CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(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, 2020 and December 31, 2019
- 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, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020.

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

Evaluation of indicators of impairment for exploration and evaluation assets

Description of the matter:

We draw attention to Notes 2(c)(ii), 3(d), and 5 of the financial statements. The Entity has exploration and evaluation assets of $29,364,155. Exploration and evaluation assets are assessed for impairment if facts and circumstances indicate that the carrying amount may exceed its recoverable amount. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Entity has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Why the matter is a key audit matter:

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

How the matter was addressed in the audit:

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

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

We compared the actual exploration and evaluation expenditures in 2020 to the budgeted expenditures to assess management's ability to accurately budget.

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

KPMG LLP

Chartered Professional Accountants

Halifax, Canada

March 11, 2021

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position
(Canadian dollars)

	Notes		December 31, 2020		December 31, 2019
Assets					
Cash and cash equivalents		**$**	**12,800,728**	$	5,106,863
Receivables			**89,344**		70,361
Prepaid expenses			**212,479**		69,029
Current assets			**13,102,551**		5,246,253
Exploration and evaluation assets	**5**		**29,364,155**		21,483,517
Right-of-use asset	**6**		**107,693**		137,064
Property, plant and equipment	**7**		**239,431**		105,998
Non-current assets			**29,711,279**		21,726,579
Total Assets		**$**	**42,813,830**	**$**	26,972,832
Liabilities and Equity					
Trade and other payables		**$**	**582,356**	$	591,999
Lease liability	**6**		**27,853**		25,697
Current liabilities			**610,209**		617,696
Lease liability	**6**		**85,699**		113,553
Convertible loan	**9**		**-**		6,260,521
Non-current liabilities			**85,699**		6,374,074
Total Liabilities			**695,908**		6,991,770
Shareholders' Equity					
Share capital	**11**	**$**	**136,618,086**	$	109,466,565
Contributed surplus	**11**		**25,937,667**		16,829,920
Accumulated other comprehensive loss			**(2,964,666)**		(1,958,616)
Deficit			**(117,473,165)**		(104,356,807)
Total Shareholders' Equity			**42,117,922**		19,981,062
Total Liabilities and Equity		**$**	**42,813,830**	$	26,972,832

Commitments (Note 8)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"
______________________________ Director

Signed "John P. Byrne"
______________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss
(Canadian dollars)

	Notes	For the years ended December 31, 2020	2019
Operating Expenses			
Exploration and evaluation	**12**	**$ 1,372,811**	$ 1,090,786
Corporate and administration	**13**	**1,868,905**	1,615,724
Loss from operating activities		**3,241,716**	2,706,510
Finance income		**(62,858)**	(36,512)
Interest expense		**1,661,960**	165,934
Change in fair value of convertible loan	**9**	**8,412,081**	(178,972)
Foreign exchange loss (gain)		**(136,541)**	26,332
Net Loss		**$ 13,116,358**	$ 2,683,292
Other comprehensive loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		**1,006,050**	1,002,903
Other comprehensive loss		**1,006,050**	1,002,903
Total comprehensive loss		**$ 14,122,408**	$ 3,686,195
Basic and diluted loss per share		**$ 0.06**	$ 0.02
Basic weighted average number of shares outstanding		**216,535,792**	178,522,823

