STEPPE GOLD

Precious Metals Company

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021

(Expressed in US Dollars)

STEPPE GOLD LTD.
Condensed Interim 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)

As at	Notes	(Unaudited) March 31, 2021	(Audited) December 31, 2020
ASSETS			
Current assets			
Cash		8,501	15,089
Short term investments		5,020	5,033
Receivables and other assets	**3**	4,491	3,372
Inventories	**4**	14,107	9,904
Total current assets		**32,119**	**33,398**
Long-term assets			
Restricted cash	**12**	15,455	12,483
Uudam Khundii Project	**5**	1,902	1,907
Property, plant and equipment	**6**	37,903	37,828
Deposits on property, plant and equipment	**6**	1,005	-
Deferred tax		250	398
Total long-term assets		**56,515**	**52,616**
Total assets		**88,634**	**86,014**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	**7**	4,718	3,910
Current portion of streaming arrangement	**9**	6,768	6,689
Current portion of lease liability	**10**	210	242
Convertible debentures – derivative	**11**	4,535	5,808
Convertible debentures – loan liability	**11**	2,382	-
Current portion of long term loan	**12**	7,078	3,558
Total current liabilities		**25,691**	**20,207**
Long-term liabilities			
Long term portion of streaming arrangement	**9**	13,980	14,082
Asset retirement obligation	**8**	901	1,060
Lease liability	**10**	593	48
Convertible debentures – loan liability	**11**	-	2,237
Long term loan	**12**	6,372	7,052
Total long-term liabilities		**21,846**	**24,479**
Total liabilities		**47,537**	**44,686**
Shareholders' equity			
Share capital	**13**	54,081	54,081
Shares to be issued	**13**	946	946
Warrants	**14**	11,165	11,165
Contributed surplus		10,616	10,063
Non-controlling interest		(222)	(199)
Accumulated other comprehensive loss		(7,465)	(7,344)
Deficit		(28,024)	(27,384)
Total shareholders' equity		**41,097**	**41,328**
Total liabilities and shareholders' equity		**88,634**	**86,014**

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

Nature of operations (Note 1)

Approved on behalf of the Board:

(Signed) "Matthew Wood"____________, Director (Signed) “Batjargal Zamba"____________,Director

STEPPE GOLD LTD.
Condensed Interim 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)

Three months ended	Notes	(Unaudited) **March 31, 2021**	(Unaudited) **March 31, 2020**
Revenue	**16**	**1,634**	**-**
Cost of sales			
Production cost	**17**	(547)	-
Depletion and depreciation	**6**	(251)	-
Royalties		(123)	-
Profit from mine operations		**713**	**-**
Exploration and evaluation expenditures	**15**	(161)	(5)
Corporate administration	**18**	(2,089)	(876)
Operating loss		**(1,537)**	**(881)**
Finance income	**20**	1,001	596
Foreign exchange gain/(loss)		19	(3,609)
Net loss before tax		**(517)**	**(3,894)**
Income tax		(146)	-
Net loss after tax		**(663)**	**(3,894)**
Cumulative translation adjustment		(121)	2,002
Net loss and comprehensive loss		**(784)**	**(1,892)**
Net loss attributable to shareholders of the Company		(640)	(3,893)
Net loss attributable to non-controlling interest		(23)	(1)
		(663)	**(3,894)**
Net loss and comprehensive loss attributable to shareholders of the Company		(761)	(1,891)
Net loss and comprehensive loss attributable to non-controlling interest		(23)	(1)
		(784)	**(1,892)**
Basic and diluted net loss and comprehensive loss per common share		- (0.01)	- (0.09)
Weighted average number of common shares outstanding - basic and diluted	**21**	68,422,607	45,496,375

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

STEPPE GOLD LTD.
Condensed Interim 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	(Unaudited) **March 31, 2021**	(Unaudited) **March 31, 2020**
Operating activities			
Net loss for the period		(663)	(3,894)
Adjustments for non-cash items:			
Accretion and financing costs		(1,304)	(661)
Depletion and depreciation	**6**	251	46
Stock based compensation	**19**	519	37
Unrealized foreign exchange (gain)/loss		(91)	3,453
Drawdown of gold and silver stream	**9**	(170)	-
Income tax expense		146	-
Changes in working capital items:			
Inventories		(3,632)	(2,205)
Receivables and other assets		(662)	67
Amounts payable and other liabilities		777	1,598
Net cash used in operations		**(4,829)**	**(1,559)**
Investing activities			
Additions to property, plant and equipment		(443)	(311)
Deposits on property, plant and equipment	**6**	(1,005)	-
Net cash used in investing activities		**(1,448)**	**(311)**
Financing activities			
Proceeds from the issuance of convertible debentures	**11**	-	3,000
Proceeds from long term loan	**12**	2,850	-
Interest paid on convertible debentures		(58)	-
Convertible debenture issuance costs		-	(115)
Proceeds from equity financing	**13**	-	250
Lease obligation payments	**10**	(103)	(165)
Increase in restricted cash		(3,000)	-
Net cash (used in) generated from financing activities		**(311)**	**2,970**
Effect of exchange rate changes on cash held in foreign currency		-	19
Net (decrease)/increase in cash		**(6,588)**	**1,119**
Cash at the beginning of the period		15,089	671
Cash at the end of the period		**8,501**	**1,790**

