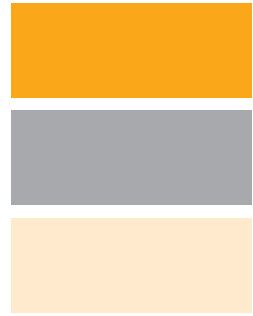




FINANCIAL DISCIPLINE AND GOOD PLANNING KEY TO THE SUCCESS OF STEPPE GOLD, SAYS T. BATAA



Steppe Gold, a Mongolian mining company, was established a few years ago but is already a leading precious metals producer in the country. The Toronto-listed miner plans to be listed on the Mongolian Stock Exchange so that its shares can be freely traded here. T. Bataa, President & CEO of the company, tells G. Iderkhantai how Steppe Gold achieved its present success and where it wants to go from here.



We know Steppe Gold was established in 2016. Tell us some more about the first years and how your company was successfully listed in Toronto Stock Exchange just in two years?

Mathew Wood, now our Executive Chairman, and I used to talk about developments in the mining sector and decided to set up a company to produce gold and silver in Mongolia. The result was the establishment

of Steppe Gold in 2016. One year later, we started exploration work in Bayankhongor aimag. We also bought the mining licence of Altan Tsagaan Ovoo (ATO), where exploration had been done by Centerra Gold. The feasibility study of this project was updated and approved. We were listed at the Toronto Stock Exchange (TSE) and our IPO was in May, 2018. Some people tend to confuse that Steppe Gold look like a Canadian company,



but we see ourselves as a Mongolian company. And we are a Mongolian company which was established in Mongolia and raised money from international market. Mining and processing operations started in the second half of 2020, and we have now raised our annual production target from the initial 40,000-50,000 ounces of gold to 60,000 ounces.

How is extraction going?

Last year, we mined 33,000 ounces of gold and sold all of it to the Bank of Mongolia (BoM). This year our goal is to produce precious metals equivalent to 150,000 ounces of gold and sell it to the BoM. ATO is a poly-metal deposit with gold, silver, zinc and lead.

That you raised CAD25 million at the IPO was quite a feat. How were so many investors interested in Mongolia's mining sector?

As Centerra Gold, which owned the ATO Project and carried out exploration work there and also prepared it for production, was listed on the TSE, the reports it issued regularly and the exploration results it announced kept investors well informed about the project. All primary reports on exploration had been certified by third party audit, so Steppe Gold saved time. We split the operational plans of Centerra Gold two phases, thus lowering the investment needs for the first phase. Another reason our IPO was successful was that our managers had abundant experience.

You have built a processing plant, a heap leach field and a camp for employees at the ATO project. What comes next?

Everything planned for the first phase has been done. The processing plant was commissioned into operation in December 2019 and is working well. The second phase will see Processing Plant II commencing operation in 2023. Works will begin this summer.

How much has been spent on developing the ATO deposit so far, and

how much more would likely be needed for the second phase?

By now \$75 million has been spent, all in the first phase. Banks, both domestic and foreign, have agreed to provide funding for the second phase. Funding from a foreign source means no money flows out from Mongolia. Instead, much of what comes in goes towards paying the salaries of Mongolian workers and Mongolian service providers.

The updated feasibility study will be presented in the second quarter of this year. Will the mine's capacity be expanded?

The initial target of extracting 1.2 million tonnes of ore is on course to be met. This year should see a 20% to 30% increase in extraction, a natural result of extension of work area. The second phase of work should begin by 2023.

You claim to have very low mining costs. How is this achieved?

I shall not go into comparisons with other mines, but it is true that our mine is competitive. We keep to estimates and do not overspend. Add to this the fact that when we began work in accordance with the feasibility study, the price of gold was \$1300/oz. As gold price has risen in the two years since then, we have posted better returns on our investment.

What are the estimated reserves of the ATO deposit? Is further drilling leading to more reserves?

The resources are divided into oxidized ores and primary ores. The gold reserve in the former is 5.2 tonnes and in the latter 12 tonnes. And, yes, the volume of the reserves is increasing.

How is that happening?

Fresh drilling has found resources with high silver content, and we are confident that more such discoveries would be made. With this, the lifespan of the mine is getting longer. ▶



The initial estimate was that this would be 12 years, but as a result of the additional drilling, this could very well extend to 17-20 years. Of course, the annual extraction volume will fluctuate depending on the gold and silver prices of the year.

