STEPPE GOLD LTD.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED, MARCH 31, 2020
(EXPRESSED IN US DOLLARS)

UNAUDITED

STEPPE GOLD LTD.

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

	Notes	March 31, 2020	December 31, 2019
ASSETS			**(Audited)**
Current assets			
Cash		1,790,212	671,421
Receivables and other assets	3	1,080,576	1,147,626
Inventories	4	11,251,373	8,356,042
Total current assets		**14,122,161**	**10,175,089**
Long-term assets			
Uudam Khundii Project	5	1,933,582	1,991,415
Property, plant and equipment under construction	6	40,073,081	41,276,284
Total long-term assets		**42,006,663**	**43,267,699**
Total assets		**56,128,824**	**53,442,788**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	7	7,524,130	5,694,915
Current portion of streaming arrangement	9	10,601,922	10,395,856
Lease liability	10	292,443	398,998
Purchase price payable	5	350,000	350,000
Convertible debentures – derivative	11	5,083,757	5,508,241
Total current liabilities		**23,852,252**	**22,348,010**
Long-term liabilities			
Long term portion of streaming arrangement	9	15,519,925	15,390,491
Asset retirement obligation	8	686,161	270,950
Lease liability	10	109,618	176,883
Convertible debentures – loan liability	11	6,473,252	4,185,803
Total long-term liabilities		**22,788,956**	**20,024,127**
Total liabilities		**46,641,208**	**42,372,137**
Shareholders' equity			
Share capital	12	22,811,937	22,539,071
Warrants	17	13,655,083	13,655,083
Contributed surplus		3,815,666	3,779,806
Non-controlling interest		(113,823)	(112,380)
Accumulated other comprehensive loss		(3,369,936)	(5,372,211)
Deficit		(27,311,311)	(23,418,718)
Total shareholders' equity		**9,487,616**	**11,070,651**
Total liabilities and shareholders' equity		**56,128,824**	**53,442,788**

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

Nature of operations and going concern (Note 1)

Approved on behalf of the Board:

(Signed) "Matthew Wood"____________, Director   (Signed) “Batkhuu Budnyam"____________, Director

STEPPE GOLD LTD.

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

Three Months Ended	Notes	March 31, 2020	March 31,2019
Operating expenses			
Exploration and evaluation expenditures	13	5,489	2,977
Management compensation	16	206,191	206,112
Stock based compensation	14	37,450	208,192
Professional fees		207,268	205,674
Foreign exchange loss (gain)		3,608,521	(566,648)
Office and general		189,459	140,914
Investor relations		42,824	124,107
Accretion and financing costs		840,710	36,596
Travel and accommodation		46,929	33,907
Reporting issuer costs		36,638	14,568
Depreciation	6	45,548	45,285
Corporate social responsibility expenses		64,088	74,799
Convertible debenture issuance costs	11	64,634	-
Change in the fair value of derivatives	11	(1,501,713)	-
Net loss		**(3,894,036)**	**(526,483)**
Other comprehensive loss			
Cumulative translation adjustment		2,002,275	456,946
Net loss and comprehensive loss for the period		**(1,891,761)**	**(69,537)**
Net loss attributable to shareholders of the Company		(3,892,593)	(517,223)
Net loss attributable to non-controlling interest		(1,443)	(9,260)
		(3,894,036)	**(526,483)**
Net loss and comprehensive loss attributable to shareholders of the Company		(1,890,318)	(60,277)
Net loss and comprehensive loss attributable to non-controlling interest		(1,443)	(9,260)
		(1,891,761)	**(69,537)**
Basic and diluted net loss per common share	15	(0.09)	(0.01)
Weighted average number of common shares outstanding - basic and diluted		45,496,375	41,553,444

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

STEPPE GOLD LTD.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2020
(Expressed in US Dollars)
(Unaudited)

