ERDENE
RESOURCE DEVELOPMENT

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023, and 2022

(Canadian dollars)

KPMG LLP
Purdy's Wharf Tower One
1959 Upper Water Street, Suite 1000
Halifax, NS B3J 3N2
Canada
Tel 902-492-6000
Fax 902-492-1307

INDEPENDENT AUDITOR'S 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, 2023 and December 31, 2022
- the consolidated statements of comprehensive (income) 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 material accounting policy information

(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, 2023 and December 31, 2022, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's 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, 2023. 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 matters described below to be the key audit matters to be communicated in our auditor's report.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
KPMG Canada provides services to KPMG LLP.

Assessment of loss of control of Erdene Mongol LLC

Description of the matter

We draw attention to note 2(c)i), 3(a) and 5 to the financial statements. On January 10, 2023, the Entity entered into Strategic Alliance and Investment Agreements (the “Agreements”) with Mongolian Mining Corporation (“MMC”) for the development of its Bayan Khundii Gold Project. The terms of the Agreements provide MMC with a 50% equity interest in the Entity’s primary Mongolian subsidiary, Erdene Mongol LLC (“EM”). Control exists when an investor is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Judgment is needed to assess whether the Entity has control over its investees as a result of its right to direct relevant activities. The Agreements included certain governance provisions that no longer gave the Entity rights to unilaterally direct relevant activities of EM. The Entity concluded that control of EM was lost on January 10, 2023.

Why the matter is a key audit matter

We identified the assessment of loss of control of EM as a key audit matter. This matter represented an area of significant risk of material misstatement given the significant auditor judgment required in evaluating the results of our audit procedures due to the complexity of the governance provisions in the Agreements regarding the right to direct relevant activities of EM

How the matter was addressed in the audit

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

We compared the underlying terms of the relevant documents and Agreements to the Entity’s accounting memoranda.

We examined the Entity’s board minutes and board committee charters to assess the Entity’s rights under the agreements to direct relevant activities of EM.

We evaluated the Entity’s interpretation and application of the relevant accounting guidance, including consideration of alternative treatments and evaluated the relative merits of the possible alternatives.

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 auditor’s 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 auditor’s 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 Accounting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor’s 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 auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

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

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

- 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 auditor’s 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 auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor’s report is Carey Blair.

Halifax, Canada

March 29, 2024

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position
(Canadian dollars)

	Notes		**December 31, 2023**		December 31, 2022
Assets					
Cash and cash equivalents		**$**	**4,349,599**	$	7,421,600
Receivables			**6,722**		76,582
Prepaid expenses			**1,455,652**		1,361,730
Current assets			**5,811,973**		8,859,912
Investment in associate	**5**		**51,248,731**		-
Exploration and evaluation assets	**6**		**1,961,506**		43,054,156
Property, plant and equipment	**7**		**21,155**		545,704
Right-of-use assets			**19,581**		73,594
Non-current assets			**53,250,973**		43,673,454
Total Assets		**$**	**59,062,946**	**$**	52,533,366
Liabilities and Equity					
Trade and other payables		**$**	**163,212**	$	826,409
Lease liabilities			**22,939**		59,662
Current liabilities			**186,151**		886,071
Lease liabilities			**-**		22,940
Non-current liabilities			**-**		22,940
Total Liabilities			**186,151**		909,011
Shareholders' Equity					
Share capital	**10**	**$**	**158,086,286**	$	157,880,069
Contributed surplus	**10**		**30,147,989**		28,727,197
Accumulated other comprehensive loss			**(849,598)**		(5,952,986)
Deficit			**(128,507,882)**		(129,029,925)
Total Shareholders' Equity			**58,876,795**		51,624,355
Total Liabilities and Equity		**$**	**59,062,946**	$	52,533,366

Commitments (Note 8)
Subsequent events (Notes 5 & 15)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"
________________________________ Director

Signed "John P. Byrne"
________________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive (Income) Loss

(Canadian dollars)

