



Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

(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	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS			
Current assets			
Cash		1,339	2,515
Short term investments	3	731	365
Receivables and other assets		2,582	2,534
Inventories	4	25,850	24,165
Total current assets		30,502	29,579
Long-term assets			
Uudam Khundii Project		1,537	1,571
Property, plant and equipment	5	38,593	39,328
Deferred tax asset		2,217	2,180
Total long-term assets		42,347	43,079
Total assets		72,849	72,658
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Amounts payable and other liabilities	6	8,347	11,016
Current portion of streaming arrangement	8	17,079	15,735
Current portion of lease liability	9	188	154
Current tax liability		2,334	2,386
Convertible debentures – derivative	10	942	1,299
Convertible debentures – loan liability	10	1,826	-
Gold Prepay loan – Triple Flag	11	1,980	4,531
TDB loan	11	5,002	-
Total current liabilities		37,698	35,121
Long-term liabilities			
Long term portion of streaming arrangement	8	11,198	12,085
Asset retirement obligation	7	3,312	3,398
Lease liability	9	456	397
Convertible debentures – loan liability	10	-	1,596
Long term loan	12	2,776	2,838
Total long-term liabilities		17,742	20,314
Total liabilities		55,440	55,435
Shareholders' equity			
Share capital	13	57,782	55,760
Warrants	14	5,642	5,642
Contributed surplus		17,633	19,559
Accumulated other comprehensive loss		(15,563)	(16,055)
Deficit		(47,570)	(47,190)
Total equity attributable to the owners of the Company		17,924	17,716
Non-controlling interest		(515)	(493)
Total shareholders' equity		17,409	17,223
Total liabilities and shareholders' equity		72,849	72,658

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)

	Notes	Three months ended March 31, 2023 (Unaudited)	Three months ended March 31, 2022 (Unaudited)
Revenue	15	9,525	5,457
Cost of sales	16	(3,866)	(3,126)
Gross profit		5,659	2,331
Exploration and evaluation expenditures		(63)	(37)
Corporate administration	17	(1,975)	(1,911)
Operating profit		3,621	383
Finance cost	18	(2,327)	(5,094)
Foreign exchange loss		(1,787)	(1,366)
Net (loss) for the period before tax		(493)	(6,077)
Income tax		91	(3)
Net (loss) for the period after tax		(402)	(6,080)
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		492	(1,176)
Net profit/(loss) and comprehensive income/ (loss) for the period		90	(7,256)
Net loss attributable to shareholders of the Company	19	(380)	(6,074)
Net loss attributable to non-controlling interest		(22)	(6)
		(402)	(6,080)
Net profit/(loss) and comprehensive income/(loss) for the period attributable to shareholders of the Company		112	(7,250)
Net loss and comprehensive loss attributable to non-controlling interest		(22)	(6)
		90	(7,256)
Basic (loss) per share		(0.005)	(0.087)
Diluted (loss) per share		(0.004)	(0.071)

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	Three months ended March 31, 2023 (Unaudited)	Three months ended March 31, 2022 (Unaudited)
Operating activities			
Net (loss) for the period		(402)	(6,080)
<u>Adjustments for non-cash items:</u>			
Change in the fair value of converted debenture	10	(357)	776
Change in the fair value of Gold Sales Loan	11	-	727
Fair value of Triple Flag Gold Prepay loan	11	321	-
Fair value of Aranjin Convertible Debenture	3	(366)	-
Gain on modification of convertible debenture	10	-	(1,074)
Accretion and financing costs		146	1,242
Depreciation	5	365	483
Stock based compensation		85	232
Unrealized foreign exchange loss		1,240	29
Change in the fair value of stream liability	8	2,452	3,874
Deferred tax		(36)	(45)
Operating cash flows before changes in non-cash working capital items		3,448	164
<u>Changes in working capital items:</u>			
Inventories		(1,611)	(2,166)
Receivables and other assets		(47)	(489)
Amounts payable and other liabilities		(2,587)	4,025
Net cash (used in) generated by operations		(797)	1,534
Investing activities			
Acquisition of property, plant and equipment		(384)	(578)
Deposits on property, plant and equipment		-	(735)
Net cash (used in) investing activities		(384)	(1,313)
Financing activities			
Proceeds from TDB loan	11	5,000	-
Proceeds from interest income		-	919
Interest paid on convertible debentures	10	(90)	(90)
Interest paid on long term loan TDB		-	(1,452)
Repayment of Gold-2 Loan	12	-	(3,391)
Repayment of TDB Gold sales loan		-	(1,230)
Loan repayment - Gold Prepay loan - Triple Flag	11	(2,872)	-
Repayment of stream financing	8	(1,995)	(628)
Lease obligation payments	9	(58)	(51)
Restricted cash		-	20,347
Net cash (used in)/generated by financing activities		(15)	14,424
Effect of exchange rate changes on cash held in foreign currency		20	15
Net (decrease)/increase in cash		(1,176)	14,660
Cash at the beginning of the period		2,515	2,640
Cash at the end of the period		1,339	17,300

