



## Consolidated Financial Statements

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

(Expressed in US Dollars)

# Independent Auditor's Report

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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> |
|--|---|

### 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.

March 29, 2021  
Toronto, Ontario

*MNP LLP*

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**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,<br>2020 | December 31,<br>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,<br>2020 | December 31,<br>2019 |
|---|-----------|----------------------|----------------------|
| <b>Revenue</b>  | <b>16</b> | <b>52,097</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>        | -                    |
| 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,<br>2020 | December 31,<br>2019 |
|--|-------|----------------------|----------------------|
| <b>Operating activities</b>                                      |       |                      |                      |
| Net loss for the year  |       | (4,052)              | (5,233)              |
| <u>Adjustments for non-cash items:</u>                           |       |                      |                      |
| Change in the fair value of derivative                           | 11    | 17,953               | 873                  |
| Gain on modification of straming arrangement                     |       | -                    | (304)                |
| Accretion and financing costs                                    |       | 3,153                | 1,020                |
| Depreciation   | 6     | 4,100                | 170                  |
| Stock based compensation   | 19    | 1,015                | 505                  |
| Unrealized foreign exchange loss/ (gain)                         |       | (302)                | (1,223)              |
| Drawdown of gold and silver stream                               | 9     | (6,165)              | -                    |
| <u>Changes in working capital items:</u>                         |       |                      |                      |
| Inventories  |       | (208)                | (5,758)              |
| Receivables and other assets                                     |       | (1,768)              | (125)                |
| Amounts payable and other liabilities                            |       | (1,912)              | 4,448                |
| Deferred tax   | 26    | (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             | 11    | 3,000                | 7,840                |
| Proceed from long term loan                                      | 12    | 10,510               | -                    |
| Interest paid on convertible debentures                          | 11    | (618)                | (374)                |
| Interest paid on long term loan TDB                              | 12    | (292)                | -                    |
| Convertible debenture issuance costs                             | 11    | (180)                | (222)                |
| Proceeds from equity financing                                   | 13    | 11,103               | 1,447                |
| Proceeds from stream financing                                   | 9     | -                    | 5,000                |
| Payment of purchase price payable                                | 5     | (350)                | (150)                |
| Repayment of Promissory note                                     |       | -                    | (5,000)              |
| Lease obligation payments  | 10    | (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)

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### 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)

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## 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:

| <b>Classification</b>                   | <b>IFRS 9</b>  |
|---|----------------|
| 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)

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### 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)

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### 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)

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### 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)

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#### 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

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(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<br>and<br>Equipment | Altan Tsagaan<br>Ovoo Property | Equipment<br>under<br>construction | Right-of-<br>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

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### 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

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

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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> |

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

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### 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.

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(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>                      | <b>\$</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>                      | <b>\$</b>    |
| Proceeds from issue of MNIF Debentures        | 3,000        |
| Less derivative component                     | (1,077)      |
| <b>Loan liability component</b>               | <b>1,923</b> |



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(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> |

(i) \$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)

(ii) 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> |

(ii) 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>      |

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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<br>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.

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### 14. Warrants

|                                     | Number<br>of warrants | Warrant (Equity)<br>\$ |
|-------------------------------------|-----------------------|------------------------|
| <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<br>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<br>Project | Uudam<br>Khundii<br>Project | South Tsagaan<br>Temeet<br>Prospect | Bayan Munkh<br>West and East<br>Prospect | Total      |
|--|----------------|-----------------------------|-------------------------------------|--|------------|
|  | \$             | \$                          | \$                                  | \$                                       | \$         |
| General exploration                                      | -              | 20                          | 5                                   | 8  | <b>33</b>  |
| Drilling   | -              | -                           | 9                                   | 74                                       | <b>83</b>  |
| Survey   | -              | 9                           | -                                   | -  | <b>9</b>   |
| <b>Total exploration and<br/>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<br>project | Uudam<br>Khundii<br>Project | South Tsagaan<br>Temeet<br>Prospect | Bayan Munkh<br>West and East<br>Prospect | Total        |
|--|----------------|-----------------------------|-------------------------------------|--|--------------|
|  | \$             | \$                          | \$                                  | \$                                       | \$           |
| General exploration                                      | 16             | 11                          | 2                                   | 3  | <b>32</b>    |
| Assays   | 47             | 92                          | -                                   | -  | <b>139</b>   |
| Drilling   | 2,575          | -                           | -                                   | -  | <b>2,575</b> |
| Sampling   | -              | 10                          | -                                   | -  | <b>10</b>    |
| Survey   | -              | 30                          | -                                   | -  | <b>30</b>    |
| <b>Total exploration and<br/>evaluation expenditures</b> | <b>2,638</b>   | <b>143</b>                  | <b>2</b>                            | <b>3</b>                                 | <b>2,786</b> |

# STEPPE GOLD LTD.

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### 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<br/>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

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| 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:

|                                       | December 31, 2020 | December 31, 2019 |
|---------------------------------------|-------------------|-------------------|
| 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 Tumor-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 Tumor-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 Tumor-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 Tumor-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

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

### 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)

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### 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

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

| Input           | Sensitivity rate | Impact of increase<br>\$ | Impact of Decrease<br>\$ |
|-----------------|------------------|--------------------------|--------------------------|
| 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:

|  | December 31, 2020<br>\$ | December 31, 2019<br>\$ |
|--|-------------------------|-------------------------|
| 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:

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

# 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             | -                 |

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## 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)

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### 26. Income tax (continued)

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

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

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

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

### 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.