Charges of US\$77/oz.

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:

Technical Report Sensitivities – After-Tax Gold Price Sensitivity Analysis – BK BFS

Price Sensitivity Analysis	Units	US\$1,200	US\$1,400	US\$1,600	US\$1,800	US\$2,000
NPV (5% discount rate)	US\$M	43	100	158	216	274
NPV (7.5% discount rate)	US\$M	33	86	138	190	242
NPV (10% discount rate)	US\$M	25	73	120	168	215
IRR	%	22%	42%	60%	77%	93%

The BK BFS is based on an open-pit mining operation targeting 600,000 tonnes per year of feed material for the processing plant. The total mineable mineralized plant feed is 3.4 million tonnes at an average diluted head grade of 3.7 g/t gold and average strip ratio of 9.1:1 (waste tonne: plant feed tonne). Mineralization starts at surface, with the majority of the deposit contained within the top 100 metres. The deposit structure, grades and depth suggest selective open cut mining will be utilized. Mining will use hydraulic excavators in backhoe configuration. Drilled and blasted material will be loaded into haul trucks, with waste rock deposited in an engineered Integrated Waste Facility ("IWF") adjacent to the pit, and ore hauled to a crusher or run-of-mine ("ROM") pad adjacent to the processing plant.

The BK BFS has assumed contract mining based on methodology and costing contained in proposals received from contractors with suitable experience in Mongolia in similar open-pit mining environments. In this scenario the contractor provides the full fleet and personnel to operate the project on a schedule of rates (US\$/tonne material moved) basis. The contractor is proposing a total of 4 x excavators (2 x ore, 2 x waste), 10 x 55t payload trucks, 3 x blasthole drills and a fleet of ancillary and support equipment to deliver the required material movement. The contractor's workforce peaks at approximately 190 personnel to deliver the required schedule of production.

The BK BFS assumes processing of ROM material via a conventional crush and grind circuit and a carbon in pulp plant. Plant design by 360-Global has been based on testing at Blue Coast Research which has established optimal processing parameters, including; grind size of 80% passing 60 microns; design inputs for comminution circuit, low cyanide concentration in leach circuit (0.5 g/litre sodium cyanide); 36 hour retention time; carbon adsorption parameters and detoxification reagent dosages. The process circuit has been designed to maximize water recovery with the most efficient dewatering process (ceramic disc filters) to achieve targeted 15% moisture in tailings, minimize chemical and reagent usage and minimize environmental impact.

The ore-processing plant will be located adjacent to the Bayan Khundii open pit and throughput will target 600,000 ore-tonnes per year, nominally 1,800 tonnes per day. Total mineralized material from BK, processed in the plant over the course of the mine life, is 3.4 million tonnes at an average diluted head grade of 3.7 g/t gold. Using an estimated mill recovery of 93.1%, total recovered gold over the life of the Bayan Khundii deposit is 381,700 ounces.

Operating costs are based on the mining and processing scenarios outlined above and assumes contract mining. Power for operations will be generated through a hybrid diesel and solar generation solution, provided under a power purchase agreement for the duration of the Project. All other activities are assumed to be owner operated. The AISC for Bayan Khundii is estimated at US\$733/oz.

Bayan Khundii BFS			
	LOM (US\$M)	US\$/oz	US\$/tonne
Mine Operating Cost	133	350	39
Processing Cost	96	252	28
G&A	13	33	4
Total Site Operating Costs	242	635	71
Royalty and Charges	32	86	10
Sustaining Capital & Closure Costs	5	12	1
All-In Sustaining Cost	279	733	82

Construction costs (Year 0), primarily comprising the process plant and supporting infrastructure, accommodation village, and associated engineering and indirect costs is estimated at US\$46 million. Pre-production costs, including construction readiness, mobile site equipment and pre-strip total \$8M. The capital cost estimate includes a 10% contingency. Sustaining capital of US\$4 million has been included in the mine plan and net mine closure costs are estimated at US\$1 million, including salvage values. Total life of mine capital expenditures for the Bayan Khundii Gold Project are estimated at US\$64 million.