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, 2023**(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	Contributed surplus	Warrants	Accumulated other comprehensive loss	Deficit	Sub-total	Non-controlling interest Corundum	Total equity
		\$	\$	\$	\$	\$	\$	\$	\$
Balance as at January 1 2022	69,548,657	55,292	11,749	11,165	(7,791)	(63,146)	7,269	(254)	7,015
Stock based compensation	-	-	243	-	-	-	243	-	243
Comprehensive loss for the period	-	-	-	-	(1,176)	(6,074)	(7,250)	(6)	(7,256)
Balance as at March 31, 2022	69,548,657	55,292	11,992	11,165	(8,967)	(69,220)	262	(260)	2
Balance as at December 31, 2022	70,090,282	55,760	19,559	5,642	(16,055)	(47,190)	17,716	(493)	17,223
Stock based compensation	2,445,352	2,022	(1,926)	-	-	-	96	-	96
Comprehensive loss for the period	-	-	-	-	492	(380)	112	(22)	90
Balance as at March 31, 2023	72,535,634	57,782	17,633	5,642	(15,563)	(47,570)	17,924	(515)	17,409

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 three months ended March 31, 2023

(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 the address of its registered office changed during March 2023, from 55 Metcalfe St Suite 1300, Ottawa, ON K1P 6L5, Canada to 333 Bay Street, Suite 2400, Toronto, Ontario M5H 1T6. The condensed interim consolidated financial statements as at and for the three months ended 31 March 2023 comprises the Company and its subsidiaries (together referred to as the "Group"). The Company is focused on operating, developing, exploring and acquiring precious metal projects..

The consolidated annual financial statements for the year ended 31 December 2022 are available on request at the Company's registered office at 333 Bay Street, Suite 2400, Toronto, Ontario M5H 1T6, Canada or from the Company's website at www.steppegold.com or SEDAR at www.sedar.com

The COVID-19 pandemic caused disruptions to business in Mongolia due to the closure of the border with China. This led to challenges in supply chain logistics which severely reduced the supply of key reagents to the Company throughout 2021 and early 2022, thereby limiting production. While the border is now largely reopened, critical reagent supply is still restricted. Alternate supply arrangements are operating adequately to support normal production levels.

Mongolia is land locked between China and Russia and on 24 February 2022, Russia invaded Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed on Russia. However, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Specifically for Mongolia, it imports all its fuel from Russia, and its financial system relies on access to certain Russian banks and financial institutions. There has been disruption in the supply of US Dollars, certain foodstuffs as well as mining equipment. As with many other countries, Mongolia has suffered from increased energy costs, higher inflation, increased interest rates and pressure on foreign currency exchange rates.

Ultimately, Mongolia, and thus the Company, is currently completely reliant on Russia for its fuel and while there have been minor disruptions in supply the Government of Mongolia has signed a deal with Russia to cap imported fuel prices.

The alternate supply route for the Company's reagents noted above is via Russia and the Company has increased its holding of reagents and identified alternative, albeit more expensive, suppliers should the need arise.

Company management closely monitors the events in Ukraine, however the degree to which it may be affected by them largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

Statement of compliance

The condensed interim consolidated financial statements have been prepared on a going concern basis in accordance with and in compliance with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial statements do not include all of the information and disclosures required for a full set of annual financial statements and should be read in conjunction with the consolidated annual financial statements as at and for the year ended 31 December 2022.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 15, 2023.

Basis of Preparation

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 condensed interim consolidated financial statements have been prepared in US dollars ("USD"), which is the Group's presentation currency. As of December 31, 2022 the functional currency was determined to be the Mongolian

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

Tugrik for its Mongolian wholly-owned subsidiaries and to be the Canadian dollar ("CAD") for Steppe Gold Limited and Steppe BVI.

