

K92 **MINING INC.**

CONSOLIDATED FINANCIAL STATEMENTS

(Presented in United States Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017



Independent auditor's report

To the Shareholders of K92 Mining Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of K92 Mining Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of operations and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficit) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Dean Larocque.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 17, 2019

K92 MINING INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Presented in United States Dollars)

AS AT	December 31, 2018	December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	\$ 6,205,616	\$ 1,159,538
Receivables (Note 5)	7,699,572	622,377
Inventory (Note 6)	3,797,601	2,045,636
Prepayments (Note 7)	<u>1,561,109</u>	<u>642,354</u>
	19,263,898	4,469,905
Deferred income tax assets (Note 21)	26,470,433	-
Property, plant and equipment (Note 9)	<u>42,034,195</u>	<u>37,566,840</u>
	<u>\$ 87,768,526</u>	<u>\$ 42,036,745</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 9,545,955	\$ 9,902,887
CRH financing (Note 11)	5,331,814	4,420,366
Finance lease (Note 9)	<u>394,125</u>	<u>242,787</u>
	15,271,894	14,566,040
Finance lease (Note 9)	799,238	85,990
CRH financing (Note 11)	-	3,688,819
Reclamation and closure cost obligations (Note 12)	<u>1,891,298</u>	<u>2,354,323</u>
	17,962,430	20,695,172
Shareholders' equity		
Share capital (Note 13)	54,433,383	46,626,267
Preferred shares (Note 11 and 13)	1,018,876	1,018,876
Contributed surplus (Note 13)	11,140,889	9,366,514
Accumulated other comprehensive loss (income)	(299,438)	(125,516)
Retained earnings (deficit)	<u>3,512,386</u>	<u>(35,544,568)</u>
	<u>69,806,096</u>	<u>21,341,573</u>
	<u>\$ 87,768,526</u>	<u>\$ 42,036,745</u>

Nature of business (Note 1)
Subsequent events (Note 23)

Approved and authorized by the Board of Directors on April 16, 2019:

“R. Stuart Angus”

Director

“Saurabh Handa”

Director

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

K92 MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Presented in United States Dollars)

For the years ended	December 31, 2018	December 31, 2017
REVENUE ¹ (Note 18)	\$ 53,160,754	\$ -
COST OF SALES (Note 19)	<u>(29,759,236)</u>	<u>-</u>
	23,401,518	-
EXPENSES		
Accretion expense, (Note 12)	\$ 150,659	\$ -
Consulting and administrative (Note 20)	2,314,626	2,749,799
Exploration and evaluation expenditures	1,793,486	268,427
Foreign exchange	21,056	34,488
Investor relations	333,515	967,935
Share-based payments	<u>1,484,928</u>	<u>1,128,695</u>
	\$ (6,098,270)	\$ (5,149,344)
OTHER		
Gain on settlement of debt	-	51,739
Interest	(416,576)	10,957
Impairment of property, plant and equipment (Note 9)	-	(1,717,837)
Net smelter return expense (Note 11)	-	(18,866)
Fair value gain (loss) on gold purchase agreement (Note 11)	110,118	(2,568,049)
Amortization of deferred loss (Note 11)	<u>(4,410,269)</u>	<u>(2,677,637)</u>
Income (loss) for the year before taxes	\$ 12,586,521	\$ (12,069,037)
Deferred income tax recovery (Note 21)	26,470,433	-
Income (loss) for the year	\$ 39,056,954	\$ (12,069,037)
Items that may be reclassified to net loss		
Other comprehensive income		
Cumulative translation adjustment	<u>(173,922)</u>	<u>813,320</u>
Comprehensive income (loss) for the year	<u>\$ 38,883,032</u>	<u>\$ (11,255,717)</u>
Basic income (loss) per common share	\$ 0.22	\$ (0.08)
Diluted income (loss) per common share	<u>\$ 0.20</u>	<u>\$ (0.08)</u>
Weighted average number of common shares outstanding	176,311,452	143,800,159
Weighted average number of diluted common shares outstanding	<u>191,291,272</u>	<u>143,800,159</u>

¹ Revenue generated from concentrate sales from February 1, 2018, the date of declaration of commercial production.

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

K92 MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Presented in United States Dollars)

For the years ended	December 31, 2018	December 31, 2017
CASH FROM OPERATING ACTIVITIES		
Income (loss) for the year	\$ 12,586,521	\$ (12,069,037)
Items not affecting cash:		
Unrealized foreign exchange gain (loss)	(305,375)	183,500
Accrued interest	416,576	-
Accretion expense (Note 12)	150,659	-
Amortization of deferred loss (Note 11)	4,410,269	2,677,637
Impairment of property, plant and equipment (Note 9)	-	1,717,837
Fair value loss (gain) on gold purchase agreement (Note 11)	(110,118)	2,568,049
Share-based payments (Note 13)	1,484,928	1,128,695
Amortization (Note 9)	4,101,266	290,164
Gain on settlement of debt	-	(51,739)
Changes in non-cash working capital items:		
Inventory	(1,751,965)	(1,114,476)
Receivables	(7,077,195)	44,685
CRH financing	(1,213,700)	-
Prepayments	(918,755)	(375,927)
Accounts payable and accrued liabilities	<u>6,365,139</u>	<u>(3,183,158)</u>
Net cash provided by (used in) operating activities	<u>18,138,250</u>	<u>(8,183,770)</u>
CASH FROM INVESTING ACTIVITIES		
Lease payments	(331,204)	(235,487)
Proceeds from pre-production concentrate sales	3,690,501	5,007,381
Acquisition of Property, plant and equipment	<u>(18,181,658)</u>	<u>(16,976,028)</u>
Net cash used in investing activities	<u>(14,822,361)</u>	<u>(12,204,134)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock (Note 13)	5,140,870	19,864,463
Proceeds on exercise of warrants	3,066,120	2,744,662
Proceeds on exercise of stock options	301,998	31,167
Purchase of gold credits (Note 11)	(6,325,871)	(4,594,770)
Share issuance costs (Note 13)	<u>(438,020)</u>	<u>(941,434)</u>
Net cash provided by financing activities	<u>1,745,097</u>	<u>17,104,088</u>
Change in cash and cash equivalents during the year	5,060,986	(3,283,816)
Effect of foreign exchange on cash	(14,908)	151,657
Cash and cash equivalents, beginning of year	<u>1,159,538</u>	<u>4,291,697</u>
Cash and cash equivalents, end of year	\$ 6,205,616	\$ 1,159,538
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 17)

