



Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(Expressed in US Dollars)

(Unaudited)

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)

	Notes	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
ASSETS			
Current assets			
Cash		4,759	2,640
Short term investments		1,324	1,431
Receivables and other assets	3	5,876	5,498
Prepaid tax		-	323
Inventories	4	23,521	22,358
Current portion of restricted cash	12	33,082	-
Total current assets		68,562	32,250
Long-term assets			
Non-current restricted cash	12	-	69,177
Uudam Khundii Project		1,626	1,917
Property, plant and equipment	5	39,038	35,990
Deposits on property, plant and equipment	5	-	6,001
Deferred tax asset		763	941
Total long-term assets		41,427	114,026
Total assets		109,989	146,276
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	6	9,696	6,570
Current portion of streaming arrangement	8	20,911	23,305
Current portion of lease liability	9	116	140
Current tax liability		1,908	-
Convertible debentures – derivative	10	1,022	1,074
Convertible debentures – loan liability	10	-	2,930
Short term loan – TDB Gold sales loan	11	2,803	10,566
Short term loan – Triple Flag Gold Prepay loan	11	5,015	-
Current portion of long term loan	12	36,152	28,360
Total current liabilities		77,623	72,945
Long-term liabilities			
Long term portion of streaming arrangement	8	16,010	23,624
Asset retirement obligation	7	3,493	3,185
Lease liability	9	395	513
Convertible debentures – loan liability	10	1,400	-
Long term loan	12	-	38,994
Total long-term liabilities		21,298	66,316
Total liabilities		98,921	139,261
Shareholders' equity			
Share capital	13	55,760	55,292
Warrants	14	5,642	11,165
Contributed surplus		17,439	11,749
Accumulated other comprehensive loss		(15,594)	(7,791)
Deficit		(51,781)	(63,146)
Total equity attributable to the owners of the Company		11,466	7,269
Non-controlling interest		(398)	(254)
Total shareholders' equity		11,068	7,015
Total liabilities and shareholders' equity		109,989	146,276

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 Income and Comprehensive Income**

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

	Notes	Three Months ended September 30,		Nine Months Ended September 30,	
		2022 (Unaudited)	2021 (Unaudited) (Note 24)	2022 (Unaudited)	2021 (Unaudited) (Note 24)
Revenue	15	21,710	3,450	44,404	17,440
Cost of sales	16	(10,474)	(3,222)	(22,141)	(10,444)
Gross profit		11,236	228	22,263	6,996
Exploration and evaluation expenditures	17	(935)	(477)	(1,744)	(870)
Corporate administration	18	(2,314)	(2,265)	(6,468)	(6,492)
Operating profit/(loss)		7,987	(2,514)	14,051	(366)
Finance income	19	4,908	1,898	1,672	4,224
Foreign exchange gain/(loss)		201	(149)	(1,783)	(16)
Net profit/(loss) before tax		13,096	(765)	13,940	3,842
Income tax		(2,055)	(164)	(2,719)	(1,186)
Net profit/(loss) after tax		11,041	(929)	11,221	2,656
Items that may be reclassified subsequently to profit or loss:					
Cumulative translation adjustment		(4,366)	7	(7,803)	(529)
Net profit/(loss) and comprehensive income/(loss)		6,675	(922)	3,418	2,127
Net income/(loss) attributable to shareholders of the Company		11,134	(923)	11,365	2,703
Net loss attributable to non-controlling interest		(93)	(6)	(144)	(47)
		11,041	(929)	11,221	2,656
Net profit/(loss) and comprehensive income /(loss) attributable to shareholders of the Company		6,768	(916)	3,562	2,174
Net loss attributable to non-controlling interest		(93)	(6)	(144)	(47)
		6,675	(922)	3,418	2,127
Basic and diluted net income/(loss) and comprehensive income per common share		0.158	(0.014)	0.161	0.039
Weighted average number of common shares outstanding - basic and diluted		69,896,003	68,495,020	69,665,710	68,495,020

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	September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited) (Note 24)
Operating activities			
Net profit for the period		11,221	2,656
<u>Adjustments for non-cash items:</u>			
Change in the fair value of convertible debenture	10	(950)	-
Change in the fair value of TDB Gold Sales Loan	11	140	-
Change in the fair value of TDB Gold Prepay Loan		215	-
Gain on modification of convertible debenture	19	(1,074)	-
Accretion and financing costs		(220)	(4,643)
Depreciation	5	3,157	1,874
Stock based compensation		600	1,397
Unrealized foreign exchange loss		(4,587)	(270)
Change in the fair value of stream liability	8	(999)	(1,559)
Income tax expense		-	1,034
Deferred tax		178	-
Operating cash flows before changes in non-cash working capital items		7,681	489
<u>Changes in working capital items:</u>			
Inventories		(1,299)	(7,967)
Receivables and other assets		(55)	(2,269)
Amounts payable and other liabilities		5,001	4,827
Net cash generated by/(used in) operations		11,328	(4,920)
Investing activities			
Acquisition of property, plant and equipment under construction	5	(4,492)	(1,723)
Deposit on property, plant and equipment	5	-	(3,478)
Short term investment		-	1,500
Net cash used in investing activities		(4,492)	(3,701)
Financing activities			
Proceeds from Capitron loan	12	-	62,283
Proceeds from Gold Prepay Loan	11	4,800	-
Interest income		3,898	-
Interest paid on convertible debentures	10	(270)	(239)
Interest paid on TDB long term loan		(3,452)	-
Repayment of Gold 2 Loans	12	(21,327)	-
Repayment of TDB Gold sales loan	11	(7,806)	(6,346)
Repayment of stream financing	8	(9,009)	(3,560)
Convertible debenture – Aranjin Resources		-	(1,424)
Lease obligation payments	9	(145)	(243)
Restricted cash	12	28,226	(55,846)
Net cash used in financing activities		(5,085)	(5,375)
Effect of exchange rate changes on cash held in foreign currency		368	(75)
Net decrease in cash		2,119	(14,071)
Cash at the beginning of the period		2,640	15,089
Cash at the end of the period		4,759	1,018

