

## CORPORATE UPDATE

## Construction Completion in Sight

**OUR TAKE:** Steppe is making progress slowly but surely on ATO mine construction and will be in position for gold production and cash flow generation by 3Q19.

## KEY HIGHLIGHTS

- ◆ **Presentation to Haywood.** Jeremy South, CFO, and Aneel Wairach, Executive VP, made a presentation to Haywood last week, providing an update on the Company's activities at the ATO mine.
- ◆ **The ADR plant construction is in progress** and is expected to be complete in February. Once the plant is complete, Steppe will apply for a cyanide license and, subject to approval, leaching of ore is projected to start in April, when warmer weather returns to site. The first gold pour is scheduled for June.
- ◆ **Stacking ore.** The crushing circuit is operational, with ore being crushed to specification. Approximately 70kt of ore has been mined from the ATO1 deposit and stacked on the ROM pad for crushing. Steppe expects 200kt of ore to be stacked by the time leaching starts in April.
- ◆ **Cash is tight.** STGO expects to have approximately \$4M in cash once the ADR plant construction is complete. Until production starts, cash will be tight, and spending will be limited, although management is not planning to raise additional funds until production starts in June. If necessary, the Company can resort to bridge financing with Triple Flag, make arrangements with suppliers and contractors, or sell royalties.

## OUTLOOK

- ◆ **We have reduced our projection for gold production** in 2019 to 20koz from 25koz, to reflect a more conservative outlook on operations for this year. As a result, our 2019 EPS falls from C\$0.35/sh to C\$0.23/sh, while our CFPS falls from C\$0.65/sh to C\$0.47/sh. For 2020, management estimates ATO could produce up to 40koz of gold. ATO will be high margin: we estimate production from the mine will generate approximately \$1,000/oz in revenues net of stream payments, royalties and refining charges.
- ◆ **Later start to Mungu drilling is disappointing.** As a result of the Company's tight cash position, drilling at Mungu has been delayed until July. Steppe, which had originally planned to provide initial drill results in 1Q19, now projects a program of 30km in 2H19, to be followed by a resource update at year-end.

## RECOMMENDED ACTION

**We recommend accumulation of shares as we await production**

- ◆ **We maintain our Buy rating.** There remain several months before ATO is producing gold, so the stock is vulnerable in the near term, particularly if more cash is needed. However, we believe there is support at these levels as ATO construction makes progress, and we are positive on the prospects for cash flow generation in 2H19.

## CATALYSTS

1. **1Q19** – Completion of ADR plant construction by end of February;
2. **2Q19** – Cyanide leaching permit for ATO by April;
3. **2Q19** – Start of gold leaching at ATO by the end of April;
4. **2Q19** – First gold pour in June;
5. **3Q19** – Start of drill program at Mungu in July
6. **4Q19** – Initial resource at Mungu, possibly by year-end

## PROJECTED RETURN

113%

## RISK FACTOR

Very High

## SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
C\$0.70	C\$0.82	C\$1.75
↓ 15%		↑ 113%

## KEY STATISTICS AND METRICS

52-Week High/Low	C\$2.01/C\$0.60
YTD Performance	(1.2%)
Dividend Yield	nil
Shares O/S	41.5M (basic) 66.6M (F/D)
Market Capitalization	\$26M
Cash	\$7M
Debt	\$9M
Enterprise Value	\$23M
Daily Volume (3 mos.)	20,620
Currency	US\$ unless noted

## HAYWOOD ESTIMATES (CAD)

	2018E	2019E	2020E
Revenue (\$M)	0	34	67
EBITDA (\$M)	(15)	19	45
EPS (\$)	(0.42)	0.23	0.51
CFPS (\$)	(0.14)	0.47	0.95
FCFPS (\$)	(0.88)	0.10	0.88
Gold Prod (koz)	0	20	35