	Notes	For the years ended December 31, 2023	2022
Operating Expenses			
Exploration and evaluation	**11**	**$ 847,010**	$ 3,798,676
Corporate and administration	**12**	**3,137,735**	2,218,984
Loss from operating activities		**3,984,745**	6,017,660
Loss from investment in associate	**5**	**2,278,370**	-
Finance income		**(269,609)**	(58,383)
Interest expense		**2,417**	11,044
Foreign exchange loss		**26,897**	15,916
Gain on loss of control of subsidiary	**5**	**(6,544,863)**	-
Net (Income) Loss		**$ (522,043)**	$ 5,986,237
Other comprehensive (income) loss:			
Foreign currency translation difference arising on translation of foreign subsidiaries		**7,508**	2,926,628
Foreign currency translation difference realized on loss of control of subsidiary	**5**	**(5,110,896)**	-
Other Comprehensive (Income) Loss		**(5,103,388)**	2,926,628
Total Comprehensive (Income) Loss		**$ (5,625,431)**	$ 8,912,865
Basic and diluted (income) loss per share		**$ (0.00)**	$ 0.02
Basic weighted average number of shares outstanding		**344,411,575**	306,202,307
Diluted weighted average number of shares outstanding		**345,969,947**	306,202,307

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 income (loss)		Deficit		Total equity
Balance at January 1, 2023		**344,300,376**	**$**	**157,880,069**	**$**	**28,727,197**	**$**	**(5,952,986)**	**$**	**(129,029,925)**	**$**	**51,624,355**
Total comprehensive income for the period:												
Net income		**-**		**-**		**-**		**-**		**522,043**		**522,043**
Other comprehensive income		**-**		**-**		**-**		**5,103,388**		**-**		**5,103,388**
Options exercised	**10**	**250,000**		**90,350**		**(29,850)**		**-**		**-**		**60,500**
Issue of shares from DSU plan	**10**	**337,800**		**115,867**		**(115,867)**		**-**		**-**		**-**
Share-based compensation	**10**	**-**		**-**		**1,566,509**		**-**		**-**		**1,566,509**
Total transactions with owners		**587,800**		**206,217**		**1,420,792**		**-**		**-**		**1,627,009**
Balance at December 31, 2023		**344,888,176**	**$**	**158,086,286**	**$**	**30,147,989**	**$**	**(849,598)**	**$**	**(128,507,882)**	**$**	**58,876,795**
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		-		-		-		-		(5,986,237)		(5,986,237)
Other comprehensive loss		-		-		-		(2,926,628)		-		(2,926,628)
Private placements, net of share issue costs	10	49,860,531		12,703,159		1,079,795		-		-		13,782,954
Options exercised	10	60,000		23,400		(6,300)		-		-		17,100
Share-based compensation	10	-		-		1,005,146		-		-		1,005,146
Total transactions with owners		49,920,531		12,726,559		2,078,641		-		-		14,805,200
Balance at December 31, 2022		344,300,376	$	157,880,069	$	28,727,197	$	(5,952,986)	$	(129,029,925)	$	51,624,355

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, 2023	2022
Cash flows from (used in) operating activities:			
Net income (loss)		**$ 522,043**	$ (5,986,237)
Items not involving cash:			
Depreciation and amortization		**36,959**	136,580
Share-based compensation	**10**	**1,566,509**	1,005,146
Finance income		**(269,609)**	(58,383)
Foreign exchange not related to cash		**26,897**	15,916
Loss from investment in associate	**5**	**2,278,370**	-
Gain on loss of control of subsidiary	**5**	**(6,544,863)**	-
Change in non-cash operating working capital		**337,159**	(250,385)
Cash flows used in operating activities		**(2,046,535)**	(5,137,363)
Cash flows from (used in) financing activities:			
Issue of common shares, net of issue costs	**10**	**-**	13,782,954
Proceeds on exercise of stock options	**10**	**60,500**	17,100
Repayment of lease liabilities		**(32,621)**	(63,041)
Cash flows from financing activities		**27,879**	13,737,013
Cash flows from (used in) investing activities:			
Expenditures on exploration and evaluation assets	**6**	**(1,043,280)**	(7,971,955)
Expenditures on property, plant and equipment	**7**	**(3,085)**	(296,747)
Interest received		**269,609**	58,383
Loss of cash from deconsolidation of subsidiary		**(254,049)**	-
Cash flows used in investing activities		**(1,030,805)**	(8,210,319)
Effect of exchange rate changes on cash balances		**(22,540)**	(30,782)
Increase in cash and cash equivalents		**(3,072,001)**	358,549
Cash and cash equivalents, beginning of period		**7,421,600**	7,063,051
Cash and cash equivalents, end of period		**$ 4,349,599**	$ 7,421,600

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. 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.

