

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Presented in thousands of United States Dollars)

As at	March 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 66,239	\$ 51,495
Receivables (Note 4)	7,808	26,056
Inventory (Note 5)	19,858	21,005
Income tax prepayment	-	534
Prepayments	849	1,416
Derivative assets (Note 11)	<u>1,657</u>	<u>-</u>
	96,411	100,506
Deferred income tax assets	15,490	16,375
Deposits on equipment	71	82
Property, plant and equipment (Note 7)	<u>104,471</u>	<u>98,552</u>
	\$ 216,443	\$ 215,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 23,684	\$ 23,241
Income tax payable	645	-
Current portion of lease liabilities (Note 10)	1,270	1,235
Current portion of loan (Note 8)	-	4,894
Derivative liabilities (Note 11)	<u>79</u>	<u>280</u>
	25,678	29,650
Lease liabilities (Note 10)	982	1,310
Reclamation and closure cost obligations (Note 9)	<u>2,820</u>	<u>3,040</u>
	29,480	34,000
Shareholders' equity		
Share capital (Note 12)	84,488	83,523
Contributed surplus (Note 12)	22,455	20,160
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>80,277</u>	<u>78,089</u>
	<u>186,963</u>	<u>181,515</u>
	\$ 216,443	\$ 215,515

Subsequent events (Note 19)

Approved and authorized by the Audit Committee on May 12, 2021:

“Mark Eaton”

Director

“Saurabh Handa”

Director

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

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(Presented in thousands of United States Dollars, except share and per share amounts)

For the three months ended	March 31, 2021	March 31, 2020
REVENUE (Note 15)	\$ 29,513	\$ 27,633
COST OF SALES (Note 16)	<u>(20,907)</u>	<u>(15,223)</u>
Earnings from mine operations	8,606	12,410
EXPENSES		
General and administrative (Note 17)	(1,442)	(495)
Exploration and evaluation expenditures	(2,421)	(1,821)
Foreign exchange	(236)	238
Share-based payments	<u>(1,682)</u>	<u>(2,093)</u>
Earnings from operations	\$ 2,825	\$ 8,239
OTHER		
Interest and finance expense (Note 18)	(435)	(417)
Gain on derivative instruments (Note 11)	<u>1,862</u>	<u>-</u>
Income for the period before taxes	\$ 4,252	\$ 7,822
Income tax expense	<u>(2,064)</u>	<u>(2,981)</u>
Income for the period	\$ 2,188	\$ 4,841
Items that may be reclassified to net income		
Other comprehensive income		
Cumulative translation adjustment	<u>-</u>	<u>186</u>
Comprehensive income for the period	<u>\$ 2,188</u>	<u>\$ 5,027</u>
Basic income per common share	\$ 0.01	\$ 0.02
Diluted income per common share	\$ 0.01	\$ 0.02
Weighted average number of common shares outstanding	219,501,009	213,743,674
Weighted average number of diluted common shares outstanding	228,825,168	224,226,212

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

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Presented in thousands of United States Dollars)

For the three months ended	March 31, 2021	March 31, 2020
CASH FROM OPERATING ACTIVITIES		
Income for the period	\$ 2,188	\$ 4,841
Items not affecting cash:		
Unrealized foreign exchange loss	(116)	828
Interest and finance expenses	273	206
Loss (gain) on derivative instruments (Note 11)	(1,862)	-
Deferred income tax expense	885	2,981
Share-based payments (Note 12)	3,005	2,093
Depreciation and depletion	3,314	1,587
Changes in non-cash working capital items:		
Inventory	407	(2,123)
Receivables	18,129	(2,789)
Income tax prepayment	534	-
Prepayments	567	(305)
Accounts payable and accrued liabilities	762	174
Income tax payable	645	-
Net cash provided by operating activities	<u>28,731</u>	<u>7,493</u>
CASH USED IN INVESTING ACTIVITIES		
Deposits for equipment	(71)	(229)
Acquisition of property, plant and equipment	<u>(9,379)</u>	<u>(5,635)</u>
Net cash used in investing activities	<u>(9,450)</u>	<u>(5,864)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on exercise of stock options	636	674
Principal loan payments	(5,000)	(2,143)
Principal lease payments	<u>(297)</u>	<u>(109)</u>
Net cash used in financing activities	<u>(4,661)</u>	<u>(1,578)</u>
Change in cash and cash equivalents during the period	14,620	51
Effect of foreign exchange on cash	124	(545)
Cash and cash equivalents, beginning of period	<u>51,495</u>	<u>21,612</u>
Cash and cash equivalents, end of period	<u>\$ 66,239</u>	<u>\$ 21,118</u>
Cash paid for interest	\$ 242	\$ 417
Cash paid for taxes	\$ -	\$ -