	BK BFS (US\$M)
Process Plant	24
Non-Process Infrastructure	10
Accommodation Village	2
Construction Indirects	6
Engineering & Support	4
Construction Costs	46
Pre-Production Costs	8
Contingency	5
Subtotal Plant and Infrastructure	59
Sustaining Capital	4
Reclamation and Mine Closure	3
Salvage	(2)
Total	64

The Company sees the following opportunities to enhance value at the Khundii Gold District:

- Additional Resources at Bayan Khundii:
 - The updated Bayan Khundii Resource includes Measured and Indicated resources of 585,100 ounces at an average grade of 2.19 g/t gold, and an additional 35,900 ounces at a grade of 2.18 g/t gold of Inferred Resources which could potentially be added to reserves through both additional drilling and rising gold prices.
 - Very high gold grades observed in drilling in the Striker West portion of the deposit have the potential to add high-grade resources should closer spaced drilling improve continuity.
 - The reported resource is constrained based on multiple parameters including a US\$1,600/oz gold price. Multiple high-grade intersections outside the pit provide expansion targets requiring additional drilling in a rising gold price environment.
- Exploration: The Bayan Khundii deposit is situated in a highly prospective region that has received minimal historical exploration. On the Bayan Khundii property, multiple high-grade targets have been established through limited shallow drilling and surface sampling within 4 kilometres of the deposit, including the Dark Horse prospect identified in late 2019. In 2021, drilling on the Ulaan license, 300 metres west of Bayan Khundii, identified a new gold discovery that has the potential to be incorporated into the Bayan Khundii mine plan.
- Recoveries: Although a 93% gold recovery has been utilized for the BFS, testing of a recent master composite sample, representative of the BK ore, with a head grade of 3.6 g/t gold, returned recoveries averaging 95% indicating an opportunity for increased recoveries in the plant.
- Higher Grade Upside: The very high-grade nature of the Bayan Khundii deposit provides upside should continuity of the ultra-high-grade zones (greater than 20 g/t gold) be established during mining.
- Underground Potential: Further underground mining potential has been identified in conceptual studies for Midfield North and Striker West which, if proven economical through further studies, could lead to a further increase in the economic reserve of the Bayan Khundii Project.
- Additional Resources at Altan Nar: Erdene's Altan Nar deposit, located approximately 16km north of Bayan Khundii, has an established Indicated Resource of 5.0 Mt grading 2.0 g/t gold (318,000 ounces of contained gold) and an Inferred Resource of 3.4 Mt grading 1.7 g/t gold (186,000 ounces of contained gold). Approximately 250,000 ounces of the current Altan Nar resource could potentially be processed by the Bayan Khundii Project processing facility at modest incremental capital cost (see "KGP 2019 Technical Report"). A number of development options for Altan Nar are under consideration.

District Area Exploration

Erdene's deposits are in the Trans Altai Terrane within the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. The Company has been the leader in exploration in southwest Mongolia over the past decade and is responsible for the discovery of the Khundii Gold District comprised of multiple high-grade gold and base metal prospects, one of which is currently being developed, the 100%-owned Bayan Khundii Gold Project, and another which is being considered for development, the 100%-owned Altan Nar Project. In 2021, the Company discovered two new significant gold prospects, Dark Horse and Ulaan.

Erdene's technical team is currently carrying out a comprehensive data compilation program with input from experts in remote sensing alteration mapping, geophysical interpretation, structural mapping and deposit modelling. The goal of the compilation program is to identify additional high-priority targets and to build on our success to date within the Khundii Gold District, targeting total resources of over two million gold equivalent ounces by the end of 2022. Furthermore, management sees the potential to add resources beyond this target through further discoveries in this underexplored portion of the prolific gold and copper producing Central Asian Orogenic Belt.

Khundii-Ulaan Epithermal Gold Potential

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

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

Regional drilling has been restricted to shallow targets with average drill depths of about 100 metres with approximately 70% of regional drill holes having intersected anomalous gold mineralization (defined as >0.1 g/t gold). Success has been driven by the abundance of untested, near surface geochemical and geophysical targets in a region that has had no previous modern exploration. Recent exploration successes testing shallow targets, and the definition of three deposits, exposed at surface, are testament to the discovery potential of this new district.

