STEPPE GOLD LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED, JUNE 30, 2019

(EXPRESSED IN US DOLLARS)

UNAUDITED

STEPPE GOLD LTD.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in US Dollars)
(Unaudited)

	Notes	June 30, 2019	December 31, 2018
ASSETS			**(Audited)**
Current assets			
Cash		5,387,896	7,015,846
Receivables and other assets	**3**	1,184,143	1,022,751
Inventory	**4**	4,974,706	1,388,933
Total current assets		11,546,745	9,427,530
Altan Tsagaan Ovoo Project	**5**	-	-
Uudam Khundii Project	**6**	2,251,023	2,044,835
Property and equipment under construction	**7**	38,143,363	32,079,060
Total long-term assets		40,394,386	34,123,895
Total assets		**51,941,131**	**43,551,425**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	**8**	3,560,341	1,697,984
Lease liability	**12**	492,327	-
Purchase price payable	**6**	500,000	500,000
Promissory notes	**9**	4,758,108	4,308,864
Total current liabilities		9,310,776	6,506,848
Long-term liabilities			
Streaming arrangement	**11**	20,627,797	20,112,036
Asset retirement obligation	**10**	370,149	320,536
Lease liability	**12**	402,314	-
Advances	**13**	5,875,905	-
Total long-term liabilities		27,276,165	20,432,572
Total liabilities		**36,586,941**	**26,939,420**
Shareholders' equity			
Share capital	**14**	20,444,259	20,421,437
Shares to be issued	**6**	647,322	647,322
Warrants	**19**	13,655,083	13,655,083
Contributed surplus		3,607,860	3,296,458
Non-controlling interest		(99,930)	(88,280)
Accumulated other comprehensive loss		(2,579,117)	(3,110,694)
Deficit		(20,321,286)	(18,209,321)
Total shareholders' equity		**15,354,191**	**16,612,005**
Total liabilities and shareholders' equity		**51,941,131**	**43,551,425**

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

Approved on behalf of the Board:

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

STEPPE GOLD LTD.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in US Dollars)
(Unaudited)

	Notes	Three Months Ended June 30 2019	Three Months Ended June 30 2018	Six Months Ended June 30 2019	Six Months Ended June 30 2018
Operating expenses					
Exploration and evaluation expenditures	**15**	-	551,018	2,834	652,616
Management compensation	**18**	226,401	366,600	432,513	560,119
Stock based compensation	**16**	99,120	2,913,146	307,312	2,913,146
Professional fees		228,510	168,657	434,184	429,340
Foreign exchange (gain) loss		463,953	1,004,529	(102,695)	1,197,718
Office and general		233,014	323,345	374,071	518,480
Investor relations		110,603	244,373	234,710	390,414
Accretion and financing costs		49,162	295,734	85,758	596,292
Travel		62,433	6,461	96,340	8,057
Reporting issuer costs		23,023	167,140	37,591	189,647
Depreciation	**7**	34,737	1,380	80,022	2,774
Corporate social responsibility expense		66,176	-	140,975	-
Change in the fair value of warrant liability		-	2,986,054	-	2,981,264
Net loss		**1,597,132**	**9,028,437**	**2,123,615**	**10,439,867**
Other comprehensive loss					
Cumulative translation adjustment		316,524	960,122	531,577	2,038,686
Net loss and comprehensive loss for the period		**(1,280,608)**	**(8,082,856)**	**(1,592,038)**	**(8,401,181)**
Net loss attributable to shareholders of the Company		**(1,594,742)**	**(9,028,437)**	**(2,111,965)**	**(10,439,867)**
Net loss attributable to non-controlling interest		**(2,390)**	**-**	**(11,650)**	**-**
		(1,597,132)	**(9,028,437)**	**(2,123,615)**	**(10,439,867)**
Net loss and comprehensive loss attributable to shareholders of the Company		**(1,278,218)**	**(8,082,856)**	**(1,580,388)**	**(8,401,181)**
Net loss and comprehensive loss attributable to non-controlling interest		**(2,390)**	**-**	**(11,650)**	**-**
		(1,280,608)	**(8,082,856)**	**(1,592,038)**	**(8,401,181)**
Basic and diluted net loss and comprehensive loss per common share		0.038	0.26	0.051	0.33
Weighted average number of common shares outstanding - basic and diluted		41,553,444	34,716,311	41,553,444	31,894,289

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

STEPPE GOLD LTD.