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, 2022.

Going Concern

The directors have, at the time of approving the condensed interim consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the condensed interim consolidated financial statements.

The Group's performance

For the three months ended March 31, 2023, the Group incurred a net loss of \$402 (three months ended March 31, 2022: net loss of \$6,080) and had net cash outflows from operating activities of \$797 (three months ended March 31, 2022: net cash inflows from operating activities of \$1,534). As at March 31, 2023, the Group had cash and cash equivalents of \$1,339 (December 31, 2022: \$2,515) and net current liabilities of \$7,196 (December 31, 2022 net current liabilities of \$5,542).

Receipt of Short-term Loan from TDB

On January 4, 2023, the Company reached to an agreement with TDB for receiving a short-term loan of \$5,000 to fund the Company's working capital. The TDB loan will be repaid over a period of 12 months, with equal amounts of repayment in the last 4 months of the loan term.

Dual listing

On February 22, 2023, the Company announced that it plans to pursue a dual primary listing of its common shares on the Main Board of the Stock Exchange of Hong Kong Limited ("HKEX"), anticipated to occur later in 2023. There can be no guarantee that the listing will occur in 2023.

Potential Acquisition

On May 8, 2023, the Company announced that it entered into an arrangement agreement (the 'Arrangement Agreement') pursuant to which the Company, will acquire all of the issued and outstanding common shares of Anacortes Mining Corp. ("Anacortes") by way of a court approved plan of arrangement under the Business Corporations Act (British Columbia), in an all-share transaction (the "Transaction"). Under the terms of the Arrangement Agreement, Anacortes shareholders will receive 0.4532 of a Steppe common share for each Anacortes common share, which represented consideration of approximately C\$0.48 per Anacortes common share and a premium of 36% based on the closing prices of the Anacortes common shares on the TSX-V and the Steppe common shares on the TSX, each as of the close of trading on March 3, 2023 the date that the Transaction was publicly announced. On the closing of the Transaction, shareholders of Steppe Gold and Anacortes will own approximately 79% and 21% of the combined company, respectively, on a basic basis.. The Transaction is subject to, among other things, the receipt of all necessary regulatory, stock exchange and court approvals, and obtaining shareholder approval of the Transaction at a meeting of the Anacortes shareholders, which is expected to be held in June 2023.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

2. Significant accounting policies

The accounting policies applied by the Group in these condensed interim consolidated financial statements are consistent with those applied by the Group in its consolidated annual financial report as at and for the year ended 31 December 2022, except for the adoption of the new standards and interpretations as of 1 January 2023 noted below.

The Group has adopted all the following new and revised Standards and Interpretations issued by the IASB or IFRIC that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2023:

Standards

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

Amendments

Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

Definition of Accounting Estimates (Amendments to IAS 8)

The application of these new and revised Standards and Interpretations has had no impact on the Group's condensed interim consolidated financial statements.

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:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) – For annual reporting periods beginning on or after 1 January 2024.
- Classification of Liabilities as Current or Non-current — Deferral of Effective Date (Amendment to IAS 1)
- Deferred to annual periods beginning on or after 1 January 2024
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) – For annual reporting periods beginning on or after 1 January 2024
- Non-current Liabilities with Covenants (Amendments to IAS 1) – For annual reporting periods beginning on or after 1 January 2024

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Financial risk management framework

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2022.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

3. Short term investments

Effective August 10, 2021, the Company subscribed for C\$1,814,000 (US\$1,431) in convertible debentures of Aranjin Resources Ltd. The investment had a 12 month term and 15% interest rate per annum, with principal and interest payable on maturity date, August 10, 2022, which was subsequently changed to August 10, 2023. The Company can convert the debentures into shares of Aranjin Resources Ltd. at C\$0.055 per share. The Company assessed the fair value of the investment using the observable inputs in accordance with Level 2 of the Fair Value Hierarchy given the lack of an active market available for the debentures. Conversion of the debentures will not result in the Company in a controlling position of the investee.

	March 31, 2023	December 31, 2022
	\$	\$
Balance beginning of the year	365	1,431
Fair value revaluation	366	(972)
Foreign exchange	-	(94)
Total short term investments	731	365

Aranjin Resources convertible debenture is revalued using the share price at the end of the reporting period and gain on fair value revaluation of \$366 has been recognized in the condensed interim consolidated statements profit or loss and comprehensive income or loss.