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

K92 MINING INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(Presented in United States Dollars)

	<u>Share capital</u>		Preferred shares	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
	Number	Amount					
Balance at December 31, 2016	119,426,527	\$ 28,315,925	\$ 1,018,876	\$ 4,268,350	\$ (938,836)	\$ (23,475,531)	\$ 9,188,784
Private placements	34,026,583	16,363,592	-	3,500,871	-	-	19,864,463
Share issuance costs, units	1,053,333	464,920	-	131,937	-	-	596,857
Share issuance costs, units	-	(596,857)	-	-	-	-	(596,857)
Share issuance costs, cash	-	(941,434)	-	-	-	-	(941,434)
Share issuance costs, warrants	-	(236,351)	-	236,351	-	-	-
Exercise of warrants	7,148,067	3,219,170	-	(474,508)	-	-	2,744,662
Exercise of stock options	92,400	37,302	-	(6,135)	-	-	31,167
Share-based payments (Note 13)	-	-	-	1,709,648	-	-	1,709,648
Cumulative translation adjustment	-	-	-	-	813,320	-	813,320
Loss for the year	-	-	-	-	-	(12,069,037)	(12,069,037)
Balance at December 31, 2017	161,746,910	46,626,267	1,018,876	9,366,514	(125,516)	(35,544,568)	21,341,573
Private placements	14,444,500	4,434,074	-	706,796	-	-	5,140,870
Share issuance costs, cash	-	(438,020)	-	-	-	-	(438,020)
Share issuance costs, warrants	-	(138,921)	-	138,921	-	-	-
Exercise of warrants	4,514,109	3,507,712	-	(441,592)	-	-	3,066,120
Exercise of stock options	745,700	442,271	-	(140,273)	-	-	301,998
Share-based payments (Note 13)	-	-	-	1,510,523	-	-	1,510,523
Cumulative translation adjustment	-	-	-	-	(173,922)	-	(173,922)
Income for the year	-	-	-	-	-	39,056,954	39,056,954
Balance at December 31, 2018	181,451,219	\$ 54,433,383	\$ 1,018,876	\$ 11,140,889	\$ (299,438)	\$ 3,512,386	\$ 69,806,096

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

1. NATURE OF BUSINESS

K92 Mining Inc. (the “**Company**”) was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on March 22, 2010. The Company’s shares are listed on Tier 1 of the TSX Venture Exchange (“**TSX-V**”) under the symbol KNT and the OTCQB under the symbol KNTNF. The Company is currently engaged in the exploration, development and mining of mineral deposits in Papua New Guinea, specifically the Kainantu Project.

The Company’s head office, principal, registered and records office is 488 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial liabilities measured at fair value.

These consolidated financial statements of the Company are presented in United States dollars, which is the functional currency of K92 Mining Ltd. and K92 Holdings International Limited. The parent company, K92 Mining Inc., has a functional currency of the Canadian Dollar and K92 Mining (Australia) Pty Ltd. has a functional currency of the Australian Dollar.

Significant accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgement uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

Depletion and depreciation of property, plant and equipment

Property, plant and equipment is the largest component of the Company’s assets and, as such, the depreciation of these assets has a significant effect on the Company’s financial statements.

Mining plant and equipment and other capital assets are depreciated over their expected economic lives using either the units of production method or the straight-line method. Depletion of each mineral property interest is provided on the units of production basis using estimated proven and probable reserves as the depletion basis. Significant judgment is involved in the determination of useful lives of long-lived assets. A change in the estimated useful life or residual value of a long-lived asset would result in a change in the rate of depreciation for that asset.

For long-lived assets that are depleted or depreciated over proven and probable reserves using the units of production method, a change in the original estimate of proven and probable reserves would result in a change in the rate of depletion or depreciation.

2. BASIS OF PREPARATION (cont'd...)

Significant accounting judgements, estimates and assumptions (cont'd...)

Impairment indicator of property, plant and equipment

Property, plant and equipment are tested for impairment when events or changes in circumstance indicate that the carrying value may be higher than the recoverable amount. Judgement is required in assessing whether certain factors would be considered an indicator of impairment. Management considers both internal and external information to determine whether there is an indicator of impairment.

Achievement of Commercial Production

Once a mine reaches the operating levels intended by management, depreciation of capitalized costs begins. Significant judgment is required to determine when certain assets of the Company's reach this level. Management considers several factors including, completion of a reasonable period of commissioning, consistent operating results are being achieved at a pre-determined level of design capacity and production of pre-designed gold production.

Rehabilitation and restoration provision

The Company has obligations for the future restoration of its mining tenements. In most instances, removal of assets and restoration of surrounding area occurs many years into the future. This requires judgmental assumptions regarding removal date, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows.

Income tax

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. The Company determines if a deferred tax asset should be recorded and if so, estimates the amount through taxable income projection models. Additionally, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Reserves and Resources

Mineral reserve and resources estimates are based on various assumptions relating to operating matters set forth in National Instrument 43-101. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices, and inflation rates. Cost estimates are based on pre-feasibility study estimates or operating or operating history, and estimates are prepared by appropriately qualified persons (as defined in National Instrument 43-101).