	Notes	March 31, 2020	March 31, 2019
Operating activities			
Net loss for the period		(3,894,036)	(526,483)
Adjustments for non-cash items:			
Change in the fair value of derivative	11	(1,501,713)	-
Accretion and financing costs		840,710	36,596
Depreciation	6	45,548	45,285
Stock based compensation	14	37,450	210,151
Unrealized foreign exchange loss (gain)		3,452,999	(564,481)
Changes in non-cash working capital items:			
Inventories		(2,205,468)	(2,733,249)
Receivables and other assets		67,050	(238,028)
Amounts payable and other liabilities		1,598,050	1,193,524
Net cash used in operating activities		**(1,559,410)**	**(2,576,685)**
Investing activities			
Acquisition of property, plant and equipment under construction		(310,580)	(1,423,763)
Net cash used in investing activities		**(310,580)**	**(1,423,763)**
Financing activities			
Proceeds from the issuance of convertible debentures	11	3,000,000	-
Convertible debenture issuance costs	11	(115,366)	-
Proceeds from equity financing	12	250,296	-
Lease obligation payments	10	(164,645)	(275,560)
Net cash generated from financing activities		**2,970,285**	**(275,560)**
Effect of exchange rate changes on cash held in foreign currency		**18,496**	**(4,924)**
Net increase/(decrease) in cash		1,118,791	(4,280,932)
Cash, beginning of period		671,421	7,015,846
Cash, end of period		**1,790,212**	**2,734,914**

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

STEPPE GOLD LTD.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2020
(Expressed in US Dollars)
(Unaudited)

	Notes	Number of shares	Share capital	Shares to be issued	Contributed surplus	Warrants	Non-controlling interest Corundum	Accumulated other comprehensive loss	Deficit	Total equity
			$	$	$	$	$	$	$	$
Balance as at December 31, 2018		41,540,895	20,421,437	647,322	3,296,458	13,655,083	(88,280)	(3,110,694)	(18,209,321)	16,612,005
Shares issued from exercise of RSU's		35,294	22,822	-	-	-	-	-	-	22,822
Stock based compensation		-	-	-	208,192	-	-	-	-	208,192
Comprehensive loss for the period		-	-	-	-	-	(9,260)	456,946	(517,223)	(69,537)
Balance as at March 31, 2019		**41,576,189**	**20,444,259**	**647,322**	**3,504,650**	**13,655,083**	**(97,540)**	**(2,653,748)**	**(18,726,544)**	**16,773,482**
Balance as at December 31, 2019		**45,198,411**	**22,539,071**	**-**	**3,779,806**	**13,655,083**	**(112,380)**	**(5,372,211)**	**(23,418,718)**	**11,070,651**
Shares issued from exercise of RSU's	**14**	35,294	22,570	-	-	-	-	-	-	22,570
Equity financing	**12**	390,000	250,296	-	-	-	-	-	-	250,296
Stock based compensation	**14**	-	-	-	35,860	-	-	-	-	35,860
Comprehensive loss for the period		**-**	**-**	**-**	**-**	**-**	**(1,443)**	**2,002,275**	**(3,892,593)**	**(1,891,761)**
Balance as at March 31, 2020		**45,623,705**	**22,811,937**	**-**	**3,815,666**	**13,655,083**	**(113,823)**	**(3,369,936)**	**(27,311,311)**	**9,487,616**

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

1. Nature of operations and going concern

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

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

Steppe is at an early stage of operating, developing, exploring and acquiring gold properties and as is common with many similar companies, it raises financing for its exploration and development activities in discrete tranches.

These condensed interim consolidated financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends upon its ability to raise adequate financing and to develop profitable operations. The Company has a working capital deficit of $9,730,091 at March 31, 2020 (March 31, 2019: working capital $474,008). For the three months ended March 31, 2020, the Company had a net loss of $3,894,036 (March 31, 2019: $526,483) and had cash outflows from operations of $1,559,410 (March 31, 2019: $2,852,245). These material uncertainties cast significant doubt on the Company's ability to continue as a going concern.

Longer term, the Company may pursue opportunities to raise additional capital through equity markets; however, there can be no assurance that the Company will be able to raise funds in the future. The ultimate ability of the Company is to remain a going concern and complete the exploration and development of its properties which is highly dependent on the Company’s ability to raise additional financings.

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

Management is actively targeting sources of additional financing through alliances with financial entities, and other business and financial transactions which would assure continuation of the Company’s operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

The COVID-19 pandemic has not resulted in any material impact on operations and the Company currently does not expect it will impact its 2020 production. Preventative measures are in place to ensure the well-being of employees and contractors and no risks were noted at the end of the interim 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.

