



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(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, 2018 and December 31, 2017
- 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, 2018 and December 31, 2017, and its consolidated results of operations, 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 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.



Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity has experienced losses and negative cash flows from operations in 2018 and 2017, and does not have sufficient capital to fund its operations and planned expenditures beyond the second quarter of 2019 without additional financing.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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 the IFRSs, 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.



- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 long, horizontal, slightly wavy line that serves as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Douglas Reid.

Halifax, Canada

March 27, 2019

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

(Canadian dollars)

	Notes	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents		\$ 1,748,249	\$ 3,225,202
Receivables		113,412	148,069
Prepaid expenses		34,633	47,479
Current assets		1,896,294	3,420,750
Exploration and evaluation assets	6	15,687,348	11,394,843
Property, plant and equipment	7	125,277	130,283
Non-current assets		15,812,625	11,525,126
Total Assets		\$ 17,708,919	\$ 14,945,876
Liabilities and Equity			
Trade and other payables		\$ 224,387	\$ 191,600
Total Liabilities		\$ 224,387	\$ 191,600
Shareholders' Equity			
Share capital	10	\$ 104,003,644	\$ 99,890,270
Contributed surplus		16,110,116	13,775,386
Accumulated other comprehensive loss		(955,713)	(894,855)
Deficit		(101,673,515)	(98,016,525)
Total Shareholders' Equity		17,484,532	14,754,276
Total Liabilities and Equity		\$ 17,708,919	\$ 14,945,876

Commitments (Note 8)

Subsequent Events (Note 15)

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)

		For the year ended	
		December 31,	
	Notes	2018	2017
Operating Expenses			
Exploration and evaluation	11	\$ 1,595,675	\$ 1,631,628
Corporate and administration	12	2,120,390	2,450,152
Loss from operating activities		3,716,065	4,081,780
Finance income		(50,816)	(91,505)
Foreign exchange loss (gain)		(8,259)	37,190
Net Loss		\$ 3,656,990	\$ 4,027,465
Other comprehensive loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		60,858	258,572
Other comprehensive loss		60,858	258,572
Total comprehensive loss		\$ 3,717,848	\$ 4,286,037
Basic loss per share		\$ 0.02	\$ 0.03
Basic weighted average number of shares outstanding		155,104,960	142,916,756

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, 2017		126,810,031	\$ 86,783,669	\$ 11,952,465	\$ (636,283)	\$ (93,989,060)	\$ 4,110,791
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(4,027,465)	(4,027,465)
Other comprehensive loss		-	-	-	(258,572)	-	(258,572)
Private placements, net of share issue costs	10	18,465,555	12,925,316	-	-	-	12,925,316
Compensation warrants	10	-	-	322,597	-	-	322,597
Options exercised	10	687,500	181,285	(55,310)	-	-	125,975
Share-based compensation		-	-	1,555,634	-	-	1,555,634
Total transactions with owners		19,153,055	13,106,601	1,822,921	-	-	14,929,522
Balance at December 31, 2017		145,963,086	\$ 99,890,270	\$ 13,775,386	\$ (894,855)	\$ (98,016,525)	\$ 14,754,276
Balance at January 1, 2018		145,963,086	\$ 99,890,270	\$ 13,775,386	\$ (894,855)	\$ (98,016,525)	\$ 14,754,276
Total comprehensive loss for the period:							
Net loss		-	-	-	-	(3,656,990)	(3,656,990)
Other comprehensive loss		-	-	-	(60,858)	-	(60,858)
Private placements, net of share issue costs	10	14,834,580	3,706,199	1,301,176	-	-	5,007,375
Options exercised	10	1,628,750	407,175	(152,450)	-	-	254,725
Share-based compensation		-	-	1,186,004	-	-	1,186,004
Total transactions with owners		16,463,330	4,113,374	2,334,730	-	-	6,448,104
Balance at December 31, 2018		162,426,416	\$ 104,003,644	\$ 16,110,116	\$ (955,713)	\$ (101,673,515)	\$ 17,484,532

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

	Notes	For the year ended	
		December 31,	
		2018	2017
Cash flows from operating activities:			
Net loss		\$ (3,656,990)	\$ (4,027,465)
Items not involving cash:			
Depreciation and amortization		20,904	18,285
Share-based compensation		1,186,004	1,555,634
Finance income		(50,816)	(91,505)
Foreign exchange not related to cash		(8,259)	37,190
Gain on wind-up of Barbados subsidiaries		-	(242)
Change in non-cash working capital		74,124	(70,469)
Cash flows from operating activities		(2,435,033)	(2,578,572)
Cash flows from financing activities:			
Issue of common shares, net of issue costs	10	5,007,375	13,247,913
Proceeds on exercise of stock options	10	254,725	125,975
Cash flows from financing activities		5,262,100	13,373,888
Cash flows from investing activities:			
Expenditures on exploration and evaluation assets		(4,363,017)	(8,613,147)
Expenditures on property, plant and equipment		(16,077)	(77,025)
Interest received		50,816	91,505
Cash flows from investing activities		(4,328,278)	(8,598,667)
Effect of exchange rate changes		24,258	(42,656)
Increase (decrease) in cash and cash equivalents		(1,476,953)	2,153,993
Cash and cash equivalents, beginning of period		3,225,202	1,071,209
Cash and cash equivalents, end of period		\$ 1,748,249	\$ 3,225,202

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, 2018 and 2017

1. Nature of operations:

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

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

2. Going concern:

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

The Corporation experienced significant losses and negative cash flows from operations in 2018 and 2017 and has a deficit of \$101,673,515 at December 31, 2018. The Corporation had working capital of \$1,671,907 at December 31, 2018, compared to \$3,229,150 at December 31, 2017, representing a \$1,557,243 decrease. With the receipt of Private Placement gross proceeds of \$2,533,345 on February 28, 2019 (see subsequent event), management estimates current working capital is sufficient to fund the Corporation’s planned expenditures into June of 2019. The ability of the Corporation to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing equity financing, entering joint venture agreements or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Corporation’s ongoing exploration programs. There is no certainty that the Corporation will be able to raise funds as they are required.

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

3. 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 4 and have been consistently applied in each of the periods presented, except as disclosed in Note 5.

The consolidated financial statements were authorized for issue by Erdene's Board of Directors on March 27, 2019.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets classified as available-for-sale and fair value through profit and loss 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.

Judgments

In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in 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.
- ii) *Review of asset carrying values and impairment assessment:* Each asset is evaluated every reporting period to determine whether there are indications of impairment. If any indication exists, a formal estimate of recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is the greater of value in use and fair value less costs to sell.

Value in use is generally determined as the present value of future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), resources, operating costs,

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

3. Basis of presentation (continued)

Judgements (continued)

restoration and rehabilitation costs and future capital expenditure. The most significant assets assessed for impairment are exploration and evaluation assets. Indications of impairments include judgement on whether exploration will continue to be funded and if the projects are commercially viable.

- iii) *Exploration and evaluation assets and expenditures:* The application of the Corporation's accounting policy for exploration and evaluation assets and expenditures requires judgment to determine whether future economic benefits are probable, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. There is no assurance the Corporation has, or will have, commercially viable ore bodies. There is no assurance that the Corporation will be able to arrange sufficient financing to bring ore bodies into production.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

- i) *Exploration and evaluation assets and expenditures:* In addition to applying judgment to determine whether it is probable that future economic benefits will arise from the Corporation's exploration and evaluation assets and expenditures, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Corporation has to apply a number of estimates and assumptions. The publication of a resource pursuant to National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101"), is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred). The estimates directly impact when the Corporation defers its exploration and evaluation expenditures. Any such estimates and assumptions may change as new information becomes available. If information becomes available suggesting the recovery of acquisition costs is unlikely, the relevant capitalized amount is written off in the statement of profit or loss and other comprehensive income or loss in the period when the new information becomes available. The Corporation provides for such differences, where known, based on management's best estimate of the probable outcome of these matters.
- ii) *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.
- iii) *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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

4. 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, 2018 and 2017, the consolidated financial statements include those of Erdene Resource Development Corporation and its 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.

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 this is no evidence of impairment.

On February 6, 2017 the Corporation wound-up its Barbados holding companies Erdene Gold International Inc. and Erdene International Exploration Inc. resulting in a net gain of \$242 which has been recorded as an offset to Corporate and Administration expenses.

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 Erdene’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 classified as FVTPL, are measured at fair value, plus transaction costs on initial recognition. Financial assets classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

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	Fair value
Receivables	Financial Assets	Amortized cost
Trade and other payables	Financial Liabilities	Amortized cost

The Corporation classifies and measures financial assets and liabilities as described below:

- i) Cash and equivalents include cash, term deposits, treasury bills and money market investments with original maturities of less than 90 days and are classified as and measured at fair value through profit or loss.
- ii) Receivables are classified and measured at amortized cost.
- iii) Trade and other payables are classified and measured at amortized cost. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

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.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount, in the financial year in which this is determined.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

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 or in the case of certain leased plant and equipment, lease term, 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.

f) 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.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued)

g) 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. All share options are currently anti-dilutive to loss per share. As a result, basic and diluted loss per share are the same.

5. Changes in accounting policies

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

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The Corporation adopted IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The adoption of this standard had no financial impact to Erdene. Refer to accounting policies and Note 13 in the Consolidated Financial Statements.

New accounting standards not yet adopted

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these consolidated statements:

IFRS 16 – Leases

On January 13, 2016, the IASB issued IFRS 16 Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. As the Corporation does not have significant lease commitments, Erdene will not see a material impact from the adoption of the standard.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

6. Exploration and evaluation assets

	Khundii Gold Project	Zuun Mod Moly/Copper	Ulaan & Other	Total
Balance, January 1, 2017	\$ 2,337,466	\$ 728,164	\$ 581	\$ 3,066,211
Additions	7,589,759	74,062	949,326	8,613,147
Effect of movements in exchange rates	(226,393)	(36,431)	(21,691)	(284,515)
Balance, December 31, 2017	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843
Balance, January 1, 2018	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843
Additions	4,291,555	70,074	1,388	4,363,017
Effect of movements in exchange rates	(62,077)	(4,143)	(4,292)	(70,512)
Balance, December 31, 2018	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348

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

Khundii Gold Project

The Khundii Gold Project is located in Bayankhongor province in Mongolia, and is comprised of the 4,514 hectare Khundii license, including the Bayan Khundii and Altan Arrow gold prospects, and the 4,669 hectare Tsenkher Nomin license including the Altan Nar gold, silver, lead, zinc prospect. Prior to December 31, 2018 Exploration and evaluation expenditures on the Khundii license and the Tsenkher Nomin license were disclosed separately. Erdene made the decision in late 2018 to develop these licenses concurrently, and therefore Erdene has elected to aggregate associated Exploration and evaluation assets and expenditures.

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

The Tsenkher Nomin exploration license is in its ninth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On January 1, 2015, having received the initial resource estimate for the Altan Nar prospect, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy. Prior to 2015, the Corporation only capitalized the license costs associated with Altan Nar.

Zuun Mod/Khuvyn Khar

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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For the years ended December 31, 2018 and 2017

6. Exploration and evaluation assets (continued)

Ulaan & Other

The Ulaan exploration license covers an area of approximately 1,780 hectares, situated immediately adjacent to the Khundii license. The exploration license is in its fourth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On August 30, 2017, Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that holds the property. Erdene evaluated the acquisition considering IFRS 3, Business Combinations, and concluded that the transaction constituted the acquisition of a collection of assets, not a business.

Provided Erdene spends a minimum of US\$600,000 on work expenditures on the property over three years, it has the right to acquire the remaining 49% of the shares of Leader, or at Erdene's option, a portion of the property, for the then fair market value of the property or the portion to be acquired. Erdene may extend the option beyond three years by spending a minimum of US\$100,000 per annum thereafter.

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

7. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2017	\$ 37,752	\$ 102,976	\$ 194,040	\$ 334,768
Additions	67,528	6,680	2,817	77,025
Effect of movements in exchange rates	(7,175)	(1,982)	(899)	(10,056)
Balance, December 31, 2017	\$ 98,105	\$ 107,674	\$ 195,958	\$ 401,737
Depreciation & depletion				
Balance, January 1, 2017	\$ (3,775)	\$ (74,596)	\$ (176,979)	\$ (255,350)
Depreciation	(7,953)	(4,451)	(5,881)	(18,285)
Effect of movements in exchange rates	363	971	847	2,181
Balance, December 31, 2017	\$ (11,365)	\$ (78,076)	\$ (182,013)	\$ (271,454)
Carrying amounts				
At January 1, 2017	\$ 33,977	\$ 28,380	\$ 17,061	\$ 79,418
At December 31, 2017	\$ 86,740	\$ 29,598	\$ 13,945	\$ 130,283

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements
(Canadian dollars)

For the years ended December 31, 2018 and 2017

7. Property, plant and equipment (continued)

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2018	\$ 98,105	\$ 107,674	\$ 195,958	\$ 401,737
Additions	-	3,497	12,580	16,077
Effect of movements in exchange rates	(233)	(110)	(189)	(532)
Balance, December 31, 2018	\$ 97,872	\$ 111,061	\$ 208,349	\$ 417,282
Depreciation & depletion				
Balance, January 1, 2018	\$ (11,365)	\$ (78,076)	\$ (182,013)	\$ (271,454)
Depreciation	(9,938)	(4,463)	(6,503)	(20,904)
Effect of movements in exchange rates	178	103	72	353
Balance, December 31, 2018	\$ (21,125)	\$ (82,436)	\$ (188,444)	\$ (292,005)
Carrying amounts				
At January 1, 2018	\$ 86,740	\$ 29,598	\$ 13,945	\$ 130,283
At December 31, 2018	\$ 76,747	\$ 28,625	\$ 19,905	\$ 125,277

8. Commitments

Operating commitments are as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	41,957	62,936
Between 1 and 5 years	-	41,957
Total	\$ 41,957	\$ 104,893

The Corporation's operating lease for office space in Dartmouth, Nova Scotia expires August 31, 2019.

In 2019, minimum exploration expenditures of USD\$1.50 per hectare are required on the Corporation's Tsenkher Nomin and Khundii licenses (USD\$7,004 and USD\$6,771 respectively).

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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For the years ended December 31, 2018 and 2017

8. Commitments (continued)

Sandstorm has been given a right of first refusal on future stream or royalty financings related to the Khundii and Tsenkher Nomin licenses.

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

9. 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, 2018	December 31, 2017
Statutory tax rates	31%	31%
Income taxes (recovery) computed at the statutory rates	\$ (1,134,000)	\$ (1,249,000)
Benefit of temporary differences not recognized	551,000	577,000
Expenses not deductible for tax purposes	384,000	499,000
Effect of foreign tax rates	199,000	173,000
Provision for income taxes	\$ -	\$ -

The enacted tax rates in Canada 31% (31% in 2017) and Mongolia 25% (25% in 2017) where the Corporation operates are applied in the tax provision calculation.

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

	December 31, 2017		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 14,983,000	\$ 1,620,000	\$ 16,603,000
Property, plant and equipment	222,000	-	222,000
Share issuance costs	1,225,000	-	1,225,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,569,000	14,306,000
	\$ 22,545,000	\$ 10,189,000	\$ 32,734,000

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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For the years ended December 31, 2018 and 2017

9. Income taxes (continued)

	December 31, 2018		
	Canada	Mongolia	Total
Non-capital losses carried forward	\$ 16,845,000	\$ 1,694,000	\$ 18,539,000
Property, plant and equipment	228,000	-	228,000
Share issuance costs	1,305,000	-	1,305,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,885,000	14,622,000
	\$ 24,493,000	\$ 10,579,000	\$ 35,072,000

As at December 31 2018, 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, 2018	December 31, 2017
2018	\$ -	\$ 424,000
2019	333,000	335,000
2020	381,000	384,000
2021	473,000	477,000
2022	507,000	-
Thereafter	16,845,000	14,983,000
	\$ 18,539,000	\$ 16,603,000

10. Share Capital and Contributed Surplus

a) Authorized

An unlimited number of common shares with no par value.

b) Issued

For the year ended 2018

On June 8, 2018, the Corporation closed a non-brokered common share private placement for gross proceeds of \$4.12 million, issuing 10,834,580 units at a price of \$0.38 per unit. Each unit consisted of one common share of the Corporation and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.60 for 30 months from the closing date. The Corporation paid finder's fees in the aggregate of \$182,400 and issued 480,000 finder's warrants in connection with the private placement. Each finder's warrant is exercisable into one common share of the corporation at \$0.60 per share, for a period of 30 months from the closing date. The total fair value on the grant date of the 11,314,580 warrants issued was \$1,301,176 (\$0.115 per warrant). All securities issued pursuant to the private placement were subject to a four-month hold period from the closing date.

On June 14, 2018, the Corporation closed a financing in connection with a cross-listing of its common shares on the Mongolian Stock Exchange (MSE) for gross proceeds of \$1.36 million. In this transaction, the

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

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For the years ended December 31, 2018 and 2017

10. Share Capital and Contributed Surplus (continued)

Corporation issued 4,000,000 common shares at a price of \$0.34 per share. The Corporation paid a cash commission of 7% of the gross proceeds to the underwriters of \$95,200. The shares issued under the Mongolia offering commenced trading on the MSE on June 19, 2018. Under current Mongolian regulations, the shares listed on the MSE may only be traded through facilities of the MSE until de-listed or until cross-border trades are authorized by Mongolian authorities. In addition, all shares issued pursuant to the Mongolia offering were subject to a four-month hold period from the closing date of the Mongolia Offering.

For the year ended December 31, 2018, the Corporation charged a total of \$1,186,004 of stock-based compensation expense to the statement of comprehensive loss (2017 – \$1,555,634) of which \$473,150 is attributable to exploration expenses (2017 – \$607,092).

c) 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, 2018, 3,360,000 options were granted at a weighted average exercise price of \$0.39. Also 1,628,750 options were exercised at an average price of \$0.16 generating proceeds of \$254,725. During the year ended December 31, 2018, 100,000 options expired (2017 – 0 options).

The changes in stock options during the years ended December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at January 1	9,703,750	\$ 0.40	7,621,250	\$ 0.21
Granted	3,360,000	0.39	2,770,000	0.87
Expired	(100,000)	0.40	-	-
Exercised	(1,628,750)	0.16	(687,500)	0.18
Outstanding at December 31	11,335,000	\$ 0.43	9,703,750	\$ 0.40
Exercisable at December 31	11,335,000	\$ 0.43	9,703,750	\$ 0.40

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

10. Share Capital and Contributed Surplus (continued)

c) Stock options (continued)

All stock options granted in 2018 and 2017 vested immediately and have a five-year term. The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2018.

Expiry date	December 31, 2018		December 31, 2017	
	Number of Options	Exercise price	Number of Options	Exercise price
August 27, 2017	-	\$ -	437,500	\$ 0.25
June 28, 2018	-	-	1,071,250	0.12
January 8, 2019	325,000	0.14	445,000	0.14
June 18, 2019	935,000	0.16	935,000	0.16
June 5, 2020	1,100,000	0.15	1,100,000	0.15
July 2, 2020	100,000	0.15	100,000	0.15
December 22, 2020	895,000	0.16	895,000	0.16
June 15, 2021	1,950,000	0.36	1,950,000	0.36
March 31, 2022	2,620,000	0.87	2,620,000	0.87
July 18, 2022	150,000	0.89	150,000	0.89
February 4, 2023	50,000	0.50	-	-
March 13, 2023	100,000	0.40	-	-
June 14, 2023	2,810,000	0.40	-	-
October 15, 2023	150,000	0.27	-	-
November 8, 2023	150,000	0.24	-	-
	11,335,000	\$ 0.43	9,703,750	\$ 0.40

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Share price at grant date	\$ 0.49	\$ 0.88
Exercise price	\$ 0.39	\$ 0.87
Risk-free interest rate	2.0%	0.9%
Expected life	4.0 years	3.7 years
Expected volatility	77%	85%
Expected dividends	0.0%	0.0%
Weighted average grant date fair value	\$ 0.30	\$ 0.51

Expected volatility is estimated by considering historic average share price volatility.

Options issued in 2018 resulted in a charge of \$1,019,110 (2017 – \$1,424,360) to share based compensation included in exploration expenses and in corporate and administration expenses.

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

10. Share Capital and Contributed Surplus (continued)

c) Stock options (continued)

The remaining contractual lives of options outstanding at December 31, 2018, are as follows:

Range of prices	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price of exercisable options
\$0.14 - \$0.24	3,505,000	1.32	\$ 0.16
\$0.25 - \$0.49	5,010,000	3.68	0.38
\$0.50 - \$0.89	2,820,000	3.28	0.86
	11,335,000	2.85	\$ 0.43

d) Warrants

During the year ended December 31, 2018, 11,314,580 warrants were issued as part of the June 8, 2018 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 for 30 months and expires on December 8, 2020.