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

Ulaan Copper-Gold Porphyry Target

On August 30, 2017, the Corporation acquired a 51% interest in the 1,780-hectare Ulaan exploration license ("Ulaan Property"), immediately west of its high-grade Bayan Khundii deposit. In December 2020, Erdene acquired the remaining 49% interest in the property. The exploration license is in its seventh year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia.

In addition to the Ulaan Southeast gold prospect discovery, the Ulaan license hosts a porphyry copper prospect primarily based on the broad (5km by 4km) zone of phyllic (quartz-sericite-pyrite) alteration at surface, with characteristics thought to be related to a porphyry intrusion at depth. Rock chip and stream sediment geochemical sampling identified anomalous concentrations of gold, copper and molybdenum in

the surrounding area, and recently completed geophysical surveys have produced a number of follow-up targets.

Three wide spaced holes were drilled in 2018, totaling 1,050 metres over a 1.3 kilometre area in the central portion of the license. These holes intersected volcanic to sub-volcanic rocks exhibiting propylitic to phyllic quartz-sericite-pyrite ("QSP") alteration with varying concentrations of pyrite and locally low-level copper mineralization (100 to 300 ppm over 60 metres).

A 700-metre, three-hole drilling program was completed in 2019 to test the alteration system at depth (to 650 metres), by extending a previous drill hole, and to investigate two shallower moderate IP chargeability targets (to 200 metres). The extension hole showed continuity at depth of the phyllic style alteration and ended within elevated copper, averaging 130 ppm over 22 metres. The entire second hole exhibited sericite alteration and pyrite mineralization with localized zones of tourmaline alteration and quartz veining within an andesite host, however no anomalous geochemistry was encountered. The final hole intersected a broad zone of intense tourmaline-silica-sericite alteration which hosts localized gold bearing quartz-tourmaline breccia and breccia veins from 140 to 202 metres (end of hole). Anomalous gold bearing intervals include: 2 metres of 1.3 g/t gold, 4 metres of 0.29 g/t gold, 2 metres of 0.5 g/t gold and 2 metres of 0.23 g/t gold or 40 metres of 0.15 g/t gold average grade. Anomalous copper, exceeding 400 ppm, was also intersected within the anomalous zone. The Erdene technical team is reviewing these results along with associated geology, geochemistry and geophysics to establish the basis for future drill testing of the Ulaan Copper-Gold Porphyry target.

Zuun Mod Molybdenum-Copper Project

The Zuun Mod Molybdenum-Copper Project is a porphyry molybdenum-copper deposit located in southwest Mongolia on the Company's Khuvyn Khar license. This project is approximately 950 kilometres southwest of Ulaanbaatar and 215 kilometres from railhead on the Mongolia-China border at Ceke. The property consists of a mining license totaling 6,041 hectares. The mining license is registered in the name of Anian Resources LLC, a wholly owned subsidiary of the Corporation, and has an initial term of 30 years. 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 remains strong. Market demand for molybdenum has recently improved, with the price of molybdenum oxide currently trading at approximately US\$20.00 per pound, compared to approximately US\$7.25 per pound in 2017, and US\$12.00 per pound at December 31, 2020. In light of the recent rise in Molybdenum and Copper prices, Erdene engaged RPMGlobal to undertake an updated technical analysis of the project, and the broader Khuvyn Khar license. The results of this study were received in Q4 2021 and suggest strong economics for the project at current metals prices.