Estimated recoverable reserves are used to determine the depreciation of property, plant and equipment, as an input to the projection of future taxable profits which support assessments of deferred income tax recoverability and to forecast the timing of the payment of decommissioning obligations.

Contingent Liability

The Company has determined not to record a liability related to the acquisition of Barrick (Kainantu) Limited (Note 4) as at this time, the Company has not determined the existence of 1,000,000 gold equivalent ounces classified as measured, indicated, probable ore resource, or a proven ore equivalent ounce of gold plus cumulative ounces produced is unlikely to be completed on or before March 6, 2025.

2. BASIS OF PREPARATION (cont'd...)

Significant accounting judgements, estimates and assumptions (cont'd...)

Contingent Liability (cont'd...)

The Company determined this by reviewing its current resource additions since March 6, 2015 and the Company's estimated production through March 6, 2025.

Gold prepayment agreement

Judgment is required in assessing the appropriate accounting treatment of the gold prepayment agreement on the closing date and in future periods. We consider the specific terms of the agreement to determine whether we have disposed of an interest in the mineral property. This assessment considers what the counterparty is entitled to and the associated risks and rewards attributable to them over the life of the operation, including the contractual terms related to the total production over the life of the arrangement as compared to the expected production over the life of the mine, the percentage being sold, the percentage of payable metals produced, and any guarantee relating to the upfront payment if production ceases.

For the gold prepayment agreement entered into during the year ended August 31, 2016 and amended during the year ended December 31, 2018, there is a guarantee associated with the upfront payment as we are required to make good faith commercial efforts to maximize production of gold from the mineral property. Additionally, the counterparty has the option to receive payment in cash rather than refined gold. Accordingly, we consider this arrangement a derivative liability.

The valuation of the derivative in this arrangement is an area of estimation and is determined using discounted cash flow models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward curve prices, mine plans and discount rates. Changes in these assumptions could affect the carrying value of derivative assets or liabilities and the amount of gains or losses recognized in other operation income (expense).

Share-based payments

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Determination of functional currency

The functional currencies of the Company and its subsidiaries are outlined in Note 3, Foreign Exchange. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The determination of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency if there are changes in events and conditions of the factors used in the determination of the primary economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the subsidiaries controlled by the Company. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

The consolidated financial statements include the financial statements of the Company and its legal subsidiaries:

Company	Place of Incorporation	Effective Interest	Principal Activity
K92 Mining (Australia) Pty Ltd.	Australia	100%	Operating
K92 Holdings International Limited	British Virgin Islands	100%	Holding
K92 Mining Limited	Papua New Guinea	100%	Operating

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Cash and equivalents

Cash and cash equivalents comprise cash on deposit with banks and highly liquid short-term interest-bearing investments with a term to maturity at the date of purchase of 90 days or less which are subject to an insignificant risk of change in value.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Valuation of equity units issued in private placements

The fair value of the common shares issued in the private placements was determined to be the pro rata portion of the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date and the pro rata fair value attributable to the warrants that was calculated using the Black-Scholes pricing model. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for K92 Holdings International Limited (accounting parent) and K92 Mining Ltd. is the United States dollar, the functional currency of K92 Mining (Australia) Pty Ltd. is the Australian dollar and the functional currency of K92 Mining Inc. is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21.

The Effects of Changes in Foreign Exchange Rates

Transactions in foreign currencies are initially recorded into the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Nonmonetary assets and liabilities are translated at historical exchange rates, unless the item is carried at fair value, in which case it will be translated at the exchange rate in effect at the date when the fair value was determined. Resulting foreign exchange gains and losses are recognized in the statement of operations except those of K92 Mining Inc. which are recognized as cumulative translation adjustment on the statement of financial position.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the excess.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Provisions

a) Environmental rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows, adjusted for inflation, associated with reclamation as a liability, at a risk-free rate, when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs). The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated.

Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the statement of loss and comprehensive loss.

b) Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

Inventory

Ore stockpile and gold concentrate are measured at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all expenditures directly attributable to mineral extraction, processing and overheads that are incurred in extracting and processing ore. Net realizable value is determined with reference to relevant market prices, less estimated costs of completion (including royalties payable).

Mine supplies, consumables and fuel inventory are valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A periodic review is undertaken to determine the extent of any provision for obsolescence.

Contingent liabilities

Contingent liabilities are recognized when payment is expected to occur. At each statement of financial position date an estimate is made of the payments that will be required in accordance with IAS 37: Provisions, contingent liabilities and contingent assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets

Exploration and evaluation licenses

All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis.

Exploration and evaluation expenditures

Exploration costs, net of incidental revenues, are charged to statement of operations in the year incurred until the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated reserves, according to national instrument 43-101, as the depletion base.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, such as but not limited to:

- The extent to which mineral reserves or mineral resources have been identified through a feasibility study or similar level document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits, and
- The status of mining leases or permits.

In addition, commercial viability is deemed to be achieved when the Company determines that the project will provide a satisfactory return relative to its perceived risks. Ore reserves may be declared for an undeveloped mining project before its commercial viability has been fully determined.

Property, plant and equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The following table outlines the methods used to depreciate property, plant and equipment:

Mineral properties	Units of production
Mine and mill refurbishment	Units of production
Vehicles	Straight line 3 years
Mobile fleet	Straight line 4 years
Equipment under finance lease	Straight line 4 years
Infrastructure – residence camp	Straight line 9 years
Infrastructure – plant area	Straight line 9 years

During the year ended December 31, 2018, the Company changed depreciation method of its mobile fleet from units of production to straight line 4 years which the Company estimated is more representative of actual useful life.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Property, plant and equipment (cont'd...)