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, 2019		162,426,416	$	104,003,644	$	16,110,116	$	(955,713)	$	(101,673,515)	$	17,484,532
Total comprehensive loss for the period:												
Net loss		-		-		-		-		(2,683,292)		(2,683,292)
Other comprehensive loss		-		-		-		(1,002,903)		-		(1,002,903)
Private placements, net of share issue costs	11	25,922,044		4,895,464		414,401		-		-		5,309,865
Options exercised	11	1,105,000		276,900		(107,100)		-		-		169,800
Issue of shares from DSU plan	11	1,615,030		290,557		(290,557)		-		-		-
Share-based compensation		-		-		703,060		-		-		703,060
Total transactions with owners		28,642,074		5,462,921		719,804		-		-		6,182,725
Balance at December 31, 2019		191,068,490	$	109,466,565	$	16,829,920	$	(1,958,616)	$	(104,356,807)	$	19,981,062
Balance at January 1, 2020		**191,068,490**	**$**	**109,466,565**	**$**	**16,829,920**	**$**	**(1,958,616)**	**$**	**(104,356,807)**	**$**	**19,981,062**
Total comprehensive loss for the period:												
Net loss		**-**		**-**		**-**		**-**		**(13,116,358)**		**(13,116,358)**
Other comprehensive loss		**-**		**-**		**-**		**(1,006,050)**		**-**		**(1,006,050)**
Private placements, net of share issue costs	**11**	**44,444,441**		**10,727,732**		**8,206,644**		**-**		**-**		**18,934,376**
Issue of shares on convertible loan conversion	**9**	**30,043,290**		**15,768,935**		**-**		**-**		**-**		**15,768,935**
Options exercised	**11**	**2,175,000**		**521,890**		**(177,590)**		**-**		**-**		**344,300**
Issue of shares from DSU plan	**11**	**719,212**		**132,964**		**(132,964)**		**-**		**-**		**-**
Share-based compensation		**-**		**-**		**1,211,657**		**-**		**-**		**1,211,657**
Total transactions with owners		**77,381,943**		**27,151,521**		**9,107,747**		**-**		**-**		**36,259,268**
Balance at December 31, 2020		**268,450,433**	**$**	**136,618,086**	**$**	**25,937,667**	**$**	**(2,964,666)**	**$**	**(117,473,165)**	**$**	**42,117,922**

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 years ended December 31, 2020		2019
Cash flows from (used in) operating activities:					
Net loss		$	**(13,116,358)**	$	(2,683,292)
Items not involving cash:					
Depreciation and amortization			**54,391**		32,248
Share-based compensation			**1,211,657**		703,060
Finance income			**(62,858)**		(36,512)
Interest expense	**9**		**1,653,178**		162,051
Foreign exchange not related to cash			**(136,541)**		26,332
Fair value change on convertible loan			**8,412,081**		(178,972)
Change in non-cash operating working capital			**(172,509)**		392,315
Cash flows used in operating activities			**(2,156,959)**		(1,582,770)
Cash flows from (used in) financing activities:					
Issue of common shares, net of issue costs	**11**		**18,934,376**		5,309,865
Proceeds on issuance of convertible loan, net of issue costs	**9**		**-**		6,357,763
Proceeds on exercise of stock options	**11**		**344,300**		169,800
Repayment of lease liability			**(25,697)**		(7,604)
Interest paid on convertible loan	**9**		**(608,302)**		-
Cash flows from financing activities			**18,644,677**		11,829,824
Cash flows from (used in) investing activities:					
Expenditures on exploration and evaluation assets	**5**		**(8,873,361)**		(6,804,128)
Expenditures on property, plant and equipment	**7**		**(175,630)**		(10,653)
Interest received			**62,858**		36,512
Cash flows used in investing activities			**(8,986,133)**		(6,778,269)
Effect of exchange rate changes on cash balances			**192,280**		(110,171)
Increase in cash and cash equivalents			**7,693,865**		3,358,614
Cash and cash equivalents, beginning of period			**5,106,863**		1,748,249
Cash and cash equivalents, end of period		$	**12,800,728**	$	5,106,863

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

1. Nature of operations:

Erdene Resource Development Corporation ("Erdene" or the "Corporation") is a Canadian based resource company focused on the exploration and development 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.

Erdene is a late exploration stage business focusing on the acquisition, exploration and development of gold and other precious and base metal properties in southwest Mongolia. Currently, the Corporation's principal development is the Bayan Khundii Gold Project, located in Bayankhongor province, Mongolia.

In August 2020, Erdene completed a Feasibility Study for its Bayan Khundii Gold Project, titled "Bayan Khundii Gold Project Feasibility Study, NI 43-101 Technical Report". The continued 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 one or more of the properties.