The Corporations's primary business focus is the exploration and development of its properties in Mongolia, principally the Bayan Khundii Gold Project.

2. Basis of presentation

a) Statement of compliance

The Corporation prepares their annual consolidated financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS"). The material 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 27, 2024.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except as disclosed in Note 3.

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) *Determination of significant influence:* Judgment is needed to assess whether the Corporation has control over its investees as a result of its right to direct relevant activities or, when control is not retained, its interest meets the definition of significant influence and therefore would be accounted for under the equity method. Management makes this determination based on its legal ownership interest and through an analysis of the Corporation's participation in entities' decision making processes. Immediately after the Corporation lost control of Erdene Mongol LLC ("EM"), its Mongolian subsidiary, on January 10, 2023 (Note 5), management determined it was able to exert significant influence over EM and accounted for this investment as an associate under the equity method.

ii) *Impairment of investment in associate*: The Corporation follows the guidance of IAS 28, Investments in Associates and Joint Ventures to assess whether there are impairment indicators which may lead to the recognition of an impairment loss with respect to its net investment in an associate. This determination requires significant judgement in evaluating if a decline in fair value is significant or prolonged, which triggers a formal impairment test. In making this judgement, the Corporation's management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its carrying amount, the volatility of the investment and the financial health and business outlook for the investee, including factors such as the current and expected status of the investee's exploration and development projects and changes in financing cash flows.

2. Basis of presentation (continued)

c) Critical judgments and estimates in applying accounting policies (continued)

iii) *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 and the parent has a Canadian dollar functional currency.

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

Where an indicator of impairment exists or an exploration and evaluation asset is determined to be technically feasible and commercially viable, and therefore reclassified to property, plant and equipment, 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.

v) *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.

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.

3. Material accounting policies

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

a) Basis of consolidation

The consolidated financial statements include those of Erdene Resource Development Corporation and its wholly owned subsidiary Anian Resources LLC, for the years ended December 31, 2023 and 2022, as well as those of its wholly owned subsidiary Erdene Mongol LLC up to January 10, 2023. Erdene Mongol LLC was deconsolidated on January 10, 2023, when control ceased to exist as a result of the Strategic Alliance with Mongolian Mining Corporation to develop the Bayan Khundii Gold Project (Note 5).

Control exists when an investor is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the Corporation obtains control and are deconsolidated from the date that control ceases to exist. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. When control of a subsidiary is lost, the Corporation:

i) derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position;

ii) recognizes any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRS; and

iii) recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

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.

3. Material accounting policies (continued)

b) Foreign currencies

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

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated materially 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

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 material to the fair value measurement in its entirety. The following table summarizes the Corporation's classification and measurement of financial assets and liabilities:

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

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

3. Material accounting policies (continued)

d) Investment in associate

Associates are entities over which the Corporation has significant influence, but not control. The financial results of the Corporation's investments in its associates are included in the Corporation's results according to the equity method. Under the equity method, the investment is initially recognized at fair value, and the carrying amount is increased or decreased to recognize the Corporation's share of profits or losses of associates after the date of acquisition. The Corporation's share of profits or losses is recognized in the statement of (income) loss and its share of other comprehensive (income) loss of associates is included in other comprehensive (income) loss.

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of (income) loss.

The Corporation assesses at each period end whether there is any objective evidence that its investments in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the statement of (income) loss.

e) 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.

Exploration and evaluation assets are assessed for impairment at each reporting period, or when facts and circumstances indicate that the carrying amount may exceed their 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.

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 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 material operations in relation to the area are continuing or planned for the future.

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 and a decision has been made to proceed with development. Such exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognized, before reclassification to property, plant and equipment as mine development costs.

3. Material accounting policies (continued)

f) Property, plant and equipment

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

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

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

Depreciation commences when the property, plant and equipment assets are considered available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

g) Share-based compensation

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

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

h) Income (Loss) per share

The Corporation presents basic and diluted income or loss per share data for its common shares. Basic income or 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 income or 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 Corporation at the average market price during the period.

4. Changes in accounting policies

Erdene has adopted the following amendments, effective January 1, 2023. These changes were made in accordance with applicable transitional provisions.