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

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Presented in thousands of United States Dollars, except share and per share amounts)

	Share capital		Contributed surplus	Accumulated other comprehensive loss	Retained Earnings	Total
	Number	Amount				
Balance at December 31, 2019	213,044,687	\$ 77,087	\$ 12,128	\$ (580)	\$ 36,055	\$ 124,690
Exercise of stock options	1,052,000	1,050	(376)	-	-	674
Share-based payments (Note 12)	-	-	2,093	-	-	2,093
Cumulative translation adjustment	-	-	-	186	-	186
Income for the period	-	-	-	-	4,841	4,841
Balance at March 31, 2020	214,096,687	\$ 78,137	\$ 13,845	\$ (394)	\$ 40,896	\$ 132,484
Exercise of stock options	5,118,410	5,386	(1,808)	-	-	3,578
Share-based payments (Note 12)	-	-	8,123	-	-	8,123
Cumulative translation adjustment	-	-	-	137	-	137
Income for the period	-	-	-	-	37,193	37,193
Balance at December 31, 2020	219,215,097	\$ 83,523	\$ 20,160	\$ (257)	\$ 78,089	\$ 181,515
Exercise of stock options	386,340	965	(329)	-	-	636
Share-based payments (Note 12)	-	-	2,624	-	-	2,624
Income for the period	-	-	-	-	2,188	2,188
Balance at March 31, 2021	219,601,437	\$ 84,488	\$ 22,455	\$ (257)	\$ 80,277	\$ 186,963

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

K92 MINING INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

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 the Toronto Stock Exchange (“**TSX**”) under the symbol “KNT” and quoted on 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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements are compliant with IAS 34 and do not include all of the information required for full annual financial statements.

Basis of Presentation

These condensed interim consolidated financial statements are presented in United States (“U.S.”) dollars. Financial information for the Company and each of its subsidiaries is measured using its functional currency, being the currency of the primary economic environment in which the entity operates. Effective January 1, 2021, the functional currency for K92 Mining Inc, the parent entity and K92 Mining (Australia) Pty Ltd. changed from Canadian and Australian dollars respectively to the U.S. dollar as a result of the integration of the activities of these entities with that of the Company’s U.S. dollar functional currency operating subsidiary K92 Mining Limited. The change in functional currency was accounted for on a prospective basis, with no impact of this change on prior year comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company’s accounting policies are the same as those applied in the Company’s annual consolidated financial statements for the year-ended December 31, 2020. These condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements for the year ended December 31, 2020.

The significant accounting policy judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are substantially the same as those that management applied in the consolidated financial statements for the year ended December 31, 2020.

COVID-19 Estimation Uncertainty

Since March 2020, measures have been implemented in the countries in which the Company operates in response to the impact of the coronavirus (“**COVID-19**”).

During 2020, the Company initiated a COVID-19 Management Plan at the Kainantu mine site, which addresses immediate issues including occupational health, hygiene and safety, business continuity, travel, supply chain, statutory compliance, communications, testing, risk assessment and contingency planning.

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**COVID-19 Estimation Uncertainty (cont'd...)**

In line with other mining operations in the country, the Company maintained normal operations at the Kainantu mine and associated facilities during the local state of emergency declared in March 2020 and received exemptions from the PNG Government to allow for the movement of PNG Nationals within PNG and of Expatriate workers from Australia during that period. After the Government of Papua New Guinea lifted the state of emergency, the Company experienced a significant improvement in the movement of personnel, and as a result twin incline and surface exploration activities resumed and final commissioning of the Stage 2 Plant Expansion was completed in 2020.

