



**STEPPE GOLD**  
Mongolia's Premier Precious Metals Company

# ANNUAL REPORT 2020



TSX:STGO



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# COMPANY PROFILE

“Steppe Gold” is a precious metals mining company operating in Mongolia. The Company's common shares have traded on the Toronto Stock Exchange (“TSX”) under the symbol STGO since May 2018. The Company's principal focus has been on the development of the Altan Tsagaan-Ovoo gold and silver mine in Mongolia. The Company also owns an exploration stage mineral property in Mongolia, the Uudam Khundii (“UK”) property.

## VISION

Our Human Resources are the key asset of our Company. We are focused on safety first, always. We are environmentally and socially responsible, and we are the leading precious metals company in Mongolia.

## VALUE

### A MONGOLIAN NATIONAL CHAMPION

Highly motivated and skilled young **MONGOLIAN** workforce who are passionate about safety, responsible mining and working to benefit our local community and all Mongolians.

### THE PREMIER MINING COMPANY IN OUR FIELD

Quality and responsibility at every unit of operation is the core of our operating culture and it makes us **PREMIER** in our field and creates **VALUE**.

### OPERATING AND SAFETY BEST PRACTICES

We ensure that all our operations are in compliance with relevant Mongolian laws and regulations, global best practices as well as international standards. We are focused on **PRECIOUS METALS**.



## EXECUTIVE CHAIRMAN'S STATEMENT

The 2020 year will go down as a memorable one for everyone as the COVID-19 pandemic ravaged the globe.

I don't think anyone foresaw 12 months ago that we would still be fighting this pandemic and in many countries the impact felt by communities and businesses is greater than it was just a year ago. While vaccinations in some countries have started strongly, there is still a long way to go before we can resume normal business activities.

Here in Mongolia the national government took decisive and rapid action in February 2020 and has largely managed the pandemic extremely well. The international borders were closed for the remainder of 2020 and infection rates were relatively low in 2020 with minimal loss of life.

At Steppe Gold we similarly responded promptly and effectively to curb the impact of the pandemic on our business. As our main operation at the Altan Tsagaan Ovoo ("ATO") gold mine in Eastern Mongolia we quickly developed a new set of operating procedures with an emphasis on safety for our employees and contractors and this has served as well over the past year. During 2020 we were able to limit the impact of the pandemic on our operations, through rigorous execution of our pandemic mitigation plan.

Starting from a greenfield site in 2018, I was immensely proud to see Steppe Gold successfully commence gold production in April 2020, with a project delivered under budget. We continued production uninterrupted through the balance of the year, with no lost time incidents and a strong environmental record.

In the midst of a global pandemic, with closed borders and disrupted supply chains, this was indeed a major achievement.

Under incredibly difficult circumstances in 2020 the Steppe Gold team, led by our CEO Bataa Tumor-Ochir, took the company from the start of 2020 with very stretched financial resources, in a highly uncertain supply environment, to conclude the year with a strong balance sheet, a 100% safety record and the table set for a strong 2021.

I was also delighted to see the doubling of the resource at ATO, announced in February 2021. This further underscores the long life, low-cost nature of this deposit. The conservative interpretations in the resource update provide evidence that we can grow this resource towards world-class at 5m oz.

We are very proud to be a Mongolian company, with around 98% of our team Mongolians. We have a majority of Mongolians on our Board, together with strong shareholder representation from Mongolians at around 25% of our share register. "Steppe Gold" has applied to list its common shares on the Mongolian Stock Exchange in 2021.

We want to thank the local communities and governments and all our stakeholders for their support and throughout the pandemic.

I want to also thank the Board for their strong support throughout the year as the company managed the variety of challenges.

As we accelerate our plans for the Phase Two expansion at the ATO Gold Mine we again will focus on safety first, profitable operations and maintaining a strong balance sheet.

**Matthew Wood**

Executive Chairman



## PRESIDENT AND CHIEF EXECUTIVE OFFICER'S STATEMENT

THANK YOU VERY MUCH TO STEPPE GOLD SHAREHOLDERS, PARTNERS AND ALL STAKEHOLDERS FOR THEIR TRUST AND SUPPORT IN THE COMPANY.

2020 wasn't an easy year but, it was an excellent transformational year for Steppe Gold.

We started the year with stretched financial resources as a global pandemic started to ravage the world, disrupt supply chains and cause many mining companies to cease operations.

It was against this backdrop that Steppe Gold set about to commence production.

Not only were we able to commence production in April, we completed the year with a 100% safety record, a solid first year of production and a strong balance sheet.

As we look forward the focus is firmly on continued profitable production and our Phase Two expansion at the ATO Gold Mine.

The 2020 year started well, as we were able to secure funding from the Mongolian National Strategic Investment Fund, the sovereign wealth fund of Mongolia. The first investment of its type into any mining venture, this was strong validation of our business plan and support for our "Made in Mongolia" approach to operating our company.

Having secured reagent supplies in a near impossible trade environment, in April we poured first gold from the ATO Gold Mine. From this milestone we produced gold uninterrupted through 2020.

Some key operating statistics from 2020:

- Revenue for the year ended December 31, 2020 was \$52.1m.
- Total cashflow for the last 12 months was \$82.5 million, including equity raising and Gold 2 program loans.
- On sales of 31,733 gold oz and 13,710 silver oz with average realized prices per ounce of \$1,822 and \$20 respectively.
- Production of 33,154 gold oz and 35,563 oz silver.
- Operating income from mine operations, before depreciation and depletion, was \$32,551.
- Consolidated Group Adjusted EBITDA for the year was \$24,399.
- Year-end cash, restricted cash and savings accounts balance was \$32,605; bank debt is \$10,610
- Cash Costs for the year ended December 31, 2020 were \$607 per ounce sold.
- All in Sustaining Cost (AISC), before expensed exploration, for the year ended December 31, 2020 was \$839 per ounce sold.
- During the year ended December 31, 2020, 1,138,209 tonnes of ore were mined and 699,204 tonnes of ore stacked with an average gold grade of 2.03 g/t and an average silver grade of 8.88 g/t.
- The Company announced a resource update on February 24, 2021 for the ATO Gold Mine. This update shows a doubling of the resource to 2.45m oz Au Eq and now supports a planned production profile of approximately 150,000 gold equivalent ounces per year and an estimated ten-year plus mine life.

The Company completed an active period of drilling at ATO and Mungu in 2020, with drilling continuing into early December 2020. The focus was on extension and infill drilling and contributed to the resource upgrades on the existing ATO deposits and the maiden resource on the Mungu Discovery.

During 2020, supported by positive cash flows from production, we strengthened our balance sheet through equity issuance and additional debt supported by the Bank of Mongolia. We were delighted to welcome renowned mining investor, Eric Sprott, to our share register. Later in the year, we raised \$10.5m in debt capital via the Gold 2 Program, supported by the Bank of Mongolia.

Most importantly we are proud to report a zero accident safety record at the project, and our exemplary environmental record has been recognized with a 93% result on the latest environment audit.

We have paused production in the first quarter with extreme cold weather conditions and we expect to resume production shortly. With a new fixed crusher in place this summer, we are planning to increase crushing and stacking capacity 3 times in 2021. Cash costs remain at market-low levels at \$607 per ounce sold for the year and this allowed us to build up a solid cash balance, ending the year at \$32.6m.

With the ATO resource now at 2.45m oz Au Eq, and procurement of long lead capital items underway, we are focused on increasing our production run rate from the oxide phase through 2021 and 2022 and executing the Phase 2 expansion which has already begun.

We are targeting annual production in 2021 and 2022 of between 50,000 to 60,000 oz and then a transition to the fresh rock ores in 2023. The Company continues discussions with Mongolian and international lenders on a multi-tranche project debt facility to finance the Phase 2 expansion. Metallurgical testing is progressing well with encouraging results and the bankable feasibility study is on track for completion in summer 2021.

On the exploration front, we are planning an active year at both the ATO Gold Mine and the Uudam Khundii project in Bayankhongor province. At the ATO mine we plan step out drilling to further expand the resource and at Uudam Khundii project we are planning an aggressive drilling programs in 2021.

I am immensely proud of the whole Steppe Gold team as we have navigated our first full year of production in a global pandemic. We have kept each other safe and produced an admirable first year of operations. Our Company is in good financial health and I am optimistic we can deliver another solid year in 2021 as we build our business plan for the next ten years.

**Bataa Tumor-Ochir**

President and Chief Executive Officer



## CORPORATE INFORMATION

### Name, Address and Incorporation

“Steppe Gold” was incorporated under the Business Corporation Act (Ontario) (the “OBCA”) on October 5, 2016. The registered office of the Company is located at 55 Metcalfe Street, Suite 1300, Ottawa, Ontario K1P6L5.

The head office of the Company is located at Shangri-la Centre, Olympic Street 19A, Sukhbaatar District-1, Ulaanbaatar 14241, Mongolia. The Company’s telephone number is +976 9500 6675 and its website address is [www.steppegold.com](http://www.steppegold.com).

## BOARD OF DIRECTORS

The Board of Directors (the “Board”) of “Steppe Gold” is responsible for the stewardship of the business and affairs of the Company. The Board seeks to discharge this responsibility by reviewing, discussing and approving the Company’s strategic plans, annual budgets and significant decisions and transactions as well as by overseeing the senior officers of the Company in their management of its day-to-day business and affairs.

The Company’s Board is comprised of 7 members which included 3 Executive directors and 4 Independent Directors. Each director elected will hold office until the next annual general meeting of the Corporation or until his or her successor is elected or appointed, unless his or her office is earlier vacated in accordance with the Articles of the Corporation or the provisions of the Business Corporations Act Ontario “OBCA”.

The following table sets forth the name of each of our directors and executive officers, their province or state and country of residence, their position(s) with the Company and the date they first became a director of the Company. Each director’s term will expire immediately prior to the following the next annual meeting of shareholders.



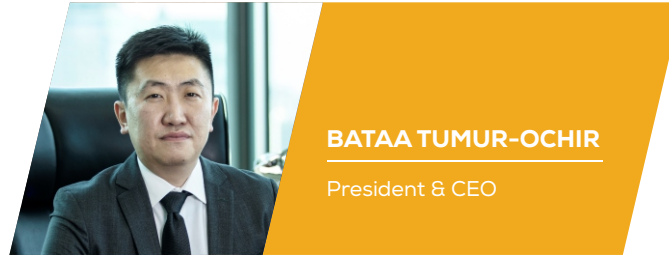


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## MANAGEMENT TEAM



Mr. Wood is a mineral resource explorer and developer with over 30 years of global industry experience in mining investments. Founder of Hunnu Coal Limited sold for ~A\$500M (2011). Awarded the Order of the Polar Star, the highest state honour that can be awarded to a non-citizen of Mongolia.



Mr. Bataa Tumor-Ochir is a Mongolian national responsible for new business acquisitions, development and government and community relations. He is also responsible for daily operations in Mongolia.



Mr. Waraich is a financial services professional with 15 years of progressive experience in capital markets having worked on over \$1B in deals. Founder of ATMA Capital Markets focusing on advising public and private companies in the Natural Resources sector.



Mr. South has over 35 years of experience in M&A, capital markets and private equity in Europe, North America and Australia, including senior positions in investment banking at Deutsche Bank, NatWest Markets and Deloitte. He has been working in Mongolia since 2011.



Mr. Wood was a Systems Accountant with over 12 years extensive experience in financial reporting, financial analysis, developing key performance indicators and modelling of financial reports over a number of industries including transport, media and infrastructure and held management positions at Asciano and Patrick Stevedores.



Mr. Khishigsuren has over 30 years of Mongolian mineral exploration experience. He has focused his expertise on the precious metals exploration sector resulting in successes for numerous companies.



## BOARD OF DIRECTORS



**MATTHEW WOOD**

Executive Chairman

### Appointment

October 2016 as the Chairman, President and CEO and in December 2019 as the Executive Chairman. Chair of the Compensation Committee.

### Skills & Experience

Mr. Wood, an Australian citizen, is a mineral resource explorer and developer with nearly three decades of global experience in mining and commodities investments. Mr. Wood held numerous executive positions in the mining industry.

Mr. Wood was formerly the joint founder and Executive Chairman of ASX All Sector 2010 IPO of the year, Hunnu Coal Limited. Hunnu Coal was sold to Banpu PCL in 2011 for A\$500M and was awarded global deal of the year at Hong Kong Mines and Money in March 2012. Mr. Wood is also the Chairman of largest Mongolian lithium exploration company Ion Energy Limited, Chairman of Aranjin Resources Limited as well as listed TSX capital pool companies Antler Hill Mining and Spirit Banner II Capital Corp.

Mr. Wood has an Honours Degree in Geology from the University of New South Wales and a Graduate Certificate in Mineral Economics from the Western Australian School of Mines. He is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM). Recently awarded the Order of the Polar Star, the highest state honour that can be awarded to a non-citizen of Mongolia.



**BATAA TUMUR-OCHIR**

President & CEO

### Appointment

October 2016 as Executive Director and December 2019 as President and CEO.

### Skills & Experience

Mr. Tumor-Ochir, a Mongolian citizen, has a wealth of global experience in the mining and oil and gas industry. Mr. Tumor-Ochir is responsible for new business acquisitions, development and government and community relations. He is also responsible for daily operations in Mongolia.

Under his guidance, Steppe Gold was awarded the "Best Investment of the Year Award" from the Ministry of Mining and Heavy Industry and Mineral Resource and Petroleum Authority of Mongolia in 2019. Mr. Tumor-Ochir is also Executive Director of Ion Energy Ltd, Aranjin Resources Ltd and GCD LLC Mongolia.

Mr. Tumor-Ochir holds a bachelor's degree in business administration and graduate certificates in international business and marketing from institutions in Australia and Singapore.

Mr. Bataa Tumor-Ochir is a Mongolian national responsible for new business acquisitions, development and government and community relations. Mr. Tumor-Ochir has over 10 years of experience in mining industry.



**ANEEL WARAICH**

Executive Vice President & Director

### Appointment

October 2016 as Executive Vice President and Director.

### Skills & Experience

Mr. Waraich, a Canadian citizen, is a financial services professional with over 15 years of progressive experience in capital markets. Mr. Waraich is Founder and Managing Partner of ATMA Capital Markets.

Mr. Waraich focuses primarily on advising public and private companies in the Natural Resources sector and has worked on over \$1B in deals. In previous roles at Goldman and Company Investment Counsel and Dundee Capital Markets he worked as an analyst valuing private companies. Most recently Aneel worked as an investment banker focusing on deal origination, going-public transactions and financings for both public and private companies in the resource and technology sectors. Mr. Waraich is also on the board of Antler Hill Mining Limited and Ion Energy Ltd.

Mr. Waraich received an MBA from Goldman Institute of Investment Management, at the John Molson School of Business.

## BOARD OF DIRECTORS



### Appointment

October 2017 as Director.

### Skills & Experience

Mr. Michaels, a Swiss citizen, is the Chairman of Zuri-Invest AG and the Chairman of Asty Capital AG in Zurich, Switzerland.

Mr. Michaels has been involved in numerous financings of gold mines in North America as well as various other countries and is a well-respected financial adviser and fund manager throughout Europe. Mr. Michaels has extensive experience in the fields of mining finance, fund management and asset allocation.

Mr. Michaels has a background in law and economics and did his training in the areas of private banking and investment research at UBS in Zurich. Additionally, he attended post-graduate courses at the Colorado School of Mines in Golden, Colorado.



### Appointment

August 2017 as Director. Chair of the Audit Committee and Member of the Governance Committee.

### Skills & Experience

Dr. Zamba, a Mongolian citizen, is currently serving as the Special Envoy of Mongolia on Climate change, National Focus Point of Mongolia for the United Nations Framework Convention on Climate Change (UNFCCC) covering the coordination of activities related to the Intergovernmental Panel on Climate Change (IPCC) and Green Climate Fund (GCF).

Dr. Zamba was the Minister of the Environment of Mongolia from 1990 to 1996 and Director-General of the National Agency for Meteorology, Hydrology and Environmental Monitoring from 1996 to 2001 and Ambassador of Mongolia to Japan from 2001 to 2005. From 2005 to 2001, he was working in New York as the Representative of the UN specialized agency-World Meteorological Organization (WMO) to the United Nations.

Dr. Zamba was also an advisor at the Office of the President of the United Nations Environmental assembly (UNEA) of UNEP in Ulaanbaatar (2014-2016).

Dr. Zamba received a Doctorate from Russian State Hydrometeorological University.



### Appointment

August 2019 as Director. Member of the Audit Committee and Member of the Compensation Committee

### Skills & Experience

Dr. Sereenen, a Mongolian citizen, is an outstanding geologist with over 30 years of experience in the resources sector including base and precious metals and other commodities.

Dr. Sereenen is Professor and the Head of Mineral Exploration department at the School of Geology and Mining Engineering, Mongolian National University of Science and Technology since 2011. Dr. Sereenen teaches ore geology and metallogeny to Bachelors, Masters and Doctorate students. Prior to 2011, Dr. Sereenen worked as an associate professor at the Mongolian University of Science and Technology.

Dr. Sereenen completed her graduate study at the Tohoku University in Sendai, Japan in 2002. Dr. Sereenen received her Master's Degree from Tohoku University in Sendai, Japan in 1999.



### Appointment

August 2019 as Director. Chair of the Governance Committee and Member of Audit Committee.

### Skills & Experience

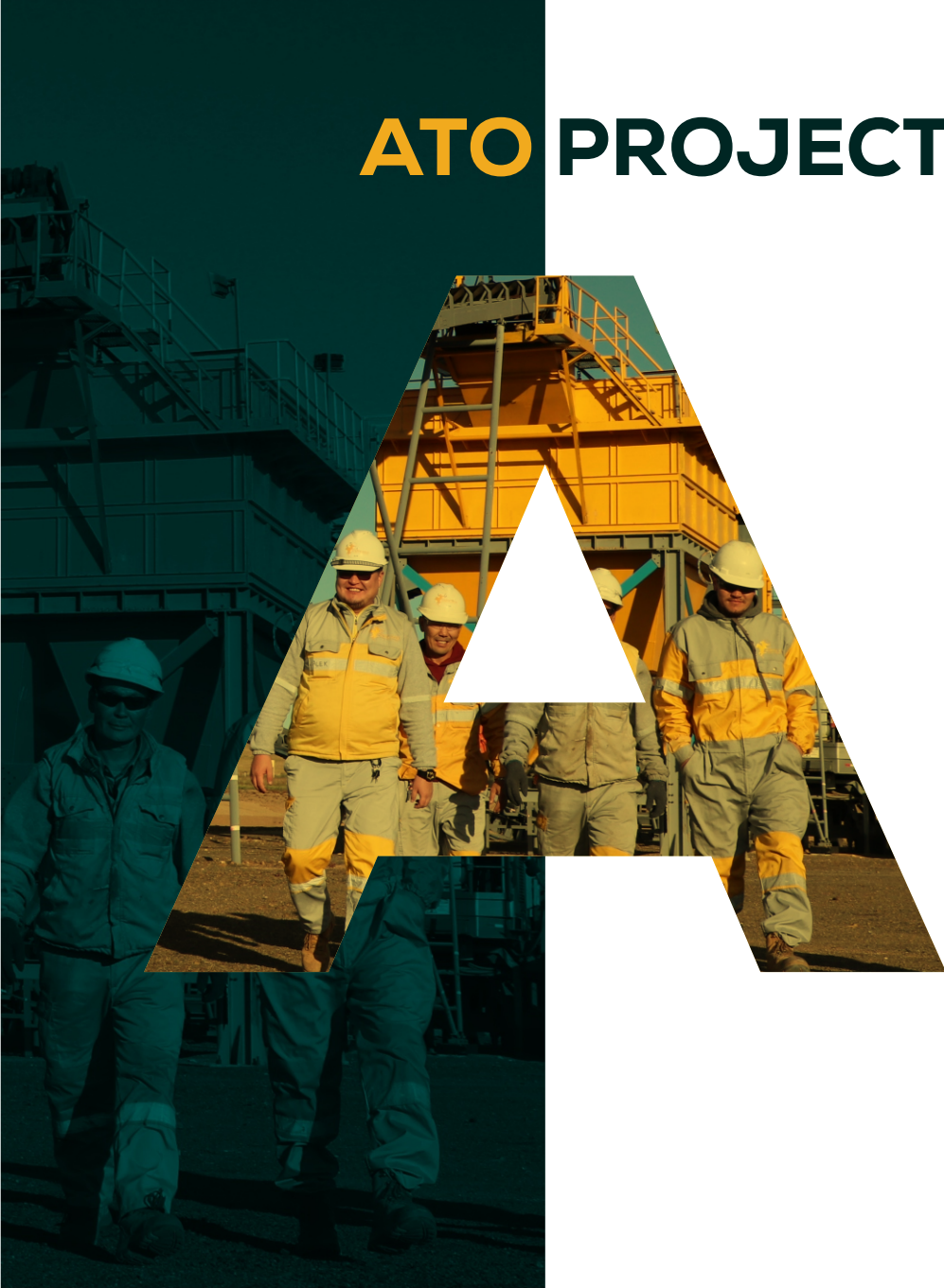
Mr. Haggarty, a Canadian citizen, has over 35 years of industrial experience both on-site and at a corporate level, involving several precious metal and copper producers, with a back background in project design, commissioning, start-up, metallurgy, process optimization, project management, reclamation, and closure.