## VALUATION

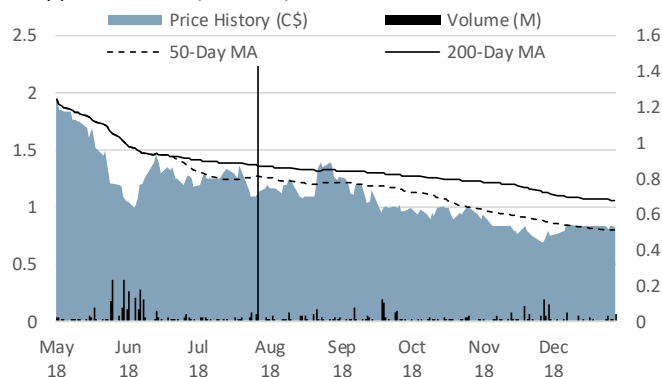
**STGO has NAV of US\$98M**, and is trading at a P/NAV of 0.35x. Based on a 2019 cash flow of C\$20M, the P/2019 EV is 1.6x. Our target price of C\$1.75 per share is based on a blended valuation, which is calculated on the basis of (1) 50% of our 3.0x EV/2019 CF of C\$1.41 per share, and (2) 50% of our corporate NAV5% of C\$2.36 per share.

## INVESTMENT THESIS

Steppe Gold is a Toronto-based mining company developing the ATO gold mine in Mongolia for small scale, low cost heap leach gold production starting by 2H19. Our outlook is based on exposure to near-term production, with potential for a much larger resource that could be in production as a second phase to the current plan. Overall, we believe Steppe Gold could become a leading Mongolian gold mining company, with some of the most prospective gold projects in a country with an attractive mineral endowment. The shares trade at a P/NAV10% of 0.41x, a P/NAV8% of 0.38x, and a P/NAV5% of 0.35x, compared to peers at 0.46x, and at 1.6x EV/2019 CF, compared to peers at 2.8x. We expect the Company to add value with additional resource development from the ATO and Mungu drill programs, where previous work suggests higher grades.

## SCENARIO ANALYSIS

### Steppe Gold Ltd. (STGO-T)



Source: Capital IQ, and Haywood Securities

### TARGET PRICE

Our target price of C\$1.75 per share is based on a blended valuation, which is calculated on the basis of (1) 50% of our 3.0x EV/2019 CF of C\$1.41 per share, and (2) 50% of our Corporate NAV5% of C\$2.36 per share.

### DOWNSIDE CASE

Our downside case reflects a 50% reduction to the NAV resulting from a lower resource at Mungu, as well as a reduction in cash flow from the ATO mine in the eventuality of lower production in 2019.

### KEY RISKS

- **Cash is tight.** Once construction for the ATO plant is complete, Steppe will be in cash conservation mode. While there are no plans to finance, there is a risk that the Company could come to the market.
- **Short mine life.** The current mine life for ATO is just 4.5 years. Cash flow from the mine will be impacted by the streaming arrangement with Triple Flag mining Finance, which receives 25% of gold and 50% of silver produced annually at 30% of prevailing spot prices, until Steppe Gold has delivered 46koz of gold and 375koz of silver.
- **Drilling program needs to deliver.** As a result of the short mine life, the market will be looking for positive drill results that will point to a larger resource to establish the ATO mine as a longer-term producer. Disappointing drill results could negatively impact the long-term outlook for the Company.

**Steppe Gold** is a Mongolia-based gold explorer-developer that is developing the ATO gold mine in Mongolia, a small scale oxide heap leach gold operation, with a planned start in Q2/19. The company is also developing near-mine expansion potential at its Mungu project for larger scale development, and is pursuing a regional exploration program at its Uudam Khundii property.