2. Significant accounting policies

(a) Statement of compliance

The Company applies international Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS interpretations Committee. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. Accordingly, they do not include all the information required for full annual financial statements and advise readers of these unaudited condensed interim consolidated financial statements to review the audited financial statements and accompanyiong notes for the year ended December 31, 2019 in conjunction with the review of these statements. These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 14, 2020.

The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2019.

(b) Critical accounting estimates and judgments

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

Critical accounting estimates

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

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

Depreciation and depletion – Mining properties are depleted using the unit-of-production method over a period not to exceed the estimated life of the ore body based on estimated recoverable reserves. Property, plant and equipment under construction are depreciated, net of residual value over the useful life of the property, plant and equipment under construction but do not exceed the related estimated life of the mine based on estimated recoverable mineral reserves. The calculation of the units of production rate, and therefore the annual depletion and amortization expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production and expansion of mineral reserves through exploration activities. Significant judgment is involved in the determination of useful life and residual values for the computation of depletion and 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.

2. Significant accounting policies (continued)

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

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

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

Convertible Debentures – 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 condensed interim consolidated statement 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 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 as discussed in note 1.

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.

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

(Expressed in US Dollars)

2. Significant accounting policies (continued)

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 twelve months 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 judgement in its determination.

3. Receivables and other assets

	March 31, 2020 $	December 31, 2019 $
Prepaid expenses	927,421	999,133
Other receivables	153,155	148,493
Total receivables and other assets	**1,080,576**	**1,147,626**

4. Inventories

	March 31, 2020 $	December 31, 2019 $
Stockpiles of ore	10,678,309	8,177,942
Spare parts and supplies	573,064	178,100
	11,251,373	**8,356,042**

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. Corundum is currently in the bidding process to acquire a license for minerals exploration with local province owned Bayankhongor New Mining LLC of Bayankhongor province, Mongolia. The acquisition was been accounted for as an asset acquisition. On August 18, 2017 the agreement was amended and the revised terms are outlined below:

- $600,000 cash payment (fully paid)
- $500,000 upon completion of the exploration programs ($150,000 paid to date);
- Issue of 1,400,000 shares of Steppe Gold Limited

The $350,000 unpaid cash portion of the payment is recorded as a liability. The share portion has been recorded as equity and the issue of 1,400,000 shares was finalized on November 5, 2019 (Note 12).

Uudam Khundii project acquisition:

	$
Balance as at December 31, 2018	**2,044,835**
Foreign exchange adjustment	(53,420)
Balance as at December 31, 2019	**1,991,415**
Foreign exchange adjustment	(57,833)
Balance as at March 31, 2020	**1,933,582**

The accumulated other comprehensive loss related to foreign exchange for the three months ended March 31, 2020 totaled $57,833 (three months ended March 31, 2019: $216,862).

(Expressed in US Dollars)

6. Property, plant and equipment under construction

	Note	Property and Equipment	Altan Tsagaan Ovoo Property	Equipment under construction	Right of use asset	Total
		$	$	$	$	$
Cost						
Balance at January 1, 2019		**6,627,989**	**20,938,121**	**4,669,407**	**-**	**32,235,517**
Transfer from PPE		(487,644)	-	-	487,644	-
Additions		2,393,562	2,563,615	3,610,996	894,553	9,462,726
Transfer of equipment completed		1,016,899	-	(1,016,899)	-	-
Accretion costs		-	1,869,401	-	-	1,869,401
Asset retirement costs		-	30,489	-	-	30,489
Foreign exchange		(104,080)	(517,233)	(161,119)	(13,078)	(795,510)
Balance at December 31, 2019		**9,446,726**	**24,884,393**	**7,102,385**	**1,369,119**	**42,802,623**
Additions		75,513	235,067	-	-	310,580
Transfer of equipment completed		5,974,490	-	(5,974,490)	-	-
Accretion costs		-	335,500	-	-	335,500
Asset retirement costs		-	342,596	-	-	342,596
Foreign exchange		(306,435)	(937,006)	(206,266)	(62,146)	(1,511,853)
Balance at March 31, 2020		**15,190,294**	**24,860,550**	**921,629**	**1,306,973**	**42,279,446**
Accumulated depreciation						
Balance at January 1, 2019		**90,761**	**65,696**	**-**	**-**	**156,457**
Transfer from PPE		(449)	-	-	449	-
Additions		751,515	476,899	-	150,044	1,378,458
Foreign exchange		(6,764)	(1,761)	-	(11)	(8,536)
Balance at December 31, 2019		**835,023**	**540,834**	**-**	**150,482**	**1,526,339**
Additions		368,264	323,855	-	43,291	735,410
Foreign exchange		(25,273)	(18,279)	-	(11,832)	(55,384)
Balance at March 31, 2020		**1,178,014**	**846,410**	**-**	**181,941**	**2,206,365**
Net book value						
Balance at December 31, 2019		**8,611,703**	**24,343,559**	**7,102,385**	**1,218,637**	**41,276,284**
Balance at March 31, 2020		**14,012,280**	**24,014,140**	**921,629**	**1,125,032**	**40,073,081**