<u>IAS 1 – Disclosure of Accounting Policies</u>

In February 2021, the IASB issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 Making Materiality Judgements and IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors. The Corporation adopted these amendments, effective January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of “material”, rather than “significant”, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management updated the accounting policy disclosures in Note 3 Material accounting policies in certain instances in line with the amendments.

New accounting standards not yet adopted

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

In October 2022, the IASB finalized issuance of Classification of Liabilities as Current or Non-Current, which made amendments 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 application of the amendment has been made on a prospective basis and did not have an impact on the Corporation.

The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The Corporation anticipates that the application of these amendments will not have a material effect on the Consolidated Financial Statements.

5. Investment in Associate

On January 10, 2023, the Corporation entered into Strategic Alliance and Investment Agreements (the “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 through a series of convertible promissory notes in return for a 50% equity interest in Erdene’s primary Mongolian subsidiary, Erdene Mongol LLC (“EM”), which holds the Khundii and Altan Nar mining licenses, as well as the Ulaan exploration license.
- 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.

Subsequent to year end, on January 23, 2024, EM issued shares representing 50% of its equity to MMC in connection with the conversion of the convertible promissory notes.

While Erdene maintained ownership of 100% of the equity of EM during the year ended December 31, 2023, the Agreements included certain governance provisions that no longer gave the Corporation rights to unilaterally direct relevant activities of EM. The Corporation concluded that control of EM was lost and derecognized the assets and liabilities of EM on January 10, 2023. However, Management determined that Erdene maintained significant influence over the decision-making process of EM and began using the equity method to account for this investment from this date.

(Canadian dollars)

5. Investment in Associate (continued)

At the date that control of this subsidiary was lost, the Corporation calculated the fair value of its investment retained in EM as $53,527,101 using the value implied by MMC's investment, as such value was agreed through negotiation between arm's length, market participants. Consequently, a gain of $6,544,863 was recognized, net of $5,110,896 of foreign currency translation difference realized on loss of control, in its consolidated statement of comprehensive income for the year ended December 31, 2023.

The following tables summarize the financial information relating to Erdene's investment in EM on January 10, 2023, which was immediately prior to deconsolidation. The amounts disclosed are before intercompany eliminations:

As at		January 10, 2023
Cash and cash equivalents	$	**254,049**
Receivables		**69,558**
Other current assets		**43,236**
Current assets		**366,843**
Current liabilities		**(1,145,712)**
Current net assets		**(778,869)**
Exploration and evaluation assets (Note 6)		**42,130,165**
Property, plant and equipment (Note 7)		**520,046**
Non-current assets		**42,650,211**
Total net assets		**41,871,342**

The following tables is a summary of the consolidated financial information of EM on a 100% basis, taking into account fair value adjustments made by the Corporation for equity accounting purposes. A reconciliation of EM's summarized financial information to the Corporation's investment carrying value is as follows:

As at		December 31, 2023
Total current assets	$	**10,692,069**
Total non-current assets		**96,529,698**
Total current liabilities		**(55,973,036)**
Total non-current liabilities		**-**
Total net assets	$	**51,248,731**

For the year ended December 31,		2023
Revenue	$	**-**
Net loss		**2,278,370**

(Canadian dollars)

5. Investment in Associate (continued)

As at		December 31, 2023
Net assets of EM	$	**51,248,731**
Erdene Resource Development Corporation ownership		**100.00%**
Erdene's share of EM's net assets		**51,248,731**
Carrying value of investment in EM		**51,248,731**

6. 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**
Deconsolidation (Note 5)	**(36,183,734)**	**(4,257,954)**	**(1,688,477)**	**-**	**(42,130,165)**
Additions	**-**	**-**	**-**	**1,043,280**	**1,043,280**
Effect of movements in exchange rates	**-**	**-**	**-**	**(5,765)**	**(5,765)**
Balance, December 31, 2023	**$ -**	**$ -**	**$ -**	**$ 1,961,506**	**$ 1,961,506**
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

Mongolian 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. With the loss of control of its subsidiary EM as at January 10, 2023, the Corporation’s exploration and evaluation assets for its Bayan Khundii, Altan Nar and Ulaan licenses are reported within its Investment in associate from this date.