### Website

[www.steppegold.com](http://www.steppegold.com)

### Key Management

Matthew Wood (President & CEO)

Jeremy South (CFO)

Aneel Wairach (Executive Vice President)





**Steppe Gold Ltd. (STGO-T)**

Rating: BUY Risk: Very High

Target Price: C\$1.75

Metric: Sum of Parts: 3.0x EV/CF (50%) & 0.9x NAV (50%)

Target Price, C\$	\$1.75	Shares O/S, million	41.5
Current Price, C\$	\$0.82	Shares F/D, million	66.6
Return, %	113%	Market Capitalization, US\$M	\$25.7
52-Week High / Low, C\$	\$2.01 / \$0.60	Company CEO	Matthew Wood
Daily Volume (100-day avg)	20,620	Company Web Site	www.steppegold.com

Balance Sheet and Capitalization	As of: Q2/18A			
	US\$M	US\$ / Sh	C\$M	C\$ / Sh
Market Capitalization	\$26	\$0.62	\$34	\$0.82
Current Cash	\$7	\$0.17	\$15	\$0.36
Working Capital	\$7	\$0.17	\$9	\$0.22
Total Debt	\$9	\$0.21	\$12	\$0.28
Book Value	\$22	\$0.53	\$29	\$0.70
Enterprise Value (EV)	\$23	\$0.56	\$31	\$0.74

\*Balance sheet figures reflect last reported period

C\$/US\$ FX Rate: \$1.33

Financial Forecast	2018E				2019E				2020E				2021E			
	Realized Au Price	\$1,275	\$1,300	\$1,400	\$1,400	\$1,275	\$1,300	\$1,400	\$1,400	\$1,275	\$1,300	\$1,400	\$1,400	\$1,275	\$1,300	\$1,400
C\$/US\$ FX Rate	\$1.29	\$1.25	\$1.28	\$1.28	\$1.29	\$1.25	\$1.28	\$1.28	\$1.29	\$1.25	\$1.28	\$1.28	\$1.29	\$1.25	\$1.28	\$1.28
Shares O/S, millions	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Revenue, C\$M	\$0	\$34	\$67	\$69	\$0	\$34	\$67	\$69	\$0	\$34	\$67	\$69	\$0	\$34	\$67	\$69
Gross Profit, C\$M	\$0	\$23	\$49	\$51	\$0	\$23	\$49	\$51	\$0	\$23	\$49	\$51	\$0	\$23	\$49	\$51
Operating Income, C\$M	\$0	\$23	\$49	\$51	\$0	\$23	\$49	\$51	\$0	\$23	\$49	\$51	\$0	\$23	\$49	\$51
EBITDA, C\$M	(\$15)	\$19	\$45	\$47	(\$15)	\$19	\$45	\$47	(\$15)	\$19	\$45	\$47	(\$15)	\$19	\$45	\$47
Earnings, C\$M	(\$15)	\$9	\$21	\$22	(\$15)	\$9	\$21	\$22	(\$15)	\$9	\$21	\$22	(\$15)	\$9	\$21	\$22
Adjusted EPS, C\$	(\$0.42)	\$0.23	\$0.51	\$0.53	(\$0.42)	\$0.23	\$0.51	\$0.53	(\$0.42)	\$0.23	\$0.51	\$0.53	(\$0.42)	\$0.23	\$0.51	\$0.53
Operating Cash Flow, C\$M	(\$5)	\$20	\$40	\$41	(\$5)	\$20	\$40	\$41	(\$5)	\$20	\$40	\$41	(\$5)	\$20	\$40	\$41
CFPS, C\$	(\$0.14)	\$0.47	\$0.95	\$0.98	(\$0.14)	\$0.47	\$0.95	\$0.98	(\$0.14)	\$0.47	\$0.95	\$0.98	(\$0.14)	\$0.47	\$0.95	\$0.98
Free Cash Flow, C\$M	(\$32)	\$4	\$37	\$38	(\$32)	\$4	\$37	\$38	(\$32)	\$4	\$37	\$38	(\$32)	\$4	\$37	\$38
FCFPS, C\$	(\$0.88)	\$0.10	\$0.88	\$0.91	(\$0.88)	\$0.10	\$0.88	\$0.91	(\$0.88)	\$0.10	\$0.88	\$0.91	(\$0.88)	\$0.10	\$0.88	\$0.91
Capex, C\$M	\$27	\$15	\$3	\$3	\$27	\$15	\$3	\$3	\$27	\$15	\$3	\$3	\$27	\$15	\$3	\$3

