STEPPE GOLD LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED,

DECEMBER 31, 2018 AND DECEMBER 31, 2017

(EXPRESSED IN US DOLLARS)

Independent Auditor's Report

To the Shareholders of Steppe Gold Ltd.:

Opinion

We have audited the consolidated financial statements of Steppe Gold Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $12,215,671 during the year ended December 31, 2018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company'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. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated 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 audits of the consolidated 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 consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to 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. We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Marufur Raza.

MNP LLP

Toronto, Ontario
April 1, 2019

Chartered Professional Accountants
Licensed Public Accountants

MNP

STEPPE GOLD LTD.

Consolidated Statements of Financial Position
As at
(Expressed in US Dollars)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		$ 7,015,846	$ 2,362,148
Cash held in trust		-	1,307,933
Receivables and other assets	**4**	1,022,751	429,995
Inventory	**5**	1,388,933	-
Total current assets		9,427,530	4,100,076
Altan Tsagaan Ovoo Project	**6**	-	19,611,328
Uudam Khundii Project	**7**	2,044,835	2,195,817
Property, plant and equipment under construction	**8**	32,079,060	450,517
Total long-term assets		34,123,895	22,257,662
Total assets		**43,551,425**	**26,357,738**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	**9**	1,697,984	193,011
Purchase price payable	**7**	500,000	500,000
Promissory notes	**10**	4,308,864	5,000,000
Total current liabilities		6,506,848	5,693,011
Long-term liabilities			
Promissory notes	**10**	-	3,527,985
Streaming arrangement	**12**	20,112,036	8,191,188
Warrant liability	**17**	-	5,352,210
Asset retirement obligation	**11**	320,536	-
Total long-term liabilities		20,432,572	17,071,383
Total liabilities		26,939,420	22,764,394
Shareholders' equity			
Share capital	**13**	20,421,437	7,861,287
Shares to be issued	**7**	647,322	647,322
Warrants	**17**	13,655,083	-
Special warrants to be issued		-	1,307,933
Contributed surplus	**15**	3,296,458	-
Non-controlling interest	**3**	(88,280)	-
Accumulated other comprehensive (loss) income		(3,110,694)	(148,112)
Deficit		(18,209,321)	(6,075,086)
Total shareholders' equity		16,612,005	3,593,344
Total liabilities and shareholders' equity		**$ 43,551,425**	**$ 26,357,738**

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

Approved on behalf of the Board:

(Signed) "Matthew Wood" _________________ , Director (Signed) “Patrick Michaels"____________, Director

STEPPE GOLD LTD.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended
(Expressed in US Dollars)

		December 31, 2018	December 31, 2017
Operating expenses			
Exploration and evaluation expenditures	**14**	$ 1,033,172	$ 1,992,982
Management compensation	**16**	1,005,101	967,913
Stock based compensation	**15**	3,281,524	-
Professional fees		1,495,648	452,801
Foreign exchange (gain) loss		(177,684)	435,021
Office and general		951,437	407,656
Investor relations		395,361	317,379
Accretion and financing costs	**10,12**	588,146	301,379
Travel		481,152	114,288
Reporting issuer costs		202,515	34,915
Depreciation	**8**	18,760	5,431
Gain on settlement of debt	**7**	-	(468,070)
Change in the fair value of warrant liability	**17**	2,940,539	1,012,724
Net loss		**(12,215,671)**	**(5,574,419)**
Other comprehensive loss			
Cumulative translation adjustment		(2,969,426)	(148,690)
Net loss and comprehensive loss for the year		**(15,185,097)**	**(5,723,109)**
Net loss attributable to shareholders of the		(12,134,235)	(5,574,419)
Net loss attributable to non-controlling interest		(81,436)	-
		(12,215,671)	**(5,574,419)**
Net loss and comprehensive loss attributable to shareholders of the Company		**(15,178,253)**	**(5,723,109)**
Net loss and comprehensive loss attributable to non-controlling interest		**(6,844)**	**-**
		$ (15,185,097)	**$ (5,723,109)**
Basic and diluted net loss per common share		$ (0.33)	$ (0.28)
Weighted average number of common shares outstanding - basic and diluted		36,677,887	20,173,302

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

STEPPE GOLD LTD.

Consolidated Statements of Cash Flows
For the year ended 31 December 2018
(Expressed in US Dollars)

	Notes	December 31, 2018	December 31, 2017
Operating activities			
Net loss for the period		$ (12,215,671)	$ (5,574,419)
Adjustments for:			
Change in the fair value of warrant liability	**17**	2,940,359	1,012,724
Accretion and financing costs	**10,12**	588,146	301,379
Gain on settlement of debt	**7**	-	(468,070)
Stock based compensation	**15**	3,281,524	-
Depreciation	**8**	18,760	5,431
Shares for services		-	421,313
Unrealized foreign exchange gain		(1,298,981)	(37,284)
Changes in non-cash working capital items:			
Inventory		(1,259,116)	-
Receivables and other assets		(592,756)	(399,956)
Amounts payable and other liabilities		1,504,972	18,589
Net cash used in operating activities		**(7,032,763)**	**(4,720,293)**
Investing activities			
Purchase of property, plant and equipment under construction	**8**	(13,132,319)	(440,643)
Deposit for the Altan Tsagaan Ovoo Project		-	(10,780,000)
Acquisition costs for the Uudam Khundii Project		-	(600,000)
Net cash used in investing activities		**(13,132,319)**	**(11,820,643)**
Financing activities			
Issue of common shares, net of issuance costs	**13**	14,902,283	8,846,618
Proceeds from conversion of special warrants	**12**	3,020,202	-
Proceeds from stream financing	**11**	11,500,000	11,500,000
Stream finance cost		-	(681,543)
Repayment of Promissory note	**10**	(5,069,682)	(1,000,000)
Net cash provided by financing activities		**24,352,803**	**18,665,075**
Effect of exchange rate changes on cash held in foreign currency		465,977	(20,844)
Net increase in cash		4,653,698	2,103,295
Cash, beginning of period		2,362,148	258,853
Cash, end of period		**$ 7,015,846**	**$ 2,362,148**

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

STEPPE GOLD LTD.

Consolidated Statements of Changes in Shareholders' Equity
For the year ended 31 December 2018
(Expressed in US Dollars)

	Notes	Share Capital $	Shares to be issued $	Contributed Surplus $	Warrants $	Special warrants to be issued $	NCI $	Accumulated other comprehensive loss $	Deficit $	Total $
Balance, December 31, 2016		440,000	174,556	-	-	-	-	578	(500,667)	114,467
Private placements		6,546,623	(180,070)	-	-	-	-	-	-	6,366,553
Cancelled shares		(10,196)	-	-	-	-	-	-	-	(10,196)
Shares for services		421,313	-	-	-	-	-	-	-	421,313
Compensation for stream obligation		463,547	-	-	-	-	-	-	-	463,547
Shares to be issued		-	652,836	-	-	-	-	-	- -	652,836 65
Special warrants to be issued		-	-	-	-	1,307,933	-	-	-	1,307,933
Comprehensive loss for the period		-	-	-	-	-	-	(148,690)	(5,574,419)	(5,723,109)
Balance, December 31, 2017		**7,861,287**	**647,322**	**-**	**-**	**1,307,933**	**-**	**(148,112)**	**(6,075,086)**	**3,593,344**
Initial public offering		11,013,701	-	-	5,089,432	-	-	-	-	16,103,133
Special warrants to be issued	**13**	-	-	-	-	(1,307,933)	-	-	-	(1,307,933)
Conversion of special warrants	**13**	3,020,202	-	-	852,446	-	-	-	-	3,872,648
Conversion of warrant liability	**17**	-	-	-	8,292,749	-	-	-	-	8,292,749
Cost of issue	**13**	(1,473,753)	-	-	(579,544)	-	-	-	-	(2,053,297)
Stock-based compensation	**15**	-	-	3,296,458	-	-	-	-	-	3,296,458
Comprehensive income (loss) for the period		-	-	-	-	-	(88,280)	(2,962,582)	(12,134,235)	(15,185,097)
Balance, December 31, 2018		**20,421,437**	**647,322**	**3,296,458**	**13,655,083**	**-**	**(88,280)**	**(3,110,694)**	**(18,209,321)**	**16,612,005**

