# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2023, and 2022

*(Canadian dollars)*
*(Unaudited)*

Prepared by management – See Notice to Reader

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice to this effect. These unaudited condensed consolidated interim financial statements have been prepared by management of the Corporation. Management have compiled the unaudited condensed consolidated interim statements of financial position of Erdene Resource Development Corporation as at March 31, 2023, and December 31, 2022, and the unaudited condensed consolidated interim statements of comprehensive loss, changes in equity and cash flows for the three months ended March 31, 2023, and 2022. The Corporation's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the March 31, 2023, and 2022 condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

# ERDENE RESOURCE DEVELOPMENT CORPORATION

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

| | Notes | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | | $ | **11,713,097** | $ | 7,421,600 |
| Receivables | | | **72,855** | | 76,582 |
| Prepaid expenses | | | **1,458,918** | | 1,361,730 |
| Current assets | | | **13,244,870** | | 8,859,912 |
| Exploration and evaluation assets | 5 | | **43,567,289** | | 43,054,156 |
| Right-of-use assets | 6 | | **57,658** | | 73,594 |
| Property, plant and equipment | 7 | | **531,052** | | 545,704 |
| Non-current assets | | | **44,155,999** | | 43,673,454 |
| **Total Assets** | | $ | **57,400,869** | $ | 52,533,366 |
| **Liabilities and Equity** | | | | | |
| Trade and other payables | | $ | **335,881** | $ | 826,409 |
| Lease liabilities | 6 | | **51,395** | | 59,662 |
| Convertible promissory note | 9 | | **6,930,895** | | - |
| Current liabilities | | | **7,318,171** | | 886,071 |
| Lease liabilities | 6 | | **14,448** | | 22,940 |
| Non-current liabilities | | | **14,448** | | 22,940 |
| **Total Liabilities** | | | **7,332,619** | | 909,011 |
| **Shareholders' Equity** | | | | | |
| Share capital | 10 | $ | **157,880,069** | $ | 157,880,069 |
| Contributed surplus | 10 | | **28,784,429** | | 28,727,197 |
| Accumulated other comprehensive loss | | | **(6,427,386)** | | (5,952,986) |
| Deficit | | | **(130,168,862)** | | (129,029,925) |
| **Total Shareholders' Equity** | | | **50,068,250** | | 51,624,355 |
| **Total Liabilities and Equity** | | $ | **57,400,869** | $ | 52,533,366 |

Commitments (Note 8)
Subsequent Event (Note 9)

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

Approved on behalf of the Board:

*Signed "John P. Byrne"*
_________________________________ Director

*Signed "Kenneth W. MacDonald"*
_________________________________ Director

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Condensed Consolidated Interim Statements of Comprehensive Loss**

(Canadian dollars)
(Unaudited)

| | Notes | For the three months ended March 31, 2023 | 2022 |
|---|---|---|---|
| **Operating Expenses** | | | |
| Exploration and evaluation | **11** | **$ 358,288** | $ 781,624 |
| Corporate and administration | **12** | **580,111** | 445,446 |
| Loss from operating activities | | **938,399** | 1,227,070 |
| | | | |
| Finance income | | **(84,096)** | (6,327) |
| Interest expense | | **172,993** | 3,523 |
| Foreign exchange loss | | **111,641** | 6,890 |
| **Net Loss** | | **$ 1,138,937** | $ 1,231,156 |
| | | | |
| Other comprehensive loss: | | | |
| Foreign currency translation difference arising on translation of foreign subsidiaries | | **474,400** | 1,215,692 |
| **Other Comprehensive Loss** | | **474,400** | 1,215,692 |
| | | | |
| **Total Comprehensive Loss** | | **$ 1,613,337** | $ 2,446,848 |
| | | | |
| Basic and diluted loss per share | | **$ -** | $ - |
| | | | |
| Basic weighted average number of shares outstanding | | **344,300,376** | 294,379,845 |