Valuation Ratios	2019E			2020E			2021E		
	EV / Revenue	0.9x	0.5x	0.4x	0.9x	0.5x	0.4x	0.9x	0.5x
EV / EBITDA	1.6x	0.7x	0.7x	1.6x	0.7x	0.7x	1.6x	0.7x	0.7x
EV / Operating Cash Flow	1.6x	0.8x	0.8x	1.6x	0.8x	0.8x	1.6x	0.8x	0.8x
EV / Free Cash Flow	7.1x	0.8x	0.8x	7.1x	0.8x	0.8x	7.1x	0.8x	0.8x
P / Earnings	3.6x	1.6x	1.5x	3.6x	1.6x	1.5x	3.6x	1.6x	1.5x
P / Operating Cash Flow	1.7x	0.9x	0.8x	1.7x	0.9x	0.8x	1.7x	0.9x	0.8x
P / NAV	0.35x			0.35x			0.35x		

Production Profile	2019E			2020E			2021E			RLOM
	Material Milled									
Total material milled, (kt)	689.0	1,215.5	1,212.1	5,541						
Grade milled, (g/t)	1.29	1.29	1.32	1.24						
Gold recovery, (%)	70.0%	70.0%	70.0%	29.2%						
Production and Sales										
Gold produced, (oz)	20,003	35,287	36,009	153,498						
Gold sold, (oz)	20,003	35,287	36,009	0.153						
Unit Operating Costs										
Total cash costs, (US\$/oz)	\$ 374	\$ 313	\$ 302	\$ 327						
All-in sustaining costs, (US\$/oz)	\$ 491	\$ 380	\$ 367	\$ 403						
Total Mining Operations Costs, US\$/t milled	\$13	\$12	\$12	\$12						

Recent Financings
May 22, 2018 - C\$25M IPO (12.5M shares @ C\$2.00 per share)

Share Capital Dilution	As of					
	Number	Avg. Price	Proceeds	ITM	Expiry	
Shares Outstanding	Aug-18	41.5M				
Options	Aug-18	2.5M	C\$2.00	C\$5.0M	C\$0.0M	May/23 - May/23
Warrants	Aug-18	22.5M	C\$2.19	C\$49.3M	C\$0.0M	May/20 - May/23
<b>Total Dilutive</b>	<b>Aug-18</b>	<b>25.0M</b>		<b>C\$54.3M</b>	<b>C\$0.0M</b>	<b>May/20 - May/23</b>
Fully Diluted OS		66.6M				

Corporate NAV Summary and Sensitivity	Spot					
	Haywood Model	\$1,100	\$1,200	\$1,300	\$1,400	\$1,292
Forecast Gold Price, US\$/lb		\$1.20	\$1.25	\$1.30	\$1.35	\$1.33
Forecast C\$/US\$ FX Rate		(\$19)	(\$22)	(\$25)	(\$28)	(\$25)
Corporate Adjustments, US\$M	\$3	\$71	\$85	\$99	\$115	\$101
ATO Gold Project - NPV After-Tax NPV 5.0%, US\$M	\$108	\$18	\$18	\$18	\$18	\$18
Resource Valuation, US\$M	\$18	\$18	\$18	\$18	\$18	\$18
<b>Corporate NAV, US\$M</b>	<b>\$98</b>	<b>\$70</b>	<b>\$81</b>	<b>\$91</b>	<b>\$104</b>	<b>\$94</b>
<b>Corporate NAV, C\$ / F/DM</b>	<b>\$2.36</b>	<b>\$1.67</b>	<b>\$1.95</b>	<b>\$2.20</b>	<b>\$2.50</b>	<b>\$2.26</b>
Target Price / Corporate NAV	0.7x	1.0x	0.9x	0.8x	0.7x	0.8x
<b>2018E Operating Cash Flow Sensitivity (US\$/Share)</b>	<b>(\$0.11)</b>	<b>(\$0.11)</b>	<b>(\$0.11)</b>	<b>(\$0.11)</b>	<b>(\$0.11)</b>	<b>(\$0.11)</b>
<b>2019E Operating Cash Flow Sensitivity (US\$/Share)</b>	<b>\$0.30</b>	<b>\$0.24</b>	<b>\$0.28</b>	<b>\$0.32</b>	<b>\$0.36</b>	<b>\$0.33</b>