2. Basis of presentation

a) Statement of compliance

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

The consolidated financial statements were authorized for issue by Erdene's Board of Directors on March 11, 2021.

b) Basis of measurement

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

c) Critical judgments and estimates in applying accounting policies

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

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

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

2. Basis of presentation (continued)

are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

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

iii) *Asset acquisitions:* The Corporation applies judgment in determining whether the exploration and evaluation assets it acquires are considered to be asset acquisitions or business combinations. Key factors in this determination are whether reserves have been established, whether the project is capable of being managed as a business by a market participant, and the nature of the additional work to convert resources into reserves. The Corporation has considered all exploration and evaluation assets acquired to date to be asset acquisitions.

iv) *Share-based compensation:* Equity-settled share-based compensation is measured at fair value at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

v) *Convertible Loan*: In 2019 the Corporation issued a convertible loan with an embedded derivative conversion option, allowing the holder to convert any or all amounts outstanding to common shares of Erdene. The embedded derivative conversion option was determined by management to be a liability. This liability was measured at fair value and was revalued at each reporting period. Fair value was measured using a binomial option model and required the exercise of judgment in relation to variables such as expected volatilities, risk-free interest rates and credit risk spreads based on information available at the time the fair value was measured.

vi) *Provision for site restoration:* Management’s assessment that there are currently no provisions required for site restoration is based on facts and circumstances that existed during the year.

d) COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and efforts to contain it have had a significant effect on commodity prices and global capital markets. The Corporation adopted certain operating procedures in response to COVID-19, and associated restrictions implemented by the Government of Mongolia, including remote working, travel restrictions, and increased sanitation. As a result, the Corporation has been able to continue operating safely during the pandemic. Notwithstanding the proactive and considered actions taken to maintain a safe workplace, it is possible that in the future there will be negative impacts on operations that could have a material adverse effect on the Corporation’s results of operations and financial position. The Corporation had $12,492,342 in working capital at December 31, 2020, providing sufficient liquidity to manage through this period of uncertainty.

3. Summary of significant accounting policies

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

a) Basis of consolidation

For the years ended December 31, 2020 and 2019, the consolidated financial statements include those of Erdene Resource Development Corporation and its wholly owned subsidiaries: Erdene Mongol LLC and Anian Resources LLC (Mongolian exploration companies).

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign currencies

Items included in the financial statements of the Corporation and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). In preparing the financial statements of the individual entities, transactions in currencies other than 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 and liabilities classified as fair value through profit and loss ("FVTPL"), are measured at fair value, plus transaction costs on initial recognition. Financial assets and liabilities classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

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

3. Summary of significant accounting policies (continued)

Type	Classification	Measurement
Cash and cash equivalents	Financial Assets	Fair value
Receivables	Financial Assets	Amortized cost
Trade and other payables	Financial Liabilities	Amortized cost
Convertible debenture - host debt	Financial Liabilities	Amortized cost
Convertible debenture - conversion option	Financial Liabilities	Fair value

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

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

d) Exploration and evaluation assets

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

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

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

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

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

i) such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

ii) exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned for the future.

3. Summary of significant accounting policies (continued)

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) Leases

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

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

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

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

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

g) Share-based compensation

Equity-settled share-based awards to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black-Scholes pricing model. The fair value

3. Summary of significant accounting policies (continued)

determined at the grant date is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

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

h) Loss per share

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

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

4. Changes in accounting policies

Erdene has adopted the following new standards, along with any consequential amendments, effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

<u>IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Estimates and Errors</u>

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These amendments clarify the definition of 'material' and aligns the definition used within the IFRS Standards. The application of this amendment did not have a material impact on the Corporation.

<u>IFRS 3 – Business Combinations</u>

On October 22, 2018, the IASB issued an amendment to IFRS 3 Business Combinations to narrow the definition of a business and introduce a screening test, which eliminates the requirement for a detailed assessment of the definition, when met. The application of this amendment did not have a material impact on the Corporation.

New accounting standards not yet adopted

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

<u>IAS 1 – Presentation of Financial Statements</u>

On January 23, 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or noncurrent depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively, with early adoption permitted. The Corporation is currently assessing the financial impact of the amendments and expects to apply the amendments at the effective date.