We have already announced the updated reserves information. All reports relating to 2020 will be submitted to the TSE by the end of March and would be on our website for the use of investors. Any company listed on a stock exchange has to be transparent about the volume extracted, operational costs, payments to staff etc.

Steppe Gold holds the exploration license of the Udam Khundii Project covering an area of 14,400 hectares in Bayan-Undur and Shinejinst soums in Bayankhongor aimag. Are you planning to have new drilling programmes there?

Udam Khundii would be the first exploration project of our company. No drilling has yet been done on the area of the project, but four promising fields have been identified for taking up geological, geophysical and drilling work this summer. In all this, the company would work jointly with the local community. We see the Udam Khondii Project as a promising one, particularly because of the good results of exploration work by other companies in the neighbouring areas.

The Udam Khundii Project is under joint ownership. Is this an advantage?

Steppe Gold owns 80 percent of the project and the remaining 20 percent belongs to the Bayankhongor Aimag. We are responsible for all exploration costs, but even before any drilling has begun, we have started meeting our social responsibility. We have provided scholarship to over 600 students, selected from the local communities on the basis of their average grades. On its part, the aimag is responsible for carrying out advocacy activities so that people get a proper understanding of

the company's operations. Steppe Gold intends to treat education as the primary focus of its social responsibility.

You want to trade your shares on the Mongolian Stock Exchange (MSE). Why is such dual listing important and what are its advantages for you?

We have been approached by many Mongolians wishing to own shares in our company, and the dual listing makes this easier. Citizens here face several problems when buying a small number of shares at a foreign stock exchange, such as paying high banking fees. And do not forget the time difference. Erdene Resource has already taken this step.

This would also keep some returns from the use of Mongolians wealth in the country, no?

Yes. Foreign and domestic shareholders would have equal trading rights and also receive the same dividends when they are distributed. Very few mining companies are listed on the MSE.

The share price will be the same on both TSE and MSE at any given time though, because of the time difference, there might be different closing rates. Today, the total market capitalization of Steppe Gold is over MNT300 billion and the dual listing will increase the MSE's capitalization by the same amount.

If the trend picks up, Mongolians would in time get more opportunity to buy shares in the large mining companies, including gold miners.

Even now, we have a substantial number of Mongolian shareholders and that number would increase with the dual listing. Since shares of a public company are bought and sold every day, it is impossible to keep track of which country's citizens hold how much share. However, since Mongolia is where we work, I would expect that Mongolians would be more interested than others in owning our stock.



The parent company of Steppe Gold is listed on the Toronto stock exchange, but 50 percent of its Directors are Mongolians. No other similar company has so many Mongolians on its Board of Directors. Having a female board member, we are pioneering the industry in supporting women as the first amongst the internationally listed Mongolian companies. Also, only two of our employees are foreigners and all the others are Mongolian.

How are the preparations going?

We have signed an agreement with Ard Securities to act as our consultant and underwriter. The preparatory work for double listing is going well.

How are your relations with the local communities?

Right at the beginning we had a little misunderstanding with them but now there is successful cooperation. Over 350 people work for the ATO project, and 75 percent of them are from the local communities. We also procure most of our daily needs, including various services, from local companies, and, local community support is getting stronger.

What has been the extent of your contribution to the local budget by way of taxes and fees?

In 2020, we spent over MNT 110 billion on our operational expenses: wages and salaries, taxes and fees, and payments for services provided by Mongolian companies. We cannot make any investment in any other country with the profits we earn here. We are registered in Mongolia and operate only here; it is only that our shares are listed on a Canadian stock exchange.

What are your major problems at present?

The urgent problem is to obtain large-scale funding. Mongolian banks offer only short-term loans and the interest rate is high. This forces us to obtain funding from

foreign countries.

How do you see the effect of the Gold-2 Programme?

It has had a positive effect. We could raise MNT30 billion by virtue of being involved in this programme. Our increased extraction last year was linked to the rise in gold price. Given how important the gold sector is in Mongolia because it contributes to keeping the exchange rate stable, I am confident that the programme will continue. We have the potential to increase gold production by our own efforts and without foreign investment and the Gold-2 Programme can play a significant part in fulfilling that potential.