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 nine months ended September 30, 2022**

(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	Accumulated other comprehensive loss	Deficit	Sub-total	Non-controlling interest Corundum	Total equity
			\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2020		68,422,607	54,081	946	10,063	11,165	(7,344)	(40,526)	28,385	(199)	28,186
Stock based compensation		549,127	612	-	856	-	-	-	1,468	-	1,468
Comprehensive income/(loss) for the period		-	-	-	-	-	(529)	2,703	2,174	(47)	2,127
Balance as at September 30, 2021		68,971,734	54,693	946	10,919	11,165	(7,873)	(37,823)	32,027	(246)	31,781
Balance as at December 31, 2021		69,548,657	55,292	-	11,749	11,165	(7,791)	(63,146)	7,269	(254)	7,015
Stock based compensation		541,625	468	-	167	-	-	-	635	-	635
Comprehensive income/(loss) for the period		-	-	-	-	-	(7,803)	11,365	3,562	(144)	3,418
Warrants	14	-	-	-	5,523	(5,523)	-	-	-	-	-
Balance as at September 30, 2022		70,090,282	55,760	-	17,439	5,642	(15,594)	(51,781)	11,466	(398)	11,068

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

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

1. Nature of operations

Steppe Gold Ltd. (the "Company" or "Steppe") was incorporated under the laws of the Ontario Business Corporations Act by Articles of Incorporation dated October 5, 2016. The Company is domiciled in Canada and its registered office is located at 55 Metcalfe St Suite 1300, Ottawa, ON K1P 6L5, Canada. 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 \$19,800 plus \$1,980 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.

Impacts of the COVID-19 pandemic and now the conflict in Ukraine continue to cause disruptions to business in Mongolia. There have been challenges in supply chain logistics, which have hampered operations in 2022. These supply chain challenges have caused major disruptions across the mining industry in Mongolia as most mining companies are heavily reliant on Chinese suppliers. Notably, Chinese suppliers have heavily restricted transport of goods into Mongolia and this has been most pronounced in the transport of chemicals that are critical for gold production. The conflict in Ukraine has also caused disruption to supply chains in Russia and some banking arrangements in Central Asian countries which has restricted the supply of US dollars in some cases.

Preventative measures are in place to ensure the well-being of employees and contractors. Management continues to monitor the situation at the site and corporate offices to prevent or minimize any effects that the COVID-19 the pandemic may have on operational or financial reporting activities.

The Company announced the resumption of gold and silver production early in 2022 with new shipments of key reagents. While the China/Mongolia border remains closed to certain key reagents, the Company has established alternate supply arrangements which, while more expensive, it believes will support continued production. However, with COVID-19 issues now pronounced in China, there remains a risk of further disruption to supply in the future.

Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes the realization of assets and satisfaction of liabilities in the normal course of business for the foreseeable future. For the nine months period ended September 30, 2022, the Company realized net income of \$11,221 (September 30, 2021: \$2,656) and an accumulated deficit and other comprehensive losses of \$67,375 (December 31, 2021: \$70,937).

As at September 30, 2022, the company had total current assets of \$68,562 (December 31, 2021: \$32,250) and total current liabilities of \$77,623 (December 31, 2021: \$72,945).

In 2022, the Company's operations have been financed using a combination of funds generated through gold sales, advanced from the TDB Gold Sales Loan and Triple Flag Gold Prepay loan.

Management is of the opinion that the production rate and inventory position at the Company supports the position that Steppe will maintain its liquidity from ongoing operations through 2022 and currently has sufficient financing arrangements in place to support further expansion and continued operations.

Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 4, 2022.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

2. Recent pronouncements not yet effective and that have not been adopted early

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 consolidated financial statements as at and for the year ended December 31, 2021.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are not yet effective. The standards and amendments issued that are applicable to the Company are as follows:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. No significant impact to the Company's financial statements is expected.

Amendments to IAS 8 – accounting policies, changes in accounting estimates and errors

The amendments to IAS 8 are applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event, or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. The amendments effective for annual periods beginning on or after January 1, 2023, with early application permitted. No significant impact to the Company's financial statements is expected.

Amendments to IAS 12– income taxes

The amendments to IAS 12 implement a so-called "comprehensive balance sheet method" of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. No significant impact to the Company's income taxes is expected.

3. Receivables and other assets

	September 30, 2022	December 31, 2021
	\$	\$
Prepaid expenses	4,574	3,209
Trade receivables	184	5
Interest receivable	245	1,488
Other receivables	873	796
Total receivables and other assets	5,876	5,498

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

4. Inventories

	September 30, 2022	December 31, 2021
	\$	\$
Stockpiles of ore	11,749	12,726
Gold in circuit	7,576	7,857
Finished goods	2,565	751
Consumables and supplies	1,631	1,024
Total inventories	23,521	22,358

As at September 30, 2022, the balance of the run of mine or ROM pad and stacked ore was 683,999 (December 31, 2021: 552,762) tons with a carrying value of \$11,749 and 40,658 ounces of gold (December 31, 2021: 33,681) was estimated to be generated. Gold in circuit included 9,103 ounces of gold (December 31, 2021: 13,148) with a carrying value of \$7,576 and finished goods included 3,211 ounces of gold (December 31, 2021: 533) with a carrying value of \$2,565.