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

1. Nature of operations and going concern

Steppe Gold Ltd. (the "Company" or "Steppe") was incorporated under the laws of the Ontario Business Corporations Act by Articles of Incorporation dated October 5, 2016. The Company is domiciled in Canada and its registered office is located at 18 King East, Suite 902, Toronto, Ontario, M5C 1C4. The Company is focused on operating, developing, exploring and acquiring gold properties primarily in Mongolia. At the date of these consolidated financial statements, the Company has not yet earned any income as the Company has not reached commercial production.

Steppe is at an early stage of operating, developing, exploring and acquiring gold properties and as is common with many similar companies, it raises financing for its exploration and development activities in discrete tranches. To complete its commercialization activities the Company will be required to raise additional financing. The Company has working capital of $2,920,682 at December 31, 2018 (December 31, 2017 - working capital deficit $1,592,935). For the year ended December 31, 2018, the Company had a net loss of $12,215,671 (December 31, 2017 - $5,574,419) and had cash outflows from operations of $7,032,763 (December 31, 2017 - $4,720,293). These circumstances cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent upon obtaining additional financing and eventually achieving profitable production in the future. There can be no assurance that the Company's financing activities will continue to be successful or sufficient.

Longer term, the Company may pursue opportunities to raise additional capital through equity markets; however, there can be no assurance it will be able to raise funds in the future. The ultimate ability of the Company to remain a going concern and complete exploration and development of it's properties, if properties are proven successful, is dependent upon successfully raising additional capital.

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets, liabilities and reported expenses should the Company be unable to continue as a going concern. These adjustments could be material.

2. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective at January 1, 2018. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 1, 2019.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified at fair value through profit or loss ("FVTPL"). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 2(q).

2. Significant accounting policies (continued)

(c) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries, Steppe Gold LLC ("Steppe Mongolia"), a company incorporated in accordance with Company Law of Mongolia and Implementation Law to the Company Law adopted on October 6, 2011 by the State Great Hural of Mongolia and Steppe West LLC ("Steppe West"), Mongolian entity, which owns 80% of Corundum Geo LLC ("Corundum"). In addition, the Company includes Steppe Investments Limited ("Steppe BVI"), a company incorporated under the Business Corporations Act, 2004 of the British Virgin Islands on June 19, 2017.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

The results of subsidiaries acquired or disposed of during the years presented are included in the consolidated statements of loss and comprehensive loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

(d) Functional and presentation currency

These consolidated financial statements have been prepared in US dollars ("USD"), which is the Company's presentation currency. As of December 31, 2018, the functional currency was determined to be the Mongolian Tughrik for its Mongolian wholly-owned subsidiaries and to be the Canadian dollar ("CAD") for Steppe Gold Limited and Steppe BVI.

Effective January 1, 2018, the Company changed its presentation currency to US dollars from Canadian dollars.

The consolidated financial statements for all periods presented in the annual financial statements are in USD. The historical financial statements have been translated into USD in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", as follows:

- Assets and liabilities presented and previously reported in CAD$ have been translated into USD using period-end exchange rates of 1.3427 (December 31, 2016) and 1.2545 (December 31, 2017);
- Consolidated statements of loss and comprehensive loss have been translated using average foreign exchange rates prevailing during the reporting periods of 1.2986 (January 1, 2017 to December 31, 2017);
- Shareholder's equity balances have been translated using historical foreign exchange rates in effect on the date that transactions occurred; and
- Resulting exchange differences have been recorded within the foreign currency translation reserve accounts.

(e) Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9 following the final publication of the standard in July 2014, which supersedes IAS 39 *'Financial Instruments: recognition and measurement'*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no impact to the Company's consolidated financial statements.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

Below is a summary showing the classification and measurement bases of our financial instruments as at January 1, 2018 as a result of adopting IFRS 9 (along with comparison to IAS 39).

Classification	IAS 39	IFRS 9
Cash	FVTPL	FVTPL
Amounts receivable	Loans and receivables	Amortized cost
Amounts payable and other liabilities	Other financial liabilities (amortized cost)	Amortized cost
Purchase price payable	Other financial liabilities (amortized cost)	Amortized cost
Promissory notes	Other financial liabilities (amortized cost)	Amortized cost
Streaming arrangement	Other financial liabilities (amortized cost)	Amortized cost
Warrant liability	Other financial liabilities (amortized cost)	FVTPL

As a result of the adoption of IFRS 9, the accounting policy for financial instruments as disclosed in the Company's December 31, 2017 consolidated financial statements has been updated as follows:

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at fair value through profit or loss ("FVTPL")

Financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as financial assets measured at FVTPL.

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

The Company's amounts receivable is classified as financial assets measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.
The Company's amounts payable and other liabilities, purchase price payable, promissory notes and streaming arrangement do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded fair value through profit or loss ("FVTPL")

Financial liabilities are classified as fair value through profit or loss if they fall into one of the five exemptions detailed above and include warrant liability and special warrants.

Transaction costs

Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains or losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains or losses recognized in other comprehensive income.

Derecognition

The Company 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 profit or loss.

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's consolidated financial statements.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(f) Cash

Cash is comprised of cash on hand and deposits held with banks that are readily convertible into known amounts of cash.

2. Significant accounting policies (continued)

(g) Inventories and Stockpiled Ore

Stockpile inventory represents unprocessed ore that has been mined and is available for further processing. The unprocessed ore stockpile is measured by estimating the number of tonnes added and removed from the stockpile, the number of contained tonnes (based on assay data) and estimated metallurgical recovery rates (based on the expected processing method). Stockpile ore tonnages are verified by periodic surveys. Costs are allocated to the stockpile based on the current mining cost per tonne incurred up to the point of stockpiling the ore, including applicable overhead, depletion and amortization relating to mining operations, and are removed at the average cost per ounce.

At year end, the Company did not have any finish goods, work in progress or heap leach ore.

Consumable supplies and spare parts are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific stock items identified as obsolete. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal.

(h) Property, plant and equipment under construction

Property, plant and equipment under construction include mining properties, related plant and equipment, and the Company's investments in mining projects.

Mining properties:

Producing mining interests are carried at cost less accumulated depletion and depreciation and accumulated impairment losses. The costs related to the mining interests are depleted and charged to operations on the unit of production method as a proportion of estimated recoverable mineral reserves.

Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Costs capitalized for plant and equipment include borrowing costs incurred that are attributable to qualifying plant and equipment. The carrying amounts of plant and equipment are depreciated using either the straight-line or unit-of-production method over the shorter of the estimated useful life of the asset or the life of mine. The significant classes of depreciable plant and equipment and their estimated useful lives are as follows:

Crusher and its components	units of production
Heap leach	units of production
Other mining equipment	11 years
Lights vehicles	10 years
Computer equipment	2 years
Furniture and fixtures	10 years

Assets and infrastructure under construction are depreciated when they are substantially complete and available for their intended use, over their estimated useful lives.

Furniture and fittings unrelated to production are depreciated using the straight-line method based on estimated useful lives and expensed to the statement of loss and comprehensive loss.

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's plant and equipment at the end of each financial year, and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

2. Significant accounting policies (continued)

(h) Property, plant and equipment under construction (continued)

Derecognition:

Upon disposal or abandonment, the carrying amounts of mining properties and plant and equipment are derecognized and any associated gains or losses are recognized in net earnings. The cost and accumulated depreciation and depletion and impairment of fully depleted mineral properties and fully depreciated plant and equipment are derecognized.

(i) Impairment of non-financial assets

The carrying values of mineral properties and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Company. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGU") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets of the Company. This generally results in the Company evaluating its non-financial assets on a geographical or license basis.

The recoverable amount is determined as the higher of the fair value less costs of disposal for the asset and the asset's value in use.

In calculating value in use ("VIU"), the estimated future cash flows of a mine or development property are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Estimated future cash flows include estimates of recoverable ounces of gold. Estimated future cash flows also involve estimates regarding gold prices, production levels, capital, closure and rehabilitation costs and income taxes. Cash flows are subject to risks and uncertainties and changes in the estimates of the cash flows could affect the recoverability of long-lived assets. An impairment loss is reversed if there is indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of net loss and comprehensive loss so as to reduce the carrying amount to its recoverable amount.

(j) Business combinations and goodwill

When Steppe makes an acquisition, it first determines whether the assets acquired and liabilities assumed constitute a business, in which case the acquisition requires accounting as a business combination.

The Company uses the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets received and, the liabilities assumed or the equity interests issued by the Company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date.

(k) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

2. Significant accounting policies (continued)

(k) Income taxes (continued)

Deferred tax is recognized in respect of taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Exploration and evaluation and pre-development expenditure

Exploration, evaluation and pre-development expenditure

All exploration and evaluation expenditures of the Company within an area of interest are expensed until management and Board of Directors conclude that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and that future economic benefits are probable. In making this determination, the extent of exploration, as well as the degree of confidence in the mineral resource is considered. Once a project has been established as commercially viable and technically feasible, and approval is received from the Board of Directors, an impairment test is performed and further expenditures are capitalized as development costs.

(m) Share-based payment transactions

The fair value of stock options granted to employees and non-employees is recognized as an expense over the vesting period with a corresponding increase in shareholders' equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

The Company has restricted share units granted to employees and non-employees. The Company accounts for restricted share units using the fair value method as prescribed by IFRS 2. Under this method, the fair value of restricted share units at the date of grant is amortized over the vesting period and the offsetting credit is recorded as an increase in contributed surplus if they will be settled in shares or the offsetting credit to accounts payable and other liabilities if the Company has a present obligation to settle in cash.

2. Significant accounting policies (continued)

(n) Provision

Provisions are liabilities that are uncertain in timing or amount. The Company records a provision when and only when:

- The Company has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted or reversed to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision is accreted during the period to reflect the passage of time. This accretion expense is included in finance costs in the consolidated statements of loss and comprehensive loss.

Asset Retirement Obligations

The Company records a provision for the estimated future costs of reclamation and closure of operating, closed and inactive mines and development projects when environmental disturbance occurs or a constructive obligation arises.

Management has estimated the future costs of reclamation and closure of mine site, which has taken into consideration the effects of inflation, movements in foreign exchange rates, the effects of country and other specific risks associated with the related liabilities. These estimates of future costs are discounted to net present value using the risk-free interest rate applicable to the future cash outflows. The provision for the Company's reclamation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs. The provision for reclamation and closure cost obligations is remeasured at the end of each reporting period for changes in estimates or circumstances. Changes in estimates or circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk-free interest rates.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs not directly attributable to a qualifying asset are expensed in the consolidated statement of loss and comprehensive loss in the period in which they are incurred.

(p) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. Significant accounting policies (continued)

(q) Critical accounting estimates and judgments

The preparation of the consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Critical accounting estimates

Warrant and stock option valuation - The fair value is measured at the grant date and at each reporting period. The fair value of the warrants and stock options are measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the warrants and stock options were issued.

Restricted share units valuation - The fair value is measured at the grant date and at each reporting period. The fair value of the restricted share units is measured using the share price on the valuation date taking into account the terms and conditions upon which the restricted share units were issued.

Recoverable reserves – Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its recoverable reserves based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of, commodity prices, production costs, future capital requirements, and foreign exchange rates, along with geological assumptions and judgments made in estimating the size and grade of the ore body, and metallurgical assumptions made in estimating the recovery of the ore body. Changes in the reserve or resource estimates may impact the carrying value of mineral properties, decommissioning liabilities, inventories and amortization expense.

Depletion and amortization – Mining properties are depleted using the unit-of-production method over a period not to exceed the estimated life of the ore body based on estimated recoverable reserves. Property, plant and equipment are depreciated, net of residual value over the useful life of the equipment but do not exceed the related estimated life of the mine based on estimated recoverable mineral reserves. The calculation of the units of production rate, and therefore the annual depletion and amortization expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production and expansion of mineral reserves through exploration activities. Significant judgment is involved in the determination of useful life and residual values for the computation of depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment of mining interests – The Company's management reviews the carrying values of its mining interests on transfer from an exploration property to a development property and on a regular basis to determine whether any write-downs are necessary. Property, plant and equipment is also reviewed on a regular basis to determine whether any write-downs are necessary. The recovery of amounts recorded for mining interests and property, plant and equipment depends on the Company's interpretation of its interest in the underlying mineral claims based on existing regulations, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on the life-of-mine plans in its assessments of economic recoverability and probability of future economic benefit. Life-of-mine plans provide an economic model to support the economic extraction of reserves and resources. A long-term life-of-mine plan and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body. The life-of-mine plan requires the use of estimates and assumptions such as long term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, mineral reserves, and operating performance (which includes production and sales volume).

2. Significant accounting policies (continued)

(q) Critical accounting estimates and judgments (continued)

Asset retirement obligation – The Company assesses its provision for environmental rehabilitation on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for environmental rehabilitation requires management to make estimates of the future costs the Company will incur to complete the rehabilitation work required to comply with existing laws and regulations at each mining operation. Also, future changes to environmental laws and regulations could increase the extent of rehabilitation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for environmental rehabilitation. The provision represents management's best estimate of the present value of the future provision for environmental rehabilitation. The actual future expenditures may differ from the amounts currently provided.

Critical judgments in applying accounting policies

Going concern - The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in note 1.

Functional currency - The assessment of the Company's functional currency and the functional currency of it's subsidiaries involves judgment regarding the primary economic environment the Company and it's subsidiaries operate in.

