ERDENE
RESOURCE DEVELOPMENT

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Erdene Resource Development Corporation

Opinion

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated results of operations, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

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

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

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Halifax, Canada

March 27, 2019

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position
(Canadian dollars)

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

Commitments (Note 8)
Subsequent Events (Note 15)

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

Approved on behalf of the Board:

Signed "Peter C. Akerley"
______________________________ Director

Signed "John P. Byrne"
______________________________ Director

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Equity
(Canadian dollars)

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

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

ERDENE RESOURCE DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

(Canadian dollars)

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

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

1. Nature of operations:

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

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

2. Going concern:

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

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

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

3. Basis of presentation

a) Statement of compliance

The Corporation prepares their annual consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The significant accounting policies are presented in Note 4 and have been consistently applied in each of the periods presented, except as disclosed in Note 5.

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

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets classified as available-for-sale and fair value through profit and loss which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Critical judgments and estimates in applying accounting policies

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

Judgments

In the process of applying the Corporation's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

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

ii) *Review of asset carrying values and impairment assessment:* Each asset is evaluated every reporting period to determine whether there are indications of impairment. If any indication exists, a formal estimate of recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is the greater of value in use and fair value less costs to sell.

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

3. Basis of presentation (continued)

Judgements (continued)

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

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

Estimates and assumptions

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

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

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

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

4. Summary of significant accounting policies

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

a) Basis of consolidation

For the years ended December 31, 2018 and 2017, the consolidated financial statements include those of Erdene Resource Development Corporation and its subsidiaries: Erdene Mongol LLC and Anian Resources LLC (Mongolian exploration companies).

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

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

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

b) Foreign currencies

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

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

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

c) Financial instruments

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

4. Summary of significant accounting policies (continued)

c) Financial instruments (continued)

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

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

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

i) Cash and equivalents include cash, term deposits, treasury bills and money market investments with original maturities of less than 90 days and are classified as and measured at fair value through profit or loss.

ii) Receivables are classified and measured at amortized cost.

iii) Trade and other payables are classified and measured at amortized cost. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

d) Exploration and evaluation assets

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

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

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

4. Summary of significant accounting policies (continued)

d) Exploration and evaluation assets (continued)

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

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

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

e) Property, plant and equipment

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

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

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

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

f) Share-based compensation

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

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

4. Summary of significant accounting policies (continued)

g) Loss per share

The Corporation presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding adjusted for the effects of all dilutive potential common shares. All share options are currently anti-dilutive to loss per share. As a result, basic and diluted loss per share are the same.

5. Changes in accounting policies

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

<u>IFRS 9 – Financial Instruments</u>

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

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

New accounting standards not yet adopted

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

<u>IFRS 16 – Leases</u>

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

(Canadian dollars)

6. Exploration and evaluation assets

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

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

Khundii Gold Project

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

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

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

Zuun Mod/Khuvyn Khar

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

(Canadian dollars)

6. Exploration and evaluation assets (continued)

Ulaan & Other

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

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

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

7. Property, plant and equipment

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

(Canadian dollars)

7. Property, plant and equipment (continued)

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

8. Commitments

Operating commitments are as follows:

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

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

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

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

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

(Canadian dollars)

8. Commitments (continued)

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

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

9. Income taxes

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

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

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

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

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

(Canadian dollars)

9. Income taxes (continued)

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

As at December 31 2018, the Corporation has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

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

10. Share Capital and Contributed Surplus

a) Authorized

An unlimited number of common shares with no par value.

b) Issued

For the year ended 2018

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

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

(Canadian dollars)

10. Share Capital and Contributed Surplus (continued)

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

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

c) Stock options

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

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

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

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

(Canadian dollars)

10. Share Capital and Contributed Surplus (continued)

c) Stock options (continued)

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

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

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

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

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

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

(Canadian dollars)

10. Share Capital and Contributed Surplus (continued)

c) Stock options (continued)

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

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

d) Warrants

During the year ended December 31, 2018, 11,314,580 warrants were issued as part of the June 8, 2018 non-brokered common share private placement. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.60 for 30 months and expires on December 8, 2020.

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

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

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

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

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

(Canadian dollars)

10. Share Capital and Contributed Surplus (continued)

e) Deferred Share Units

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

During the year ended December 31, 2018, the Corporation granted 543,932 DSUs with a fair value of $0.31 per DSU (2017 – 173,727 DSUs with fair value of $0.76 per DSU). The fair value of $166,894 (2017 – $131,274) was charged to share based compensation included in exploration expenses and corporate and administration expenses.

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

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

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

11. Exploration and evaluation expenses

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

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

(Canadian dollars)

12. Corporate and administration expenses

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

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

13. Financial instruments

Credit Risk:

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

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

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

Liquidity Risk:

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

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

13. Financial instruments (continued)

Market Risk:

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

a) Interest rate risk

As of December 31, 2018, the Corporation has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

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

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

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

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

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

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

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

c) Price risk

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

(Canadian dollars)

13. Financial instruments (continued)

Fair Value:

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

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

14. Related Parties

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

	Year ended December 31, 2018	2017
Directors' fees	**$ 111,500**	$ 60,000
Share-based compensation to directors	**343,600**	528,250
Key management short-term benefits	**386,892**	523,536
Share-based compensation to key management	**440,573**	353,071
	$ 1,282,565	$ 1,464,857

15. Subsequent Events

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

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