Do you find the 5 percent royalty a problem?

We started here when the royalty regimen was already in force, and as our feasibility study took it into account, it has had no significant impact on our company.

How has the COVID-19 situation affected your operations?

It has delayed import of equipment for production and we have had to change the work pattern of our employees. Late arrival of equipment means we might incur production loss, but we are relieved that there has been no direct economic loss because of the pandemic.

Steppe Gold is seen as a leader in responsible and sustainable mining. What must be done for the proper development of our mining industry?

Indications are that a new super cycle is coming in the mining industry. That will bring more investment in the sector, also in other sectors. Mongolia needs more exploration work. Foreign investors want to hold shares in Mongolian companies in the hope of finding deposits with economic prospects. Who knows what resources lie hidden in Mongolia that only both intensive and extensive exploration work can discover? ■



I DO HOPE THAT OUR SUCCESS WILL ENCOURAGE OTHERS TO FOLLOW THE PATH THAT WE'VE TAKEN



Jeremy South, Chief Financial Officer of Toronto-listed Steppe Gold, explains to Tugsbilegt Batbaatar why the company plans to list on the Mongolian Stock Exchange and why it hopes to remain Mongolia's largest gold miner in the years ahead. He also reveals the strategy behind the success of the company's flagship project Altan Tsagaan Ovoo (ATO). He sees a promising future for the mining sector because of sensible government policies.

How do you think gold prices would behave in the days ahead?

I don't think anyone really knows, but we have a situation where central banks have been printing money in a very aggressive way for the last 12 months, and currencies are being debased. That's the first thing. Secondly, and somewhat related to this, there is a growing sentiment that inflation is coming back into the system, and gold is seen as a

hedge against inflation. Unlike paper money, gold is not something that you can print more of at will. Gold is seen as a store of value and its supply is limited. And history will tell you that gold price does well in the sort of environment that we now have. We have, as shareholders in our company, people that have been in the gold market for 30 or 40 years, like, say, Eric Sprott, who is known in Canada as a kind of Warren Buffett of gold.



They think the outlook for gold prices has never been better, even as Treasury yields are rising and driving the US dollar higher. The vaccine is being rolled out across the world, and there is a feeling that the world is getting back to work. Though I see a lot of work ahead to offset the financial damage already done. My personal expectation is that the gold price will be around \$2,000/oz in 2021. That's also the belief of a number of other people. But you know, we cannot influence the market or set our selling price. All we can do is to control our costs, and that's what we focus on. We see our job as producing as much gold as we can at the lowest cost.

How have the strong market conditions impacted your operational earnings?

Well, taking the 2020 average achieved selling price of \$1,900 per ounce of gold, we make over \$1,200 an ounce. The price was \$1,200 when we acquired this asset four years ago. That it has risen by \$700 has, of course, been to our benefit. We are pleased with our cost control and our focus will continue to be on producing at the lowest possible cost and at the highest level of efficiency, and of course with safety as our highest priority of all.

You have done quite well in Mongolia, so how do you see the investment environment here for foreign companies?

I think it's good, and, well, I think it hasn't been this good for a long time. The government enjoys a strong majority, and the general political scene seems reasonably stable. The ruling party can get laws passed and the government is pro-mining and pro-business. And that's a good thing for us. I think the government understands that you need to have a stable, consistent environment for foreign companies to invest. I am optimistic that the presidential election in June will be peaceful and free of incidents.

We're also pretty optimistic that the problems posed by the pandemic forcing the country to close its borders will be successfully overcome. But the government has to generate revenue, through taxes or royalty, from mining companies like us. It's certainly a good time to be in mining in Mongolia. And I think the recent news about Rio Tinto and the government agreeing to have fresh discussions about the Oyu Tolgoi project is really important. This is so because everyone, including foreign investors and foreign companies, is watching how things develop. That Rio has put a Mongolian national in charge of its copper business is a good sign. Turquoise Hill's share price has been very, very strong lately. All these things are positive. I think the Mongolian government really understands how important it is to support socially and environmentally responsible, as well as safe, mining in Mongolia.

What are the chief reasons for the success of your flagship project, ATO?