Acquisition method accounting - during the acquisition of the Altan Tsagaan Ovoo Project ("ATO Project"), Uudam Khundii property and Bayan Undur Copper property, judgment was required to determine if the acquisitions represented a business combination or an asset purchase. More specifically, management concluded that they did not represent a business, as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill generated on the transaction and acquisition costs were capitalized to the assets purchased rather than expensed. As the Company concluded that the acquisitions were asset acquisitions, an allocation of the purchase price to the individual identifiable assets acquired, including intangible assets, and liabilities assumed based on their relative fair values at the date of purchase was required. The fair values of the net assets acquired were calculated using significant estimates and judgments. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated balance sheets.

Accounting for streaming arrangement - significant judgment was required in determining the appropriate accounting for the streaming arrangement that was entered into. The upfront cash deposit received on the stream transaction has been accounted for as a financial liability as management has determined that it will be satisfied through the delivery of financial items. It is not management's intention to settle the obligations under the streaming arrangement through its own production but through metals obtained through an alternative source. See note 11.

Production stage of mine – The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. As a mine is constructed, costs incurred are capitalized and proceeds from metal sales are offset against the capitalized costs. This continues until the mine is available for use in the manner intended by management, which requires significant judgment in its determination.

2. Significant accounting policies (continued)

(o) IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). The new standard is effective for the Company on January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

The adoption of IFRS 15 had no impact on the Company's financial statements.

(p) Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after the Company's period end. Many are not applicable or do not have a significant impact on the Company and so have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(i) On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the Interpretation to have a material impact on the consolidated financial statements.

(ii) On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the period beginning on January 1, 2019. The Company is evaluating the impact of adoption and expects to report more detailed information in its consolidated financial statements as the effective date approaches.

(Expressed in US Dollars)

3. Subsidiaries

The following companies have been consolidated within the audited annual consolidated financial statements:

Company	Registered	Principal activity
Steppe Gold Ltd.	Canada	Parent company
Steppe Gold LLC	Mongolia	Operating company
Steppe West [(1)]	Mongolia	Holding company
Steppe BVI [(1)]	British Virgin Islands	Holding company
Corundum Geo LLC [(2)]	Mongolia	Exploration company

(1) 100% owned by ultimate shareholder - Steppe Gold Ltd.
(2) 80% owned by Steppe West

4. Receivables and other assets

	December 31, 2018 $	**December 31, 2017 $**
Amounts receivable	3,578	289,377
Prepaids	879,673	140,618
Other receivables	139,500	-
Total receivables and other assets	**1,022,751**	**429,995**

5. Inventories

	December 31 2018 $	**December 31 2017 $**
Stockpiles of ore	1,007,882	**-**
Spare parts and supplies	381,051	-
	1,388,933	**-**

(Expressed in US Dollars)

6. Altan Tsagaan Ovoo Project

(a) Acquisition

On September 15, 2017, the Company and Steppe Mongolia, completed the acquisition of the ATO Project, located in Eastern Mongolia, from Centerra Gold Mongolia LLC, for aggregate consideration of $19.8 million plus $1.98 million in value added tax (the "ATO Acquisition"). The acquisition has been accounted for as an asset acquisition.

At the date of the ATO Project acquisition, the ATO Project had the following assigned values:

Purchase price consideration	
Issuance of promissory note 1 (1)	5,000,000
Issuance of promissory note 2 (2)	3,362,668
Issuance of promissory note 3 (3)	1,000,000
Initial deposit	800,000
Funding from Triple Flag	9,980,000
Transaction costs	53,040
Total consideration	**$ 20,195,708**
Allocation of purchase price	
Altan Tsagaan Ovoo Project	**$ 20,195,708**

(1) The first promissory note of $5,000,000 was non-interest bearing and due September 30, 2018. As the due date was within 12 months of issuance, the note was not discounted. The promissory note was paid in full on September 28, 2018 (note 10).
(2) The second promissory note of $5,000,000 is non-interest bearing and is due September 30, 2019. A discount rate of 20% was used to calculate the present value based on the underlying timing and risk of payments to be received.
(3) The third promissory note of $1,000,000 was non-interest bearing and due October 9, 2017. As the due date is within 12 months of issuance, the note has not been discounted. The third promissory note was paid in full on October 13, 2017.

(b) Continuity

	December 31, 2018 $	**December 31, 2017 $**
Balance, beginning of year	19,611,328	-
Additions to the ATO Project	48,980	20,195,708
Foreign exchange	172,746	(584,380)
Transfer to building, plant and equipment under construction(1)	(19,833,054)	-
Balance, end of year	-	19,611,328

(1) The Company's ATO project entered into mine development for accounting purposes effective July 1, 2018 as the technical and commercial feasibility of the mine has been met. As a result, all costs that were capitalized to the ATO project to June 30, 2018 have been transferred to building, plant and equipment under construction amounting to $19,833,054.

6. Altan Tsagaan Ovoo Project (continued)

(c) Impairments

As a result of the ATO Project entering into mine under development the Company’s management has completed an impairment test on the carrying value. The recoverable amount of the ATO Property was based on management’s estimate of value in use.

Key assumptions:

The determination of value in use is most sensitive to the following key assumptions:

Production volumes:
In calculating the value in use, the production volumes incorporated into the cash flow models were 5,106,000 tonnes of ore. Estimated production volumes are based on detailed life-of-mine plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted. The cash flows of the mine are computed using an economic model with key assumptions established by management. The production profiles used were consistent with the reserves and resource volumes approved as part of the Company’s process for the estimation of proved and probable reserves, and resource estimates. These are then assessed to ensure they are consistent with what a market participant would estimate.

Commodity prices:
Forecast commodity prices are based on management’s estimates and are derived from forward price curves and long-term views of global supply and demand, building on past experience of the industry and consistent with external sources. These prices were adjusted to arrive at appropriate consistent price assumptions. Estimated gold prices used in the model range from $1,306 to $1,281 per ounce and have been used to estimate future revenues. Sensitivity to a minus $100 change in the commodity price would not yield any impairment.

Discount rates:
In calculating the value in use, a real post-tax discount rate of 29% was applied to the post-tax cash flows expressed in real terms. This discount rate is derived from the Company’s post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company’s investors. Sensitivity to a plus 10% change in the discount rate would not yield any impairment.

7. Uudam Khundii Project

The Company, through its subsidiary Steppe West, entered into a share sales agreement dated May 15, 2017, with an unrelated third party (the "Seller") to acquire 80% of Corundum as outlined below. Corundum is currently in the bidding process to acquire a license for minerals exploration with local province owned Bayankhongor New Mining LLC of Bayankhongor province, Mongolia. The acquisition has been accounted for as an asset acquisition.

The purchase price is noted below:

- $150,000 within 5 working days (paid);
- $350,000 within 21 days (paid);
- $1,500,000 upon successful bidding on tender and obtaining ownership of the exploration license located in Bayankhongor province, Mongolia; and
- 1,000,000 shares of the Company based on certain exploration results

As noted above, there were certain contingent conditions to be met. As the expectation for these events to be met is probable, the contingent consideration has been accrued. Under IFRS, any contingent consideration needs to be classified as equity or liability based on the IAS 32 definitions. Contingent consideration classified as equity is not remeasured after its initial recognition at fair value and its subsequent settlement shall be accounted for within equity. Contingent consideration classified as a liability is measured at fair value initially and subsequently at each reporting period, with any fair value changes recognized as gain or loss in profit or loss.