Mr. Haggarty is the Managing Director of Haggarty Technical Services Corporation and a registered member of the Professional Engineers Ontario. Mr. Haggarty's industry experience includes 24 years in operations and 14 years in corporate and EPCM-related roles. Most recently, Mr. Haggarty was Senior Director, Metallurgy at Barrick Gold Corp. Mr. Haggarty has worked at multiple mine sites around the world, including as General Manager of Barrick Gold's Veladero heap leach project in Argentina. He is considered a technical leader in heap leach processing, implementation and optimization.

Mr. Haggarty received his Master of Engineering in Metallurgy, Mining, Mineral Processing from McGill University.



# ATO PROJECT

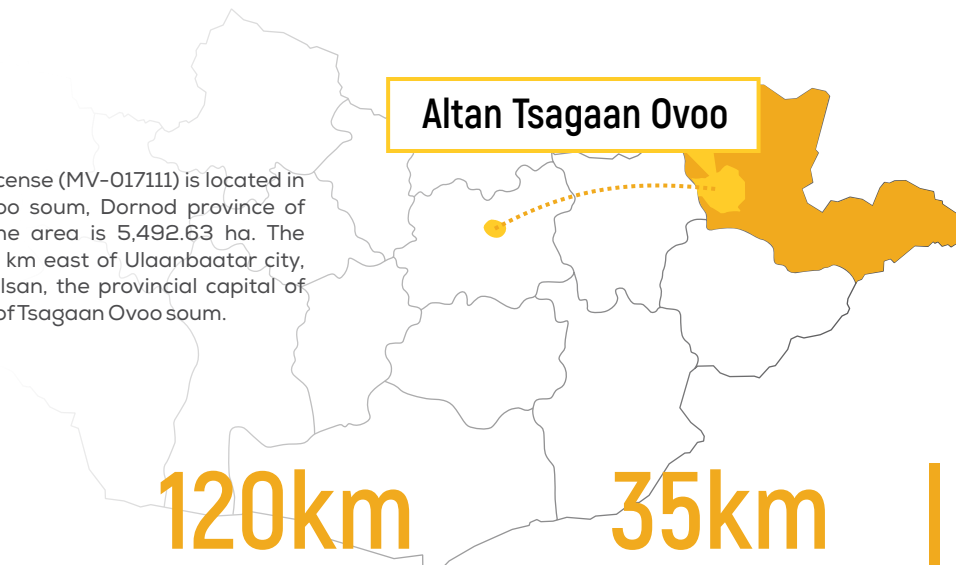


The Company received all licenses and permits in December 2019 and commenced production in April 2020. For the year ending December 31, 2020, the total gold production was 33,154 ounces, noting that the first gold sale occurred in late April 2020. It is targeting annual production in 2021 and 2022 of 50,000oz and then a transition to the fresh rock ores in 2023.

A resource update was released on February 24, 2021 and a full 43-101 report was filed on [sedar.com](https://www.sedar.com) on March 30, 2021. A Bankable Feasibility Study (“BFS”) on the ATO Gold Mine is due for expected in 2021. DRA Global has been retained for the BFS and Base Metallurgical Laboratories has been retained to complete metallurgical test work.

## Location

The ATO area under mining license (MV-017111) is located in the territory of Tsagaan Ovoo soum, Dornod province of Eastern Mongolia. Size of the area is 5,492.63 ha. The licensed area is located 660 km east of Ulaanbaatar city, 120 km northwest of Choibalsan, the provincial capital of Dornod province, 35 km west of Tsagaan Ovoo soum.



**660km**

northeast of Ulaanbaatar city

**120km**

northwest center of Choibalsan  
of the Dornod aimag

**35km**

from center of Tsagaan  
Ovoo soum

# Mineral Reserves and Mineral Resources Summary



ATO-JORC Classified Resources. Reported 18 February 2021

Class by	Deposit	Tonnage (mt)	Grades					Contained Metal		
			Au (gt)	Ag (gt)	Pb (%)	Zn (%)	AuEq (gt)	Au (k oz)	Ag (k oz)	AgEq (k oz)
Measured	ATO1	9.8	1.13	6.76	0.7	1.08	1.95	357	2,133	616
	ATO2	1.7	0.42	3.84	0.51	0.76	1.00	23	205	53
	ATO3	7.5	1.32	12.5	0.29	0.52	1.83	319	3,024	443
	Mungu	4.9	1.31	43.47	0.01	0.03	1.93	208	6,912	308
	<b>Total</b>	<b>23.9</b>	<b>1.18</b>	<b>15.95</b>	<b>0.41</b>	<b>0.66</b>	<b>1.84</b>	<b>907</b>	<b>13,274</b>	<b>1,419</b>
Indicated	ATO1	5.4	0.79	5.77	0.64	1.11	1.6	138	1,003	278
	ATO2	1.5	0.45	4.02	0.49	0.76	1.02	22	193	49
	ATO3	8.2	0.95	15.28	0.26	0.46	1.44	250	4,006	376
	Mungu	2.6	0.88	35.63	0.01	0.03	1.39	74	3,004	117
	<b>Total</b>	<b>17.7</b>	<b>0.85</b>	<b>14.44</b>	<b>0.34</b>	<b>0.6</b>	<b>1.44</b>	<b>483</b>	<b>8,206</b>	<b>819</b>
MEAS-IND	ATO1	15.2	1.01	6.41	0.68	1.09	1.83	495	3,137	893
	ATO2	3.1	0.44	3.93	0.49	0.76	1.01	44	398	102
	ATO3	15.7	1.13	13.95	0.26	0.46	1.62	569	7,029	819
	Mungu	7.6	1.16	40.75	0.01	0.03	1.74	282	9,916	424
	<b>Total</b>	<b>41.6</b>	<b>1.04</b>	<b>15.31</b>	<b>0.38</b>	<b>0.63</b>	<b>1.67</b>	<b>1,390</b>	<b>20,479</b>	<b>2,238</b>

Inferred Mineral Resources

Class by	Deposit	Tonnage (mt)	Grades					Contained Metal		
			Au (gt)	Ag (gt)	Pb (%)	Zn (%)	AuEq (gt)	Au (k oz)	Ag (k oz)	AgEq (k oz)
Inferred	ATO1	1.1	0.51	4.44	0.54	1.19	1.30	19	164	48
	ATO2	0.5	0.28	5.70	0.70	1.34	1.21	4	84	18
	ATO3	2.3	0.61	14.91	0.19	0.35	1.03	45	1,098	76
	Mungu	1.7	0.68	25.05	0.01	0.02	1.18	45	1,386	65
	<b>Total</b>	<b>5.6</b>	<b>0.62</b>	<b>15.13</b>	<b>0.25</b>	<b>0.5</b>	<b>1.15</b>	<b>113</b>	<b>2,732</b>	<b>208</b>



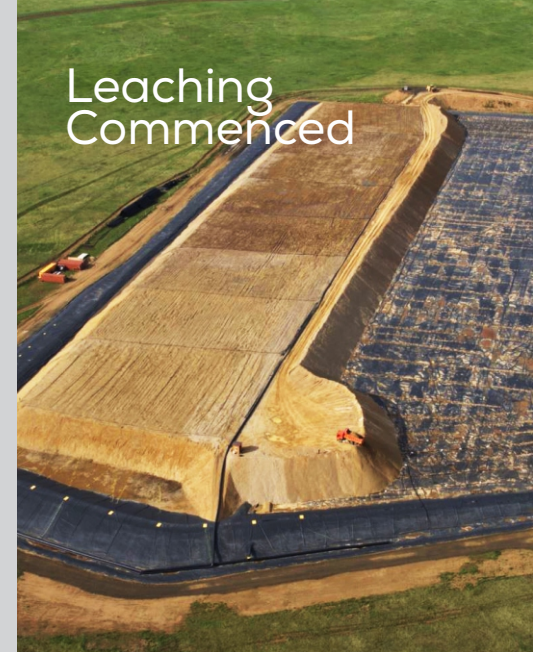
# ACTIVITY HIGHLIGHTS



No Lost Time Injury



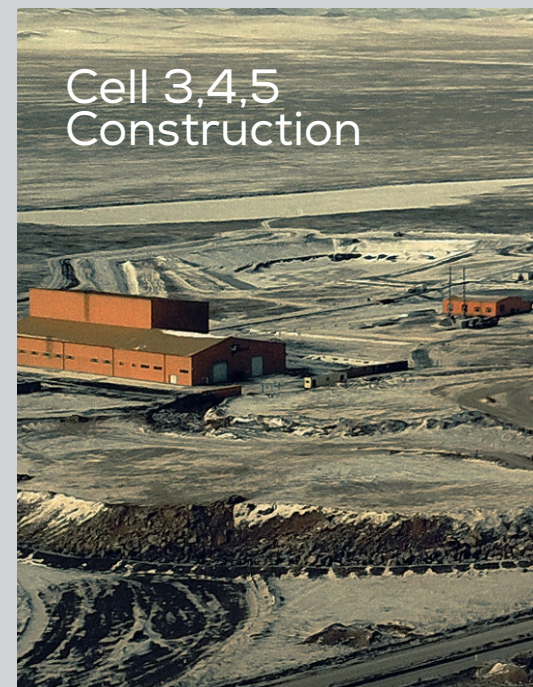
First Gold Pour



Leaching Commenced



Environmental Management Plan Implementation 93%



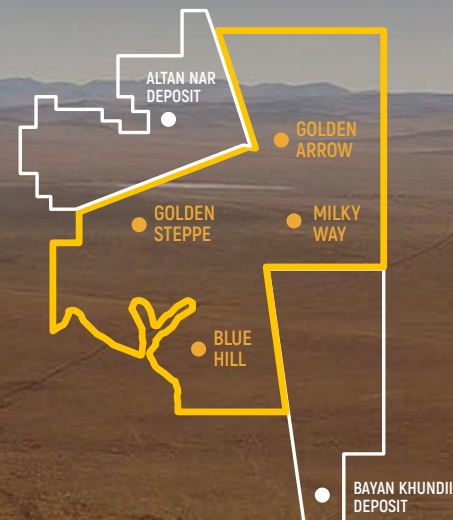
Cell 3,4,5 Construction



# UK PROJECT

The UK property is comprised of one exploration licence covering 14,397 hectares, 80/20 joint venture with the provincial government of Bayankhongor. The project area is located 980 km south-west of Ulaanbaatar.

The “Undur” exploration license, with license number XV-020883, was issued to “Corundum Geo” LLC in 2017 and Steppe Gold LLC holds 100% interest in the property. The license area located in the territory of Shinejinst and Bayan-Undur soums of Bayankhongor aimag. The project is located 800 km south-west of Ulaanbaatar and 300 km south-west of the Bayankhongor, capital city of the aimag.



The property is located between and adjoining the Bayan Khundii gold discovery and Altan Nar epithermal gold deposits explored by Erdene Resource Development Corporation.





# SUSTAINABILITY

Sustainable development can be defined as ensuring human and environment balance in relation to socio-economic operation.

Quality operators prioritize **SUSTAINABLE DEVELOPMENT.**

## OUR APPROACH

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Our vision is to continuously improve our operation in partnership with our communities, in compliance with legal requirements, increasing our social responsibility, creating long term value and ensuring a sustainable future by foreseeing potential risks and preventing and mitigating them. We are committed to creating value for our shareholders while operating in a safe, socially and environmentally responsible manner, contributing to the prosperity of our employees, their families, the communities and respecting human rights, cultures, customs and values of those impacted by our activities. It supports meeting legislative requirements, managing the hazards associated with our business, and maintaining our social license to operate.

We focus our approach through five pillars: health, safety, environment, community and human rights.

## Open engagement with the government

We engage with regulators at all levels of government through regular meetings, audits and inspections and site visits. Our operations team engage with regulators on topics that included mine permits, site-specific environmental regulations and demonstrating compliance with applicable laws and regulations.



## Operate a safe and healthy workplace

We believe that all accidents/incidents are preventable. We aim to operate a safe and healthy workplace that is injury and fatality free. We believe that if we all work together, we can achieve zero accidents in the workplace and enhance the well-being of employees, contractors and communities.



## Respect Our Community

We aim to contribute to the social and economic development of sustainable communities where we operate.



## Respect Our Employees

We aim to maintain a safe and healthy work environment that is based on mutual respect, fairness and integrity.



## Respect Our Environment

We aim to eliminate, minimize and mitigate impacts of our operations on the environment and maintain its viability and diversity.



# GOVERNANCE

Steppe Gold takes environmental protection, government and community relations, employee and community health and safety, as well as social and legal compliance seriously at all levels.

## ENVIRONMENT

Every employee at Steppe Gold understands that environmental issues apply to all and must comply with all policy and procedures developed by the environmental department.

Steppe Gold team members work together to resolve or prevent any environmental related issues.

## SAFETY

We prioritize the health and safety of our employees and we aim to create a safe, healthy and hygienic environment for everyone working at the Steppe Gold.

Not only do we create safe, healthy and hygienic environment for our employees and contractors, we also conduct job hazard assessment and identify mitigation measures. Additionally, we carry out daily job site inspections to ensure health and safety of all. By allowing everyone to report tasks that appear to be unsafe, we have become a mining company that recognizes the critical importance of health and safety of its employees.

## COMMUNITY RELATIONS

We are inclusive and we operate in partnership with our communities and stakeholders. We strive to ensure participation of all relevant communities and affected parties.

It is critical to provide regular information and updates to all stakeholders and be transparent

We have the following goals:

- Support household income by increasing number of local hires
- Identify and support local community potential employees for our mining operation
- Reach everyone in the community by supporting sports and education, protecting community health and implementing Buryat community intangible cultural heritage protection program



## COMPLIANCE

All operations at Steppe Gold are in compliance with relevant Mongolian laws and regulations as well as international standards. We have a dedicated legal compliance manager to ensure compliance with all laws and regulations. We identify non-compliance and correct promptly.

## ENTERPRISE RISK MANAGEMENT

We follow risk management best practices. The Audit Committee assists the Board of Directors in overseeing the Company's risk management practices as well as the implementation of policies and procedures to monitor and mitigate risks.

The Internal Audit group assists the Board to assess and consolidate the enterprise risk assessments of all departments in accordance with methodologies to ensure operational sustainability.

- Identifies current risks for the company;
- Detail the controls being implemented;
- Assesses the likelihood and consequences of the risk occurring;
- Specify further action to eliminate, reduce, transfer, manage or accept each risk; and
- Outline management responsibilities for dealing with the risk.

The Internal Audit group provides assurance to senior management and the Board on the effectiveness of internal control activities.

Senior management discusses risks facing the operations and organization on a weekly basis. At regular scheduled meetings, the "Board" of Directors and the Audit Committee are provided with updates on the key issues identified by management.





# SOCIO-ECONOMIC DEVELOPMENT



## LOCAL GOVERNMENT AGREEMENT

Per the clause 42.1 of the Mongolian Minerals Law and Government resolution no.179 from 2016, Steppe Gold company has established the "Environmental protection, mining operation, infrastructure development and local job creation" agreement (no.11) with Dornod province authorities on April 26, 2019.

Per the relevant regulations, Local cooperation committee consisting of 9 persons from all stakeholders assess the implementation percentage of this agreement every year and in 2020, the implementation percentage of the agreement was 83%.

Key clauses of the local cooperation agreement:

- Mining local work force shall be no less than 75 percent
- Company shall openly announce and procure from local areas and it shall be no less than 80 percent
- Prioritize environmental protection and shall not create any non-standard pollution
- Support local development fund



Health and Sport

Intangible cultural heritage /Buryat/

## INVESTMENTS

In addition to local cooperation agreement, we provide support to local communities and strive to reach out to all community members.



Education

Herders





## Projects



International standard youth and children basketball court and sports field



Local infrastructure development /1.3 km length improved road within the soum center/

Street lightning



## Programs

### COMMUNITY ENGAGEMENT

To ensure community engagement in accordance with national regulation, we aim to work with every community member including herders to local authorities and government employees.

- For this, we do the following:
- Make company quarterly presentations at herders' meeting as outlined in the annual environmental management plan
  - Attend Soum citizens' representatives' meeting and provide company's regular updates and exchange ideas with local stakeholders
  - Receive and resolve suggestions from herders through information representatives that consist from bagkh and soum members
  - Work closely with province administration through community relations manager
  - Provide company regular updates through social media platforms and local TVs
  - Receive local community members and government officials at mine site to introduce activities

### Providing student scholarships



Building wells



Providing ger accommodation

### Providing livestock





# HEALTH AND SAFETY

## Safety Approach

We believe that any danger, regardless of how unlikely, should be prevented and avoided. Therefore, in connection with the operation of the mine, we have developed an OSH plan, organized training for workers, improved the work environment and working conditions from year to year. We have set ourselves the goal of "Accident-free production of workers' lives, health, and machinery and equipment" and are focusing on ensuring complete safety in the workplace and increasing the social status of workers.

## Implementation

Occupational safety and hygiene inspections are carried out in accordance with a strict schedule. In addition, daily inspections are carried out at all levels of employment at the project in order to eliminate any violations. In addition to regular monitoring of employees' use of personal protective equipment, safety signs, and traffic, scheduled site inspections are conducted twice a month in collaboration with senior officials of the relevant departments to eliminate any violations and ensure a safe and healthy workplace.

Prior to hiring mine workers, safe workplace practices must be established and a healthy and safe work environment must be established in accordance with the company's internal labor regulations.

The Disaster Protection Plan is updated annually and provides boards with information on fire prevention and fire hazards, timely information on laws and others. We have taken measures in accordance with the decision of the State Emergency Commission in order to prevent the spread of the Covid-19 virus nationwide.