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended 30 June 2019
(Expressed in US Dollars)

Six Months Ended	Notes	June 30, 2019	June 30, 2018
Operating activities			
Net loss and comprehensive for the period		(2,123,615)	(10,439,867)
Adjustments for:			
Change in the fair value of warrant liability		-	(2,981,264)
Accretion and financing costs		85,758	596,292
Depreciation	**7**	80,022	2,774
Stock based compensation	**16**	307,312	-
Unrealized foreign exchange gain		1,280,275	1,516,402
Changes in non-cash working capital items:			
Inventory		(3,585,773)	-
Receivables and other assets		(161,392)	(985,769)
Amounts payable and other liabilities		2,354,684	122,452
Net cash used in operating activities		**(1,762,729)**	**(3,293,306)**
Investing activities			
Purchase of property and equipment under construction		(5,852,355)	(4,707,892)
Purchase of furniture		-	(1,761)
Deposits paid on equipment		-	(285,825)
Net cash used in investing activities		**(5,852,355)**	**(4,995,478)**
Financing Activities			
Proceeds from initial public offering	**14**	-	16,539,966
Proceeds from issuance of convertible debentures	**13**	6,200,000	-
Cost of issue of convertible debentures	**13**	(200,000)	(1,857,080)
Proceeds from special warrants		-	3,021,620
Net cash used in financing activities		**6,000,000**	**17,704,506**
Effect of exchange rate changes on cash held in foreign currency		(12,866)	3,877
Net decrease in cash		(1,627,950)	9,419,599
Cash, beginning of period		7,015,846	2,318,713
Cash, end of period		**5,387,896**	**11,738,312**

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

STEPPE GOLD LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2019
(Expressed in US Dollars)

	Notes	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Special warrants	NCI - Corundum	Accumulated other comprehensive loss	Deficit	Total equity
			$	$	$	$	$	$	$	$	$
Balance as at December 31, 2017		29,040,911	7,861,287	647,322	-	-	1,307,933	-	(148,112)	(6,075,086)	**3,593,344**
Initial public offering		10,569,185	11,013,701	-	-	5,089,432	-	-	-	-	**16,103,133**
Special warrants to be issued		-	-	-	-	-	(1,307,933)	-	-	-	**(1,307,933)**
Conversion of special warrants		1,930,799	3,020,202	-	-	-	-	-	-	-	**3,020,202**
Conversion of warrant liability		-	-	-	-	8,292,749	-	-	-	-	**8,292,749**
Cost of issue		-	(1,473,753)	-	-	(579,544)	-	-	-	-	**(2,053,297)**
Stock based compensation		-	-	-	3,296,458	-	-	-	-	-	**3,296,458**
Net income (loss) and comprehensive income (loss) for the period		-	-	-	-	-	-	-	2,038,686	(10,439,867)	**(8,401,181)**
Balance as at June 30, 2018		**41,540,895**	**20,421,437**	**647,322**	**3,296,458**	**12,802,637**	**-**	**-**	**1,890,574**	**(16,514,953)**	**22,543,475**
Balance as at December 31, 2018		**41,540,895**	**20,421,437**	**647,322**	**3,296,458**	**13,655,083**	**-**	**(88,280)**	**(3,110,694)**	**(18,209,321)**	**16,612,005**
Restricted share units	**16**	35,294	22,822	-	-	-	-	-	-	-	22,822
Stock based compensation		-	-	-	311,402	-	-	-	-	-	311,402
Net income (loss) and comprehensive income (loss) for the period		-	-	-	-	-	-	(11,650)	531,577	(2,111,965)	(1,592,038)
Balance as at June 30, 2019		**41,576,189**	**20,444,259**	**647,322**	**3,607,860**	**13,655,083**	**-**	**(99,930)**	**(2,579,117)**	**(20,321,286)**	**15,354,191**

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

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 gold properties primarily in Mongolia. At the date of these condensed interim consolidated financial statements, the Company has not yet earned any income as the Company has not reached commercial production.