At the end of 2017, 1,075,324 compensation warrants were outstanding. Each compensation warrant entitles the holder to purchase one share for \$1.20 per share until February 22, 2019.

The following table summarizes the continuity of the warrants for the years ended December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	1,075,324	\$ 1.20	-	\$ -
Issued	11,314,580	0.60	1,075,324	1.20
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at December 31	12,389,904	\$ 0.65	1,075,324	\$ 1.20

The remaining contractual lives of warrants outstanding at December 31, 2018, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
\$0.60	11,314,580	1.94
\$1.20	1,075,324	0.15
	12,389,904	1.78

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For the years ended December 31, 2018 and 2017

10. Share Capital and Contributed Surplus (continued)

e) 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, 2018, the Corporation granted 543,932 DSUs with a fair value of \$0.31 per DSU (2017 – 173,727 DSUs with fair value of \$0.76 per DSU). The fair value of \$166,894 (2017 – \$131,274) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

	Year Ended December 31, 2018	Year Ended December 31, 2017
Five day volume weighted average price at grant date	\$ 0.31	\$ 0.76

The following table summarizes information concerning DSUs at December 31, 2018 and 2017:

	December 31, 2018 Number of DSUs	December 31, 2017 Number of DSUs
Outstanding at January 1	3,410,186	3,236,459
Granted	543,932	173,727
Outstanding at December 31	3,954,118	3,410,186

11. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2018 and 2017:

	For the year ended December 31	
	2018	2017
Depreciation & amortization	\$ 14,733	\$ 11,747
Direct costs	811,155	719,183
Employee compensation costs	296,637	293,606
Share-based compensation	473,150	607,092
	\$ 1,595,675	\$ 1,631,628

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

12. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2018 and 2017:

	For the year ended December 31	
	2018	2017
Administrative services	\$ 535,118	\$ 572,692
Depreciation and amortization	6,194	6,504
Directors fees and expenses	132,841	146,141
Investor relations and marketing	201,074	267,171
Office and sundry	123,271	115,299
Professional fees	236,394	131,525
Regulatory compliance	116,567	139,108
Share-based compensation	712,854	948,542
Travel and accommodations	56,077	123,170
	\$ 2,120,390	\$ 2,450,152

13. 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, 2018	December 31, 2017
Cash and cash equivalents	\$ 1,748,249	\$ 3,225,202
Receivables	113,412	148,069
	\$ 1,861,661	\$ 3,373,271

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, 2018, \$66,342 or 4% of the balance of cash was held in banks outside Canada (2017 - \$113,555 or 4%).

Liquidity Risk:

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

13. Financial instruments (continued)

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, 2018, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

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

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 96,157	\$ 212,116
Trade and other receivables	-	7,424
Trade and other payables	(24,244)	(13,767)
	\$ 71,913	\$ 205,773

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately \$7,200 (December 31, 2017 - \$20,600).

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 3,432	\$ 25,328
Trade and other receivables	7,218	7,158
Trade and other payables	(22,159)	(71,012)
	\$ (11,509)	\$ (38,526)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately \$1,200 (December 31, 2017 - \$3,900).

c) Price risk

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

(Canadian dollars)

For the years ended December 31, 2018 and 2017

13. Financial instruments (continued)

Fair Value:

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

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Cash and cash equivalents	\$ 1,748,249	\$ -	\$ -	\$ 3,225,202	\$ -	\$ -
Receivables	-	113,412	-	-	148,069	-

14. 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,	
	2018	2017
Directors' fees	\$ 111,500	\$ 60,000
Share-based compensation to directors	343,600	528,250
Key management short-term benefits	386,892	523,536
Share-based compensation to key management	440,573	353,071
	\$ 1,282,565	\$ 1,464,857

15. Subsequent Events

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

On March 26, 2019, Erdene notified Sandstorm of its intention to buy-back 50% of the NSR Royalty for \$1.2 million. The buy-back will reduce the NSR Royalty payable to Sandstorm to 1%. The Corporation intends to close this transaction by April 14, 2019. Erdene will fund the repurchase from cash on hand.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2018

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This Management Discussion and Analysis ("MD&A"), dated March 27, 2019, relates to the operating results and financial condition of Erdene Resource Development Corporation ("Erdene" or the "Company" or the "Corporation") and should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2018 and 2017 and the notes thereto. The consolidated financial statements of the Corporation have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

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

The risk factors identified above are not intended to represent a complete list of the factors which could affect the Corporation. Additional factors are noted under "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2018, a copy of which is available on the Corporation's SEDAR document page at www.sedar.com.

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

Company Overview

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

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

In December 2018, Erdene announced a positive Preliminary Economic Assessment ("PEA") study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Prepared by RPM Global, this independent study confirmed the high-return, low-capital and low-operating cost potential of the project, that will form the cornerstone development in the emerging Khundii Gold District.

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

Highlights and Significant Subsequent Events

Khundii Gold Project – 100% Erdene

- Delivered the Khundii Gold Project PEA:
 - After-tax Net Present Value at a 5% discount rate ("NPV5%") and a US\$1,200/oz gold price of US\$99 million and Internal Rate of Return ("IRR") of 56%.
 - Pre-tax NPV5% of US\$135 million and IRR of 70%.
 - Initial capital expenditure of US\$32 million, using a contract mining fleet.
 - All-in sustaining cash cost ("AISC") of US\$714/ounce of gold recovered.
 - Life of mine head grade of 3.42 g/t gold.
 - Average annual gold production of 51,200 ounces.
 - Eight year mine life plus one-year pre-production and two-year mine closure periods.
 - Payback of 1.8 years.
- Reported the maiden mineral resource estimate for the Khundii Gold Project:
 - At a cut-off grade of 0.7 g/t gold, Measured and Indicated resource of 751,000 ounces gold at an average grade of 2.3 g/t gold and Inferred resource of 291,000 ounces gold at an average grade of 1.8 g/t gold.
 - At a higher cut-off grade of 1.4 g/t gold, Measured and Indicated resource of 642,000 ounces of gold at an average grade of 3.7 g/t gold, (including 357,000 ounces gold at an average grade of 5.2 g/t gold at the Bayan Khundii deposit) and an Inferred resource total of 250,000 ounces at 2.3 g/t for the Khundii Gold Project.
 - Including precious and base metals, 886,000 ounces gold equivalent ("AuEq") at an average grade of 2.7 g/t AuEq Measured and Indicated and 382,000 ounces AuEq at an average grade of 2.3 g/t AuEq, Inferred.

- Drilled 4,900 metres in 2018 at the Bayan Khundii license to support the maiden mineral resource:
 - Extended the gold mineralization zone to the north with the intersection of 81.4 metres of 2.6 g/t gold and 17 metres of 9.2 g/t gold at hole BKD-254 in the North Midfield Zone.

Regional Exploration

- Completed the 2018 exploration campaign, drilling 25 holes totaling 3,452 metres at seven targets along the 11.4 kilometre Khundii license, focused at Altan Arrow and Khundii North:
 - Approximately 70% of drill holes on the Bayan Khundii license intersected anomalous gold mineralization (>0.1 g/t). Three holes intersected more than 20 g/t gold over 1 to 2 metre intervals.
 - Extended the western extension of the Altan Arrow main gold mineralized structure by 500 metres, indicating a broad corridor of anomalous gold over a 1.2 kilometre trend (open along strike) up to 400 metres south of the main structure.
 - Testing of structural splays south of the main Altan Arrow zone returned anomalous gold mineralized intersects at depth (approximately 100 metres vertical depth).
 - Three shallow holes in the southern portion of Khundii North intersected wide zones of intense multi-phase, epithermal quartz stockwork and breccia from surface to a vertical depth of 66 metres within an altered monzonite with associated anomalous gold mineralization, up to 2.1g/t.
 - Completed a high-density magnetic survey to refine targets based on improved definition of alteration zones, structural intersections and zones of dilation in advance of future drilling.
- Concluded an initial scout drill program at its 51% owned Ulaan license totaling 1,050 metres in three widely spaced holes over a 1.3 kilometre area in the central portion of the license:
 - Intersected volcanic rocks locally hosting sheeted to stockwork quartz-pyrite veining, associated with elevated copper values and a distinct zonation from propylitic alteration at surface to phyllic alteration at depth.
- Assembled the largest proprietary geologic database in southwest Mongolia and has identified 22 high-priority targets for acquisition that the company will pursue aggressively:
 - Participated in the first land tender in Southwest Mongolia in almost a decade.

Corporate

- Became the first foreign company to cross-list on the Mongolian Stock Exchange in June 2018:
 - Approximately 6,000 Mongolians hold shares representing 6% of Erdene's stock.
 - More than 1,500,000 shares have traded in Mongolia since the listing.
 - Concurrent with the cross-listing, the Corporation raised a further \$4.12 million in a Private Placement.
- Raised C\$2.53 million in February 2019 to launch the NI 43-101 Pre-Feasibility Study for the Khundii Gold Project, mining license applications, potential acquisitions, including through the Mongolian Government's recently re-opened license tender process and general working capital:
 - At the date of this MD&A, the Corporation had \$3.2 million in working capital.
- Notified Sandstorm of its intention to buy-back 50% of the NSR Royalty on March 26, 2019:
 - The transaction is expected to close by April 14, 2019.

Strategy and Outlook

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

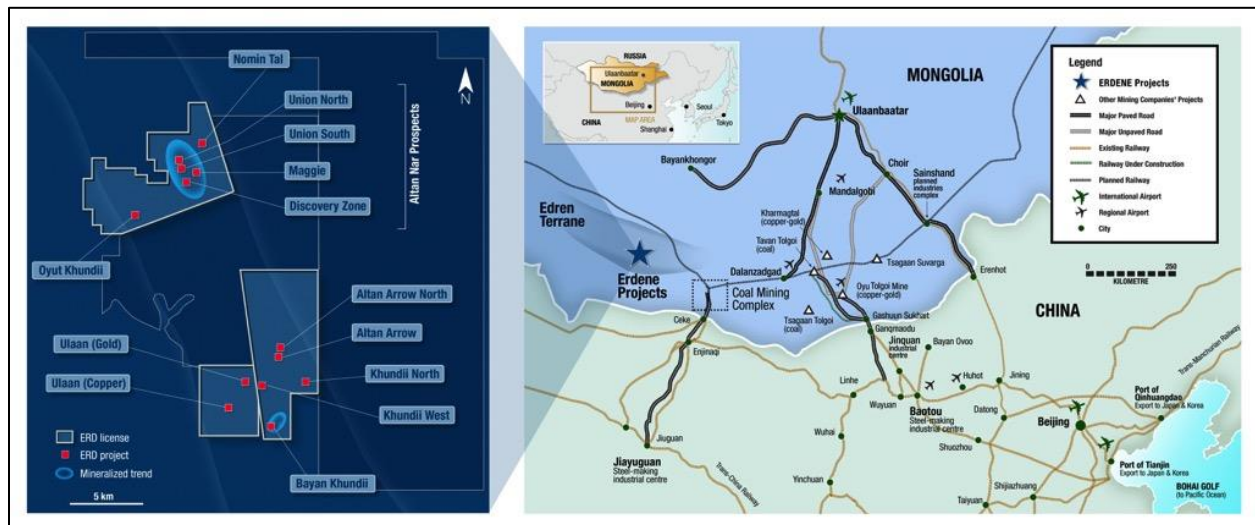
In February 2019, Erdene filed a positive PEA study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Prepared by RPM Global, this independent study confirmed the high-return, low-capital and low-operating cost potential of the project, that will form the cornerstone development in the emerging Khundii Gold District. The Khundii Gold Project's initial development is expected to focus on a high grade, open-pit mine beginning at the Bayan Khundii Striker Zone, expanding into adjacent zones within Bayan Khundii, prior to incorporating resources from the Altan Nar deposit.

Erdene has received proposals from global engineering firms to lead a NI 43-101 Pre-Feasibility Study, which is scheduled to be completed in 2019. Concurrently, the Corporation's Mining Studies Team is undertaking mining, geotechnical, metallurgical, waste management and hydrogeological studies to support development and mining license applications, which are expected to be approved in 2019.

The Khundii District offers exceptional discovery potential, which would create significant shareholder value. This District lies within the Central Asian Orogenic Belt, host to some of the world's largest gold and copper-gold deposits. Modern exploration along the trend in Southwest Mongolia has been limited to shallow holes but results to date are compelling and a testament to the high probability of additional discovery. Erdene is drilling prospects on its Bayan Khundii license at Altan Arrow and Khundii North and evaluating opportunities for acquisition throughout the Khundii District. Over the past decade Erdene has developed a proprietary geologic database of Southwest Mongolia's mineralization that has led to the identification of more than 20 high-priority targets for acquisition. Mongolia's Ministry of Mining and Heavy Industry re-opened the region to tenders in late 2018, and Erdene intends to bid aggressively as its target parcels come to auction.

Development and Exploration Projects

Erdene's Khundii Gold District in Southwest Mongolia



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

On September 15, 2018, the Company announced a maiden resource estimate for the Khundii Gold Project. Apart from Zuun Mod, the Company's other targets are early stage and do not contain any mineral resource estimates as defined by National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). With the exception of those deposits already delineated, potential quantities and grades disclosed in this MD&A are conceptual in nature, and there has been insufficient exploration to define a mineral resource

estimate for other targets disclosed herein. It is uncertain if further exploration will result in these targets being delineated as a mineral resource. Additional information about our projects is also summarized in our AIF and the respective NI 43-101 Technical Reports and can be viewed under the Company's issuer profile on SEDAR at www.sedar.com.

Khundii Gold Project

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

The resource was discovered in Q2 2015, with initial drill results reported in Q4 2015; the first hole returned 7 metres of 27.5 g/t gold at 14 metres depth. Bayan Khundii has become the highest priority project for the Corporation based on its high grades, proximity to surface, and favorable metallurgy. The Corporation has completed 42,656 metres of diamond drilling at Bayan Khundii, comprised of 255 diamond drill holes. Drilling has identified three main areas of very high-grade gold mineralization with strong continuity, the Striker Zone, where mineralization starts from surface, and Midfield and North Midfield Zones that extend to the northeast under younger, post-mineralization Jurassic cover. The high-grade gold zones within these three areas can be very wide, grading in excess of 5 g/t gold over more than 50 metres. Step-out drilling in 2017 indicated that mineralization encountered in the Midfield Zone, located 200 metres northeast from Striker Zone, extends for at least 280 meters further to the northeast under younger cover. The Midfield and North Midfield Zones have returned some of the highest grades and the longest mineralized intervals at Bayan Khundii; BKD-98 returned 80 metres of 6.0 g/t gold from 42 metres depth, and BKD-231 returned 14 metres of 158 g/t gold, including one metre of 2,200 g/t gold.

The 100%-owned Altan Nar ("Golden Sun") deposit is located on the Corporation's 4,669 hectare Tsenkher Nomin exploration license, 16 kilometres northwest of Bayan Khundii. The exploration license is in its ninth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. The license hosts 18 mineralized (gold, silver, lead, zinc) target areas within a 5.6 by 1.5 kilometre mineralized corridor. Two of the early discoveries, Discovery Zone ("DZ") and Union North ("UN"), are the most advanced targets. These properties host wide zones of high-grade, near-surface mineralization, and were the focus of an updated resource estimate released in Q2 2018, as well as detailed metallurgical processing test-work. Some of the updated mineral resources announced in Q2 2018 were from the remaining 16 targets, however, most of these are still considered early-stage and are interpreted by the Corporation as having good potential for hosting additional resources.

Mineral Resources

Erdene announced the maiden resource estimate for the Khundii Gold Project, dated September 12, 2018, prepared in accordance with NI 43-101 by RPMGlobal Asia Limited ("RPM"). The Khundii Gold Project Resource includes the Maiden Mineral Resource estimate for the Bayan Khundii deposit and incorporates the significant increase in the NI 43-101 Mineral Resource for the Altan Nar deposit reported in May 2018. The Bayan Khundii Mineral Resource incorporates 255 diamond drill holes totaling 42,656 metres, completed between Q4 2015 and Q2 2018. The Mineral Resource is contained within a near-surface, shallow-dipping and strongly mineralized system (intercepts up to 2,200 g/t gold over a 1 metre interval as previously reported) that extends over an area of 1.2 kilometres (NE-SW) by 200 to 400 metres (NW-SE). Grade capping for the purposes of the Bayan Khundii deposit resource estimate averaged 51 g/t gold for high-grade domains (range from 8 g/t to 250 g/t gold) and a maximum of 1.5 g/t gold for the low and medium grade domains.

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

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

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

(2) Cut-off grades for Altan Nar are AuEq and for Bayan Khundii are gold only.

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

Preliminary Economic Assessment

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

The PEA envisions a high-grade, open-pit mine beginning at the Bayan Khundii Striker Zone, expanding into adjacent zones within Bayan Khundii, prior to incorporating resources from the Altan Nar deposit. The development incorporates a conventional gravity separation circuit and a carbon in pulp plant with processing capacity of 1,800 tonnes per day.

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

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

Key Project metrics are presented in the following table:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Higher Grade Upside: The very high-grade nature of the deposit provides upside should continuity of the ultra high-grade zones be established during mining. The highest gold values in the block model supporting the PEA are 55 g/t, while more than 40 intersections ranging from 50 g/t to 2200 g/t gold were encountered during drilling.
- Additional Resources at Bayan Khundii: Approximately 60,000 ounces of Indicated Resources and 70,000 ounces of Inferred Resources grading more than 4 g/t are located outside the mineable open-pit for the PEA. The majority of these resources are contained within the West Striker Area, approximately 100 metres from the ultimate pit wall, situated at around 100 metres depth. Accessing these resources by underground methods will be considered in a future study.
- Additional Resources at Altan Nar: The majority of the resource contained at the Altan Nar Project remains undeveloped in the current PEA. Further drilling and metallurgical work is required to incorporate this material into development scenarios.
- Exploration Potential: The Bayan Khundii and Altan Nar deposits are situated in a highly prospective region that has received minimal historical exploration. The Company, through its proprietary regional database and experience in the region, is well positioned to add resources through exploration.
- Recovery Upside: The Bayan Khundii mineralized material has an average recovery of 92% in the PEA. However, master composite sample testing indicates that recoveries of up to 99% are possible for high-grade material. For Altan Nar material, an average recovery of 62% has been applied due to arsenopyrite content of the ore. Master composite testing of representative samples from the Discovery Zone pit has returned recoveries of up to 88%. Further metallurgical testing could support higher recoveries.
- Mine Planning: The PEA represents the first step toward addressing the viability of a mining operation at the Khundii Gold Project. Further work may identify cost saving opportunities such as improved pit sequencing through pit phasing, waste haul optimization including in-pit dumping, reduced dilution and loss through application of more selective mining techniques and interim pit design targeting improved early grades.
- Mine Equipment Selection: There is opportunity to consider Tier 2 suppliers for non-critical equipment, reducing capital and operating costs.
- Land Acquisition: The Mongolian Ministry of Mining and Heavy Industry has recently reopened the tender licensing system, and the Company expects prospective licenses to be released in 2019. The Company has identified multiple priority targets surrounding the district and will be an active participant in the tender processes for these properties.

District Scale Exploration

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

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

Altan Arrow Gold Target

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

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

Khundii North Gold Target

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

Central Structure Zone Gold Target

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

Ulaan Copper-Gold Porphyry Target

On August 30, 2017 the Corporation acquired a 51% interest in the Ulaan exploration license ("Ulaan Property"), immediately west of its high-grade Bayan Khundii deposit. The Ulaan Property covers approximately 1,780 hectares and hosts a 3-kilometre diameter, intense alteration zone with characteristics thought to be related to a porphyry intrusion at depth. The exploration license is in its fourth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. Provided Erdene spends a minimum of US\$600,000 on the Ulaan Property over the next three years, it has the right to acquire the remaining 49% of the property for the then fair market value. Erdene may extend the option beyond three years by spending a minimum of US\$100,000 per annum thereafter.

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

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

Zuun Mod Molybdenum Project

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

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

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

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

Khuvyn Khar Copper-Silver Project

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

Acquisitions

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

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, 2018, 2017 and 2016 respectively:

Fiscal Year Ended December 31	2018	2017	2016
Revenues	Nil	Nil	Nil
Loss for the year	\$ 3,657	\$ 4,027	\$ 2,500
Basic and diluted loss per share	\$ 0.02	\$ 0.03	\$ 0.02
Total assets	\$ 17,709	\$ 14,946	\$ 4,293
Total long-term liabilities	Nil	Nil	Nil

Discussion of Operations

Year ended December 31, 2018 and 2017

The tables below detail exploration and evaluation expenditures for the years ended December 31, 2018 and 2017. Exploration efforts during the period were focused on the Khundii Gold Project and Ulaan licenses.