Equipment under construction includes plant and equipment which is not available for use and therefore is not depreciated. During the three months ended March 31, 2020, $45,548 (the three months ended March 31, 2019: $45,285) of depreciation was expensed to the condensed interim consolidated statement of loss and comprehensive loss and the remaining $689,862 (three months ended March 31, 2019: $363,102) of depreciation is allocated to raw material inventory stockpile.

On January 20, 2020, the Company's Adsorption-Desorption Recovery (ADR) Plant was fully commissioned by the Professional Inspection Agency of Mongolia. As a result of this event, cost of $5,974,490 was transferred from Equipment under construction to Property and Equipment.

Right of use assets comprise of headquarter office lease with lease term until July 31, 2021, two generators with lease terms until November 12, 2021 and March 31, 2020, respectively, and three light vehicles with one to three year lease terms.

(Expressed in US Dollars)

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.

	March 31, 2020 $	December 31, 2019 $
Amounts payable	5,555,125	3,684,938
Accrued liabilities	1,693,682	1,912,144
Other payables	275,324	97,833
Total amounts payable and accrued liabilities	**7,524,130**	**5,694,915**

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 $1,549,586 as at March 31, 2020 (December 31, 2019: $687,982), over a period of 11 years, and discounted using a risk-free rate of 14.50% per annum.

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

	March 31, 2020 $	December 31, 2019 $
Balance, beginning of period	270,950	320,536
Movements	413,543	(82,006)
Accretion	9,656	39,629
Foreign exchange	(7,988)	(7,209)
Balance, end of period	**686,161**	**270,950**

9. Streaming arrangement

In connection with the ATO Acquisition, the Company, Steppe Mongolia and Steppe BVI entered into a metals purchase and sale agreement (Stream Agreement) dated August 11, 2017 with Triple Flag Bermuda 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 Bermuda 25% of the gold and 50% of the silver produced from the ATO Project until such time as Steppe BVI has sold an aggregate of 46,000 ounces of gold and 375,000 ounces of silver, respectively. Thereafter the annual amounts that Steppe BVI is obligated to sell to Triple Flag Bermuda is capped at 5,500 ounces for gold (plus 250 ounces of gold for each three month period 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 Bermuda continues for the life of mine and includes any gold or silver produced by Steppe Mongolia within the stream area, which is the area within 20km from the boundary of the original mineral licenses comprising the ATO Project.

As additional consideration for entering into the Stream Agreement, the Company granted 2,300,000 purchase warrants to Triple Flag Bermuda, with each warrant (a "Stream Warrant") entitling the holder to acquire one unit of the Company (a "Stream Unit") at a price of CAD$2.00 per Stream Unit on or before September 15, 2022. Each Stream Unit is comprised of one common share and one common share purchase warrant, which entitles the holder to acquire one additional common share at CAD$2.00 per on or before September 15, 2022.