4. Inventories

	March 31, 2023	December 31, 2022
	\$	\$
Stockpiles of ore	13,029	12,919
Gold in circuit	8,428	7,986
Finished goods	1,366	106
Consumables and supplies	3,027	3,154
Total inventories	25,850	24,165

As at March 31, 2023 the balance of the run of mine or ROM pad and stacked ore is 390,864 (December 31, 2022: 498,697) tonnes with a carrying value of \$13,029 and 36,558 ounces of gold (December 31, 2022: 39,676) is estimated to be generated. Gold in circuit included 12,560 ounces of gold (December 31, 2022: 13,228) with a carrying value of \$8,428 and finished goods included 2,137 ounces of gold (December 31, 2022: 152) with a carrying value of \$1,366 (December 31, 2022: \$106).

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 a by-product in addition to the primary product gold. Therefore, the finished goods inventory excludes the by-product.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

(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

	Property and Equipment	Altan Tsagaan Ovoo Property	Equipment under construction	Right-of-use asset	Total
	\$	\$	\$	\$	\$
Cost					
Balance at January 1, 2022	19,847	25,159	326	1,983	47,315
Additions	1,491	36	10,338	58	11,923
Asset retirement costs	-	540	-	-	540
Foreign exchange	(3,526)	(4,098)	(66)	(255)	(7,945)
Balance at December 31, 2022	17,812	21,637	10,598	1,786	51,833
Additions	82	-	77	147	306
Asset retirement costs	-	186	-	-	186
Foreign exchange	(326)	(396)	(233)	(22)	(977)
Balance at March 31, 2023	17,568	21,427	10,442	1,911	51,348
Accumulated depreciation					
Balance at January 1, 2022	5,772	4,968	-	585	11,325
Additions	2,330	646	-	133	3,109
Foreign exchange	(1,069)	(800)	-	(60)	(1,929)
Balance at December 31, 2022	7,033	4,814	-	658	12,505
Additions	358	54	-	34	446
Foreign exchange	(108)	(85)	-	(3)	(196)
Balance at March 31, 2023	7,283	4,783	-	689	12,755
Net book value					
Balance at December 31, 2022	10,779	16,823	10,598	1,128	39,328
Balance at March 31, 2023	10,285	16,644	10,442	1,222	38,593

During the three months ended March 31, 2023, the Company acquired items of property, plant and equipment with a cost of approximately \$306 (March 31, 2022: \$578).

During the three months ended March 31, 2023, \$365 (March 31, 2022: \$483) of depreciation was expensed to the condensed interim consolidated statements of loss and comprehensive loss and \$81 (March 31, 2022: \$(7)) was capitalized to inventory.

On February 21, 2023, 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 September 1, 2022. 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 14 years.

During the three months ended March 31, 2023, the Company paid amounts totaling \$72 (March 31, 2022: \$735) as an upfront deposit for a new crusher which will be used primarily for Phase 2 of the ATO project.

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.

Pledge on items of property, plant and equipment

As at March 31, 2023, 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 TDR and Triple Flag

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

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.

	March 31, 2023	December 31, 2022
	\$	\$
Amounts payable	7,364	10,153
Accrued liabilities	690	691
Other payables	293	172
Total amounts payable and other liabilities	8,347	11,016

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 \$2,599 as at March 31, 2023 (December 31, 2022: \$2,432). The remaining life of mine is 13.8 years as of March 31, 2023 and discounted using a risk-free rate of 10.25% for the period.

8. Streaming arrangement

In connection with the ATO Acquisition and in order to fund the exploration and development of the ATO site, the Company's subsidiaries, Steppe Gold LLC ("Steppe Mongolia") and Steppe Investments LLC ("Steppe BVI") entered into a metals purchase and sale agreement dated August 11, 2017, which was subsequently amended on September 30, 2019, with Triple Flag International ("Triple Flag") to sell gold and silver produced from the ATO Project (the "Stream Agreement").

Under the terms of the Stream Agreement, Triple Flag advanced \$28,000 to Steppe Gold and Steppe BVI is obligated to sell annually to Triple Flag 25% of the gold and 50% of the silver produced, subject to an annual cap of 7,125 ounces of gold and 59,315 of silver from the ATO Project until such time as Steppe BVI has sold an aggregate of 46,000 ounces of gold and 375,000 ounces of silver, respectively.