Year ended December 31, 2018	Khundii Gold Project	Zuun Mod	Ulaan & Other	Total
Exploration expenditures				
Mining studies and permitting	\$ 1,343,667	\$ -	\$ -	\$ 1,343,667
Drilling, trenching, sampling and assaying	1,279,068	2,823	244,812	1,526,703
Exploration, camp and field	1,133,027	49,792	535,630	1,718,449
Stakeholder relations	343,697	-	17,666	361,363
Travel and other	169,629	1,072	20,687	191,388
License costs	22,467	70,074	1,388	93,929
Mongolian office costs	-	-	250,043	250,043
Share-based compensation	-	-	473,150	473,150
Total exploration expenditures	4,291,555	123,761	1,543,376	5,958,692
Capitalized expenditures	(4,291,555)	(70,074)	(1,388)	(4,363,017)
Expensed exploration costs 2018	\$ -	\$ 53,687	\$ 1,541,988	\$ 1,595,675

E&E assets, January 1, 2018	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843
Additions	4,291,555	70,074	1,388	4,363,017
Effect of movements in exchange rates	(62,077)	(4,143)	(4,292)	(70,512)
E&E assets, December 31, 2018	\$ 13,930,310	\$ 831,726	\$ 925,312	\$ 15,687,348

Year ended December 31, 2017	Khundii Gold Project	Zuun Mod	Other	Total
Exploration expenditures				
Drilling, trenching, sampling and assaying	\$ 5,017,084	\$ 2,697	\$ 90,751	\$ 5,110,532
Exploration, camp and field	1,880,644	45,226	450,879	2,376,749
Mining studies and permitting	424,787	-	-	424,787
Travel and other	153,253	80	141,260	294,593
Stakeholder relations	103,196	-	12,217	115,413
Licence costs	10,795	74,062	949,326	1,034,183
Mongolian office costs	-	-	281,426	281,426
Share-based compensation	-	-	607,092	607,092
Total exploration expenditures	7,589,759	122,065	2,532,951	10,244,775
Capitalized expenditures	(7,589,759)	(74,062)	(949,326)	(8,613,147)
Expensed exploration costs 2017	\$ -	\$ 48,003	\$ 1,583,625	\$ 1,631,628

E&E assets, January 1, 2017	\$ 2,337,466	\$ 728,164	\$ 581	\$ 3,066,211
Additions	7,589,759	74,062	949,326	8,613,147
Effect of movements in exchange rates	(226,393)	(36,431)	(21,691)	(284,515)
E&E assets, December 31, 2017	\$ 9,700,832	\$ 765,795	\$ 928,216	\$ 11,394,843

Exploration expenditures totaled \$5,958,692 for the year ended December 31, 2018, compared to \$10,244,775 for the same period in 2017. Drilling, trenching, sampling and assaying expenditures for the year ended December 31, 2018 were \$3,583,829 less than the prior year as Erdene drilled approximately

9,400 metres in the current year compared to 32,211 metres in 2017, as the Company focused efforts on the NI 43-101 Resource Estimates and PEA studies for the Khundii Gold Project in 2018. Exploration, camp and field costs and travel costs for the year ended December 31, 2018 were respectively \$658,300 and \$103,205 less than the preceding year due to the reduction in drilling activity.

Mining studies and permitting expenses of \$1,343,667 for the year ended December 31, 2018 were \$918,880 higher than the prior year due to professional fees associated with the NI 43-101 Resource Estimates and PEA for the Khundii Gold Project completed in 2018. License costs of \$93,929 for the year ended December 31, 2018, were \$940,254 less than 2017, as Erdene purchased the 51% of the outstanding shares of Leader Exploration LLC in August 2017, for US\$750,000, and recognized the transaction as a Capitalized exploration expenditure. Stakeholder relations expenditures of \$361,363 for the year ended December 31, 2018 were higher than those of \$115,413 incurred during the prior year as the company increased its community partnership efforts in advance of mining license applications. Share-based compensation was \$133,942 less than 2017 due to the impact of a lower share price.

Erdene began capitalizing exploration costs for its Khundii Gold Project on January 1, 2015, with the receipt of the initial resource estimate for the Khundii Gold Project's Altan Nar deposit. For the years ended December 31, 2018 and 2017, Erdene has capitalized all exploration costs associated with this Project. Only license costs associated with its other properties have been capitalized in 2018 or 2017.

	For the years ended December 31,		
	2018	2017	Change
Administrative services	\$ 535,118	\$ 572,692	\$ (37,574)
Depreciation and amortization	6,194	6,504	(310)
Directors fees and expenses	132,841	146,141	(13,300)
Investor relations and marketing	201,074	267,171	(66,097)
Office and sundry	123,271	115,299	7,972
Professional fees	236,394	131,525	104,869
Regulatory compliance	116,567	139,108	(22,541)
Share-based compensation	712,854	948,542	(235,688)
Travel and accommodations	56,077	123,170	(67,093)
	\$ 2,120,390	\$ 2,450,152	\$ (329,762)

Corporate and administrative expenses totaled \$2,120,390 for the year ended December 31, 2018, compared to \$2,450,152 for the year ended December 31, 2017. The reduction in Administrative services compared to 2017 was primarily attributable to lower incentive compensation in 2018. Investor relations and marketing expenditures decreased by \$66,097 year over year as the corporation participated in fewer conferences during the current year. Travel and accommodations expenses were also lower than the prior year as a result of attending fewer events. Professional fees for the year ended December 31, 2018 were \$104,869 higher than the prior year due to higher financial advisory fees associated with strategic financial planning, partially offset by lower risk consulting fees, as Erdene completed a controls review in 2017. Non-cash share-based compensation was \$235,688 less than 2017 due to the impact of a lower share price.

Fourth Quarter

Exploration expenditures totaled \$1,168,626 for the three months ended December 31, 2018. Mining studies and permitting expenditures of \$477,833 were incurred towards the NI 43-101 Resource Estimate and PEA studies for the Khundii Gold Project. Drilling, trenching, sampling and analysis expenditures of \$446,145 were attributable to the conclusion of the 2018 drill program. Non-cash share-based compensation expenditures attributable to exploration staff were \$113,737 for the fourth quarter of 2018. Other exploration expenditures of \$130,911 include travel expenses, license costs, and other general expenses related to the Corporation's Mongolian field operations.

Corporate and administrative expenses totaled \$507,104 for the three months ended December 31, 2018, including \$279,157 of salaries and administrative expenditures, \$117,118 of public company operating costs and miscellaneous administrative expenditures, including travel and investor relations totaling \$110,829.

There were no unusual events during the fourth quarter of 2018 that materially affected the Corporation's financial condition, cash flows or results of operations.

Summary of Quarterly Results

Expressed in thousands of Canadian dollars except per share amounts

	Fiscal 2018				Fiscal 2017			
	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar	Q4 Dec	Q3 Sep	Q2 Jun	Q1 Mar
Net loss	\$772	\$744	\$1,439	\$702	\$649	\$713	\$2,069	\$596
Basic loss per share	\$0.01	\$0.00	\$0.01	\$0.00	\$0.00	\$0.01	\$0.02	\$0.00
Total assets	\$17,709	\$18,136	\$19,500	\$14,879	\$14,946	\$15,592	\$16,730	\$17,208

For the three months ended December 31, 2018, the Corporation recognized a net loss of \$772,371 compared to a loss of \$649,434 for the same period in 2017.

For the year ended December 31, 2018, the Corporation recognized a net loss of \$3,656,990, or \$0.02 per share, compared to a loss of \$4,027,465, or \$0.03 per share for the same period in 2017.

The Corporation's expenditures vary from quarter to quarter largely depending on the timing of its Mongolian exploration programs. The Corporation 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 \$3.2 million in working capital.

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

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

With the receipt of Private Placement proceeds of \$2.53M on February 28, 2019 (see Subsequent Event note in December 31, 2018 Consolidated Financial Statements), management estimates current working capital is sufficient to fund the Corporation's planned expenditures to June 2019. The ability of the Corporation to continue with its exploration and development programs beyond this point is contingent upon securing additional funds through asset sales, formation of alliances, option, and/or joint venture agreements, equity financing and/or expenditure reductions. The timing and availability of additional equity financing will be determined largely by market conditions and the results of the Corporation's ongoing exploration programs.

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

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

Outstanding Share Data

Authorized

An unlimited number of common shares with no par value.

Issued and Outstanding Share Capital

	March 27, 2019	December 31, 2018
Common shares issued and outstanding	173,941,029	162,426,416
Options outstanding	11,010,000	11,335,000
Warrants outstanding	22,599,194	12,389,904
DSU's outstanding	3,954,118	3,954,118
Total instruments outstanding at end of period	211,504,341	190,105,438

Contractual Obligations

The following table summarizes the Corporation's contractual obligations at December 31, 2018:

	Total	Less than one year	1 - 3 years	4 - 5 years	More than 5 years
Office leases	\$41,957	\$41,957	\$0	\$0	\$0
Accounts payable and accrued liabilities	224,387	224,387	-	-	-
	\$266,344	\$266,344	\$0	\$0	\$0

Other Financing Arrangements and Commitments

Sandstorm Gold Ltd. Royalty Agreement

On April 14, 2016 the Corporation granted Sandstorm Gold Ltd. ("Sandstorm") a 2% NSR Royalty on Erdene's Tsenkher Nomin (Altan Nar) and Khundii (Bayan Khundii) licenses. Erdene has an option to buy-back 50% of the NSR Royalty for \$1.2 million, to reduce the NSR Royalty to 1%, which expires April 14, 2019. Sandstorm was given a right of first refusal on future stream and/or royalty financings related to the Khundii and Tsenkher Nomin licenses. On March 26, 2019, Erdene notified Sandstorm of its intention to buy-back 50% of the NSR Royalty. The Corporation intends to close this transaction in April of 2019.

Alliance with Teck Resources Limited

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

Between Q2 2013 and Q1 2017, Teck invested \$3 million, fulfilling its commitment under the Alliance. During this period, Teck did not elect to acquire direct interests in any Erdene projects explored. However, Teck maintains the right through to Q1 2020, to enter into joint venture agreements on certain properties explored under the Alliance.

Other

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

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

The Corporation must spend a total of USD\$600,000 by August 30, 2020 to have the right to purchase any (or all) of the remaining 49% of Leader Exploration LLC (Ulaan license). The Corporation can extend the option period beyond three years by incurring an additional USD\$100,000 per year on exploration work. If Erdene fails to incur the minimum expenditures, its 51% ownership interest will revert to Leader Exploration LLC.

Off-Balance Sheet Arrangements

As at December 31, 2018, the Corporation had no off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risks to the Corporation.

Critical Accounting Estimates

Estimate of recoverability for non-financial assets

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

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

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

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

Share-based payments

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured. The Corporation recognized a total of \$1,186,004 in non-cash share-based compensation in the twelve months ended December 31, 2018 (2017 - \$1,555,634).

Taxation

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

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

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

Adoption of New Accounting Standards

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

IFRS 9 – Financial Instruments

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

Future Changes in Accounting Policies

The following new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing Erdene's consolidated statements:

IFRS 16: Leases

On January 13, 2016, the IASB issued IFRS 16 Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. As the Corporation does not have significant lease commitments, Erdene will not see a material impact from the adoption of the standard.

Financial Instruments and Other Risks

Financial Instruments

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

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

Level 2: Inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.

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

Fair Value

During the periods ended December 31, 2018 and December 31, 2017, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following table provides the disclosures of the fair value of financial assets and liabilities and the level in the hierarchy.

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	\$ 1,748,249	\$ -	\$ -	\$ 3,225,202	\$ -	\$ -
Receivables		113,412			148,069	

Risks

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

Credit Risk

The Corporation manages credit risk by holding the majority of its cash and cash equivalents with a Canadian Schedule I bank, where management believes the risk of loss to be low. At December 31, 2018, \$66,342 or 4% of the balance of cash and cash equivalents was held in banks outside Canada (December 31, 2017 - \$113,555 or 4%).

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. As of December 31, 2018, the Corporation had a cash and cash equivalents balance of \$1,748,249 (December 31, 2017 - \$3,225,202) to settle current liabilities of \$224,387 (December 31, 2017 - \$191,600).

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

Foreign Currency Risk

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

The Corporation's exposure to US dollar currency risk was \$71,913 as at December 31, 2018 (December 31, 2017 - \$205,773). A 10% change in the US dollar exchange rate would affect net loss and comprehensive loss and deficit by approximately \$7,200 (December 31, 2017 - \$20,600).

The Corporation's exposure to Mongolian Tugrik currency risk was \$11,510 as at December 31, 2018 (December 31, 2017 - \$38,526). A 10% change in the Mongolian Tugrik would affect net loss and comprehensive loss and deficit by approximately \$1,200 (December 31, 2017 - \$3,900).

Price Risk

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

Disclosure Controls and Internal Controls over Financial Reporting

Erdene has established and maintains disclosure controls and procedures over financial reporting, as defined under the rules adopted by the Canadian Securities Regulators in instrument 52-109. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the design and effectiveness of Erdene's disclosure controls and procedures as of December 31, 2018 and have concluded that such procedures are adequate and effective to provide reasonable assurance that material information relating to Erdene and its consolidated subsidiaries would be made known to them by others within those entities to allow for accurate and complete disclosures in annual filings.

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

Management evaluated the design and effectiveness of Erdene's internal controls over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its report "Internal Control – Integrated Framework (2013)". This evaluation included reviewing controls in key risk areas, assessing the design of these controls, testing these controls to determine their effectiveness, reviewing the results and then developing an overall conclusion.

Based on management's evaluation, the CEO and the CFO have concluded that as of December 31, 2018, Erdene's internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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

Michael A. MacDonald, P. Geo. (Nova Scotia) is a qualified person under NI 43-101 and supervises all of the Corporation's exploration programs. Samples are assayed at SGS Laboratory in Ulaanbaatar, Mongolia or Tianjin China, Central Geological Laboratory in Ulaanbaatar, Blue Coast Research Ltd in 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 Michael A. MacDonald, P. Geo, who is not independent of the Corporation.

Other Information

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



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ANNUAL INFORMATION FORM

**For the Fiscal Year ended
December 31, 2018**

March 27, 2019

**ERDENE RESOURCE DEVELOPMENT CORPORATION
ANNUAL INFORMATION FORM**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for statements of historical fact, information contained, or incorporated by reference, herein constitutes “forward-looking information” and “forward-looking statements” within the meaning of applicable securities laws. Forward-looking information is often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “planned”, “expect”, “project”, “predict”, “potential”, “targeting”, “intends”, “believe”, and similar expressions, or describes a “goal”, or variation of such words and phrases or states that certain actions, events or results “may”, “should”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Statements relating to mineral resources are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the mineral resources described exist in the quantities predicted or estimated or that it will be commercially viable to produce any portion of such resources. Forward-looking statements and forward-looking information are not guarantees of future performance and are based upon a number of estimates and assumptions of management at the date the statements are made, including among other things, the future prices of gold, copper, silver and other metals, the price of other commodities such as coal, fuel and electricity, currency exchange rates and interest rates; favourable operating conditions, political stability, timely receipt of governmental approvals, licenses and permits (and renewals thereof); access to necessary financing; stability of labour markets and in market conditions in general; availability of equipment; the accuracy of mineral resource estimates, and of any metallurgical testing completed to date; estimates of costs and expenditures to complete our programs and goals and the speculative nature of mineral exploration and development in general, including the risk of diminishing quantities or grades of mineralization. Many of these assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies, and other factors that are not within the control of Erdene Resource Development Corp. (“**Erdene**” or the “**Corporation**”) and could thus cause actual performance, achievements, actions, events, results or conditions to be materially different from those projected in the forward-looking statements and forward-looking information.

Forward-looking information and forward-looking statements herein includes, but is not limited to: statements or information concerning the future financial or operating performance of Erdene and its business, operations, properties and condition, resource potential, including the potential quantity and/or grade of minerals, or the potential size of a mineralized zone, potential expansion of mineralization, the timing and results of future resource estimates, the timing of other exploration and development plans at Erdene’s mineral project interests, the amenability of mineralization to produce a saleable concentrate of sufficiently high enough grade and quality to be economic; changes in project parameters as plans continue to be refined; illustrative mine lives of the Corporation’s various mineral project interests, the proposed timing and amount of estimated future production.

Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Erdene to be materially different from any future results, performance or achievements expressed or implied. Such factors include, among others: the speculative nature of mineral exploration and development; liquidity concerns and the ability of Erdene to secure additional financing; changes to the Mongolian legal environment; the inability to obtain or renew licenses, leases or permits; the lack of infrastructure in the areas where the Corporation operates; liability for accidents, pollution and other hazards for which the Corporation is unable to obtain insurance; conflicts of interest between the interests of the Corporation’s directors and officers and the Corporation; changes in the exchange rates between the local currency of Mongolia, the U.S. dollar, and the Canadian dollar; changes in the market price for metals; evolving environmental and regulatory requirements; the loss of or inability to recruit key personnel; changes in Mongolian and Canadian political conditions; increased competition for mineral development properties; and the inherent risks involved in the exploration, development and mining business in general.

Although the Corporation has attempted to identify important factors that could cause actual performance, achievements, actions, events, results or conditions to differ materially from those described in forward-looking statements or forward-looking information, there may be other factors that cause performance, achievements, actions, events, results or conditions to differ from those anticipated, estimated or intended. Further details relating to many of these factors is discussed in the section entitled “Risk Factors” in this AIF.

Forward-looking statements and forward-looking information contained herein are made as of the date of this AIF and the Corporation disclaims any obligation to update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events, or results or otherwise, except as required by applicable law. There can be no assurance that forward-looking statements or forward-looking information will prove to be accurate, as actual

results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements or forward-looking information. All forward-looking statements and forward-looking information attributable to us is expressly qualified by these cautionary statements.

CAUTIONARY NOTE TO UNITED STATES INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES

Information in this AIF, including any information incorporated by reference, and disclosure documents of Erdene that are filed with Canadian securities regulatory authorities concerning mineral properties have been prepared in accordance with the requirements of securities laws in effect in Canada, which differ from the requirements of United States securities laws.

Without limiting the foregoing, these documents use the terms “measured resources”, “indicated resources” and “inferred resources”. Shareholders in the United States are advised that, while such terms are defined in and required by Canadian securities laws, the United States Securities and Exchange Commission (the “SEC”) does not recognize them. Under United States standards, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It is reasonably expected that the majority of inferred mineral resources could be upgraded to indicated mineral resources with continued exploration; however, there is no certainty that these inferred mineral resources will be converted into mineral reserves, once economic considerations are applied. Under Canadian rules inferred mineral resources must not be included in the economic analysis, production schedules, or estimated mine life in publicly disclosed Pre-Feasibility or Feasibility Studies, or in the Life of Mine plans and cash flow models of developed mines. Inferred Mineral Resources can only be used in economic studies as provided under National Instrument 43-101. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically. Disclosure of contained ounces is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report resources as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization and resources contained in these documents may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC.

PRELIMINARY NOTES

Throughout this Annual Information Form (“AIF”) Erdene Resource Development Corporation is referred to as “Erdene”, the “Corporation” or the “Company”. All information is given as at December 31, 2018, unless stated otherwise.

Currency and Exchange Rates

All currency references in this AIF are in Canadian dollars unless otherwise indicated. Reference to “United States dollars” or “U.S. dollars” or the use of the symbol “US\$” refer to United States dollars. The closing rate of exchange reported by the Bank of Canada for the conversion of Canadian dollars into United States dollars on March 27, 2019 was \$1.00 = US\$0.7455 (US\$1.00 = Cdn\$1.3414) and on December 31, 2018 was \$1.00 = US\$0.7336 (US\$1.00 = Cdn\$1.3631).

Measurements and Frequently Used Abbreviations and Acronyms

Amounts in this AIF are generally in metric units. Conversion rates from Imperial measure to metric, and from metric to Imperial are provided below:

Imperial Measure	=	Metric Unit	Metric Measure	=	Imperial Unit
2.47 acres		1 hectare ("ha")	0.4047 hectares		1 acre
3.28 feet		1 metre ("m")	0.3048 metres		1 foot
0.62 miles		1 kilometre ("km")	1.609 kilometres		1 mile
35.315 cubic feet		1 cubic metre	0.0283 cubic metres		1 cubic foot
0.032 ounces (troy)		1 gram ("g")	31.103 grams		1 ounce (troy)
1.102 tons (short)		1 tonne ("t")	0.907 tonnes		1 ton
0.029 ounces (troy/ton)		1 gram/tonne ("g/t")	34.28 grams/tonne		1 ounce (troy/ton)

All ounces are troy ounces. 14.58 troy ounces equal one pound (containing 16 Imperial ounces).

Measurements and amounts in this AIF have been rounded to the nearest two decimal places.