The OSH department investigates and identifies the root causes of accidents and near misses during the mine operation through accident research, and identifies and implements measures to prevent its recurrence. The following table shows the number of accidents and near accidents as of this year.

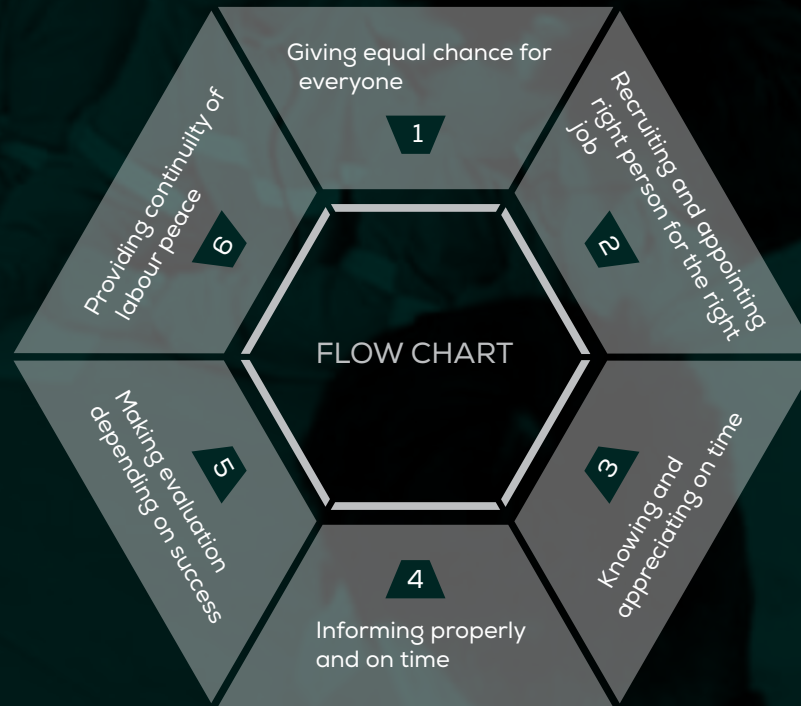
## Performance Stats

INCIDENT / ACCIDENT CATEGORIES	YEAR TO DATE
First Aid Injury	2
Medical Treatment Injury	0
Lost Time Injury (Including contractor)	0
Property / Equipment Damage	4
Serious Potential Incidents (not included in TRIFR)	0
Accident / Incidents	0
Spill (Minor)	1
Spill (Major)	0
WITHOUT LTI	
Total hours worked including	
Contractors without LTI	1,745,280
Total Days without LTI	404 Days from last LTI

# HUMAN RESOURCES

## Human Rights & Policy

Steppe Gold has implemented a highly integrated "Code" of Conduct policy that highlight the human rights and human resources who represent the company. This "Code" provides a set of ethical standards to guide each director, officer, employee, consultant, and contractor of "Steppe Gold" in the conduct of their business, and for each director, officer and employee constitutes conditions of employment, and for each consultant and contractor constitutes conditions of providing services to Steppe Gold.



Human resources documents including the code of conducts and ethics describes the application and key features of the management system through which Steppe Gold establishes and assesses its commitment, objectives, plans and procedures to achieve compliance with its obligations, and demonstrates improved performance in human resources department.



# Current employee information

The Steppe Gold team has been increasing at the ATO project. Now with over 350 team members including local employees and on-site contractors. Some approximately 99 percent of our team are Mongolians and 70 percent of the employees are from the local area.



# ATO HR Statistic



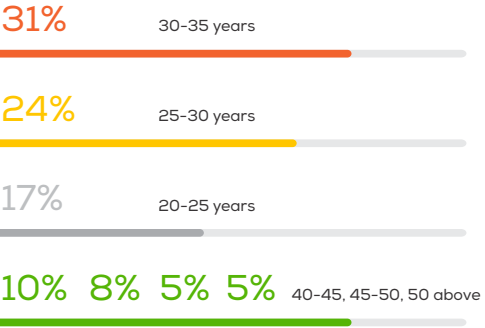
Male 74%

Female 26%

**350** Directly and indirect employees contracted with Steppe Gold company.



AGE GROUP %







# ENVIRONMENT

## Environmental Monitoring

We assess potential environmental impacts of mining operation and take action to prevent those impacts.

For environmental monitoring, we involve local community members and enable them to take part in co-operative sampling activities.

- Air quality and Dust monitoring 16 points
- Soil Quality monitoring 18points
- Ground and surface water monitoring 34 points
- Flora monitoring 19 points
- Wild life monitoring 3000mk<sup>2</sup>area

## Environment Approach

Identify potential negative environmental impacts and aim to avoid or minimise level and introduce rehabilitation measures starting from the first year of mine and carry out research.

Conduct offset rehabilitation measures based on research and in compliance with national regulation and at the most effective level.

Environment is one of the highest priorities at the Steppe Gold.

We at Steppe Gold have had environmental protection policy from the beginning and continuously improves it every year.



## Biodiversity

As part of the Altan Tsagaan-Ovoo project, we have developed our biodiversity offset management plan in accordance with the Ministry of Environment and Tourism and The Nature Conservancy guideline and methodologies. For our biodiversity offset rehabilitation effort, we closely co-operate with professional agencies that have extensive experience in this field.

## Closure

Mine closure and rehabilitation activities are planned prior to mine operation commencement. Therefore, Steppe Gold developed its mine closure conceptual plan in 2019. This conceptual plan is regularly updated as new information becomes available. We develop and submit an Asset Retirement Obligation /ARO/ Report quarterly basis.

Our mine site will turn into grassland once rehabilitated and local perennial plant species will be planted as part of mine restoration activities.

Since the beginning of mine operation, we are conducting different studies to ensure effective closure and rehabilitation.

We will continue with these studies and based on their findings; we will develop Detailed Closure Rehabilitation Plan in cooperation with professionals in the field.





## SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER'S STATEMENT

# FINANCIAL REVIEW



The 2020 year was a very active one for Steppe Gold as we started commercial production, strengthened our balance sheet and started preparations for the critical Phase 2 expansion at the ATO Gold mine.

On the financial front we were most pleased to report strong operating results and cash flow generation, against the backdrop of a global pandemic, closed borders and heavily disrupted supply chains. While we were the beneficiary of strong gold prices in 2020, our ability to maintain strong operating performance in the year was the main contributor to this strong maiden earnings report.

We closed the year with \$52.1m in net revenue and \$24.4m in adjusted EBITDA, on just nine months of production, our first production from the ATO Gold Mine.

Our cash costs, at \$607/oz, on 31,733 oz sold, were a strong sign of effective cost control and the better than expected quality of the ATO deposit that continues to improve.

Our balance sheet at December 31, 2020 was much improved on a year ago with cash of \$32.6m and bank debt of \$10.5m. Total assets were \$86 million and total liabilities were \$44.7 million compared to December 31, 2019 with \$53.4 million in total assets and \$42.4 million in total liabilities.

In addition to strong cash flow from operations, we received three meaningful capital injections in 2020.

In January 2020, we received funding from the Mongolian National Investment Fund "MNIF" in the principal amount of \$3 million, a notable landmark financing from the sovereign wealth fund in August 2020, approximately \$11.1 million was raised through the issue of 6,976,944 common shares and warrants to Mr. Eric Sprott, currently representing approximately 10.2% on a non-diluted basis.

In September 2020, Steppe Gold and the Trade and Development Bank of Mongolia "TDB" concluded a loan agreement for \$10.6 m of financing for the expansion of the ATO project.

2020 was also a year of great transformation for the finance team as we developed the finance, reporting and governance infrastructure to support the transition from mine development to mine production. We successfully implemented a new ERP system and strengthened the controls environment at site and at our Ulaanbaatar head office.

We have adopted a tailored but rigorous risk management structure throughout the company, supported by internal audit, and this is critical to supporting the management and board decision-making, always with safety as our guiding light.

The COVID pandemic has challenged our business both internally and externally and we still see this impact today, particularly in our supply chains, but also in the care of our people. We work hard every day to ensure all our people remain safe.

With our first year of production in the books, and our resource doubled, we are most excited to set about the task of realising the undoubted value at ATO, and then to finding our next mine.

**Jeremy South**

Senior Vice President and  
Chief Financial Officer



# MANAGEMENT DISCUSSION AND ANALYSIS

## YEAR ENDED DECEMBER 31, 2020

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### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

Certain information contained in this MD&A constitutes “forward - looking information” under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's properties and investments, ability to continue to satisfy all conditions and covenants under the streaming arrangement and repay its promissory notes by the required due dates, the future price of gold, expected operating cash flows and capital costs for the Altan Tsagaan Ovoo Project (“ATO Project”), the impact of the COVID-19 pandemic on the Company's operations and results, success, nature and timing of exploration and development activities, cost and timing of future exploration and development, the upside potential of the Company's exploration properties, successful and profitable operations of the ATO Project, the Company's ability to meet its most significant near-term liquidity and operating requirements, operating requirements for the next 12 months, requirements for additional capital and general and administrative costs as well as proposed expanded exploration activities and related costs and other potential opportunistic investments in 2020, and other statements relating to the financial and business prospects of Steppe Gold. Generally, forward-looking information can be identified by the use of forward - looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “likely”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to:

- the Company's ability to continue to successfully satisfy all covenants under the streaming arrangement, its ability to repay the promissory notes, and its ability to meet significant near-term liquidity and operation requirements;
- the Company's failure to adhere to representations, warranties, affirmative and negative covenants under the streaming arrangement, which could give rise to an event of default under the streaming arrangement;
- risk of increases in the anticipated total capital and operating costs relating to development and operation of the ATO Project and the Company's ability to meet such costs;
- operational activities, any of which could result in damage to life or property, environmental damage and possible legal liability, including the adverse impact on the Company's cash flows;
- unusual or unexpected geological formations encountered during development and/or exploration activities;
- unanticipated operating events which can cause the operations at the ATO Project to be shut down or delayed;
- the ability of the Company to maintain normal operations during the COVID-19 pandemic;
- the risk that insurance may not be available to Steppe Gold on reasonable terms or at all;
- uncertain political and economic environments; and
- environmental hazards and industrial accidents.

Forward looking information is also subject to the risks further described in the Company's Annual Information Form dated March 30, 2020 which can be found on [www.sedar.com](http://www.sedar.com). Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws. Accordingly, readers should not place undue reliance on forward-looking information.

## TECHNICAL INFORMATION

Substantially all of the scientific and technical information relating to the Altan Tsagaan Ovoo Project (the "ATO Project") contained in this annual information form is derived from, and in some instances is an extract from, the Technical Report titled "Altan Tsagaan Ovoo Gold Project, Tsagaan Ovoo, Dornod, Mongolia" dated October 4, 2017, with an effective date of September 6, 2017, which was authored for the Company by Oyungerel Bayanjargal, MAusMM (CP) with certain section of the report being reviewed and approved by Leonid Tokar, P.Eng of GSTATS Consulting LLC or David Frost, FAusMM and B. Met Eng., Tim Fletcher, P.Eng. or Dr. Martin Stapinsky, P.Geo. of DRA Americas, Inc. (the "Technical Report") and prepared in accordance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"). Reference should be made to the full text of the Technical Report which is available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The updated 2021 mineral resource estimate for the ATO Project was prepared by Robin A Rankin, MAusMM CP(Geo), Principal Consulting Geologist at GeoRes and a "qualified person" under NI 43-101. The disclosure regarding the 2021 mineral resource estimate for the ATO Project has been reviewed and approved by Mr. Rankin. Mr. Enkhtuvshin Khishigsuren, Certified Professional Geologist from AIPG, certification number CPG-11964, Vice President of Exploration, is a "qualified person" (as defined in NI 43-101) and has reviewed and approved the technical information in this MD&A.

## COMPANY OVERVIEW

Steppe Gold was incorporated under the Business Corporation Act (Ontario) on October 5, 2016. The head office of the Company is located in Shangri-La office Suite 1201, Olympic street 19A, Sukhbaatar District 1, Ulaanbaatar 14241, Mongolia. The Registered office is at 18 King St East, Suite 902, Toronto, Ontario, M5C 1C4, Canada.

Steppe Gold is a precious metals exploration, development, and production company focused on opportunities in Mongolia. The Company has two principal assets - an operating open pit mine, Altan Tsagaan Ovoo (ATO), located in the Dornod province of Eastern Mongolia, and the Uudam Khundii exploration project in Bayankhongor Province.

## FOURTH QUARTER HIGHLIGHTS (all figures in US\$000s unless stated)

- Revenue for the quarter was \$13,217 on sales of 7,923 gold ounces and 3,429 silver ounces with average realized prices per ounce of \$1,882 and \$23 respectively
- Operating income from mine operations, before depreciation and depletion was \$8,349
- Consolidated Group Adjusted EBITDA for the quarter was \$5,553
- Cash Costs for the quarter were \$604 per ounce of gold sold
- All in Sustaining Cost (AISC), before expensed exploration, for the quarter was \$902 per ounce sold
- During the quarter, 291,455 tonnes of ore was mined and 206,703 tonnes of ore was stacked on the leach pad with an average gold grade of 2.26 g/t and an average silver grade of 9.22 g/t.

## YEAR ENDED DECEMBER 31, 2020 HIGHLIGHTS

### (all figures in US\$000s unless stated)

- Revenue for the year ended December 31, 2020 was \$52,097 on sales of 31,733 gold ounces and 13,710 silver ounces with average realized prices per ounce of \$1,822 and \$20 respectively
- Operating income from mine operations, before depreciation and depletion, was \$32,551
- Consolidated Group Adjusted EBITDA for the year was \$24,399
- Year end cash, restricted cash and savings accounts balance was \$32,605; bank debt is \$10,610
- Cash Costs for the year ended December 31, 2020 were \$607 per ounce sold
- All in Sustaining Cost (AISC), before expensed exploration, for the year ended December 31, 2020 was \$839 per ounce sold
- During the year ended December 31, 2020, 1,138,209 tonnes of ore was mined and the crushing plant processed 699,204 tonnes of ore with an average gold grade of 2.03 g/t and an average silver grade of 8.88 g/t.
- The Company expects to pay minimal income tax in respect of the 2020 financial year due to COVID-19 pandemic related tax exemptions.
- The Company announced a resource update on February 24, 2021 for the ATO Gold Mine. This update shows a doubling of the resource to 2.45m oz Au Eq and now supports a planned production profile of approximately 150,000 gold equivalent ounces per year and an estimated ten-year plus mine life
- Work is well advanced on the Bankable Feasibility Study (BFS) for the Phase 2 expansion of the ATO Gold mine. Incorporating the recent resource update and detailed new metallurgical work, the BFS is due for release in summer 2021.
- The Company completed an active period of drilling at ATO and Mungu in 2020, with drilling continuing into early December 2020. The focus was on extension and infill drilling and contributed to the resource upgrades on the existing ATO deposits and the maiden resource on the Mungu Discovery.



## RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020 (in US\$)

### Health and Safety

In the year ended December 31, 2020, a total recordable injury frequency rate of Zero per million hours worked was reported. Steppe Gold has reported 492 days free of any lost time injuries, and Zero LTIs for the mine operation to date.

The COVID-19 pandemic has not, to date, resulted in any material impact on Steppe Gold's operations. However, the unprecedented impact of this pandemic has seen significant restrictions imposed by the Government of Mongolia on travel and movement of goods and people both across and within its borders, and this has caused a temporary increase in production costs. It has caused some delays in material shipping, sample delivery for the BFS, increased costs for personnel and quarantine and a delay in exploration activity. While not material to the business as yet, these delays have undoubtedly delayed activity and this has cost the Company time and money. In addition, recent supply chain delays in China and COVID-19 issues may cause a shortfall in planned production levels in 2021.

The Company sells all its product within Mongolia and is not reliant on export channels.

Preventative measures are in place to ensure the well-being of employees and contractors and no risks were noted at the end of the quarter. Management continues to monitor the situation at the site and corporate offices to prevent or minimize any effects that the pandemic may have on operational or financial reporting activities.

### Financial Overview

As at December 31, 2020, total assets were \$86 million and total liabilities were \$44.7 million compared to December 31, 2019 with \$53.4 million in total assets and \$42.4 million in total liabilities.

In August 2020, approximately \$11.1 million was raised through the issue of 6,976,944 common shares and warrants to Mr. Eric Sprott, currently representing approximately 10.2 percent of the issued outstanding common shares on a non-diluted basis. In September 2020, Steppe Gold and the Trade and Development Bank of Mongolia ("TDB") concluded a loan agreement for \$10.5 million of financing for the expansion of the ATO project.

The Company reported total cash balances as at December 31, 2020 of \$32.6 million compared to the year ended December 31, 2019 of \$0.7 million. This total includes restricted cash held as collateral for the loan from Trade and Development Bank of \$12.5 million and short term investments of \$5 million held in Capitron bank as term deposits. The increase in cash is primarily driven by the cash inflow from operating activities as the Company is now in commercial production, equity financing of \$11.1 million related to non-brokered private placement, funding from the Mongolian National Investment Fund ("MNIF") in the principal amount of \$3 million and the loan from TDB, offset by payments for operating costs, payables and obligations under the Triple Flag International Stream Agreement.

As at December 31, 2020, the inventory balance increased to \$9.9 million compared to \$8.4 million as at December 31, 2019. Approximately \$1 million of this increase is related to 1,421oz of finished goods gold inventory as at December 31, 2020.

Property, Plant and Equipment of \$37.8 million as at December 31, 2020 has declined by \$3.5 million over December 31, 2019 as the Company entered the production phase and started depreciating mine related assets. Capital additions of \$1.3 million are related to construction of heap leach pad cells 3,4, and 5.

The Company reported a net increase in total liabilities of \$2.3 million for the year ended December 31, 2020 from year ended December 31, 2019. The major debt activities in 2020 included the \$10.5 million loan received from TDB, convertible debentures issued to MNIF for \$3 million, payments made to reduce operating payables and obligations under the Triple Flag International Stream arrangement.

Revenue of \$52.1 million and adjusted EBITDA of \$24.4 million were reported for the year ended December 31, 2020 compared to \$Nil of revenue and (\$4) million of adjusted EBITDA for the year ended December 31, 2019.

Prior to April 1, 2020 all revenues and costs were capitalized to the balance sheet as pre-production, thus there are no comparable figures for the period.

The overall net cash inflow for the year ending December 31, 2020 is \$14.4 million primarily generated from operating and financing activities. This compares to overall cash outflow of \$6.3 million for the year ending December 31, 2019. Ince of Eastern Mongolia, and the Uudam Khundii exploration project in Bayankhongor Province.

### BALANCE SHEET

As at December 31, 2020	Q4	Q3	Q2	Q1	Q4
(US\$ 000's)	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Cash and Equivalents	15,089	20,946	6,882	1,790	671
Inventories	9,904	8,226	8,245	11,251	8,356
Other Current Assets	8,405	1,656	2,020	1,081	1,148
Non-Current Assets	52,616	53,926	41,002	42,007	43,268
<b>Total Assets</b>	<b>86,014</b>	<b>84,754</b>	<b>58,149</b>	<b>56,129</b>	<b>53,443</b>
Current Liabilities	20,207	22,900	32,381	23,852	22,348
Non-Current Liabilities	24,479	23,562	18,001	22,789	20,024
<b>Total Liabilities</b>	<b>44,686</b>	<b>46,462</b>	<b>50,382</b>	<b>46,641</b>	<b>42,372</b>
<b>Total Shareholders Equity</b>	<b>41,328</b>	<b>38,292</b>	<b>7,767</b>	<b>9,488</b>	<b>11,071</b>

#### Cash and Equivalents

As at December 31, 2020, the Company recorded a total cash balance of \$15.1 million compared to \$0.7 million as at December 31, 2019. This is primarily related to cash generated from metal sales cash revenue of \$52 million, operating expenses of ATO Gold Mine, \$3 million from issuing convertible debentures to Mongolian National Investment Fund, equity financing of \$11.1 million received from equity financing and the \$10.5 million loan received from TDB.