The 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.

Under the terms of the Stream Agreement the parties agreed the variable gold and silver price payable by Triple Flag on delivery of gold and silver should be 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 Udam 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.

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 three months ended March 31, 2023

(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 the shares of both Steppe BVI and Steppe Mongolia.

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. The Company is in compliance with the covenants as noted in the Stream Agreement.

The Stream Agreement liability 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, qualified valuator and the Phase 1 life of mine production schedule and expectations are based on the information recently updated by independent technical consultants. Financing for Phase 2 of the ATO Gold Mine is not currently in place and accordingly, only the remaining life of mine for Phase 1 has been used in calculating the stream liability as at March 31, 2023 and December 31, 2022. If the Company is not successful in raising the required finance for Phase 2 of the ATO project there will be no further stream liability other than the amount for the remaining life of mine for Phase 1.

The continuity of the streaming liability is presented as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Balance beginning of the period	27,820	46,929
Fair value movement for the period	2,452	(6,316)
Repayment	(1,995)	(12,793)
Balance end of the period	28,277	27,820
Current portion	17,079	15,735
Long term portion	11,198	12,085

9. Lease Liability

The Company has leases in place for its office in Toronto, Canada and certain light motor vehicles. Each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment (Note 5).

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

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

(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:

	March 31, 2023	December 31, 2022
	\$	\$
Balance beginning of the period	551	653
Additions	133	68
Interest expense	22	79
Lease payments	(58)	(196)
Foreign exchange	(4)	(53)
Balance end of the period	644	551
Current portion	188	154
Long term portion	456	397

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, Mr. 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 the convertible debenture loan liability are as follows:

	\$
Balance at January 1, 2022	2,930
Gain on modification of Loan liability (i)	(1,972)
Accretion	1,001
Interest	(363)
Balance at December 31, 2022	1,596
Accretion	319
Interest	(89)
Balance at March 31, 2023	1,826

(i) The Company has extinguished the MNIF debentures and recognised the new convertible debenture issued to Mr. 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 consolidated statements of profit or loss and comprehensive income.

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

	\$
Balance at January 1, 2022	1,074
Loss on modification of derivative liability (i)	898
Change in fair value of derivative liability	(673)
Balance at December 31, 2022	1,299
Change in fair value of derivative liability	(357)
Balance at March 31, 2023	942

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

10. Convertible Debenture (continued)

- (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 consolidated statements of profit or loss and comprehensive income.

The fair value of the conversion feature of the debentures was estimated based on the Black Scholes pricing model using a risk-free interest rate of 3.74% based on 2-year Canadian Government bond yields, an expected dividend yield of 0%, volatility rates of 53% based on comparable companies, and an expected life of 1 year.

11. Short Term Loan

Triple Flag Gold Prepay Loan

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").

The Triple Flag Gold Prepay loan will be repaid over 6 months starting from December 23, 2022, by six monthly deliveries of 500 ounces of gold for a total of 3,000 ounces.

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

	March 31, 2023	December 31, 2022
	\$	\$
Balance beginning of the period	4,531	-
Loan advanced	-	4,800
Repayment	(2,872)	(910)
Fair value revaluation	321	641
Balance end of the period	1,980	4,531

The Triple Flag Gold Prepay loan is revalued using the London Bullion Market Association ('LBMA') gold price at the end of the reporting period and loss on fair value revaluation of \$321 (December 31, 2022: \$641) has been recognized in the condensed interim consolidated statements of loss and comprehensive loss. A total of 2,000 ounces had been delivered as of March 31, 2023 (December 31, 2022: 500 ounces).

TDB Loan

On January 4, 2023, the Company reached to an agreement with TDB for a short-term loan of \$5,000 to fund the Company's working capital. The TDB loan will be repaid over a period of 12 months, with equal amounts of repayment in the last 4 months of the loan term.

The continuity table of short term loans is as follows:

	March 31, 2023
	\$
Balance beginning of the period	-
Loan advanced	5,000
Foreign exchange	2
Balance end of the period	5,002

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.

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

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

(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)

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 a 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 in November 10, 2021.

The 2021 Gold 2 Loan was 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 were 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 was 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.