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

STEPPE GOLD LTD.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2021
(All dollar amounts expressed in thousands of United States Dollars, other than the per share amounts or unless otherwise noted)
(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, 2019		45,198,411	22,539	-	3,780	13,655	(112)	(5,372)	(23,419)	11,071
Shares issued from exercise of RSUs		35,294	23	-	-	-	-	-	-	23
Equity financing		390,000	250	-	-	-	-	-	-	250
Stock based compensation		-	-	-	36	-	-	-	-	36
Comprehensive loss for the period		-	-	-	-	-	(1)	2,002	(3,893)	(1,892)
Balance as at March 31, 2020		**45,623,705**	**22,812**	**-**	**3,816**	**13,655**	**(113)**	**(3,370)**	**(27,312)**	**9,488**
Balance as at December 31, 2020		**68,422,607**	**54,081**	**946**	**10,063**	**11,165**	**(199)**	**(7,344)**	**(27,384)**	**41,328**
Stock based compensation	**19**	-	-	-	553	-	-	-	-	553
Comprehensive loss for the period		-	-	-	-	-	(23)	(121)	(640)	(784)
Balance as at March 31, 2021		**68,422,607**	**54,081**	**946**	**10,616**	**11,165**	**(222)**	**(7,465)**	**(28,024)**	**41,097**

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

1. Nature of operations

Steppe Gold Ltd. (the "Company" or "Steppe") was incorporated under the laws of the Ontario Business Corporations Act by Articles of Incorporation dated October 5, 2016. The Company is domiciled in Canada and its registered office is located at 18 King East, Suite 902, Toronto, Ontario, M5C 1C4. The Company is focused on operating, developing, exploring and acquiring 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 condensed interim consolidated financial statements have been prepared assuming the Company will continue on a going concern basis.

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

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 annual consolidated financial statements and accompanying notes for the year ended December 31, 2020 in conjunction with the review of these unaudited condensed interim consolidated financial statements. These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 14, 2021.

The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent audited annual consolidated financial statements as at and for the year ended December 31, 2020 other than as noted below.

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 three months ended March 31, 2020 shown in the condensed interim 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

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).

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.

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.

Critical accounting estimates

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 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.

2. Significant accounting policies (continued)

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.

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.

2. Significant accounting policies (continued)

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 condensed interim consolidated statements of loss and comprehensive loss.

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 judgment in its determination.

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.

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.

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 condensed interim 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.

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

3. Receivables and other assets

	March 31, 2021 $	December 31, 2020 $
Prepaid expenses	3,330	2,682
Trade receivables	618	99
Interest receivable	458	442
Other receivables	85	149
Total receivables and other assets	**4,491**	**3,372**

4. Inventories

	March 31, 2021 $	December 31, 2020 $
Stockpiles of ore	6,261	4,340
Gold in circuit	6,562	3,507
Finished goods	342	1,025
Consumables and supplies	942	1,032
Total inventories	**14,107**	**9,904**

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.

5. Uudam Khundii Project

The Company, through its subsidiary Steppe West LLC, entered into a share sales agreement dated May 15, 2017, with an unrelated third party to acquire 80% of Corundum Geo LLC for cash consideration of $1,100 and share consideration of 1,400,000 common shares of the Company. The acquisition was accounted as an asset acquisition.

Uudam Khundii asset:

	$
Balance at January 1, 2020	**1,992**
Foreign exchange adjustment	(85)
Balance at December 31, 2020	**1,907**
Foreign exchange adjustment	(5)
Balance at March 31, 2021	**1,902**

The accumulated other comprehensive loss related to foreign exchange for the three months ended March 31, 2021 totaled $5 (three months ended March 31, 2020: $58).