Financial Statements and Management Discussion and Analysis

This AIF should be read in conjunction with the audited consolidated financial statements of Erdene for the year ended December 31, 2018 (the “**Audited Financial Statements**”), and the accompanying management’s discussion and analysis (“**MD&A**”) for that year. Unless otherwise indicated, financial information contained in this AIF is presented in accordance with International Financial Reporting Standards (“**IFRS**”). The Audited Financial Statements and MD&A are available at www.erdene.com and on SEDAR at www.sedar.com.

Standard Resource and Reserve Reporting System

National Instrument 43-101 *Standards of Disclosure for Mineral Projects*, Companion Policy 43-101CP and Form 43-101F1 (collectively, “**NI 43-101**”) are a set of rules developed by the Canadian Securities Administrators, which has established standards for all public disclosure an issuer makes of “scientific and technical information” concerning mineral projects (“**Technical Information**”). Unless otherwise indicated, all Technical Information, including resource estimates attributable to Erdene’s property interests contained in this AIF, and including any information contained in certain documents referenced in this AIF, has been prepared in accordance with NI 43-101, and applicable standards of the Canadian Institute of Mining, Metallurgy and Petroleum Standing Committee on Reserve Definitions (the “**CIM Standards**”).

Material Property Interest

As at December 31, 2018 and March 27, 2019, the Corporation holds an interest in two mineral properties considered to be material within the meaning of applicable Canadian securities laws:

Property Name	Ownership Entity	% Interest
Altan Nar	Erdene Mongol LLC	100%
Bayan Khundii	Erdene Mongol LLC	100%

Erdene intends to develop these properties concurrently, and throughout this AIF, will refer to the combined properties as the “Khundii Gold Project”. See the discussion in this AIF under the heading “Mineral Properties - Khundii Gold Project” for a summary of, and Technical Information for, these properties.

Technical Disclosure

Unless otherwise indicated, Erdene has prepared the Technical Information in this AIF based on information contained in the technical reports and news releases (collectively the “**Disclosure Documents**”) available under Erdene’s company profile on SEDAR at www.sedar.com. The Disclosure Documents are each intended to be read as a whole, and sections should not be read or relied upon out of context. The Technical Information is subject to the assumptions and qualifications contained in the Disclosure Documents.

Each of the Corporation's Disclosure Documents was prepared by or under the supervision of a Qualified Person. Readers are encouraged to review the full text of the Disclosure Documents which qualifies the Technical Information.

The following document is incorporated by reference into this AIF:

- "NI 43-101 Technical Report for the Preliminary Economic Assessment of the Khundii Gold Project" dated February 4, 2019 prepared by Igor Bojanic, Head of Metals – Australasia, Russia and CIS, North Sydney, Australia, RPMGlobal; Jeremy Clark, Principal Geologist, Hong Kong, RPMGlobal Asia Ltd; Tony Cameron, Consulting Geologist, Beijing, China, RPMGlobal; Richard Addison, Principal Process Engineer, Littleton, CO, USA, RPMGlobal; and Andrew Kelly, Senior Manager and Senior Metallurgist, Parksville, BC, Canada, Blue Coast Research Ltd. (the "February 2019 Khundii Gold Project PEA Report")

With the exception of the deposits listed immediately below, any inferences disclosed in the AIF of potential quantity and grade at Erdene's exploration property interests are conceptual in nature, and there has been insufficient exploration to date to define a mineral resource:

- Altan Nar gold-polymetallic deposit ("Altan Nar") in southwest Mongolia;
- Bayan Khundii gold deposit ("Bayan Khundii") in southwest Mongolia; and
- Khundii Gold Project (aggregate of the Altan Nar and Bayan Khundii deposits)

It is uncertain if further exploration will result in other targets at these projects, or any of the Corporation's other mineral property interests, being delineated as a mineral resource.

Mineral resource estimates contained herein are only estimates and no assurance can be given that any particular level of recovery of minerals will be realized or that an identified resource will ever qualify as a commercially mineable or viable deposit which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from the one indicated by drilling results and the difference may be material. The estimated resources described herein should not be interpreted as assurances of mine life or of the profitability of future operations. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability.

Mr. Michael MacDonald, P. Geo., Vice President Exploration Erdene, and a Qualified Person, has reviewed and approved the Technical Information in this AIF.

CORPORATE STRUCTURE

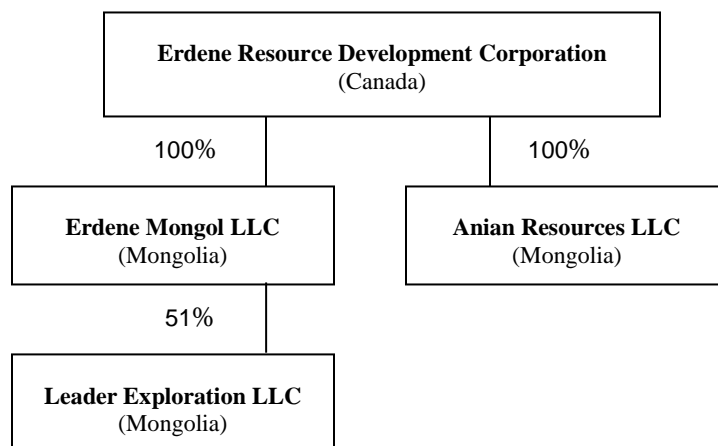
Name, Incorporation and Office

The Corporation was incorporated under the *Canada Business Corporations Act* on June 27, 2000, as "3779751 Canada Inc." On February 18, 2003, the Corporation changed its name to "Erdene Gold Inc." and on May 29, 2008, the Corporation changed its name to "Erdene Resource Development Corporation".

The Corporation's head office is located at 99 Wyse Road, Suite 1480, Dartmouth, Nova Scotia, Canada B3A 4S5, and its registered office is located at 1300 – 1969 Upper Water Street, Halifax, Nova Scotia, Canada B3J 2V1. The Corporation also has an office in Ulaanbaatar, Mongolia.

Intercorporate Relationships

The following chart depicts the corporate structure of the Corporation as at December 31, 2018 and March 27, 2019, together with the jurisdiction of incorporation of each of the Corporation's subsidiaries and the percentage of the votes attached to all voting securities of the subsidiary beneficially owned by the Corporation.



GENERAL DEVELOPMENT OF THE BUSINESS

General

Erdene was incorporated in June 2000, to explore and develop gold, copper, molybdenum, uranium and coal deposits in Mongolia. The Corporation commenced trading on the TSX Venture Exchange on March 16, 2004 and on December 14, 2005, Erdene was granted a senior listing and began trading on the Toronto Stock Exchange (“**TSX**”) (TSX - ERD). On June 19, 2018, Erdene commenced trading on the Mongolian Stock Exchange, becoming the first cross-listed company.

The Corporation currently holds four mineral exploration licenses (Tsenkher Nomin, Khundii, Burgast and Ulaan) covering 11,820 hectares and one mining license (Khuvyn Khar) covering 6,041 hectares. All of the Corporation’s licenses are registered in the name of the Corporation’s subsidiaries (Erdene Mongol LLC, Anian Resources LLC and Leader Exploration LLC). The Corporation holds a 100% interest in the Tsenkher Nomin, Khundii, Burgast and Khuvyn Khar licenses and a 51% interest in the Ulaan exploration license, with the right to acquire the remaining 49%. The Corporation's principal projects are the Bayan Khundii Gold Project (located on the Khundii license) and the Altan Nar Gold-Polymetallic Project (located on the Tsenkher Nomin license), which together form the Khundii Gold Project.

On April 11, 2013, the Corporation entered a strategic alliance (“**Alliance**”) with Teck Resources Limited (“**Teck**”), to fund the exploration of Erdene’s mineral tenements in the Trans Altai region of southwest Mongolia, excluding the Khundii, Tsenkher Nomin and Khuvyn Khar Licenses. Under the terms of the Alliance, Teck invested a total of \$3 million into Erdene and holds approximately 8% of the Corporation’s outstanding shares as at March 27, 2019. The Alliance exploration program has been completed and no designated projects have been identified. However, Teck maintains the right, through Q1 2020, to participate in the exploration of certain properties previously prospected under the Alliance.

The following is a summarized history of the development of the business over the past three years.

Khundii Gold Project

Erdene’s primary focus is the Khundii Gold Project, comprised of the high-grade Bayan Khundii and Altan Nar deposits, located 16 kilometres apart. On May 10, 2018, Erdene released an updated mineral resource estimate for the Altan Nar deposit. The technical report titled “Altan Nar Gold Project National Instrument 43-101 Mineral Resource Technical Report” was prepared by RPMGlobal Asia Ltd. (“**RPM**”) and dated June 22, 2018. The Corporation reported an Indicated

Resource of 317,700 oz of gold averaging 2.0 g/t gold and Inferred Resource of 185,700 oz gold averaging 1.7 g/t gold, within a total resource of 5.0 million tonnes (“Mt”) Indicated and 3.4 Mt Inferred.

On September 18, 2018, a maiden resource estimate was announced for the Bayan Khundii Gold Project. The technical report titled “Bayan Khundii Gold Project National Instrument 43-101 Mineral Resource Technical Report”, was prepared by RPM and dated November 2, 2018. The Corporation reported a total Measured and Indicated Resource of 433,000 oz of gold at an average grade of 2.6 g/t gold and an Inferred Resource of 105,000 oz gold at an average grade of 1.9 g/t gold within a resource totaling 5.1 Mt Measured and Indicated and 1.8 Mt Inferred.

Aggregate resources for the Khundii Gold Project total 751,000 ounces gold at an average grade of 2.3 g/t gold, Measured and Indicated and 291,000 ounces gold at an average grade of 1.8 g/t gold, Inferred, within a resource totaling 10.1 Mt Measured and Indicated and 5.2 Mt Inferred.

On December 18, 2018, Erdene announced the results of a Preliminary Economic Assessment (“PEA”) Study for the Khundii Gold Project. The technical report titled “NI 43-101 Technical Report for the Preliminary Economic Assessment of the Khundii Gold Project” was prepared by RPM and dated February 4, 2019. Highlights of the report are as follows:

- After-tax Net Present Value at a 5% discount rate (“NPV5%”) and a US\$1,200/ounce (“oz”) gold price of US\$99 million and Internal Rate of Return (“IRR”) of 56%
- Pre-tax NPV5% of US\$135 million and IRR of 70%
- Initial capital expenditure of US\$32 million, using a contract mining fleet
- All-in sustaining cash cost (“AISC”) of US\$714/oz of gold recovered
- Life of mine (“LOM”) head grade of 3.42 g/t gold
- Average annual gold production of 51,200 oz and total LOM production of 412,000 oz
- Mine life of eight years plus one-year pre-production and two-year mine closure periods
- A payback of two years

The February 2019 Khundii Gold Project PEA Report is incorporated into this AIF by reference.

Ulaan Project Option Agreement

On August 30, 2017 the Corporation acquired a 51% interest in the 1,780 hectare Ulaan exploration license (“Ulaan Property”), situated immediately adjacent its Khundii license, held by Leader Exploration LLC for US\$750,000. Provided the Corporation spends a minimum of US\$600,000 on work expenditures on the Ulaan Property over a three-year period, it has the right to acquire the remaining 49% of the shares of Leader or, at the Corporation’s option, a portion of the Ulaan Property, for the then fair market value of the Ulaan Property or the portion to be acquired. The Corporation may extend the option beyond three years by spending a minimum of US\$100,000 per annum on work expenditures thereafter.

Sandstorm Gold Ltd.

On April 21, 2016 the Corporation closed concurrent transactions with Sandstorm Gold Ltd. (“Sandstorm”) for total consideration of \$2,500,000. In the first transaction Sandstorm was granted a 2% net smelter returns royalty (“NSR Royalty”) on Erdene’s Tsenkher Nomin and Khundii licenses in exchange for 321,888 shares of Sandstorm with a value of \$1,500,000. The second transaction was the issuance of 5 million Common Shares from Erdene’s treasury to Sandstorm at \$0.20 per share for \$1,000,000 in cash consideration. The Common Shares issued to Sandstorm were subject to an 18-month hold period that expired October 14, 2017. Erdene has a 3-year option to buy-back 50% of the NSR Royalty for \$1.2 million, to reduce the NSR Royalty to 1.0%, that expires April 14, 2019. Sandstorm was given a right of first refusal on future stream and royalty financings related to the Khundii and Tsenkher Nomin licenses. On March 26, 2019, Erdene notified Sandstorm of its intention to buy-back 50% of the NSR Royalty. The Corporation intends to close this transaction in April of 2019.

Financing

The Corporation's activities have been financed through the issuance and sale of securities of the Corporation by way of private placement, asset sale, royalty sale, investments, its initial public offering in March 2004, and joint venture funding.

On June 14, 2018, Erdene launched a secondary listing of its Common Shares on the Mongolian Stock Exchange (“MSE”) and closed the associated offering of 4,000,000 Common Shares to Mongolian residents, becoming the first company cross-listed on the Toronto and Mongolian stock exchanges.

Expected Changes to the Business

As of the date of this AIF, management of the Corporation do not expect any material changes to the business; however, as is typical of the mineral exploration and development industry, from time to time Erdene reviews potential merger, acquisition, investment and joint venture transactions and opportunities that could enhance shareholder value. Furthermore, there can be no assurance that the results of exploration or development programs planned or underway will not result in material changes to the scientific and technical information contained herein. Accordingly, readers of this AIF are urged to read the press releases issued by Erdene once they become available on SEDAR, for full and up-to-date information concerning the Corporation’s business and its material exploration property interests.

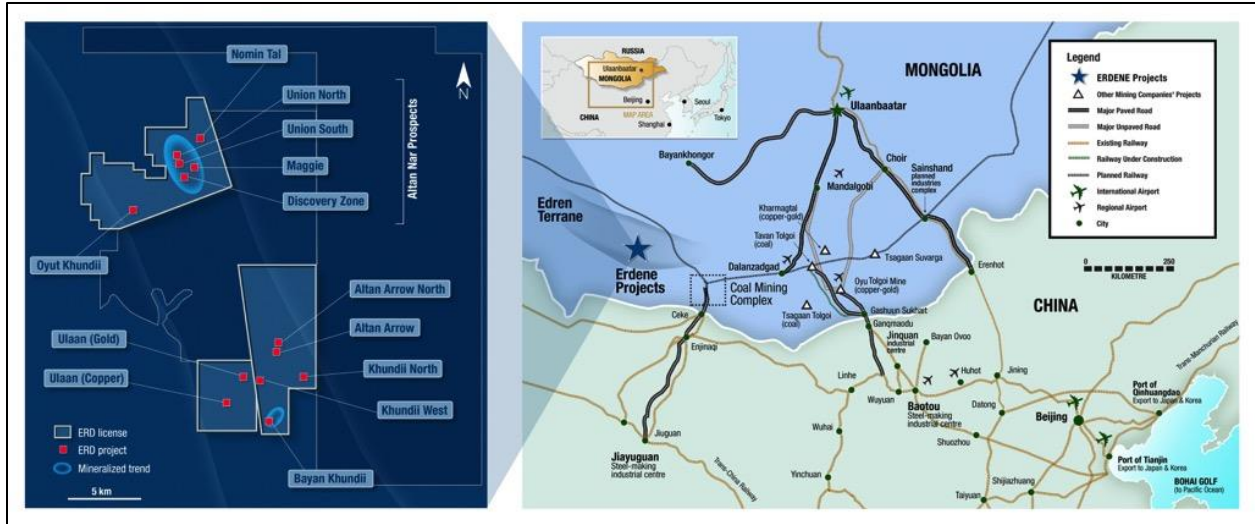
Significant Acquisitions

Erdene did not make any significant acquisitions during the financial year ended December 31, 2018 that would require the Corporation to file a Form 51-102F4 Business Acquisition Report under Part 8 of National Instrument 51-102 - Continuous Disclosure Obligations (“NI 51-102”).

DESCRIPTION OF THE BUSINESS

The primary business of the Corporation is the acquisition, exploration and development of precious and base mineral deposits in underexplored and highly prospective Mongolia.

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



In December 2018, Erdene announced a positive Preliminary Economic Assessment (“PEA”) study for the Khundii Gold Project, comprised of its Bayan Khundii and Altan Nar deposits. Prepared by RPM, this independent study confirmed the high-return, low-capital and low-operating potential of the project, that will form the cornerstone development in the emerging Khundii Gold District. Details of the PEA are included in the February 2019 Khundii Gold Project PEA Report.

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

THE CORPORATION'S OBJECTIVES AND STRATEGY

Erdene is focused on creating shareholder value through the discovery, acquisition and development of high-quality, base and precious metal projects in regions where the Company has a competitive advantage. The following forms the basis of the Corporation's strategy:

Geographic and Commodity Focus

- The CAOB contains highly prospective terranes for the discovery of base and precious metal deposits. The CAOB trends across the southern portion of Mongolia.
- Due to its relative isolation prior to 1990, Mongolia did not receive significant modern exploration, particularly in the remote southern part of the country, which has the potential for the discovery of world-class deposits.
- Over the past 20 years, economic growth in China and the related interest in resource development has fueled mineral exploration and development in southern Mongolia leading to a build-up of infrastructure in the southern part of the country.
- Mongolia hosts the world-class Oyu Tolgoi gold-copper deposit. This project is now in production along with several other precious, base metal and coal deposits, resulting in the development of an experienced workforce and significant upgrade of local infrastructure.
- Erdene’s founders and executive were members of the first western-financed team to carry out regional exploration in Mongolia during the mid to late 1990’s.
- The Corporation has an experienced in-country management team with strong working relationships at all levels in Mongolia with a proven ability to discover precious and base metal deposits in the region.

- Precious metals (gold and silver) are priority commodities for the Corporation based on opportunities in the region and supply and demand factors which support future price increases:
 - Central bank precious metal purchases historically increase in periods of economic uncertainty and rising sovereign debt levels;
 - Individual investor demand is influenced by geopolitical and economic instability, population growth and urbanization and wealth creation in the largest gold consuming regions; and
 - Gold production is plateauing as the discovery of large deposits becomes increasingly difficult and those that are found are of rapidly declining grade.
- The Corporation's precious metals exploration is focused on large, high-grade bulk tonnage, open-pit mineable resources with modest processing costs.
- Copper remains the Corporation's highest priority industrial metal due to supply issues facing the sector and increasing demand resulting from the urbanization of the world's population.

Project and Corporate Plans

The Corporation has defined a new gold district and is advancing its exploration projects in the region through the technical, environmental and socio-economic studies required for production. Concurrently, Erdene continues to explore gold and copper prospects in the region to create additional stakeholder value.

The Corporation is focused on the following near and long-term goals:

- Complete a Pre-Feasibility Study on the Khundii Gold Project to further assess the viability of the Project, and carry out the studies required to obtain mining and operating licenses for development;
- Develop the Khundii Gold Project and produce at least 50,000 ounces per year;
- Expand production at the Khundii Gold Project to more than 100,000 ounces per year with the identification of further on-license resources;
- Carry out exploration on the Ulaan license to determine the mineralization potential of this property;
- Participate in tenders for high priority targets released by Mongolia's Ministry of Mining and Heavy Industry;
- Maintain a pipeline of opportunities by exploring current properties and acquiring new projects;
- Continue to develop management, technical, administrative and community development teams;
- Secure a partner for the Zuun Mod Molybdenum-Copper Project with the financial and technical capability to move towards development.

Social and Environmental Policies

Erdene is committed to improving the lives of those who work for, partner with and host the Corporation in their communities. The Corporation prioritizes hiring locally and supports local community development projects.

Erdene's sustainable development program is driven by a philosophy of capacity building, particularly in rural southwest Mongolia. The Corporation prioritizes funding for education, health and secure livelihoods. Erdene employs a full-time representative to work directly with local government officials, community members, school and hospital officials.

Mongolia has a well-preserved and unique ecology and the Corporation is committed to the highest standards of environmental stewardship. While the Corporation does not currently have mining operations in Mongolia, its objective is to minimize its environmental footprint. The Corporation files an environmental protection and reclamation plan with the Governor of each district in which it operates and works to ensure those plans exceed requirements.

In February 2016, the Corporation joined seven other mining and exploration companies working in Mongolia in signing a voluntary Code of Practice related to water management practices, facilitated by the International Finance Corporation.

The initiative was supported by the Government of Canada, the 2030 Water Resources Group, the European Bank for Reconstruction and Development, and the International Council on Mining and Metals. The Code of Practice requires mining companies to publicly report water risks and management practices, support training and awareness-raising on groundwater protection, and involve impacted communities in monitoring a mining company's water performance.

Competitive Conditions

The Corporation's business is intensely competitive, and the Corporation competes with other exploration, development, and mining companies, many of which have greater resources and experience. As described in this AIF, under "Risk Factors", competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and operated economically and the capital for the purpose of financing development of desired properties.

In addition, this competition may impact the Corporation's ability to recruit or retain qualified employees with the technical expertise to find, develop, or operate such properties. Erdene believes that its success is dependent on the performance of its management and key employees, many of whom have specialized knowledge and skills relating to the precious metals exploration business. The Corporation believes it has adequate personnel with the specialized skills required to successfully carry out its operations.