During the three months ended March 31, 2021, the Company announced a number of positive COVID-19 cases at the mine identified through containment measures, contact tracing, quarantine procedures and routine testing.

The Company has on-site quarantine facilities, which were significantly expanded during the last year. Additional protocols have been activated. The Company's priority is to protect the health and well-being of its personnel and local communities.

In March 2021, the government of Australia announced the temporary introduction of restrictions on travel between Papua New Guinea and Australia. The restriction includes the suspension of movement of the resource sector's expatriate fly-in fly-out ("FIFO") work force between Papua New Guinea and Australia. The Company engaged with the governments of Australia and Papua New Guinea through the Papua New Guinea Chamber of Mines and Petroleum to ensure that protocols in place in relation to FIFO workers were to a standard allowing the resumption of travel following the suspension period. The suspension resulted in a reduction in expatriate staffing levels over the short term, which had some impact on production but is expected to significantly impact production guidance. In addition, some non-production-related activities and expansion projects were also impacted. Subsequent to March 31, 2021, the government of Australia lifted the suspension of travel resource sector's FIFO work force between Papua New Guinea and Australia.

The Kainantu mine has continued to operate during this period and the impact of COVID-19 to date has not been a significant on overall production; however, if the COVID-19 situation in Papua New Guinea were to significantly deteriorate in the future, it could have an adverse impact on production, results of operations, financial position or cash flows.

4. RECEIVABLES

As at	March 31, 2021	December 31, 2020
Trade receivables	\$ 5,485	\$ 24,920
GST receivable	2,283	1,088
Other	<u>40</u>	<u>48</u>
Total	<u>\$ 7,808</u>	<u>\$ 26,056</u>

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

5. INVENTORY

As at	March 31, 2021	December 31, 2020
Mine supplies, consumables and fuel	\$ 12,865	\$ 11,477
Ore stockpile	3,339	5,965
Gold concentrate	3,654	3,563
Total	\$ 19,858	\$ 21,005

During the three months ended March 31, 2021, the cost of inventory recognized as an expense in cost of sales amounted to \$20.9 million (2020 - \$15.2 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2021	December 31, 2020
Trade payables	\$ 8,041	\$ 7,832
Other accounts payable and trade related accruals	5,703	5,651
Employee accruals	4,260	4,713
Landowners' compensation	5,680	5,045
Total	\$ 23,684	\$ 23,241

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 cannot be paid as required under the CA until the legitimate landowners are 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

7. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Plant and Equipment	Mobile Fleet and Vehicles	Right-of-Use Assets	Construction in Progress (Expansion) ¹	Total
Cost						
Balance, December 31, 2019	\$ 53,171	\$ 11,566	\$ 14,628	\$ 1,953	\$ 10,391	\$ 91,709
Additions	7,209	3,287	-	2,200	20,019	32,715
Reclamation and closure cost – change in estimate	397	-	-	-	-	397
Transfers from construction in progress	1,236	13,958	13,401	-	(28,595)	-
Balance, December 31, 2020	62,013	28,811	28,029	4,153	1,815	124,821
Additions	3,901	555	-	-	4,686	9,142
Reclamation and closure cost – change in estimate	(268)	-	-	-	-	(268)
Transfers from construction in progress	-	1,083	225	-	(1,308)	-
Balance, March 31, 2021	\$ 65,646	\$ 30,449	\$ 28,254	\$ 4,153	\$ 5,193	\$ 133,695
Accumulated depreciation						
Balance, December 31, 2019	\$ 6,370	\$ 2,128	\$ 4,420	\$ 707	\$ -	\$ 13,625
Depreciation for the year	4,573	1,666	5,548	857	-	12,644
Balance, December 31, 2020	10,943	3,794	9,968	1,564	-	26,269
Depreciation for the period	450	474	1,775	256	-	2,955
Balance, March 31, 2021	\$ 11,393	\$ 4,268	\$ 11,743	\$ 1,820	\$ -	\$ 29,224
Carrying amounts						
As at December 31, 2020	\$ 51,070	\$ 25,017	\$ 18,061	\$ 2,589	\$ 1,815	\$ 98,552
As at March 31, 2021	\$ 54,253	\$ 26,181	\$ 16,511	\$ 2,333	\$ 5,193	\$ 104,471