Mineral property costs are carried at cost, less accumulated depletion. Costs of project development including gaining initial access to the ore body are capitalized to mineral properties. Once the mineral property is in production, it will be depleted using the units of production method, based on recoverable gold equivalent ounces from the estimated proven and probable reserves. Capitalization of pre-commercial production ceases when the mining property is capable of commencement of mining operations in the manner intended by management. Costs incurred prior to this point, including depreciation of related plant and equipment, are capitalized and proceeds from sales during this period are offset against capitalized costs. The Company applies judgment in its assessment of when a mine is capable of operating in the manner intended by management, which takes account of the design of the mine and the nature of the initial commissioning phase of the operation.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substances of the agreement at the inception date.

Finance leases

Leases that transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company, as a lessee, are capitalized at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the lease liability.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term, in which case the asset is depreciated over the life of the asset.

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recorded as paid in the Company's consolidated statement of income (loss) and comprehensive income (loss). Lease payments made on equipment used in the Company's exploration and development activities are capitalized to mineral properties and property, plant and equipment during construction. In addition to contracts which take the legal form of a lease, other significant contracts are assessed to determine whether, in substance, they are, or contain, a lease, if the contractual arrangement contains the use of a specific asset and the right to use that asset.

Effective January 1, 2019, the Company will be adopting IFRS 16, Leases, see new standards not yet adopted.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards adopted

IFRS 15 – Revenue from contracts with customers

The Company adopted IFRS 15 effective January 1, 2018. IFRS 15 addresses revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service.

The Company did not previously have a revenue policy and there were no significant changes in accounting.

The following is the Company's accounting policy for revenue recognition under IFRS 15:

Revenue Recognition

Revenue is generated from the sale of metals in concentrate.

The Company produces gold concentrate, which also includes copper and silver. The Company's performance obligations relate primarily to the delivery of concentrate to customers, with each shipment representing a separate performance obligation.

Revenue from the sale of gold concentrate is recognized at the point the customer obtains control of the product. Control is transferred when title has passed to the purchaser and the customer controls the risks and rewards of ownership and the Company has a present right to a payment for the product. Control over gold concentrate is transferred to the customer and revenue is recognized when the material reaches the port of Lae, Papua New Guinea, is assayed, and delivered to an off-taker designed storage warehouse located at the port.

Gold concentrate is sold under provisional pricing arrangements where final prices are determined by market prices subsequent to the date of sale (the Quotational Period or "QP"). Revenue from concentrate sales is recorded at the amounts estimated to be received on the date the criteria for recognizing revenue are met. Adjustments are made to settlements receivable in subsequent periods based on fluctuations in market prices until the date of final metal pricing. These subsequent changes in the fair value of settlements receivable are recorded in revenue but shown separately from revenue arising from contracts with customers.

IFRS 9 – Financial Instruments

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings.

The adoption of IFRS 9 has resulted in changes in classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards adopted (cont'd...)

IFRS 9 – Financial Instruments (cont'd...)

As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets:

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

- a) Fair value through profit or loss (“FVTPL”) – financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the consolidated statement of operations and comprehensive income (loss).
- b) Amortized cost – financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: 1) The objective of the Company’s business model for these financial assets is to collect their contractual cash flows; and 2) the assets contractual cash flow represents solely payments of principal and interest.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company’s accounts payable and accrued liabilities are classified as other financial liabilities.

The Company’s cash and cash equivalents, account receivables, and accounts payable and accrued liabilities are recorded at amortized cost. The Company’s settlement receivables and CRH financing are recorded at FVTPL. The change did not impact the carrying value of any financial assets on the transition date, January 1, 2018.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit loss for performing assets and the lifetime expected credit loss if the credit risk on the financial assets has increased significantly since initial recognition. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the expected credit losses are reversed after the impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards adopted (cont'd...)

Settlement receivables

Settlement receivables are amounts due from customers for the sale of gold concentrate in the ordinary course of business.

Settlement receivables arise from the sale of gold concentrates. Settlement receivables are classified as fair value through profit and loss and are recorded at fair value at each reporting period. Changes in fair value of settlements receivable are recorded as a separate component of revenue.

New standards not yet adopted

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after January 1, 2018. They have not been early adopted in these consolidated financial statements, and they are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 16 Leases will be effective for accounting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

The Company will be adopting IFRS 16 on January 1, 2019 using the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. For all leases, the lease liability will be measured at January 1, 2019 as the present value of any future minimum lease payments discounted using the appropriate incremental borrowing rate. The associated right of use assets will be measured at the amount equal to the lease liability on January 1, 2019. The Company's accounting for finance leases remained substantially unchanged.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

4. ACQUISITION OF BARRICK (KAINANTU) LIMITED

Through its wholly owned subsidiary, K92 Holdings (PNG) Limited (“**K92PNG**”), on June 10, 2014, K92 Intl entered into a Share Sale Agreement (“**SSA**”) with Barrick (Niugini) Limited (“**Barrick**”), Mt Apex Investment Holdings Limited (“**Apex**”), and Otterburn Resource Corp., whereby K92PNG agreed to acquire all of the outstanding shares of Barrick’s wholly owned Papua New Guinea subsidiary, Barrick (Kainantu) Limited (“**Kainantu**”), that holds certain assets and mineral rights and interests in Papua New Guinea.

As consideration, K92PNG agreed to pay up to \$62,000,000 as follows:

- \$2,000,000 (paid);
- \$20,000,000 upon K92PNG determining the existence of at least 1,000,000 gold equivalent ounces within MP150 and within 10 years, classified as a measured, indicated, probable ore resource, or a proven ore reserve equivalent ounce of gold in accordance with Australasian Code for Reporting Results, Mineral Resources and Ore Reserves; plus, cumulative production (“**Earn-Out Ounces**”); and
- \$5,000,000 for every 250,000 ounces in excess of the Earn-Out Ounces achieved by K92PNG within 10 years, up to a maximum of 2,000,000 ounces or \$40,000,000 in aggregate.

Pursuant to the PNG Mining Act, a 2% net smelter returns royalty, and a 0.25% levy on gross mine revenues are payable to the PNG government.