9. Streaming arrangement (continued)

On September 30, 2019 the Company entered into an agreement to amend the terms of its existing gold stream with Triple Flag Bermuda. Under the terms of the amendment, Triple Flag Bermuda advanced an additional deposit of $5,000,000 to Steppe Gold, bringing the total amount advanced to Steppe Gold by Triple Flag Bermuda under the gold stream to $28,000,000. The proceeds received from Triple Flag Bermuda were used to repay the final $5,000,000 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 $5,000,000, the parties agreed to reduce the variable gold and silver price payable by Triple Flag Bermuda 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 Bermuda on minerals derived from the Uudam Khundii property owned by Corundum.

As long as the upfront deposit of $28,000,000 (the “Upfront Deposit”) remains outstanding, the purchase price for the gold and silver required to be sold to Triple Flag Bermuda under the Stream Agreement is based on the product of 0.99 and spot prices 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 Bermuda. Once the uncredited balance of the Upfront Deposit has been reduced to nil the purchase price by Triple Flag Bermuda for the gold and silver shall be 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 $303,197 to the condensed interim consolidated statement of loss and comprehensive loss.

Accretion expenses of $335,500 during the three months ended March 31, 2020 (three months ended March 31, 2019: $259,669) were capitalized to property, plant and equipment under construction.

The Stream Agreement is subject to various financial covenants that come into effect as follows. These covenants include the maintenance of a net indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio that does not exceed 2.0 and its net indebtedness to Forecasted EBITDA ratio does not exceed 2.0 until the date of the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver. On or after the later of the delivery of 46,000 ounces of gold or 375,000 ounces of silver, the Company must ensure that its net indebtedness to EBITDA ratio does not exceed 2.5 and its net indebtedness to Forecasted EBITDA ratio does not exceed 2.5. The EBITDA ratio is defined in the agreement as a Leverage Ratio, calculated as Net Indebtedness to EBITDA, while the forecast ratio is defined as a Forward Leverage Ratio, calculated as Net Indebtedness to forecasted EBITDA. Net Indebtedness is defined as the indebtedness of the Steppe Parent excluding the Centerra Deferred Purchase Price Amount less any cash and liquid securities that is greater than the Centerra Deferred Purchase Price Amount. 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.

(Expressed in US Dollars)

9. Streaming arrangement (continued)

The continuity of the streaming liability is presented as follows:

	$
Balance, December 31, 2018	**20,112,036**
Accretion	259,669
Balance, March 31, 2019	**20,371,705**
Funding received	5,000,000
Transactional cost	(150,000)
Accretion	867,839
Gain on modification of debt	(303,197)
Balance, December 31, 2019	**25,786,347**
Accretion	335,500
Balance, March 31, 2020	**26,121,847**
Less: Current portion	**10,601,922**
Long term portion of streaming liability	**15,519,925**

10. Leases

The Company has leases for an office, generators and light motor vehicles. Each lease is reflected on the condensed interim 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 for the office is three years while the lease for the light vehicles and the generators range from one to three years. The leases have fixed payment terms.

Lease liabilities

The continuity of lease liability is presented as follows:

	$
Balance, December 31, 2018	**-**
Balance on adoption of IFRS 16	870,790
Interest expense	24,691
Lease payments	(275,560)
Balance, March 31, 2019	**619,921**
Additions	498,329
Interest expense	91,411
Lease payments	(640,965)
Foreign exchange	7,185
Balance, December 31, 2019	**575,881**
Interest expense	18,505
Lease payments	(164,645)
Foreign exchange	(27,680)
Balance, March 31, 2020	**402,061**
Less: Current portion	**292,443**
Lease liability non-current	**109,618**

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

	Within 1 year $	1 – 2 years $	2 – 3 years $	3 – 4 years $	**Total** **$**
March 31, 2020					
Lease payments	(292,443)	(140,839)	(22,279)	-	**(455,561)**

11. Convertible Debentures

(i) Private placement 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 $8.44million. $600,000 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 with all other Debentures issued under the Offering.

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 CAD2.00 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 value of the conversion feature of the Debentures 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 accounted using effective interest method at amortized cost. 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 $477,413 of which $255,038 was expensed in the consolidated statement of loss and comprehensive loss and $222,375 was capitalized to the convertible debentures - loan liability component in relation to Debentures. These costs included 6% finders’ fees of $467,400 and legal expenses of $9,878.

On December 31, 2019, the Company made the first semi-annual 10% interest payments of $374,203 to the Debenture holders of Debentures.