Employees

The Corporation employed nine (full and part-time) Canadian employees at the end of 2018, with four of these employees splitting time between Canada and Mongolia. The Corporation had a further 13 (full and part-time) employees in Mongolia at the end of 2018.

RISK FACTORS

An investment in securities of the Corporation involves a significant degree of risk and must be considered highly speculative due to the nature of the Corporation's business and the present stage of exploration and development of its mineral property interests. There are a number of risks that may have a material and adverse impact on the future operating and financial performance of Erdene and could cause the Corporation's operating and financial performance to differ materially from the estimates described in forward-looking statements related to the Corporation.

The risks set out below are not the only risks facing the Corporation. There are widespread risks associated with any form of business and specific risks associated with Erdene's business and its involvement in the gold exploration and development industry.

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits, which, though present, are insufficient in quantity or quality to return a profit from production. **Shareholders of Erdene may lose their entire investment.**

In addition to the other information set forth elsewhere in this AIF, the following risk factors should be carefully reviewed by prospective investors. These risks may not be the only risks faced by Erdene. Risks and uncertainties not presently known by Erdene or which are presently considered immaterial may also adversely affect Erdene's business, properties, results of operations and/or condition (financial or otherwise). **If any of the following risks actually occur, Erdene business, financial condition, results and prospects could be adversely affected.**

Additional risks and uncertainties not presently known to Erdene or those that are currently deemed immaterial may also impair the Corporation's business operations. If any such risks actually occur, the business, financial condition and operating results of the Corporation could be materially harmed. All references to "Erdene" or the "Corporation" in this section entitled "Risk Factors" include Erdene and its subsidiaries and joint ventures, except where the context otherwise requires. Before making an investment decision, prospective investors should carefully consider the risks and uncertainties herein, as well as the other information contained in the Corporation's public filings.

Mongolia is still considered to be an emerging market. Many of the Risk Factors identified in this AIF reflect risks and characteristics unique to operating in an emerging market.

Speculative Nature of Mineral Exploration and Development

Development of the Corporation's mineral exploration properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when an issuer's properties are in the exploration phase as opposed to the development phase. There is no assurance that commercial quantities of ore will be discovered on any of the Corporation's exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production.

The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years may elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Corporation.

Liquidity Concerns and Future Financings

The further development and exploration of the various mineral properties in which the Corporation holds interests depends upon the Corporation's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Corporation will be successful in obtaining required financing as and when needed. Volatile markets for precious and base metals may make it difficult or impossible for the Corporation to obtain debt financing or equity financing on favourable terms or at all. Some of the Corporation's operations are in a region of the world that is prone to economic and political upheaval, which may make it more difficult for the Corporation to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause the Corporation to postpone any development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

Mongolian Legal Environment

Since 1990, Mongolia has been in transition from state socialism and a planned economy to a political democracy and a free market economy. Much progress has been made in this transition but much progress remains to be made, particularly with respect to the rule of law. Many laws have been enacted, but in many instances, they are not well understood or enforced. For decades Mongolians have looked to politicians and bureaucrats as the sources of the "law". This has changed in theory, but often not in practice. With respect to most day-to-day activities in Mongolia, government civil servants interpret, and often effectively interpret the law. This situation is gradually changing but at a relatively slow pace. Laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable.

As a sign of improving legal environment for investment, Canada and Mongolia signed the Canada-Mongolia Foreign Investment Promotion and Protection Agreement (FIPA) on September 8, 2016, which will provide a more transparent and predictable regulatory environment for Canadian investors in Mongolia. On March 7, 2017, Canada's Minister of International Trade, François-Philippe Champagne, officially announced the entry into force of the FIPA.

The ability of the Corporation to conduct mining operations or exploration and development activities in Mongolia is subject to changes in legislation or government regulations or shifts in political attitudes beyond its control.

Due to inconsistencies between Mongolian and Canadian Securities Laws, in the event of a take-over bid the Corporation shall observe Canadian Law, whereby if 90% or more of the outstanding shares are taken up, the acquirer can squeeze-out the minority and force the remaining shares to be sold. Certain other major M&A transactions can be implemented with approval of two-thirds of the shares voted on the transaction, subject to minority shareholder approval requirements if it's a related party transaction.

Licenses, Leases and Permits

The Corporation has investigated its rights to explore and exploit its various properties and, to the best of its knowledge, those rights are in good standing but no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of the Corporation. There can also be no assurance that the Corporation's rights will not be challenged or impugned by third parties.

The Corporation's exploration licenses are subject to periodic renewal. While the Corporation anticipates that renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. The Corporation's business objectives may also be impeded by the costs of holding its mineral licenses. License fees in Mongolia for mineral exploration licenses increase substantially upon renewal. The Corporation will need to continually assess the potential of each mineral exploration license, particularly when it must be renewed, to determine if the costs of maintaining the mineral exploration license are justified by the exploration results to date, and will likely need to let some of its mineral exploration licenses lapse.

Lack of Infrastructure

The Corporation's Mongolian exploration properties are located in remote areas which lack basic infrastructure, including sources of power, water, housing, food and transport. The Corporation will need to hire personnel, establish facilities and otherwise establish an exploitation infrastructure before it can commence operations. The Corporation will also need to engage expatriate workers where there is a shortage of locally trained personnel. In addition, the Corporation will need to establish the facilities and material necessary to support operations in the remote locations in which the Corporation's exploration properties are situated. The inability to make suitable arrangements may delay the conduct of the Corporation's exploration/exploitation program and prevent the Corporation from meeting its stated business objectives. The remoteness of certain of the Corporation's exploration properties will also affect the potential viability of mining operations, as the Corporation will also need to establish substantially greater sources of power, water, physical plant and transport infrastructure in the area before it could conduct mining. The unavailability of such sources may adversely affect mining feasibility and will, in any event, require the Corporation to arrange significant financing, locate adequate supplies and obtain necessary approvals from national, provincial and regional governments, none of which can be assured.

Uninsurable Risks

The Corporation may become subject to liability for accidents, pollution and other hazards against which it cannot insure or against which it may elect not to insure because of premium costs or for other reasons, or in amounts which exceed policy limits. The impact of any uninsured liabilities would likely have a material adverse effect on the financial position of the Corporation.

Conflict of Interest

Certain of the directors and officers of the Corporation are directors or officers of, or have significant shareholdings in, other mineral resource companies and, to the extent that such other companies may participate in ventures in which the Corporation may participate, the directors of the Corporation may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with the Corporation for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director or officer who has such a conflict is required to disclose the conflict to a meeting of the directors of the Corporation and, if the conflict involves a director, the director is required to abstain from voting for or against the approval of such a participation or such terms. In appropriate cases, the Corporation will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict.

Currency Risk

The Corporation's operations incur most expenditures in the local currency of Mongolia ("MNT") and in U.S. dollars, while most of the funds it raises are Canadian dollars. This renders the Corporation subject to foreign currency fluctuations which may materially affect its financial position and operating results.

Volatile Metals Prices

The mining industry is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of the same. There can be no assurance that metals prices will be such that the Corporation's properties can be mined at a profit. Factors beyond the control of the Corporation may affect the marketability of any minerals discovered. Metals prices are subject to volatile price changes from a variety of factors including international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of, and demand for, the Corporation's principal exploration targets, precious and base metals, is affected by various factors, including political events, economic conditions and production costs.

Environmental and Regulatory Requirements

The Corporation's operations are subject to environmental regulations in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's operations.

Government approvals and permits are required in connection with the Corporation's operations. To the extent such approvals are required and not obtained, the Corporation may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in capital expenditures or require abandonment or delays in development of new mining properties.

Key Personnel

Recruiting and retaining qualified personnel is critical to the Corporation's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Corporation's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although the Corporation believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Political Instability

The Corporation holds mineral interests in Mongolia that may be affected in varying degrees by political stability, government regulations relating to the mining industry and foreign investment therein, and the policies of other nations in respect of Mongolia. Any changes in regulations or shifts in political conditions are beyond the control of the Corporation and may adversely affect its business. The Corporation's operations may be affected in varying degrees by government regulations, including those with respect to restrictions on the mining industry generally, production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. The regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. The Corporation's operations may also be affected in varying degrees by political and economic instability, economic or other sanctions imposed by other nations, terrorism, military repression or adventurism, civil unrest, crime, extreme fluctuations in currency exchange rates and high inflation.

Inherent Risks

Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimize risk, there is a possibility of a material adverse impact on the Corporation's operations and its financial results.

Competition

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, the Corporation may be unable to acquire rights to explore additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Corporation will acquire any additional exploration properties.

MINERAL PROPERTIES

The Corporation is involved in mineral exploration in Mongolia where it holds several projects at various stages of exploration. Two of the Corporation's projects are considered material properties to the Corporation; the Bayan Khundii Gold Project and the Altan Nar Gold-Polymetallic Project – together the Khundii Gold Project. This project is described below. The remaining properties of the Corporation are in a relatively early stage or are not material.

Khundii Gold Project

Except as otherwise stated herein, the following disclosure relating to the Khundii Gold Project is based on information derived from, or extracted from, the technical report prepared by RPM for the Khundii Gold Project entitled “NI 43-101 Technical Report for the Preliminary Economic Assessment of the Khundii Gold Project”, dated February 4, 2019, prepared in accordance with NI 43-101. The authors of the February 2019 Khundii Gold Project PEA Report are independent of Erdene and are independent “Qualified Persons” (as defined by NI 43-101). See in this AIF, “Interests of Experts”.

Readers are directed to and encouraged to review the February 2019 Khundii Gold Project PEA Report, which can be reviewed in its entirety under the Corporation’s profile on SEDAR at www.sedar.com and which qualifies the following disclosure. The following summary is not exhaustive. The February 2019 Khundii Gold Project PEA Report is intended to be read as a whole, and sections should not be read or relied upon out of context. The February 2019 Khundii Gold Project PEA Report contains the expression of the professional opinion of the Qualified Persons based upon information available at the time of preparation of the February 2019 Khundii Gold Project PEA Report. The following disclosure, which is derived from the February 2019 Khundii Gold Project PEA Report, is subject to the assumptions and qualifications contained in such report.

The executive summary section of the February 2019 Khundii Gold Project PEA Report is reproduced below. Portions of the following information are based on assumptions, qualifications and procedures which are not fully described in the summary. Reference should be made to the full text of the February 2019 Khundii Gold Project PEA Report, which is incorporated by reference herein. All capitalized terms used in the summary below that are not otherwise defined shall have the meanings ascribed thereto in the February 2019 Khundii Gold Project PEA Report.

EXECUTIVE SUMMARY

1.1 Introduction

RPM Asia Limited (“RPM”), was requested by Erdene Resource Development Corporation (“Erdene”, or the “Company”) to complete a Preliminary Economic Assessment Technical Report (“PEA” or the “Report”) for the Khundii Gold Project (“KGP” or the “Project”). This Report has been prepared in accordance with the requirements of ‘Canadian National Instrument 43-101’ (“NI 43-101”) of the Canadian Securities Administrators.

This Report discloses a first-time release of a PEA by Erdene for the Khundii Gold Project. It follows on from the technical reports, “Bayan Khundii Gold Project Mineral Resource Technical Report”, dated November 1, 2018 and “Altan Nar Gold Project Mineral Resource Technical Report”, dated June 21, 2018, which provided Mineral Resource estimates for the Project. Both reports were authored by RPM. The content of these reports is largely current.

This PEA is preliminary in nature. It includes Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is no certainty that the PEA will be realized. This Technical Report also includes technical information which requires subsequent calculations or estimates to derive sub-totals, totals, and weighted averages. Such calculations or estimations involve a degree of rounding, and as a result introduce a margin of error, which is typical at the PEA level.

Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability but meet the requirement of having a reasonable prospect for eventual economic extraction.

1.2 Property Description and Ownership

The Project is in Bayankhongor Aimag, Southwest Mongolia and involves the synergistic development of the Bayan Khundii and Altan Nar deposits as the Khundii Gold Project. The Bayan Khundii and Altan Nar areas are 16 km apart and located on two separate exploration licenses.

The Project is located approximately 980 km southwest of Ulaanbaatar and 300 km south of the Aimag capital, Bayankhongor City. The nearest towns (soum centres) are Shinejinst and Bayan Undur, located 70 km northeast and 80 km north, respectively. The Project is also located 40 km west of Erdene's Zuun Mod molybdenum-copper deposit. The area is sparsely populated with nomadic pastoral activity being the main industry.

The Bayan Khundii deposit is located on the Khundii exploration license which is 100% held by Erdene Mongol LLC, a wholly owned subsidiary of Erdene. It was first acquired in April of 2010 and hence is currently in its ninth year of issue. Exploration licenses in Mongolia are renewed annually with a maximum tenure of 12 years before needing to be converted to a Mining License or relinquished.

The Altan Nar deposit is located on the Tsenkher Nomin license which is 100% held by Erdene Mongol LLC. The original Tsenkher Nomin license (XV-015356) was issued in 2009 and in 2012, Erdene split the original license into two separate licenses. The current license (also called Tsenkher Nomin, number XV-016956) is the focus of the Mineral Resource estimate and mine planning. The Tsenkher Nomin exploration license is currently in its tenth year of issue.

The Khundii and Tsenkher Nomin exploration licenses are subject to a 2% Net Smelter Return royalty agreement with Sandstorm Gold Ltd. Erdene may buy-back 50% of the NSR Royalty for CDN \$1.2 million and reduce the Sandstorm NSR Royalty to 1.0% at any time prior to April 2019. RPM is not aware of any environmental liabilities to which the properties are subject.

1.3 Geological Setting and Exploration

The Project is located within Trans Altai Terrane, part of the Central Asian Orogenic Belt along the southern margin of Mongolia, including the border with China. This region is host to the Oyu Tolgoi copper-gold porphyry mine to the east and the Tian Shan Gold Belt to the west. The Trans Altai Terrane is located immediately south of the Main Mongolian Lineament that separates the dominantly Precambrian and Lower Paleozoic terranes to the north from the dominantly Upper Paleozoic terranes to the south. The Trans Altai Terrane consists mostly of Middle Paleozoic volcanic, sedimentary and metasedimentary rocks that were intruded by Middle Paleozoic calc-alkaline and alkaline plutons.

1.3.1 *Bayan Khundii*

The bedrock geology of the Khundii license is dominated by a sequence of Devonian and/or Carboniferous volcanic (andesite, andesite porphyry) and pyroclastic rocks (ash, lapilli, and block and ash tuffs). These were intruded by Carboniferous intrusions, with these rocks unconformably overlain by Jurassic volcanic and sedimentary units. All rocks in the region are overlain by unconsolidated sediments of Quaternary or Recent age.

Bayan Khundii is a low sulphidation epithermal gold deposit. Gold mineralization is associated with: comb-textured quartz veins; multi-stage quartz-chalcedony-adularia-hematite/specularite veins; quartz-hematite/specularite breccias; angular hematite/specularite veinlets; disseminations (commonly associated with hematite/specularite) and fracture fillings that are hosted by an intensely altered (quartz-illite) sequence of pyroclastic rocks. With the exception of very minor, finely-disseminated pyrite in a few drill holes, Bayan Khundii is devoid of sulphide minerals. The presence of disseminated hematite/specularite with rare remnant pyrite and hematite/specularite veins and veinlets are interpreted as hypogene in origin, having formed as part of the widespread quartz-illite alteration and gold mineralizing event. Gold mineralization is present in numerous sub-parallel, NW-SE trending, SW-dipping zones that have been traced up to 200 m along strike. These zones include very high-grade veins and breccias over a centimetre to meter scale with gold grades exceeding 15 g/t, and up to 2,200 g/t, over 1 m intervals. Enveloping these higher-grade zones, are lower grade mineralization zones in the 0.1 to 2 g/t gold range that can extend for significant widths. The widest interval intersected to date was in the Midfield Zone where a 149 m interval averaged 2.1 g/t gold.

Bayan Khundii was discovered in 2015 when surface rock-chip samples of gold-bearing quartz veins were collected at the Striker and Gold Hill zones. The initial sampling results were followed by geological, geochemical, geophysical, and trenching work and a 15-hole (695 m) maiden drilling program in the second half of 2015. The 2016 drilling program, which included 81 drill holes totalling 10,645 m, confirmed strike and down-dip extensions of mineralized zones at the Striker and Gold Hill zones. In addition, drilling beneath the Jurassic aged cover rocks resulted in the discovery of the Midfield Zone, approximately 170 m northeast of Striker. Drilling has concentrated on these primary locations within a zone approximately 1.6 km x 1.3 km. Up to the drilling cut-off date (29th June 2018) Erdene drilled 255 holes, including 12 extended re-drills over 42,670m, and excavated 22 trenches totalling 1,060 m. There is no evidence of modern exploration or production on the license, other than as undertaken by Erdene.

1.3.2 Altan Nar

The Altan Nar deposit is hosted by a series of Devonian to Carboniferous shallow-dipping trachy-andesite and andesite tuff units that were intruded by several but volumetrically minor, late stage porphyritic dykes. Trachy-andesite rocks dominate to the north of the Discovery Zone whereas tuffaceous rocks are the dominant lithology to the south of the Discovery Zone. Rhyolite and rhyodacite rocks are the dominant lithologies in the western part of the license. Based on the available exploration data the gold-polymetallic mineralisation appears to be structurally controlled within a large (5.6 km by 1.5 km) NNW-trending zone. The presence of NE/SW-trending and lesser N/S-trending quartz breccia zones with associated white mica alteration within this zone, suggests the principal factor controlling the distribution of mineralisation was structure, with steeply-dipping breccia zones providing locii or conduits for fluids. Depth of burial during the mineralizing event is presumed to also be a controlling factor for deposition of gold and base metals.

Altan Nar is an intermediate sulphidation epithermal style gold-silver-lead-zinc mineralized deposit, which has similar characteristics to the carbonate-base metal gold deposits. These characteristics include a moderate Ag:Au value (5-8:1), high base metal concentrations, epithermal quartz textures and abundant gangue minerals which are dominated by Ca-Fe-Mn-Mg carbonate minerals. These styles of mineralization have close magmatic relationships, often being associated with porphyry deposits. This style of gold mineralization represents the most prolific style of gold mineralization in the southeast Asia region and includes Kelian, Porgera and Anatok, and elsewhere in the world, Fruta del Norte, Cripple Creek and Montana Tunnels and Rosia Montana and in Mexico five of the world's top silver producers including Penasquito. They are often associated with breccia pipes (diatremes) and can extend vertically for greater than 1 kilometre.

Erdene has drilled 125 surface holes totalling 19,565.2 m and excavated 42 trenches totalling 3,151 m between 2011 and 2018, concentrated within a zone approximately 5.6 km x 1.5 km. There has been no previous production from the area, however RPM is aware some small pits were undertaken centuries ago.

1.4 Mineral Resource Estimate

RPM independently estimated the Mineral Resources contained within the Project, based on the data collected by Erdene as of 27th June 2018. The Mineral Resource estimate and underlying data complies with the guidelines provided in the CIM Definition Standards under NI 43-101 and the CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines. Therefore, RPM considers it is suitable for public reporting. The Mineral Resources were completed by Mr. David Princep of RPM and under the supervision of Mr. Jeremy Clark of RPM. The Mineral Resources are reported at a number of Au Equivalent cut-off values.

The Bayan Khundii Mineral Resources were reported in the NI 43-101 Technical Report titled "Bayan Khundii Gold Project Mineral Resource Technical Report", dated November 1, 2018 and the Altan Nar Mineral Resources were reported in the NI 43-101 Report titled "Altan Nar Gold Project Mineral Resource Technical Report", dated June 21, 2018. Both reports were authored by RPM Asia Limited.

The Khundii Gold Project Mineral Resources for the PEA study are presented in Table 1-1 below as of September 12, 2018 and there has been no material change to the Altan Nar Mineral Resource since it was reported on May 7, 2018.

Table 1-1 Khundii Gold Project Combined Mineral Resource Estimate as of September 12, 2018

Cut-Off Grade ⁽¹⁾	Resource Classification	Quantity (Mt)	Grade Au g/t	Gold Koz	Grade AuEg g/t	AuEg Koz
0.2	Measured	4.3	1.4	194	1.4	194
	Indicated	19.3	1.1	710	1.4	852
	M+I	23.6	1.2	904	1.4	1,046
	Inferred	16.8	0.8	416	1.0	511
0.4	Measured	2.4	2.3	177	2.3	177
	Indicated	12.7	1.6	647	2.0	788
	M+I	15.1	1.7	824	2.0	965
	Inferred	8.6	1.2	342	1.6	436
Recommended⁽²⁾	Measured	1.4	3.6	161	3.6	161
	Indicated	8.7	2.1	590	2.6	725
	M+I	10.1	2.3	751	2.7	886
	Inferred	5.2	1.8	291	2.3	382
1.0	Measured	0.8	5.6	148	5.6	149
	Indicated	6.0	2.8	530	3.4	655
	M+I	6.8	3.1	678	3.7	803
	Inferred	3.9	2.1	261	2.9	349
1.4	Measured	0.8	5.9	145	5.9	145
	Indicated	4.7	3.3	497	4.1	610
	M+I	5.5	3.7	642	4.3	755
	Inferred	3.4	2.3	250	3.0	333

1. Cut-off grades for Altan Nar are AuEq and for Bayan Khundii are gold only.

2. RPM recommended cut-off grade for Bayan Khundii is 0.6 g/t gold and Altan Nar is 0.7 g/t AuEq above a pit shell and 1.4 g/t AuEq below the same pit shell. Refer to Section 1.4.1 and 1.4.2 for further details.