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

	March 31, 2023	December 31, 2022
	\$	\$
Balance beginning of the period	2,838	67,354
Repayment	-	(53,283)
Foreign exchange	(62)	(11,233)
Balance end of the period	2,776	2,838
Current portion	-	-
Long term portion	2,776	2,838

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 tranche of the 2020 Gold 2 loan was repaid in for the amount of \$6,427. On September 30, 2022, the Company repaid \$2,914 of the tranche 1 of the 2021 Gold 2 loan from the savings balance. On October 21, 2022, the Company repaid \$31,203 of the 2021 Gold 2 loan from the savings account balance.

The 2021 Gold 2 Loan is for a term of 36 months with the balance of \$2,776 to be repaid by July 28, 2024.

13. 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, 2022	69,548,657	55,292
Exercise of restricted share units (i)	541,625	468
Balance at December 31, 2022	70,090,282	55,760
Exercise of restricted share units (ii)	2,445,352	2,022
Balance at March 31, 2023	72,535,634	57,782

(i) 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.

(ii) On January 31, 2023, 2,445,352 common shares were issued in relation to RSUs granted to its executive officers in 2022. The fair value of the RSUs exercised of \$2,022 was transferred from contributed surplus to share capital.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

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 December 31, 2022	4,809,250	5,642
Balance at March 31, 2023	4,809,250	5,642

(i) On September 15, 2022, 2,300,000 special warrants issued to Triple Flag International Limited expired.

(ii) On August 5, 2022, 6,976,944 warrants expired. These warrants were issued on August 5, 2020 with an exercise price of C\$3.00 per share.

The following table reflects the actual warrants issued, outstanding and exercisable as of March 31, 2023:

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

15. Revenue

Revenue by metal for the three months ended March 31, 2023 and March 31, 2022 was as follows:

	March 31, 2023 \$	March 31, 2022 \$
Gold revenue	9,513	5,482
Silver revenue	12	(25)
Total	9,525	5,457

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

	March 31, 2023 \$	March 31, 2022 \$
Contractors	1,307	1,419
Employee compensation	725	652
Materials and consumables	2,335	1,703
Other expenses	694	897
Change in inventory	(2,210)	(2,426)
Depletion and depreciation	365	483
Royalties	650	398
Total	3,866	3,126

17. Corporate administration

	March 31, 2023 \$	March 31, 2022 \$
Management compensation	359	319
Stock based compensation	86	232
Corporate social responsibility	93	126
Direct general administrative	1,437	1,234
Total	1,975	1,911

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

18. Finance cost

	March 31, 2023	March 31, 2022
	\$	\$
Accretion on convertible debentures	319	240
Accretion on lease liability	22	21
Accretion on asset retirement obligation	105	62
Interest on long term loan	141	1,213
Interest on convertible debenture - Aranjin	-	(53)
Interest on restricted cash	-	(1,078)
Interest on current account	(10)	-
Change in fair value of converted debenture	(357)	776
Changes in estimate of asset retirement obligation	(300)	386
Fair value of TDB gold loan	-	727
Fair value of stream liability	2,452	3,874
Fair value of convertible debenture - Aranjin	(366)	-
Fair value of short term loan - Gold prepay loan	321	-
Gain on modification of convertible debenture	-	(1,074)
Total	2,327	5,094

19. Net loss per common share

The calculation of basic and diluted loss per share for the three months ended March 31, 2023 was based on the net loss attributable to common shareholders of \$380 (March 31, 2022: \$6,074) and the weighted average number of common shares outstanding of basic 71,720,517 and diluted 85,297,251 (March 31, 2022: basic 69,548,655 and diluted 85,583,646).

20. Related party transactions

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

During the three months ended March 31, 2023 and 2022, management fees paid, or otherwise accrued, to key management personnel (defined as officers and directors of the Company) are shown below:

	March 31, 2023	March 31, 2022
	\$	\$
Management fees paid to key personnel	387	319
Stock based compensation	44	110
Total	431	429

As at March 31, 2023, key management personnel were owed \$1,784 (March 31, 2022: \$nil).

During the three months ended March 31, 2023, Erdenyn Erel, a company for which the Vice President of Exploration is the CEO provided services to the Company totaling \$nil (March 31, 2022 - \$5). As at March 31, 2023, \$819 was owed to Erdenyn Erel (March 31, 2022 - \$nil).

In addition, effective August 10, 2021, the Company subscribed for C\$1,814,000 in convertible debentures of Aranjin. The investment had 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. 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.