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. Silver inventory is a by-product in addition to the primary product gold. The finished goods inventory excludes the by-product.

5. Property, plant and equipment under construction

	Property and Equipment	Altan Tsagaan Ovoo Property	Equipment under construction	Right-of- use asset	Total
	\$	\$	\$	\$	\$
Cost					
Balance at January 1, 2021	16,563	24,866	1,227	1,394	44,050
Additions	1,425	62	841	586	2,914
Transfer of equipment completed	1,739	-	(1,739)	-	-
Asset retirement costs	-	118	-	-	118
Foreign exchange	120	113	(3)	3	233
Balance at December 31, 2021	19,847	25,159	326	1,983	47,315
Additions	994	95	9,433	(29)	10,493
Asset retirement costs	-	596	-	-	596
Foreign exchange	(3,001)	(3,546)	(64)	(232)	(6,843)
Balance at September 30, 2022	17,840	22,304	9,695	1,722	51,561
Accumulated depreciation					
Balance at January 1, 2021	3,227	2,952	-	379	6,558
Additions	2,502	1,987	-	205	4,694
Foreign exchange	43	29	-	1	73
Balance at December 31, 2021	5,772	4,968	-	585	11,325
Additions	2,148	602	-	181	2,931
Foreign exchange	(957)	(709)	-	(67)	(1,733)
Balance at September 30, 2022	6,963	4,861	-	699	12,523
Net book value					
Balance at December 31, 2021	14,075	20,191	326	1,398	35,990
Balance at September 30, 2022	10,877	17,443	9,695	1,023	39,038

During the nine months ended September 30, 2022, the Company acquired items of property, plant and equipment with a cost of approximately \$1,468 (September 30, 2021: \$2,313).

During the nine months ended September 30, 2022, total of \$3,157 (September 30, 2021: \$2,003) of depreciation was expensed to the condensed interim consolidated statements of income and \$(226) (September 30, 2021: \$1,793) capitalized to inventory.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

5. Property, plant and equipment under construction (continued)

On October 27, 2021, the Company announced the results of an updated Feasibility Study results and the management concluded that the effective date of associated changes in estimates is November 1, 2021. Amortization of assets depreciated based on the life of mine were recalculated by amortizing the net book value of the assets over the new estimated life of mine which is 12.5 years.

Adjustments to the assets depreciated on the unit of production basis were calculated on the net book value as at November 1, 2021 amortized over the remaining tons of ore determined as of the date of the report, net of any tons that are mined between the period July 1, 2021 and October 31, 2021.

In the nine months ended September 30, 2022, the Company paid amounts totaling \$9,025 (September 30, 2021: \$3,479) as an upfront deposit for a new crusher. The upfront deposit has been reported under deposits on property, plant and equipment as at December 31, 2021. It has been reclassified as a property, plant and equipment under construction in the condensed interim consolidated statement of financial position as at September 30, 2022.

(i) Non-depreciable assets

The non-depreciable assets mainly include the equipment under construction. Depreciation on these assets will commence once they are ready for their intended use.

(ii) Pledge on items of property, plant and equipment

As at September 30, 2022, 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 were pledged as security for the Stream Agreement granted to the Company (Note 8). Steppe Mongolia's licenses, movable properties and immovable properties were pledged under 2021 Gold 2 Loan agreement. An intercreditor agreement governs the priority and rankings of charges between TDB and Triple Flag.

(iii) Right-of-use assets

The right-of-use assets relate to office, generator and light motor vehicles amounted to \$1,023 as at September 30, 2022 (September 30, 2021: \$1,425).

6. 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.

	September 30, 2022	December 31, 2021
	\$	\$
Amounts payable	8,521	5,727
Accrued liabilities	550	384
Provisions	377	377
Other payables	248	82
Total amounts payable and other liabilities	9,696	6,570

7. Asset retirement obligation

The provision for environmental rehabilitation consists of land rehabilitation, demolition of buildings and mine facilities, and related costs. Although the ultimate amount of the environment rehabilitation provision is uncertain, the amount of these obligations is based on information currently available, including closure plans and the Company's interpretation of current regulatory requirements.

The provision for environmental rehabilitation relates to reclamation and closure costs of the Company's ATO Project. The undiscounted provision for environmental rehabilitation is estimated at \$2,407 as at September 30, 2022 (December 31, 2021: \$2,239).

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

7. Asset retirement obligation (continued)

A summary of the Company's asset retirement obligation as at September 30, 2022 and December 31, 2021 is presented below:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	3,185	1,060
Movements	685	(23)
Accretion	280	79
Change in estimate of asset retirement obligation	10	2,040
Foreign exchange	(667)	29
Balance end of the period	3,493	3,185

During the nine months ended September 30, 2022, movements in the asset retirement obligation were due to an increase in disturbance costs totaling \$596 (December 31, 2021: \$118) which was capitalized to property, plant and equipment and \$89 (December 31, 2021: \$(141)) which was capitalized to inventory.

8. 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 (Triple Flag) to sell gold and silver produced from the ATO Project. Under the terms of the Stream Agreement, Triple Flag advanced an upfront deposit of \$23,000 to Steppe Gold and Steppe BVI is obligated to sell to Triple Flag 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 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 variable gold and silver price payable by Triple Flag on delivery of gold and silver is 30% of the relevant market price. The obligation of Steppe BVI to sell gold and silver to Triple Flag 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.

On September 30, 2019, the Company entered into an agreement to amend the terms of its existing gold stream with Triple Flag. Under the terms of the amendment, Triple Flag advanced an additional deposit of \$5,000 to Steppe Gold, bringing the total amount advanced to Steppe Gold by Triple Flag under the gold stream to \$28,000. The proceeds received from Triple Flag 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 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 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 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. Once the uncredited balance of the Upfront Deposit has been reduced to nil the purchase price by Triple Flag 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.