3. * see Table 1-2 and Table 1-3 below for notes on individual deposit mineral resource estimates.

1.4.1 Bayan Khundii

The results of the Mineral Resource estimate for the Bayan Khundii deposit are presented in Table 1-2 and RPM suggests using a 0.6 Au g/t as a reporting cut-off based on the mining and process cost parameters for the Project. A variety of cut-off grades is provided in Section 14 for reference as well as a breakdown by oxidation state.

Table 1-2 Bayan Khundii Deposit as of September 12, 2018

Type	Measured			Indicated			Inferred		
	Tonnes T	Au g/t	Au Ounces	Tonnes T	Au g/t	Au Ounces	Tonnes T	Au g/t	Au Ounces
Oxide	1,101,000	3.6	127,900	2,343,000	2.2	167,400	348,000	1.5	16,400
Fresh	298,000	3.5	33,200	1,371,000	2.4	104,400	1,407,000	2.0	88,400
Total	1,399,000	3.6	161,100	3,714,000	2.3	271,800	1,755,000	1.9	104,900

1. The Statement of Estimates of Mineral Resources has been 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

2. All Mineral Resources figures reported in the table above represent estimates based on drilling completed up to 27th June 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.

3. Mineral Resources are reported on a dry in-situ basis.

4. The Mineral Resources is reported at a 0.6 g/t Au cut-off. Cut-off parameters were selected based on an RPM internal cut-off calculator, which indicated that a break-even cut-off grade of 0.6 g/t Au, assuming an open cut mining method, an Au price of US \$1500 per ounce, an open mining cost of US \$6 per tonne and a processing cost of US \$20 per tonne milled and processing recovery of 95% Au.

5. Mineral Resources referred to above, have not been subject to detailed economic analysis and therefore, have not been demonstrated to have actual economic viability

1.4.2 Altan Nar

The results of the Mineral Resource estimate for the Altan Nar deposit are presented in Table 1-3. RPM suggests using a 0.7 g/t AuEq above and 1.4g/t AuEq below a pit shell as a reporting cut-off, based on mining / process and cost parameters for the Project as outlined below Table 1-3.

Table 1-3 Altan Nar – Mineral Resource Estimate Summary as of May 7, 2018

Type	Indicated Mineral Resource										
	Quantity Mt	Au g/t	Ag g/t	Zn %	Pb %	AuEq* g/t	Au koz	Ag koz	Zn kt	Pb kt	AuEq koz
Oxide	0.6	2.0	12.7	0.6	1.0	3.1	39.3	244.3	3.8	6.3	59.6
Fresh	4.4	2.0	15.0	0.6	0.5	2.8	278.4	2,105.4	27.8	22.7	393.4
Total	5.0	2.0	14.8	0.6	0.6	2.8	317.7	2,349.7	31.6	29.0	453.0
Type	Inferred Mineral Resource										
	Quantity Mt	Au g/t	Ag g/t	Zn %	Pb %	AuEq* g/t	Au koz	Ag koz	Zn kt	Pb kt	AuEq koz
Oxide	0.8	1.8	7.5	0.6	0.9	2.6	43.3	183.7	4.3	6.5	64.2
Fresh	2.7	1.7	8.0	0.7	0.6	2.5	142.4	682.1	19.4	15.8	212.8
Total	3.4	1.7	7.9	0.7	0.7	2.5	185.7	865.8	23.7	22.3	277.1

- The Statement of Estimates of Mineral Resources has been 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.
- All Mineral Resources figures reported in the table above represent estimates based on drilling completed up to 7th May 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.
- *Au Equivalent (AuEq) calculated using long term 2023 - 2027 "Energy & Metals Consensus Forecasts" March 19, 2018 average of US\$1310/oz for Au, US\$17.91/oz for Ag, US\$1.07/pound for Pb and US\$1.42/pound for Zn. Adjustment has been made for metallurgical recovery and is based company's preliminary test work results which used flotation to separate concentrates including a pyrite concentrate with credits only for Au and Ag. Based on grades and contained metal for Au, Ag, Pb and Zn, it is assumed that all commodities have reasonable potential to be economically extractable.
 - The formula used for Au equivalent grade is: $AuEq\ g/t = Au\ g/t + Ag\ g/t * 0.0124 + Pb\ % * 0.509 + Zn\ % * 0.578$ with metallurgical recovery of 88.8% Au, 80.6% Ag, 80.4% Pb and 69.1% Zn.
 - Au equivalent ounces are calculated by multiplying Mineral Resource tonnage by Au equivalent grade and converting for ounces. The formula used for Au equivalent ounces is: $AuEq\ Oz = [Tonnage\ x\ AuEq\ grade\ (g/t)] / 31.1035$.
- Mineral Resources are reported on a dry in-situ basis.
- Reported at a 0.7 g/t AuEq cut-off above pit shell and 1.4g/t AuEq below the pit shell. Cut-off parameters were selected based on an RPM internal cut-off calculator, which indicated that a break-even cut-off grade of 0.7g/t Au Equivalent above pit and 1.4g/t AuEq below pit, assuming a gold price of US\$1310 per ounce, an open mining cost of US\$6 per tonne and a processing cost of US\$20 per tonne milled and processing recovery of 88.8% Au, 80.6% Ag, 80.4% Pb and 69.1% Zn.
- Mineral Resources referred to above, have not been subject to detailed economic analysis and therefore, have not been demonstrated to have actual economic viability

1.5 Mine Development and Operations

1.5.1 Mining Methods

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

Mining will use hydraulic excavators in backhoe configuration. Drilled and blasted material will be loaded into haul trucks, with waste rock deposited in engineered dumps adjacent to the pits, and plant feed hauled to a crusher or run-of-mine ("ROM") pad adjacent to the processing plant which is to be located at Bayan Khundii. At Altan Nar the estimated 19 kilometre road distance to the processing plant means that plant feed hauled from the pit will need to be placed nearby and transferred into road-trains for haulage to Bayan Khundii.

1.5.2 Pit Limit Determination

The open pit limits were determined by considering the physical and economic constraints to mining using Whittle 4X pit limit optimisation software. The Whittle 4X software uses the industry-standard Lerchs-Grossman algorithm to define a three-dimensional (“3D”) shape for the open pit which is considered the “optimal” economic shell for mining. Based on the pit optimisation results, RPM selected the 90% Revenue Factor pit shells for each deposit to guide the detailed ultimate pit designs. This selection results in a high potential project value while providing a pit limit with a 10% RF risk margin at the pit limits.

Erdene also engaged Sardonyx Geotechnical Consulting Services to perform a geotechnical analysis focused on Bayan Khundii and the Discovery Zone of Altan Nar. The geotechnical recommendations for both deposits were provided across a number of pit sectors. RPM reviewed the results and consolidated the various sectors into more simplified geotechnical criteria as set out in Table 1-4. The modified criteria are not considered materially different than the detailed results and enabled more practical pit limit optimisation and pit design.

Table 1-4 Slope Parameters Used for Design

Description	Batter Angle deg	Inter Ramp Slope Angle deg	Bench Height m	Berm Width m
Bayan Khundii - Oxide	60	46	15	6
Bayan Khundii - Fresh	60	46	15	6
Altan Nar - Oxide	61	48	15	5
Altan Nar - Fresh	67	53	15	5

1.5.3 Pit and Dump Design

All pit designs were prepared based on the selected pit shells obtained from pit limit optimisation. The completed designs were compared against the Whittle results and any tonnage differences found to be within expected ranges.

In addition to the ultimate pit designs, three cutback stages were prepared for Bayan Khundii referred to as BK_01, BK02 and BK03 with BK04 being the final pit. The Altan Nar deposit has 9 designs in total, seven ultimate pit designs and two cutback stage designs. Cutback stages were only designed for the South Pit and the North Pit. The location and layout of the designs is illustrated in Figure 1-1.

Dumps were designed using a 34-degree batter face, 10 m berms at 15 m lifts. This results in an overall slope of 25 degrees which is considered suitable for rehabilitation.

1.5.4 Mineable Quantities

The pit design mineable quantities were estimated from the ROM models using a positive Net Processing Return as the marginal cut-off. The tonnages and grades for the pits and mining stages are shown in Table 1-5 and Table 1-6. The coding and sequencing for each pit stage is provided in Figure 1-1.

Figure 1-1

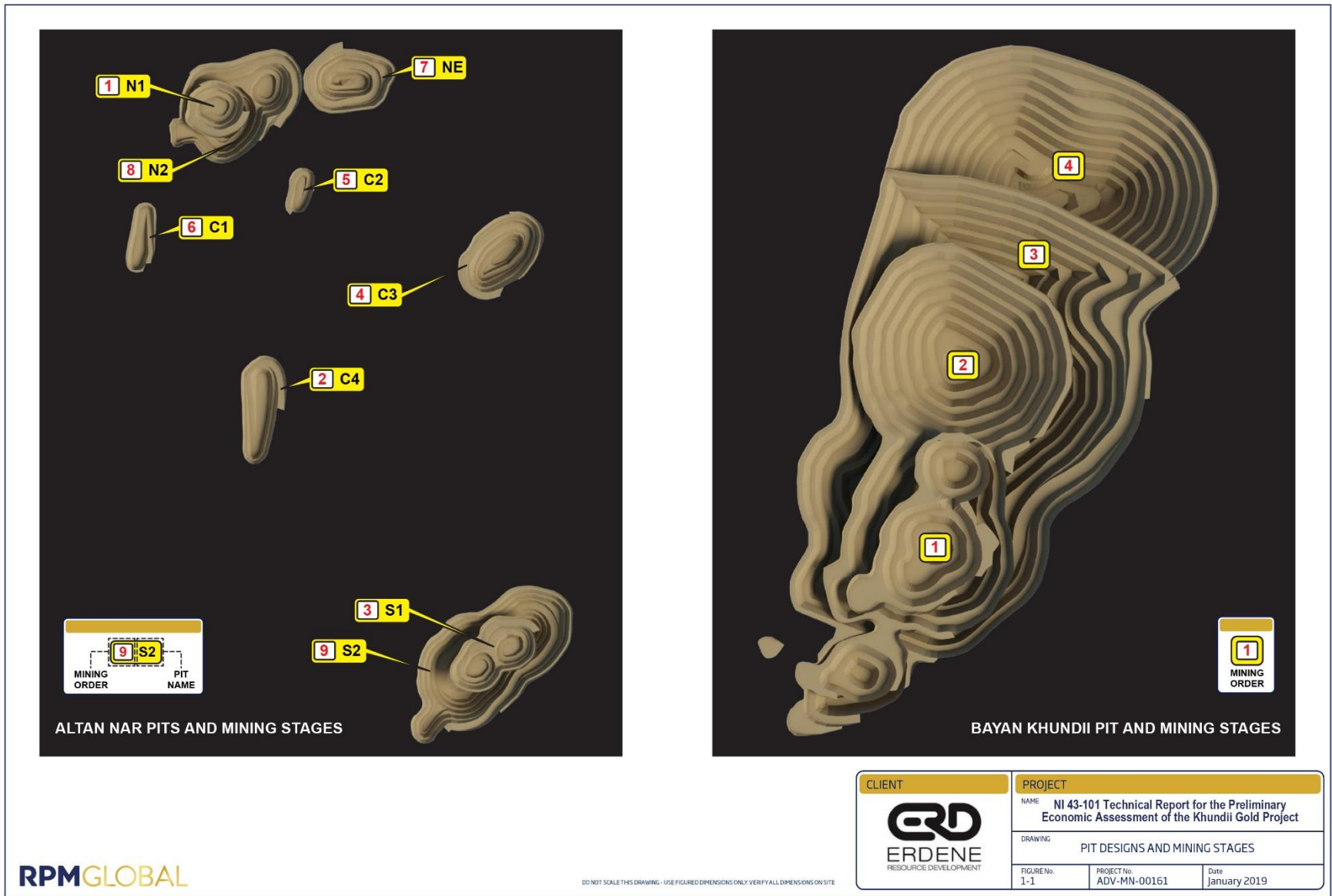


Table 1-5 Bayan Khundii Mineable Quantities as of September 12, 2018

Pit/Stage	Waste kt	Plant Feed kt	Strip Ratio t/t	Feed Grade Au g/t
BK_01	845	115	7.3	5.4
BK_02	7,346	875	8.4	4.4
BK_03	15,866	977	16.2	2.9
BK_04	11,359	682	16.7	3.5
Total	35,417	2,649	13.4	3.6

All the estimates are on dry tonne basis.

Table 1-6 Altan Nar Mineable Quantities as of September 12, 2018

Pit/Stage	Waste kt	Plant Feed kt	Strip Ratio t/t	Feed Grade Au g/t	Feed Grade Ag g/t
AN_C1	136	27	4.9	1.7	10.5
AN_C2	99	9	11.3	3.3	1.8
AN_C3	1,207	176	6.8	2.7	8.4
AN_C4	589	83	7.1	4.1	11.9
AN_N1	362	139	2.6	3.9	19.0
AN_N2	2,666	398	6.7	2.6	9.4
AN_NE	957	198	4.8	1.8	5.2
AN_S1	662	133	5	3.7	21.9
AN_S2	6,070	765	7.9	3.5	23.7
Total	12,747	1,928	6.6	3.1	16.2

All the estimates are on dry tonne basis.

1.5.5 Production Schedule

Several plant feed processing rates were examined to identify the highest production rate that is practically achievable. Upon review the 600 ktpa plant feed option was selected as the Base Case to be used for planning and Project valuation.

The 600ktpa plant feed schedule is presented graphically in Figure 1-2 with detailed annual quantities included in Table 1-7.

Figure 1-2 Production Schedule

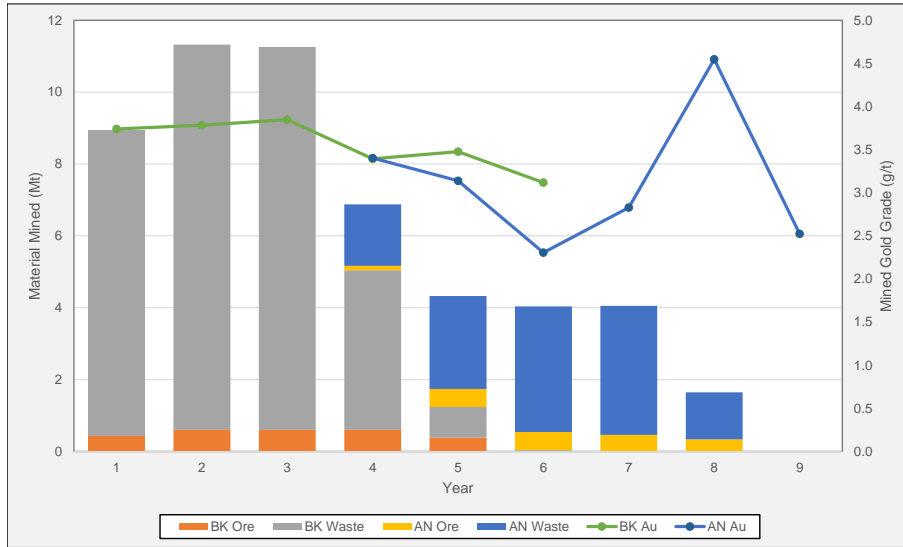


Table 1-7 Production Schedule Summary

Item	Units	Pre - Strip	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	TOTAL
Total Tonnes Mined	kt	37	8,943	11,324	11,259	6,876	4,326	4,037	4,050	1,647	-	52,498
Waste Tonnes Mined	kt	26	8,555	10,778	10,712	6,181	3,454	3,536	3,607	1,314	-	48,164
Plant Feed Tonnes Mined	kt	11	430	600	600	725	888	519	462	339	-	4,575
Gold Grade Feed Tonnes Mined	g/t	2.6	3.7	3.8	3.8	3.4	3.3	2.3	2.8	4.5	-	3.4
Silver Grade Feed Tonnes Mined	g/t	-	-	-	-	2.6	9.1	9.8	20.3	30.3	-	15.3
Strip Ratio	t:t	-	19.8	17.9	17.8	8.5	3.9	6.8	7.8	3.9	-	10.5
BK Feed Movement	kt	11	430	600	600	599	387	19	-	-	-	2,647
BK Waste	kt	26	8,557	10,780	10,714	4,465	855	20	-	-	-	35,417
AN Feed Movement	kt	-	-	-	-	126	501	500	462	339	-	1,928
AN Waste Movement	kt	-	-	-	-	1,716	2,598	3,514	3,605	1,313	-	12,747
BK Au Grade	g/t	2.6	3.7	3.8	3.8	3.4	3.5	3.1	-	-	-	3.6
AN Au Grade	g/t	-	-	-	-	3.4	3.1	2.3	2.8	4.5	-	3.1
Total Tonnes into Crusher	kt	-	341	600	600	600	602	600	600	600	32	4,575
Gold Grade into Crusher	g/t	-	4.1	3.8	3.9	3.4	3.0	2.5	2.9	4.1	4.3	3.4
Silver Grade into Crusher	g/t	-	-	-	-	-	1.6	9.1	15.2	26.2	27.2	16.2

1.5.6 Ore Loss and Dilution

To model the loss and dilution the in situ geological model was re-blocked with sub-blocks combined to a constant selective mining unit (“SMU”) block size. Note that dilution added to plant feed comes from the adjacent waste model blocks and thus includes actual waste grades.

The plant feed loss and dilution estimates are reflective of the mineralization thickness, preferred mining method and the grade control strategy. As Bayan Khundii has substantially higher plant feed grades than Altan Nar, it is proposed to minimise plant feed loss and accept higher dilution for a given mining accuracy. A more balanced plant feed loss and dilution approach was targeted for Altan Nar. On this basis, the resulting modifying factors modelled were:

- Bayan Khundii: average global 3% plant feed loss and 23% dilution, and
- Altan Nar: average global 17% plant feed loss and 13% dilution.

1.5.7 Cut-off Grades

To determine the split between plant feed and waste for the Bayan Khundii and Altan Nar deposits, a Net Smelter Return (“NSR”) was calculated for the blocks in the ROM geological model using metal prices, variable grade recoveries and operating costs up to the plant. The NSR was then compared to the relevant plant feed processing costs to determine a Net Process Return (“NPR”) or profit margin for each block. Blocks with a positive margin are considered profitable and classed as “plant feed”. The remaining blocks are flagged as “waste rock” or allocated to a “subgrade” stockpile.

1.5.8 Hydrological

Between August and October 2018, the Okhi-Us Company carried out hydrogeological survey work at the Project. The subsequent reports provided to RPM in November 2018 estimate groundwater flow into the Altan Nar pits to be 25 m³ per day and for the Bayan Khundii pit at 106 m³ per day.

These results do not highlight any impediment to the mining process. Hydrological considerations will be reviewed further when the Project progresses to a more detailed study stage.

1.5.9 Mining Equipment

Conventional truck and loader mining equipment composed of hydraulic excavators and rear-dump haul trucks was selected as it offers the following advantages:

- Cost effective;
- Proven technology;
- Operational flexibility;
- Relatively easy to manage and maintain;
- Good access to spare parts; and
- Better suited for contractor mining, if required.

RPM used its in-house, proprietary MiMaSo Fleet Calculator to determine equipment requirements for the Project. This required estimating the operating times and productivities for major equipment. The key assumptions made for this process were as follows:

- 3 panel roster;
- 2 x 12 hour shifts per day;
- 7 days per week operation for 365 days per year;
- 6 days lost per year due extreme weather conditions;
- Mechanical availability 87%;
- Truck presentation 90%, and
- Utilisation of available time 81%.

1.6 Recovery Methods

The processing plant will be a conventional, cyanide leach, Carbon In Pulp (CIP) processing plant. The plant will incorporate crushing, grinding, gravity separation, cyanide leaching, CIP, carbon stripping, electro-winning, smelting, tailings detoxification, tailings filtration, and tailings co-disposal with mine waste. Plant throughput will be 600 ktpa, nominally 1,800 tonnes per day. Plant feed grade will average approximately 3.4 grams of gold per tonne over the life of the Project.