¹ Construction in Progress at March 31, 2021 consists of \$5.0 million in twin incline expansion costs and \$0.2 million in other expansion costs (2020 - \$1.8 million in twin incline expansion costs).

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

7. PROPERTY, PLANT AND EQUIPMENT (cont'd...)**Mining Lease 150 (“ML 150”)**

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

8. LOAN

On July 1, 2019, the Company and Trafigura Pvt. Ltd. (“**Trafigura**”) entered into a loan agreement pursuant to which Trafigura provided a \$15.0 million loan (the “**Loan**”) to the Company to be repaid over 2 years, bearing interest at 10% + 3-month LIBOR per annum. For the period ending March 31, 2021, the Company has recorded interest on the Loan of \$0.1 million to interest and finance expenses.

The loan was designated a financial liability at amortized cost and recorded net of transaction costs. Transaction costs were amortized over the 2-year loan life using an effective interest rate of 13.13%. Transaction costs associated with the loan were \$0.4 million.

The Company settled the Loan during the quarter ended March 31, 2021 and has no continuing obligations under the Loan agreement.

Loan	March 31, 2021	December 31, 2020
Loan, beginning of year	\$ 4,894	\$ 13,284
Principal payments	(5,000)	(8,571)
Amortization of transaction costs	106	181
Balance, end of period	\$ -	\$ 4,894
Loan, current portion	\$ -	\$ 4,894
Loan, non-current portion	\$ -	\$ -

9. 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.

	March 31, 2021	December 31, 2020
Balance, beginning of year	\$ 3,040	\$ 2,452
Change in estimate	(268)	397
Accretion	48	191
Balance, end of period	\$ 2,820	\$ 3,040

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

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

The provision has been measured as the present value of the estimated future rehabilitation costs using an estimated mine life of 12 years. The estimated cash-flows used to measure the provision were discounted to a present value using a risk-free discount rate of 7.07% (December 31, 2020 – 6.26%).

Annually, the Company reviews the estimate of future costs of required reclamation and closure work. 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 \$6.4 million, with first expenditures anticipated in 2030. 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.

10. LEASE LIABILITIES

The Company leases many assets including mining equipment and buildings. The assets associated with the lease liabilities are included as Right-of-Use assets within property, plant and equipment (Note 7). During the three months ended March 31, 2021, the Company incurred \$0.1 million (2020 - \$36 thousand) related to interest and finance expenses on the lease liabilities.

The following table summarizes the Company's lease activity and the carrying amounts of the lease liabilities at the present value of the remaining lease payments that are recognized in the statement of financial position:

Lease Liabilities	March 31, 2021	December 31, 2020
Lease liabilities, beginning of year	\$ 2,545	\$ 1,161
Additions	-	2,200
Payments	(363)	(1,003)
Amortization of discount	66	227
Adjustment on currency translation	4	(40)
Balance, end of period	\$ 2,252	\$ 2,545
Lease liabilities, current portion	\$ 1,270	\$ 1,235
Lease liabilities, non-current portion	\$ 982	\$ 1,310

The Company's undiscounted lease liabilities at March 31, 2021 are summarized as follows:

	Within 1 Year	2-3 Years	Total
Future lease payments	\$ 1,453	\$ 1,037	\$ 2,490
Future finance charges	(183)	(55)	(238)
Total discounted lease liabilities	\$ 1,270	\$ 982	\$ 2,252

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

11. DERIVATIVE INSTRUMENTS

On November 20, 2020, the Company entered into zero-cost collar contracts whereby it began purchasing gold put option contracts and selling gold call option contracts with equal and offsetting values at the inception of each contract.