#### Inventories

As at December 31, 2020, the Company reported total inventory of \$9.9 million. This includes warehouse consumables, ore stockpiles, gold-in-circuit, and finished goods.

The current carrying balance of consumables is \$1 million compared to \$0.2 million for this same period in 2019. This is driven by increased stock on hand to accommodate the ATO Gold Mine's requirements for steady state commercial production.

Revenue generating inventory at the year end of the December 31, 2020 included 463,328 tonnes of ore to be processed with a carrying value of \$4.3 million, 3,317 ounces of gold in the heap leach circuit with a carrying value of \$3.5 million, and 1,421 ounces of gold held for sale with a carrying value of \$1 million. Note that the Company estimated that it also held 21,561 oz of silver in silver bars. As silver is considered a by-product, no value is ascribed to these bars in year end inventory.

As at December 31, 2020	Q4	Q3	Q2	Q1	Q4
(US\$ 000's)	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Ore Stockpiles	4,340	3,106	3,594	10,678	8,178
Gold-in-Circuit	3,507	2,821	2,151	-	-
Finished Goods	1,025	1,103	1,719	-	-
Warehouse Consumables & Supplies	1,032	1,196	781	573	178
<b>Total Inventory</b>	<b>9,904</b>	<b>8,226</b>	<b>8,245</b>	<b>11,251</b>	<b>8,356</b>

#### Non-Current Assets

As at December 31, 2020 non-current assets of \$52.6 million were made up of property plant and equipment, primarily related to the ATO operation, restricted cash, and Steppe Gold's 80% interest in the Uudam Khundii Project through Corundum Geo LLC.

Property plant and equipment additions in 2020 related to the leach pad expansion, new and replacement equipment and exploration expenditures at the ATO Gold Mine.

The decline in Property, Plant and Equipment in 2020 is primarily driven by depreciation and depletion of the ATO Gold Mine assets due to the start of commercial production, compared to 2019 where there was no operating activities.

As at December 31, 2020, the Uudam Khundii project accounts for \$1.9 million of the total non-current assets after accounting for foreign exchange adjustments.

The restricted cash held as collateral for the loan from TDB of \$12.5 million is included as a non-current asset.

#### Liabilities

As at the year ended December 31, 2020 there are total liabilities of \$44.7 million compared to \$42.4 million at December 31, 2019. This is primarily driven by the net decrease in Convertibles debentures issued in 2019 and 2020 of \$1.6 million, net decrease in Triple Flag International Streaming Arrangement of \$5 million, net decrease in payables of \$1.8 million and the loan of \$10.6 million from TDB.

The Company is working on a project finance facility to support the Phase 2 expansion at the ATO Gold Mine. This will likely be completed in a series of tranches over the next 12 months. The TDB loan represents an initial tranche of this project finance debt. There are currently material commitments and obligations for cash resources set out in the table below. Failure to meet these obligations could lead to termination of the Company's underlying interests.

As at December 31, 2020 (US\$ 000's)	< 1 Year	1 - 3 Years	3 - 5 Years	> 5 Years	Total
Payables & Other Liabilities	3,910	-	-	-	3,910
Lease Liability	242	36	12	-	290
Stream Arrangement	6,689	14,082	-	-	20,771
Asset retirement obligation	-	-	-	1,060	1,060
Convertible Debenture	5,808	2,237	-	-	8,045
Current portion of Loan	3,558	-	-	-	3,558
Long Term Loan	-	7,052	-	-	7,052
<b>Total</b>	<b>20,207</b>	<b>23,407</b>	<b>12</b>	<b>1,060</b>	<b>44,686</b>

#### Shareholders' Equity

Total shareholders' equity increased to \$41.3 million as at December 31, 2020, from \$11.1 million as at December 31, 2019 primarily due to capital issuance and conversion of debentures in the period.

Common Shares Issued	Number of Shares	Share Capital
	Units	US\$ 000's
Balance as at December 31, 2018	41,540,895	20,421
Equity Financing	2,222,222	1,448
Uudam Khundii Shares Issued	1,400,000	647
Exercise of Restricted Share Units	35,294	23
<b>Balance as at December 31, 2019</b>	<b>45,198,411</b>	<b>22,539</b>
Equity Financing	7,371,944	8,231
Exercise of Restricted Share Units	198,419	340
Convertible Debentures Converted into Shares	15,653,833	22,971
<b>Balance as at December 31, 2020</b>	<b>68,422,607</b>	<b>54,081</b>

#### Off Balance Sheet Arrangements

As of the date of this filing, the Company does not have any off-balance-sheet arrangements.



## INCOME STATEMENT

Period ending December 31, 2020	Q4 Dec 31, 2020	Q3 Sep 30, 2020	Q2 Jun 30, 2020	Q1 Mar 31, 2020	Year ended Dec 31, 2020	Year ended Dec 31, 2019
(US\$ 000's)						
Revenue	13,217	19,360	19,520	-	52,097	-
Cash Cost of Sales	(4,868)	(6,633)	(7,474)	-	(19,546)	-
Depletion and depreciation	(1,115)	(1,403)	(2,153)	-	(4,100)	-
Profit from mine operations	7,234	11,324	9,893	-	28,451	-
Corporate Administration	(3,102)	(3,506)	(1,682)	(877)	(9,167)	(4,475)
Exploration & Evaluation	(1,078)	(1,700)	(2)	(6)	(2,786)	(125)
Operating profit	3,052	6,118	8,209	(883)	16,498	(4,600)
Finance Costs	(342)	(10,379)	(10,981)	596	(21,106)	(1,846)
Foreign Exchange Gain/(Loss)	631	727	2,405	(3,607)	156	1,213
Earnings (losses) Before Tax	3,341	(3,534)	(367)	(3,894)	(4,452)	(5,233)
Income Tax	(300)	2,653	(1,953)	-	400	-
Earnings (losses) After Tax	3,041	(881)	(2,320)	(3,894)	(4,052)	(5,233)
Basic and diluted net loss and comprehensive loss per common share	0.044	(0.01)	(0.047)	(0.09)	(0.071)	(0.125)

### Revenue

The fourth quarter revenue of 2020 included the sale of 7,923 gold ounces and 3,429 silver ounces at an average price of \$1,882/oz and \$23/oz respectively, for total gross cash revenue of \$15 million. This was increased by the amortization of the stream agreement liability \$1.4 million and offset by net metal credit costs of \$(3.2) million, for total attributable revenue of \$13.2 million. This compares to attributable revenue of \$19.4 million in the third quarter of 2020.

### Cash Cost of Sales

Cash cost of sales includes total direct mining cost (mining, processing, administration), royalties, transportation and treatment costs, and the cash portion of the change in inventory.

In the fourth quarter of 2020 cash cost of sales was \$4.9 million compared to \$6.6 million in the third quarter 2020, reflecting lower sales. Prior to commercial production all operating costs were capitalized to ore stockpile inventory, thus there are no comparative figures for 2019.

## EBITDA

EBITDA is earnings before interest, taxes, depreciation and amortization.

In the fourth quarter of 2020 the Company reported an adjusted EBITDA of \$5.6 million compared to \$9.9 million in the third quarter 2020, primarily due to higher administrative costs. Adjusted EBITDA removes non cash items, finance costs and exploration costs. Adjusted exploration costs relate primarily to the Mungu deposit which will soon be added to the ATO resource. Due to the commencement of commercial production at the ATO Gold Mine in 2020, the 2019 year does not provide relevant comparison data.

### Adjusted EBITDA

Period Ending December 31, 2020	Q4 Dec 31, 2020	Q3 Sep 30, 2020	Q2 Jun 30, 2020	Q1 Mar 31, 2020	YTD Dec 31, 2020	YTD Dec 31, 2019
(US\$ 000's)						
Net loss before tax	3,343	(3,534)	(367)	(3,894)	(4,452)	(5,233)
Depreciation and depletion	1,115	1,403	1,582	-	4,100	-
Share based compensation	306	636	34	39	1,015	505
Foreign exchange	(632)	(727)	(2,405)	3,608	(156)	(1,213)
Finance costs	343	10,379	10,981	(597)	21,106	1,846
Exploration	1,078	1,700	2	6	2,786	125
Adjusted EBITDA	5,553	9,857	9,827	(838)	24,399	(3,970)

### Depreciation and Amortization

Depreciation and depletion was \$1.1 million for the fourth quarter 2020 compared to \$1.4 million for the third quarter 2020. Depletable mineral properties and most of the production assets included in plant and equipment are depleted on a units of production basis over the life of the mine and this decrease was due to the lower mined ore in fourth quarter.

Prior to commercial production depreciation and depletion costs were capitalized to ore stockpile inventory, thus there is no comparative to 2019.

### Finance Costs

Finance costs for the fourth quarter 2020 decreased to \$0.3 million compared to \$10.4 million for the third quarter 2020. The decrease was primarily related to \$9.2 million change in the fair value of convertible debenture derivative component due to the changes in underlying factors used in valuation method.

Finance costs for the year ended December 31, 2020 amounted to \$21.1 million compared to \$1.8 million for the year ended December 31, 2019. The increase is primarily made up of a \$18 million change in fair value of convertible debenture derivatives valuation as the Company's stock price increased dramatically during the year 2020 and Stream arrangement accretion expense of \$0.8 million.

## Foreign Exchange Gain/(Loss)

Foreign exchange gain of \$0.6 million for the three months ended December 31, 2020 compares to a gain of \$1.7 million for the same period in 2019. For the year ended December 31, 2020 foreign exchange gain of \$0.2 million compared to \$1.2 million exchange gain of for the same period 2019. Decrease in FX gain is related to the several transactions held during the year including the conversion of Convertible debentures of \$8.4 million into share capital and partial repayment of streaming liabilities. The Eric Sprott investment was received in CAD and converted into USD and cash revenue in MNT which is presented in USD. All these transactions result in FX losses.

## Taxation

While the Company's main operating subsidiary in Mongolia generated taxable income for the year ended December 31, 2020, there was no tax expense recorded as at December 31, 2020 as the Government of Mongolia granted an exemption from the corporate income tax for the certain business entities due to COVID-19. The exemption applied to taxable income for the period from April 1, 2020 to December 31, 2020.

## CASHFLOW STATEMENT

Period Ending December 31, 2020	Q4 31 Dec 2020	Q3 30 Sep 2020	Q2 30 Jun 2020	Q1 31 Mar 2020	YTD 31 Dec 2020	YTD 31 Dec 2019
Cash flows from Operating Activities	(177)	7,028	6,121	(1,559)	11,413	(5,627)
Cash flows from Investing Activities	(5,034)	(1,544)	(318)	(311)	(7,207)	(8,144)
Cash flows from Financing Activities	(506)	8,458	(647)	2,970	10,275	7,624
Effect of exchange rate changes on cash held in foreign currency	(140)	122	(64)	19	(63)	(197)
Net increase/decrease in cash	(5,857)	14,064	5,092	1,119	14,418	(6,344)

Cash generated by operations for the year ended December 31, 2020 amounted to \$11.4 million compared to cash consumed of \$5.6 million for the same period last year. This was the direct result of the ATO Gold mine achieving commercial production at the beginning of the second quarter 2020 and generating operating cash flow in the period.

Cash used in investing activities during the year ended December 31, 2020 was \$7.2 million compared to cash consumed of \$8.1 million for year ended December 31, 2019. The decrease was primarily driven by the construction of the ADR plant and building in 2019 related to the ATO Gold Mine property, plant and equipment and ADR plant which is now being depreciated. The increase is driven by the term deposits of \$5 million held in Capiron bank which was classified as investing activity. Capital expenditures in 2020 have been relatively modest in 2020.

Cash generated by financing activities increased to \$10.2 million for the year ended December 31, 2020 compared to cash consumed of \$7.4 million for the same period in 2019. This is driven by proceeds of \$10.5 million from loan agreement with TDB, \$11.1 million from equity financing and \$3.0 million from the issue of convertible debentures, offset by restricted cash, issuance costs, lease obligation payments and payment of the remaining purchase price due on the acquisition of the Uudam Khundii project.

## FINANCING ACTIVITIES

### Stream Agreement

In connection with the ATO acquisition, Steppe Mongolia and Steppe BVI entered into a metals purchase and sale agreement, known as a "Stream Agreement", dated August 11, 2017 with Triple Flag Mining Finance International Inc.

Under the original terms of the Stream Agreement, Triple Flag International advanced Steppe Gold \$23 million, obligating Steppe BVI to sell Triple Flag International 25% of the gold ounces and 50% of the silver ounces produced from the ATO project until such time that Steppe BVI has sold an aggregate of 46,000 ounces of gold and 375,000 ounces of silver respectively, known as the "Delivery Milestones". On these terms the parties agreed that Triple Flag International will pay for the delivered metal ounces at 30 percent of the relevant market price on the delivered date.

Once these milestones have been achieved, Steppe BVI is obligated to sell Triple Flag Bermuda 5,500 ounces for gold (plus 250 ounces of gold for each three month period in 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) annually, known as the "Annual Cap Amounts". This obligation is in effect for the life of the mine and includes all gold or silver produced by Steppe Mongolia within an agreed area of 20km from the original mineral licenses comprising the ATO project. Triple Flag Bermuda has now determined the Annual Cap Amounts upon the achievement of the Commercial Production Date as the Gold Cap Amount to be 7,125 ounces of Produced Gold annually and the Silver Cap Amount to be 59,315 of Produced Silver annually.

On September 30, 2019, Steppe BVI and Triple Flag International agreed to amend the terms of the existing Stream Agreement. Under the new terms, Triple Flag International advanced an additional \$5 million to Steppe that was used to repay the final \$5 million payment on a promissory note issued as part of the purchase price for the ATO project.

In consideration of this additional advance, the parties agreed to reduce Triple Flag International's agreed upon purchase price of gold and silver from 30 percent to 17 percent of the relevant market price for delivered metals. In addition, Steppe West granted a 3% net smelter returns royalty to a subsidiary of Triple Flag International on minerals derived from the Uudam Khundii property owned by Corundum. All other terms of the agreement as noted above remain the same.

The obligations of Steppe BVI under the Stream Agreement are 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.

Management has determined that due to the nature of these terms and conditions that this Stream Agreement is in substance a debt instrument with embedded derivatives linked to gold and silver commodity prices.

This Stream Agreement is subject to various covenants which include the maintenance of a Net Indebtedness to 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. On or after this date, 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 for the remaining life of the mine. As at December 31, 2020, the Company is compliant with the covenants noted in the stream arrangement.

## Debenture Agreements

On July 2, 2019, the Company closed its previously announced private placement, issuing \$5.4 million principal amount of two-year unsecured convertible debentures.

On August 27, 2019, the Company closed the second and final tranche of its previously announced private placement, issuing \$3.04 million principal amount of two-year unsecured convertible debentures bringing the aggregate principal value of debentures issued under the offering to \$8.4 million. \$0.6 million of the proceeds from the debentures was allocated from unsettled accounts payable.

Both tranches collectively known as the "Debentures" bear interest from the date of closing at 10% per annum, calculated and payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2019 and will mature on July 2, 2021 and on August 27, 2021 respectively.

During the twelve months ended December 31, 2020, convertible debentures of \$8.1 million were converted to common shares at \$0.52 per share. The remaining \$0.3 million convertible debentures are recorded as shares to be issued as at December 31, 2020. The fair value of the derivative component was transferred to share capital and valued based on the Black Scholes pricing model using the applicable interest rate at the time based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, a volatility rate based on the Company's historical share price and the remaining expected life applicable to the converted debentures.

Quarter Ending December 31, 2020	Value of Debentures Converted	Fair Value of Derivative Component Transferred to Share Capital	Risk Free Rate	Volatility Rate	Expected Life	Loan Liability Transferred to Share Capital
Date of Conversion (US\$ 000's)	US\$	US\$	%	%	Years	US\$
April 9, 2020	2,500	1,221	0.39%	90.85%	1.23	1,636
July 15, 2020	2,500	7,647	0.27%	65.62%	0.96	1,784
July 22, 2020	190	575	0.27%	68.06%	1.10	84
July 23, 2020	400	1,212	0.27%	67.06%	0.94	287
August 19, 2020	50	154	0.29%	65.95%	1.02	23
August 28, 2020	100	273	0.28%	67.14%	1.00	47
September 3, 2020	150	424	0.26%	67.69%	0.98	72
September 8, 2020	1,050	3,095	0.27%	67.39%	0.97	507
September 14, 2020	300	851	0.26%	67.48%	0.95	147
September 18, 2020	250	759	0.26%	68.27%	0.94	123
September 28, 2020	950	2,519	0.25%	69.79%	0.91	477
<b>Total</b>	<b>8,440</b>	<b>18,730</b>				<b>5,187</b>

On January 30, 2020, the Company received funding from the Mongolian National Investment Fund PIF SPV ("MNIF"). MNIF has subscribed for a 12% two-year secured convertible debenture of the Company in the principal amount of \$3 million. The debt is secured against all of the shares of Steppe West owned by the Company.

The MNIF Debentures will bear interest from the date of closing at 12% per annum, calculated and payable semi-annually in arrears on June 30 and December 31 in each year, commencing on June 30, 2020 and will mature on January 30, 2022.

The MNIF Debentures are secured obligations of the Company and rank pari passu in right of payment of principal and interest.

The MNIF Debentures will be convertible at the option of the holder into common shares of the Company at any time 4 months after the closing date and prior to the close of business on the maturity date at a conversion price of US\$0.68 per common share.

The conversion feature of the MNIF Debentures meets the definition of a derivative liability instrument as the conversion feature is denominated in a currency other than the Company's functional currency, and as such does not meet the fixed for fixed criteria.

The fair value of the conversion feature of the MNIF Debentures was estimated based on the Black Scholes pricing model using a risk free interest rate of 1.47% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rates of 77% based on comparable companies, and an expected life of 2 years.

The convertible debentures loan liability component has been subsequently measured at amortized cost using the effective interest method. The effective interest rate of the loan liability (42%) is based on the present value (principal, less conversion feature and issuance costs), future value and term.

During the year ended December 31, 2020, the Company has incurred transaction costs (finders fees of 6%) of \$0.2 million of which \$0.07 million was expensed in the consolidated statement of loss and comprehensive loss for the period and \$0.12 million was capitalized to the convertible debentures - loan liability component in relation to MNIF Debenture.

As at December 31, 2020, the fair value of convertible debentures - derivative component was estimated based on the Black Scholes pricing model using a risk free interest rate of 0.20% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 68.69% based on the Company's historical share price, and an expected life of 1.08 years.

## Long Term Loans

In the third quarter 2020 Steppe Mongolia entered into a loan agreement with TDB for \$10.5 million (30 billion tugriks), dated September 18, 2020. The loan is supported by the Bank of Mongolia and is for a period of 24 months at a fixed interest rate of 11%. Repayment of the loan is expected in three equal payments on September 18, 2021, March 18, 2022, and September 18, 2022 to include the principal and accrued interest portions of the loan.

The primary purpose of this financing is for the expansion at the ATO Gold Mine. The Company plans to negotiate further debt facilities in 2021 using existing and future collateral.

## Related party transactions

The Company's related parties include its subsidiaries and key management personnel.