The SSA was contingent on the renewal of the mining leases which were renewed on January 23, 2015 for a period of 10 years effective from June 14, 2014 through June 13, 2024. Management has valued the consideration to be paid for Earn-Out Ounces at \$Nil.

On March 6, 2015, K92 Intl completed the SSA with Barrick. The cost of the acquisition was \$2,525,220 consisting of \$2,000,000 in cash and \$525,220 in transaction costs.

5. RECEIVABLES

AS AT	December 31, 2018	December 31, 2017
Accounts receivable	\$ 1,145,104	\$ -
Settlement receivables	6,060,893	556,592
Pricing adjustments	447,930	-
Other	45,645	65,785
Total	\$ 7,699,572	\$ 622,377

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

6. INVENTORY

AS AT	December 31, 2018	December 31, 2017
Mine supplies, consumables and fuel	\$ 2,842,750	\$ 2,045,636
Ore stockpile	771,195	-
Gold concentrate	<u>183,656</u>	<u>-</u>
Total	\$ 3,797,601	\$ 2,045,636

7. PREPAYMENTS

Prepayments of \$1,561,109 as of December 31, 2018 (December 31, 2017 - \$642,354) relate to consumable inventory, insurance and investor relations.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

AS AT	December 31, 2018	December 31, 2017
Trade payables	\$ 5,455,636	\$ 6,306,498
Accruals and provisions	2,438,232	3,044,920
Landowners compensation	<u>1,652,087</u>	<u>551,469</u>
Total	\$ 9,545,955	\$ 9,902,887

Landowners' compensation

The Company has obligations to compensate landowners annually who are affected by the operations of the Kainantu mine. These compensations are governed by the Papua New Guinean Mining Act 1992 and land and environment compensation agreement ("CA") for Mining Lease 150 ("ML 150") that the prior owner of the Kainantu mine entered into with the Billmoia Landowners Association Incorporation ("BLA") and certain landowners / clans listed in the agreement. The actual recipients of the compensation determined under the CA and landowners' share of sales royalty could not be paid as required under the CA until the legitimate landowners were identified by the Papua New Guinean Land Titles Commission ("LTC") and so compensation payments have been accrued but not paid.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Mine and Mill Refurbishment	Mobile Fleet and Vehicles	Equipment under finance lease	Total
Cost					
Balance, December 31, 2016	\$ 2,166,499	\$ 14,724,608	\$ 2,183,014	\$ 464,692	\$ 19,538,813
Additions	24,254,100	998,718	-	318,494	25,571,312
Capitalized depreciation	296,370	-	-	-	296,370
Impairment	-	(1,256,244)	-	(464,692)	(1,720,936)
Capitalized pre-production concentrate sales	-	(5,560,367)	-	-	(5,560,367)
Balance, December 31, 2017	26,716,969	8,906,715	2,183,014	318,494	38,125,192
Additions	4,485,577	2,617,243	4,382,362	1,195,790	12,680,972
Change in reclamation and closure obligation estimate (Note 15)	(421,850)	-	-	-	(421,850)
Capitalized pre-production concentrate sales	-	(3,690,501)	-	-	(3,690,501)
Balance, December 31, 2018	\$ 30,780,696	\$ 7,833,457	\$ 6,565,376	\$ 1,514,284	\$ 46,693,813
Accumulated depreciation					
Balance, December 31, 2016	\$ -	\$ 181,768	\$ 86,420	\$ -	\$ 268,188
Impairment	-	-	-	(3,106)	(3,106)
Depreciation for the year	-	222,206	53,767	17,297	293,270
Balance, December 31, 2017	-	403,974	140,187	14,191	558,352
Depreciation for the year	1,825,580	541,384	1,506,897	227,405	4,101,266
Balance, December 31, 2018	\$ 1,825,580	\$ 945,358	\$ 1,647,084	\$ 241,596	\$ 4,659,618
Carrying amounts					
As at December 31, 2017	\$ 26,716,969	\$ 8,502,741	\$ 2,042,827	\$ 304,303	\$ 37,566,840
As at December 31, 2018	\$ 28,955,116	\$ 6,888,099	\$ 4,918,292	\$ 1,272,688	\$ 42,034,195

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

9. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

The net carrying amount of assets under a finance lease as of December 31, 2018 was \$1,272,688 (2017 - \$304,303). Assets under finance lease are included in Equipment under finance lease within property, plant and equipment. Company has recorded the following as finance leases:

	December 31, 2018	December 31, 2017
Equipment leases payable in monthly instalments of \$16,292 plus interest at 8.52% per annum.	\$ -	\$ 114,042
Equipment lease payable in monthly instalments of \$9,208 plus interest at 9.02% per annum. Matures September 2019.	125,959	193,375
Equipment lease payable in monthly instalments of \$24,379 (Papua New Guinea Kina 82,083). Matures June 2022. The Company does have the ability to purchase the assets at the end of the lease or renew for an additional two year period. \$755,741 relates to payments more than 1 year.	1,067,404	-
Equipment lease payable in monthly instalment of \$2,306 plus interest at 17.00% per annum. Matures October 2018.	-	21,360
Present value of future minimum lease payments	\$ 1,193,363	\$ 328,777
Current portion	\$ 394,125	\$ 242,787
Long-term portion	\$ 799,238	\$ 85,990

During the year ended December 31, 2018, the Company recorded an impairment to property, plant, and equipment of \$Nil (2017 - \$1,717,837). The impairment in 2017 was the result of third party vandalism at the mine site.

Title to mineral properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral titles as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties.

Mining Lease 150 (“ML 150”)

The Company holds the mining rights to ML 150 until June 13, 2024.

The Company began capitalizing costs associated with ML 150 to Mineral Properties within Property, Plant and Equipment after technical feasibility and commercial viability was reached December 1, 2016.

Exploration Licenses (“EL”) 470, 693, and 1341

The Company holds or applied for renewal certain exploration licenses adjacent to the Company’s ML 150. Upon acquisition (Note 4) the Company has not assigned any value to these licenses.