Triple Flag 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. Pursuant to the Stream Agreement, Steppe BVI has an option to buy gold and silver from open market and resell such gold and silver to Triple Flag.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

8. Streaming arrangement (continued)

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. The obligations are also secured by 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.

In addition, the Company granted 2,300,000 purchase warrants to Triple Flag, with each warrant entitling the holder to acquire one unit that comprised of one common share and one common share purchase warrant of the Company at a price of C\$2.00 per unit on or before September 15, 2022. All of the purchase warrants expired on September 15, 2022 without having been exercised.

The Stream Agreement is subject to various financial covenants in the form of ratios. These covenants include the indebtedness of the Company, excluding all amounts owing from time to time under the Company's promissory note on completion of the ATO Acquisition ("Centerra Deferred Purchase Price Amount") less any cash and liquid securities that is greater than the Centerra Deferred Purchase Price Amount ("Net Indebtedness") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The covenant is defined in the agreement as a leverage ratio, calculated as Net Indebtedness of the Company to EBITDA ("EBITDA Ratio") and a forward leverage ratio, calculated as Net Indebtedness to forecasted EBITDA ("Forecasted EBITDA Ratio"). Per the agreement, the 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 in compliance with the covenants as noted in the stream arrangement.

The Stream Agreement is recorded at fair value at each statement of financial position date as the Company has determined the obligation is a derivative liability to be carried at FVTPL. The fair value of the Stream Agreement was valued using a discounted cash flow approach with consideration for the contractual terms of the Stream Agreement and using input assumptions including mine production plans, expected production taking into consideration technical feasibility reports, expected forward prices of gold and silver using the COMEX forward contract price and discount rate related to the risk of the forecasted cash flows.

The valuation was prepared by an independent valuation specialist and the life of mine production schedule and expectations including expansion plans are based on the information compiled by qualified persons.

The continuity of the streaming liability is presented as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	46,929	33,577
Fair value movement for the period	(999)	18,359
Repayment	(9,009)	(5,007)
Balance end of the period	36,921	46,929
Current portion	20,911	23,305
Long term portion	16,010	23,624

9. Lease Liability

The Company has leases in place for its office in Toronto, Canada and certain light motor vehicles. Each lease is included 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 5).

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

9. Lease Liability (continued)

The continuity of lease liability is presented as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	653	290
Additions	-	586
Interest expense	59	92
Lease payments	(145)	(311)
Foreign exchange	(56)	(4)
Balance end of the period	511	653
Current portion	116	140
Long term portion	395	513

10. Convertible Debenture

On January 30, 2020, the Company received funding from the Mongolian National Investment Fund PIF SPV ("MNIF") by issuing \$3,000 of convertible debentures ("debentures") at 12% interest rate per annum, with two years maturity date from the date of grant at a conversion price of US\$0.68 per common shares. The debentures were secured by all of the shares of Steppe West LLC, a wholly owned subsidiary of the Company.

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.

On January 27, 2022, MNIF and the CEO of the Company, Bataa Tumor-Ochir, entered into a form of transfer (the "Transfer Agreement"). Pursuant to the Transfer Agreement, MNIF agreed to transfer to Mr. Tumor-Ochir the debentures of the Company held by MNIF. Subsequently the maturity date of the debentures was extended to January 27, 2024 and the interest payment terms have been changed to a quarterly basis. Following the transfer of the debentures from MNIF, all security was released. The debentures are now unsecured obligations of the Company.

The changes in convertible debenture loan liability are as follows:

	\$
Balance at January 1, 2021	2,237
Accretion	1,053
Interest	(360)
Balance at December 31, 2021	2,930
Gain on modification of Loan liability (i)	(1,972)
Accretion	714
Interest (ii)	(272)
Balance at September 30, 2022	1,400

- (i) The Company has extinguished the MNIF debentures and recognised the new Convertible debentures issued to Bataa Tumor-Ochir at its fair value using Black Scholes pricing model as at January 27, 2022. This resulted in a gain of \$1,972 which is recognised in the condensed interim consolidated statements of income and comprehensive income.
- (ii) Total of \$270 interest expense paid during the nine months ended September 30, 2022 and \$2 was accrued as at September 30, 2022.

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

10. Convertible Debentures (continued)

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

	\$
Balance at January 1, 2021	5,808
Change in fair value of derivative liability	(4,734)
Balance at December 31, 2021	1,074
Loss on modification of derivative liability (i)	898
Change in fair value of derivative liability	(950)
Balance at September 30, 2022	1,022

(i) Due to the modification of the debentures in 2022, the Company recognised \$898 of loss on derivative liability component which is recognised in the condensed interim consolidated statements of income and comprehensive income.

11. Short Term Loans

TDB Gold Sales Loan

On November 11, 2021, the Company reached agreement for a short-term loan of \$5,000 (the "TDB Gold Sales Loan") for allocation to working capital funded directly from the TDB. The TDB Gold Sales Loan is repaid over a period of 9 months based on gold sales, with repayments in cash equivalent for a total of 5,800 ounces of gold at the Central Bank of Mongolia's gold prices. Repayments commenced in March 2022.

The continuity table of the TDB Gold Sales Loan is as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	10,566	-
Loan advanced	-	5,000
Fair value revaluation	140	5,460
Loan repayment	(7,806)	-
Foreign exchange adjustment	(97)	106
Balance end of the period	2,803	10,566

The TDB Gold Sales loan is revalued using the Central Bank of Mongolia's gold price at the end of the reporting periods and the loss on fair value revaluation of \$140 (as at December 31, 2021: \$5,460) has been recognised in the condensed interim consolidated statements of income and comprehensive income.