Accordingly, the cash portion of the payment was recorded a liability. The share portion has been recorded as equity, as shares to be issued, as the number of shares issuable are fixed.

The agreement was amended on August 18, 2017 and the revised terms for the unpaid amount of $1,500,000 were as follows:

- $100,000 upon obtaining the rights over the Uudam Khundii project (paid);
- $500,000 upon completion of the initial exploration programs; and
- 400,000 shares of Steppe Gold Limited

The amendment was made to modify the cash payment terms on the remaining unpaid balance of $1,500,000 from the original agreement. In accordance with IFRS 9 the change in the portion of the consideration that was previously recorded as a financial liability was tested for a modification or extinguishment of debt. The previous amount of $1,500,000 was modified to cash payments owing of $600,000 ($500,000 remaining) and 400,000 shares valued at $434,254. The amendment is considered an extinguishment of debt under IFRS 9 and accordingly a gain on settlement of $468,070 has been recorded. As the additional 400,000 shares are also fixed in number, they have been presented as equity under shares to be issued. The $500,000 cash liability has been presented as a financial liability.

The 1 million shares to be issued per the original agreement remain to be issued under the amended terms and have not been revalued.

(Expressed in US Dollars)

8. Property, plant and equipment under construction

	Note	Property, Plant and Equipment	Altan Tsagaan Ovoo Property	Property, Plant and Equipment under construction	Total
		$	$	$	$
Cost					
Balance, December 31, 2016		-	-	-	-
Additions		10,862	-	429,781	440,643
Foreign exchange		388	-	15,108	15,496
Balance, December 31, 2017		**11,250**	**-**	**444,889**	**456,139**
Transfer from ATO Project	6	**-**	**19,833,054**	**-**	**19,833,054**
Additions		**7,078,096**	**1,538,496**	**4,515,727**	**13,132,319**
Accretion		**-**	**657,394**	**-**	**657,394**
Asset retirement costs	11	**-**	**320,536**	**-**	**320,536**
Foreign exchange		**(461,357)**	**(1,411,359)**	**(291,209)**	**(2,163,925)**
Balance, December 31, 2018		**6,627,989**	**20,938,121**	**4,669,407**	**32,235,517**
Accumulated depreciation					
Balance, December 31, 2016		-	-	-	-
Additions		5,431	-	-	5,431
Foreign exchange		191	-	-	191
Balance, December 31, 2017		**5,622**	**-**	**-**	**5,622**
Additions	5	**78,352**	**70,225**	**-**	**148,577**
Foreign exchange		**6,787**	**(4,529)**	**-**	**2,258**
Balance, December 31, 2018		**90,761**	**65,696**	**-**	**156,457**
Net book value					
Balance, December 31, 2016		-	-	-	-
Balance, December 31, 2017		5,628	-	444,889	450,517
Balance, December 31, 2018		**6,537,228**	**20,872,425**	**4,669,407**	**32,079,060**

Infrastructure under construction includes plant and equipment which is not yet operational and therefore is not depreciated. During the year, $18,670 (2017 - $5,431) of depreciation was expensed to the consolidated statement of loss and comprehensive loss and the remaining $129,817 (2017 - $nil) of depreciation is allocated to raw material inventory stockpile.

(Expressed in US Dollars)

9. Amounts payable and other liabilities

Amounts payable and other liabilities of the Company are principally comprised of amounts outstanding for purchases relating to general operating activities.

	December 31, 2018 $	December 31, 2017 $
Amounts payable	1,608,858	40,669
Accrued liabilities	65,973	152,342
Restricted Share Units	23,153	-
Total amounts payable and accrued liabilities	**1,697,984**	193,011

10. Promissory notes

Promissory notes of the Company are comprised of the following:

Due	Principal $	Carrying value at December 31, 2018 $	Carrying value at December 31, 2017 $
September 30, 2018 (note 6)	5,000,000	-	5,000,000
September 30, 2019 (note 6)	5,000,000	4,308,864	3,527,985
Total		**4,308,864**	**8,527,985**
Current		4,308,864	5,000,000
Long-term		-	3,527,985
Total		**4,308,864**	**8,527,985**

Accretion during the year ended December 31, 2018 amounted to $759,800 (December 31, 2017 - $176,535). $365,559 (December 31, 2017 - $176,535) was expensed to the consolidated statement of loss and comprehensive loss. $394,241 (December 31, 2017 - Nil) of accretion was capitalized to property, plant and equipment under construction.

(Expressed in US Dollars)

11. Asset retirement obligation

The provision for environmental rehabilitation consists of land rehabilitation, demolition of buildings and mine facilities, and related costs. Although the ultimate amount of the environment rehabilitation provision is uncertain, the amount of these obligations is based on information currently available, including closure plans and the Company's interpretation of current regulatory requirements.

The provision for environmental rehabilitation relates to reclamation and closure costs of the Company's ATO mine. The provision for environmental rehabilitation is estimated at $643,997, over a period of 11 years, and discounted using a risk free rate of 13.9% per annum.

A summary of the Company's asset retirement obligation as at December 31, 2018 and 2017 is presented below:

	December 31, 2018 $	December 31, 2017 $
Balance, beginning of year	-	-
Additions	320,536	-
Balance, end of year	**320,536**	-

12. Streaming arrangement

In connection with the ATO Acquisition, the Company, Steppe Mongolia and Steppe BVI entered into a metals purchase and sale agreement dated August 11, 2017 (the "Stream Agreement") with Triple Flag Mining Finance Bermuda Inc. ("Triple Flag Bermuda") pursuant to which Steppe BVI agreed to sell to Triple Flag Bermuda gold and silver produced from the ATO Project. Under the terms of the Stream Agreement, Steppe BVI is obligated to sell to Triple Flag Bermuda 25% of the gold and 50% of the silver produced from the ATO Project until such time as Steppe BVI has sold an aggregate of 46,000 ounces of gold and 375,000 ounces of silver, respectively (the "Delivery Milestones"). Thereafter the annual amounts that Steppe BVI is obligated to sell to Triple Flag Bermuda is capped at 5,500 ounces for gold (plus 250 ounces of gold for each three month period which the commercial production date follows September 30, 2018) and 45,000 ounces for silver (plus 2,045 ounces of silver for each three month period in which the commercial production date follows September 30, 2018). The obligation of Steppe BVI to sell gold and silver to Triple Flag Bermuda continues for the life of mine and includes any gold or silver produced by Steppe Mongolia within the stream area, which is the area within 20km from the boundary of the original mineral licenses comprising the ATO Project.

As consideration for the grant of the stream by Steppe BVI, Triple Flag Bermuda agreed to make an upfront deposit (the "Upfront Deposit") against the purchase price for the gold and silver of $23 million in two $11.5 million tranches. The first tranche of $11.5 million (the "Initial Upfront Deposit") was advanced on September 15, 2017 in connection with the completion of the ATO Acquisition. Of the $11.5 million advanced pursuant to the Initial Upfront Deposit, $9 million was used to satisfy the balance of the cash portion of the purchase price for the ATO Project and $980,000 was used to pay the associated value added tax ("VAT").