Steppe is at an early stage of operating, developing, exploring and acquiring gold properties and as is common with many similar companies, it raises financing for its exploration and development activities in discrete tranches. To complete its commercialization activities the Company will be required to raise additional financing. The Company has working capital of $2,235,969 at June 30, 2019 (December 31, 2018: $2,920,682). For the six months ended June 30, 2019, the Company had a net loss of $2,123,615 (six months ended June 30, 2018: $10,439,867) and had cash outflows from operations of $1,762,729 (six months ended June 30, 2018: $3,293,306). These circumstances cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate use of accounting principles applicable to a going concern.

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

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

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

2. Significant accounting policies

(a) Statement of compliance

The Company applies international Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the IFRS interpretations Committee. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. Accordingly, they do not include all the information required for full annual financial statements.

The Board of Directors approved these condensed interim consolidated financial statements on August 13, 2019. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at December 31, 2018 and for six months ended June 30, 2018, except as noted below.

The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of January 1, 2019. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2018, except as note below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2019 could result in restatement of these unaudited condensed interim financial statements. These unaudited condensed interm financial statements were approved by the Board of Directors of August 13, 2019.

2. Significant accounting policies (continued)

(b) New accounting policy

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16"), replacing IAS 17 – Leases. IFRS 16 provides a single lessee accounting model. Almost all leases are recognized in the statement of financial position as a 'right-of-use' asset and a lease liability. There are narrow exceptions to this recognition principle for leases where the underlying asset is of low value and for short term leases (i.e. those with a contractual term of 12 months or less).

The Company has adopted the IFRS starting from January 1, 2019.

'Right-of-use" asset initially recognized is comprised of:

- Lease liability
- Initial direct costs
- Costs of removal and restoring
- Payments made at or prior to commencements

Lease liability initially recognized is comprised of:

- Fixed payments from commencement date
- Certain variable payments
- Residual value guarantee
- Exercise price of purchase options
- Termination penalties

The right-of-use asset is subsequently accounted for in accordance with the cost or revaluation model in IAS 16 Property, Plant and Equipment or as Investment Property under IAS 40 Investment Property. The lease liability is unwound over the term of the lease giving rise to an interest expense.

All the components of the lease liability as described above are required to be discounted to reflect the present value of the payments. The discount rate to use is the rate implicit in the lease, unless this cannot readily be determined, in which case the lessee's incremental rate of borrowing is used instead.

(c) Critical accounting estimates and judgments

The preparation of the condensed interim 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 condensed interim consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Critical accounting estimates

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

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

2. Significant accounting policies (continued)

(c) Critical accounting estimates and judgments (continued)

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

Depreciation, depletion and amortization – Mining properties are depleted using the unit-of-production method over a period not to exceed the estimated life of the ore body based on estimated recoverable reserves.

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

Impairment of mining interests – The Company's management reviews the carrying values of its mining interests on transfer from an exploration and evaluation property to a development property and on a regular basis to determine whether any write-downs are necessary. Property, plant and equipment is also reviewed on a regular basis to determine whether any write-downs are necessary. The recovery of amounts recorded for mining interests and property, plant and equipment depends on the Company's interpretation of its interest in the underlying mineral claims based on existing regulations, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. Management relies on the life-of-mine plans in its assessments of economic recoverability and probability of future economic benefit. Life-of-mine plans provide an economic model to support the economic extraction of reserves and resources.

A long-term life-of-mine plan and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body. The life-of-mine plan requires the use of estimates and assumptions such as long term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, mineral reserves, and operating performance (which includes production and sales volume).