For the years ended December 31, 2020 and 2019, management fees paid to key management personnel (defined as officers and directors of the Company) are shown below:

(US\$ 000's)	Dec 31, 2020	Dec 31, 2019
Management fees paid to key personnel	2,168	856
Stock based compensation	551	297
	<b>2,719</b>	<b>1,153</b>



As at December 31, 2020, key management personnel were owed \$9 (December 31, 2019: \$18).

During the year ended December 31, 2020, Erdenyn Erel LLC, a company at which the Company's Vice President, Exploration is the CEO, provided drilling services to the Company totaling \$2.5 million (2019 - \$1.5 million). As at December 31, 2020, \$0.9 million was owed to Erdenyn Erel (December 31, 2019 - \$1.5 million).

Bataa Tumur-Ochir, CEO of Steppe Gold Ltd., announced that on October 28, 2019, he purchased US\$2.5 million of the 10% two-year unsecured Company Debentures from Chinggis Khaan Bank. On July 15, 2020, Bataa Tumur-Ochir converted his \$2.5 million convertible debentures into 4,807,692 common shares at a price of \$0.52 per common share. During the year end December 31, 2020, interest paid to Bataa Tumur-Ochir totaled \$0.13 million (December 31, 2019 - \$0.04 million)

During the year ended December 31, 2020, the Company entered into a non-binding term sheet with Aranjin Resources Limited ("Aranjin") to acquire a 50% interest in all gold contained in a prospective exploration license. As part of the agreement, the Company advanced a non-refundable initial deposit of \$0.05 million to Aranjin. Bataa Tumur-Ochir, Matthew Wood and Jeremy South are directors of the board of Aranjin.

## Operational Overview

The ATO Gold Mine achieved commercial production effective April 2020 after meeting all required metrics. The ATO gold mine is an open pit mining operation with a heap leach processing circuit.

Operations management are very pleased that over the past 12 months Steppe Gold have had a 100% safety record. Current LTIs are 492 days. At Steppe Gold, Safety Is The Measure Of Success and management have put the safety of our staff and contractors at the forefront of our operations to ensure all our people return home safely after every shift and will continue to do so for the life of the project. Steppe Gold scored a very impressive 93% on the 2020 Green Responsibility Implementation.

Gold sales for the year ended December 31, 2020 totalled 31,733 ounces, including 7,923 ounces in the fourth quarter, 30% and 36% lower than the third and second quarter of 2020 respectively. Gold production for the same periods totalled 33,154 ounces and 7,423 ounces respectively.

For the year ended December 31, 2020 the Company mined 1,138,209 tonnes of ore from the pit and stacked 699,204 tonnes of ore on the heap leach pad - Cells 1 and 2. The Company commenced stacking on Cell 2 in June 2020. The Company mined 291,455 tonnes and stacked 206,703 tonnes of ore in the fourth quarter of 2020, compared to 362,750 tonnes of ore mined and 207,663 tonnes of ore stacked in the third quarter 2020 respectively. There were some supply chain and parts issues with the main crusher in the first and second quarter of 2020 but these were resolved in the third quarter and the Company is now seeing higher crushing rates.

Total capital expenditure in the fourth quarter was \$0.3 million, compared to \$1.5 million in third quarter which includes the leach pad expansion - Cells 3, 4 and 5 - and exploration drilling at the ATO Project in the third quarter. The Company also acquired a new jaw crusher in the third quarter.

Quarter Ending December 31, 2020 (US\$ 000's)	Q4 Dec 31, 2019	Q3 Sep 30, 2020	Q2 Jun 30, 2020	Q1 Mar 31, 2020	YTD Dec 31, 2020
General Sustaining	108	481	78	64	940
Growth and Expansion	186	1,030	106	-	1,322
Total	294	1,542	196	64	2,262

## ATO Gold Mine Operational Summary

The ATO Gold Mine is the sole operating mining asset of the Company. Prior period comparables have been included where appropriate in relation to commercial production beginning in 2020.

December 31, 2020 (USD)		Q4 Dec 31, 2020	Q3 Sep 30, 2020	Q2 Jun 30, 2020	YTD Dec 31, 2020	YTD Dec 31, 2019
Waste Mined	bcm	119,969	109,862	68,811	318,591	8,999
Ore Mined	tonnes	291,455	362,750	330,325	1,138,209	393,581
Processed	tonnes	206,703	207,663	164,287	699,204	369,258
Grade <sup>(1)</sup>	g/t	2.26	2.21	1.67	2.03	-
Gold Recovery <sup>(2)</sup>	%	70.0%	70.0%	70.0%	70.0%	-
Gold Produced	oz	7,423	10,342	15,389	33,154	-
Gold Sold	oz	7,923	11,352	12,458	31,733	-
Silver Produced	oz	24,069	6,516	4,978	35,563	-
Silver Sold	oz	3,429	6,553	3,728	13,710	-
Revenue	000's	13,217	19,360	19,520	52,097	-
Cash Cost of Sales	000's	(4,868)	(6,633)	(7,474)	(19,546)	-
Gross Profit	000's	7,234	11,324	9,893	28,451	-
Adjusted capital Expenditure		(182)	380	315	940	-
Mining Unit Cost	US\$/t	5.40	6.34	5.04	4.31	-
Processing Unit Cost	US\$/t	8.65	4.06	3.85	6.59	-
Site G&A Unit Cost	US\$/t	4.77	2.48	1.93	2.92	-
Cash Cost	US/oz	604	572	595	607	-
All-in-Sustaining Cost	US/oz	902	794	739	839	-

(1) Grade is in respect of the gold grade of ore fed through the heap leach pad.

(2) Gold Recovery of 70% is based on the technical reports and is used to calculate inventories and cost of sales. Actual recoveries may vary

## Key Performance Indicators

Key performance indicators for the business are non IFRS metrics, but provide the ability to evaluate the underlying performance of the company. These include site unit cost per tonne, cash cost per ounce of gold sold, and All-in-sustaining cost per ounce of gold sold.

Unit cost is a performance metric used at site to provide an efficiency view and trend of operating performance using total direct cost per tonne of relevant material mined.

In the fourth quarter 2020 unit costs were \$5.4 of direct mining costs per tonne mined, \$8.65 of direct processing costs per tonne mined, and \$4.77 of direct site administration costs per tonne mined. This compares to the third quarter with mining, processing, and administration unit cost of \$6.34, \$4.06, and \$2.48 respectively.

Cash cost per ounce is a measurement of the site cash cost required to sell an ounce of gold. This is an indication and trend of the cash operating margin of producing an ounce of gold.

Cash costs for the fourth quarter 2020 were \$604 per ounce compared to the third and second quarter 2020 of \$572 and \$595 respectively.

All-in-Sustaining cost ("AISC") for the three months ending December 31, 2020 was \$902 per ounce on gold sales of 7,923 ounces of gold compared to \$794 and \$739 in the third and second quarter respectively, with the increase primarily due to higher administrative costs.

AISC is calculated using cash costs in addition to general and administration, asset retirement costs, and sustaining capital, less certain non-recurring costs (notably exploration costs at Mungu) to provide an overall company outlook on the total cost required to sell an ounce of gold.

Quarter Ending December 31, 2020 (USD)		Q4 Dec 31, 2020	Q3 Sep 30, 2020	Q2 Jun 30, 2020	YTD Dec 31, 2020
Cash Cost of Sales	000's	4,868	6,633	7,474	19,546
By-Product Credits	000's	(80)	(141)	(58)	(280)
Net Cash Costs	000's	4,788	6,492	7,416	19,266
Sustaining Capital Expenditure	000's	(182)	380	315	940
Corporate Administration	000's	2,403	1,849	1,682	6,353
Other	000's	81	289	(201)	147
All-in-Sustaining Costs	000's	7,090	9,010	9,212	26,706
Gold Sales	oz	7,923	11,352	12,458	31,733
Cash Cost	US\$/oz	604	572	595	607
All-in-Sustaining Cost	z	902	794	739	839

(1) AISC excludes non recurring exploration expenditures, share based compensation and certain non-recurring items

### ATO Gold Mine Mineral Resources and Reserves update

On February 24, 2021 the Company announced an updated mineral resource estimate for its ATO Project. The mineral resource estimate has been prepared as of February 22, 2021 and the details are below.

The updated mineral resource estimate includes drill data as of December 2020. It includes 55 drill holes for a total of 18,200m drilled in 2020. A total of 53,000m has been drilled since 2018. The drilling information was used to update the interpretation of the geologic model, geometry of the mineralized zones and domains resulting in a higher degree of confidence in the resource estimate.

Table 1: ATO - Preliminary  
43-101

Classified Resources by  
Oxidation  
Surface level

CLASS BY	Deposit	Cut-Off	SG	Tonnes	Au	Ag	Pb	Zn	Au Eq	Au metal	Ag metal	AuEq metal
OXIDATION LEVEL	AuEq(g/t)	(kg/m <sup>3</sup> )	(M t)	(g/t)	(g/t)	(%)	(%)	(g/t)	(k oz)	(k oz)	(k oz)	
MEASURED												
OXIDE (above OX_SF)	1	0.15	2.46	2.62	1.22	9.34	0.59	0.33	1.70	103	786	143
	2	0.15	2.46	1.13	0.46	3.58	0.40	0.33	0.79	17	130	29
	4	0.15	2.46	0.72	0.99	20.49	0.17	0.28	1.46	23	471	34
	Mungu	0.15	2.46	0.32	0.66	25.21			1.01	7	258	10
	TOTAL	0.15	2.46	4.78	0.97	10.71	0.44	0.30	1.40	149	1,645	216
Transition (between OX/TR_S F)	1	0.40	2.59	3.43	1.45	6.46	0.72	1.16	2.31	160	712	255
	2	0.40	2.59	0.42	0.33	4.07	0.64	1.40	1.25	4	55	17
	4	0.40	2.59	2.45	1.41	17.24	0.21	0.39	1.90	111	1,356	149
	Mungu	0.40	2.59	0.35	0.69	39.49		0.01	1.25	8	448	14
	TOTAL	0.40	2.59	6.65	1.32	12.03	0.49	0.83	2.04	283	2,570	435

Fresh (below TR_SF)	1	0.40	2.64	3.76	0.78	5.25	0.75	1.52	1.80	94	635	218
	2	0.40	2.64	0.11	0.42	5.64	1.07	2.73	2.12	2	21	8
	4	0.40	2.64	4.36	1.32	8.53	0.36	0.63	1.85	185	1,197	260
	Mungu	0.40	2.64	4.27	1.41	45.16	0.01	0.03	2.06	194	6,206	283
	TOTAL	0.40	2.64	12.52	1.18	20.03	0.36	0.71	1.91	475	8,058	768
MEASURED	TOTAL		23.94	1.18	15.95	0.41	0.66	1.84	907	12,274	1,419	
INDICATED												
OXIDE (above OX_SF)	1	0.15	2.46	1.11	0.84	8.80	0.50	0.25	1.25	30	314	45
	2	0.15	2.46	1.03	0.44	3.55	0.33	0.26	0.72	15	118	24
	4	0.15	2.46	0.90	0.85	20.28	0.13	0.22	1.28	25	587	37
	Mungu	0.15	2.46	0.20	0.43	15.30			0.65	3	99	4
	TOTAL	0.15	2.46	3.24	0.69	10.72	0.31	0.23	1.05	72	1,118	110
Transition (between OX/TR_S F)	1	0.40	2.59	1.34	1.04	5.96	0.64	1.08	1.83	45	256	79
	2	0.40	2.59	0.31	0.44	4.67	0.64	1.35	1.34	4	46	13
	4	0.40	2.59	1.94	1.26	21.78	0.13	0.29	1.74	79	1,359	109
	Mungu	0.40	2.59	0.09	0.55	24.55		0.01	0.90	2	75	3
	TOTAL	0.40	2.59	3.68	1.09	14.67	0.35	0.66	1.72	129	1,737	203
Fresh (below TR_SF)	1	0.40	2.64	2.96	0.66	4.54	0.69	1.44	1.62	63	433	154
	2	0.40	2.64	0.15	0.54	5.96	1.14	2.98	2.38	3	29	11
	4	0.40	2.64	5.31	0.86	12.06	0.27	0.49	1.35	147	2,060	231
	Mungu	0.40	2.64	2.33	0.93	37.85	0.01	0.03	1.47	70	2,830	110
	TOTAL	0.40	2.64	10.75	0.82	15.48	0.34	0.69	1.46	282	5,351	506
INDICATED	TOTAL		17.68	0.85	14.44	0.34	0.60	1.44	483	8,206	819	
MEASURED + INDICATED												
Oxide	TOTAL	0.15	2.46	8.02	0.86	10.72	0.39	0.27	1.26	221	2,763	325
Transition	TOTAL	0.40	2.59	10.33	1.24	12.97	0.44	0.77	1.92	412	4,307	638
Fresh	TOTAL	0.40	2.64	23.27	1.01	17.93	0.35	0.70	1.70	757	13,409	1,274
MEASURED + INDICATED	TOTAL		41.62	1.04	15.31	0.38	0.63	1.67	1,390	20,479	2,238	
INFERRED												
OXIDE (above OX_SF)	1	0.15	2.46	0.16	0.45	6.10	0.28	0.22	0.73	2	32	4
	2	0.15	2.46	0.26	0.28	3.26	0.21	0.24	0.51	2	27	4
	4	0.15	2.46	0.21	0.73	10.83	0.10	0.16	0.99	5	74	7
	Mungu	0.15	2.46	0.07	0.37	9.41			0.50	1	22	1
	TOTAL	0.15	2.46	0.71	0.46	6.83	0.17	0.19	0.70	11	155	16
Transition (between OX/TR_S F)	1	0.40	2.59	0.11	1.16	6.49	0.63	1.24	2.03	4	23	7
	2	0.40	2.59	0.10	0.39	8.12	1.17	2.21	1.91	1	26	6
	4	0.40	2.59	0.07	0.66	16.15	0.08	0.23	1.02	1	36	2
	Mungu	0.40	2.59	0.05	0.45	14.84		0.01	0.66	1	25	1
	TOTAL	0.40	2.59	0.33	0.71	10.34	0.58	1.12	1.56	8	110	17
Fresh (below TR_SF)	1	0.40	2.64	0.88	0.44	3.88	0.58	1.36	1.32	12	109	37
	2	0.40	2.64	0.10	0.17	9.45	1.45	3.27	2.29	1	31	8
	4	0.40	2.64	2.01	0.59	15.30	0.20	0.37	1.04	38	989	67
	Mungu	0.40	2.64	1.59	0.85	26.11	0.01	0.02	1.23	44	1,339	63
	TOTAL	0.40	2.64	4.58	0.64	16.75	0.23	0.50	1.19	95	2,468	175
INFERRED	TOTAL		5.62	0.62	15.13	0.25	0.50	1.15	113	2,732	208	



Notes for ATO Property Resource Estimate, February 22, 2021.

- (1) The mineral resource estimate follows CIM definitions and guidelines for mineral resources
- (2) Results are presented in situ and undiluted and considered to have reasonable prospects for economic extraction.
- (3) Mineral Resources that are not Mineral Reserves have not demonstrated economic viability.
- (4) Contained gold estimates have not been adjusted for metallurgical recoveries.
- (5) Mineral Resources are estimated using a 0.15 g/t Au Eq cut-off grade for oxide material and a 0.4 g/t Au Eq cut-off grade for fresh material.
- (6) A conversion factor of 31.103477 grams per ounce 453.59237 grams per pound are used in the mineral resource estimates
- (7) Au Eq has been calculated using metal prices (\$1,880/oz for gold, \$26/oz for silver)
- (8) The QP is not aware of any known environmental, permitting, legal, title-related, taxation, socio-political or marketing issues, or any other relevant issue not reported in this release that could materially affect the mineral resource estimate.

## Exploration and Development

### ATO Gold Mine

The ATO Gold Mine is comprised of one mining license (MV-017111) over an area of 5,492.63 ha. The ATO Project is located in the territory of Tsagaan Ovoo soum, Dornod province of Eastern Mongolia. It is 660 km east of Ulaanbaatar, the capital of Mongolia, 120 km northwest of Choibalsan, the provincial capital of Dornod Province and 38 km west of Tsagaan Ovoo soum.

Total expensed exploration costs for the fourth quarter were \$1.1 million. This was primarily related to exploration drilling at the Mungu deposit, within the ATO licence. At December 31, 2020 there was no classified resource on this deposit so these costs are expensed in the fourth quarter financial statements. The Mungu exploration work was primarily infill drilling to support the resource update and it is expected that these costs will be capitalised in due course. These costs are non-recurring in nature.

In 2020, Steppe Gold completed 55 diamond drill holes for a total of over 18,186 metres. At the ATO-1, ATO-2 and ATO-4 deposits it drilled 22 holes for a total 6336 metres and 33 diamond drillholes for a total 11,850 metres at Mungu discovery.

The updated mineral resource estimate includes drill data as of December 2020. It includes 55 drill holes for a total of 18,200m drilled in 2020. A total of 53,000m has been drilled since 2018. The drilling information was used to update the interpretation of the geologic model, geometry of the mineralized zones and domains resulting in a higher degree of confidence in the resource estimate.

### Uudam Khundii Property

The Uudam Khundii Gold Project is comprised of one exploration license covering 14,400 hectares in Bayankhongor province, Mongolia. The land package represents one of the largest exploration licenses in the Bayankhongor Gold Belt. The license is in a highly prospective location between and adjoining the Bayan Khundii gold deposit and Altan Nar gold deposit owned by Erdene Resource Development Corporation (ERD – TSX). The Company has already commenced initial exploration activity on four previously identified gold discoveries including 19 trenches with 1659.3m<sup>3</sup> and 557 channel samples. Trenching results should be available in the coming months and this will be followed by a drilling program.

## Outlook

The Company has continued to mine and stack throughout the winter months at planned rates. It now has approximately 1.25mt of ore stacked on the leach pad. The Company paused leaching and gold production in the first quarter of 2021 as cold weather made leaching conditions less favourable. This cold weather disruption will be remedied for the 2021/22 winter season with the installation of a boiler plant to heat process water nearing completion. The Company also wanted to conserve key chemicals and reagents for the upcoming warmer months given the COVID 19-related supply constraints. The Company plans to resume leaching and production in April 2021.

It is targeting annual production in 2021 and 2022 of between 50,000 to 60,000 oz and then a transition to the fresh rock ores in 2023. Production forecasts for 2021 are dependent on a restart of leaching in April 2021 and no further delays on procurement due to COVID 19.

The Company is now stacking ore on cell 3 of the leach pad. Stacking of the first level of the leach pad (Cells 1-5) will continue through 2021. Completion of the boiler house, used to warm the barren solution, is planned for Summer 2021.

In March 2021, the Company purchased a new Crusher through a loan from Capitron Bank. The new crusher will have a crushing capacity of 1,000t/hr, more than three times the current crusher, and it will fully support planned mining rates for the fresh rock phase where we have estimated throughput rates of 2-2.5m t.p.a. Construction of foundations and installation of the new crusher will start in early April and it is scheduled to be operational by July 2021.

In conjunction with the start of procurement of long lead items the Company continues discussions with Mongolian and international lenders on a multi-tranche project debt facility to finance the Phase 2 expansion, expected to include a grinding circuit, a leach/CIP plant, and a flotation circuit. Metallurgical testing is progressing well with encouraging results and the bankable feasibility study is on track for completion in summer 2021.

DRA Global has been retained for the Bankable Feasibility Study (“BFS”) and Base Metallurgical Laboratories has been retained to complete related metallurgical test work. The BFS is based on the updated resource announced in late February. A full 43-101 report will be filed shortly.