Major Shareholders	O/S (millions)		O/S (%)	
	LIM Advisors Limited	5.0	12%	
Atmacorp Ltd., Asset Management Arm	2.4	6%		
Triple Flag Mining Finance Ltd., Asset Management Arm	2.1	5%		
Cityscape Asset PTY LTD TR	2.0	5%		
Concept Capital Management LTD	1.9	5%		
Elliott Management Corporation	1.5	4%		
R&R Ventures (Family Office NYC)	1.3	3%		
Maxit Capital	1.3	3%		
Tsagaogchin Bayan Naur LLC	1.3	3%		
Yesun Khult LLC	1.1	3%		
1832 Asset Management L.P.	1.4	3%		
Tumur-Ochir, Bataa	1.1	3%		
Western Wood, Matthew Gaden	1.0	2%		
Warach, Ansel	0.5	1%		
<b>Total</b>	<b>24.0</b>	<b>58%</b>		

Corporate Metal Inventory - Reserve and Resource	Tonnes		Grade		AuEq		EV/AuEq oz (US\$/oz)
	(kt)	(g/t Au)	(koz)	(g/t AuEq)	(koz)		
Proven (100%)	3.41	1.41	155	1.55	170	\$137	
Probable (100%)	1.82	0.93	55	1.08	63	\$367	
<b>Total Reserves (100%)</b>	<b>5.23</b>	<b>1.25</b>	<b>210</b>	<b>1.39</b>	<b>234</b>	<b>\$99</b>	
Measured Resources (100%)	7.77	1.51	378	1.63	406	\$57	
Indicated Resources (100%)	4.46	1.46	209	1.65	236	\$98	
<b>Measured and Indicated Resources (100%)</b>	<b>12.23</b>	<b>1.49</b>	<b>587</b>	<b>1.63</b>	<b>642</b>	<b>\$36</b>	
Inferred Resources (100%)	1.05	1.03	35	1.39	47	\$495	

Peer-Group Comparables	Share Price		Price/Nav	2018E		2019E		2018E		2019E	
	Share Price	Corp NAV		P/CFPS	P/CFPS	EV/CF	EV/CF				
Alio Gold Inc. (TSX:ALO)	C\$1.02	US\$ 2.20	0.35x	6.1x	2.4x	6.2x	2.5x				
Argonaut Gold Inc. (TSX:AR)	C\$1.39	US\$ 2.79	0.38x	3.0x	2.2x	3.0x	2.1x				
Atlantic Gold Corporation (TSXV:AGB)	C\$1.56	US\$ 1.80	0.66x	5.1x	4.7x	6.4x	5.9x				
Jaguar Mining Inc. (TSX:JAG)	C\$0.21	US\$ 0.64	0.25x	2.0x	1.4x	2.3x	1.6x				
Roxgold Inc. (TSX:ROXG)	C\$0.76	US\$ 1.07	0.53x	3.1x	2.2x	2.9x	2.1x				
Superior Gold Inc. (TSXV:SGI)	C\$0.73	US\$ 1.46	0.38x	5.1x	2.0x	3.7x	1.5x				
Wesdome Gold Mines Ltd. (TSX:WDO)	C\$4.27	US\$ 3.47	0.93x	14.4x	12.7x	14.1x	12.4x				
<b>Group Average</b>			<b>0.50x</b>	<b>5.5x</b>	<b>3.9x</b>	<b>5.5x</b>	<b>4.0x</b>				
<b>Group Average (excluding high/low)</b>			<b>0.46x</b>	<b>4.5x</b>	<b>2.7x</b>	<b>4.4x</b>	<b>2.8x</b>				
<b>Steppe Gold Ltd. (Haywood) (TSX:STGO)</b>	<b>C\$0.82</b>	<b>US\$ 1.78</b>	<b>0.35x</b>	-	<b>1.7x</b>	-	<b>1.6x</b>				