(Canadian dollars)

4. Changes in accounting policies (continued)

IAS 16 – Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

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

IFRS 9 – Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

5. Exploration and evaluation assets

	Bayan Khundii	Altan Nar	Zuun Mod	Ulaan & Other	Total
Balance, January 1, 2019	$ 10,947,301	$ 2,955,725	$ 831,726	$ 952,596	$ 15,687,348
Additions	5,951,335	767,125	67,091	18,577	6,804,128
Effect of movements in exchange rates	(733,911)	(161,684)	(70,018)	(42,346)	(1,007,959)
Balance, December 31, 2019	$ 16,164,725	$ 3,561,166	$ 828,799	$ 928,827	$ 21,483,517
Balance, January 1, 2020	**$ 16,164,725**	**$ 3,561,166**	**$ 828,799**	**$ 928,827**	**$ 21,483,517**
Additions	**7,436,420**	**391,875**	**64,512**	**980,554**	**8,873,361**
Effect of movements in exchange rates	**(750,939)**	**(125,774)**	**(55,030)**	**(60,980)**	**(992,723)**
Balance, December 31, 2020	**$ 22,850,206**	**$ 3,827,267**	**$ 838,281**	**$ 1,848,401**	**$ 29,364,155**

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

5. Exploration and evaluation assets (continued)

Bayan Khundii Gold Project

The Bayan Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309 hectare Khundii mining license, issued in August 2019, from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of a portion of its legacy Khundii exploration license. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in "Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report", dated August 31, 2020 and prepared by Roma Oil and Mining Associates Limited. The Corporation is currently completing construction readiness activities on the project in advance of a decision to proceed to construction, anticipated in 2021.

Additionally, the mining license includes Erdene's highly prospective Altan Arrow, Dark Horse, Khundii North and Khundii West targets. On July 1, 2016, the Corporation began capitalizing exploration costs on the property in accordance with its capitalization policy.

Altan Nar Gold Project

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

Zuun Mod Copper & Molybdenum Resource

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041 hectare molybdenum-copper Mining License. The mining license was issued in 2011. The Zuun Mod molybdenum-copper deposit has significant potential for development provided the molybdenum price improves. The Corporation will continue to evaluate its options in light of technological and market factors.

Ulaan & Other

The Ulaan exploration license covers an area of approximately 1,780 hectares, situated immediately adjacent to the Khundii mining license. The exploration license is in its sixth year of a maximum 12-year term and can be converted to a mining license at any time prior to the end of the twelfth year by meeting the requirements prescribed under the Minerals Law of Mongolia. On August 30, 2017, Erdene acquired 51% of the outstanding shares of Leader Exploration LLC, a private Mongolian company that holds the license. 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. On December 10, 2020 Erdene acquired an 100% interest in the Ulaan exploration license with the purchase of the remaining 49% interest in Leader Exploration LLC for US$750,000.

The Corporation maintains an exploration license for 2,205 hectares of the legacy Khundii exploration license that were not converted to a mining license in 2019. This exploration license is in its eleventh 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.

(Canadian dollars)

6. Leases

The Corporation entered a five-year lease for its head office, with an effective date of September 1, 2019. The lease is reflected on the balance sheet as a right-of-use asset, with an associated lease liability. The discount rate applied to the lease is 7%.

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

Balance, January 1, 2019	$	-
Additions		146,854
Depreciation		(9,790)
Balance, December 31, 2019	$	137,064
Balance, January 1, 2020	**$**	**137,064**
Additions		**-**
Depreciation		**(29,371)**
Balance, December 31, 2020	**$**	**107,693**

The maturity analysis of the office lease liability at December 31, 2020 is as follows:

	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	Total
Lease payments	$ 34,522	$ 34,693	$ 35,037	$ 23,358	**$ 127,610**
Finance charges	(6,669)	(4,553)	(2,417)	(419)	**(14,058)**
Total liability	**$ 27,853**	**$ 30,140**	**$ 32,620**	**$ 22,939**	**$ 113,552**

The Corporation also has leases for office space, staff accommodation and storage in Mongolia that expire within the next 12 months. The Corporation has elected not to apply the requirements of IFRS 16 to these leases and the Corporation expenses lease payments for these facilities as incurred, totaling $89,803 (2019 - $113,831).