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. The Khundii mining license includes the Bayan Khundii Resources and Reserves reported in “Bayan Khundii Gold Project Feasibility Study Update, NI 43-101 Technical Report”, dated September 25, 2023.

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 Bayan Khundii. The exploration license is in its ninth year of a maximum 12-year term.

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, issued in 2011. In 2021, the Corporation completed a strategic and economic review of the property which confirmed the potential viability of the property. Exploration in 2023 expanded mineralization at the large porphyry deposit, further demonstrating the potential of the project.

(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**
Deconsolidation (Note 5)	**(115,961)**	**(407,073)**	**(141,302)**	**(664,336)**
Additions	**-**	**-**	**3,085**	**3,085**
Effect of movements in exchange rates	**-**	**(11)**	**(15)**	**(26)**
Balance, December 31, 2023	**$ -**	**$ 61,303**	**$ 84,039**	**$ 145,342**
Depreciation & depletion				
Balance, January 1, 2023	**$ (42,192)**	**$ (122,854)**	**$ (95,869)**	**$ (260,915)**
Deconsolidation (Note 5)	**42,192**	**64,883**	**37,215**	**144,290**
Depreciation	**-**	**(653)**	**(6,935)**	**(7,588)**
Effect of movements in exchange rates	**-**	**11**	**15**	**26**
Balance, December 31, 2023	**$ -**	**$ (58,613)**	**$ (65,574)**	**$ (124,187)**
Carrying amounts				
At December 31, 2023	**$ -**	**$ 2,690**	**$ 18,465**	**$ 21,155**

	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 held by EM, that is guaranteed by the Corporation. 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. 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, 2023		December 31, 2022
Statutory tax rates		**29.0%**		29.0%
Income taxes (recovery) computed at the statutory rates	**$**	**151,000**	$	(1,736,000)
Benefit of temporary differences not recognized		**6,541,000**		700,000
Expenses not deductible for tax purposes		**458,000**		365,000
Effect of foreign tax rates		**14,000**		609,000
Loss from investment in associate not recognized		**661,000**		-
Permanent differences arising from loss of control of subsidiary		**(7,825,000)**		-
Other		**0**		62,000
Provision for income taxes	**$**	**-**	$	-

The enacted tax rates in Canada 29.0% (2022 – 29.0%) and Mongolia 10.0% (2022 – 10.0%) where the Corporation operates are applied in the tax provision calculation.

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

		December 31, 2023		December 31, 2022
Non-capital losses carried forward	**$**	**212,000**	$	1,014,000
Deferred income tax assets		**212,000**		1,014,000
Unrealized foreign exchange		**(212,000)**		(1,014,000)
Net deferred income tax assets (liabilities)	**$**	**-**	$	-

(Canadian dollars)

9. Income taxes (continued)

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

	December 31, 2023		
	Canada	**Mongolia**	**Total**
Non-capital losses carried forward	**$ 23,867,000**	**$ 86,000**	**$ 23,953,000**
Property, plant and equipment	**272,000**	**-**	**272,000**
Share issuance costs	**707,000**	**-**	**707,000**
Intangible assets	**378,000**	**-**	**378,000**
Exploration and evaluation assets	**26,176,000**	**3,994,000**	**30,170,000**
	$ 51,400,000	**$ 4,080,000**	**$ 55,480,000**

	December 31, 2022		
	Canada	Mongolia	Total
Non-capital losses carried forward	$ 21,060,000	$ 3,014,000	$ 24,074,000
Property, plant and equipment	268,000	-	268,000
Share issuance costs	1,227,000	-	1,227,000
Intangible assets	378,000	-	378,000
Exploration and evaluation assets	5,737,000	9,418,000	15,155,000
	$ 28,670,000	$ 12,432,000	$ 41,102,000

As at December 31, 2023, 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, 2023	**December 31, 2022**
2023	**-**	349,000
2024	**5,000**	488,000
2025	**6,000**	685,000
2026	**1,535,000**	-
Thereafter	**23,138,000**	26,047,000
	$ 24,684,000	$ 27,569,000

(Canadian dollars)

10. Share capital and contributed surplus

Authorized

An unlimited number of common shares with no par value.

