

# **K92** MINING INC.

("K92" or "the Company")

FORM 51-102F1

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

## Introduction

This Management's Discussion and Analysis ("MD&A") of K92 Mining Inc. (including its wholly owned subsidiaries, K92 Holdings International Limited (incorporated in British Virgin Islands), K92 Mining (Australia) Pty Ltd. (incorporated in Australia), and K92 Mining Ltd. (incorporated in Papua New Guinea)) is the responsibility of management and covers the six months ended June 30, 2021. The MD&A takes into account information available up to and including August 12, 2021 and should be read together with the condensed consolidated interim financial statements for the three and six months ended June 30, 2021 and the audited consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), including IAS 34, *Interim Financial Reporting* for the quarterly interim financial statements, and is presented in thousands of United States dollars, except share and per share amounts, or unless otherwise indicated.

Throughout this document the terms *we*, *us*, *our*, *the Company* and *K92* refer to K92 Mining Inc.

Additional information related to the Company is available for view on SEDAR and on the Company's website at [www.k92mining.com](http://www.k92mining.com).

This document contains forward-looking statements. Please refer to "Note Regarding Forward-Looking Statements." Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors, many of which are beyond our ability to control, that may cause our actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information.

## Description 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 OTCQX under the symbol "KNTNF". The Company is currently engaged in the production of gold ("**Au**"), copper ("**Cu**") and silver ("**Ag**") at the Kainantu Gold Mine as well as exploration and development of mineral deposits in the immediate vicinity of the mine, including Blue Lake, in Papua New Guinea.

## Summary of Key Operating and Financial Results

<i>(in thousands of United States Dollars, except per share amounts)</i>		Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
<b>Operating data</b>					
Ore mined	t	72,011	37,754	127,894	95,050
Ore processed	t	75,667	49,311	148,887	96,732
Feed grade	g/t	10.3	17.6	9.4	15.6
Gold produced	Oz	22,153	25,762	39,927	45,002
Gold equivalent produced <sup>1</sup>	Oz	25,015	26,847	43,928	46,790
Gold sold	Oz	18,939	27,149	40,817	45,896
Cash costs per gold ounce sold <sup>2</sup>	\$/Oz	736	560	741	639
All-in sustaining costs per gold ounce sold <sup>2</sup>	\$/Oz	1,057	642	1,047	741
<b>Financial data</b>					
Revenue	\$	35,518	47,857	65,031	75,490
Cost of sales	\$	20,948	18,371	41,855	33,594
Net income	\$	4,403	16,905	6,591	21,746
Cash flow from operating activities	\$	(1,020)	23,169	27,711	30,662
Cash, ending balance	\$	56,235	34,728	56,235	34,728
Basic earnings per share	\$/sh	0.02	0.08	0.03	0.10
Diluted earnings per share	\$/sh	0.02	0.08	0.03	0.10

## Performance Summary

*Operational – Six Months Ended June 30, 2021 (“YTD Q2 2021”)*

- **Gold production** of 39,927 gold ounces or 43,928 gold equivalent (“AuEq”) ounces in YTD Q2 2021, compared to production of 45,002 gold ounces or 46,790 AuEq ounces during the six months ended June 30, 2020 (“YTD Q2 2020”).<sup>1</sup> During YTD Q2 2021, production was impacted by a number of issues, including: (1) an underground loader incident in March, which interrupted stoping operations for approximately 3 weeks, (2) a shortage of bulk emulsion explosives from mid-January to late-February impacting operations, (3) significant short staffing in Q2 2021 due to COVID-19 related absenteeism and an increase in quarantine length and enhanced quarantine control measures, which impacted staffing levels throughout the operation, and (4) a COVID-19 related suspension of expatriate travel between Australia and Papua New Guinea which went into effect on March 17 and only lifted in mid-May.
- **Record plant throughput** of 148,887 tonnes in YTD Q2 2021, compared to 96,732 tonnes in YTD Q2 2020. This was achieved despite unexpected short-term challenges related to the COVID-19 pandemic.
- **Plant feed mined** of 127,894 tonnes in YTD Q2 2021, compared to 95,050 tonnes in YTD Q2 2020.
- **Cash costs** averaged \$741 per gold ounce in YTD Q2 2021 versus \$639 per gold ounce in Q2 2020.<sup>2</sup> The increase in cash unit costs was due to lower production due to the reasons outlined above. In addition, the Company incurred costs related to the COVID-19 pandemic, including additional pay for employees completing longer rosters at site, additional costs related to the movement of personnel and supplies, and additional safety and medical related costs. These were offset by the successful ramp-up of the 400K tonnes per annum expansion allowing the Company to achieve better economies of scale.