(Canadian dollars)

7. Property, plant and equipment

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2019	$ 97,872	$ 111,061	$ 208,349	$ 417,282
Additions	-	100	10,553	10,653
Effect of movements in exchange rates	(7,691)	(3,721)	(2,075)	(13,487)
Balance, December 31, 2019	$ 90,181	$ 107,440	$ 216,827	$ 414,448
Depreciation & depletion				
Balance, January 1, 2019	$ (21,125)	$ (82,436)	$ (188,444)	$ (292,005)
Depreciation	(9,431)	(4,466)	(8,561)	(22,458)
Effect of movements in exchange rates	2,073	2,184	1,756	6,013
Balance, December 31, 2019	$ (28,483)	$ (84,718)	$ (195,249)	$ (308,450)
Carrying amounts				
At January 1, 2019	$ 76,747	$ 28,625	$ 19,905	$ 125,277
At December 31, 2019	$ 61,698	$ 22,722	$ 21,578	$ 105,998

	Vehicles & field equipment	Equipment, furniture & fixtures	Software & computers	Total
Cost				
Balance, January 1, 2020	**$ 90,181**	**$ 107,440**	**$ 216,827**	**$ 414,448**
Additions	**82,169**	**92,731**	**12,453**	**187,353**
Disposals	**(32,868)**	**(2,478)**	**(3,596)**	**(38,942)**
Effect of movements in exchange rates	**(7,734)**	**(6,549)**	**(1,731)**	**(16,014)**
Balance, December 31, 2020	**$ 131,748**	**$ 191,144**	**$ 223,953**	**$ 546,845**
Depreciation & depletion				
Balance, January 1, 2020	**$ (28,483)**	**$ (84,718)**	**$ (195,249)**	**$ (308,450)**
Depreciation	**(9,973)**	**(6,007)**	**(9,040)**	**(25,020)**
Disposals	**15,338**	**2,336**	**3,596**	**21,270**
Effect of movements in exchange rates	**1,532**	**1,821**	**1,433**	**4,786**
Balance, December 31, 2020	**$ (21,586)**	**$ (86,568)**	**$ (199,260)**	**$ (307,414)**
Carrying amounts				
At January 1, 2020	**$ 61,698**	**$ 22,722**	**$ 21,578**	**$ 105,998**
At December 31, 2020	**$ 110,162**	**$ 104,576**	**$ 24,693**	**$ 239,431**

(Canadian dollars)

8. Commitments

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

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

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

Key terms of the Loan included:

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

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

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

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

(Canadian dollars)

9. Convertible Loan (continued)

The following table summarizes the continuity of the host liability component of the loan for the years ended December 31, 2020 and 2019:

		2020		2019
Balance, January 1	**$**	**4,333,370**	$	-
Carrying value, date of issue		**-**		4,251,640
Interest expense, capitalized		**608,302**		84,978
Accretion of discount		**1,044,876**		77,073
Effect of movement in exchange rates		**51,457**		(80,321)
Less: Interest paid		**(608,302)**		-
Less: Conversion of loan		**(5,429,703)**		-
Balance, December 31	**$**	**-**	$	4,333,370

The following table summarizes the continuity of the conversion option component of the loan for the years ended December 31, 2020 and 2019:

		2020		2019
Balance, January 1	**$**	**1,927,151**	$	-
Carrying value, date of issue		**-**		2,106,123
Fair value adjustment		**8,412,081**		(178,972)
Less: Conversion of loan		**(10,339,232)**		-
Balance, December 31	**$**	**-**	$	1,927,151

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

		Conversion Date October 9, 2020		Year Ended December 31, 2019
Expected volatility		**79%**		65%
Risk-free interest rate		**0.2%**		1.6%
Conversion option term		**2.0 years**		2.8 years
Credit spread		**24.8%**		27.4%
Underlying share price	**$**	**0.490**	$	0.175
Exchange rate (C$:US$)		**0.762**		0.770

(Canadian dollars)

10. Income taxes

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

	December 31, 2020	December 31, 2019
Statutory tax rates	29.5%	31.0%
Income taxes (recovery) computed at the statutory rates	**$ (3,869,000)**	$ (832,000)
Benefit of temporary differences not recognized	**520,000**	439,000
Expenses not deductible for tax purposes	**3,221,000**	239,000
Effect of foreign tax rates	**128,000**	154,000
Provision for income taxes	**$ -**	$ -

The enacted tax rates in Canada 29.5% (31% in 2019) and Mongolia 25% (25% in 2019) where the Corporation operates are applied in the tax provision calculation.