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Condensed Consolidated Interim Statements of Changes in Equity**
(Canadian dollars)
(Unaudited)

| | Notes | Number of shares | | Share capital | | Contributed surplus | | Accumulated other comprehensive loss | | Deficit | | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2023 | | **344,300,376** | **$** | **157,880,069** | **$** | **28,727,197** | **$** | **(5,952,986)** | **$** | **(129,029,925)** | **$** | **51,624,355** |
| Total comprehensive loss for the period: | | | | | | | | | | | | |
| Net loss | | **-** | | **-** | | **-** | | **-** | | **(1,138,937)** | | **(1,138,937)** |
| Other comprehensive loss | | **-** | | **-** | | **-** | | **(474,400)** | | **-** | | **(474,400)** |
| Share-based compensation | | **-** | | **-** | | **57,232** | | **-** | | **-** | | **57,232** |
| Total transactions with owners | | **-** | | **-** | | **57,232** | | **-** | | **-** | | **57,232** |
| Balance at March 31, 2023 | | **344,300,376** | **$** | **157,880,069** | **$** | **28,784,429** | **$** | **(6,427,386)** | **$** | **(130,168,862)** | **$** | **50,068,250** |
| Balance at January 1, 2022 | | 294,379,845 | $ | 145,153,510 | $ | 26,648,556 | $ | (3,026,358) | $ | (123,043,688) | $ | 45,732,020 |
| Total comprehensive loss for the period: | | | | | | | | | | | | |
| Net loss | | - | | - | | - | | - | | (1,231,156) | | (1,231,156) |
| Other comprehensive loss | | - | | - | | - | | (1,215,692) | | - | | (1,215,692) |
| Share-based compensation | | - | | - | | 76,413 | | - | | - | | 76,413 |
| Total transactions with owners | | - | | - | | 76,413 | | - | | - | | 76,413 |
| Balance at March 31, 2022 | | 294,379,845 | $ | 145,153,510 | $ | 26,724,969 | $ | (4,242,050) | $ | (124,274,844) | $ | 43,361,585 |

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

# ERDENE RESOURCE DEVELOPMENT CORPORATION

**Condensed Consolidated Interim Statements of Cash Flows**
(Canadian dollars)
(Unaudited)

| | Notes | For the three months ended March 31, 2023 | 2022 |
|---|---|---|---|
| **Cash flows from (used in) operating activities:** | | | |
| Net loss | | **$ (1,138,937)** | $ (1,231,156) |
| Items not involving cash: | | | |
| Depreciation and amortization | | **35,090** | 32,157 |
| Share-based compensation | | **57,232** | 76,413 |
| Finance income | | **(84,096)** | (6,327) |
| Foreign exchange not related to cash | | **111,641** | 6,890 |
| Change in non-cash operating working capital | | **(584,729)** | (76,130) |
| Cash flows used in operating activities | | **(1,603,799)** | (1,198,153) |
| **Cash flows from (used in) financing activities:** | | | |
| Proceeds on issuance of convertible promissory note | **9** | **6,653,549** | - |
| Repayment of lease liabilities | | **(16,155)** | (15,296) |
| Interest capitalized on convertible promissory note | **9** | **171,143** | - |
| Cash flows from (used in) financing activities | | **6,808,537** | (15,296) |
| **Cash flows from (used in) investing activities:** | | | |
| Expenditures on exploration and evaluation assets | **5** | **(1,078,894)** | (2,122,948) |
| Expenditures on property, plant and equipment | **7** | **(17,049)** | (74,860) |
| Interest received | | **84,096** | 6,327 |
| Cash flows used in investing activities | | **(1,011,847)** | (2,191,481) |
| Effect of exchange rate changes on cash balances | | **98,606** | (21,795) |
| Increase (decrease) in cash and cash equivalents | | **4,291,497** | (3,426,725) |
| Cash and cash equivalents, beginning of period | | **7,421,600** | 7,063,051 |
| Cash and cash equivalents, end of period | | **$ 11,713,097** | $ 3,636,326 |

The accompanying notes are an integral part of these condensed consolidated interim 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. Currently, the Corporation's principal development is the Bayan Khundii Gold Project, located in Bayankhongor province, Mongolia. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "ERD" and the Mongolian Stock Exchange under the symbol "ERDN". The address of the Corporation's registered office is 1300-1969 Upper Water Street, Halifax, Nova Scotia, B3J 2V1.

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

## 2. Basis of presentation

These unaudited condensed consolidated interim financial statements for the three months ended March 31, 2023 (the "Interim Financial Statements") have been prepared in accordance with IAS 34 – Interim Financial Reporting. The Interim Financial Statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2022 ("Annual Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These unaudited condensed consolidated interim financial statements were authorized for issue on behalf of the Board of Directors on May 3, 2023.