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

(Expressed in US Dollars)

2. Significant accounting policies (continued)

(c) Critical accounting estimates and judgments (continued)

Critical judgments in applying accounting policies

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

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

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

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

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

3. Receivables and other assets

	June 30, 2019 $	**December 31, 2018 $**
Amounts receivable	-	3,578
Prepaids	812,143	879,673
Other receivables	371,999	139,500
Total receivables and other assets	**1,184,143**	**1,022,751**

4. Inventories

	June 30, 2019 $	**December 31, 2018 $**
Stockpiles of ore	4,200,264	988,932
Spare parts and supplies	774,442	400,001
	4,974,706	**1,388,933**

(Expressed in US Dollars)

5. Altan Tsagaan Ovoo Project

(a) Acquisition

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

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

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

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

(b) Continuity

	June 30, 2019 **$**	**December 31, 2018** **$**
Balance, beginning of year	-	19,611,328
Additions to the ATO Project	-	48,980
Foreign exchange	-	172,746
Transfer to property and equipment under construction (1)	-	(19,833,054)
Balance, end of year	-	-

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

6. Uudam Khundii Project

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

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

As noted above, there were certain contingent conditions to be met. As the expectation for these events to be met is probable, the contingent consideration has been accrued. Under IFRS, any contingent consideration needs to be classified as equity or liability based on the IAS 32 definitions. Contingent consideration classified as equity is not remeasured after its initial recognition at fair value and its subsequent settlement shall be accounted for within equity. Contingent consideration classified as a liability is measured at fair value initially and subsequently at each reporting period, with any fair value changes recognized as gain or loss in profit or loss.
Accordingly, the cash portion of the payment was recorded a liability. The share portion has been recorded as equity, as shares to be issued, as the number of shares issuable are fixed.
The agreement was amended on August 18, 2017 and the revised terms for the unpaid amounts $1.5 million were as follows:

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

The amendment was made to modify the cash payment terms on the remaining unpaid balance of $1.5 million from the original agreement. In accordance with IFRS 9 the change in the portion of the consideration that was previously recorded as a financial liability was tested for a modification or extinguishment of debt. The previous amount of $1,500,000 was modified to cash payments owing of $600,000 ($500,000 remaining) and 400,000 shares valued at $434,254. The amendment is considered an extinguishment of debt under IFRS 9 and accordingly a gain on settlement of $468,070 was recorded.

As the additional 400,000 shares are also fixed in number, they have been presented as equity under shares to be issued. The $500,000 cash liability has been presented as a financial liability. The 1 million shares to be issued per the original agreement remain to be issued under the amended terms and have not been revalued.

(Expressed in US Dollars)

7. Property and equipment under construction

	Note	Property and Equipment	Altan Tsagaan Ovoo Property	Equipment under construction	Right of use asset	Total
		$	$	$	$	$
Cost						
Balance, January 1, 2018		**11,250**	**-**	**444,889**	**-**	**456,139**
Transfer from ATO Project		-	19,833,054	-	-	19,833,054
Additions		7,078,096	1,538,496	4,515,727	-	13,132,319
Accretion costs		-	657,394	-	-	657,394
Asset retirement costs		-	320,536	-	-	320,536
Foreign exchange		(461,357)	(1,411,359)	(291,209)	-	(2,163,925)
Balance, December 31, 2018		**6,627,898**	**20,938,121**	**4,669,407**	**-**	**32,235,517**
Transfer from PPE		(583,437)	-	-	478,586	**(105,079)**
Allocated to raw material		(94,542)	-	-	-	**(94,542)**
Additions		2,851,456	209,155	2,752,836	906,509	**6,719,956**
Accretion costs		-	975,848	-	-	**975,848**
Asset retirement costs		-	25,773	-	-	**25,773**
Foreign exchange		(398,331)	(328,713)	(42,721)	(64,478)	**(843,243)**
Balance, June 30, 2019		**8,403,135**	**21,820,185**	**7,379,523**	**1,320,389**	**38,923,231**
Accumulated depreciation						
Balance, January 1, 2018		**5,622**	**-**	**-**	**-**	**5,622**
Additions		78,352	70,225	-	-	148,577
Foreign exchange		6,787	(4,529)	-	-	2,258
Balance, December 31, 2018		**90,761**	**65,697**	**-**	**-**	**156,457**
Additions		343,800	226,111	-	71,888	**641,799**
Foreign exchange		(5,648)	(12,703)	-	(38)	**(18,388)**
Balance, June 30, 2019		**428,914**	**279,104**	**-**	**71,850**	**779,868**
Net book value						
Balance, December 31, 2018		**6,537,228**	**20,872,425**	**4,669,407**	**-**	**32,079,060**
Balance, June 30, 2019		**7,974,221**	**21,541,080**	**7,379,523**	**1,248,539**	**38,143,363**