On January 27, 2022, the Mongolian National Investment Fund PIF SPV ("MNIF") and the CEO of the Company, Mr. Bataa Tumur-Ochir, entered into a Transfer Agreement, whereby MNIF agreed to transfer to Mr. Tumur-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 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.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

21. 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 March 31, 2023			
	Total	Level 1	Level 2	Level 3
<u>Assets</u>				
Cash	1,339	1,339	-	-
Short term investment	731	-	731	-
	2,070	1,339	731	-
<u>Liabilities</u>				
Convertible debenture derivative	942	-	942	-
Gold Prepay loan – Triple Flag	1,980	-	1,980	-
TDB loan	5,002	-	5,002	-
Current portion of streaming arrangement	17,079	-	17,079	-
Long term portion of streaming arrangement	11,198	-	11,198	-
	36,201	-	36,201	-
Fair value at December 31, 2022				
	Total	Level 1	Level 2	Level 3
<u>Assets</u>				
Cash	2,515	2,515	-	-
Short term investment	365	365	-	-
	2,880	2,880	-	-
<u>Liabilities</u>				
	Total	Level 1	Level 2	Level 3
Convertible debenture derivative	1,299	-	1,299	-
Short term loan – Triple Flag Gold Prepay loan	4,531	-	4,531	-
Current portion of streaming arrangement	15,735	-	15,735	-
Long term portion of streaming arrangement	12,085	-	12,085	-
	33,650	-	33,650	-

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

21. 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 loss and comprehensive loss of an increase or a decrease in the assumptions that are used to value the derivative liability which is and classified as a level 2 in the fair value hierarchy:

Input	Sensitivity rate	Impact of increase \$	Impact of Decrease \$
Stock price	10%	266	(242)
Exercise price	10%	(149)	173
Volatility rate	10%	56	(55)
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%	1,599	(3,833)
Discount rate	10%	(3,050)	1,204

Contingent Liability

In February 2023, legal proceedings were brought against the Company alleging unpaid commissions related to the Company's financing activities in prior periods. The claim is alternatively seeking damages and is also seeking costs and interest.

At March 31, 2023 and the year end December 31, 2022, management had estimated an amount for unpaid commissions that were potentially payable. Management has consulted with legal counsel to assess the merits of the claim. Based on these consultations, management has assessed the likelihood of an unfavourable outcome as possible but is unable to reliably estimate the overall amount of the loss, if any.

The Company will continue to engage with legal counsel to evaluate the potential financial outcome of the proceedings and will update the provision and/or contingent liability disclosure as appropriate, based on new information or changes in circumstances.

22. Events after reporting period

Private Placement

On May 10, 2023, the Company announced that it had successfully completed a non-brokered private placement. The private placement included participation from the Company's management and 2176423 Ontario, a company beneficially owned by Eric Sprott. Under the Private Placement, the Company issued an aggregate of 11,000,000 common shares of the Company at a price of C\$1.10 per Common Share for aggregate gross proceeds of C\$12,100,000.

STEPPE GOLD LTD.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

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

22. Events after reporting period (continued)

The proceeds of the private placement will be used to accelerate the Phase 2 Expansion currently underway, to fund ongoing exploration as well as to support the announced plans to pursue a dual listing on the Hong Kong Stock Exchange.

Potential Acquisition

On May 8, the Company announced that it had signed an Arrangement Agreement pursuant to which it will acquire all of the issued and outstanding common shares of Anacortes Mining Corp. ("Anacortes") by way of a court approved plan of arrangement under the Business Corporations Act (British Columbia), in an all-share transaction (the "Transaction"). Under the terms of the Arrangement Agreement, Anacortes shareholders will receive 0.4532 of a Steppe common share for each Anacortes common share, which represented consideration of approximately C\$0.48 per Anacortes common share and a premium of 36% based on the closing prices of the Anacortes common shares on the TSX-V and the Steppe common shares on the TSX, each as of the close of trading on March 3, 2023, the date that the Transaction was publicly announced. On the closing of the Transaction, shareholders of Steppe Gold and Anacortes will own approximately 79% and 21% of the combined company, respectively, on a basic basis. The Transaction is subject to, among other things, the receipt of all necessary regulatory, stock exchange and court approvals, and obtaining shareholder approval of the Transaction at a meeting of the Anacortes shareholders, which is expected to be held on June 19, 2023.