10. RELATED PARTY TRANSACTIONS

Key management compensation consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and the Board of Directors.

During the year ended December 31, 2018, the Company paid or accrued:

- a) Consulting fees of \$456,280 (2017 - \$356,139) to the CEO and director of the Company, \$106,800 (2017 - \$100,800) to the CFO of the Company, \$75,000 (2017 - \$75,000) to the Chairman of the Board, \$80,318 (2017 - \$243,920) to a director and former CEO of the Company and \$54,000 (2017 - \$216,000) to the former president and director of the Company. Each remaining director received \$12,000 (2017 - \$12,000) each. The Company also paid professional fees of \$18,518 (2017 - \$19,406) to a Company related to the CFO.
- b) Share-based compensation of \$981,023 (2017 - \$874,778) to the officers and directors of the Company was recorded.

Included in accounts payable and accrued liabilities is \$150,810 (December 31, 2017 - \$44,335) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

11. CRH FINANCING

Gold prepayment agreement

On February 4, 2016, amended May 25, 2018, the Company entered into financing agreements with CRH Funding II Pte. Ltd. (“**CRH**”), an affiliate of Cartesian Royalty Holdings and Cartesian Capital Group, consisting of a gold prepayment investment and an equity investment. Upon signing, the Company drew down the first tranche under the gold prepayment agreement (the “**GPA**”), which as per the GPA must be used for project related expenditures.

Under the GPA, CRH provided the Company with \$4,813,974 in exchange for a percentage of gold produced at the Irumafimpa and Kora deposits over a 36-month period, subject to a minimum of 18,000 ounces of gold and a maximum of 20,000 ounces of gold.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

11. CRH FINANCING (cont'd...)

Gold prepayment agreement (cont'd...)

The Company recorded a CRH financing liability as follows:

CRH Financing Liability	December 31, 2018	December 31, 2017
CRH liability, beginning of year	\$ 20,003,724	\$ 21,578,385
Add:		
Fair value adjustment	(110,118)	2,568,049
Delivery of gold ounces or cash equivalent during the year	(7,539,571)	(4,594,769)
Interest	430,607	-
Capitalized interest	<u>31,442</u>	<u>452,059</u>
	12,816,084	20,003,724
Less:		
Deferred loss	11,894,539	14,572,176
Amortization of deferred loss based on delivered ounces	<u>(4,410,269)</u>	<u>(2,677,637)</u>
	<u>(7,484,270)</u>	<u>(11,894,539)</u>
Balance, end of year	\$ 5,331,814	\$ 8,109,185
CRH financing liability, short-term	\$ 5,331,814	\$ 4,420,366
CRH financing liability, long-term	\$ -	\$ 3,688,819

\$789,972 (December 31, 2017 – \$758,530) representing the interest component of the CRH financing has been capitalized to property, plant and equipment since the inception of the CRH financing, as they meet the criteria of being qualifying assets.

The gold prepayment liability of \$12,816,084 (December 31, 2017 - \$20,003,724) was calculated using the following assumptions:

	December 31, 2018	December 31, 2017
Discount rate	6.30%	8.20%
Expected life of gold stream	10 months	22 months
Expected remaining repayment in gold ounces	10,272	16,325
Future gold price per ounce	\$1,280	\$1,331

The difference of cash received of \$962,795 and the initial fair value of the gold prepayment liability of \$15,534,971 was recorded as a deferred loss. The deferred loss is amortized as the gold ounces or equivalent are delivered under the contract.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

11. CRH FINANCING (cont'd...)

Preferred unit financing

In addition to the advances under the GPA, CRH made an equity investment of CAD\$3,500,000 (\$2,677,419) in the Company pursuant to which CRH subscribed for up to 10 million units of the Company at CAD\$0.35 per unit of which, \$2,037,752 in value was attributed to the preferred shares and \$639,667 in value was attributed to the warrants. Each unit consisted of:

- o One Class A preferred share, convertible into approximately 1.9 ordinary common shares of the Company.
- o One warrant entitling CRH to purchase one ordinary share of the Company, exercisable at CAD\$0.75 per share for a period of two years following the date of issue. At the discretion of the Company, a forced exercise clause will exist on these warrants if shares of the Company trade at CAD\$1.25 or greater and a minimum of 30,000 shares trade each day and a minimum daily average of 100,000 for 10 consecutive days during the two-year term. During the period ended December 31, 2016, the warrants were exercised.

As security for the Company's obligations under the GPA and the Class A preferred shares issued to CRH under the equity component, K92 has granted CRH a comprehensive general security interest in all of K92's present and future property, together with specific security granted by the Company's subsidiaries in Papua New Guinea.

As additional consideration for the financing, the Company's wholly owned subsidiaries in Papua New Guinea have granted CRH an amended 0.50% (originally 0.25%) net smelter return ("NSR") royalty on Kora (with a buyback provision of \$2,500,000) and a 0.50% NSR on Irumafimpa. For the year ended December 31, 2018, the Company paid or accrued an NSR of \$232,841 (2017 - \$18,866).

CRH will be entitled to representation on the board of directors of the Company so long as the GPA remains outstanding or CRH maintains at least a 5% equity ownership in the Company.

12. RECLAMATION AND CLOSURE COST OBLIGATIONS

When the Company exhausts or abandons a mining property or an exploration site, it is required to undertake certain reclamation and closure procedures under the terms of the legislation enacted by the Government of Papua New Guinea.

	December 31, 2018	December 31, 2017
Balance – beginning of year	\$ 2,354,323	\$ 2,170,823
Foreign exchange movement	(191,834)	183,500
Change in estimates	(421,850)	-
Accretion	150,659	-
Balance – end of year	\$ 1,891,298	\$ 2,354,323

12. RECLAMATION AND CLOSURE COST OBLIGATIONS (cont'd...)

The provision has been measured at the estimated value of future rehabilitation costs and estimated mine life of 13 years. The estimated cash-flows were discounted to present value using a risk-free discount rate of 8.59% (December 31, 2017 – 8.59%).