Infrastructure under construction includes plant and equipment which is not yet operational and therefore is not depreciated. During the three and six months ended June 30, 2019, $34,737 and $80,022 respectively (the three and six months ended June 30, 2018: $1,380 and $2,774 respectively) of depreciation was expensed to the condensed interim consolidated statement of income (loss) and comprehensive income (loss) and the remaining $543,389 (year ended December 31, 2018: $490,676) of depreciation is allocated to raw material inventory stockpile.

Right of use assets are comprised of capitalization of headquarter office lease with lease term until July 31, 2021, two generators with lease terms until November 12, 2021 and April 15, 2020 respectively and three light vehicles with one to three years of lease terms.

(Expressed in US Dollars)

8. 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.

	June 30, 2019 $	December 31, 2018 $
Amounts payable	3,363,348	1,632,011
Accrued liabilities	141,500	65,973
Other payables	55,493	-
Total amounts payable and accrued liabilities	**3,560,341**	1,697,984

9. Promissory notes

Promissory notes of the Company are comprised of the following:

Due	Principal $	June 30, 2019 $	December 31, 2018 $
September 30, 2019 (note 5)	5,000,000	4,758,108	4,308,864
Total		**4,758,108**	**4,308,864**
Current		4,758,108	4,308,864
Total		**4,758,108**	**4,308,864**

Accretion expenses during the three and six months ended June 30, 2019 amounted to $230,190 and $449,244 respectively (the three and six months ended June 30, 2018: $179,225 and $368,417 were expensed respectively) were capitalized to ATO Project.

10. 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 $695,830 as at June 30, 2019, over a period of 11 years, and discounted using a risk-free rate of 13.9% per annum.

A summary of the Company's asset retirement obligation as at June 30, 2019 and December 31, 2018 is presented below:

	June 30, 2019 $	December 31, 2018 $
Balance, beginning of year	320,536	-
Additions	25,617	320,536
Accretion	23,697	-
Foreign exchange	299	-
Balance, end of periods	**370,149**	320,536

11. Streaming arrangement

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

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

The second tranche of $11.5 million (the “Second Upfront Deposit”) is to be advanced once Steppe Mongolia has expended at least $15 million on the ATO Project and can be drawn down in tranches representing 3-month forecasted expenditures for development of the ATO Project. On completion of the development of the ATO Project, any amount of the Second Upfront Deposit that has not been draw-down by Steppe BVI will be paid to Steppe BVI as a lump sum. The proceeds of the Upfront Deposit are required to be loaned to Steppe Mongolia to advance the ATO Project. The Second Upfront Deposit of $11.5 million was advanced during the year ended December 31, 2018 through the following payments on September 26, 2018 initial payment of $3,800,000, October 26, 2018 second payment of $2,600,000, November 29, 2018 third payment of $2,550,000 and December 20, 2018 last payment of $2,550,000.

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

A value of $1,881,841 was estimated for the 2,300,000 warrants on the date of grant based on the Black-Scholes option pricing model with the following assumptions: share price of CDN$1.36; expected dividend yield of 0%; expected volatility of 107% using the historical price history of comparable companies; risk-free interest rate of 1.81%; and an expected average life of five (5) years.

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

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

(Expressed in US Dollars)

11. Streaming arrangement (continued)

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

The Stream Agreement is subject to various covenants of which Company has complied with as of June 30, 2019. These covenants include the maintenance of a net indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio that does not exceed 2.0 and its net indebtedness to Forecasted EBITDA ratio does not exceed 2.0 until the date of the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver, and on or after the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver, the Company must ensure that its net indebtedness to EBITDA ratio does not exceed 2.5 and its net indebtedness to Forecasted EBITDA ratio does not exceed 2.5. Also prior to the commercial production date the Company shall not declare or pay any dividend or any other distributions on any of its capital stock or other securities.

Accretion expenses during the three and six months ended June 30, 2019 ammounted to $264,273 and $523,562 respectively (the three and six months ended June 30, 2018: $116,509 and $227,875 were expensed respectively) were capitalized to property and equipment under construction.