The second tranche of $11.5 million (the "Second Upfront Deposit") is to be advanced once Steppe Mongolia has expended at least $15 million on the ATO Project and can be drawn down in tranches representing 3-month forecasted expenditures for development of the ATO Project. The proceeds of the Upfront Deposit were loaned by Steppe BVI to Steppe Mongolia to advance the ATO Project. The Second Upfront Deposit of $11.5 million was advanced during the year ended December 31, 2018 through the following payments on September 26, 2018 initial payment of $3,800,000, October 26, 2018 second payment of $2,600,000, November 29, 2018 third payment of $2,550,000 and December 20, 2018 last payment of $2,550,000.

12. Streaming arrangement (continued)

As additional consideration for entering into the Stream Agreement, the Company granted 2,300,000 purchase warrants to Triple Flag Bermuda, with each warrant (a “Stream Warrant”) entitling the holder to acquire one unit of the Company (a “Stream Unit”) at a price of CAD$2.00 per Stream Unit on or before September 15, 2022. Each Stream Unit is comprised of one common share and one common share purchase warrant, which entitles the holder to acquire one additional common share at the Offering Price per share for a period ending five years from the date of the completion of the Offering or at a price of CAD$2.50 per share prior the completion of the Offering in the event that there is a change of control transaction involving the Company.

A value of $1,854,739 was estimated for the 2,300,000 warrants on the date of grant based on the Black-Scholes option pricing model with the following assumptions: share price of CAD$1.36; expected dividend yield of 0%; expected volatility of 107% using the historical price history of comparable companies; risk-free interest rate of 1.81%; and an expected average life of five (5) years.

So long as the Upfront Deposit remains outstanding, the purchase price for the gold and silver required to be sold to Triple Flag Bermuda under the Stream Agreement is based on the spot prices for gold and silver price during a 7-day quotational period following the date of delivery of the sale. The purchase price is to be satisfied as to 70% as against the uncredited balance of the Upfront Deposit and 30% is payable in cash by Triple Flag Bermuda. Once the uncredited balance of the Upfront Deposit has been reduced to nil the purchase price by Triple Flag Bermuda for the gold and silver shall be 30% of price determined with reference to the spot prices for gold and silver during a 7-day quotational period following the date of delivery, payable in cash.

The obligations of Steppe BVI under the Stream Agreement were guaranteed by the Company and Steppe Mongolia and secured by all of the assets of Steppe Mongolia, including a pledge of the ATO Project mining license and the exploration licenses owned by Steppe Mongolia, all of the assets of Steppe BVI and through the pledge by the Company of all of shares of both Steppe BVI and Steppe Mongolia.

The Company has determined that the stream obligation is in substance a debt instrument with embedded derivatives linked to gold and silver commodity prices. As the stream is in substance a debt instrument, the effective interest on the debt host is capitalized as a borrowing cost during the development phase of the ATO Project. The ATO Project is in the development phase since July 1, 2018, therefore, the borrowing costs incurred since then are capitalized to property, plant and equipment.

The Stream Agreement is subject to various covenants of which Company has complied with as of December 31, 2018 and December 31, 2017. These covenants include the maintenance of a net indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio that does not exceed 2.0 and its net indebtedness to Forecasted EBITDA ratio does not exceed 2.0 until the date of the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver, and on or after the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver, the Company must ensure that its net indebtedness to EBITDA ratio does not exceed 2.5 and its net indebtedness to Forecasted EBITDA ratio does not exceed 2.5. Also prior to the commercial production date the Company shall not declare or pay any dividend or any other distributions on any of its capital stock or other securities.

In addition, 424,350 common shares valued at CAD$1.36 were issued in connection with the Stream Agreement.

Accretion during the year ended December 31, 2018 amounted to $485,740 (December 31, 2017 - $124,844). $222,587 (December 31, 2017 - $124,844) was expensed to the consolidated statement of loss and comprehensive loss. $263,153 (December 31, 2017 - Nil) of accretion was capitalized to property, plant and equipment under construction.

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(Expressed in US Dollars)

13. Share Capital

a) Authorized share capital – the authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued:

	Note	Number of common shares	Amount $
Balance, December 31, 2016		**8,800,000**	**440,000**
Private placements (i)(ii)(iii)(iv)(v)(vi)		18,250,499	9,511,917
Cost of issue		-	(480,547)
Amount allocated to warrants		-	(2,484,747)
Shares issued for services		1,606,062	421,313
Compensation from stream obligation	**12**	424,350	463,547
Cancelled shares		(40,000)	(10,196)
Balance, December 31, 2017		**29,040,911**	**7,861,287**
Initial public offering (vii)		10,569,185	16,532,434
Cost of issue (vii)		-	(1,630,152)
Amount allocated to warrants	**16**	-	(4,939,188)
Agents warrants	**16**	-	(423,146)
Conversion of special warrants (v)		1,930,799	3,020,202
Balance, December 31, 2018		**41,540,895**	**20,421,437**

(i) On May 4, 2017, the Company closed its private placement and issued 6,396,640 common shares at $0.05 for proceeds of $319,832.

(ii) On May 5, 2017, the Company closed its private placement and issued 6,866,235 common shares at $0.25 for proceeds of $1,716,600, of which $176,508 was included in shares to be issued at December 31, 2016. In conjunction with the private placement, 1,606,062 common shares issued were issued for services provided by directors or companies related to the directors of the Company. See note 16.

(iii) On July 27, 2017, the Company completed the first tranche a non-brokered private placement ("Non-Brokered Private Placement") of 2,490,000 units of the Company ("Units") at a price of CAD$2.00 per Unit for gross proceeds of $3,977,635. Each Unit was comprised of one common share and one common share purchase warrant (a "Warrant"). Each Warrant is exercisable by the holder at the at the price set in the prospectus (the "Offering Price") for a period ending five years from the date of the completion of the offering in the prospectus ("the Offering") or the Warrants are exercisable at a price of CAD$2.50 per share prior the completion of the Offering in the event that there is a change of control transaction involving the Company.

A value of $1,272,385 was estimated for the 2,490,000 warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of CAD$1.36; expected dividend yield of 0%; expected volatility of 107% using the historical price history of the Company; risk-free interest rate of 1.63%; and an expected average life of five (5) years.

(iv) 280,000 of these common Shares are attributable to the private placement completed in May 2017 and issued at a price of US$0.25 per share and 100,000 of these common shares are attributable to the founder share subscription completed in October 2016 and issued at a price of US$0.05 per share.

13. Share capital (continued)

b) Common shares issued (continued)

(v) On October 6, 2017, the Company completed the second tranche of the Offering pursuant to which it issued 237,500 Units for gross proceeds of $370,547.

A value of $132,719 was estimated for the 237,500 warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of CAD$1.36; expected dividend yield of 0%; expected volatility of 107% using the historical price history of the Company; risk-free interest rate of 1.71%; and an expected average life of 5 years.

The Company issued 1,750 finder's warrants ("Finder's Warrants") in connection with the Offering. Each Finder's Warrant is exercisable for one common share at a price of CAD$2.50 per common share or the offering price per common share for a period of 24 months. A value of $1,389 was estimated for the 1,750 Finder's Warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of CAD$1.36; expected dividend yield of 0%; expected volatility of 107% using the historical price history of the Company; risk-free interest rate of 1.71%; and an expected average life of 5 years.