## 3. Seasonality

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

## 4. Changes in accounting policies

Erdene has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2023. These changes were made in accordance with applicable transitional provisions.

<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 application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

(Canadian dollars)

## 5. Exploration and evaluation assets

| | Bayan Khundii | Altan Nar | Ulaan | Zuun Mod & Other | Total |
|---|---|---|---|---|---|
| Balance, January 1, 2023 | **$ 36,183,734** | **$ 4,257,954** | **$ 1,688,477** | **$ 923,991** | **$ 43,054,156** |
| Additions | **1,019,995** | **57,404** | **1,495** | **-** | **1,078,894** |
| Effect of movements in exchange rates | **(470,284)** | **(54,550)** | **(21,510)** | **(19,417)** | **(565,761)** |
| Balance, March 31, 2023 | **$ 36,733,445** | **$ 4,260,808** | **$ 1,668,462** | **$ 904,574** | **$ 43,567,289** |
| Balance, January 1, 2022 | $ 30,910,999 | $ 4,246,301 | $ 1,797,500 | $ 973,653 | $ 37,928,453 |
| Additions | 7,628,060 | 288,818 | 1,726 | 53,351 | 7,971,955 |
| Effect of movements in exchange rates | (2,355,325) | (277,165) | (110,749) | (103,013) | (2,846,252) |
| Balance, December 31, 2022 | $ 36,183,734 | $ 4,257,954 | $ 1,688,477 | $ 923,991 | $ 43,054,156 |

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

Bayan Khundii Gold Project

The Bayan Khundii Gold Project is located in Bayankhongor province in Mongolia and is comprised of the 2,309-hectare Khundii mining license, issued in August 2019, from the Mineral Resource and Petroleum Authority of Mongolia, through the conversion of a portion of its legacy Khundii exploration license. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in "Bayan Khundii Gold Project Feasibility Study NI 43-101 Technical Report", dated August 31, 2020, and prepared by Roma Oil and Mining Associates Limited. The Corporation is currently completing construction readiness activities on the project in advance of a decision to proceed to construction, anticipated in mid-2023. Additionally, the mining license includes Erdene's highly prospective Dark Horse target.

Altan Nar Gold Project

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

Ulaan

The Ulaan exploration license covers an area of approximately 1,780 hectares, immediately west of the Khundii mining license. The exploration license is in its 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.

Zuun Mod Copper & Molybdenum Resource & Other

The Zuun Mod property is located in Bayankhongor province in Mongolia and is comprised of a 6,041-hectare molybdenum-copper Mining License. The mining license was issued in 2011. The Zuun Mod molybdenum-copper deposit has significant potential for development provided molybdenum prices remain strong. In late 2021, the Corporation completed a strategic and economic review of the property in light of rising commodity prices which confirmed the potential economic viability of the property. The Corporation will continue to evaluate its options in light of technological and market factors.

(Canadian dollars)

## 6. Leases

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

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

| | | |
|---|---|---|
| Balance, January 1, 2023 | **$** | **73,594** |
| Depreciation | | **(15,387)** |
| Effect of movements in exchange rates | | **(549)** |
| Balance, March 31, 2023 | **$** | **57,658** |
| | | |
| Balance, January 1, 2022 | $ | 143,200 |
| Depreciation | | (63,645) |
| Effect of movement in exchange rates | | (5,961) |
| Balance, December 31, 2022 | $ | 73,594 |

The maturity analysis of the lease liabilities at March 31, 2023, is as follows:

| | Within 1 year | | 1 - 2 years | | Total | |
|---|---|---|---|---|---|---|
| Lease payments | $ | 53,796 | $ | 14,598 | **$** | **68,394** |
| Finance charges | | (2,401) | | (150) | | **(2,551)** |
| Total lease liabilities | **$** | **51,395** | **$** | **14,448** | **$** | **65,843** |

The Corporation also has leases for office space, staff accommodation and storage in Mongolia with initial lease terms of less than 12 months. The Corporation has elected not to apply the requirements of IFRS 16 to these leases and the Corporation expenses lease payments as incurred, totaling $23,467 for the three months ended March 31, 2023 (2022 - $21,247).