Periodically the Company reviews the estimate of future costs of the requisite reclamation and closure work required by current legislative standards. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of \$6,126,643, with first expenditures anticipated in 2031 (previously estimated 2026). These future cash outflows have been discounted at the risk-free interest rate considered applicable in Papua New Guinea where the Company's properties are located.

13. SHARE CAPITAL AND RESERVES

Authorized share capital

The Company's authorized share capital consists of an unlimited number of common shares and preferred shares without par value.

Issued share capital

As at December 31, 2018, the Company had 181,451,219 common shares and 5,000,000 preferred shares issued and outstanding.

Share issuances

During the year ended December 31, 2018, the Company:

Completed a private placement by issuing 14,444,500 units at a price of CAD\$0.45 per unit for gross proceeds of CAD\$6,500,025. Each unit consisted of one common share and one-half of one common share purchase warrant, which each warrant entitling the holder to purchase one common share at a price of CAD\$0.65 for 18 months from closing. As part of the financing, the Company issued 1,011,115 agent warrants with the same terms as above with a fair value of \$138,921 using the Black-Scholes pricing model and paid \$438,020 as share issuance costs.

During the year ended December 31, 2017, the Company:

- a) Completed a brokered and non-brokered private placement by issuing 20,693,250 units at a price of CAD\$0.80 per unit for gross proceeds of CAD\$16,554,600. Each unit consisted of one common share and one share purchase warrant exercisable for one year at a price of CAD\$1.05. In connection with the offering, the Company issued finder's fee warrants with a fair value of \$236,351 with the same terms as above and paid cash of \$915,150.
- b) Completed a non-brokered private placement by issuing 13,333,333 units at a price of CAD\$0.75 per unit for gross proceeds of CAD\$10,000,000. Each unit consisted of one common share and one share purchase warrant exercisable for one year at a price of CAD\$1.00. In connection with the offering, the Company paid finder's fees of 1,053,333 shares, 1,053,333 warrants with the same terms as above and paid cash of \$26,284.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

13. SHARE CAPITAL AND RESERVES (cont'd...)

Stock options and warrants

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number	Weighted Average Exercise Price (CAD)	Number	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2016	21,613,755	\$ 0.93	10,550,000	\$ 0.63
Granted / Issued	36,392,976	1.03	3,520,000	0.65
Forfeited	-	-	(67,000)	1.00
Expired	(14,465,688)	1.28	-	-
Exercised	<u>(7,148,067)</u>	0.50	<u>(92,400)</u>	0.45
Outstanding, December 31, 2017	36,392,976	\$ 1.03	13,910,600	\$ 0.64
Granted / Issued	8,233,365	0.65	4,660,000	0.77
Exercised	(4,514,109)	0.88	(745,700)	0.53
Forfeited	-	-	(1,440,800)	0.81
Expired	<u>(33,792,976)</u>	1.03	<u>-</u>	-
Outstanding, December 31, 2018	6,319,256	\$ 0.65	16,384,100	\$ 0.67
Number currently exercisable	6,319,256	\$ 0.65	14,467,392	\$ 0.65

Stock options outstanding

The following incentive stock options were outstanding at December 31, 2018:

Number	Exercise price (CAD)	Expiry date
6,589,000	\$ 0.45	May 20, 2021
100,000	1.93	July 29, 2021
2,540,000	1.00	December 5, 2021
2,950,000	0.65	October 23, 2022
200,000	0.65	November 28, 2022
242,100	0.60	March 9, 2023
2,033,000	0.85	April 30, 2023
1,730,000	0.74	November 19, 2023

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

13. SHARE CAPITAL AND RESERVES (cont'd...)

Warrants outstanding

The following incentive warrants were outstanding at December 31, 2018:

Number	Exercise price (CAD)	Expiry date
6,319,256	0.65	September 6, 2019

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's shares, forfeiture rate, and expected life of the options. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant.

The following weighted average assumptions were used for the valuation of stock options:

	December 31, 2018	December 31, 2017
Risk-free interest rate	2.15%	1.00%
Expected life of options	4.5 years	4.5 years
Annualized volatility	74.73%	67.29%
Dividend rate	0.00%	0.00%
Forfeiture rate	5.00%	0.00%

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents and receivables approximate their carrying value due to the short-term maturity. Fair value of accounts payable and accrued liabilities and loans payable may be less than the carrying value for some of these instruments given going concern uncertainties described in Note 1.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions. Expected credit losses on accounts receivables do not have a material impact on the Company's consolidated financial statements at December 31, 2018.

Liquidity risk

The Company has in place a planning and budgeting process to manage its liquidity risk and ensure it has sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company had a cash and cash equivalents balance of \$6,205,616 (December 31, 2017 - \$1,159,538), operating cash-flow inflow for the year ended December 31, 2018 of \$18,138,250 (2017 – outflow of \$8,183,770) to settle current liabilities of \$15,271,894 (December 31, 2017 - \$14,566,040). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and cash equivalents balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at December 31, 2018, the Company did not have any investments in investment-grade short-term deposit certificates. The Company's loans payable are not exposed to interest rate risk given interest rates on loans are fixed.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies. Through this, the Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, prepayments, accounts payable and accrued liabilities and reclamation and closure costs obligations that are denominated in Australian Dollars, Papua New Guinea Kina, United States Dollar and Canadian Dollars and the CRH financing which can be elected to be repaid in United States Dollars as determined by CRH. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Market risk (cont'd...)

c) Price risk

The Company is exposed to commodity price risk from fluctuations in market prices of the commodities that the Company produces. Gold concentrate is “provisionally priced” whereby the selling price is subject to final adjustment at the end of a period normally ranging from 30 to 09 days after delivery to the customer. Revenue is recognized on provisionally priced sales based on estimates of fair value of the consideration receivable which is based upon current market prices. At each reporting date, the provisionally priced embedded derivative is marked to market based on the current selling price for the period.