Issued

On December 22, 2022, the Corporation closed a non-brokered private placement equity financing for gross proceeds of $7,000,248. The Corporation issued an aggregate of 25,926,844 units of the Corporation (the "Units") at a price of $0.27 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant (each whole warrant, a "Warrant"). Warrants are exercisable by the holder into one common share of the Corporation within two years of the closing date, at a price of $0.40. Erdene paid finder's fees in the aggregate of $127,699 and issued 97,031 finder's warrants, with the same terms as the Warrants, in connection with the financing. In addition, the Corporation incurred $53,836 in share issue costs, resulting in net proceeds of $6,818,713.

On August 4, 2022, the Corporation completed the final close of a non-brokered private placement equity financing for gross proceeds of $7,180,106. The Corporation issued an aggregate of 23,933,687 units of the Corporation (the "Units") at a price of $0.30 per Unit. Each Unit consisted of one common share and one-half (½) of one common share purchase warrant (each whole warrant, a "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 $0.45. Erdene paid finder's fees in the aggregate of $151,048 and issued 236,826 finder's warrants, with the same terms as the Warrants, in connection with the financing. In addition, the Corporation incurred $64,817 in share issue costs, resulting in net proceeds of $6,964,241.

Warrants

On December 21, 2022, 13,060,452 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 $0.40 if exercised within 24 months of the closing date and expires on December 21, 2024.

Between July 8, 2022 and August 4, 2022, 12,203,670 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 $0.45 if exercised within 24 months of the closing date with expiry dates between July 8, 2024 and August 4, 2024.

During the years ended December 31, 2023 and 2022, no warrants were exercised. Also, during the year ended December 31, 2023, no warrants expired (2022 – 44,845,052 warrants expired).

The following table summarizes the continuity of the warrants for the years ended December 31, 2023, and 2022:

	December 31, 2023		December 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
Issued	**-**	**-**	25,264,122	0.42
Expired	**-**	**-**	(44,845,052)	0.60
Outstanding at December 31	**25,264,122**	**$ 0.42**	25,264,122	$ 0.42
Exercisable at December 31	**25,264,122**	**$ 0.42**	25,264,122	$ 0.42

(Canadian dollars)

10. Share capital and contributed surplus (continued)

The remaining contractual lives of warrants outstanding at December 31, 2023, are as follows:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life (years)
0.42	**25,264,122**	**0.76**
	25,264,122	**0.76**

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, and recorded in contributed surplus:

		Year Ended December 31, 2022
Share price at grant date	$	0.29
Exercise price	$	0.42
Risk-free interest rate		3.5%
Expected life		2.0 years
Expected volatility		46%
Expected dividends		0.0%
Weighted average grant date fair value	$	0.04

Expected volatility is estimated considering historic average share price volatility.

Omnibus equity incentive plan and Legacy Plans

The Corporation adopted an omnibus equity inventive plan (the “Omnibus Plan”) which was approved by the shareholders of the Corporation on June 22, 2023. The Omnibus Plan provides the Corporation with share-related mechanisms, including incentive stock options, deferred share units (“DSUs”), restricted share units (“RSUs”), and performance share units (“PSUs”), to attract, retain and motivate qualified directors, employees and consultants of the Corporation and its subsidiaries. The Omnibus Plan replaced legacy plans including an incentive stock option plan and a DSU plan (the “Legacy Plans”). Awards granted under these legacy plans remain in place under the terms of their initial issuance.

The Omnibus Plan is a variable plan and the aggregate number of common shares that may be issued upon the exercise or settlement of awards granted under the Omnibus Plan, together with awards outstanding under the Legacy Plans, shall not exceed 10% of the Corporation’s total issued and outstanding common shares at any time.

Details on the outstanding awards under the Omnibus Plan and Legacy Plans are included below:

Stock options

All stock options currently outstanding were granted under the terms of the Corporation’s Legacy Plans (the “Plans”). The Plans included 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.

(Canadian dollars)

10. Share capital and contributed surplus (continued)

During the year ended December 31, 2023, 6,325,000 options were granted at a weighted average exercise price of $0.36 (2022 – 4,355,000 options granted at average exercise price of $0.31). Also 3,145,000 options expired (2022 – 2,595,000 options expired). During the year ended December 31, 2023, 250,000 options were exercised at an average price of $0.24, generating proceeds of $60,500 (2022 – 60,000 options exercised at average price of $0.29, for proceeds of $17,100).