Plant feed from the Bayan Khundii deposit is free-milling, while plant feed from Altan Nar is primarily free milling but also includes arsenopyritic plant feed with associated low recovery. The arsenopyritic plant feed at Altan Nar will not be mined or processed. Though both Bayan Khundii and Altan Nar ores contain some silver in addition to gold, the ratio of silver for Bayan Khundii is low (about 1:1) and hence negligible recovery and value. For Altan Nar plant feed, the silver to gold ratio is about 5: 1. The silver: gold ratio is such that it is debatable as to whether a carbon-adsorption or Merrill-Crowe plant is the most suitable. This project will use carbon adsorption with CIP pump cells to achieve high metal loading to accommodate the silver: gold ratio.

Projected gold recovery is 90% for Bayan Khundii plant feed and 75% for Altan Nar plant feed and over the Life of the Project, an average of 82%. Average annual gold production is expected to be approximately 51,200 ounces per year.

The processing plant will be located adjacent to the Bayan Khundii open pit and plant feed from the Altan Nar deposit will be trucked to the plant by road trains.

1.7 Project Infrastructure

The Project is a “greenfields” site and has only minor infrastructure present associated with the exploration activity which is similar to other remote sites found in the region. In developing the infrastructure plan and cost estimates for the proposed Project a number of high-level assumptions have been made about the Project’s operating philosophy. These include:

- The need to develop the site with a minimal capital expenditure;
- A self-contained remote site;
- Fly In Fly Out (FIFO) personnel transfer with onsite accommodation; and
- Connections to regional electrical power infrastructure.

It is planned for the Bayan Khundii site to be developed first with all infrastructure located there, and the Altan Nar site will be developed later as a satellite operation with minimal facilities.

1.8 Market Studies and Contracts

The selling prices used in the PEA were US\$1,200/oz for gold and US\$18/oz. for silver.

The gold and silver price selected was based on the long-term metal price as published in the Energy and Metals Consensus Forecasts (“Consensus”), November 2018 edition. The Consensus forecast is understood to be derived from reviewing forward forecast data from over 20 institutions. RPM considers this approach reasonable for the purposes of the PEA.

1.9 Environment

Mongolia’s environmental assessment process for mining involves a three-step process:

1. Environmental and Social Baseline Survey;
2. General Environmental Impact Assessment (“GEIA”), and
3. Detailed Environmental Impact Assessment (“DEIA”) and Environmental Management Plan (“EMP”).

From 2016 to 2018, Erdene engaged Eco Trade LLC, a Mongolian certified EIA consultant, to complete the Environmental and Social Baseline surveys for the Altan Nar and Bayan Khundii deposits, in accordance with Mongolian rules and regulations.

No environmental issues have been identified by studies to date that would prevent or delay the development of the Project. The Project is located in a remote area that is not appreciably populated and vegetated. No items of historical or archaeological importance have been found in the areas of proposed disturbance.

Further environmental studies are being undertaken to support future technical work including consultation with local stakeholders.

1.10 Capital and Operating Costs

1.10.1 *Capital Costs*

Capital costs were estimated by RPM with support from Erdene. A summary of all capital expenditure is given in Table 1-8. The initial capital expenditure for Project establishment is estimated at US\$32.2M, incurred at the Bayan Khundii site. The remaining US\$7.8M comprises US\$1.2M to commence Altan Nar, sustaining costs of US\$2.6M and US\$4M for mine closure.

Table 1-8 Project Capital Costs (US\$M)

Item	Bayan Khundii (US\$ M)	Altan Nar (US\$ M)	Total (US\$ M)
Process Plant	16.1	0.0	16.1
Site Est. + Buildings	2.8	0.4	3.2
Accommodation Village	1.8	0.0	1.8
Airstrip	1.6	0.0	1.6
Roads	1.0	0.5	1.5
Engineering + Support	3.6	0.1	3.7
Contingency (20%)	5.4	0.2	5.6
Subtotal Plant and Infrastructure	32.2	1.2	33.5
Mine Closure	2.8	1.2	4.0
Sustaining Capital	1.5	1.1	2.6
Total	36.5	3.5	40.0

The engineering accuracy of the capital cost estimate is +/-35% commensurate with a PEA. The above estimates are inclusive of a 20% contingency (refer Section 18.12). Sustaining costs are assumed to be ~2% on key capital items for upgrade.

1.10.2 Operating Costs

A summary of operating costs is set out in Table 1-9.

Table 1-9 Project Operating Costs

Cost Centre	Life of Mine (US\$ M)	Unit Cost (US\$/oz Au)	Unit Cost (US\$/t Feed)
Mining Contractor	131.5	319	28.75*
Transport AN to BK	2.7	7	0.59
Processing and Infrastructure	75.3	183	16.47
Product Transport	0.5	1	0.10
Smelting & Refining Charges	2.0	5	0.43
Overheads	30.1	73	6.58
Royalty and Govt Charges	25.5	62	5.57
Contingency	24.0	58	5.25
Total	291.6	708	63.73

* At a strip ratio of 10.5:1, the total contractor mining cost averages \$2.50/t rock.

The mining contractor costs were developed from first principles based on the selected equipment fleet and the mining activity requirements. Equipment costs were based on RPM's internal database and a 10% contractor margin was assumed.

The processing and infrastructure costs were estimated from the RPM database and extrapolated based on the Project characteristics.

Key operating cost assumptions include:

- Equipment maintenance by the mine owner's workforce;
- Diesel fuel price = US\$0.90 per litre;
- Power price = US\$0.10/kWh;
- Local labour costs generally ranging from US\$10,000 / annum to US\$15,000 / annum; and
- Government royalty at 5% of revenue, less selling costs;
- 10% contingency on operating costs (excluding royalty and refining); and
- No Value Added Tax (VAT).

1.11 Economic Analysis

RPM has prepared an economic model for the Project using its in-house economic modelling software. The economic model results are summarised in a constant-dollar (REAL) cash flow analysis, from which both a net present value ("NPV") and a discounted cash flow internal rate-of-return ("IRR") were calculated.

Both measures were based on after-tax net cash flows as outlined in Table 1-10.

Table 1-10 Key Economic Indicators

Item	Units	Value
Mill Feed	Mt	4.6
Gold Sold	k oz.	412
Silver Sold	k oz.	604
Mine Operating Life	Years	8
Total Revenue	US\$ M	505
Capital Requirements		
Pre-production Capital Cost	US\$ M	32.3
Remaining Capital Cost	US\$ M	7.7
Total Capital Cost	US\$ M	40.0
Total Operating Costs	US\$ M	292
DCF @ 5%	US\$ M	99
DCF @ 7.5%	US\$ M	86
DCF @ 10%	US\$ M	76
CAPEX	US\$ M	40
Total Operating Cost	US\$/oz. Gold Sold	708
Sustaining Cost	US\$/oz. Gold Sold	6
AISC Operating Cost	US\$/oz. Gold Sold	714
Pre-Tax IRR	%	70%
After-Tax IRR	%	56%
Payback Period	years	2

1.11.1 Sensitivity Analysis

The base case long term gold price selected for the PEA was US\$1,200/oz. However, in reviewing various pricing publications, long-term gold price forecasts generally ranged between US\$1,150/oz and US\$1,300/oz. A sensitivity analysis was hence undertaken across this range to understand the sensitivity to the Project value, as set out in Table 1-11.

Table 1-11 Post Tax Gold Price Sensitivity Analysis

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

A sensitivity analysis was also undertaken assuming a range of +/-15% for capital costs, operating costs and revenue. It indicates that the Project is most sensitive to revenue, that is, a change in metal price followed by operating costs. A 15% change in metal price alters the Project value (NPV@10%) by 50%. A 15% change in operating cost alters the Project value by 30%.

1.12 Conclusions

The key outcomes reported in the PEA include:

- The PEA includes 2.7 million mineable tonnes from the Bayan Khundii resource at an average head grade of 3.65 g/t gold, of which 98% are Measured and Indicated Resources.
- The Altan Nar deposit for the PEA contributes 1.9 million minable tonnes at an average head grade of 3.11 g/t gold, of which 70% are Measured and Indicated Resources.
- These deposits are being developed as a single project and are discussed herein as the Khundii Gold Project.
- Both Bayan Khundii and Altan Nar are near-surface high-grade deposits that are well suited to open pit mining methods.
- Bayan Khundii pit will be mined in four stages to balance the waste stripping. The larger North and South pits in Altan Nar will be mined in one or two stages with smaller adjacent pits not requiring staged mining.
- Target processing rate of 600 ktpa grading approximately 3.4 grams/tonne gold.
- Mine life of 8 years plus one-year pre-production and two-year mine closure periods.
- A single processing plant to be located adjacent to the Bayan Khundii deposit and feed from Altan Nar to be hauled 19 km to the Bayan Khundii processing plant.
- The processing plant will be a conventional, cyanide leach, CIP plant. The plant will incorporate crushing, grinding, gravity separation, cyanide leaching, CIP, carbon stripping, electro-winning, smelting, tailings detoxification, tailings filtration, and tailings co-disposal with mine waste.
- Projected gold recovery is 90% for Bayan Khundii plant feed and 75% for Altan Nar plant feed and over the Life of the Project, an average of 82%.
- After-tax Net Present Value for a US\$1,200/ounce (“oz”) gold price:
 - US\$99 million at 5% discount rate
 - US\$86 million at 7.5% discount rate
 - US\$76 million at 10% discount rate
- Internal Rate of Return (“IRR”) of 56%.
- Initial capital expenditure of US\$32 million, using a contract mining fleet.
- All-in sustaining cash cost (“AISC”) of US\$714/oz of gold recovered.
- Average annual gold production of 51,200 oz and total LOM production of 412,000 oz.
- A payback of less than 2 years.

1.13 Recommendations

1.13.1 *Geology*

- Additional Drilling:
 - Approximately 30% of the Altan Nar Project has been classified as Inferred Mineral Resource. RPM recommends drilling to increase confidence in the existing Inferred Mineral Resource, focusing on the highest-grade portions as well as additional extensional exploration drilling in the Discovery Zone and Union North areas of the deposit.
 - Infill drilling to confirm the continuity of the high-grade zones at local scale including the Striker West Zone and Northeast Zone of the current Bayan Khundii.
 - Additional scout exploration drilling in un-drilled and partly drilled parts of the Project.
 - Estimated cost during the next phase of drilling US\$1.1 M.

- QAQC: Further monitoring of the slight bias and underestimation observed in high grade assays at the SGS Laboratory is recommended. RPM suggests more frequent use of ore grade base metal standards to closely monitor the base metal assays. Estimated costs during future drilling US\$10k.
- Bulk Density: RPM recommends that Erdene continue recording density measurements, ensuring that measurements cover a variety of Fe grades to further refine the regression equation. Erdene should undertake a bulk density program using the remaining Altan Nar core. This should include up to 200 samples focusing on a range of grades (low to high) with each sample having a density determination as well as assays for Au, Pb, Zn and S. Total cost is estimated at US\$10k.

1.13.2 Mining

- Consider an underground / open cut trade-off study for the Bayan Khundii deposit. Approximate cost of high-level mining trade-off study of US\$60k.
- RPM recommends that the technical studies proceed to a pre-feasibility study (“PFS”) stage. The PEA results suggest that there is sufficient confidence in the underlying data and the robustness of the Project economics to warrant advancement of the Project.
- Approximate cost of total PFS inclusive of mining and preliminary plant and infrastructure designs is ~US\$900k.

1.13.3 Recovery Methods

- Complete additional trade-off studies to refine the project parameters such ore storage, crushing circuit, ILR circuit, thickener circuit, tailings filtration and geotechnical assessment for tailings parameters.
- Consider test work to understand economic potential for heap leach of lower grade mineralization.
- Additional metallurgical test work cost included in PFS estimate above.

1.13.4 Infrastructure

- Engineering details of the infrastructure components have been developed to a limited scale consistent with the level of accuracy of this PEA. In progressing this project to PFS / DFS levels, a number of items will require further work to confirm the selection of the proposed solution and more accurately define the associated costs.
- Complete additional investigations into the Mine Infrastructure Area (“MIA”) site location and earthworks, site dams, site structures, bore field water quality, electrical supply, airstrip and site access.
- Additional infrastructure study cost included in PFS estimate above.

1.13.5 Environmental

- Assessment of waste rock and tailings material to understand leachate composition.
- Mine closure study including costing.
- Further environmental impact studies. Approximate cost of US\$100k.

1.13.6 Geotechnical and Hydrological Studies

- Hydrological studies to increase confidence in water supply to the Project.
- Additional geotechnical assessment, particularly at Altan Nar where much of the work was only on the southern zone.
- Additional geotechnical and hydrological study cost included in PFS estimate above.

1.14 Opportunities and Risks

1.14.1 *Opportunities*

The key opportunities are listed below.

- Resource Expansion:
 - At Altan Nar, mineralization is open north and south of the currently defined Mineral Resource where several medium to high grade intersections occur. Mineralization is open along strike and down-dip at all prospects and extensional drilling of the main zones may delineate continuations of the known mineralization, some of which may be high grade.
 - Mineralization at Bayan Khundii is open north-east, north-west and east of the currently defined Mineral Resource, with several medium to high grade intersections occurring which require follow up exploration works.
 - RPM recommends targeting near surface medium to high grade mineralization at both Projects, which if successfully delineate additional mineralization will potentially have a positive impact on future mining studies undertaken on the Project.
 - There are large areas of low grade (0.1~0.2 g/t Au) mineralization halos outside of currently defined Bayan Khundii mineralization wireframes, changing modelling cut-off grade should substantially increase global mineralization volume. This material is currently excluded from the reported resource due to its low grade, however, could impact the dilution grade applied during the mining studies.
- Optimisation of Mining Strategy
 - Future technical studies should investigate stockpile strategies to elevate feed grade in the short term and improve extraction sequence using additional cutbacks. Further work should be undertaken to confirm the production rate is optimal.
- Underground Mining at Bayan Khundii
 - The high grades at Bayan Khundii would highly likely support an underground mining method. An underground mining study could consider the optimal transition between open cut and underground methods.
- Heap Leach of Low-Grade Mineralization
 - RPM estimated the amount of sub-grade material that has a potential for future processing using alternate methods such as leaching. Using an indicative gold cut-off of 0.35 g/t and within the existing pit designs, Bayan Khundii was estimated to have 1.0 Mt at 0.7 g/t Au and Altan Nar 1.8 Mt at 0.5 g/t Au. The sub-grade material is currently being considered as waste rock for the purposes of the PEA. Metallurgical Test work is required to confirm if heap leach is viable as well as technical studies to confirm economics.
- Metallurgical Plant Performance and Recovery
 - There are a number of opportunities to improve plant performance such as whether a three stage crushing circuit feeding a ball mill or a single stage crushing circuit feeding a SAG (semi-autogenous) mill is preferable to two stage crushing circuit feeding a rod mill/ball mill circuit currently selected; is it better to have the ILR produce cathode sludge or have the ILR leach slurry pass to the leach circuit; or is it worth having a thickener prior to leaching? These should be considered as part of the PFS.

1.14.2 *Risks*

The key risks are:

- Geology Structural Complexity:
 - Altan Nar exhibits a moderate degree of structural complexity. The mineral resource block model is defined by drilling on a 50m by 50m drill spacing with some areas with 25m by 25m, therefore there is potential for tonnage and overall geometry variations between modelled and actual mineralization. RPM does not envisage any material variations in the closer spaced drilling areas, however this could potentially occur in the areas of greater than 50m spacing, as a result these areas are classified as Inferred.

- Bayan Khundii exhibits a moderate degree of structural complexity. The mineralized envelopes were defined by drilling on a 20 m by 20 m drill spacing in some areas, with the majority based on 40 m by 40 m, and 80m by 80 m in extensional areas, therefore there is potential for tonnage and overall geometry variations between modelled and actual mineralization. RPM does not envisage any material variations in the closer spaced drilling areas, however this could potentially occur in the areas of greater than 40 m spacing, as a result these areas are classified as Inferred.
- Altan Nar has a number of barren dykes have been mapped and logged at the Union North, Maggie and Union East Zones. These dykes have been modelled by RPM and no grades have been estimated within these units. The interpretation of these dykes is, at present, based on wide spaced 25-100m sections. A better understanding of the dyke geometry will be gained through closer spaced infill and extensional drilling.
- Altan Nar Assay Data Bias and Density
 - Further monitoring of the slight bias and underestimation observed in high grade assays at the SGS Laboratory is recommended.
 - Bulk density data needs further checking to confirm application. No cost would be incurred.
- Consistently Achieve Feed Rate to Plant
 - The target 600 ktpa feed rate is towards the upper practical limits of what can be extracted from the pits. Further assessment is required in future technical studies to confirm and optimise the production rate.
- Metallurgical Recovery
 - Further test work is required to understand the implications of some elements such as arsenic on recovery at Altan Nar.

1.14.3 Notes

The opinions and conclusions presented in this report are based largely on the data provided to RPM during the site visit, during meetings with the Company, and in reports supplied by Erdene. RPM considers that the information and estimates contained herein are reliable under these conditions, and subject to the qualifications set forth.

RPM operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This Report was prepared on behalf of RPM by technical specialists, details of whose qualifications and experience are set out in Annexure B.

RPM has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of RPM staff or sub-consultants who contributed to this Report has any interest in the Company, securities of the Company or companies associated with the Company; or the Project;

Drafts of the Report were provided to the Company, for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report. This Report is mainly based on information provided by Erdene, either directly from the Project site and other associated offices or from reports by other organisations whose work is the property of the Company. The Report is based on information made available to RPM before December 2018.

DIVIDENDS

The Corporation has not paid any dividends to date on its Common Shares. It is not contemplated that any dividends will be paid on any shares of the Corporation in the immediate future, as it is anticipated that all available funds will be invested to finance the growth of the Corporation's business. Any decision to pay dividends on Common Shares in the future will be made by the board of directors of the Corporation on the basis of the earnings, financial requirements and other conditions existing at such time.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

The Corporation has an unlimited number of authorized Common Shares. As of December 31, 2018, it had 162,426,416 Common Shares issued and outstanding, and as March 27, 2019, it has 173,941,029 Common Shares issued and outstanding. Each Common Share is entitled to one vote at meetings of shareholders, to receive dividends if, as and when declared by the board of directors, and to receive the remaining property upon dissolution, liquidation or winding-up of the Corporation as is distributable to the holders of the Common Shares.

Shareholder Rights Plan

The board of directors of the Corporation adopted a shareholder rights plan as of March 14, 2008, which was amended and restated by an amended and restated shareholder rights plan agreement dated June 14, 2017, a copy of which is available on SEDAR at www.sedar.com. See "Material Contracts".

Stock Options

As of December 31, 2018, the corporation had 11,335,000 outstanding stock options issued, and 11,010,000 outstanding stock options issued as of March 27, 2019, under its incentive stock option plan. Currently all options are exercisable for one Common Share of the Corporation.

Warrants

As of December 31, 2018, the Corporation had 12,389,904 warrants outstanding and 22,599,194 warrants are outstanding as of March 27, 2019. 11,314,580 warrants outstanding as of March 22, 2019 are exercisable at \$0.60 per Common Share until December 8, 2019., The remaining 11,284,614 warrants are exercisable at \$0.40 per Common Share until February 28, 2020 and at \$0.50 thereafter until February 28, 2021.

Deferred Stock Units

The Corporation's board of directors adopted a Deferred Stock Unit Plan (the "DSU Plan"). The DSU Plan was approved by the shareholders at the Corporation's Special Meeting of Shareholders on October, 26, 2012 and the DSU Plan received regulatory approval from the TSX on November 7, 2012. The DSU Plan was established to assist the Corporation in attracting and retaining talented employees and directors and to promote a greater alignment of interests between the directors, employees and the Corporation's shareholders. The DSU Plan was amended at the Annual and Special Meeting of Shareholders held on June 4, 2015 increasing the maximum number of Common Shares reserved for issuance under the DSU Plan from 2,500,000 to 5,000,000.

As of December 31, 2018 and March 27, 2019, the corporation had an aggregate of 3,954,118 DSUs outstanding - that were granted to certain officers, directors and employees of the Corporation.

MARKET FOR SECURITIES

The Corporation first traded its Common Shares on the TSX Venture Exchange under the symbol "ERD" on March 16, 2004. On December 14, 2005, the Corporation graduated to the Toronto Stock Exchange. The monthly price ranges and volume of the Common Shares on the TSX for the financial year ended December 31, 2018, are as follows:

	High	Low	Volume
January	0.60	0.46	4,043,625
February	0.50	0.42	1,966,953
March	0.47	0.37	8,188,800
April	0.42	0.37	1,495,160
May	0.40	0.32	6,211,652
June	0.53	0.32	4,643,887
July	0.40	0.36	2,768,204
August	0.44	0.34	4,317,335
September	0.40	0.28	2,702,620
October	0.32	0.22	1,435,507
November	0.26	0.21	1,676,805
December	0.27	0.18	1,838,766

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

To the knowledge of the Corporation, no securities are held in escrow or are subject to contractual restrictions on transfer as of March 27, 2019.