12. Leases

On August 1, 2018, the Company has entered into a 3-year lease agreement to lease an office. The monthly lease payments are $14,256 for first twelve months, $14,308 for second twelve months and $14,360 for last twelve months. The Company has recorded this lease as a right-of-use asset (note 7) and long term lease liability for the long term portion of the lease and the current portion of the lease in accounts payable. The lease payments are discounted using an interest rate of 10% annually, which is the Company's incremental borrowing rate.

On November 12, 2018, the Company has entered into a 3-year lease agreement to lease a generator. The monthly lease payments are $9,668 and the interest rate is 18%.

On December 26, 2018, the Company has entered into a 1-year lease agreement to lease a light vehicle. The monthly lease payments are $2,721 and the interest rate is 18%.

On March 4, 2019, the Company has entered into a 3-year lease agreement to lease two light vehicles. The monthly lease payments are $1,919 and the interest rate is 16.7%.

On April 16, 2019, the Company has entered into a 1-year lease agreement to lease a generator. The monthly lease payments are $27,350 and the interest rate is 16%.

The continuity of lease liability is presented as below:

	Lease liability **$**
Balance, December 31, 2018	-
Additions	1,106,406
Interest expense	61,929
Lease payments	(276,599)
Foreign exchange	2,905
Balance, June 30, 2019	**894,641**
Less: Current portion	**(492,327)**
Lease liability non-current	**402,314**

(Expressed in US Dollars)

13. Advances

On July 2, 2019 the Company closed its previously announced private placement (the "Offering") issuing $5.4million principal amount of 10% two-year unsecured convertible debentures. As of June 30, 2019, the Company had received cash proceeds of the Offering of $6.2million, net of finder's fees of $324,000 which $200,000 is paid in cash and $124,000 is accrued.

The Debentures will 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.

The Debentures will be unsecured obligations of the Company and rank pari passu in right of payment of principal and interest with all other Debentures issued under the Offering.

The Debentures will be 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 US$0.52 (Approx. C$0.70) per common share. The Company has the right to accelerate the conversion of the Debentures in the event the closing price of the common shares on the Toronto Stock Exchange exceeds C$2.00 for any period of 30 consecutive trading days.

14. Share Capital

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

b) Common shares issued:

	Note	Number of common shares	Amount $
Balance, December 31, 2017		**29,040,911**	**7,861,287**
Initial public offering (i)		10,569,185	11,013,701
Conversion of special warrants (i)		1,930,799	3,020,202
Cost of issue (i)		-	(1,473,753)
Balance, December 31, 2018		**41,540,895**	**20,421,437**
Exercise of restricted share units (ii)		35,294	22,449
Foreign exchange difference		-	373
Balance, June 30, 2019		**41,576,189**	**20,444,259**

(i) On May 22, 2018, Steppe announced the closing of its initial public offering ("the Offering") of units of the Company ("Units"). Under the Offering, the Company issued 10,569,185 Units at a price of CAD$2.00 per Unit ("the Issue Price") for gross proceeds of CAD$21,138,370. Each Unit is comprised of one common share of the Company and one common share purchase warrant ("a Warrant"). Each Warrant is exercisable for one common share at an exercise price equal to CAD$2.34 for a period of 24 months after the closing date of the Offering. The distribution of the Units was qualified by way of prospectus dated May 2, 2018 filed with the securities regulatory authorities in each of the provinces and territories of Canada, other than Quebec. Haywood Securities Inc. and PI Financial Corp. ("Agents") acted as co-lead agents on the Offering.
Total cash costs for the initial public offering amounted CAD$1,831,937 allocated as follows: CAD$1,314,872 to common shares; and CAD$517,065 to Warrants.
The final prospectus dated May 2, 2018 qualified the distribution of 1,930,799 Units on the deemed exercise of 1,287,210 previously issued Special Warrants of the Company.
The Special Warrants were issued on a private placement basis on February 1, 2018 and February 22,2018 pursuant to the terms of a Special Warrant Indenture dated February 1, 2018, as amended, between the Company and TSX Trust Company, as Special Warrant Agent, for gross proceeds of CAD$2,973,687.