<sup>1</sup> Gold equivalent calculated based on gold \$1,800 per ounce (2020 - \$1,500), silver \$25.00 per ounce (2020 - \$17.75) and copper \$4.35 per pound (2020 - \$2.70).

<sup>2</sup> Non-IFRS – the definition and reconciliation of these measures are included in the non-IFRS performance measures section of this MD&A.

- **All-in sustaining costs** averaged \$1,047 per gold ounce in YTD Q2 2021 versus \$741 per gold ounce in YTD Q2 2020.<sup>2</sup> The increase in all-in sustaining costs was primarily due to increased underground capital expenditure resulting in higher amounts capitalized to the mineral property which are treated as a sustaining capital cost in the calculation of all-in sustaining costs. The Company capitalizes the costs associated with mine development and includes costs from the following departments: Mining, Mine Technical Services, Maintenance & Engineering and Finance & Administration.
- The Kainantu mine continues to operate during the COVID-19 pandemic, with a significant focus on health, safety and risk-mitigation. As of the date of this report, there has not been a positive COVID-19 case at the Kainantu mine site in 108 days.

### *Financial – YTD Q2 2021*

- **Revenue** of \$73.0 million in YTD Q2 2021 compared to \$71.6 million in YTD Q2 2020 before pricing and quantity adjustments. Net revenue of \$65.0 million in YTD Q2 2021 compared to \$75.5 million in YTD Q2 2020 after negative pricing adjustments to the fair value of settlement receivables due to the decline in gold prices from December 31, 2020 through to June 30, 2021. Sales of gold in concentrate decreased by 11% to 40,817 oz in YTD Q2 2021 from 45,896 in YTD Q2 2020 resulting in \$9.1 million in lower revenues and payable gold prices increased by 10% to \$1,744/oz in YTD Q2 2021 from \$1,578/oz in YTD Q2 2020 resulting in \$6.6 million in higher revenues.
- **Cash position** of \$56.2 million at June 30, 2021 compared to \$51.5 million at December 31, 2020. During the six months ended June 30, 2021, the Company paid \$5.0 million in principal loan payments, settling all outstanding debt, and spent \$9.6 million in expansion capital.
- **Operating cash flow** (prior to working capital adjustments) of \$22.9 million in YTD Q2 2021 compared to \$42.8 million in YTD Q2 2020.
- **Gross margins** before (after) pricing adjustments of 43% (36%) in YTD Q2 2021 compared to 53% (55%) in YTD Q2 2020.<sup>3</sup>
- **EBITDA** of \$19.8 million in YTD Q2 2021 compared to \$39.6 million in YTD Q2 2020.<sup>2</sup>
- **Tax payments** of \$8.0 million in YTD Q2 2021 compared to \$Nil in YTD Q2 2020. Subsequent to June 30, 2021, the Company paid an additional tax installment of \$7.2 million to the Papua New Guinea government for a total of \$15.2 million.

### *Expansion – YTD Q2 2021*

- Started work on the Stage 3 Feasibility Study which is planned for completion in the second half of 2021. The Company incurred \$0.3 million in costs related to the Feasibility Study during the six months ended June 30, 2021.

### *Corporate – YTD Q2 2021*

- Reduced exposure to gold price fluctuations during Quotational Period by entering into short-term commodity contracts with a total of 15,942 gold ounces hedged at June 30, 2021. The Company hedges out three months to cover any fluctuations between its preliminary payment and final settlement with the Company's off-taker. The Company recognized a \$1.4 million gain on derivative instruments during the six months ended June 30, 2021 related to the commodity contracts.

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<sup>3</sup> Non-IFRS performance measure. Gross margins after pricing adjustments is calculated using earnings from operations divided by revenue and gross margins before pricing adjustments is calculated using earnings from operations excluding pricing adjustments divided by revenue excluding pricing adjustments.

**Last 4 Quarters of Production Data**

		2020		2021		Total
		Quarter 3	Quarter 4	Quarter 1	Quarter 2	
Tonnes processed	t	64,702	68,932	73,221	75,667	282,522
Feed grade Au	g/t	11.3	14.2	8.5	10.3	11.0
Feed grade Cu	%	0.38	0.36	0.31	0.76	0.46
Recovery (%) Au	%	90.7	91.7	88.9	88.3	89.8
Recovery (%) Cu	%	90.2	90.6	86.2	87.2	88.5
Metal in concentrate produced Au	oz	21,298	28,809	17,774	22,153	90,034
Metal in concentrate produced Cu	t	221	224	193	498	1,136
Metal in concentrate produced Ag	oz	7,127	10,395	7,925	14,914	40,361
Gold equivalent ounces produced	oz	22,261	29,820	18,654	25,015	95,750

**COVID-19 Update**

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 issues including occupational health, hygiene and safety, business continuity, travel, supply chain, statutory compliance, communications, testing, risk assessment and contingency planning.