Changes in stock options during the years ended December 31, 2023, and 2022 were as follows:

	December 31, 2023			December 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
Granted	**6,325,000**		**0.36**	4,355,000		0.31
Expired	**(3,145,000)**		**0.40**	(2,595,000)		0.87
Exercised	**(250,000)**		**0.24**	(60,000)		0.29
Outstanding at December 31	**20,485,000**	**$**	**0.35**	17,555,000	$	0.36
Exercisable at December 31	**20,485,000**	**$**	**0.35**	17,555,000	$	0.36

All stock options granted in 2023 and 2022 vested immediately and have a five-year term. The following table summarizes information concerning options outstanding at December 31, 2023 and 2022.

	December 31, 2023			December 31, 2022		
Expiry date	Number of Options		Exercise price	Number of Options		Exercise price
February 4, 2023	**-**		**-**	50,000		0.50
March 13, 2023	**-**		**-**	100,000		0.40
June 14, 2023	**-**		**-**	2,780,000		0.40
October 15, 2023	**-**		**-**	150,000		0.27
June 20, 2024	**2,060,000**		**0.20**	2,165,000		0.20
November 29, 2024	**100,000**		**0.18**	100,000		0.18
December 20, 2024	**50,000**		**0.18**	50,000		0.18
February 11, 2025	**50,000**		**0.27**	50,000		0.27
May 13, 2025	**500,000**		**0.22**	500,000		0.22
August 27, 2025	**3,155,000**		**0.49**	3,160,000		0.49
December 1, 2025	**200,000**		**0.38**	200,000		0.38
January 29, 2026	**100,000**		**0.43**	100,000		0.43
June 23, 2026	**3,180,000**		**0.37**	3,245,000		0.37
August 18, 2026	**350,000**		**0.43**	450,000		0.43
October 28, 2026	**100,000**		**0.43**	100,000		0.43
September 27, 2027	**4,160,000**		**0.31**	4,180,000		0.31
December 30, 2027	**175,000**		**0.30**	175,000		0.30
May 9, 2028	**6,305,000**		**0.36**	-		-
	20,485,000	**$**	**0.35**	17,555,000	$	0.36

(Canadian dollars)

10. Share capital and contributed surplus (continued)

The fair value of each option granted is estimated at the time of grant using a Black-Scholes option pricing model with weighted-average assumptions for grants during the years ended December 31, 2023 and 2022 as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Share price at grant date	**$ 0.36**	$ 0.31
Exercise price	**$ 0.36**	$ 0.31
Risk-free interest rate	**3.2%**	3.0%
Expected life	**4.4 years**	3.7 years
Expected volatility	**56%**	62%
Expected dividends	**0.0%**	0.0%
Weighted average grant date fair value	**$ 0.17**	$ 0.15

Expected volatility is estimated considering historic average share price volatility.

Options issued in 2023 resulted in a charge of $1,078,275 to share based compensation included in exploration expenses and in corporate and administration expenses (2022 – $629,030).

Deferred share units

In 2013, the Corporation adopted a DSU plan. 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. The provisions of DSUs issued under the Omnibus Plan adopted on June 22, 2023, are consistent with those of the DSU plan.

During the year ended December 31, 2023, the Corporation granted 1,492,778 DSUs with an average fair value of $0.33 per DSU (2022 – 1,183,910 DSUs with fair value of $0.32 per DSU). The fair value of $488,234 (2022 – $376,116) was charged to share based compensation included in exploration expenses and corporate and administration expenses. Also in the year, Erdene settled 337,800 DSUs through the issuance of 337,800 shares at an average value of $0.34 per DSU (2022 – no shares issued).

	Year Ended December 31, 2023	Year Ended December 31, 2022
Five day volume weighted average price at grant date	**$ 0.33**	$ 0.32

The following table summarizes the continuity of DSUs for the years ended December 31, 2023, and 2022:

	December 31, 2023 Number of DSUs	December 31, 2022 Number of DSUs
Outstanding at January 1	**7,287,272**	6,103,362
Granted	**1,492,778**	1,183,910
Issued	**(337,800)**	-
Outstanding at December 31	**8,442,250**	7,287,272

(Canadian dollars)

10. Share capital and contributed surplus (continued)

Share-based compensation

For the year ended December 31, 2023, the Corporation charged a total of $1,566,509 of stock-based compensation expense to the statement of comprehensive loss (2022 – $1,005,146), reflecting the fair value of options and DSUs granted under the Omnibus Plan and the Legacy Plans.