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

Khuvyn Khar Copper-Silver Project

The Khuvyn Khar copper-silver project is located on Khuvyn Khar license, approximately 2.2 kilometres north of the Zuun Mod molybdenum-copper porphyry deposit. Exploration work at Khuvyn Khar has included geological mapping, vein density mapping, geochemical sampling, geophysical surveys, and wide spaced drilling. Previous drilling intersected 34 metres of 1.3% copper and 9.24 g/t silver from 308 to 342 metres (ZMD-121). The Project has a very large copper mineralized zone trending over 900 metres with multiple zones in three drill holes returning assays in excess of 0.2% copper over significant widths (12 to 42 metres). As noted above, RPMGlobal has been engaged to undertake a technical and economic study of the Zuun Mod Molybdenum-Copper project, including a high-level analysis of the prospectivity of the broader Khuvyn Khar license.

Acquisitions

Mongolia's Ministry of Mining and Heavy Industry periodically issues areas for exploration. Erdene has established the largest proprietary geologic database of Southwest Mongolia with a priority list of acquisition targets. The Company will participate in the tendering process as its priority targets are opened for tender. The Company has also been evaluating privately held licenses for acquisition.

Selected Annual Financial Information

The following financial data (in Canadian \$ thousands, except per share amounts) are derived from the Corporation's audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 respectively:

Fiscal Year Ended December 31	2021		2020		2019	
Revenues		Nil		Nil		Nil
Net loss	\$	5,571	\$	13,116	\$	2,683
Basic and diluted loss per share	\$	0.02	\$	0.06	\$	0.02
Total assets	\$	46,544	\$	42,814	\$	26,973
Total non-current liabilities		86		86	\$	6,374

Discussion of Operations

Years ended December 31, 2021, and 2020

The tables below detail exploration and evaluation expenditures for the years ended December 31, 2021, and 2020. The Bayan Khundii Gold Project was the focus of the Corporation's efforts during these periods.

Year ended Dec. 31, 2021	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Exploration and field support	\$ 4,255,369	\$ 226,905	\$ 1,439,325	\$ 213,138	\$ -	\$ 6,134,737
Mining studies and permitting	3,779,313	109,660	45,732	149,136	-	4,083,841
Mongolian office costs	-	-	-	-	498,642	498,642
Share-based compensation	-	-	-	-	439,463	439,463
Stakeholder relations	833,971	296,769	35,286	12,407	-	1,178,433
Travel and other	40,864	-	2,334	13,553	-	56,751
Total exploration expenditures	8,909,517	633,334	1,522,677	388,234	938,105	12,391,867
Capitalized expenditures	(8,126,412)	(428,052)	(1,716)	(89,847)	-	(8,646,027)
Expensed exploration costs 2021	\$ 783,105	\$ 205,282	\$ 1,520,961	\$ 298,387	\$ 938,105	\$ 3,745,840
E&E assets, January 1, 2021						
E&E assets, January 1, 2021	\$ 22,850,206	\$ 3,827,267	\$ 1,799,625	\$ 887,057	\$ -	\$ 29,364,155
Additions	8,126,412	428,052	1,716	89,847	-	8,646,027
Effect of movements in exchange rates	(65,619)	(9,018)	(3,841)	(3,251)	-	(81,729)
E&E assets, December 31, 2021	\$ 30,910,999	\$ 4,246,301	\$ 1,797,500	\$ 973,653	\$ -	\$ 37,928,453

Year ended Dec. 31, 2020	Bayan Khundii	Altan Nar	Ulaan	Zuun Mod & Other	General & Admin	Total
E&E expenditures						
Exploration and field support	\$ 4,091,053	\$ 232,529	\$ 61,691	\$ 138,609	\$ -	\$ 4,523,882
Mining studies and permitting	3,328,040	134,896	3,357	76,076	-	3,542,369
Mongolian office costs	-	-	-	-	432,460	432,460
Share-based compensation	-	-	-	-	522,970	522,970
Stakeholder relations	151,938	54,560	92	6,371	-	212,961
Travel and other	25,854	3,995	1,117	10,420	-	41,386
Total exploration expenditures	7,596,885	425,980	66,257	231,476	955,430	9,276,028
Capitalized expenditures	(7,436,420)	(391,875)	(1,256)	(73,666)	-	(7,903,217)
Expensed exploration costs 2020	\$ 160,465	\$ 34,105	\$ 65,001	\$ 157,810	\$ 955,430	\$ 1,372,811
E&E assets, January 1, 2020						
	\$ 16,164,725	\$ 3,561,166	\$ 887,366	\$ 870,260	\$ -	\$ 21,483,517
Additions	7,436,420	391,875	1,256	73,666	-	7,903,217
Additional Leader investment	-	-	970,144	-	-	970,144
Effect of movements in exchange rates	(750,939)	(125,774)	(59,141)	(56,869)	-	(992,723)
E&E assets, December 31, 2020	\$ 22,850,206	\$ 3,827,267	\$ 1,799,625	\$ 887,057	\$ -	\$ 29,364,155