The following table reflects the Corporation's deferred tax assets (liabilities):

	December 31, 2020	December 31, 2019
Non-capital losses carried forward	**$ 495,000**	$ 754,000
Deferred income tax assets	**495,000**	754,000
Convertible loan	**-**	(80,000)
Unrealized foreign exchange	**(495,000)**	(674,000)
Net deferred income tax assets (liabilities)	**$ -**	$ -

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

	December 31, 2019		
	Canada	Mongolia	Total
Non-capital losses carried forward	$ 16,297,000	$ 1,683,000	$ 17,980,000
Property, plant and equipment	239,000	-	239,000
Share issuance costs	1,248,000	-	1,248,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	8,574,000	14,311,000
	$ 23,899,000	$ 10,257,000	$ 34,156,000

(Canadian dollars)

10. Income taxes (continued)

	December 31, 2020		
	Canada	Mongolia	Total
Non-capital losses carried forward	**$ 18,559,000**	**$ 1,801,000**	**$ 20,360,000**
Property, plant and equipment	**250,000**	**-**	**250,000**
Share issuance costs	**1,678,000**	**-**	**1,678,000**
Intangible assets	**378,000**	**-**	**378,000**
Exploration and evaluation assets	**5,737,000**	**8,017,000**	**13,754,000**
	$ 26,602,000	**$ 9,818,000**	**$ 36,420,000**

As at December 31, 2020, 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, 2020	December 31, 2019
2020	**-**	353,000
2021	**410,000**	438,000
2022	**440,000**	469,000
2023	**396,000**	423,000
2024	**554,000**	
Thereafter	**20,265,000**	18,729,000
	$ 22,065,000	$ 20,412,000

11. Share Capital and Contributed Surplus

Authorized

An unlimited number of common shares with no par value.

Issued

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

In 2019, the Corporation closed three non-brokered private placement equity financings for gross proceeds of $5,514,845, issuing an aggregate of 25,922,044 Units of the Corporation, at a weighted average price of $0.21 per Unit. The 25,922,044 Units were comprised of 25,922,044 common shares and 18,938,614 warrants,

(Canadian dollars)

11. Share Capital and Contributed Surplus (continued)

exercisable by the holder into one common share of the Corporation within two years of the closing dates, at exercise prices between $0.30 and $0.50. The Corporation also paid finder's fees of $116,176 and issued 469,870 finder's warrants in connection with the Offerings, and incurred share issue costs of $88,804, resulting in net proceeds of $5,309,865.

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, 2020, the Corporation granted 1,115,198 DSUs with an average fair value of $0.34 per DSU (2019 – 2,297,762 DSUs with fair value of $0.20 per DSU). The fair value of $378,007 (2019 – $462,010) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Also, during the year ended December 31, 2020, Erdene issued 719,212 shares from the DSU plan at an average value of $0.18 per DSU (2019 – 1,615,030 shares at $0.18 per DSU).

	Year Ended December 31, 2020	Year Ended December 31, 2019
Five day volume weighted average price at grant date	**$ 0.34**	$ 0.20

The following table summarizes the continuity of DSUs for the years ended December 31, 2020 and 2019:

	December 31, 2020 Number of DSUs	December 31, 2019 Number of DSUs
Outstanding at January 1	**4,636,850**	3,954,118
Granted	**1,115,198**	2,297,762
Issued	**(719,212)**	(1,615,030)
Outstanding at December 31	**5,032,836**	4,636,850

Warrants

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

In 2019, the Corporation issued 18,938,164 warrants as part of three separate non-brokered private placement equity financings at exercise prices between $0.30 and $0.50. All warrants expire in 24 months. In February 2019, 1,075,324 compensation warrants expired.