(Canadian dollars)

**7. Property, plant and equipment**

| | Vehicles & field equipment | Equipment, furniture & fixtures | Software & computers | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, January 1, 2023 | **$ 115,961** | **$ 468,387** | **$ 222,271** | **$ 806,619** |
| Additions | **-** | **-** | **17,049** | **17,049** |
| Disposals | **-** | **-** | **-** | **-** |
| Effect of movements in exchange rates | **(2,676)** | **(9,414)** | **(3,327)** | **(15,417)** |
| Balance, March 31, 2023 | **$ 113,285** | **$ 458,973** | **$ 235,993** | **$ 808,251** |
| **Depreciation & depletion** | | | | |
| Balance, January 1, 2023 | **$ (42,192)** | **$ (122,854)** | **$ (95,869)** | **$ (260,915)** |
| Depreciation | **(2,838)** | **(9,840)** | **(7,024)** | **(19,702)** |
| Disposals | **-** | **-** | **-** | **-** |
| Effect of movements in exchange rates | **980** | **1,539** | **899** | **3,418** |
| Balance, March 31, 2022 | **$ (44,050)** | **$ (131,155)** | **$ (101,994)** | **$ (277,199)** |
| **Carrying amounts** | | | | |
| At March 31, 2023 | **$ 69,235** | **$ 327,818** | **$ 133,999** | **$ 531,052** |

| | Vehicles & field equipment | Equipment, furniture & fixtures | Software & computers | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance, January 1, 2022 | $ 130,843 | $ 326,322 | $ 125,890 | $ 583,055 |
| Additions | - | 185,638 | 111,109 | 296,747 |
| Disposals | - | (1,768) | (5,788) | (7,556) |
| Effect of movements in exchange rates | (14,882) | (41,805) | (8,940) | (65,627) |
| Balance, December 31, 2022 | $ 115,961 | $ 468,387 | $ 222,271 | $ 806,619 |
| Depreciation & depletion | | | | |
| Balance, January 1, 2022 | $ (34,523) | $ (98,484) | $ (76,669) | $ (209,676) |
| Depreciation | (12,234) | (32,222) | (28,484) | (72,940) |
| Disposals | - | 1,615 | 5,201 | 6,816 |
| Effect of movements in exchange rates | 4,565 | 6,237 | 4,083 | 14,885 |
| Balance, December 31, 2022 | $ (42,192) | $ (122,854) | $ (95,869) | $ (260,915) |
| Carrying amounts | | | | |
| At December 31, 2022 | $ 73,769 | $ 345,533 | $ 126,402 | $ 545,704 |

(Canadian dollars)

## 8. Commitments

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

Sandbox Royalties Corp. holds a 1.5% NSR Royalty on Erdene's Zuun Mod license. Erdene has the option to buy down a portion of the royalty if certain production milestones are achieved.

## 9. Convertible promissory note

On January 10, 2023, the Corporation announced the execution of Strategic Alliance and Investment Agreements with Mongolian Mining Corporation ("MMC") for the development of its Bayan Khundii Gold Project. The key economic terms of these agreements are as follows:

- MMC to invest US$40 million in return for a 50% equity interest in Erdene's Mongolian subsidiary, Erdene Mongol LLC ("EM"), holding the Khundii and Altan Nar mining licenses and the Ulaan exploration license through a three-stage transaction.
- Erdene will retain a 50% equity interest in EM and a 5.0% Net Smelter Return ("NSR") royalty on all production from the Khundii, Altan Nar and Ulaan licenses, as well as any properties acquired within 5 kilometres of these licenses, beyond the first 400,000 ounces of gold recovered.
- The first stage of the transaction, completed in January 2023, saw MMC invest US$5 million in EM in the form of a convertible promissory note to finance exploration, and an updated Feasibility Study ("FS") and Life of Mine ("LOM") Plan for the Bayan Khundii Gold Project.
- The second stage of the transaction will see MMC invest an additional US$5 million in the form of a convertible note, upon delivery of the updated FS, to complete pre-development and exploration work in advance of a Bayan Khundii construction decision.
- The third stage of the transaction will see MMC invest a further US$30 million once EM has reached a construction decision, providing equity capital for the Bayan Khundii Project, targeting close in Q3 2023.