Exploration and evaluation expenditures, including capitalized expenditures, totaled \$12,391,867 for the year ended December 31, 2021, compared to \$9,276,028 for the year ended December 31, 2020.

Exploration and field support expenses of \$6,134,737 in 2021 were greater than prior year expenses of \$4,523,882, as the Company drilled 19,706 metres in 2021, compared to 15,210 metres in 2020, focused on the Dark Horse Mane and Ulaan Southeast prospects.

Mining studies and permitting costs for the year ended December 31, 2021, totaled \$4,083,841, \$541,472 higher than for the year ended December 31, 2020, as expenditures on the Bayan Khundii Gold Project Detailed Engineering & Design work and Construction Readiness (including deposits on long-lead time items) exceeded the costs associated with the Feasibility Study and Detailed Engineering & Design work in the prior year.

Mongolian office costs of \$498,642 for the year ended December 31, 2021, were \$66,182 higher than the prior year primarily due to the recruitment of additional staff in advance of construction.

Non-cash, Share-based compensation expenses of \$439,463 for the year ended December 31, 2021, were \$83,507 less than the previous year due to the impact of a lower share price on the valuation of the Company's annual stock options grant.

Stakeholder relations costs of \$1,178,433 for the year ended December 31, 2021, were \$965,472 greater than for the year ended December 31, 2020, due to commitments under the cooperation agreement signed with the local communities in mid-2021 in support of construction of the Bayan Khundii Gold Project.

Travel and other costs of \$56,751 were \$15,365 greater than the prior year as international travel resumed in late 2021 following minimal travel in 2020 due to COVID-19 related restrictions.

Erdene began capitalizing exploration costs for its Altan Nar Project in 2015 and commenced capitalizing costs for its Bayan Khundii Gold Project in 2016. For the years ended December 31, 2021, and 2020, Erdene capitalized all exploration costs associated with these projects; however, exploration and evaluation expenditures associated with its Ulaan property were expensed in 2021, consistent with Company's capitalization policy.

The following table summarizes corporate and administration expenses for the years ended December 31, 2021, and 2020.

	For the years ended December 31,		
	2021	2020	Change
Administrative services	\$ 549,525	\$ 459,085	\$ 90,440
Depreciation and amortization	37,350	36,850	500
Directors fees and expenses	113,831	64,647	49,184
Investor relations and marketing	211,425	223,136	(11,711)
Office and sundry	95,843	81,221	14,622
Professional fees	243,142	219,014	24,128
Regulatory compliance	80,104	87,676	(7,572)
Share-based compensation	631,615	688,687	(57,072)
Travel and accommodations	10,965	8,589	2,376
	\$ 1,973,800	\$ 1,868,905	\$ 104,895

Corporate and administrative expenses totaled \$1,973,800 for the year ended December 31, 2021, compared to \$1,868,905 for the year ended December 31, 2020.

Administrative services expenditures of \$549,525 for the year ended December 31, 2021, were \$90,440 higher than those in the prior year primarily due to increased staffing and employee benefits costs as a result of inflationary cost of living adjustments and the recruitment of additional staff in advance of Bayan Khundii construction.

Director's fees and expenses for the year ended December 31, 2021, were \$49,184 greater than the prior year, as Director fees were largely paid in cash in 2021, while fees in the prior year were paid in deferred share units for a portion of the prior year, reported as Share-based compensation, due to cash containment measures in response to COVID-19. Consequently, Non-cash Share-based compensation expenses were \$57,072 less than the prior year due to the increase in cash Director compensation, as well as the impact of a lower trading price for the Company's shares on the expense calculation for the annual grant of stock options.