(Expressed in US Dollars)

14. Share Capital (continued)

A summary of the assumptions used in the valuation model for re-measuring the fair value of the warrants at May 22, 2018 is as follows: strike price – CAD$2.00; stock price – 42.01; estimated life in years – 5 years; estimated volatility using similar companies – 104%; and risk-free interest rate – 2.24%.

(ii) On December 31, 2018, the Company granted 105,882 restricted share units (“RSU”) to officers of the Company with each RSU exercisable into the one common share of the Company at an exercise price of CAD$0.85 per share or the cash equivalent thereof upon the vesting conditions being met until December 31, 2020. The restricted share units granted are accounted for under the liability method whereby a liability is recorded at grant date equal to the fair value of the restricted share unit. A fair value of $21,991 was determined based on the exercisable price. A third of RSUs vested as at year ended December 31, 2018 and $23,153 was expensed as at year ended December 31, 2018. The Company has issued 35,294 common shares related to RSUs during six months ended June 30, 2019 and it is accounted as a reduction of the accrued obligation.

15. Exploration and evaluation expenditures

For the six months ended June 30, 2019

	ATO Project $	Uudam Khundii Project $	South Tsagaan Temeet Prospect $	Bayan Munkh West and East Prospect $	Total $
General exploration	-	2,834	-	-	2,834
Total exploration and evaluation expenditures	**-**	**2,834**	**-**	**-**	**2,834**

For the six months ended June 30, 2018

	ATO Project $	Uudam Khundii Project $	South Tsagaan Temeet Prospect $	Bayan Munkh West and East Prospect $	Total $
General exploration	9,321	45,328	1,237	6,883	62,768
Consulting	107,175	-	-	-	107,175
Rent	29,576	-	-	-	29,576
Assays	18,185	-	502	3,321	22,076
Drilling	263,395	88,271	-	-	351,666
Insurance	12,414	-	-	-	12,414
Meals	43,276	-	-	-	43,276
Security	20,460	-	-	-	20,460
Access fees	3,204	-	-	-	3,204
Total exploration and evaluation expenditures	**507,006**	**133,599**	**1,748**	**10,263**	**652,616**

(Expressed in US Dollars)

16. Stock based compensation

The following table reflects the continuity of options for the periods ended December 31, 2018 and June 30, 2019:

	Exerciseable date	Number of options	Fair value of stock options $	Weighted average exercise price CAD $
Balance at December 31, 2017				
Issuance at May 22, 2018 (i)		2,600,000	3,028,324	2.00
Issuance at October 10, 2018 (ii)	October 10, 2018	693,005	384,608	2.00
Issuance at October 10, 2018 (ii)	October 10, 2019	661,053	366,875	2.00
Issuance at October 10, 2018 (ii)	October 10, 2020	200,943	111,521	2.00
Balance at December 31, 2018		**4,155,000**	**3,891,327**	2.00
Balance at June 30, 2019		**4,155,000**	**3,891,327**	2.00

i. On May 22, 2018, the Company granted 2,600,00 stock options to officers and directors of the Company with each option exercisable into the one common share of the Company at an exercise price of CAD$2.00 per share until May 22, 2023. A fair value of $3,028,324 was determined using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - CAD$1.95; dividend yield – 0%; expected volatility (based on historical price data of similar companies) – 104%; risk-free interest rate – 2.30%; and an expected life – 5 years. The options vested immediately.

ii. On October 10, 2018, the Company granted 1,550,000 stock options to officers and directors of the Company with each option exercisable into the one common share of the Company at an exercise price of CAD$2.00 per share until October 10, 2023 on the terms indicated and the vesting of 1/3 over a period of three years. A fair value of $863,003 was determined using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - CAD$1.00; dividend yield – 0%; expected volatility (based on historical price data of similar companies) – 111%; risk-free interest rate – 2.43%; and an expected life – 5 years. Stock based compensation of $99,120 and $307,312 during the three and six months ended June 30, 2019 respectively (three and six months ended June 30, 2018: $2,913,146 and $2,913,146 respectively) were expensed in the condensed interim consolidated statement of income (loss) and comprehensive income (loss).