On January 16, 2023, EM executed a US$5 million convertible promissory note agreement with MMC under the terms of the Investment Agreement. The convertible promissory note bears interest at a rate equal to the secured overnight financing rate ("SOFR") established by the Federal Reserve Bank of New York as at the date the amount is advanced plus 8%. The convertible promissory note, and any accrued interest, is to be converted to a 6.25% equity interest in Erdene Mongol LLC, the Corporation's Mongolian subsidiary, upon the Third Closing of the Investment Agreement, anticipated in Q3 2023. In the event that the Corporation and MMC do not complete the Third Closing, the note, and any accrued interest, shall be due and payable on the earlier of January 10, 2024, or 60 days following the termination of the Investment Agreement.

For accounting purposes, the Loan represents a hybrid financial liability, consisting of a host loan obligation, and the conversion option of the promissory note. The Corporation accounts for the host loan obligation and conversion option at fair value through profit and loss, which will initially be the transaction price of US$5 million. Subsequent to the date of recognition, the fair value is expected to equal the transaction price, plus accrued interest, due to the relatively short term to maturity of the conversion option.

The change in the value of the convertible promissory note during the period ended March 31, 2023, is as follows:

| | | 2023 |
|---|---|---|
| Convertible promissory note at issue date | $ | 6,653,549 |
| Interest expense in the period, capitalized | | 171,143 |
| Effect of movement in exchange rates | | 106,203 |
| Balance at March 31, 2023 | $ | 6,930,895 |

(Canadian dollars)

**9. Convertible promissory note (continued)**

Subsequent to period end, on May 2, 2023, EM executed a second US$5 million convertible promissory note agreement with MMC under the terms of the Investment Agreement. The convertible promissory note also bears interest at a rate equal to the secured overnight financing rate ("SOFR") established by the Federal Reserve Bank of New York as at the date the amount is advanced plus 8%. The convertible promissory note, and any accrued interest, is expected to be converted to an additional 6.25% equity interest in Erdene Mongol LLC, the Corporation's Mongolian subsidiary, upon the Third Closing of the Investment Agreement, anticipated in Q3 2023. In the event that the Corporation and MMC do not complete the Third Closing, the note, and any accrued interest, shall be due and payable on the earlier of January 10, 2024, or 60 days following the termination of the Investment Agreement.

**10. Share capital and contributed surplus**

Authorized

An unlimited number of common shares with no par value.

Warrants

The following table summarizes the continuity of the warrants for the three months ended March 31, 2023, and 2022:

| | **March 31, 2023** | | **March 31, 2022** | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | **Number of warrants** | **Weighted average exercise price** |
| Outstanding at January 1 | **25,264,122** | **$ 0.42** | 44,845,052 | $ 0.60 |
| Outstanding at March 31 | **25,264,122** | **$ 0.42** | 44,845,052 | $ 0.60 |
| Exercisable at March 31 | **25,264,122** | **$ 0.42** | 44,845,052 | $ 0.60 |

The warrants outstanding at March 31, 2023, expire in July, August and December of 2024.

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 three months ended March 31, 2023, no options were granted (2022 – 100,000 options granted at average exercise price of $0.43). During the three months ended March 31, 2023, 150,000 options expired (2022 – 2,445,000 options expired).

(Canadian dollars)

## 10. Share capital and contributed surplus (continued)

Changes in stock options during the three months ended March 31, 2023, and 2022 were as follows:

| | March 31, 2023 | | | March 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Outstanding at January 1 | **17,555,000** | **$** | **0.36** | 15,855,000 | $ | 0.45 |
| Expired | **(150,000)** | | **0.43** | (2,445,000) | | 0.87 |
| Outstanding at March 31 | **17,405,000** | **$** | **0.36** | 13,410,000 | $ | 0.38 |
| Exercisable at March 31 | **17,405,000** | **$** | **0.36** | 13,410,000 | $ | 0.38 |

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 numbers 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 three months ended March 31, 2023, the Corporation granted 158,973 DSUs with an average fair value of $0.36 per DSU (2022 – 169,809 DSUs with fair value of $0.45 per DSU). The fair value of $57,232 (2022 – $76,413) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

| | Three Month Ended March 31, 2023 | | Three Month Ended March 31, 2022 | |
|---|---|---|---|---|
| Five day volume weighted average price at grant date | **$** | **0.36** | $ | 0.45 |

The following table summarizes the continuity of DSUs for the three months ended March 31, 2023, and 2022:

| | March 31, 2023 | Marchr 31, 2022 |
|---|---|---|
| | Number of DSUs | Number of DSUs |
| Outstanding at January 1 | **7,287,272** | 6,103,362 |
| Granted | **158,973** | 169,809 |
| Outstanding at December 31 | **7,446,245** | 6,273,171 |

Share-based compensation

For the three months ended March 31, 2023, the Corporation charged a total of $57,232 of stock-based compensation expense to the statement of comprehensive loss (2022 – $76,413), reflecting the fair value of DSUs issued, as noted above.