Triple Flag Gold Prepay ILan

On September 26, 2022, the Company entered into an agreement with Triple Flag for a \$4,800 short-term gold prepayment facility (the "Triple Flag Gold Prepay loan").

One of the consequences of the zero Covid policy in China and the attendant China/Mongolia border closures has been a shortage of available US dollars with banks in Mongolia. The Company's sales revenue is received in Mongolian Tugrik, while most of its operating costs are also paid in local currency. United States dollars are required to acquire reagents and to fund deliveries to Triple Flag under the Streaming agreement (note 8). The Triple Flag Gold Prepay loan assists the Company with meeting its obligations during this temporary market disruption.

The Company has paid \$150 of loan structuring costs and \$50 of legal costs in cash and accrued \$144 of finder's fees related to the Triple Flag Gold Prepay loan agreement. The Triple Flag Gold Prepay loan will be repaid over 6 months starting from December 23, 2023 by six monthly deliveries of 500 ounces of gold for a total of 3,000 ounces.

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

11. Short Term Loans (continued)

The continuity table of the Triple Flag Gold Prepay loan is as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	-	-
Loan advanced	4,800	-
Fair value revaluation	215	-
Balance end of the period	5,015	-

The Triple Flag Gold Prepay loan is revalued using the London Bullion Market Association gold price at the end of the reporting period and loss on fair value revaluation of \$215 has been recognized in the condensed interim consolidated statements of income and comprehensive income.

12. Long Term Loans

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 (\$10,510) (the "2020 Gold 2 Loan") which was financed by the Central Bank of Mongolia for a period of 24 months secured by a cash deposit with 11% interest per annum held by TDB totaling 35.4 billion Mongolian Tugriks. The cash deposit was disclosed as restricted cash. The 2020 Gold 2 Loan was subject to interest at a rate of 11% per annum, payable monthly.

Under the terms of the 2020 Gold 2 Loan, the Company was required to sell all 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.

Repayments of the principal balance on the 2020 Gold 2 Loan have been made in three equal tranches on September 23, 2021, January 31, 2022 and September 22, 2022.

On September 20, 2022, the Company received the accumulated interest income of \$1,491 on cash deposit held by TDB.

On February 9, 2021, Steppe Mongolia entered into a short-term loan agreement with Capitron (the "Capitron Loan") for \$2,850. The Capitron Loan was secured with a cash deposit held by Capitron totaling \$3,000 which was disclosed as restricted cash. The purpose of the Capitron loan was to provide financing for the purchase of a new crusher at the ATO project. The Capitron Loan was repaid on September 27, 2021.

In November 2021, the Company entered into a loan agreement with TDB for 170 billion Mongolian Tugriks (\$59,700) (the "2021 Gold 2 Loan") which is covenant light loan with 9% interest per annum for a term of 36 months facilitated under the Central Bank of Mongolia "Gold 2" program.

The funds under the 2021 Gold 2 Loan were advanced based on the conditional agreement between the Central Bank of Mongolia and TDB, which was completed on November 10, 2021.

The 2021 Gold 2 Loan is available for use in 3 tranches: tranche 1 – MNT 60 billion; tranche 2 – MNT 60 billion; tranche 3 – MNT 50 billion. Tranche 1 fund became available for use after completion of pledge registration in March 2022 and further tranches will be released based on the TDB's credit approval. In addition, the Company entered into a savings agreement with TDB at the interest rate of 7% per annum and deposited the loan amount of MNT 170 billion Mongolian Tugriks. The cash deposit is disclosed as restricted cash.

In order to secure the obligations under 2021 Gold 2 Loan, the Company provided a pledge of its licenses, movable properties and immovable properties. An intercreditor agreement governs the priority and ranking of charges between the TDB and Triple Flag.

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

12. Long Term Loans (continued)

The continuity table of long-term loans is as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	67,354	10,610
2021 Gold 2 Loan – Tranche 1	-	59,433
Crusher loan advance	-	2,850
Repayment (i)	(22,080)	(6,346)
Foreign exchange	(9,122)	807
Balance end of the period	36,152	67,354
Current portion	36,152	28,360
Long term portion	-	38,994

(i) In 2021, the Company repaid the tranche 1 of 2020 Gold 2 loan for \$3,496. The Capitron Loan of \$2,850 was repaid on September 27, 2021.

On May 12, 2022, the Company repaid \$12,739 (MNT 40 billion) of the tranche 1 of 2021 Gold 2 loan to TDB. On September 22, 2022, the final tranches of 2020 Gold 2 loan have been repaid in full for \$6,427. On September 30, 2022, the Company has made repayment of \$2,914 to the tranche 1 of 2021 Gold 2 loan from the savings balance.

The continuity table of restricted cash is as follows:

	September 30, 2022	December 31, 2021
	\$	\$
Balance beginning of the period	69,177	12,483
Additional deposit	-	59,433
Transfer to cash (i)	(20,347)	-
Repayment of 2020 Gold 2 loan (ii)	(6,398)	(3,496)
Interest income/(expense) (iii)	1,462	(95)
Repayment of 2021 Gold 2 loan – Tranche 1 (v)	(2,943)	-
Foreign exchange	(7,869)	852
Balance end of the period	33,082	69,177
Current portion	33,082	-
Long term portion	-	69,177

(i) On March 2, 2022, the Company met all the conditions set out on the conditional agreement and the tranche 1 of 2021 Gold 2 loan \$20,347 (MNT 60 billion) became available from the restricted cash to the Company.