An upgraded power solution will be required for the fresh rock phase and a power study was completed in December 2020 with recommendations now being reviewed. The plan is to use a diesel genset solution initially for the fresh rock expansion as the Company executes on grid-based power options.

# CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and December 31, 2019



## STEPPE GOLD LTD. Consolidated Statements of Financial Position

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

	Notes	December 31, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		15,089	671
Short term investments		5,033	-
Receivables and other assets	3	3,372	1,148
Inventories	4	9,904	8,356
<b>Total current assets</b>		<b>33,398</b>	<b>10,175</b>
<b>Long-term assets</b>			
Restricted cash	12	12,483	-
Uudam Khundii Project	5	1,907	1,992
Property, plant and equipment	6	37,828	41,276
Deferred tax	26	398	-
<b>Total long-term assets</b>		<b>52,616</b>	<b>43,268</b>
<b>Total assets</b>		<b>86,014</b>	<b>53,443</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Amounts payable and other liabilities	7	3,910	5,695
Current portion of streaming arrangement	9	6,689	10,396
Current portion of lease liability	10	242	399
Purchase price payable	5	-	350
Convertible debentures – derivative	11	5,808	5,508
Current portion of long term loan	12	3,558	-
<b>Total current liabilities</b>		<b>20,207</b>	<b>22,348</b>
<b>Long-term liabilities</b>			
Long term portion of streaming arrangement	9	14,082	15,390
Asset retirement obligation	8	1,060	271
Lease liability	10	48	177
Convertible debentures – loan liability	11	2,237	4,186
Long term loan	12	7,052	-
<b>Total long-term liabilities</b>		<b>24,479</b>	<b>20,024</b>
<b>Total liabilities</b>		<b>44,686</b>	<b>42,372</b>
<b>Shareholders' equity</b>			
Share capital	13	54,081	22,539
Shares to be issued	13	946	-
Warrants	14	11,165	13,655
Contributed surplus		10,063	3,780
Non-controlling interest		(199)	(112)
Accumulated other comprehensive loss		(7,344)	(5,372)
Deficit		(27,384)	(23,419)
<b>Total shareholders' equity</b>		<b>41,328</b>	<b>11,071</b>
<b>Total liabilities and shareholders' equity</b>		<b>86,014</b>	<b>53,443</b>

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

**Nature of operations (Note 1)**

**Contingencies (Note 27)**

**Approved on behalf of the Board:**

(Signed) "Matthew Wood" \_\_\_\_\_, Director

(Signed) "Batjargal Zamba" \_\_\_\_\_, Director



**STEPPE GOLD LTD.****Consolidated Statements of Loss and Comprehensive loss**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

	Notes	December 31, 2020	December 31, 2019
<b>Revenue</b>	<b>16</b>	<b>52,097</b>	<b>-</b>
Cost of sales			
Production cost	<b>17</b>	(15,677)	-
Depletion and depreciation		(4,100)	-
Royalties		(3,869)	-
Profit from mine operations		<b>28,451</b>	<b>-</b>
Exploration and evaluation expenditures	<b>15</b>	(2,786)	(125)
Corporate administration	<b>18</b>	(9,167)	(4,475)
Operating profit/(loss)		<b>16,498</b>	<b>(4,600)</b>
Finance (costs)/income	<b>20</b>	(21,106)	(1,846)
Foreign exchange gain		156	1,213
<b>Net loss before tax</b>		<b>(4,452)</b>	<b>(5,233)</b>
<b>Income tax</b>	<b>26</b>	400	-
<b>Net loss after tax</b>		<b>(4,052)</b>	<b>(5,233)</b>
Cumulative translation adjustment		(1,972)	(2,262)
<b>Net loss and comprehensive loss</b>		<b>(6,024)</b>	<b>(7,495)</b>
Net loss attributable to shareholders of the Company		(3,965)	(5,209)
Net loss attributable to non-controlling interest		(87)	(24)
		<b>(4,052)</b>	<b>(5,233)</b>
Net loss and comprehensive loss attributable to shareholders of the Company		(5,937)	(7,471)
Net loss and comprehensive loss attributable to non-controlling interest		(87)	(24)
		<b>(6,024)</b>	<b>(7,495)</b>
<b>Basic and diluted net loss and comprehensive loss per common share</b>		<b>(0.071)</b>	<b>(0.125)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>21</b>	56,011,148	41,844,102

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

**STEPPE GOLD LTD.****Consolidated Statements of Cash Flows**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

	Notes	December 31, 2020	December 31, 2019
<b>Operating activities</b>			
Net loss for the year		(4,052)	(5,233)
<b>Adjustments for non-cash items:</b>			
Change in the fair value of derivative	<b>11</b>	17,953	873
Gain on modification of straming arrangement		-	(304)
Accretion and financing costs		3,153	1,020
Depreciation	<b>6</b>	4,100	170
Stock based compensation	<b>19</b>	1,015	505
Unrealized foreign exchange loss/ (gain)		(302)	(1,223)
Drawdown of gold and silver stream	<b>9</b>	(6,165)	-
<b>Changes in working capital items:</b>			
Inventories		(208)	(5,758)
Receivables and other assets		(1,768)	(125)
Amounts payable and other liabilities		(1,912)	4,448
Deferred tax	<b>26</b>	(401)	-
<b>Net cash generated by / (used in) operations</b>		<b>11,413</b>	<b>(5,627)</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(2,174)	(8,144)
Short term investment		(5,033)	-
<b>Net cash used in investing activities</b>		<b>(7,207)</b>	<b>(8,144)</b>
<b>Financing activities</b>			
Proceeds from the issuance of convertible debentures	<b>11</b>	3,000	7,840
Proceed from long term loan	<b>12</b>	10,510	-
Interest paid on convertible debentures	<b>11</b>	(618)	(374)
Interest paid on long term loan TDB	<b>12</b>	(292)	-
Convertible debenture issuance costs	<b>11</b>	(180)	(222)
Proceeds from equity financing	<b>13</b>	11,103	1,447
Proceeds from stream financing	<b>9</b>	-	5,000
Payment of purchase price payable	<b>5</b>	(350)	(150)
Repayment of Promissory note		-	(5,000)
Lease obligation payments	<b>10</b>	(415)	-
Restricted cash		(12,483)	(917)
<b>Net cash generated from financing activities</b>		<b>10,275</b>	<b>7,624</b>
Effect of exchange rate changes on cash held in foreign currency		(63)	(197)
<b>Net increase/(decrease) in cash and restricted cash</b>		<b>14,418</b>	<b>(6,344)</b>
Cash at the beginning of the year		671	7,015
<b>Cash at the end of the year</b>		<b>15,089</b>	<b>671</b>

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

**STEPPE GOLD LTD.****Consolidated Statements of Changes in Shareholders' Equity****For the years ended December 31, 2020 and December 31, 2019**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

(Audited)

	Notes	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Non-controlling interest Corundum	Accumulated other comprehensive loss	Deficit	Total equity
			\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2018</b>		41,540,895	20,421	647	3,296	13,655	(88)	(3,110)	(18,210)	16,611
Shares issued from exercise of RSUs		35,294	23	-	-	-	-	-	-	23
Uudam Khundii shares issued		1,400,000	647	(647)	-	-	-	-	-	-
Equity financing		2,222,222	1,448	-	-	-	-	-	-	1,448
Stock based compensation		-	-	-	484	-	-	-	-	484
Comprehensive loss for the year		-	-	-	-	-	(24)	(2,262)	(5,209)	(7,495)
<b>Balance as at December 31, 2019</b>		<b>45,198,411</b>	<b>22,539</b>	<b>-</b>	<b>3,780</b>	<b>13,655</b>	<b>(112)</b>	<b>(5,372)</b>	<b>(23,419)</b>	<b>11,071</b>
<b>Balance as at December 31, 2019</b>		<b>45,198,411</b>	<b>22,539</b>	<b>-</b>	<b>3,780</b>	<b>13,655</b>	<b>(112)</b>	<b>(5,372)</b>	<b>(23,419)</b>	<b>11,071</b>
Shares issued from exercise of RSUs	13	198,419	340	-	(317)	-	-	-	-	23
Equity financing	13	7,371,944	8,231	-	-	2,872	-	-	-	11,103
Convertible debt converted into shares	13	15,653,833	22,971	-	-	-	-	-	-	22,971
Convertible debt shares to be issued	13	-	-	946	-	-	-	-	-	946
Stock based compensation	19	-	-	-	1,238	-	-	-	-	1,238
Comprehensive loss for the year		-	-	-	-	-	(87)	(1,972)	(3,965)	(6,024)
Expiry of warrants	14	-	-	-	5,362	(5,362)	-	-	-	-
<b>Balance as at December 31, 2020</b>		<b>68,422,607</b>	<b>54,081</b>	<b>946</b>	<b>10,063</b>	<b>11,165</b>	<b>(199)</b>	<b>(7,344)</b>	<b>(27,384)</b>	<b>41,328</b>

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

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 1. Nature of operations

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 precious metal projects in Mongolia.

On September 15, 2017, the Company completed the acquisition of the Altan Tsagaan Ovoo Property (the "ATO Project" or "ATO Mine"), 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 transaction has been accounted for as an asset acquisition.

In the second quarter of 2020 the Company achieved commercial production at the ATO Mine.

These consolidated financial statements have been prepared assuming the Company will continue on a going concern basis.

The COVID-19 pandemic has not resulted in any material impact to the Company's operations during the financial year. However, the Company has experienced ongoing minor adverse impacts to operations and the supply chain. Preventative measures are in place to ensure the well-being of employees and contractors and no risks were noted at the end of the reporting period. Management continues to monitor the situation at the site and corporate office to identify any issues that may affect operational or financial reporting activities.

#### *Commercial Production*

During the second quarter ended June 30, 2020 the Company determined commercial production was achieved for the ATO Mine. As a result, comparative figures for the year ended December 31, 2019 shown in the consolidated statements of loss and comprehensive loss have been adjusted to align with the revised presentation. Prior to the commencement of commercial production, production costs were capitalized within construction in progress.

#### 2. Significant accounting policies

##### *Accounting policies*

##### 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"). These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 29, 2020.

##### 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 critical accounting estimate and judgments note below.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 2. Significant accounting policies (continued)

##### 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.

##### 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, 2020, the functional currency was determined to be the Mongolian Tughrig for its Mongolian wholly-owned subsidiaries and to be the Canadian dollar ("CAD") for Steppe Gold Limited and Steppe BVI.

The consolidated financial statements for all periods presented 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 have been translated into USD using period end exchange rates of 1.2732 (December 31, 2020) and 1.2988 (December 31, 2019);
- Consolidated statements of loss and comprehensive loss have been translated using average foreign exchange rates prevailing during the reporting periods of 1.3412 (January 1, 2020 to December 31, 2020) and 1.3269 (January 1, 2019 to December 31, 2019);
- Shareholder's equity balances have been translated using historical foreign exchange rates in effect on the date that transactions occurred;
- Resulting exchange differences have been recorded within the accumulated other comprehensive loss accounts.

Accumulated other comprehensive losses as at December 31, 2020 and 2019 relate to cumulative translation adjustments which are not reclassified to net loss on the statement of loss and comprehensive loss.

##### Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL").



## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

## 2. Significant accounting policies (continued)

Below is a summary showing the classification and measurement bases of financial instruments:

<u>Classification</u>	<u>IFRS 9</u>
Cash	FVTPL
Short term investments	Amortized cost
Restricted cash	FVTPL
Amounts payable and other liabilities	Amortized cost
Convertible debentures – loan liability	Amortized cost
Convertible debentures – derivative	FVTPL
Purchase price payable	Amortized cost
Promissory notes	Amortized cost
Streaming arrangement	Amortized cost
Long term debt	Amortized cost

### *Financial assets*

Financial assets are classified as either financial assets at FVTPL, at amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

#### i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

#### 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 FVTPL: 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".

#### iii. Fair Value through other comprehensive income

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVTOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis.

### *Financial liabilities*

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

#### i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, 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.

#### ii. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

### *Transaction costs*

Transaction costs associated with financial instruments, carried at FVTPL, 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.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

## 2. Significant accounting policies (continued)

### *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 FVTOCI are measured at fair value with unrealized gains and 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 Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

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.

### Cash

Cash is comprised of cash on hand and deposits held with banks that are readily convertible into known amounts of cash. Cash deposits held as security for loans is disclosed as restricted cash and is measured at fair value.

### Inventory

Due to the commencement of commercial production the Company revised the accounting policy on inventory to include gold in circuit and finished gold.

Inventories include ore stockpiles, gold in circuit, finished goods (doré bars including gold and silver) and supplies inventory. Ore stockpiles, heap leach ore or finished goods inventory are valued at the lower of production costs or net realizable value based on estimated metal content.

The Company allocates direct and indirect production costs to gold on a systematic and rational basis. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and applicable depreciation and depletion of mineral properties, plant and equipment. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert inventories into saleable form and estimated costs to sell.

Gold in circuit inventory represents ore on the surface that has been extracted from the mine and is available for further processing. When ore is placed on the heap leach pad, an estimate of recoverable ounces is made based on tonnage, ore grade and estimated recoveries of ore that was placed on the heap leach pad. The estimated recoverable ounces on the heap leach pad are used to determine inventory cost. The estimated recoverable ounces carried on the heap leach pad are adjusted based on recoveries estimated in the feasibility study.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 2. Significant accounting policies (continued)

Finished goods inventory represents gold ounces located at the mine and bars still under assay at the Mongolian Agency for Standardization and Metrology ("MASM") and gold inventory extracted from silver bars. The Company concluded that silver inventory is the by product in addition to the primary product gold. Therefore, the finished goods inventory excludes the by product.

Materials and supplies inventories are valued at the lower of cost and net realizable value.

Replacement costs of materials and spare parts are generally used as the best estimate of net realizable value.

#### Property, plant and equipment

Property, plant and equipment include property and equipment, Altan Tsagaan Ovoo property, equipment under construction and right of use assets.

Mining properties:

Producing mining interests are carried at cost less accumulated depletion and depreciation and accumulated impairment losses. Depreciation is based on units of production. 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

Property, plant and equipment under construction:

Property, plant and equipment under construction include Heap Leach under construction which is depreciated using units of production basis when it is ready to use and completed.

Property, plant and equipment 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 consolidated statement of loss and comprehensive loss.

Management reviews the estimated useful lives, residual values and depreciation and depletion methods of the Company's plant and equipment at the end of each reporting period, 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.

Stripping and other costs incurred in a pit expansion are capitalized and amortized using the units of production method from estimated proven and probable reserves contained in the pit expansion.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 2. Significant accounting policies (continued)

Derecognition:

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

#### Revenue recognition

Revenue is generated from the sale of gold and silver. The Company produces dore bars which contain gold and silver. The dore bars are analysed by the MASM which determines the gold and silver content to be sold to the customer, usually a commercial bank in Mongolia. There are no export sales. The performance obligation for revenue is recognized when control over the metal is transferred to the customer. Control is achieved when the gold or silver bars are delivered to the customer's gold vault. Revenue is presented, where applicable, after taking account of settlement of the streaming arrangement with Triple Flag International (note 9).

#### Exploration and evaluation and pre-development expenditure

Exploration and evaluation expenditures related to the acquisition of rights to explore and develop resource projects are capitalized. Mineral rights for exploration and evaluation are carried at cost less any accumulated impairment losses.

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.

#### 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 statements of loss and comprehensive loss in the period in which they are incurred.

#### 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.

#### Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The treasury stock method is used to arrive at the diluted loss per share, which is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, options and restricted share units outstanding that may add to the total number of common shares.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

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## 2. Significant accounting policies (continued)

### *Critical accounting estimates*

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.

### Warrant and stock option valuation

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. The model values the warrants and stock options by inputting the share price, exercise price, expected life, volatility rate, dividend rate and discount rate into a mathematical model.

### Restricted share units valuation

The fair value of the restricted share units ("RSUs") 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. RSUs that have cash redeemable option is accounted under RSU liability and the RSUs that has only share redeemable condition is recorded under contributed surplus.

### Recoverable reserves

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining interests. 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, asset retirement obligations, inventories and depreciation expense.

### Depreciation and depletion

Mining interests 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. Certain property, plant and equipment (noted above) and property, plant and equipment under construction are depreciated using the unit-of-production method. The calculation of the units of production rate, and therefore the annual depletion and depreciation 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 depreciation 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 and evaluation property to a development property and on a regular basis to determine whether any write-downs are necessary.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

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## 2. Significant accounting policies (continued)

Property, plant and equipment is reviewed at each reporting period to determine whether any write-downs are necessary. The recovery of amounts recorded for mining interests and property, plant and equipment under construction 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).

### Asset retirement obligation

The Company assesses its provision for environmental rehabilitation at each reporting period 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.

### Convertible debentures - derivative

The derivative liability is revalued at each reporting period using the Black Scholes model which utilizes management estimates for inputs as at the closing date of the reporting period. Any changes to the fair value measurement are recorded through the consolidated statements of loss and comprehensive loss.

### Deferred taxes

The Company operates in a number of tax jurisdictions and is therefore required to estimate its income taxes in each of these tax jurisdictions in preparing its consolidated financial statements. In calculating the income taxes, the Company considers factors such as tax rates in the different jurisdictions, non-deductible expenses, changes in tax law and management's expectations of future results. The Company estimates deferred income taxes based on temporary differences between the income and losses reported in its financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effects of these temporary differences are recorded as deferred tax assets or liabilities in the financial statements. The Company does not recognize deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates, adjustments are made in subsequent periods.

### *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.



## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 2. Significant accounting policies (continued)

##### Functional currency

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

##### Commercial production

The determination of when a mine is in the condition necessary for it to be capable of operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgment which impacts when the Company recognizes revenue, operating costs and depreciation and depletion. In making this determination, management considers specific facts and circumstances. These factors include, but are not limited to, whether the major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed, completion of a reasonable period of commissioning and consistent operating results being achieved at pre-determined levels of design capacity for a reasonable period of time.

##### Leases

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for leases of low value assets and leases with a duration of year ended or less. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term. The determination of the incremental borrowing rate utilized on commencement of the lease to present value the contractual payments requires significant judgment in its determination.

#### 3. Receivables and other assets

	December 31, 2020	December 31, 2019
	\$	\$
Prepaid expenses	2,682	999
Trade receivables	99	-
Interest receivable	442	-
Other receivables	149	149
<b>Total receivables and other assets</b>	<b>3,372</b>	<b>1,148</b>

#### 4. Inventories

	December 31, 2020	December 31, 2019
	\$	\$
Stockpiles of ore	4,340	8,178
Gold in circuit	3,507	-
Finished goods	1,025	-
Consumables and supplies	1,032	178
<b>Total inventories</b>	<b>9,904</b>	<b>8,356</b>

Finished goods inventory represents gold ounces located at the mine and bars still under assay at the MASM and gold inventory extracted from silver bars. The Company concluded that silver inventory is the by product in addition to the primary product gold. Therefore, the finished goods inventory excludes the by product.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 5. 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 to acquire 80% of Corundum for cash consideration of \$1,100 and share consideration of 1,400,000. The acquisition was accounted as an asset acquisition.

On May 14, 2020, the Company settled in cash the remaining \$350 payable in relation to the Uudam Khundii project acquisition.

Uudam Khundii asset:

	\$
<b>Balance at December 31, 2018</b>	<b>2,045</b>
Foreign exchange adjustment	(53)
<b>Balance at December 31, 2019</b>	<b>1,992</b>
Foreign exchange adjustment	(85)
<b>Balance at December 31, 2020</b>	<b>1,907</b>

The accumulated other comprehensive loss related to foreign exchange for the year ended December 31, 2020 totaled \$85 (year ended December 31, 2019: \$53).