(Canadian dollars)

## 11. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the three months ended March 31, 2023, and 2022:

| | For the three months ended March 31 | | | |
|---|---|---|---|---|
| | | **2023** | | **2022** |
| Depreciation & amortization | **$** | **16,751** | $ | 22,723 |
| Direct costs | | **232,704** | | 553,449 |
| Employee compensation costs | | **95,922** | | 185,899 |
| Share-based compensation | | **12,911** | | 19,553 |
| | **$** | **358,288** | $ | 781,624 |

## 12. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the three months ended March 31, 2023, and 2022:

| | For the three months ended March 31 | | | |
|---|---|---|---|---|
| | | **2023** | | **2022** |
| Administrative services | **$** | **180,171** | $ | 142,890 |
| Depreciation and amortization | | **9,380** | | 9,520 |
| Directors fees and expenses | | **34,072** | | 26,250 |
| Investor relations and marketing | | **83,486** | | 23,413 |
| Office and sundry | | **25,794** | | 24,802 |
| Professional fees | | **103,177** | | 74,155 |
| Regulatory compliance | | **62,325** | | 81,303 |
| Share-based compensation | | **44,321** | | 56,860 |
| Travel and accommodations | | **37,385** | | 6,253 |
| | **$** | **580,111** | $ | 445,446 |

## 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 | | | |
|---|---|---|---|---|
| | | **March 31, 2023** | | **December 31, 2022** |
| Cash and cash equivalents | **$** | **11,713,097** | $ | 7,421,600 |
| Receivables | | **72,855** | | 76,582 |
| | **$** | **11,785,952** | $ | 7,498,182 |

The Corporation manages credit risk by holding the majority of its corporate cash and cash equivalents with high quality financial institutions, where management believes the risk of loss to be low.

## 13. Financial instruments (continued)

**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

The Corporation has cash balances and interest-bearing debt. The Corporation's current policy is to invest excess cash in interest bearing savings accounts. The convertible promissory note as detailed in Note 9 bears interest based on the SOFR rate, for which a 1% increase or decrease would result in an increase or decrease of annual interest expense of approximately $67,500.

b) Foreign currency risk

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

The Corporation is also exposed to foreign exchange risk on its US dollar denominated convertible promissory note. If the MMC Strategic Alliance is terminated without prior to conversion, the balance outstanding on the convertible promissory note, as well as any capitalized interest, is due within 60 days. Accordingly, the Corporation is subject to risks associated with fluctuations in the Canadian/US dollar exchange rate that may make the convertible promissory note more costly to repay.

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

| | | **March 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **6,119,045** | $ | 311,141 |
| Trade and other payables | | **(22,404)** | | (215,506) |
| Convertible promissory note | | **(6,930,896)** | | - |
| | **$** | **(834,255)** | $ | 95,635 |

A 10% change in the US dollar exchange rate would affect net and comprehensive loss and deficit by approximately $83,400 (December 31, 2022 - $9,600).

(Canadian dollars)

## 13. Financial instruments (continued)

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **34,014** | $ | 35,194 |
| Trade and other receivables | | **68,271** | | 69,559 |
| Trade and other payables | | **(38,875)** | | (61,274) |
| | **$** | **63,410** | $ | 43,479 |

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive loss and deficit by approximately $6,300 (December 31, 2022 - $4,300).

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.

## 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:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | | 2023 | | 2022 |
| Directors' fees and other compensation | **$** | **43,250** | $ | 26,250 |
| Share-based compensation to directors | | **37,700** | | 35,300 |
| Executive compensation and benefits | | **308,547** | | 276,023 |
| Share-based compensation to key management | | **6,621** | | 22,904 |
| | **$** | **396,118** | $ | 360,477 |