15. CAPITAL MANAGEMENT

The Company’s primary objectives in capital management are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the development of acquired Kainantu mine. Capital is comprised of the Company’s shareholders’ equity. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Company intends to continue to assess new resource properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. There can be no assurance that adequate additional financing will be available on terms acceptable to the Company or at all which could have a material adverse impact on the Company’s financial condition and results of operations and ability to continue as a going concern.

16. SEGMENTED INFORMATION

The Company’s only operating segment is the operating of gold mining activities in Papua New Guinea. The Company’s development activities are all located in Papua New Guinea, with its head office function in Canada. All of the Company’s capital assets, including property, plant and equipment are located in Papua New Guinea.

Year ended December 31, 2018	Australia	Papua New Guinea	Canada	Total
Net Income (loss)	\$ -	\$ 47,570,734	\$ (8,513,780)	\$ 39,056,954

Year ended December 31, 2017	Australia	Papua New Guinea	Canada	Total
Net Income (loss)	\$ (347,385)	\$ (2,456,137)	\$ (9,265,515)	\$ (12,069,037)

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2018, the Company:

- a) Issued finder warrants with a fair value of \$138,921 as share issuance costs;
- b) Capitalized share-based payments of \$25,595 to mineral properties;
- c) Applied a change of the Company's environmental and closure estimate of \$421,850 (Note 15) to property, plant and equipment; and
- d) Transferred 6,053 gold credits or equivalent to CRH as part of the GPA (Note 11).

During the year ended December 31, 2017, the Company:

- e) Issued finder warrants with a fair value of \$368,288 as share issuance costs;
- f) Capitalized share-based payments of \$633,285 to mineral properties; and
- g) Transferred 3,675 gold credits to CRH as part of the GPA (Note 11).

18. REVENUE

FOR THE YEAR ENDED	December 31, 2018	December 31, 2017
Gold in concentrate	\$ 52,187,681	\$ -
Copper in concentrate	1,124,755	-
Silver in concentrate	47,901	-
Pricing adjustments	447,930	-
Treatment and refining charges	<u>(647,513)</u>	<u>-</u>
	<u>\$ 53,160,754</u>	<u>\$ -</u>

Revenue is generated from concentrate sales from February 1, 2018, the date of declaration of commercial production. Proceeds from the sale of concentrate during the commissioning phase of the operations was recorded as pre-production revenue credited against property, plant and equipment (Note 9).

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

19. COST OF SALES

FOR THE YEAR ENDED	December 31, 2018	December 31, 2017
Direct mining and milling	\$ 8,801,721	\$ -
Other site costs	16,654,350	-
Net smelter royalties	232,841	-
Depletion and depreciation	<u>4,070,324</u>	<u>-</u>
	<u>\$ 29,759,236</u>	<u>\$ -</u>

20. CONSULTING AND ADMINISTRATIVE

FOR THE YEAR ENDED	December 31, 2018	December 31, 2017
Consulting	\$ 883,702	\$ 1,497,346
Professional fees	271,947	163,656
Office, filing and administrative	906,453	834,054
Travel	<u>252,524</u>	<u>254,743</u>
	<u>\$ 2,314,626</u>	<u>\$ 2,749,799</u>

21. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates of Canada and Papua New Guinea with the reported taxes for the year ended December 31, 2018 and the period ended December 31, 2017 is as follows:

	December 31, 2018	December 31, 2017
<u>Income (loss) for the year, before taxes</u>	<u>\$ 12,586,521</u>	<u>\$ (12,069,037)</u>
Statutory tax rate	27%	26%
Expected income tax (recovery)	<u>\$ 3,398,000</u>	<u>\$ (3,138,000)</u>
Foreign tax rate difference	378,000	1,370,000
Foreign exchange on translation	1,476,000	28,000
Unused tax assets	1,486,000	1,672,000
Benefit of recognizing previously unrecognized tax assets	(34,387,433)	-
Other	709,000	-
Permanent differences	<u>470,000</u>	<u>68,000</u>
<u>Income tax (recovery) expense</u>	<u>\$ (26,470,433)</u>	<u>\$ -</u>

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(Presented in United States Dollars)

21. INCOME TAXES (cont'd...)

Tax attributes are subject to review, and potential adjustment, by tax authorities.

The significant components of the company's unrecognized temporary differences and tax losses are as follows:

AS AT	December 31, 2018
Unused tax losses in Papua New Guinea	\$ 53,530,000
Unused tax losses in Canada	\$ 21,780,000

Deferred tax assets of \$26,470,433 were recognized at December 31, 2018 in Papua New Guinea comprised of \$26,144,979 related to deductible temporary differences related to property, plant and equipment and \$325,454 in other tax assets.

The Company recognized deferred tax assets at December 31, 2018 to the extent recovery is considered probable. In assessing the probably of recovery, taxable income projections, commodity prices, operating cost assumptions, derived from cash flows from detailed life-of-mine and production plans were evaluated.

22. COMMITMENTS

Operating lease commitments

The following table presents the future aggregate minimum leaves payments under non-cancellable operating leases:

AS AT	December 31, 2018
Less than one year	\$ 179,323
1 to 5 years	\$ 582,500

23. SUBSEQUENT EVENTS

Subsequent to December 31, 2018, the Company:

- a) Issued 9,503,662 common shares of the Company upon the conversion of the 5,000,000 preferred shares by the preferred shareholders;
- b) Issued 250,000 stock options with an exercise price of CAD\$1.10 exercisable until January 31, 2024;
- c) Received CAD\$1,022,597 from the exercise of 2,126,600 stock options; and
- d) Received CAD\$1,988,159 from the exercise of 3,058,706 warrants.