11. Exploration and evaluation expenses

The following table summarizes exploration and evaluation expenses for the years ended December 31, 2023, and 2022:

	For the year ended December 31			
		2023		**2022**
Depreciation & amortization	**$**	**-**	$	91,292
Direct costs		**111,087**		2,566,711
Employee compensation costs		**71,694**		720,447
Share-based compensation		**664,229**		420,226
	$	**847,010**	$	3,798,676

12. Corporate and administration expenses

The following table summarizes corporate and administration expenses for the years ended December 31, 2023, and 2022:

	For the year ended December 31			
		2023		**2022**
Administrative services	**$**	**935,025**	$	703,051
Depreciation and amortization		**36,958**		38,089
Directors fees and expenses		**122,244**		126,754
Investor relations and marketing		**318,225**		124,672
Office and sundry		**105,686**		102,738
Professional fees		**504,095**		380,691
Regulatory compliance		**109,322**		115,853
Share-based compensation		**902,280**		584,920
Travel and accommodations		**103,900**		42,216
	$	**3,137,735**	$	2,218,984

13. Financial instruments

Credit risk:

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

	Carrying Amount	
	December 31, 2023	**December 31, 2022**
Cash and cash equivalents	**$ 4,349,599**	$ 7,421,600
Receivables	**6,722**	76,582
	$ 4,356,321	$ 7,498,182

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, 2023, $33,759 or 1% of the balance of cash was held in banks outside Canada (2022 - $268,376 or 4%).

Liquidity risk:

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

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 invests excess cash in interest bearing savings accounts, which are subject to 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 subsidiary and associate 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 subsidiary and associates. The Corporation maintains US dollar bank accounts in Canada.

(Canadian dollars)

13. Financial instruments (continued)

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

		December 31, 2023		December 31, 2022
Cash and cash equivalents	**$**	**1,050,778**	$	311,141
Trade and other payables		**(5,949)**		(215,506)
	$	**1,044,829**	$	95,635

A 10% change in the US dollar exchange rate would affect net and comprehensive (gain) loss and deficit by approximately $104,500 (December 31, 2022 - $9,600).

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

		December 31, 2023		December 31, 2022
Cash and cash equivalents	**$**	**876**	$	35,194
Trade and other receivables		**2,138**		69,559
Trade and other payables		**(18)**		(61,274)
	$	**2,996**	$	43,479

A 10% change in the Mongolian Tugrik exchange rate would affect net and comprehensive (gain) loss and deficit by approximately $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.

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 of financial assets and liabilities are approximately equal to their carrying values given the short term to maturity of such instruments.

(Canadian dollars)

14. Related parties

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

	Year ended December 31,			
		2023		**2022**
Directors' fees and other compensation	**$**	**168,000**	$	125,000
Share-based compensation to directors		**520,400**		292,125
Executive compensation and benefits		**1,616,957**		1,450,459
Share-based compensation to key management		**554,382**		324,839
	$	**2,859,739**	$	2,192,423

15. Subsequent Events

On February 8, 2024, the Corporation announced the execution of debt finance agreements for up to US$80 million with MMC to fund construction of the Bayan Khundii Gold Project. The financing has been structured as a shareholder loan from MMC to EM. The shareholder loan is for up to US$50 million, and may be drawn in up to five tranches, in multiples of at least US$5 million. The loan will mature five years from the date of first draw, and accrue interest at a rate of 13.8%, paid quarterly in arrears. EM has the option to capitalize the first four interest payments. The loan will be repayable in full upon maturity. A further US$30 million, under the same terms, is available at MMC's discretion.

This shareholder loan is secured by a 50% guarantee by Erdene and Erdene's interests in the Project, including its shares of EM and its NSR interest, as well as preferential rights over the Khundii, Altan Nar and Ulaan licenses. For so long as the loan is outstanding, MMC will be granted priority voting rights under the Strategic Alliance agreement between the parties and a right of first refusal over Erdene's Zuun Mod project. Additionally, Erdene has the right to purchase 50% of the loan and participate as a lending shareholder on the same terms as MMC.