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).

As at March 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 0.42% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 90% (first tranche) and 88% (second tranche) based on comparable companies, and an expected life of 1.25 years (first tranche) and 1.41 years (second tranche).

(Expressed in US Dollars)

11. Convertible Debentures (continued)

(ii) Mongolian National Investment Fund Debentures (MNOF Debentures)

On January 30, 2020, the Company received funding from the Mongolian National Investment Fund PIF SPV. 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 LLC owned by the Company.

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

The MNOF Debentures are secured obligations of the Company and rank pari passu in right of payment of principal and interest with all other Debentures issued under the Offering.

The MNOF 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 $0.68 per common share.

The conversion feature of the MNOF 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 MNOF 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 accounted for using the effective interest method at amortized cost. 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 three months ended March 31, 2020, the Company has incurred transaction costs (finders fees of 6%) of $180,000 of which $64,634 was expensed in the consolidated statement of loss and comprehensive loss for the period and $115,366 was capitalized to the convertible debentures - loan liability component in relation to MNOF Debenture.

As at March 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 0.42% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 85% based on comparable companies, and an expected life of 1.84 years.

The following table discloses the components associated with the convertible debenture transactions on the closing date:

December 2019	**$**
Proceeds from private placement of convertible debentures	8,440,000
Less derivative component	(4,634,488)
Loan liability component	**3,805,512**

March 2020	**$**
Proceeds from issue of MNOF convertible debentures	3,000,000
Less derivative component	(1,077,229)
Loan liability component	**1,922,771**

(Expressed in US Dollars)

11. Convertible Debentures (continued)

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

	$
Value at initial recognition	3,805,512
Transaction costs	(222,375)
Accretion	976,869
Interest payments	(374,203)
Balance December 31, 2019	**4,185,803**
Initial recognition - MNOF Debentures	1,922,771
Transaction costs	(115,366)
Accretion	749,970
Interest (i)	(269,926)
Balance March 31, 2020	**6,473,252**

(i) Interest accrued as at March 31, 2020 is included in amounts payable and other liabilities (note 7)

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

	$
Value at initial recognition	4,634,488
Change in fair value of derivative liability	873,753
Balance December 31, 2019	**5,508,241**
Initial recognition - MNOF Debentures	1,077,229
Change in fair value of derivative liability	(1,501,713)
Balance March 31, 2020	**5,083,757**

(Expressed in US Dollars)

12. Share Capital

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

b) Common shares issued:

	Number of common shares	$
Balance, December 31, 2018	**41,540,895**	**20,421,437**
Equity Financing (i)	2,222,222	1,447,490
Uudam Khundii shares issued (ii)	1,400,000	647,322
Exercise of restricted share units (iii)	35,294	22,822
Balance, December 31, 2019	**45,198,411**	**22,539,071**
Equity Financing (i)	390,000	250,296
Exercise of restricted share units (iii)	35,294	22,570
Balance, March 31, 2020	**45,623,705**	**22,811,937**

(i) On December 23, 2019 the Company issued 2,222,222 common shares for CAD$2,000,000 and incurred share issue costs of CAD$120,000.
On January 27, 2020 the Company issued 390,000 common shares for CAD$351,000 and incurred share issue costs of CAD$21,060.

(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 and 35,294 common shares related to RSU's exercised on February 11, 2020 (Note 14).

13. Exploration and evaluation expenditures

For the three months ended March 31, 2020

	ATO Project $	Uudam Khundii Project $	South Tsagaan Temeet Prospect $	Bayan Munkh West and East Prospect $	Total $
General exploration	-	4,436	351	702	5,489
Total exploration and evaluation expenditures	**-**	**4,436**	**351**	**702**	**5,489**

For the three months ended March 31, 2019

	ATO Project $	Uudam Khundii Project $	South Tsagaan Temeet Prospect $	Bayan Munkh West and East Prospect $	Total $
General exploration	-	2,977	-	-	2,977
Total exploration and evaluation expenditures	**-**	**2,977**	**-**	**-**	**2,977**

Exploration expenditure on the ATO Project for the three months ended March 31, 2020 totaling $235,067 (for the three months ended March 31, 2019: $181,290) have been capitalized to the ATO project due to the project entering into the development phase on July 1, 2018.