(ii) On September 23, 2021, the Company repaid the tranche 1 of 2020 Gold 2 loan for \$3,496. On January 31, 2022, the tranche 2 of 2020 Gold 2 loan has been repaid for \$3,391. The loan and the savings agreements were terminated on September 22, 2022, and the final payment of \$3,007 has been repaid to TDB with the interest of \$29.

(iii) In accordance with the 2020 Gold 2 loan and cash deposit agreements, the accumulated interest income of \$1,491 has been received and \$29 interest paid for Gold-2 loan 2020 on September 20, 2022.

(iv) On September 30, 2022, the Company has made repayment of \$2,943 to the tranche 1 of 2021 Gold 2 loan from the savings balance.

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13. Share Capital

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.

Common shares issued:

	Number of common shares	\$
Balance at January 1, 2021	68,422,607	54,081
Shares to be issued (i)	576,923	599
Exercise of restricted share units (ii)	549,127	612
Balance at December 31, 2021	69,548,657	55,292
Exercise of restricted share units (iii)	541,625	468
Balance at September 30, 2022	70,090,282	55,760

(i) On October 6, 2021, 576,923 shares to be issued at a price of \$0.52 per share were issued in relation to previously issued convertible debentures in 2018 and \$599 were transferred to share capital and a gain of \$347 in changes in fair value of derivatives was recognized in the condensed interim consolidated statements of income and comprehensive income.

(ii) On August 26, 2021, 549,127 common shares were issued in relation to RSUs granted to its executive officers and employees in 2020. The fair value of the RSUs exercised of \$612 was transferred from contributed surplus to share capital.

(iii) On August 26, 2022, 541,625 common shares were issued in relation to RSUs granted to its executive officers and employees in 2021. The fair value of the RSUs exercised of \$468 was transferred from contributed surplus to share capital.

14. Warrants

	Number of warrants	Warrant (Equity) \$
Balance at January 1, 2021	14,086,194	11,165
Balance at December 31, 2021	14,086,194	11,165
Expired on August 5, 2022 (i)	(2,300,000)	(2,651)
Expired on September 15, 2022 (ii)	(6,976,944)	(2,872)
Balance at September 30, 2022	4,809,250	5,642

(i) On September 15, 2022, 2,300,000 special warrants issued to Triple Flag International Limited were expired without exercise which had an exercise price of C\$2.00 per unit and entitling the holder to acquire one unit of the Company which comprises of one common share and one common share purchase warrant.

(ii) On August 5, 2022, 6,976,944 warrants were expired without exercise which were issued on August 5, 2020 with the exercise price of C\$3.00 per share.

The following table reflects the actual warrants issued, outstanding and exercisable as of September 30, 2022:

Expiry date	Exercise price (CAD\$)	Warrants outstanding	Fair Value (\$)
May 22, 2023	2.00	4,809,250	5,642
	2.00	4,809,250	5,642

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15. Revenue

Revenue by metal for the three and nine months ended September 30, 2022 and September 30, 2021 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Gold revenue	21,135	3,449	43,840	17,399
Silver revenue	575	1	564	41
Total	21,710	3,450	44,404	17,440

The Company's revenue is mainly derived from the sale of gold and silver to banks in Mongolia at spot rate.

16. Cost of sales

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Contractors	2,049	3,343	6,030	8,079
Employee compensation	796	608	2,172	1,868
Materials and consumables	3,530	1,376	9,431	4,446
Other expenses	1,056	377	2,812	961
Change in inventory	228	(3,424)	(4,401)	(8,012)
Depletion and depreciation	1,420	714	3,157	2,003
Royalties	1,395	228	2,940	1,099
Total	10,474	3,222	22,141	10,444

17. Exploration and evaluation expenditures

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
ATO project	550	470	1,223	855
Uudam Khundii project	385	7	521	15
Total	935	477	1,744	870

18. Corporate administration

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Management compensation	372	436	1,035	1,085
Stock based compensation	136	336	600	1,397
Corporate social responsibility	281	144	597	300
Direct general administrative	1,525	1,349	4,236	3,710
Total	2,314	2,265	6,468	6,492

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

19. Finance costs/(income)

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Accretion on convertible debentures	250	273	714	760
Accretion on lease liability	18	25	59	70
Accretion on asset retirement obligation	128	6	280	30
Interest on long term loan	247	2,823	2,629	1,914
Interest on convertible debenture - Aranjin	(53)	(30)	(159)	(30)
Interest on restricted cash	(723)	(2,717)	(2,555)	(2,053)
Change in fair value of convertible debenture	(536)	(1,892)	(950)	(4,448)
Changes in estimate of asset retirement obligation	(1,123)	350	10	975
Fair value of short term loan - Gold sales loan	(1,349)	-	140	-
Fair value of stream liability	(2,002)	(736)	(999)	(1,460)
Fair value of short term loan - Gold prepay loan	215	-	215	-
Loss on modification of lease	-	-	-	18
Gain on modification of convertible debenture	-	-	(1,074)	-
Foreign exchange	20	-	18	-
Total	(4,908)	(1,898)	(1,672)	(4,224)

20. Net income per common share

The calculation of basic and diluted income per share for the nine months ended September 30, 2022 was based on the net income attributable to common shareholders of \$11,365 (September 30, 2021: \$2,703) and the weighted average number of common shares outstanding of diluted 69,665,710 (September 30, 2021: 68,495,020).

21. Related party transactions

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

During the nine months ended September 30, 2022 and 2021, management fees paid, or otherwise accrued, to key management personnel (defined as officers and directors of the Company) are shown below:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Management fees paid to key personnel	366	435	1,086	1,085
Stock based compensation	67	10	288	1,071
Total	433	445	1,374	2,156

As at September 30, 2022, key management personnel were owed \$139 (September 30, 2021: \$nil).