The following table reflects the continuity of restricted share units ("RSUs") for the six months ended June 30, 2019:

	Outstanding Number of RSU	Fair value of RSU $	Weighted average exercise price CAD $
Balance at December 31, 2017			
Issuance at December 31, 2018	105,882	65,973	0.85
Exercised February 27, 2019	(35,294)	(22,449)	0.85
Balance at December 31, 2018	**70,588**	**43,524**	0.85
Balance at June 30, 2019	**70,588**	**43,524**	0.85

(Expressed in US Dollars)

16. Stock based compensation (continued)

On December 31, 2018, the Company granted 105,882 restricted share units to officers of the Company with each RSU exercisable into the one common share of the Company at an exercise price of CAD$0.85 per share or the cash equivalent thereof upon the vesting conditions being met until December 31, 2020. A fair value of $21,991 was determined based on exercisable price. The 1/3 of RSUs vested immediately and $23,153 was expensed in the consolidated statement of income (loss) as at year ended December 31, 2018. On February 27, 2019, RSUs of 35,294 was exercised and $22,449 was transferred from liability to equity.

17. Net loss per common share

The calculation of basic and diluted loss per share for the six months ended June 30, 2019 was based on the net loss attributable to common shareholders of $2,111,967 (six months ended June 30, 2018 - loss of $10,439,867) and the weighted average number of common shares outstanding of 41,553,444 (six months ended June 30, 2018 – 31,894,289).

18. Related party transactions

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

During the three and six months ended June 30, 2019, management fees paid , or otherwise accrued, to key management personnel (defined as the Chief Executive Officer (“CEO”) and directors) totaled $226,401 and $432,513, respectively (three and six months ended June 30, 2018: $366,600 and $560,119, respectively). As at June 30, 2019, key management personnel were owed $nil (December 31, 2018: $nil).

During the three and six months ended June 30, 2018, the Company expensed professional fees and disbursements of $12,951 and $21,459 respectively to Marrelli Support Services Inc., an organization of which Carmelo Marrelli is president. Carmelo Marrelli is the former CFO of the Company. These services were incurred in the normal course of operations for general accounting and financial reporting matters and these amounts are included in professional fees. As at December 31, 2018, Marrelli Support Services Inc. was owed $nil and these amounts were included in amounts payable and accrued liabilities. The Company did not use the services of Marrelli Support Services during the six months ended June 30, 2019.

19. Warrants

	Note	Number of warrants	Warrant (Equity) $	Warrant Liability $
Balance, December 31, 2017		**7,109,250**		**5,352,210**
Warrants issued	**(i)**	12,499,984	4,939,188	-
Agents warrants issued	**(ii)**	634,151	423,146	-
Change in the fair value of warrant liability		-		2,940,539
Conversion of warrant liability to equity	**(iii)**	-	8,292,749	(8,292,749)
Balance, December 31, 2018		**20,243,385**	**13,655,083**	**-**
Balance, June 30, 2019		**20,243,385**	**13,655,083**	**-**

(Expressed in US Dollars)

19. Warrants (continued)

The following table reflects the actual warrants issued and outstanding as of June 30, 2019:

Expiry date	Exercise price (CAD$)	Warrants outstanding	Fair Value ($)
May 22, 2020	2.34	12,499,984	4,939,189
May 22, 2020	2.00	634,151	423,146
May 22, 2023	2.00	4,809,250	5,641,775
September 15, 2022	2.00	2,300,000	2,650,973
		20,243,285	**13,655,083**

(i) The value of $4,939,188 was estimated for the 12,499,984 Warrants on the date of grant using a relative fair value method based on the Black-Scholes option pricing model with the following assumptions: share price of $1.95; expected dividend yield of 0%; expected volatility of 81% using the historical price history of the Company; risk-free interest rate of 2.00%; and an expected average life of two (2) years.

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

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

20. Events after reporting period

On July 2, 2019, the Company closed its previously announced private placement (the "Offering") issuing $5.4million principal amount of 10% two-year unsecured convertible debentures. Further, on July 22, 2019 the Company announced that the Offering is now projected to raise aggregate gross proceeds of $8.4m in Debentures.