(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

	Property and Equipment	Altan Tsagaan Ovoo Property	Equipment under construction	Right-of-use asset	Total
	$	$	$	$	$
Cost					
Balance at January 1, 2020	**9,447**	**24,884**	**7,102**	**1,370**	**42,803**
Transfer from property and equipment	650	289	1,235	88	2,262
Additions	6,848	-	(6,848)	-	-
Transfer of equipment completed	31	-	-	(31)	-
Accretion costs	-	335	-	-	335
Asset retirement costs	-	500	-	-	500
Foreign exchange	(413)	(806)	(262)	(33)	(1,514)
Balance at December 31, 2020	**16,563**	**25,202**	**1,227**	**1,394**	**44,386**
Additions	423	20	-	583	1,026
Transfer of equipment completed	1,221	-	(1,221)	-	-
Asset retirement costs	-	(26)	-	-	(26)
Foreign exchange	(32)	(5)	(6)	3	(40)
Balance at March 31, 2021	**18,175**	**25,191**	**-**	**1,980**	**45,346**
Accumulated depreciation					
Balance at January 1, 2020	**835**	**541**	**-**	**151**	**1,527**
Transfer from PPE	2	-	-	(2)	-
Additions	2,442	2,421	-	222	5,085
Foreign exchange	(52)	(10)	-	8	(54)
Balance at December 31, 2020	**3,227**	**2,952**	**-**	**379**	**6,558**
Additions	480	359	-	50	889
Foreign exchange	(7)	1	-	2	(4)
Balance at March 31, 2021	**3,700**	**3,312**	**-**	**431**	**7,443**
Net book value					
Balance at December 31, 2020	**13,336**	**22,250**	**1,227**	**1,015**	**37,828**
Balance at March 31, 2021	**14,475**	**21,879**	**-**	**1,549**	**37,903**

During the three months ended March 31, 2021, $251 (three months ended March 31, 2020: $46) of depreciation was expensed to condensed interim consolidated statements of loss and comprehensive loss and $638 was capitalized to inventory.

Heap leach cells which were under construction as at December 31, 2020 have been completed and concluded to be ready for use during the three months ended March 31, 2021 and the capitalized amount of $1,221 has been transferred to Property and Plant. The heap leach cells were not used for operation as at March 31, 2021.

During the three months ended March 31, 2021, the lease agreement for the office was modified, reducing the leased space and extending the term for an additional 5.5 years. In connection with the modification, the carrying value of the right of use asset was increased by $479 and a loss on modification of lease was recognized in the condensed interim consolidated statement of loss and comprehensive loss totaling $18 (Note 20). In addition, there was an increase of $104 in the right of use asset related to a new light vehicle lease.

During the three months ended March 31, 2021, the Company paid amounts totaling $1,005 as an upfront deposit on a new crusher. The upfront deposit has been included in deposits on property, plant and equipment in the condensed interim consolidated statement of financial position as at March 31, 2021.

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

7. Amounts payable and other liabilities

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

	March 31, 2021	**December 31, 2020**
	$	**$**
Amounts payable	4,412	3,371
Accrued liabilities	56	242
Other payables	250	297
Total amounts payable and other liabilities	**4,718**	**3,910**

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 $1,962 as at March 31, 2021 (December 31, 2020: $2,280), over a period of 10 years (December 31, 2020: 10.25 years), and discounted using a risk-free rate of 10.25% for the period (March 31, 2020: 10.25%).

A summary of the Company's asset retirement obligation as at March 31, 2021 and December 31, 2020 is presented below:

	March 31, 2021	**December 31, 2020**
	$	**$**
Balance beginning of the period	**1,060**	**271**
Movements	(150)	659
Accretion	26	76
Change in estimate of asset retirement obligation	(31)	71
Foreign exchange	(4)	(17)
Balance end of the period	**901**	**1,060**

During the three months ended March 31, 2021, movements in the asset retirement obligation due to an increase (decrease) in disturbance costs totaling $(26) (three months ended March 31, 2020: $343) was capitalized to property, plant and equipment and $(124) (three months ended March 31, 2020: $nil) was capitalized to inventory.

9. Streaming arrangement

In connection with the ATO Acquisition, the Company's subsidiaries, Steppe Gold LLC ("Steppe Mongolia") and Steppe Investments LLC ("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.

9. Streaming arrangement (continued)

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 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 three months ended March 31, 2021, accretion expenses totaling $147 were expensed (three months ended March 31, 2020: $nil) in the condensed interim consolidated statement of loss and comprehensive loss (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 ("Forcasted EBITDA Ratio"). Per the agreement, the EBITDA 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.

(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:

	March 31, 2021 $	December 31, 2020 $
Balance beginning of the period	**20,771**	**25,786**
Accretion	147	1,150
Drawdown of gold and silver stream	(170)	(6,165)
Balance end of the period	**20,748**	**20,771**
Current portion	**6,768**	**6,689**
Long term portion	**13,980**	**14,082**

10. Lease Liability

The Company has leases in place for its office, generator 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 (Note 6).