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 6. Property, plant and equipment under construction

	Property and Equipment	Altan Tsagaan Ovoo Property	Equipment under construction	Right-of- use asset	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
<b>Balance at January 1, 2019</b>	<b>6,628</b>	<b>20,938</b>	<b>4,670</b>	-	<b>32,236</b>
Transfer from property and equipment	(488)	-	-	488	-
Additions	2,394	2,564	3,610	895	9,463
Transfer of equipment completed	1,017	-	(1,017)	-	-
Accretion costs	-	1,869	-	-	1,869
Asset retirement costs	-	30	-	-	30
Foreign exchange	(104)	(517)	(161)	(13)	(795)
<b>Balance at December 31, 2019</b>	<b>9,447</b>	<b>24,884</b>	<b>7,102</b>	<b>1,370</b>	<b>42,803</b>
Additions	650	289	1,235	88	2,262
Transfer of equipment completed	6,848	-	(6,848)	-	-
Transfer of right of use assets	31	-	-	(31)	-
Accretion costs	-	335	-	-	335
Asset retirement costs	-	500	-	-	500
Foreign exchange	(413)	(806)	(262)	(33)	(1,514)
<b>Balance at December 31, 2020</b>	<b>16,563</b>	<b>25,202</b>	<b>1,227</b>	<b>1,394</b>	<b>44,386</b>
<b>Accumulated depreciation</b>					
<b>Balance at January 1, 2019</b>	<b>91</b>	<b>66</b>	-	-	<b>157</b>
Transfer from PPE	(1)	-	-	1	-
Additions	752	477	-	150	1,379
Foreign exchange	(7)	(2)	-	-	(9)
<b>Balance at December 31, 2019</b>	<b>835</b>	<b>541</b>	-	<b>151</b>	<b>1,527</b>
Additions	2,442	2,421	-	222	5,085
Transfer of right of use assets	2	-	-	(2)	-
Foreign exchange	(52)	(10)	-	8	(54)
<b>Balance at December 31, 2020</b>	<b>3,227</b>	<b>2,952</b>	-	<b>379</b>	<b>6,558</b>
<b>Net book value</b>					
<b>Balance at December 31, 2019</b>	<b>8,612</b>	<b>24,343</b>	<b>7,102</b>	<b>1,219</b>	<b>41,276</b>
<b>Balance at December 31, 2020</b>	<b>13,336</b>	<b>22,250</b>	<b>1,227</b>	<b>1,015</b>	<b>37,828</b>

Equipment under construction includes plant and equipment which is not available for use and therefore is not depreciated. During the year ended December 31, 2020, \$4,100 (year ended December 31, 2019: \$170) of depreciation was expensed to consolidated statements of loss and comprehensive loss and \$985 was capitalized to inventory.

Right-of-use assets comprise of the Canada office lease with lease term until July 31, 2021, generators with lease terms until November 12, 2021 and four light vehicles with one to four year lease terms.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 7. 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, 2020	December 31, 2019
	\$	\$
Amounts payable	3,371	3,685
Accrued liabilities	242	1,912
Other payables	297	98
<b>Total amounts payable and other liabilities</b>	<b>3,910</b>	<b>5,695</b>

#### 8. 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 Project. The undiscounted provision for environmental rehabilitation is estimated at \$2,282 as at December 31, 2020 (December 31, 2019: \$688), over a period of 10.25 years (December 31, 2019: 11 years), and discounted using a risk-free rate of 10.25% for the period (December 31, 2019: 14.5%).

A summary of the Company's asset retirement obligation as at December 31, 2020 and December 31, 2019 is presented below:

	December 31, 2020	December 31, 2019
	\$	\$
<b>Balance beginning of the year</b>	<b>271</b>	<b>321</b>
Movements	659	30
Accretion	76	40
Change in estimate of asset retirement obligation	71	(112)
Foreign exchange	(17)	(8)
<b>Balance end of the year</b>	<b>1,060</b>	<b>271</b>

#### 9. Streaming arrangement

In connection with the ATO Acquisition, the Company, Steppe Mongolia and Steppe BVI entered into a metals purchase and sale agreement (the "Stream Agreement") dated August 11, 2017 with Triple Flag International to sell gold and silver produced from the ATO Project. Under the terms of the Stream Agreement, Steppe BVI is obligated to sell to Triple Flag International 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. Thereafter the annual amounts that Steppe BVI is obligated to sell to Triple Flag International is capped at 5,500 ounces for gold (plus 250 ounces of gold for each three month period in 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 International 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. Triple Flag Bermuda has determined the Annual Cap Amounts upon the achievement of the Commercial Production Date as the Gold Cap Amount to be 7,125 ounces of Produced Gold annually and the Silver Cap Amount to be 59,315 of Produced Silver annually.

As additional consideration for entering into the Stream Agreement, the Company granted 2,300,000 purchase warrants to Triple Flag International, 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

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

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#### 9. Streaming arrangement (continued)

Unit is comprised of one common share and one common share purchase warrant, which entitles the holder to acquire one additional common share at CAD\$2.00 per on or before September 15, 2022.

On September 30, 2019, the Company entered into an agreement to amend the terms of its existing gold stream with Triple Flag International. Under the terms of the amendment, Triple Flag International advanced an additional deposit of \$5,000 to Steppe Gold, bringing the total amount advanced to Steppe Gold by Triple Flag International under the gold stream to \$28,000. The proceeds received from Triple Flag International were used to repay the final \$5,000 promissory note issued as part of the purchase price for the acquisition by the Company of the ATO Project.

As consideration for the additional advance of \$5,000 the parties agreed to reduce the variable gold and silver price payable by Triple Flag International on delivery of gold and silver from 30% to 17% of the relevant market price. As additional consideration, Steppe West granted a 3% net smelter returns royalty to a subsidiary of Triple Flag International on minerals derived from the Uudam Khundii property owned by Corundum.

As long as the upfront deposit of \$28,000 (the "Upfront Deposit") remains outstanding, the purchase price for the gold and silver required to be sold to Triple Flag International under the Stream Agreement is based on the product of 0.99 and spot prices as of delivery date. The purchase price is to be satisfied as to 83% against the uncredited balance of the Upfront Deposit and 17% is payable in cash by Triple Flag International. Once the uncredited balance of the Upfront Deposit has been reduced to nil the purchase price by Triple Flag International for the gold and silver shall be 17% of price determined with reference to the product of 0.99 and spot prices of the delivery date, 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.

During the year ended December 31, 2019, the Company determined that the amendment to the agreement was considered a modification to the liability and recorded a gain of \$304 to the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2020, accretion expenses totaling \$335 were capitalized to property, plant and equipment (year ended December 31, 2019: \$1,128) with the remaining \$815 recorded in the consolidated statement of loss and comprehensive loss (year ended December 30, 2019: \$nil) (Note 20).

The Stream Agreement is subject to various financial covenants in the form of ratios. These covenants include the indebtedness of the Company, excluding all amounts owing from time to time under the Company's promissory note on completion of the ATO Acquisition ("Centerra Deferred Purchase Price Amount") less any cash and liquid securities that is greater than the Centerra Deferred Purchase Price Amount ("Net Indebtedness") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The covenant is defined in the agreement as a leverage ratio, calculated as Net Indebtedness of the Company to EBITDA ("EBITDA Ratio") and a forward leverage ratio, calculated as Net Indebtedness to forecasted EBITDA ("Forecasted EBITDA Ratio"). Per the agreement, the EBITA Ratio cannot exceed 2.0 and its Forecasted EBITDA Ratio cannot exceed 2.0 until the date of the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver. 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 EBITDA Ratio does not exceed 2.5 and Forecasted EBITDA Ratio does not exceed 2.5. 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. The Company is compliant with the covenants as noted in the the stream arrangement.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

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(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 9. Streaming arrangement (continued)

The continuity of the streaming liability is presented as follows:

	December 31, 2020	December 31, 2019
	\$	\$
<b>Balance beginning of the year</b>	<b>25,786</b>	<b>20,112</b>
Funding received	-	5,000
Transactional cost	-	(150)
Gain on modification of debt	-	(304)
Accretion	1,150	1,128
Drawdown of gold and silver stream	(6,165)	-
<b>Balance end of the year</b>	<b>20,771</b>	<b>25,786</b>
<b>Current portion</b>	<b>6,689</b>	<b>10,396</b>
<b>Long term portion</b>	<b>14,082</b>	<b>15,390</b>

#### 10. Leases

The Company has leases in place for its office, generators and light motor vehicles. Each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment under construction (Note 6).

The lease term for the office is three years expiring in 2021 while the lease term for the light vehicles and the generators range from one to four years. The leases have fixed payment terms.

The continuity of lease liability is presented as follows:

	December 31, 2020	December 31, 2019
<b>Balance beginning of the year</b>	<b>576</b>	<b>-</b>
Adoption of IFRS16	-	871
Additions	88	498
Interest expense	60	117
Lease payments	(415)	(917)
Foreign exchange	(19)	7
<b>Balance end of the year</b>	<b>290</b>	<b>576</b>
<b>Current portion</b>	<b>242</b>	<b>399</b>
<b>Long term portion</b>	<b>48</b>	<b>177</b>

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2020 is as follows:

	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	Total
	\$	\$	\$	\$	\$
<b>December 31, 2020</b>					
Lease payments	(233)	(46)	(31)	(13)	<b>(323)</b>



## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 11. Convertible Debentures

##### (i) Private placement of convertible debentures

On July 2, 2019, the Company closed its previously announced private placement issuing \$5.4 million principal amount of two-year unsecured convertible debentures.

On August 27, 2019, the Company closed the second and final tranche of its previously announced private placement issuing \$3.04 million principal amount of two-year unsecured convertible debentures bringing the aggregate principal value of debentures issued under the offering to \$8.44 million. \$600 of the proceeds from the debentures was allocated from unsettled accounts payable.

Both tranches collectively known as the "Debentures" bear interest from the date of closing at 10% per annum, calculated and payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2019 and will mature on July 2, 2021 and on August 27, 2021 respectively.

The Debentures are unsecured obligations of the Company and rank pari passu in right of payment of principal and interest.

The Debentures are convertible at the option of the holder into common shares of the Company at any time prior to the close of business on the maturity date at a conversion price of \$0.52 per common share. The Company has the right to accelerate the conversion of the Debentures 2019 in the event the closing price of the common shares on the Toronto Stock Exchange exceeds CAD\$2.00 for any period of 30 consecutive trading days.

The conversion feature of the Debentures meets the definition of a derivative liability instrument as the conversion feature is denominated in a currency other than the Company's functional currency, and as such does not meet the fixed for fixed criteria.

The fair values of the conversion feature of the Debentures was valued on their closing date and was estimated based on the Black Scholes pricing model using a risk free interest rate of 1.48% (first tranche), 1.34% (second tranche) based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rates of 78% (first tranche) 83% (second tranche) based on comparable companies, and an expected life of 2 years.

Convertible debentures loan liability component has been subsequently measured at amortized cost using effective interest method. Effective interest rate of the loan liability (tranche 1 - 48% and tranche 2 - 93%) are based on the present value (principal, less conversion feature and issuance costs), future value and term.

During the year ended December 31, 2019, the Company incurred transaction costs of \$477 of which \$255 was expensed in the consolidated statement of loss and comprehensive loss and \$222 was capitalized to the convertible debentures - loan liability component in relation to Debentures. These costs included 6% finders' fees of \$467 and legal expenses of \$10.

As at December 31, 2019, the fair value of convertible debentures - derivative component was estimated based on the Black Scholes pricing model using a risk free interest rate of 1.69% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 83% based on comparable companies, and an expected life of 1.5 years (first tranche) and 1.69 years (second tranche).

During the year ended December 31, 2020, all convertible debentures noted above were converted into 15,653,833 common shares and shares to be issued. The loan liability portion of the convertible debentures was transferred to share capital and shares to be issued and totaled \$5,187. The fair value of the derivative component of \$18,730 was transferred to share capital to be issued and valued based on the Black Scholes pricing model using a risk free interest rate of 0.25% - 0.29% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, a volatility rate of 65.95% - 90.85% based on the Company's historical share price and a remaining expected life of 0.91 - 1.23. (Note 13).

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 11. Convertible Debentures (continued)

##### (ii) Mongolian National Investment Fund Debentures ("MNIF Debentures")

On January 30, 2020, the Company received funding from the Mongolian National Investment Fund PIF SPV (the "Fund"). The Fund has subscribed for a 12% two-year secured convertible debenture of the Company in the principal amount of \$3 million. The debt is secured against all of the shares of Steppe West owned by the Company.

The MNIF Debentures will bear interest from the date of closing at 12% per annum, calculated and payable semi-annually in arrears on July 30 and January 30 in each year, commencing on July 30, 2020 and will mature on January 30, 2022.

The MNIF Debentures are secured obligations of the Company and rank pari passu in right of payment of principal and interest.

The MNIF Debentures will be convertible at the option of the holder into common shares of the Company at any time 4 months after the closing date and prior to the close of business on the maturity date at a conversion price of US\$0.68 per common share.

The conversion feature of the MNIF Debentures meets the definition of a derivative liability instrument as the conversion feature is denominated in a currency other than the Company's functional currency, and as such does not meet the fixed for fixed criteria.

The fair value of the conversion feature of the MNIF Debentures was estimated based on the Black Scholes pricing model using a risk free interest rate of 1.47% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rates of 77% based on comparable companies, and an expected life of 2 years.

The convertible debentures loan liability component has been subsequently measured at amortized cost using the effective interest method. The effective interest rate of the loan liability (42%) is based on the present value (principal, less conversion feature and issuance costs), future value and term.

During the year ended December 31, 2020, the Company has incurred transaction costs (finders fees of 6%) of \$180 of which \$65 was expensed in the consolidated statement of loss and comprehensive loss for the year and \$115 was capitalized to the convertible debentures - loan liability component in relation to MNIF Debenture.

As at December 31, 2020, the fair value of convertible debentures - derivative component was estimated based on the Black Scholes pricing model using a risk free interest rate of 0.20% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 68.69% based on the Company's historical share price, and an expected life of 1.08 years.

The following table discloses the components associated with the convertible debenture transactions at initial recognition:

	\$
<b>December 31, 2019</b>	
Proceeds from private placement of Debentures	8,440
Less derivative component	(4,635)
<b>Loan liability component</b>	<b>3,805</b>
<b>December 31, 2020</b>	
Proceeds from issue of MNIF Debentures	3,000
Less derivative component	(1,077)
<b>Loan liability component</b>	<b>1,923</b>

## STEPPE GOLD LTD.

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For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 11. Convertible Debentures (continued)

The changes in the convertible debenture loan liability are as follows:

	\$
Value at initial recognition	3,805
Issuance costs	(222)
Accretion	977
Interest (i)	(374)
<b>Balance at December 31, 2019</b>	<b>4,186</b>
Initial recognition - MNIF Debentures	1,923
Issuance costs	(115)
Accretion	2,198
Interest (i)	(768)
Converted to common shares (ii)	(5,187)
<b>Balance at December 31, 2020</b>	<b>2,237</b>

<sup>(i)</sup> \$618 of interest paid (December 31, 2019: \$374) and \$150 of accrued interest as at December 31, 2020

(December 31, 2019: \$nil). Accrued interest payable is included in amounts payable and other liabilities (note 7)

<sup>(ii)</sup> Convertible debentures of \$8,140 were converted to common shares at \$0.52 per share. Remaining \$300 convertible debentures are recorded as shares to be issued as at December 31, 2020.

The changes in the convertible debenture - derivative related to the conversion feature are as follows:

	\$
Value at initial recognition	4,635
Change in fair value of derivative liability	873
<b>Balance at December 31, 2019</b>	<b>5,508</b>
Initial recognition - MNIF Debentures	1,077
Change in fair value of derivative liability	17,953
Converted to common shares (ii)	(18,730)
<b>Balance at December 31, 2020</b>	<b>5,808</b>

<sup>(ii)</sup> Convertible debentures of \$8,140 were converted to common shares at \$0.52 per share. Remaining \$300 convertible debentures are recorded as shares to be issued as at December 31, 2020.

#### 12. Long Term Loan

On September 18, 2020, the Company entered into a loan agreement with the Trade and Development Bank of Mongolia ("TDB") for 30 billion Mongolian Tugriks (US\$10,510). The loan is financed by the Bank of Mongolia for a period of 24 months secured by a cash deposit held by TDB totaling 35.4 billion Mongolian Tugriks (US\$12,483 as at December 31, 2020). The cash deposit is disclosed as restricted cash. Under the terms of the loan, the Company is required to maintain a 50% deposit of total budgeted environmental activities as security to fulfil its obligations of environment protection. The purpose of the loan is to provide financing for further expansion at the ATO project. The outstanding principal balance on the loan is subject to interest at a rate of 11% per annum, payable monthly. Repayment of the principal balance on the loan is required to be made in three equal tranches on September 18, 2021, March 18, 2022 and September 18, 2022.

	December 31, 2020
	\$
<b>Balance beginning of the year</b>	<b>-</b>
Loan advanced	10,510
Interest	324
Repayment	(292)
Foreign exchange	68
<b>Balance end of the year</b>	<b>10,610</b>
<b>Current portion</b>	<b>3,558</b>
<b>Long term portion</b>	<b>7,052</b>

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

During the December 31, 2020 fiscal year, the Company recognized interest costs in the statement of loss and comprehensive loss totaling \$324 in connection with the long term loan, of which \$292 was paid as of year end.

#### 13. Share Capital

a) Authorized share capital – the authorized share capital consists 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:

	Number of common shares	\$
<b>Balance at December 31, 2018</b>	<b>41,540,895</b>	<b>20,421</b>
Equity financing (i)	2,222,222	1,448
Uudam Khundii shares issued (ii)	1,400,000	647
Exercise of restricted share units (iii)	35,294	23
<b>Balance at December 31, 2019</b>	<b>45,198,411</b>	<b>22,539</b>
Equity financing (iv) (v)	7,371,944	8,231
Exercise of restricted share units (vi)	198,419	340
Convertible debentures converted into shares (vii)	15,653,833	22,971
<b>Balance at December 31, 2020</b>	<b>68,422,607</b>	<b>54,081</b>

(i) On December 23, 2019, the Company issued 2,222,222 common shares for CAD\$2,000 and incurred share issue costs of CAD\$120.

(ii) On November 5, 2019, the Company issued 1,400,000 shares as part of the Uudam Khundii project acquisition (Note 5).

(iii) The Company issued 35,294 common shares related to restricted share units ("RSUs") exercised on February 27, 2019. The fair value of the RSUs exercised was \$23 and was transferred from amounts payable and other liabilities to share capital on exercise.

(iv) On January 27, 2020, and August 17, 2020 the Company issued 390,000 and 5,000 common shares respectively for CAD\$351 and incurred share issue costs of CAD\$21.

(v) On August 5, 2020, the Company issued 6,976,944 units at a price of CAD\$2.15 per unit for gross proceeds of CAD\$15,000. Each unit is comprised of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of CAD\$3.00 per share for a period of 24 months from the closing date. The Company incurred finders fees of CAD\$600 and legal fee of CAD \$7 in relation to equity financing. Proceeds were allocated to common shares and warrants using the relative fair value method. The fair value of warrants was valued at \$2,872 and estimated based on the Black Scholes pricing model using a risk free interest rate of 0.27% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 66.63% based on the Company's historical share price and an expected life of 2 years.