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, however, following engagement with the PNG Government, the Company gained some exemptions to allow for the movement of PNG Nationals within PNG and of Expatriate workers from Australia. After the Government of Papua New Guinea lifted the state of emergency in June 2020, 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.

In April 2021, Papua New Guinea experienced record levels of COVID-19 cases, which also resulted in a significant number of positive cases identified amongst our employees. The mine operates as a COVID-19-free-site and employees must test negative before being allowed to work at site. In addition, the operation was impacted by a COVID-19 related suspension of expatriate travel between Australia and Papua New Guinea which went into effect on March 17, 2021 and was lifted in mid-May 2021.

By late-May 2021, the COVID-19 situation considerably improved in Papua New Guinea and amongst our workforce returning to site. A vaccination program is underway at the Kainantu Gold Mine for our Papua New Guinea National workforce. Additionally, our expatriate workforce has been vaccinated in their country of origin before returning to site. Health and safety procedures to mitigate COVID-19 on site remain in effect and have proven to be effective. Further advancement of the vaccination program is expected to drive improved operational efficiencies, including a reduction in quarantine requirements which have been in place for the last 15 months. The Company’s priority is to protect the health and well-being of its personnel and local communities.

The Kainantu mine has continued to operate during this period and while there has been some impact on site operations due to COVID-19, the impact to date has not been 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.

## 2021 Operational Outlook

- Gold equivalent production between 115,000 and 135,000 ounces.
- Cash costs between \$515-\$565 per ounce gold and all-in sustaining costs between \$825-\$875 per ounce gold.
- Exploration costs to increase significantly, with expenditures of \$14-\$17 million projected in 2021.
- Growth capital costs forecasted to be between \$25-\$30 million, which includes the ongoing twin incline development.

## Operations

The Company holds the mining rights to Mining Lease 150 (“**ML 150**”) that is due to be renewed on June 13, 2024.

During the three months ended June 30, 2021, the Company produced 22,153 ounces of gold, 1,098,730 pounds of copper and 14,914 ounces of silver, or 25,015 AuEq oz. The Company also continued its positive ramp-up momentum to run-rate Stage 2 Expansion throughput, delivering record mill throughput of 75,667 tonnes processed. This was achieved despite unexpected short-term challenges related to the COVID-19 pandemic.

Operational performance considerably improved in the second half of the quarter with the improving COVID-19 situation. From mid-May to the end of June, production totaled 14,920 oz Au, 521,946 pounds of copper, 7,390 ounces of silver or 16,284 oz AuEq. Throughout the quarter, long hole stoping continued to perform to design, with operations focused on Kora’s K1 and K2 veins and also Judd’s J1 veins for a total of 6 levels mined. Mining on Kora was conducted on the 1150, 1170, 1205, 1225 and 1265 levels and Judd on the 1235 level. Following positive drilling results, it is now planned to commence production stoping from the Judd “J1” Vein in the fourth quarter which should further enhance production, the fourth quarter is expected to be the strongest production quarter for the year.

## Capital Expenditure

### *Twin Incline*

The new twin incline development resumed on May 21, 2021, after the COVID-19 Papua New Guinea and Australia travel restrictions were lifted and the COVID-19 situation in Papua New Guinea improved. The #2 (6m x 6.5m) incline has now advanced a total of 410 metres and the #3 (5m x 5.5m) incline had advanced a total of 440 metres as of June 30, 2021.

This large capital project will provide the major mine access infrastructure for increased production capability required for a Stage 3 Expansion and potentially beyond to further expansions.

## Exploration

### *Underground grade control and exploration*

#### *Kora Deposit*

The Company continued its exploration diamond drilling program from underground at the Kora deposit, using 6 drill rigs, (5 rigs are owner operated and 1 by a contractor, this is an increase of 1 rig compared to the previous year). A total of 168 drill holes have been completed since the last Mineral Resource Estimate was released in May 2020. Drilling productivity was adversely impacted by shortages of drill staff and the measures put in place to prevent COVID-19 on site, causing the need to extend the duration of the drilling program to meet the target needed for the Feasibility Study. The results from this current drill program are intended to provide information to upgrade the resource estimate with increased drill density for the Stage 3

Expansion Feasibility Study in addition to step-out drilling. An updated Mineral Resource estimate is expected to be completed by the end of 2021.

Please see the Company's news release dated July 22, 2021 for the most recent results from the underground exploration program.