During the nine months ended September 30, 2022, Erdenyn Erel, a company for which the Vice President of Exploration is the CEO provided services to the Company totaling \$1,250 (September 30, 2021 - \$612). As at September 30, 2022, \$1,078 was owed to Erdenyn Erel (September 30, 2021 - \$612).

In addition, effective August 10, 2021, the Company subscribed for C\$1,814 in convertible debentures of Aranjin. The investment has a 12 month term and earns 15% interest per annum. The Company can convert the debentures into shares of Aranjin Resources Ltd. for C\$0.055 per share. The Company has accrued C\$310 in interest income as at September 30, 2022. Bataa Tumur-Ochir, Matthew Wood and Jeremy South are directors of Aranjin. The maturity date on this debenture has been extended to August 10, 2023.

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22. Fair value measurements

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

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

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

Fair value at September 30, 2022

	Total	Level 1	Level 2	Level 3
<u>Assets</u>				
Cash	4,759	4,759	-	-
Current restricted cash	33,082	33,082	-	-
Short term investment	1,324	1,324	-	-
	39,195	39,165	-	-
<u>Liabilities</u>				
Convertible debentures - derivative	1,022	-	1,022	-
Short term loan - TDB Gold Sales Loan	2,803	-	2,803	-
Short term loan – Triple Flag Gold Prepay loan	5,015	-	5,015	-
Current portion of streaming arrangement	20,911	-	20,911	-
Long term portion of streaming arrangement	16,010	-	16,010	-
	45,761	-	45,761	-

Fair value at December 31, 2021

	Total	Level 1	Level 2	Level 3
<u>Assets</u>				
Cash	2,640	2,640	-	-
Restricted cash	69,177	69,177	-	-
Short term investment	1,431	1,431	-	-
	73,248	73,248	-	-
<u>Liabilities</u>				
Convertible debentures - derivative	1,074	-	1,074	-
Short term loan – TDB Gold Sales Loan	10,566	-	10,566	-
Current portion of streaming arrangement	23,305	-	23,305	-
Long term portion of streaming arrangement	23,624	-	23,624	-
	58,569	-	58,569	-

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22. Fair value measurements (continued)

Embedded derivatives

The Company has issued convertible debentures which contain an embedded derivative component (Note 10). The following table is a sensitivity analysis of the impact on the condensed interim consolidated statement of income and comprehensive income of an increase or a decrease in the assumptions that are used to value the derivative liability which is and classified as a level 2 in the fair value hierarchy:

Input	Sensitivity rate	Impact of increase \$	Impact of Decrease \$
Stock price	10%	233	(216)
Exercise price	10%	(115)	131
Volatility rate	10%	78	(78)
Discount rate	0.5%	3	(3)

Streaming arrangement

In connection with the ATO Acquisition, the Company's subsidiaries have entered into a metals purchase and sale agreement (the "Stream Agreement") with Triple Flag to sell gold and silver produced from the ATO Project. The Stream Agreement is recorded at fair value at each statement of financial position date as the Company has determined the obligation is a derivative liability to be carried at FVTPL. The fair value of the Stream Agreement was valued using the income approach with consideration for the contractual terms of the Stream Agreement and use of various input assumptions.

Input	Sensitivity rate	Impact of increase \$	Impact of Decrease \$
Forward price	10%	3,692	(3,692)
Discount rate	10%	(2,523)	3,032

23. Events after reporting period

On October 21, 2022, the Company has repaid the \$33,080 (MNT 110bln) for tranche 2 and 3 of Gold 2 loan 2021 from the savings which is reported as restricted cash as at September 30, 2022. The remaining balance of the tranche 1 of \$3,072 (MNT 10bln) is expected to be paid by December 31, 2022.

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

24. Restatement of financial statements

In conjunction with preparation of the Company's financial statements for the year ended December 31, 2021 and as part of a continuous disclosure review by the Staff of Company's principal securities regulator in relation to the accounting for the Streaming Agreement, Steppe identified an error in how the arrangement has been accounted for in the previously issued financial statements.

The Company previously determined that the stream obligation was in substance a debt instrument (carried at amortized cost) with embedded derivatives (recognized at \$nil value) linked to gold and silver commodity prices. Upon further review of the arrangement the Company has determined that the arrangement should be accounted for in its entirety as a derivative measured at fair value through profit and losses (FVTPL).

Steppe Gold also identified an error in the revenue recognized in previously issued financial statements as a result of Steppe's practice of netting the impact of the stream obligation to revenue recognized. The Streaming Agreement is by nature a financing transaction and not a revenue contract with Triple Flag. The revenue contract is with the Central Bank of Mongolia. Accordingly, Steppe Gold determined that for accounting purposes an adjustment to revenue was also required.

The analysis resulted in changes to revenue, property, plant and equipment, the stream liability and the corresponding fair value gains/losses. The Company evaluated the significance of the corrections and determined the adjustments were material to the condensed interim consolidated financial statements.

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Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

24. Restatement of financial statements (continued)

Financial impact

The following tables summarise the effects of the restatement.