The lease term for the office is six years expiring in 2027 while the lease term for the light vehicles and the generators range from one to seven years. The leases have fixed payment terms.

The continuity of lease liability is presented as follows:

	March 31, 2021	December 31, 2020
Balance beginning of the period	**290**	**576**
Additions (note 6)	601	88
Interest expense	18	60
Lease payments	(103)	(415)
Foreign exchange	(3)	(19)
Balance end of the period	**803**	**290**
Current portion	**210**	**242**
Long term portion	**593**	**48**

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at March 31, 2021 is as follows:

	Within 1 year $	1 – 2 years $	2 – 3 years $	3 + years $	**Total** **$**
March 31, 2021					
Lease payments	(271)	(203)	(185)	(421)	**(1,080)**

11. Convertible Debentures

(i) Private placement of convertible debentures

On July 2, 2019 and on August 27, 2019, the Company closed the private placements issuing $5.4 million and $3.04 million principal amount of two-year unsecured convertible debentures ("Debentures") respectively. $600 of the proceeds from the debentures was allocated from unsettled accounts payable.

The Debentures beared interest from the date of closing at 10% per annum and were convertible at the option of the holder into common shares of the Company at a conversion price of $0.52 per common share.

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, 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).

(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.

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

As at March 31, 2021, the fair value of convertible debentures - derivative component was estimated based on the Black Scholes pricing model using a stock price of $1.7, risk free interest rate of 0.22% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rate of 61.49% based on the Company's historical share price, and an expected life of 0.84 years (December 31, 2020: stock price - $2, risk free rate – 0.2%, expected dividend yield of 0%, volatility rate – 68.69%, expected life – 1.08 years).

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

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

	$
Balance at January 1, 2020	**4,186**
Initial recognition - MNIF Debentures	1,923
Issuance costs	(115)
Accretion	2,198
Interest	(768)
Converted to common shares	(5,187)
Balance at December 31, 2020	**2,237**
Accretion	234
Interest (i)	(89)
Balance at March 31, 2021	**2,382**

(i) $31 of interest paid and $58 of accrued interest as at March 31, 2021. Accrued interest payable 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:

	$
Balance at January 1, 2020	**5,508**
Initial recognition - MNIF Debentures	1,077
Change in fair value of derivative liability	17,953
Converted to common shares	(18,730)
Balance at December 31, 2020	**5,808**
Change in fair value of derivative liability	(1,273)
Balance at March 31, 2021	**4,535**

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

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$12,455 as at March 31, 2021). The cash deposit is disclosed as restricted cash. Under the terms of the loan, the Company is required to sell all of gold produced throughout the financing period to TDB and 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.

On February 9, 2021, the Company entered into a loan agreement with the Capitron Bank of Mongolia ("Capitron") for $2,850. The loan is secured with a cash deposit held by Capitron totaling $3,000. The cash deposit is disclosed as restricted cash. Under the terms of the loan, the Company is required to sell 30% of its gold produced throughout the financing period to Capitron. The purpose of the loan is to provide financing for the purchase of a new crusher at the ATO project. The outstanding principal balance on the loan is subject to interest at a rate of 8.2% per annum, payable monthly. Repayment of the principal balance on the loan is due on January 28, 2023.

	March 31, 2021 **$**	**December 31, 2020** **$**
Balance beginning of the period	**10,610**	**-**
Loan advanced	2,850	10,510
Interest	317	324
Repayment	(303)	(292)
Foreign exchange	(24)	68
Balance end of the period	**13,450**	**10,610**
Current portion	**7,078**	**3,558**
Long term portion	**6,372**	**7,052**

13. Share Capital

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

b) Common shares issued:

	Number of common shares	**$**
Balance at January 1, 2020	**45,198,411**	**22,539**
Equity financing (i) (ii)	7,371,944	8,231
Exercise of restricted share units (iii)	198,419	340
Convertible debentures converted into shares (iv)	15,653,833	22,971
Balance at December 31, 2020	**68,422,607**	**54,081**
Balance at March 31, 2021	**68,422,607**	**54,081**

(i) 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.

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

13. Share Capital (continued)

b) Common shares issued (continued):

(ii) 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.

(iii) 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.