(Canadian dollars)

11. Share Capital and Contributed Surplus (continued)

The following table summarizes the continuity of the warrants for the years ended December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding at January 1	**30,252,744**	**$ 0.47**	12,389,904	$ 0.65
Issued	**44,845,052**	**0.60**	18,938,164	0.39
Expired	**-**	**-**	(1,075,324)	1.20
Outstanding at December 31	**75,097,796**	**$ 0.55**	30,252,744	$ 0.47
Exercisable at December 31	**75,097,796**	**$ 0.55**	30,252,744	$ 0.47

The remaining contractual lives of warrants outstanding at December 31, 2020, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
$0.30	**7,653,550**	**0.63**
$0.40 - $0.50	**11,284,614**	**0.16**
$0.60	**56,159,632**	**1.32**
	75,097,796	**1.08**

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Share price at grant date	**$ 0.53**	$ 0.20
Exercise price	**$ 0.60**	$ 0.39
Risk-free interest rate	**0.3%**	1.7%
Expected life	**2.0 years**	2.0 years
Expected volatility	**70%**	52%
Expected dividends	**0.0%**	0.0%
Weighted average grant date fair value	**$ 0.18**	$ 0.02

Expected volatility is estimated considering historic average share price volatility.

(Canadian dollars)

11. Share Capital and Contributed Surplus (continued)

Share-Based Compensation

For the year ended December 31, 2020, the Corporation charged a total of $1,211,657 of stock-based compensation expense to the statement of comprehensive loss (2019 – $703,060) of which $522,970 is attributable to exploration expenses (2019 – $230,292).

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, 2020, 3,910,000 options were granted at a weighted average exercise price of $0.45 (2019 – 2,670,000 options granted at average exercise price of $0.20). Also 2,175,000 options were exercised at an average price of $0.16 generating proceeds of $344,300 (2019 – 1,105,000 options exercised at average price of $0.15 for proceeds of $169,800). During the year ended December 31, 2020, 250,000 options were forfeited (2019 – 100,000 options expired).

The changes in stock options during the years ended December 31, 2020 and 2019 were as follows:

	December 31, 2020		**December 31, 2019**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at January 1	**12,305,000**	**$ 0.41**	11,335,000	$ 0.43
Granted	**3,910,000**	**0.45**	2,670,000	0.20
Expired / Forfeited	**(250,000)**	**0.22**	(595,000)	0.42
Exercised	**(2,175,000)**	**0.16**	(1,105,000)	0.15
Outstanding at December 31	**13,790,000**	**$ 0.46**	12,305,000	$ 0.41
Exercisable at December 31	**13,790,000**	**$ 0.46**	12,305,000	$ 0.41

(Canadian dollars)

11. Share Capital and Contributed Surplus (continued)

All stock options granted in 2020 and 2019 vested immediately and have a five-year term. The following table summarizes information concerning outstanding options, all of which are exercisable at December 31, 2020.

	December 31, 2020		December 31, 2019	
Expiry date	**Number of Options**	**Exercise price**	Number of Options	Exercise price
June 5, 2020	**-**	**$ -**	1,050,000	$ 0.15
July 2, 2020	**-**	**-**	100,000	0.15
December 22, 2020	**-**	**-**	855,000	0.16
June 15, 2021	**1,825,000**	**0.36**	1,825,000	0.36
March 31, 2022	**2,445,000**	**0.87**	2,445,000	0.87
July 18, 2022	**150,000**	**0.89**	150,000	0.89
February 4, 2023	**50,000**	**0.50**	50,000	0.50
March 13, 2023	**100,000**	**0.40**	100,000	0.40
June 14, 2023	**2,780,000**	**0.40**	2,785,000	0.40
October 15, 2023	**150,000**	**0.27**	150,000	0.27
November 8, 2023	**-**	**-**	150,000	0.24
June 20, 2024	**2,230,000**	**0.20**	2,495,000	0.20
November 29, 2024	**100,000**	**0.18**	100,000	0.18
December 20, 2024	**50,000**	**0.18**	50,000	0.18
February 11, 2025	**50,000**	**0.27**	-	-
May 13, 2025	**500,000**	**0.22**	-	-
August 27, 2025	**3,160,000**	**0.49**	-	-
December 1, 2025	**200,000**	**0.38**	-	-
	13,790,000	**$ 0.46**	12,305,000	$ 0.41

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

	Year Ended December 31, 2020	**Year Ended December 31, 2019**
Share price at grant date	**$ 0.44**	$ 0.19
Exercise price	**$ 0.45**	$ 0.20
Risk-free interest rate	**0.3%**	1.4%
Expected life	**3.7 years**	3.8 years
Expected volatility	**70%**	63%
Expected dividends	**0.0%**	0.0%
Weighted average grant date fair value	**$ 0.21**	$ 0.09

Expected volatility is estimated considering historic average share price volatility.