(Expressed in US Dollars)

14. Stock based compensation

The following table reflects the continuity of options for the year ended December 31, 2019 and three months ended March 31, 2020:

	Exercisable options	Number of options	Fair value of stock options $	Weighted average exercise price CAD $
Balance at December 31, 2018	**3,118,333**	**4,155,000**	**3,891,327**	2.00
Balance at December 31, 2019	**3,636,667**	**4,155,000**	**3,891,327**	2.00
Balance at March 31, 2020	**3,636,667**	**4,155,000**	**3,891,327**	2.00

During the year December 31, 2019, two directors resigned from the Company. In accordance with the stock option plan, these options immediately vest upon resignation. A total of 80,000 options related to the October 10, 2018 stock option issuance were accelerated during the year.

Stock based compensation of $34,660 for the three months ended March 31, 2020 (three months ended March 31, 2019: $208,192) was expensed in the condensed interim consolidated statement of loss and comprehensive loss.

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

	Outstanding number of RSU
Balance at December 31, 2018	**105,882**
Exercised February 27, 2019	(35,294)
Balance at December 31, 2019	**70,588**
Exercised February 11, 2020	(35,294)
Balance at March 31, 2020	**35,294**

On February 27, 2019, 35,294 RSUs were exercised and $22,822 was transferred from liability to equity (note 12). As at year ended December 31, 2019, there were 70,588 RSUs outstanding and 35,294 RSUs exercisable.

On February 11, 2020, 35,294 RSUs were exercised and $22,570 was transferred from liability to equity (note 12). Vesting of RSUs of $2,790 was expensed in the consolidated statement of loss and comprehensive loss for the three months ended March 31, 2020 (2019 - $8,683) . As at March 31, 2020, there were 35,294 RSUs outstanding and $Nil RSUs exercisable.

15. Net loss per common share

The calculation of basic and diluted loss per share for the three months ended March 31, 2020 was based on the net loss attributable to common shareholders of $3,892,593 (three months ended March 31, 2019 - loss of $517,223) and the weighted average number of common shares outstanding of 45,496,375 (three months ended March 31, 2019 – 41,553,444).

(Expressed in US Dollars)

16. Related party transactions

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

During the three months ended March 31, 2020, management fees paid, or otherwise accrued, to key management personnel (defined as officers and directors of the Company) totaled $371,733, (three months ended March 31, 2019: $367,797). Stock based compensation of $37,192 and $37,450 was granted to key management for the three months ended March 31, 2019 and 2020 respectively. As at March 31, 2020, key management personnel were owed $219,194 (December 31, 2019: $17,844).

During the three month period ended March 31, 2020, a company for which the Vice President of Exploration is the CEO provided services to the Company totaling $367,467 (2019 - $35,811). As at March 31, 2020, $1,478,914 was owed to the company (December 31, 2019 - $1,497,879).

Bataa Tumur-Ochir, a director and officer of Steppe Gold Ltd. announced that on October 28, 2019, he purchased US$2,500,000 of the 10% two-year unsecured Company Debentures from Chinggis Khaan Bank. The principal amount of the Debentures is convertible into 4,807,692 common shares of Steppe, at a price of US$0.52 per common shares. As at March 31, 2020, all Debentures continue to be issued and outstanding, resulting in interest payable to Bata Tumur-Ochir totaling $62,329 during the three month period (March 31, 2019 – $nil).

17. Warrants

	Note	Number of warrants	Warrant (Equity) $	Warrant Liability $
Balance, December 31, 2018		**20,243,385**	**13,655,083**	**-**
Balance, December 31, 2019		**20,243,385**	**13,655,083**	**-**
Balance, March 31, 2020		**20,243,385**	**13,655,083**	**-**

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

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

18. Events after reporting period

First gold sales

The Company commenced its first gold pour on April 22 2020 and sold a total of 5,233 oz of gold and 1,372 oz of silver in two separate deliveries to the Central Bank of Mongolia. This generated net cash flow before stream obligations of $8.5 million.

Conversion of debentures

On April 9, 2020, privately held debentures with a total value of $2,500,000 were converted into 4,807,692 common shares of the Company.