(vi) In connection with the Stream Agreement, Triple Flag Bermuda subscribed for 2,000,000 units of the Company (the "Triple Flag Units") on the same terms as the Non-Brokered Private Placement for an aggregate subscription price of $3,153,331 (the "Triple Flag Subscription"). The Triple Flag Subscription was completed on October 19, 2017. The Company issued an additional of 80,000 the Triple Flag Units to Triple Flag Bermuda as compensation units in connection with the Triple Flag Subscription.

A value of $1,078,254 was estimated for the 2,080,000 warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of CAD$1.36; expected dividend yield of 0%; expected volatility of 107% using the historical price history of the Company; risk-free interest rate of 1.64%; and an expected average life of 5 years.

(vii) On May 22, 2018, Steppe announced the closing of its initial public offering ("the Offering") of units of the Company ("Units"). Under the Offering, the Company issued 10,569,185 Units at a price of CAD$2.00 per Unit ("the Issue Price") for gross proceeds of $16,532,434. Each Unit is comprised of one common share of the Company and one common share purchase warrant ("a Warrant"). Each Warrant is exercisable for one common share at an exercise price equal to CAD$2.34 for a period of 24 months after the closing date of the Offering. The distribution of the Units was qualified by way of prospectus dated May 2, 2018 filed with the securities regulatory authorities in each of the provinces and territories of Canada, other than Quebec. Haywood Securities Inc. and PI Financial Corp. ("Agents") acted as co-lead agents on the Offering.

Total cash costs for the initial public offering amounted $1,630,152, allocated as follows: $1,473,752 to common shares; and $156,400 to Warrants.

The final prospectus dated May 2, 2018 qualified the distribution of 1,930,799 Units on the deemed exercise of 1,287,210 previously issued Special Warrants of the Company.

The Special Warrants were issued on a private placement basis on February 1, 2018 and February 22,2018 pursuant to the terms of a Special Warrant Indenture dated February 1, 2018, as amended, between the Company and TSX Trust Company, as Special Warrant Agent for gross proceeds of $3,020,202.

A summary of the assumptions used in the valuation model for re-measuring the fair value of the warrants at May 22, 2018 is as follows: strike price – CAD$2.00; stock price – CAD$2.00; estimated life in years – 5 years; estimated volatility using similar companies – 104%; and risk-free interest rate – 2.24%.

(Expressed in US Dollars)

14. Exploration and evaluation expenditures

For the year ended December 31, 2018

	ATO Project $	Uudam Khundii Project $	South Tsagaan Temeet Prospect $	Bayan Munkh Wes and East Prospect $	Total $
General exploration	203,234	95,839	-	-	299,073
Consulting	105,711		10,526	1,066	117,303
Assays	-	63,361	3,236	243	66,840
Drilling	259,797		8,546	4,078	272,421
Sampling	17,936	40,271	-	45,312	103,529
Survey	-	107,378	283	13,153	120,814
Casual labour	-	53,202	-	-	53,202
Total exploration and evaluation expenditures	**586,678**	**360,051**	**22,591**	**63,852**	**1,033,172**

For the year ended December 31, 2017

	ATO Project $	Uudam Khundii Project $	South Tsagaan Temeet Prospect $	Bayan Munkh Wes and East Prospect $	Total $
Drilling	530,732	-	79,954	26,336	637,022
Assays	180,688	-	-	-	180,688
Consulting	70,018	-	-	-	70,018
License fee	807,344	-	29,961	91,744	929,049
Rent	7,104	-	-	-	7,104
Reports	3,502	-	-	-	3,502
Security	3,080	-	-	-	3,080
Survey	12,127	-	-	-	12,127
Travel	620	-	-	-	620
General exploration	-	145,759	-	-	145,759
Other	3,891	-	40	82	4,013
Total exploration and evaluation expenditures	**1,619,106**	**145,759**	**109,955**	**118,162**	**1,992,982**

(Expressed in Canadian Dollars)

15. Stock based compensation

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

	Number of options	Number of options exercisable	Fair value of stock options $	Weighted average exercise price CAD $
Balance at December 31, 2017 and 2016	-	-	-	-
Issuance at May 22, 2018	2,500,000	2,500,000	2,911,850	2.00
Issuance at October 10, 2018	1,555,000	518,333	863,003	2.00
Balance at December 31, 2018	**4,055,000**	**3,018,333**	**3,774,853**	2.00

(i) On May 22, 2018, the Company granted 2,500,000 stock options to officers and directors of the Company with each option exercisable into the one common share of the Company at an exercise price of CAD$2.00 per share until May 22, 2023. A fair value of $2,911,850 was determined using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - CAD$1.95; dividend yield – 0%; expected volatility (based on historical price data of similar companies) – 104%; risk-free interest rate – 2.30%; and an expected life – 5 years. The options vested immediately and $2,872,724 (comparative period - $nil) was expensed in the consolidated statement of loss and comprehensive loss as at year ended December 31, 2018.

(ii) On October 10, 2018, the Company granted 1,555,000 stock options to officers and directors of the Company with each option exercisable into the one common share of the Company at an exercise price of CAD$2.00 per share until October 10, 2023 on the terms indicated and the vesting of 1/3 over a period of two years. A fair value of $863,003 was determined using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - CAD$1.00; dividend yield – 0%; expected volatility (based on historical price data of similar companies) – 111%; risk-free interest rate – 2.32%; and an expected life – 5 years. The 1/3 of options vested immediately and $385,647 (comparative period - $nil) was expensed in the consolidated statement of loss and comprehensive loss as at year ended December 31, 2018.

The following table reflects the continuity of restricted share units ("RSUs") for the years ended December 31, 2018 and December 31, 2017:

	Number of RSU	Fair value of RSU $
Balance at December 31, 2017 and 2016	-	-
Issuance at December 31, 2018	105,882	65,973
Balance at December 31, 2018	**105,882**	**65,973**

(Expressed in US Dollars)

15. Stock based compensation (continued)

(i) On December 31, 2018, the Company granted 105,882 RSUs to officers of the Company with each RSU exercisable into the one common share of the Company at an exercise price of CAD$0.85 per share or the cash equivalent thereof upon the vesting conditions being met until December 31, 2020. The RSU vest 1/3 over a period of two years. A fair value of $65,973 was determined based on exercisable price. The 1/3 of RSUs vested immediately and $23,153 (comparative period - $nil) was expensed in the consolidated statement of loss and comprehensive loss and included in amounts payable and other liabilities as at year ended December 31, 2018.

16. Related party transactions

(a) Related party transaction

The Company's related parties include its subsidiaries and key management personnel. There were no related party transactions for the year ended December 31, 2017 and 2018 that have not been disclosed in these consolidated financial statements.

(b) Compensation of Directors and Other Key Management Personnel

	2018 **$**	**2017** **$**
Short term employee benefit	1,541,276	1,036,961
Share based compensation	3,281,524	-
	4,822,800	1,036,961

During the year ended December 31, 2018, management fees paid, or otherwise accrued, to key management personnel totaled $1,541,276 (December 31, 2017 - $1,036,961). As at December 31, 2018, key management personnel were owed $nil (December 31, 2017 - $64,240) and these amounts were included in accounts payable and other liabilities.

During the year ended December 31, 2018, the Company was reimbursed $14,910 for rent charged to a company related through common management and directors. As at December 31, 2018, $23,652 (December 31, 2017 - $nil) was owed to the Company from companies related through common management and directors.