(vi) During the year ended December 31, 2020, the Company issued 198,419 common shares in relation to RSUs granted to its executive officers and employees. The fair value of the RSUs exercised was \$340, of which \$317 was transferred from contributed surplus and \$23 was transferred from amounts payable and other liabilities to share capital on exercise.

(vii) During the year ended December 31, 2020, convertible debentures with a principal balance of \$8,140 and \$300 were converted into 15,653,833 common shares of the Company and 576,823 shares to be issued at a price of \$0.52 per share. On the date of conversion, the fair value of the derivative component and amortized cost of the loan liability on convertible debentures totaling \$22,971 were transferred to share capital and \$946 were transferred to shares to be issued. (Note 11)

**STEPPE GOLD LTD.****Notes to Consolidated Financial Statements****For the years ended December 31, 2020 and December 31, 2019**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

**14. Warrants**

	Number of warrants	Warrant (Equity) \$
<b>Balance at December 31, 2018</b>	<b>20,243,385</b>	<b>13,655</b>
<b>Balance at December 31, 2019</b>	<b>20,243,385</b>	<b>13,655</b>
Expired on May 22, 2020	(13,134,135)	(5,362)
Issued on August 5, 2020	6,976,944	2,872
<b>Balance at December 31, 2020</b>	<b>14,086,194</b>	<b>11,165</b>

The following table reflects the actual warrants issued, outstanding and exercisable as of December 31, 2020:

Expiry date	Exercise price (CAD\$)	Warrants outstanding	Fair Value (\$)
May 22, 2023	2.00	4,809,250	5,642
September 15, 2022	2.00	2,300,000	2,651
August 5, 2022	3.00	6,976,944	2,872
	2.50	<b>14,086,194</b>	<b>11,165</b>

**15. Exploration and evaluation expenditures**

For the year ended December 31, 2019

	ATO Project	Uudam Khundii Project	South Tsagaan Temeet Prospect	Bayan Munkh West and East Prospect	Total
	\$	\$	\$	\$	\$
General exploration	-	20	5	8	33
Drilling	-	-	9	74	83
Survey	-	9	-	-	9
<b>Total exploration and evaluation expenditures</b>	<b>-</b>	<b>29</b>	<b>14</b>	<b>82</b>	<b>125</b>

For the year ended December 31, 2020

	ATO project	Uudam Khundii Project	South Tsagaan Temeet Prospect	Bayan Munkh West and East Prospect	Total
	\$	\$	\$	\$	\$
General exploration	16	11	2	3	32
Assays	47	92	-	-	139
Drilling	2,575	-	-	-	2,575
Sampling	-	10	-	-	10
Survey	-	30	-	-	30
<b>Total exploration and evaluation expenditures</b>	<b>2,638</b>	<b>143</b>	<b>2</b>	<b>3</b>	<b>2,786</b>

**STEPPE GOLD LTD.****Notes to Consolidated Financial Statements****For the years ended December 31, 2020 and December 31, 2019**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

**16. Revenue**

Revenue by metal for the year ended December 31, 2020 and 2019 since commencement of commercial production in April 2020 was as follows:

	December 31, 2020	December 31, 2019
Gold revenue	51,885	-
Silver revenue	212	-
<b>Total</b>	<b>52,097</b>	<b>-</b>

**17. Production cost**

	December 31, 2020	December 31, 2019
Contractors	7,239	-
Employee compensation	1,733	-
Materials and consumables	5,370	-
Other expenses	1,335	-
<b>Total</b>	<b>15,677</b>	<b>-</b>

**18. Corporate administration**

	December 31, 2020	December 31, 2019
Management compensation	2,431	892
Stock based compensation	1,015	505
Corporate social responsibility	842	248
Direct general administrative	4,879	2,830
<b>Total</b>	<b>9,167</b>	<b>4,475</b>

**19. Stock based compensation:**

The following table reflects the continuity of options for the year ended December 31, 2020:

Expiry date	Exercise price (CAD\$)	Number of options	Options exercisable	Fair Value of Options \$
May 22, 2023	2.00	2,600,000	2,600,000	3,028
October 10, 2023	2.00	1,475,000	1,475,000	860
<b>Balance at December 31, 2020</b>		<b>4,075,000</b>	<b>4,075,000</b>	<b>3,888</b>

	Number of options	Exercisable price \$
Issued on May 22, 2018	2,600,000	2.00
Issued on October 10, 2018	1,555,000	2.00
<b>Balance at December 31, 2018</b>	<b>4,155,000</b>	<b>2.00</b>
<b>Balance at December 31, 2019</b>	<b>4,155,000</b>	<b>2.00</b>
Expired options	(80,000)	2.00
<b>Balance at December 31, 2020</b>	<b>4,075,000</b>	<b>2.00</b>



## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

#### For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 19. Stock based compensation (continued)

During the year ended December 31, 2019, two directors resigned from the Company. Related to the resignation, entitled options of 80,000 were accelerated during the year end December 31, 2019 and expired during the year ended December 31, 2020.

Stock based compensation of \$108 for the year end December 31, 2020 (year ended December 31, 2019: \$297) was expensed in the consolidated statement of loss and comprehensive loss. (Note 22)

The following table reflects the continuity of RSUs as at December 31, 2020:

	<b>Outstanding number of RSU</b>
<b>Balance at December 31, 2018</b>	<b>105,882</b>
Exercised (i)	(35,294)
<b>Balance at December 31, 2019</b>	<b>70,588</b>
Granted (iii)	1,957,500
Exercised (ii) (iv)	(198,419)
Forfeited (v)	(35,294)
<b>Balance at December 31, 2020</b>	<b>1,794,375</b>

(i) On February 27, 2019, 35,294 RSUs were exercised and \$23 was transferred from liability to equity (note 13).

As at year ended December 31, 2019, there were 70,588 RSUs outstanding and 35,294 RSUs exercisable.

(ii) On February 11, 2020, 35,294 RSUs were exercised and \$23 was transferred from liability to equity (note 13).

(iii) On August 21, 2020, the Company granted 1,957,500 RSUs to its executive officers and employees. In accordance with the plan, for participants that are not identified as Management, 657,500 RSUs shall vest in four equal instalments on July 31 2020, July 31 2021, July 31 2022 and July 31 2023 and each RSU is exercisable into one common share of the Company at no additional cost. For participants identified as Management, 1,300,000 RSUs shall vest in three equal instalments on July 31 2021, July 31 2022 and July 31 2023 and each RSU is exercisable into one common share of the Company at no additional cost.

(iv) On October 5, 2020, 163,125 RSUs were exercised and \$317 was transferred from contributed surplus to equity (Note 13).

(v) On October 26, 2020, according to the resignation of an employee, 35,294 RSUs were forfeited.

Vesting of RSUs of \$907 (2019:\$34) are included in corporate administration costs and \$196 (2019:\$nil) are included in production costs in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2020. As at December 31, 2020, there were 1,794,375 RSUs outstanding and nil RSUs exercisable.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

#### For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 20. Finance (income)/costs

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accretion on convertible debentures	2,198	977
Accretion on lease liability	60	117
Accretion on asset retirement obligation	76	40
Accretion on stream liability	815	-
Interest on long term loan	324	-
Interest on restricted cash	(456)	-
Cost of issue convertible debentures	65	255
Change in fair value of derivative liability	17,953	873
Changes in estimate of asset retirement obligation	71	(112)
Gain on modification of streaming arrangement	-	(304)
<b>Total</b>	<b>21,106</b>	<b>1,846</b>

#### 21. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on the net loss attributable to common shareholders of \$3,965 (year ended December 31, 2019 - loss of \$5,209) and the weighted average number of common shares outstanding of 56,011,148 (year ended December 31, 2019 – 41,844,102).

#### 22. Related party transactions

The Company's related parties include its subsidiaries and key management personnel.

During the year ended December 31, 2020 and 2019, management fees paid, or otherwise accrued, to key management personnel (defined as officers and directors of the Company) are shown below:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Management fees paid to key personnel	2,168	856
Stock based compensation	551	297
<b>Total</b>	<b>2,719</b>	<b>1,153</b>

As at December 31, 2020, key management personnel were owed \$9 (December 31, 2019: \$18).

During the year ended December 31, 2020, Erdenyn Erel, a company for which the Vice President of Exploration is the CEO provided services to the Company totaling \$2,478 (2019 - \$1,498). As at December 31, 2020, \$906 was owed to Erdenyn Erel (December 31, 2019 - \$1,498).

Bataa Tumur-Ochir, a director and officer of Steppe Gold Ltd. announced that on October 28, 2019, he purchased US\$2,500 of the 10% two-year unsecured Company Debentures from Chinggis Khaan Bank. On July 15, 2020, Bataa Tumur-Ochir converted his \$2,500 convertible debentures into 4,807,692 common shares at a price of \$0.52 per common share. During the year end December 31, 2020, interest paid to Bataa Tumur-Ochir totaled \$134 (December 31, 2019 - \$44)

During the year ended December 31, 2020, the Company entered into a non-binding term sheet with Aranjin Resources Limited ("Aranjin") to acquire a 50% interest in all gold contained in a prospective exploration license. As part of the agreement, the Company advanced a non-refundable initial deposit of \$50 to Aranjin. Bataa Tumur-Ochir, Matthew Wood and Jeremy South are directors of the board of Aranjin.

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

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#### 23. 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, short term investments, receivables and other assets and restricted cash. Cash and restricted cash are held with a Canadian chartered bank and a financial institution in Mongolia, from which management believes the risk of loss to be minimal. Short term investments are comprised of term deposits maturing over periods of less than twelve months that are held with a financial institution in Mongolia. Receivables and other assets are comprised of trade receivables, interest receivable and other receivables that are subject to credit risk. The Company manages credit risks on receivables and other assets by tendering all sales of gold and silver with commercial banks in Mongolia.

(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.

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, purchase price payable, lease liability, streaming arrangement, long term loan as well as the loan liability and derivative components of the convertible debentures.

The maturity analysis of financial liabilities as at December 31, 2020 is as follows:

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Accounts payable and other liabilities	3,910	-	-	-	3,910
Lease liability	242	36	12	-	290
Streaming arrangement	6,689	14,082	-	-	20,771
Convertible debentures – derivative	5,808	-	-	-	5,808
Convertible debentures – loan liability	-	2,237	-	-	2,237
Long term loan	3,558	7,052	-	-	10,610
<b>Total</b>	<b>20,207</b>	<b>23,407</b>	<b>12</b>	<b>-</b>	<b>43,626</b>

The maturity analysis of financial liabilities as at December 31, 2019 is as follows:

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Accounts payable and other liabilities	5,695	-	-	-	5,695
Lease liability	399	170	7	-	576
Purchase price payable	350	-	-	-	350
Streaming arrangement	10,396	11,465	3,925	-	25,786
Convertible debentures – loan liability	-	4,186	-	-	4,186
Convertible debentures – derivative	5,508	-	-	-	5,508
<b>Total</b>	<b>22,348</b>	<b>15,821</b>	<b>3,932</b>	<b>-</b>	<b>42,101</b>

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 23. 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 refers to the risk that the value of a financial instrument or cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Company's interest rate risk includes potential decreases on the interest rate offered on cash held with chartered Canadian and Mongolian financial institutions. The Company considers the interest rate risk on cash held with chartered Canadian and Mongolian financial institutions to be immaterial. There is no interest rate risk on the short term investments, restricted cash, convertible debentures and long term loan as the rates are fixed.

(b) Foreign currency risk

The Company has significant balances in US dollars that are subject to foreign currency risk. The Company is exposed to foreign currency risk on fluctuations related to cash, streaming arrangement, purchase price payable and convertible debentures that are denominated in US dollars. Sensitivity to a plus or minus 5% change in the foreign exchange rate of the US dollars compared to the Canadian dollar would affect net loss by \$782 (gain) and \$864 (loss) with all other variables held constant.

(iv) Commodity price risk

The profitability of the Company's operations and mineral resource properties relates primarily to the market price and outlook of gold and silver. Adverse changes in the price of certain raw materials can also significantly affect the Company's cash flows. Gold and silver prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial, residential and retail demand, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand due to speculative or hedging activities, macro-economic variables, geopolitical events and certain other factors related specifically to gold (including central bank reserves management). To the extent that the price of gold and silver increase over time, the fair value of the Company's mineral assets increases and cash flows will improve; conversely, declines in the price of gold will reduce the fair value of mineral assets and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value. To the extent there are adverse changes to the price of certain raw materials (e.g. diesel fuel), the Company's profitability and cash flows may be impacted. As the Company commenced its production, it is monitoring gold and silver prices to identify measures that may be required to mitigate commodity price risk. Diesel fuel purchases are currently at spot price and are not considered material enough to require hedging to mitigate the price risk.

#### 24. Capital risk management

The Company's objectives in managing its 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 defines capital as total debt less cash and equivalents and it is managed by management subject to approved policies and limits by the Board of Directors. The Company is not subject to any externally imposed capital requirements except for the covenants detailed in note 9 and note 12.

**STEPPE GOLD LTD.****Notes to Consolidated Financial Statements****For the years ended December 31, 2020 and December 31, 2019**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

**25. Fair value measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. The levels are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, quoted prices or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following tables set forth the Company's assets and liabilities measured at fair value on a recurring basis (at least annually) by level within the fair value hierarchy. As required by accounting guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<b>Fair value at December 31, 2020</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Cash	15,089	15,089	-	-
Restricted cash	12,483	12,483	-	-
	<b>27,572</b>	<b>27,572</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Convertible debenture derivative	5,808	-	5,808	-
	<b>5,808</b>	<b>-</b>	<b>5,808</b>	<b>-</b>
<b>Fair value at December 31, 2019</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Cash	671	671	-	-
	<b>671</b>	<b>671</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Convertible debenture derivative	5,508	-	5,508	-
	<b>5,508</b>	<b>-</b>	<b>5,508</b>	<b>-</b>

**STEPPE GOLD LTD.****Notes to Consolidated Financial Statements****For the years ended December 31, 2020 and December 31, 2019**

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

**25. Fair value measurements (continued)**

Embedded derivatives

The Company has issued convertible debentures which contain an embedded derivative component (Note 11). The following table is a sensitivity analysis of the impact on the consolidated statement of loss and comprehensive loss of an increase or a decrease in the assumptions that are used to value the derivative liability which is and classified as a level 2 in the fair value hierarchy:

<b>Input</b>	<b>Sensitivity rate</b>	<b>Impact of increase</b>	<b>Impact of Decrease</b>
		<b>\$</b>	<b>\$</b>
Stock price	10%	846	(862)
Exercise price	10%	(257)	265
Volatility rate	10%	49	(39)
Discount rate	10%	1	(1)

**26. Income tax**

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Net loss before income tax	(4,452)	(5,233)
Expected income tax (recovery) expense	(1,180)	(1,387)
Differences due to foreign tax rate	966	(212)
Tax effect of conversion of debt to shares	2,765	-
Tax rate changes and other adjustments	677	(50)
Non-deductible expenses	2,670	558
Income exempt from tax	(7,300)	-
Tax effect of convertible debenture	1,337	-
Change in tax benefits not recognized	(335)	1,091
<b>Total tax (recovery) expense</b>	<b>(400)</b>	<b>-</b>

The Company's income tax (recovery) is allocated as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Current tax (recovery) expense	1	-
Deferred tax (recovery) expense	(401)	-
	<b>(400)</b>	<b>-</b>



## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 26. Income tax (continued)

##### Deferred tax assets

The following table summarizes the components of deferred tax:

	December 31, 2020	December 31, 2019
	\$	\$
<b>Deferred tax assets</b>		
Non-capital losses - Canada	312	24
Non-capital losses - Mongolia	-	176
Unrealized foreign exchange on intercompany balances	211	-
<b>Deferred tax liabilities</b>		
Property, plant, and equipment	(116)	(176)
Right of use assets and liabilities	(9)	(3)
Unrealized foreign exchange	-	(21)
<b>Net deferred tax asset</b>	<b>398</b>	<b>-</b>

Deferred tax assets and liabilities have been offset where they relate to income tax levies by the same taxation authority and the Company has the legal right and intent to offset. The following table summarized the movement in net deferred tax assets:

	December 31, 2020	December 31, 2019
	\$	\$
<b>Balance beginning of year</b>	<b>-</b>	<b>-</b>
Recognized in profit/loss	401	-
Recognized in OCI	(3)	-
<b>Balance end of year</b>	<b>398</b>	<b>-</b>

As of December 31, 2020, the Company has recognized \$398 (2019 - \$nil) of deferred tax assets in excess of profits arising from its existing taxable temporary differences as it expects to utilize these deductible temporary differences against future taxable profits from revenues from its mining operations.

##### Unrecognized deferred tax assets

Deferred taxes are provided as a result of the temporary differences that arise due to the differences between the income tax valued 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, 2020	December 31, 2019
	\$	\$
Property, plant, and equipment	-	26
Convertible debentures	-	1,254
Share issuance costs	1,416	1,843
Non-capital losses carried forward - Canada	8,858	6,102
Non-capital losses carried forward - Mongolia	1,494	1,690
Unrealized FX	2,431	-

## STEPPE GOLD LTD.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)

#### 26. Income tax (continued)

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

Year	
2037	1,508
2038	412
2039	3,300
2040	3,638
	<b>8,858</b>

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

Year	
2026	360
2027	259
2028	875
	<b>1,494</b>

#### 27. Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with vendors. Management is of the position that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain and management's view of these matters may change in the future.

# 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, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows 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, 2020 and December 31, 2019, 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.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key Audit Matter Description

### Audit Response

Key Audit Matter Description	Audit Response
<p><b><i>Inventory and Cost of Sales</i></b></p> <p>The Company's operations include the production of gold and silver from its operating mine (the "ATO Mine").</p> <p>As at December 31, 2020, the Company's inventory balance was \$9,904 thousand and recognized \$15,677 thousand of production costs and \$4,100 thousand depletion and depreciation costs related to gold and silver sales completed during the year.</p> <p>The costs included in inventory require the use of management's professional judgement to appropriately classify its costs of producing inventory. The recognition of production costs and depletion and depreciation as part of the Company's costs of sales, require the use of management's estimates to calculate the proportion of inventory costs to be included on the statement of loss and comprehensive loss for the year. These judgements and estimates required significant auditor attention and accordingly we have identified this a key audit matter.</p>	<p>We responded to this matter by performing audit procedures in relation to inventory and cost of sales. Our audit work in relation to this included, but was not restricted to, the following:</p> <ul style="list-style-type: none"> <li>Assessed management's classification of costs included in the calculation of inventory to determine if these costs have been correctly capitalized in accordance with IFRS;</li> <li>Verified that the use of management's estimates of the recoverable reserves and depletion used in the calculation of inventory were reasonable by comparing the estimates to third party engineering reports, laboratory reports and actuals;</li> <li>Performed recalculations of the remaining estimated costs to produce finished goods to assess the inventory for impairment; and</li> </ul>

<p>Refer to Note 2 in the consolidated financial statements for a description of the Company's accounting policy for inventory and critical accounting estimates and judgements which includes recoverable reserves and depreciation and depletion. Refer to Note 4 in the consolidated financial statements for details on the Company's inventory balance.</p>	<ul style="list-style-type: none"> <li>We tested the adequacy of management's disclosures relating to the inventory balances in note 4 and the production cost balances in note 17 of the consolidated financial statements.</li> </ul>
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## 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 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 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

*MNP LLP*

March 29, 2021  
Toronto, Ontario

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**





ANNUAL REPORT 2020