Selected line items restated in the Condensed Interim Consolidated Statements of Financial Position:

	September 30, 2021 as originally reported	Adjustments	September 30, 2021 (restated)
ASSETS			
Current assets			
Cash	1,018	-	1,018
Short term investments	4,920	-	4,920
Receivables and other assets	7,701	-	7,701
Inventories	19,805	-	19,805
Total current assets	33,444	-	33,444
Long-term assets			
Restricted cash	68,222	-	68,222
Uudam Khundii Project	1,891	-	1,891
Property, plant and equipment	36,198	(336)	35,862
Deposits on property, plant and equipment	3,479	-	3,479
Total long-term assets	109,790	(336)	109,454
Total assets	143,234	(336)	142,898
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	7,687	-	7,687
Current portion of streaming arrangement	6,878	3,535	10,413
Current portion of lease liability	155	-	155
Current tax liability	151	-	151
Convertible debentures – derivative	1,360	-	1,360
Convertible debentures – loan liability	2,728	-	2,728
Current portion of long term loan	28,893	-	28,893
Total current liabilities	47,852	3,535	51,387
Long-term liabilities			
Long term portion of streaming arrangement	12,601	5,445	18,046
Asset retirement obligation	2,054	-	2,054
Lease liability	538	-	538
Deferred tax liability	636	-	636
Long term loan	38,457	-	38,457
Total long-term liabilities	54,286	5,445	59,731
Total liabilities	102,138	8,980	111,118
Shareholders' equity			
Share capital	54,693	-	54,693
Shares to be issued	946	-	946
Warrants	11,165	-	11,165
Contributed surplus	10,919	-	10,919
Non-controlling interest	(246)	-	(246)
Accumulated other comprehensive loss	(7,873)	-	(7,873)
Deficit	(28,508)	(9,316)	(37,824)
Total shareholders' equity	41,096	(9,316)	31,780
Total liabilities and shareholders' equity	143,234	(336)	142,898

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Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

24. Restatement of financial statements (continued)

Selected line items restated in the Condensed Interim Consolidated Statements of Income and Comprehensive Income:

	September 30, 2021 as originally reported	Adjustments	September 30, 2021 (restated)
Revenue	15,477	1,963	17,440
Cost of sales	(10,444)	-	(10,444)
Gross profit	5,033	1,963	6,996
Exploration and evaluation expenditures	(870)	-	(870)
Corporate administration	(6,492)	-	(6,492)
Operating loss	(2,329)	1,963	(366)
Finance income	2,360	1,864	4,224
Foreign exchange loss	(16)	-	(16)
Net profit before tax	15	3,827	3,842
Income tax	(1,186)	-	(1,186)
Net income/(loss) after tax	(1,171)	3,827	2,656
Cumulative translation adjustment	(529)	-	(529)
Net profit/(loss) and comprehensive profit/(loss)	(1,700)	3,827	2,127
Net income/(loss)e attributable to shareholders of the Company	(1,124)	3,827	2,703
Net loss attributable to non-controlling interest	(47)	-	(47)
	(1,171)	3,827	2,656
Net income/(loss) and comprehensive income/(loss) attributable to shareholders of the Company	(1,653)	3,827	2,174
Net loss and comprehensive loss attributable to non-controlling interest	(47)	-	(47)
	(1,700)	3,827	2,127
Basic and diluted net income/(loss) and comprehensive income per common share	-	0.056	0.039
	(0.017)	0.056	0.039
Weighted average number of common shares outstanding - basic and diluted	68,495,020	-	68,495,020

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

24. Restatement of financial statements (continued)

The above restatement reflects the impact of change in an accounting judgement whereby the customer of which revenue is recognized has been updated to reflect the total consideration received from a certain bank as the customer which was previously recorded net in finance costs.

Selected line items restated in the Condensed Interim Consolidated Statements of Changes in Shareholder's Equity:

	September 30, 2021 as originally reported	Adjustments	September 30, 2021 (restated)
Deficit, beginning of the period	(27,384)	(13,142)	(40,526)
Gain/(Loss) for the year, attributable to shareholders	(1,124)	3,827	2,703
Deficit, end of the period	(28,508)	(9,316)	(37,824)
Total shareholder's deficit	41,096	(9,316)	31,780

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2022

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

24. Restatement of financial statements (continued)

Selected line items restated in the Condensed Interim Consolidated Statements of Cash Flows:

	September 30, 2021 as originally reported	Adjustments	September 30, 2021 (restated)
Operating activities			
Net income/(loss) for the period	(1,171)	3,827	2,656
<u>Adjustments for non-cash items:</u>			
Accretion and financing costs	(4,239)	(404)	(4,643)
Depletion and depreciation	1,874	-	1,874
Stock based compensation	1,397	-	1,397
Unrealized foreign exchange gain	(270)	-	(270)
Drawdown of gold and silver stream	(1,696)	1,696	-
Change in the fair value of stream liability	-	(1,559)	(1,559)
Income tax expense	1,034	-	1,034
<u>Changes in working capital items:</u>			
Inventories	(7,967)	-	(7,967)
Receivables and other assets	(2,269)	-	(2,269)
Amounts payable and other liabilities	4,827	-	4,827
Net cash used in operations	(8,480)	3,560	(4,920)
Investing activities			
Acquisition of property, plant and equipment	(1,723)	-	(1,723)
Deposits on property, plant and equipment	(3,478)	-	(3,478)
Short term investment	1,500	-	1,500
Net cash used in investing activities	(3,701)	-	(3,701)
Financing activities			
Proceed from long term loan	62,283	-	62,283
Interest paid on convertible debentures	(239)	-	(239)
Repayment of loan TDB and Capitron	(6,346)	-	(6,346)
Repayment of stream financing	-	(3,560)	(3,560)
Convertible debenture – Aranjin Resource	(1,424)	-	(1,424)
Lease obligation payments	(243)	-	(243)
Restricted cash	(55,846)	-	(55,846)
Net cash used in financing activities	(1,815)	(3,560)	(5,375)
Effect of exchange rate changes on cash held in foreign currency	(75)	-	(75)
Net decrease in cash and restricted cash	(14,071)	-	(14,071)
Cash at the beginning of the period	15,089	-	15,089
Cash at the end of the period	1,018	-	1,018