DIRECTORS AND OFFICERS

The management of the Corporation consists of seven directors and two executive officers. All of the directors were elected at the Corporation's annual meeting of shareholders on June 14, 2018. The term of office of each director is until the next annual meeting of shareholders of the Corporation or until the position is otherwise vacated. The table below provides the names and related information concerning each director and executive officer of the Corporation.

Name, Province and Country of Residence	Principal Occupation ⁽¹⁾	Position(s) with the Corporation	Director/Officer Since
Peter C. Akerley ⁽²⁾⁽⁶⁾ Nova Scotia, Canada	President and CEO, Erdene Resource Development Corp.	President, Chief Executive Officer and Director, and Managing Director of Erdene's Subsidiaries	February 25, 2003
Dr. Anna G Biolik ⁽³⁾⁽⁴⁾ British Columbia, Canada	Chief Executive Officer, Allam Advisory Group (a global business strategy and commercial diplomacy consulting firm)	Director	June 14, 2016

Name, Province and Country of Residence	Principal Occupation⁽¹⁾	Position(s) with the Corporation	Director/Officer Since
John P. Byrne ⁽³⁾⁽⁴⁾ Ontario, Canada	President, Petroleum Corporation of Canada Exploration Ltd. (an oil production company) and President, Petroleum Corporation of Canada Limited (an investment holding company)	Director	August 25, 2004
J.C. (Chris) Cowan ⁽²⁾⁽⁵⁾⁽⁶⁾ Ontario, Canada	Chairman of the Board, Erdene Resource Development Corp.	Chairman of the Board	February 25, 2003
T. Layton Croft ⁽³⁾⁽⁴⁾ South Carolina, USA	President and CEO, Pancontinental Gold Corporation (A Canadian-based mining company operating in southeastern U.S.)	Director	July 2, 2015
Ken W. MacDonald ⁽²⁾ Nova Scotia, Canada	Executive Vice President and Chief Financial Officer, Erdene Resource Development Corp.; President and owner of Fisher Transport Limited (a specialty transport company)	Executive Vice President and Chief Financial Officer	February 25, 2003
Cameron McRae ⁽⁵⁾⁽⁶⁾ Ulaanbaatar, Mongolia	Executive Director of Tarva Investment & Advisory (a broad-based consultancy firm)	Director	March 14, 2018
David V. Mosher ⁽⁵⁾⁽⁶⁾ Nova Scotia, Canada	Retired; Independent director of five public companies	Director	June 14, 2016

Notes:

- (1) See biographical summaries below for descriptions of the occupations of the above noted individuals within the past five years and for prior periods.
- (2) Member of the Pre-Clearance Committee.
- (3) Member of the Corporate Governance and Disclosure Policy Committee.
- (4) Member of the Audit Committee.
- (5) Member of the Compensation Committee.
- (6) Member of the Technical Committee.

As of March 27, 2019, all directors and executive officers of the Corporation, as a group, beneficially own, directly or indirectly, or exercise control or direction over 12,315,854 Common Shares of the Corporation, representing 9.3% of the Corporation's outstanding Common Shares.

Peter C. Akerley – Mr. Akerley has 30 years of experience in mineral exploration, corporate financing, project development and management of publicly listed resource companies. He is one of the founders and principals of Erdene and has held the position of President and Chief Executive Officer of the Corporation since March 2003. Mr. Akerley is a geologist who has worked extensively in foreign jurisdictions throughout his career, predominately in North and South America and Asia, with a focus on Mongolia, where he has led the technical team through the confirmation of a major molybdenum and copper deposit, the discovery and definition of the Altan Nar gold deposit and recent discovery of the Bayan Khundii gold project. He has extensive experience in corporate M&A, joint venture arrangements and financings, leading the companies through more than 20 such business arrangements since taking the corporation public in 2004. Mr. Akerley served on the Board and Special Committee of Temex Resources Corp. advising on the sale of the company to Lake Shore Gold Corp. and is chairman of the TSX-V listed Morien Resources Corp. where he was involved in the sale of the Donkin Coal and Black Point Aggregate projects, converting those interests into royalties. He also pioneered the company's involvement as the founding and lead sponsor of the very successful Catapult leadership program in Nova Scotia. Mr. Akerley has a BSc (1988) from Saint Mary's University in Halifax, specializing in geology, and completed the Institute of Corporate Directors Audit Committee Effectiveness course in December 2012.

Dr. Anna G. Biolik – Dr. Biolik has over 30 years of public and private sector experience and is one of the foremost Canadian experts on Central Asian business and diplomacy. From 2010 to 2012, Dr. Biolik occupied the position of Regional Director, Pacific Region, Foreign Affairs and International Trade Canada. In 2012, Dr. Biolik retired from the federal public service. Since 2014, she has been working as independent consultant and Vice-President and Chief Executive Officer of Allam Advisory Group, a global business strategy and commercial diplomacy consulting firm. She was Canada's first resident Ambassador in Mongolia where she opened a full-fledged Canadian Embassy in 2008. Dr. Biolik previously served as Ambassador of Canada to Kazakhstan, Kyrgyzstan and Tajikistan as well as Consul General of Canada in St. Petersburg, Russian Federation. She also served as Senior Advisor for international relations and parliamentary affairs to the Governor General of Canada and as European Marketing Manager for Canada Post, Senior Manager at Investment Partnerships Canada and Director of the International Business Opportunities Centre. Dr. Biolik has extensive expertise in international commerce and has worked closely with Canadian companies in emerging markets. Dr. Biolik currently serves as external member of the Program and Research Council at Royal Roads University in Victoria, BC. Dr. Biolik is also a member of the Institute of Public Administration of Canada. She holds a Ph.D. from the University of Montreal and is fluent in English, French, Russian and Polish.

John P. Byrne – Mr. Byrne has more than 30 years of investment banking and corporate finance experience. He is President of Petroleum Corporation of Canada Exploration Limited ("Petrex"), an oil and gas exploration and development company, and has held that position since 1976. Petrex helped establish and finance Enerplus Energy Services Limited for which Mr. Byrne served as Vice-Chairman (1986-2000). He also served in senior executive roles with Levesque Beaubien Geoffrion Inc. (now National Bank Financial), A.E. Ames & Company Ltd./Dominion Securities Ames Ltd. and The First Boston Corporation. Mr. Byrne graduated from McGill University with a BA and from the University of Toronto Law School with an LLB. He is also a Chartered Financial Analyst. Mr. Byrne is also currently a director of Morien Resources Corp. (TSX-V).

J.C. (Chris) Cowan – Mr. Cowan, MSc (Geology), P. Eng. (Ontario), is a minerals consultant providing services to exploration and mining companies world-wide since 1990. Prior to that, he spent 28 years with Falconbridge Limited in a variety of senior management and board positions. Mr. Cowan has also been responsible for technical direction of Falconbridge's world-wide exploration as well as activities exploration manager in Southeast Asia and Chief Geologist for Sudbury Operations. Mr. Cowan is one of the founders of the Corporation and was Vice-President (Asia) between 2006 and June 2015. Mr. Cowan was appointed Chairman of the Board in June 2015. Mr. Cowan has served as a director for a number of publicly listed companies, including Unigold Inc. (2003-2006) and Preston Resources Inc. (1997-2001) and Advanced Primary Minerals Corporation (2008-2012).

T. Layton Croft – Layton Croft was appointed director of the Board in July 2015. Mr. Croft is a corporate executive with more than 25 years of diversified management and resource industry experience, including deep Mongolia expertise. Mr. Croft is President and CEO of Pancontinental Resources Corporation (TSX-V:PUC), a battery metals and gold exploration company with projects in Canada and the United States. Mr. Croft's Mongolia experience has included roles as Country Representative for The Asia Foundation, Executive Vice President for Oyu Tolgoi, and Vice President for Peabody Energy. Mr. Croft is a founding director of the Business Council of Mongolia, a lifetime

honorary director of the Mongolian National Mining Association, and a founding director of the American University of Mongolia. Currently based in the United States, Mr. Croft has lived and worked in Mongolia, Hong Kong, Singapore, South Korea and Indonesia. He has worked for Rio Tinto, Ivanhoe Mines, Duke Energy and Atrium Health. Mr. Croft holds degrees from the University of North Carolina at Chapel Hill, the School for International Training in Vermont, and the Fletcher School of Law and Diplomacy at Tufts University in Massachusetts.

Kenneth W. MacDonald – Mr. MacDonald was appointed Executive Vice President in 2016. Mr. MacDonald is also the Chief Financial Officer of Erdene, a position he has held since March 2003. From September 1992, Mr. MacDonald has also been the President and owner of Fisher Transport Limited, a specialized transport company. In addition, he was the Vice President of Finance for Kaoclay Resources Inc. from 1996 to June 2006. Prior to 1985, Mr. MacDonald, a chartered professional accountant, was a senior manager with one of Canada's major accounting firms. From 1985 to September 1992, he was vice president finance with public and private corporations in the resource sector. Mr. MacDonald graduated from St. Mary's University in 1977 with a BCom and received his chartered accountant designation in 1980.

Cameron McRae – Mr. McRae was appointed director of the Board in March 2018. Mr. McRae is a seasoned CEO, having led mining organizations through the full mining development cycle in four countries and across three continents. Cameron served a 28-year career with Rio Tinto, and in Mongolia was President of Oyu Tolgoi LLC and Rio Tinto's country director for Mongolia. In that role he led the construction and start-up of the US\$6 billion Oyu Tolgoi copper-gold mine, ahead of schedule, which at peak of construction had over 15,000 people employed on site. Cameron has led successful greenfield and brownfield construction projects, overarching business transformations and business improvement projects, and at the corporate level has deep commercial/M&A experience. Prior to Oyu Tolgoi, Cameron was CEO of Richards Bay Minerals in South Africa (2008-10), Managing Director of Murowa Diamonds in Zimbabwe (2006-07) and Project Director for the Hail Creek Coking Coal Expansion project in Australia. Prior to 2004, Cameron held commercial and project leadership roles, both at Corporate and Business Unit levels. In 1995, he was a key team member responsible for the A\$29 billion merger of CRA and RTZ into the dual listed Rio Tinto (which was the world's largest merger at the time). Mr. McRae is the founder of Tarva Investment & Advisory, a broad-based consultancy firm. Tarva has also acted as strategic advisor to Erdene's Mongol, Mongolia's state-owned asset management firm, on the resolution of the Oyu Tolgoi dispute between Rio Tinto and the Government of Mongolia. Cameron remains active in Mongolian public life, as an executive director of the Business Council of Mongolia, as a trustee of the Arts Council and founder of the Institute of National Strategy. Cameron was schooled in Australia and Africa and holds a commercial degree and an MBA (Monash Mount Eliza, 1991).

David V. Mosher – Mr. Mosher is a mining executive with over thirty-five years of international experience. From 1992 to 2008, David was President and CEO of High River Gold Mines Ltd., a TSX listed company involved in the exploration, development and production of gold in Canada, Africa and Russia. In that role, he negotiated the acquisition of two producing Russian gold mines, completed mining investment agreements with the government of Burkina Faso, raised over \$300 million to support the company's growth, and supervised the development of two open pit gold mines (the Taparko gold mine in Burkina Faso, and the Berezitovy gold mine in Russia). He has served on many boards including Cambior Inc. and earlier in his career was project manager for Pancontinental Mining Limited, where he and his team discovered and outlined the largest uranium deposit in the world at that time (the Jabiluka deposits in northern Australia). Over the past decade, Mr. Mosher has been active in the restructuring and refinancing of a number of junior resource companies, both private and public, and currently serves as a director of several mining and exploration companies, including Pancontinental Resources Corporation (TSX-V) and Pelangio Exploration Inc. (TSX-V). Mr. Mosher received his B.Sc. degree in geology from Acadia University.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

No director or executive officer of the Corporation is, as of the date of this AIF or within ten years prior to the date of this AIF has been, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, and was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (i) is, or within ten years prior to the date of this AIF has been, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (ii) has, within ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer, or principal shareholder of the Corporation and no associate or affiliate of the foregoing have had a material interest, direct or indirect, in any transaction in which the Corporation has participated within the three most recently completed financial years or during the current financial year, which has materially affected or is reasonably expected to materially affect the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares of the Corporation is Computershare Investor Services Inc. at its offices in Montreal, Quebec and Toronto, Ontario.

MATERIAL CONTRACTS

The only contracts entered into by the Corporation, other than a contract entered into in the ordinary course of business, that is material to the Corporation and that was entered into within the most recently completed financial year, or since January 1, 2002 but is still in effect, are as follows:

1. An amended and restated shareholder rights plan agreement with Computershare Investor Services Inc., as rights agent, dated June 14, 2017 (the "Rights Plan). The Rights Plan was adopted to ensure the fair treatment of shareholders in connection with any take-over offer for the Corporation and is not intended to prevent take-over bids that treat shareholders fairly. Under the Rights Plan, those bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be "Permitted Bids". In the event a take-over bid does not meet the Permitted Bid requirements of the Rights Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional Common Shares of the Corporation at a substantial discount to the market value at the time. The continued operation and amendment and restatement of the Rights Plan was most recently approved by the shareholders at the Corporation's Annual and Special Meeting of Shareholders on June 14, 2017. A copy of the Rights Plan has been filed by the Corporation on SEDAR at www.sedar.com.

INTERESTS OF EXPERTS

Auditor

The auditor of the Corporation is KPMG LLP, Chartered Accountants, Halifax, Nova Scotia. The Corporation's annual consolidated financial statements for the year ended December 31, 2018, filed under NI 51-102, contain the auditor's report prepared by KPMG LLP. KPMG LLP has confirmed to the Corporation that it is independent of the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Nova Scotia.

Other Experts

The February 2019 Khundii Gold Project PEA Report was prepared by Igor Bojanic (FAusIMM), Jeremy Clark (MAIG), Tony Cameron (FAusIMM), Richard Addison (PEng, Nevada) and Andrew Kelly (PEng, BC and ON). Messrs Bojanic, Clark, Cameron, Addison and Kelly are "qualified persons" as that term is defined in NI 43-101. They are also independent of the Corporation. Messrs Bojanic, Clark, Cameron, Addison and Kelly did not have any interest, direct or indirect, in any securities or other properties of the Corporation or its associates or affiliates at the time they prepared the February 2019 Khundii Gold Project PEA Report. In addition, no such securities or properties were received or are to be received from the Corporation by Messrs Bojanic, Clark, Cameron, Addison and Kelly.

The technical report titled "Bayan Khundii Gold Project National Instrument 43-101 Mineral Resource Technical Report" and dated November 2, 2018 was prepared by Jeremy Clark (MAIG) and Tony Cameron (FAusIMM). Messrs Clark and Cameron are "qualified persons" as that term is defined in NI 43-101. They are also independent of the Corporation. Messrs Clark and Cameron did not have any interest, direct or indirect, in any securities or other properties of the Corporation or its associates or affiliates at the time they prepared such technical report. In addition, no such securities or properties were received or are to be received from the Corporation by Messrs Clark and Cameron.

The technical report titled "Altan Nar Gold Project National Instrument 43-101 Mineral Resource Technical Report" and dated June 22, 2018 was prepared by Jeremy Clark (MAIG), Dr. Andrew James Newell (CP(Met), CP(Eng)) and Tony Cameron (FAusIMM). Messrs Clark and Cameron and Dr. Newell are "qualified persons" as that term is defined in NI 43-101. They are also independent of the Corporation. Messrs Clark and Cameron and Dr. Newell did not have any interest, direct or indirect, in any securities or other properties of the Corporation or its associates or affiliates at the time they prepared such technical report. In addition, no such securities or properties were received or are to be received from the Corporation by Messrs Clark and Cameron or Dr. Newell.

AUDIT COMMITTEE

Audit Committee Charter

The charter of the Corporation's Audit Committee is attached to this AIF as an Appendix.

Composition of Audit Committee & Relevant Education and Experience

The members of the Audit Committee are John P. Byrne (Chair), Dr. Anna G. Biolik and T. Layton Croft. Each of the foregoing is independent and financially literate within the meaning of National Instrument 52-110. The education and experience of each Audit Committee member are described in this AIF under the section entitled "*Directors and Officers*".

Audit Committee Oversight

At no time since the commencement of the Corporation's most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of the Corporation's external auditor not been adopted by the Board of Directors.

Pre-Approval Policies and Procedures

In April 2005, the Audit Committee adopted the following schedule of pre-approved fees to KPMG LLP for non-audit services:

<u>Fee Amount</u>	<u>Authorization Required</u>
Up to \$7,000	Chief Financial Officer
\$7,001 – 10,000	Chairman of the Audit Committee
\$10,000+	Audit Committee

External Auditor Service Fees

The fees charged to the Corporation by its external auditor in each of the last two financial years are as follows:

	Financial Year 2017	Financial Year 2018
Audit Fees	\$63,320	\$60,970
Audit-Related Fees ⁽¹⁾	\$0	\$2,925
Tax Fees ⁽²⁾	\$6,500	\$8,850
All Other Fees ⁽³⁾	\$0	\$0

Notes:

- (1) Audit-related fees comprise fees for assurance and related services that are reasonably related to the performance of the audit or review and are not reported in Audit Fees.
- (2) Tax fees compromise fees for tax compliance, tax advice and tax planning services.
- (3) All other fees compromise fees for other services not captured elsewhere.

ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com. In particular, the Corporation's most recent Management Information Circular located on SEDAR contains additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans. Additional financial information is provided in the Corporation's audited consolidated annual financial statements and management's discussion and analysis for the financial year ended December 31, 2018, both of which are also available on SEDAR.

APPENDIX

ERDENE RESOURCE DEVELOPMENT CORP. ("Company")

AUDIT COMMITTEE CHARTER

I. Purpose

The Audit Committee ("Committee") is a standing committee of the Board of Directors ("Board") charged with assisting the Board in fulfilling its responsibility to the shareholders and investment community. Its role is to:

- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system.
- Review and appraise the audit efforts of the Company's external auditors.
- Provide an open avenue of communication among the external auditors, financial and senior management and the Board.

II. Authority

The Board authorizes the Committee, within the scope of its responsibilities, to:

- Seek any information it requires from any employee (and all employees are directed to co-operate with any request made by the Committee).
- Engage independent counsel and other advisors as it determines necessary to carry out its duties.
- Set and pay the compensation for any advisors employed by the Committee.
- Communicate directly with the internal and external auditors.

III. Composition

The Committee will be comprised of at least three directors. Each Committee member will be independent of management and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. All members shall be financially literate in finance and accounting practices or become financially literate within a reasonable period of time after his or her appointment.

The Committee members shall be elected annually.

IV. Responsibilities

Responsibilities of the Committee include:

- Review and assess the adequacy of this Mandate annually.
- Make recommendations to the Board regarding the selection and compensation of the external auditor to be engaged to prepare or issue an auditor's report or perform other audit, review or attest services for the Company. The external auditor shall be accountable to the Board and the Committee.

- Meet with the external auditor and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be used and oversee the work of the external auditor engaged to prepare or issue an auditor's report or perform other audit, review or attest services for the Company, including the resolution of any disagreements between management and the external auditor regarding financial reporting.
- Pre-approve all non-audit services to be provided to the Company or any of its subsidiaries by the Company's external auditor.
- Obtain a written statement from the external auditors annually disclosing all relationships that the auditors have with the Company. Discuss with the external auditors any relationships or services disclosed that may impact their objectivity and independence. Recommend that the Board take action, where appropriate, to satisfy itself of the external auditors' independence.
- Review the performance of the external auditors.
- Review with management and the external auditors:
 - The Company's audited financial statements and footnotes, MD&A and any annual or interim earnings press releases before the Company publicly discloses this information.
 - Any significant changes required in the external auditors' audit plan and any serious difficulties or disputes with management encountered during the course of the audit.
 - Other matters related to the conduct of the audit that are to be communicated to the Committee under generally accepted auditing standards.
- Make a recommendation to the Board concerning the inclusion of the audited financial statements in the Company's Annual Report.
- Review with the external auditors and management the adequacy and effectiveness of the financial and accounting controls of the Company.
- Review with the external auditors and management the quality of the Company's accounting principles as applied in its financial reporting process and any proposed changes in accounting principles.
- Inquire of management and the external auditors about significant risks or exposures and assess the steps taken by management to minimize such risks to the Company.
- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and for the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters.
- Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

V. Meetings

The Committee will meet regularly at times necessary to perform the duties described above in a timely manner, but not less than once a quarter. Special meetings may be held at any time deemed appropriate by any member of the Committee.

These meetings may be with representatives of the external auditors and appropriate officers or members of management, either individually or collectively as may be required by the Chairman of the Committee.

The external auditors will have access to the Committee at their own initiative.

The Chairman of the Committee will report periodically its findings and recommendations to the Board.

As amended June, 2009.