Office and sundry expenditures for the year ended December 31, 2021, were \$14,622 greater than the prior year due to an increase in Directors and Officers insurance premiums.

Professional fees of \$243,142 for the year ended December 31, 2021, were \$24,128 greater than the prior year due to a modest increase in external consultant activity.

Depreciation and amortization, Investor relations and marketing, Regulatory Compliance and Travel and accommodations expenditures for the year ended December 31, 2021, were not material or significantly different from those incurred in the prior year comparative period.

Fourth Quarter

Exploration expenditures, including capitalized expenditures, totaled \$3,271,813 for the three months ended December 31, 2021. Exploration and field support expenditures of \$1,178,181 were attributable to the conclusion of the 2021 exploration program, which included a 19,706-metre drill campaign at the Dark Horse Mane and Ulaan Southeast prospects. Mining studies and permitting expenditures of \$1,115,063 were incurred in support of detailed engineering and design, and construction readiness activities for the Khundii Gold Project. Stakeholder relations expenditures of \$774,749 were incurred during the quarter in accordance with the LCA. Other exploration expenditures of \$203,820 includes travel and sundry expenses related to the Corporation's Mongolian field operations.

Corporate and administrative expenses totaled \$379,577 for the three months ended December 31, 2021, including \$136,587 of salaries and administrative expenditures, \$35,932 of public company costs, professional fees of \$58,560, non-cash share-based compensation of \$62,712 and miscellaneous administrative expenditures, including travel and investor relations totaling \$85,786.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2021				Fiscal 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Sep	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Net loss	\$1,739	\$1,936	\$1,279	\$617	\$1,525	\$3,871	\$6,678	\$1,042
Basic loss per share	\$0.01	\$0.01	\$0.00	\$0.00	\$0.00	\$0.02	\$0.03	\$0.01
Total assets	\$46,544	\$42,319	\$42,411	\$42,454	\$42,814	\$44,918	\$27,155	\$27,826

For the three months ended December 31, 2021, the Corporation recognized a net loss of \$1,739,119 compared to a net loss of \$1,525,044 for the same period in 2020.

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 \$5.3 million in working capital, calculated as current assets less current liabilities.

Funds raised have been used to advance the Corporation's projects in Mongolia and to meet administrative costs in support of those programs (see Development and Exploration Projects and Discussion of Operations). The ability of the Corporation to continue with its exploration and development programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

	March 8, 2022	December 31, 2021
Common shares issued and outstanding	294,379,845	294,379,845
Options outstanding	15,855,000	15,855,000
Warrants outstanding	44,845,052	44,845,052
DSU's outstanding	6,103,362	6,103,362
Total instruments outstanding	361,183,259	361,183,259

Contractual Obligations

The following table summarizes the maturity of the Corporation's contractual obligations at December 31, 2021:

	Total	Less than one year	1 - 2 years	2 - 3 years
Lease liabilities	\$ 167,712	\$ 77,141	\$ 67,213	\$ 23,358
Accounts payable and accrued liabilities	660,456	660,456	-	-
	\$ 828,168	\$ 737,597	\$ 67,213	\$ 23,358

Other Financing Arrangements and Commitments

Sandstorm Gold Ltd. Royalty Agreement

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

Other

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

Off-Balance Sheet Arrangements

As at December 31, 2021, the Corporation had no off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

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

A detailed summary of all of the Corporation's significant accounting policies and the key sources of estimation uncertainty that have a risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next twelve months are included in Note 2 to the consolidated financial statements for the year ended December 31, 2021. While all of the key sources are important to the Corporation's consolidated financial statements, the following key sources have been identified as being critical:

- Recoverability of exploration and evaluation assets; and
- Share-based compensation.