(iv) 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)

14. Warrants

	Number of warrants	Warrant (Equity) $
Balance at January 1, 2020	**20,243,385**	**13,655**
Expired on May 22, 2020	(13,134,135)	(5,362)
Issued on August 5, 2020	6,976,944	2,872
Balance at December 31, 2020	**14,086,194**	**11,165**
Balance at March 31, 2021	**14,086,194**	**11,165**

The following table reflects the actual warrants issued, outstanding and exercisable as of March 31, 2021:

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

15. Exploration and evaluation expenditures

	Three months ended March 31, 2021	Three months ended March 31, 2020
ATO project	158	1
Uudam Khundii project	3	4
Total	**161**	**5**

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

16. Revenue

Revenue by metal for the three months ended March 31, 2021 and March 31, 2020 was as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Gold revenue	1,613	-
Silver revenue	21	-
Total	**1,634**	**-**

17. Production cost

	Three months ended March 31, 2021	Three months ended March 31, 2020
Contractors	276	-
Employee compensation	78	-
Materials and consumables	161	-
Other expenses	32	-
Total	**547**	**-**

18. Corporate administration

	Three months ended March 31, 2021	Three months ended March 31, 2020
Management compensation	421	206
Stock based compensation	519	37
Corporate social responsibility	117	64
Direct general administrative	1,032	569
Total	**2,089**	**876**

19. Stock based compensation

The following table reflects the continuity of options for the three months ended March 31, 2021:

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
Balance at March 31, 2021		**4,075,000**	**4,075,000**	**3,888**

	Number of options	Exercisable price $
Balance at January 1, 2020	**4,155,000**	**2.00**
Expired options	(80,000)	2.00
Balance at December 31, 2020	**4,075,000**	**2.00**
Balance at March 31, 2021	**4,075,000**	**2.00**

During the three months ended March 31, 2021, stock based compensation totaling $nil (three months ended March 31, 2020: $34) related to options was expensed in the condensed interim 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)

19. Stock based compensation

The following table reflects the continuity of RSUs as at March 31, 2021 and December 31, 2020:

	Outstanding number of RSU
Balance at January 1, 2020	**70,588**
Granted (i)	1,957,500
Exercised (ii) (iii)	(198,419)
Forfeited (iv)	(35,294)
Balance at December 31, 2020	**1,794,375**
Balance at March 31, 2021	**1,794,375**

(i) 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.

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

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

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

Vesting of RSUs of $519 as at March 31, 2021 (March 31, 2020:$3) are included in corporate administration costs and $57 (March 31, 2020:$nil) are included in production costs in the condensed interim consolidated statement of loss and comprehensive loss for the three months ended March 31, 2021. As at March 31, 2021, there were 1,794,375 RSUs outstanding and nil RSUs exercisable.

20. Finance costs

	March 31, 2021	March 31, 2020
Accretion on convertible debentures	234	740
Accretion on lease liability	18	19
Accretion on asset retirement obligation	26	10
Accretion on stream liability	147	-
Interest on long term loan	317	-
Interest on restricted cash	(457)	-
Change in fair value of derivative liability	(1,273)	(1,502)
Changes in estimate of asset retirement obligation	(31)	72
Loss on modification of lease	18	-
Cost of issue convertible debentures	-	65
Total	**(1,001)**	**(596)**

21. Net loss per common share

The calculation of basic and diluted loss per share for the three months ended March 31, 2021 was based on the net loss attributable to common shareholders of $640 (three months ended March 31, 2020 - loss of $3,893) and the weighted average number of common shares outstanding of 68,422,607 (three months ended March 31, 2020 – 45,496,375).

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

22. Related party transactions

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

During the three months ended March 31, 2021 and 2020, management fees paid, or otherwise accrued, to key management personnel (defined as officers and directors of the Company) are shown below:

	March 31, 2021	March 31, 2020
Management fees paid to key personnel	321	372
Stock based compensation	257	37
Total	**578**	**409**

As at March 31, 2021, key management personnel were owed $1 (March 31, 2020: $219).

During the three months ended March 31, 2021, Erdenyn Erel, a company for which the Vice President of Exploration is the CEO provided services to the Company totaling $nil (2020 - $368). As at March 31, 2021, $707 was owed to Erdenyn Erel (March 31, 2020 - $1,479).

Bataa Tumur-Ochir, a director and officer of Steppe Gold Ltd. announced that on October 28, 2019, he purchased US$2,500 of the 10% two-year unsecured Company Debentures from Chinggis Khaan Bank. During the three months ended March 31, 2021, interest paid to Bataa Tumur-Ochir totaled $nil (three months ended March 31, 2020 - $63)

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 that is held in receivables and other assets on the condensed interim consolidated statements of financial position as at March 31, 2021 and December 31, 2020. Bataa Tumur-Ochir, Matthew Wood and Jeremy South are directors of the board of Aranjin.