The details of the open commodity contracts as at March 31, 2021 were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term ²	Settlement Date
Gold call contracts – sold	12,585	\$1,959	March 2021	May 19, 2021
Gold put contracts – purchased	12,585	\$1,763	March 2021	May 19, 2021
Gold call contracts – sold	13,874	\$1,968	April 2021	June 29, 2021
Gold put contracts – purchased	13,874	\$1,763	April 2021	June 29, 2021
Gold call contracts – sold	5,892	\$1,829	June 2021	August 27, 2021
Gold put contracts – purchased	5,892	\$1,630	June 2021	August 27, 2021

The net gains (losses) on the commodity contracts for the period ending March 31, 2021 and 2020 were as follows:

For the three months ended	March 31, 2021	March 31, 2020
Realized gains on commodity contracts	\$ 572	\$ -
Unrealized gains on commodity contracts	1,290	-
Total	\$ 1,862	\$ -

The fair value of the commodity contracts are presented on the statement of financial position as follows:

As at	March 31, 2021	December 31, 2020
Derivative assets	\$ 1,657	\$ -
Derivative liabilities	\$ (79)	\$ (280)

Fair value for derivative financial instruments are determined using valuation techniques, using assumptions based on market conditions existing at the statement of financial position date.

12. SHARE CAPITAL AND RESERVES**Authorized share capital**

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

² The gold call and put contracts will be settled based on the monthly average of the London Bullion Market Association's PM fixing price.

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

12. SHARE CAPITAL AND RESERVES (cont'd...)**Issued share capital**

As at March 31, 2021, the Company had 219,601,437 common shares issued and outstanding.

Share issuances

Except on the exercise of share options, no shares were issued during the three months ended March 31, 2021 (December 31, 2020 – Nil).

Stock options

Stock option transactions are summarized as follows:

	Number	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2019	15,960,100	\$ 1.01
Granted	6,604,000	5.64
Exercised	(6,170,410)	0.92
Forfeited	<u>(407,800)</u>	<u>2.50</u>
Outstanding, December 31, 2020	15,985,890	\$ 2.91
Exercised	<u>(386,340)</u>	<u>2.08</u>
Outstanding, March 31, 2021	<u>15,599,550</u>	<u>\$ 2.93</u>
Number currently exercisable	<u>12,992,250</u>	<u>\$ 2.19</u>

The following incentive stock options were outstanding at March 31, 2021:

Range of exercise prices (in CAD)	Number of outstanding options	Number of options exercisable	Weighted-average exercise price (in CAD)	Weighted- average years to expiry
0.45 – 0.99	4,535,000	4,535,000	0.59	1.02
1.00 – 1.99	4,706,750	4,706,750	1.54	2.53
2.00 – 2.99	260,000	260,000	2.16	3.63
3.00 – 3.99	1,834,000	1,834,000	3.85	3.84
4.00 – 4.99	270,400	161,600	4.00	4.23
5.00 – 9.99	<u>3,993,400</u>	<u>1,494,900</u>	6.80	4.50
	<u>15,599,550</u>	<u>12,992,250</u>	2.93	2.80

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

12. SHARE CAPITAL AND RESERVES (cont'd...)**Share-based payments**

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, expected volatility, 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 as calculated on the date of grant.

During the three months ended March 31, 2021, the Company granted Nil stock options (2020 – 2,284,000). The following presents the weighted average assumptions used in the valuation of stock options:

	March 31, 2021	December 31, 2020
Weighted average exercise price (CAD\$)	\$ -	\$ 5.64
Weighted average fair value (CAD\$)	\$ -	\$ 2.80
Risk-free interest rate	-	0.70%
Expected life of options	-	4.0 years
Annualized volatility	-	66.13%
Dividend rate	-	0.00%
Forfeiture rate	-	1.26%

The weighted average share price at the time of exercise for the three months ended March 31, 2021 was CAD\$8.28 (2020 – CAD\$3.68).

During the three months ended March 31, 2021, the Company recorded stock-based compensation expense of \$3.0 million (2020 – \$2.1 million).