Recoverability of exploration and evaluation assets

In accordance with the Corporation's accounting policy, at the end of each reporting period, the Corporation assesses its exploration and evaluation assets to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Corporation has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the greater of the fair value less cost of disposal and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital expenditures, exploration potential and operating costs. Fair value of exploration and evaluation assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash

flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and risks to the asset. If the Corporation does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through comparison to similar market assets and, where available, industry benchmarks.

Share-based payments

Equity-settled share-based payments issued to employees and directors are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured. The Corporation charged a total of \$1,071,078 of non-cash share-based compensation to the statement of comprehensive loss for the year ended December 31, 2021 (2020 - \$1,211,657).

Adoption of New Accounting Standards and Future Changes in Accounting Policies

Erdene did not adopt any new accounting standards for the year ended December 31, 2021, that materially impacted the Corporation's financial statements.

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2021, and have not been applied in preparing Erdene's consolidated statements.

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or noncurrent depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023, and are to be applied retrospectively, with early adoption permitted. The Corporation is currently assessing the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Corporation has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Corporation has not yet fulfilled all its obligations on or after January 1, 2022, with early adoption permitted. The Corporation has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

IFRS 9 – Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The Corporation has assessed the financial impact of the amendments and the application of such amendments is not expected to have a material impact.

Financial Instruments and Other Risks

Financial Instruments

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

Credit Risk

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with reputable financial institutions in Canada, where management believes the risk of loss to be low. At December 31, 2021, \$270,113 or 3% of the balance of cash was held in banks outside Canada (2020 - \$133,130 or 1%).

Liquidity Risk

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

Market Risk

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

Interest rate risk

As of December 31, 2021, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

Foreign Currency Risk

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

The Corporation's exposure to US dollar currency risk was \$3,038,230 as at December 31, 2021 (December 31, 2020 - \$69,392). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$303,800 (December 31, 2020 - \$6,900).

The Corporation's exposure to Mongolian Tugrik currency risk was (\$61,212) as at December 31, 2021 (December 31, 2020 - (\$80,694)). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$6,100 (December 31, 2020 - \$8,100).

Price Risk

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

Other Risks

In conducting its business, the principal risks and uncertainties faced by the Corporation relate primarily to exploration results, permitting, financing and, to a lesser extent, metal and commodity prices. Exploration for minerals and development of mining operations involve many risks, many of which are outside the

Corporation's control. In addition to the normal and usual risks of exploration and mining, the Corporation works in remote locations that lack the benefit of infrastructure and easy access. More information on risks is available in the Corporation's Annual Information Form available on SEDAR at www.sedar.com.

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Erdene's disclosure controls and procedures as of December 31, 2021 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Erdene's internal controls over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (2013)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management's evaluation, the CEO and the CFO have concluded that as of December 31, 2021, Erdene's internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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

Qualified Person

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

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

The information in this MD&A that relates to the financial models for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Kenny Li, CFA, who is an employee of ROMA Group Ltd. The information in this MD&A that relates to the capital and operating cost estimation for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Julien Lawrence, who is a FAusIMM and the Director of O2 Mining Ltd. The information in this MD&A that relates to the process design and recovery methods for the Bayan Khundii Feasibility Study is based on information compiled and reviewed by Jeffrey Jardine, who is a FAusIMM. and is engaged through O2 Mining Ltd. The information in this MD&A that relates to the Bayan Khundii resource estimate is based on information compiled and reviewed by Mr. Cam Norton, who is a P.Geo, and is an employee of Tetra Tech Inc. The information in this MD&A that relates to the Bayan Khundii reserve estimate is based on information compiled and reviewed by Mr. Anthony Keers, who is an MAusIMM (CP Mining) and a Director, Auralia Mining Consulting. Each of Mr. Li, Mr. Lawrence, Mr. Jardine, Mr. Norton and Mr. Keers has sufficient experience, which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they have undertaken to qualify as a Qualified Person, as that term is defined by National Instrument 43-101. Each of

Mr. Li, Mr. Lawrence, Mr. Jardine, Mr. Norton and Mr. Keers is not aware of any potential for a conflict of interest in relation to this work with Erdene.

Other Information

Additional information regarding the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com and on the Corporation's website at www.erdene.com.