C\$/US\$ FX Rate: \$1.33

Source: Bloomberg, Capital IQ, Company Reports, and Haywood Securities



## Outlook

### Changes to Estimates

Figure 1: Changes to Estimates

	New	Old			
	2019E	2019E	Var	Q-Q	2018E
<b>Realized Commodity Prices</b>					
Gold Price, US\$/oz	\$1,300	\$1,225	6%	2%	\$1,275
C\$/US\$ FX Rate	\$1.25	\$1.34	(7%)	(3%)	\$1.29
Shares O/S, millions	42	42	-	-	42
<b>Revenue, C\$M</b>	<b>\$ 34.1</b>	<b>\$ 45.2</b>	<b>(25%)</b>	-	<b>\$ -</b>
Operating Income, C\$M	\$ 23.1	\$ 31.7	(27%)	-	\$ -
<b>Adjusted EBITDA, C\$M</b>	<b>\$ 19.1</b>	<b>\$ 27.7</b>	<b>(31%)</b>	-	<b>\$ (15.3)</b>
Adjusted Earnings, US\$M	\$ 9.4	\$ 14.5	(35%)	-	\$ (15.3)
<b>Adjusted EPS, C\$</b>	<b>\$0.23</b>	<b>\$0.35</b>	<b>(35%)</b>	-	<b>(\$0.42)</b>
Operating Cash Flow, C\$M	\$ 19.5	\$ 27.1	(28%)	-	\$ (5.1)
<b>CFPS, C\$</b>	<b>\$0.47</b>	<b>\$0.65</b>	<b>(28%)</b>	-	<b>(\$0.14)</b>
Free Cash Flow, C\$M	\$ 4.4	\$ 10.9	(60%)	-	\$ (32.1)
<b>FCFPS, C\$</b>	<b>\$0.10</b>	<b>\$0.26</b>	<b>(60%)</b>	-	<b>(\$0.88)</b>
CAPEX, C\$M	\$ 15.2	\$ 16.2	(7%)	(44%)	\$ 27.0
Current Cash, C\$M	\$ 5.2	\$ 16.5	(69%)	(26%)	\$ 7.0
Working Capital, C\$M	\$ (0.7)	\$ 10.6	-	-	\$ 1.2
Total Debt, C\$M	\$ 6.6	\$ 6.6	-	-	\$ 6.6

Source: Company Reports, Haywood Securities



## Important Information and Legal Disclosures

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I, Pierre Vaillancourt, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

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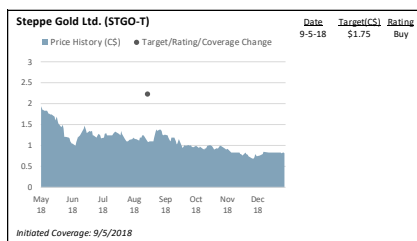
- ◆ As of the end of the month immediately preceding this publication either Haywood Securities, Inc., its officers or directors beneficially owned 1% or more of Steppe Gold Ltd. (STGO-T).
- ◆ Haywood Securities, Inc. has reviewed lead projects of Steppe Gold Ltd. (STGO-T), Atlantic Gold Corporation (AGB-V), Roxgold Inc. (ROXG-T) and a portion of the expenses for this travel may have been reimbursed by the issuer.
- ◆ Haywood Securities, Inc. or an Affiliate has managed or co-managed or participated as selling group in a public offering of securities for Steppe Gold Ltd. (STGO-T) in the last 12 months.

Other material conflict of interest of the research analyst of which the research analyst or Haywood Securities Inc. knows or has reason to know at the time of publication or at the time of public appearance:

### Distribution of Ratings (as of January 21, 2019)

	%	#	IB Clients (TTM)
Buy	74.5%	70	92.0%
Hold	12.8%	12	8.0%
Sell	0.0%	0	0.0%
Tender	2.1%	2	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	10.6%	10	0.0%

### Price Chart, Rating and Target Price History (as of January 21, 2019)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
Source: Capital IQ and Haywood Securities

**Link to Research Policy:** <http://haywood.com/what-we-offer/research/research-policy>

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