13. 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 judgment 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 levels in the fair value hierarchy into which the Company's financial assets and liabilities that are measured and recognized at fair value were categorized as follows:

As at	At March 31, 2021		At December 31, 2020	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 5,485	\$ -	\$ 24,920
Derivative assets (Note 11)	-	1,657	-	-
Derivative liabilities (Note 11)	-	(79)	-	(280)
	\$ -	\$ 7,063	\$ -	\$ 24,640

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

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

The fair value of the Company's trade receivables, derivative assets and derivative liabilities were determined using observable market prices and market-derived inputs. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2021.

As at March 31, 2021 and December 31, 2020, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

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.

14. SEGMENTED INFORMATION

Operating segments are components of an entity that engage in business activities from which they incur expenses and whose operating results are regularly reviewed by a chief operating decision maker to make resource allocation decisions and to assess performance. The Chief Executive Officer is responsible for allocating resources and reviewing operating results of each operating segment on a periodic basis.

The Company's only operating segment is the operating and development of gold mining activities at the Kainantu Project in Papua New Guinea. The Corporate & Other segment includes the Company's head office function in Canada.

Three months ended March 31, 2021	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 3,276	\$ (1,088)	\$ 2,188
Capital expenditures	\$ 9,142	\$ -	\$ 9,142
As at March 31, 2021			
Property, plant and equipment	\$ 103,213	\$ 1,258	\$ 104,471
Total assets	\$ 157,735	\$ 58,708	\$ 216,443
Total liabilities	\$ 28,736	\$ 744	\$ 29,480
Three months ended March 31, 2020			
Net income (loss)	\$ 8,251	\$ (3,410)	\$ 4,841
Capital expenditures	\$ 6,362	\$ -	\$ 6,362
As at December 31, 2020			
Property, plant and equipment	\$ 97,258	\$ 1,294	\$ 98,552
Total assets	\$ 168,427	\$ 47,088	\$ 215,515
Total liabilities	\$ 28,193	\$ 5,807	\$ 34,000

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

15. REVENUE

For the three months ended	March 31, 2021	March 31, 2020
Gold in concentrate	\$ 37,967	\$ 28,160
Copper in concentrate	960	379
Silver in concentrate	16	12
Treatment and refining charges	<u>(1,006)</u>	<u>(862)</u>
Revenue from contracts with customers	37,937	27,689
Loss on receivables at fair value	<u>(8,424)</u>	<u>(56)</u>
Total	\$ 29,513	\$ 27,633

16. COST OF SALES

For the three months ended	March 31, 2021	March 31, 2020
Direct mining and milling	\$ 4,903	\$ 4,997
Maintenance	2,727	3,148
Other site costs	5,954	5,286
Net smelter royalties	989	862
Change in inventories	<u>2,535</u>	<u>(1,851)</u>
	17,108	12,442
Non-cash costs		
Depreciation and depletion	2,857	2,781
Share-based payments	<u>942</u>	<u>-</u>
Total	\$ 20,907	\$ 15,223

17. GENERAL AND ADMINISTRATIVE

For the three months ended	March 31, 2021	March 31, 2020
Management, consulting and wages	\$ 941	\$ 538
Professional fees	103	49
Office, filing and administrative	218	119
Recovery of accrued expenditures	-	(415)
Travel	19	88
Investor relations	135	90
Depreciation	<u>26</u>	<u>26</u>
Total	\$ 1,442	\$ 495

K92 MINING INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021

(Tabular amounts in thousands of United States Dollars, except share and per share amounts, unless otherwise noted)

18. INTEREST AND FINANCE EXPENSE

For the three months ended	March 31, 2021	March 31, 2020
Interest and amortization of transaction costs on loan	\$ 147	\$ 356
Other interest and finance expense	240	13
Accretion of reclamation and closure cost obligations	<u>48</u>	<u>48</u>
Total	<u>\$ 435</u>	<u>\$ 417</u>

19. SUBSEQUENT EVENTS

Subsequent to March 31, 2021, the Company:

- a) Granted 2,420,000 stock options with an exercise price of CAD\$8.02 exercisable until April 30, 2026.