Options issued in 2020 resulted in a charge of $833,650 to share based compensation included in exploration expenses and in corporate and administration expenses (2019 – $241,050).

(Canadian dollars)

11. Share Capital and Contributed Surplus (continued)

The remaining contractual lives of options outstanding at December 31, 2020, 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 - $0.24	**2,880,000**	**3.65**	**$**	**0.20**
$0.25 - $0.49	**8,265,000**	**2.93**		**0.42**
$0.50 - $0.89	**2,645,000**	**1.28**		**0.86**
	13,790,000	**2.76**	**$**	**0.46**

12. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2020 and 2019:

	For the year ended December 31			
		2020		**2019**
Depreciation & amortization	**$**	**17,541**	$	14,224
Direct costs		**522,761**		650,482
Employee compensation costs		**309,539**		195,788
Share-based compensation		**522,970**		230,292
	$	**1,372,811**	$	1,090,786

13. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2020 and 2019.

	For the year ended December 31			
		2020		**2019**
Administrative services	**$**	**459,085**	$	373,799
Depreciation and amortization		**36,850**		18,051
Directors fees and expenses		**64,647**		178,409
Investor relations and marketing		**223,136**		109,963
Office and sundry		**81,221**		107,841
Professional fees		**219,014**		202,576
Regulatory compliance		**87,676**		105,234
Share-based compensation		**688,687**		472,768
Travel and accommodations		**8,589**		47,083
	$	**1,868,905**	$	1,615,724

14. Financial instruments

Credit Risk:

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

	Carrying Amount			
		December 31, 2020		**December 31, 2019**
Cash and cash equivalents	**$**	**12,800,728**	$	5,106,863
Receivables		**89,344**		70,361
	$	**12,890,072**	$	5,177,224

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, 2020, $133,130 or 1% of the balance of cash was held in banks outside Canada (2019 - $60,511 or 1%).

Liquidity Risk:

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

Market Risk:

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

a) Interest rate risk

As of December 31, 2020, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

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

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

		December 31, 2020		**December 31, 2019**
Cash and cash equivalents	**$**	**292,895**	$	4,854,316
Trade and other payables		**(223,503)**		(155,219)
Convertible loan		**-**		(5,084,978)
	$	**69,392**	$	(385,881)

(Canadian dollars)

14. Financial instruments (continued)

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately $6,900 (December 31, 2019 - $38,600).

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

		December 31, 2020		December 31, 2019
Cash and cash equivalents	**$**	**889**	$	7,963
Trade and other receivables		**5,460**		5,877
Trade and other payables		**(87,043)**		(69,501)
	$	**(80,694)**	$	(55,661)

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately $8,100 (December 31, 2019 - $5,600).

c) Price risk

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

Fair Value:

Assets and liabilities measured at fair value in the consolidated statements of financial position, or disclosed in the notes to the financial statements, are categorized using a fair value hierarchy that reflects the significance of the inputs used in determining the fair values:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets and liabilities measured at fair value:						
Cash and cash equivalents	**$ 12,800,728**	**$ -**	**$ -**	$ 5,106,863	$ -	$ -
Receivables	**-**	**89,344**	**-**	-	70,361	-
Conversion option on the convertible loan	**-**	**-**	**-**	-	(1,927,151)	-

(Canadian dollars)

15. Related Parties

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

	Year ended December 31,	
	2020	**2019**
Directors' fees	**$ 63,199**	$ 104,567
Share-based compensation to directors	**440,500**	212,700
Executive compensation and benefits	**1,136,357**	944,699
Share-based compensation to key management	**386,099**	284,326
	$ 2,026,155	$ 1,546,292

During the year ended December 31, 2020, certain directors and officers of the Corporation received short-term advances. All such advances were repaid in full prior to December 31, 2020.