It's a well-located project with good economics. Centerra Gold had spent \$30 million on it before we acquired the project. We always believed there was more gold there than Centerra had estimated. We changed the way drilling results were interpreted and invested a significant amount of money in fresh drilling. Now we have 2.5 million oz of gold equivalent in the deposit, but we think there is even more, closer to 5 million oz. That would make it a world class project. Besides the natural attributes of the deposit, our success has been due to the managing our costs. Mining costs and labour is competitive, and the proximity to China makes it easier to import equipment and commodity consumables from there. Oyu Tolgoi has to export all of its production, but we don't export anything. We sell our gold to the Central Bank at prevailing market prices with minimal discounts. I see these as the main attributes of our success, rather than advantages. ▶

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Our costs are kept low, the deposit has a long life. We do not have to export our product - these are the main attributes.

Gold in Mongolia has mostly been mined from placer deposits. ATO is a hard rock mine. Does this make it more difficult and more costly or is there any advantage to it?

It is difficult to compare placer and hard rock deposits. Placer mining is not really a long-term exercise. It's easier to finance hard rock mining if you can keep your costs low over the life of the mine. The initial expenses are a little bit high, but ATO was built for under \$25 million. That's not expensive for what has turned out to be a five-million-ounce deposit. You have to look at costs in the overall context of the value of the project. It is not expensive, you know, to have \$25 million as CapEx if the project is worth around \$300 million. Both CapEx and OpEx are relative to the overall returns from the project. I don't know too much about placer mining, but, you know, it's not really an industry. It is small-scale and is not going to give any consistent sort of returns.

What financial help did you get under the Gold 2 programme?

That was a bank loan facilitated through the Bank of Mongolia. We borrowed money from the TDB for our operational, capital and development needs. And this money is primarily used in the second phase of our project. We shall have to take more loans, but we have a strong balance sheet and since we use our money prudently, we should have sufficient funds for our capital expenditure needs.

What was behind your company's successful IPO at the Toronto Stock Exchange? And how have your stocks moved since then?

Our IPO was in May 2018. That was a very difficult time to raise capital for any

mining company, but we raised around \$20 million from the IPO, and we have raised additional equity since then. We've raised a lot of capital from Mongolian investors and institutions. The IPO was quite difficult, but we got it done successfully, and we built our project. The important thing to understand about our company is that we had a very clear strategy, and we have executed to that strategy. Other mining companies have focused on drilling and not production. We thought the grades were good enough at ATO and the idea was to get into production early and use that cash flow from production to finance the capital for phase two, which is where we have the larger resource, and which is also the one more expensive to process. And that's exactly how it's played out.

The success that we've enjoyed over the last 12 months in making our shares more valuable also helped by a strong good gold price. We generated around \$25m in adjusted EBITDA in 2020 from around 9 months of production. And so, people look at us and say, "Okay, they've got into production, and they're making money. They said they would do this, and they've delivered on what they said." That is where you start to get investors coming in. Our share price is still lower than what we would like it to be, but we are confident that it will go there in due course. And the resource update that we recently put out was important. The next step is obviously the feasibility study that is being completed right now and that should be available in three months. Once we have done that, I think we would have ticked all the boxes in terms of what we said we would do.

What advantage do you see in listing the company at the Mongolian Stock Exchange? Does your decision to do so indicate your faith in the potential of the MSE?

“ It is difficult to compare placer and hard rock deposits. Placer mining is not really a long-term exercise.



I think our decision was primarily driven by the fact that we're really a Mongolian company. We're listed in Canada, but 99.9 per cent of our people are in Mongolia. We have a small corporate office in Canada. So we're really a Mongolian company, and as such it makes sense for us to be traded on the Mongolian exchange. Over 25 per cent of our shares are held by Mongolian investors. So it not only makes a lot of sense for us to have a profile here, but also to allow our Mongolian investors to trade in their own time zone as against having to get up at 3:00 in the morning to do it in Canada.

As for the exchange here, Mongolia is a small country, but it's rapidly developing, and enabling people here to invest in the economy of Mongolia through the stock market is a good thing. We are seeing the growth of the insurance industry here, and insurance funds tend to be large investors in listed equities. The new banking law requires banks, or at least the big banks, to be public companies. Mongolia has conglomerates like MCS and others, but as more Mongolians accumulate wealth to use, giving them access to invest in listed stocks is an important means for capital preservation and earning returns.