During the year ended December 31, 2018, the Company expensed professional fees and disbursements of $73,022 (December 31, 2017 - $56,305) to a company of which the former CFO is president. These services were incurred in the normal course of operations for general accounting and financial reporting matters and these amounts are included in professional fees. As at December 31, 2018, Marrelli Support was owed $nil (December 31, 2017 - $50,000) and these amounts were included in amounts payable and accrued liabilities.

During the year ended December 31, 2017, Aneel Waraich (paid to Atmacorp Ltd, a company controlled in part by Aneel Waraich) was paid $115,324 for costs related to the streaming arrangement.

On May 5, 2017, 1,166,062 Common Shares were issued for services provided by directors or companies related to the directors of the Company. Specifically, Aneel Waraich (issued to ATMA Corp Ltd, a company controlled in part by Aneel Waraich), Matthew Wood and Bataa Tumur-Ochir, directors of the Company, received 336,000, 550,062 and 280,000 common shares, respectively.

(Expressed in Canadian Dollars)

17. Warrants

	Note	Number of warrants	Warrant (Equity) $	Warrant Liability $
Balance, December 31, 2016				
Warrants issued	**13(iii)**	2,727,500	-	1,405,104
Issue of Stream Warrants	**12**	2,300,000	-	1,854,739
Issue of Triple Flag warrants		2,080,000	-	1,078,254
Issue of Finder's warrants		1,750	-	1,389
Change in the FV of warrant liability		-	-	1,012,724
Balance, December 31, 2017		**7,109,250**		**5,352,210**
Change in the FV of warrant liability		-	-	2,940,539
Conversion of warrant liability to equity	**(iii)**	-	8,292,749	(8,292,749)
Warrants issued	**(i)**	12,499,984	4,939,188	-
Agents Warrants issued	**(ii)**	634,151	423,146	-
Balance, December 31, 2018		**20,243,385**	**13,655,083**	**-**

The following table reflects the actual warrants issued and outstanding as of December 31, 2018:

Expiry date	Exercise price (CAD$)	Warrants outstanding	Fair Value ($)
May 22, 2020	2.34	12,499,984	4,939,189
May 22, 2020	2.00	634,151	423,146
May 22, 2023	2.00	4,809,250	5,641,775
September 15, 2022	2.00	2,300,000	2,650,973
		20,243,385	**13,655,083**

(i) The value of $4,939,189 was estimated for the 12,499,984 Warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of $1.95; expected dividend yield of 0%; expected volatility of 81% using the historical price history of the Company; risk-free interest rate of 2.00%; and an expected average life of 2 years.

(ii) Agent Warrants of 634,151 was valued at $423,146 on the date of grant using relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of $1.95; expected dividend yield of 0%; expected volatility of 81% using the historical price history of the Company; risk-free interest rate of 2.00%; and an expected average life of 2 years. The fair value of Agents Warrants were allocated as follows: $303,713 to common shares; and $119,433 to Warrants.

(iii) On May 22, 2018, the warrant liability met the fixed for fixed criteria and were transferred to warrants under shareholders' equity.

(Expressed in US Dollars)

18. Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and price risk).

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Cash is held with a Canadian chartered bank and a financial institution in Mongolia, from which management believes the risk of loss to be minimal.

Amounts receivable consists of sales tax receivable from government authorities in Canada. Amounts receivable are in good standing as of December 31, 2018. Management believes that the credit risk with respect to these amounts receivable is minimal.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet its obligations, it will consider securing additional equity or debt funding. See note 1 for going concern discussion.

The Company's cash is currently invested in business accounts with high-credit quality financial institutions which are available on demand by the Company.

The Company's financial obligations consist of accounts payable and other liabilities, promissory notes and long-term liabilities consisting of the streaming arrangement. The maturity analysis of financial liabilities as at December 31, 2018 is as follows:

	Less than one year $	**1-3 years $**	**3-5 years $**	**More than 5 years $**	**Total $**
Amounts payable and other liabilities	1,674,831	23,153	-	-	**1,697,984**
Promissory notes	5,000,000	-	-	-	**5,000,000**
Streaming arrangement	3,535,084	5,722,038	5,434,939	8,307,939	**23,000,000**

Amounts related to the promissory notes are shown based on contractual maturity of the host.

18. Financial risk management (continued)

(iii) Market risk

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

(a) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with Chartered Canadian financial institutions. The Company considers this risk to be immaterial. The promissory note is non-interest bearing and therefore is not subject to interest rate risk.

(b) Foreign currency risk

The Company's functional is the Canadian dollar and presentation currency is the US dollar and major purchases and payables are transacted in US dollars. The Company has significant balances in US dollars and Mongolian Tughrik that are subject to foreign currency risk.

The Company is exposed to foreign currency risk on fluctuations related to cash, amounts receivable, accounts payable and other liabilities, promissory notes and the streaming arrangement that are denominated in US dollars and Mongolian Tughrik. Sensitivity to a plus or minus 5% change in the foreign exchange rate of the US dollars and Mongolian Tughrik compared to the Canadian dollar would affect net income by $1,403,525 with all other variables held constant.

19. Capital management

The Company's objectives in the managing of the liquidity and capital are to safeguard the Company's ability to continue as a going concern and provide financial capacity to meet its strategic objectives. The capital structure of the Company consists of debt instruments and equity attributable to common shareholders, comprising of issued share capital, shares to be issued, warrants, contributed surplus, accumulated other comprehensive loss and deficit.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to facilitate the management of its capital requirements. The Company does not have sufficient funds to meet its current operating obligations. See note 1 for going concern discussion.

Refer to note 12 relating to the Stream Agreement.

(Expressed in US Dollars)

20. Income tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 - 26.5%) to the effective tax rate is as follows:

	December 31, 2018 $	December 31, 2017 $
Loss before income tax	**(12,215,666)**	(5,574,419)
Expected income tax (recovery) expense	**(3,237,150)**	(1,477,237)
Differences due to foreign tax rate	**834,550**	376,097
Share issuance cost booked directly to equity	**(544,120)**	-
Tax rate changes and other adjustments	**101,520**	(128,007)
Non-deductible expenses	**1,896,130**	331,334
Change in tax benefits not recognized	**949,070**	897,813
Total tax recovery	**-**	-

Deferred tax assets

The following table summarizes the components of deferred tax:

Deferred tax assets	**December 31, 2018 $**	December 31, 2017 $
Non-capital losses - Mongolia	**97,790**	165,109
Deferred tax liabilities		
Property, plant and equipment	**(97,790)**	(1,278)
Mineral properties	**-**	(163,830)
Net deferred tax asset	**-**	**-**

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2018 $	December 31, 2017 $
Property, plant and equipment	**330,230**	1,998,414
Share issuance costs	**1,942,660**	386,447
Non-capital losses carried forward - Canada	**2,836,280**	2,309,325
Non-capital losses carried forward - Mongolia	**3,284,080**	319,660
Unrealized FX	**2,835,940**	-

(Expressed in US Dollars)

20. Income tax (continued)

The Company's Canadian non-capital income tax losses expire as follows:

Year	
2036	**-**
2037	**1,793,162**
2038	**507,680**
	2,300,842

The Company's Mongolia non-capital income tax losses expire as follows:

Year	
2024	**6,977**
2025	**1,563,984**
2026	**1,861,900**
	3,432,861