How do you see your company's future in Mongolia?

We are the largest gold producer in Mongolia now. Oyu Tolgoi produces more but all of it leaves in copper concentrate. Our plan is to continue to grow. We shall look into acquiring other assets, to have a pipeline of assets from exploration to development to production. We'd like to have assets at each of these stages. We are the largest gold miner and would like to remain so. We'd also like to support other Mongolian gold companies. We'd like to see more foreign companies in the country, and also more domestic companies to build good gold projects here. Mongolia needs more gold and the MongolBank needs more gold to build up reserves. In such a situation, it is logical for the government to create the right sort of robust, stable, and consistent regulatory environment, tax environment, and royalty environment, and then allow the private sector to raise capital and to take the risk in building projects.

How do you see the potential of hard rock gold mining in Mongolia?

We're optimistic. I don't really understand the placer business well. I'd like to see more Mongolian companies take up a more prominent role. The Boroo project has been resuscitated by a Mongolian group, and you've got Erdene Resource, and also a couple of other smaller companies. ▶

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The important thing to understand about our company is that we had a very clear strategy, and we have executed that strategy. Other mining companies have focused on drilling and not production.



An expansion of the sector would be nice to see. Erdene has been exploring in Mongolia for a long time, and it is exciting to see them build their project this year. And I think that would be great for the country. I also hope that our success will encourage others to follow the path that we've taken. We showed how it is not necessary to drill the complete area of a project, but to take some risks along the way and finance these projects smartly. Do it smart, have a plan, raise capital, get into production, generate cash flow, come back and then expand the project, rather than try and find the big monster project and spend years doing that, but not be successful. Hopefully, the approach that we've taken will encourage others to do the same.

It's great that the government is so supportive of the sector through the gold programme. It is also taking the right approach to achieve what it wants. Some companies were not doing the right things and the government is bringing standards to the industry. I think this is important.

What do you do to meet your social responsibility and how do you engage with the local community? Also, how committed are you to safe and responsible mining?

That is the most important thing. If you don't have the social licence or community support, you don't have a project. That's very clear.

The first thing we do when we get up in the morning is think about safety. The second thing we think about is our communities and ensuring that we have a very transparent communication process with all levels of government, from the local soum upward. About two thirds of our workers are from the local soum, and we have a very strong relationship with the soum government, with the aimag government and then the national government. You have to have a dialogue from early on. You have to tell them what you're going to do. You have to explain to them how you are going to support their community and how they can benefit from that. And if you don't do that well, you don't have a project. So, we've invested very heavily in community engagement.

Environmental management is obviously critical because the local people need to understand how we're dealing with

environmental risks. Mining is not free of risks, and you have to be very clear on how you're managing them. I think it's about safety first, community engagement and economic value. Community engagement is also about economic value. We draw a lot of our staff from the Tsagaan-Ovoo soum near our project and when they see how we're starting to generate economic value, that helps build trust. Job creation is an obvious example, but we also support, through scholarships and other means, education in the local area, and also active sports. And we actively support businesses in the soum as they supply most of our meat and dairy produce, through a co-op which also we helped set up. That's the virtuous circle of how we help develop the local area by generating both economic and social value.

Are countries like Australia and Canada good examples for us in terms mining?

I think yes, but they're not perfect. No one's perfect if I think of mining around the world. Australia and Canada are very mature investment markets, very mature mining markets. Mongolia has a lot of mining talent, but they must now develop talent. Oyu Tolgoi has done a good job in developing talent. And that is something that we are also trying to do.

Every country is different when it comes to local engagement. In Australia and Canada, you have native and indigenous issues, but you don't really have indigenous people in Mongolia where land ownership is different. So you have other issues. You go to Kazakhstan; you go to South Africa -- and you see different issues. But the same principles apply when these must be resolved. Whether your local communities are made up of indigenous people or nomadic people or whether you deal with a local government, early engagement and regular consultation make them part of the process. Bring people into the conversation so they do not feel something is being forced on them. You have to listen to what they want, for they are all stakeholders in the project. The key principle behind environmentally responsible mining is transparency in communicating the values you are bringing, beyond the basic economic opportunities. ■

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