### *Judd Vein System*

The Judd Vein System at the Kainantu gold mine is located near-mine infrastructure, subparallel to and ~150-200m east from the producing Kora deposit and within the mining lease. To date, four known veins have been recorded at Judd, with similar vein orientation and quartz-sulphide Au-Cu-Ag mineralization as Kora. The veins remain open at depth and only a fraction of the over 2,500 m strike length has been drilled, with significant gaps remaining to be tested.

The Company reported results from processing of a bulk sample mined from the Judd #1 Vein ("J1") on the 1235 Level underground, which had been developed a total of 223 metres along strike (as at the November 24, 2020 press release update).

The bulk sample delivered a significant positive grade reconciliation, returning a head grade of 6.50 g/t gold equivalent or 5.19 g/t gold, 0.82% copper and 10.9 g/t silver, compared to the projected average bulk sample diluted grade of 5.57 g/t gold equivalent or 4.4 g/t gold, 0.7% copper and 10.6 g/t silver from underground development channel sampling. The treatment of the bulk sample via flotation also delivered good recoveries of 88.8% for gold, 97.5% for copper and 88.2% for silver, similar to recoveries at Kora. As the bulk sample was processed after the recently commissioned Stage 2 Plant Expansion, the Company sees potential for improvement in recoveries through operational and flowsheet optimizations.

In a press release on January 26, 2021, the Company provided a further update on the Judd 1235 Level development which had been extended to 288 metres. This noted that the development had encountered higher grades as it advanced to the South. At the end of June 2021, the total length of the J1, 1235 level drive stood at 365 metres. Also, over the period further development has occurred above, on 1265 level. 56m of driving has been completed on J1 at this level. Encouraging face sample grades of both gold, copper and silver have been intercepted, confirming the continuity of mineralization from 1235 Level. Conceptual mine design has been ongoing for further development of the J1 lode.

The Company continues its underground drill program of testing the Judd Vein System. Drilling utilizes one drill rig of the Company's LM90 fleet and the focus of drilling is the J1 vein, with some holes continued deeper to test the J2 and J3 targets. Since the last Judd drill results press release (November 9, 2020), another 18 holes have been drilled. These drill results are expected to be released in the second half of 2021. Drilling is following up on the reported drill and face sample results from J1. The drill spacing now being employed is suitable to achieve both Measured and Indicated, as well as Inferred Resource categories on the J1 Vein.

### *Surface Exploration*

Four drill rigs (two Company owned and two contractor) continued in full time operation at surface, with work focused on Blue Lake/Kotampa (EL470) and Kora and Judd (both ML150), while drilling at Karempa (EL470) is currently on hold. A total of 4,984.1 metres were drilled for the quarter.

Drilling performance has been strong and K92 is currently working through a considerable backlog of core logging and assaying from Judd, Kora and Blue Lake. Reducing the backlog for Judd and Kora, is the most immediate priority as mine planning and underground development is underway targeting the commencement of Judd Vein production stopping in Q4 2021.

Importantly, a new exploration licence, EL2620, was granted to K92 Mining on June 3, 2021. This covers 201.40km<sup>2</sup>, increasing the total K92 Mining land package, comprising five exploration licences, to 860.27km<sup>2</sup>.

*Blue Lake/Kotampa Prospect (EL470)*

Two drill rigs were continuously engaged at Blue Lake during Q2, with a total of 2,642.0 metres drilled. Five drill holes were completed or are in progress, three of which (KTDD0016, KTDD0017 and KTDD0018) were situated on a 200 metre spaced grid, used for all Blue Lake drilling to date. This grid orientation is regarded as optimal for drilling perpendicular to the prominent north-west trend of mineralization and major structures. A program of deeper holes is now being initiated targeting deeper mineralization. Subsequent to quarter end, KTDD0020 was completed, resulting in a record hole length of 1,400.6 m depth drilled.

Drilling to date at Blue Lake (20 holes completed or in progress, including three short holes and three failed holes) has confirmed extensive Au-Cu-Mo mineralization underlying a voluminous, silica-clay altered lithocap. Nearly all holes have ended in mineralization and empirical modelling implies the presence of a very substantial mineralized shell (>0.1 % Cu), with ubiquitous finely disseminated chalcopyrite. This carapace grades inward towards a high grade core characterized by potassic alteration (Kspar-magnetite-biotite). A particularly gold rich zone corresponds with the presence of bornite, and this presumed core of the mineralized porphyry will be the focus of drill targeting in the next quarter and beyond.

*Kora and Judd Surface Exploration (ML150)*

As with Blue Lake, two drill rigs continued at surface on ML150, testing Kora and/or Judd lodes. The program for the quarter included six step-out and infill holes, two additional twin holes (for QAQC and metallurgical test work) and one geotechnical hole to test a possible location for one ventilation shaft, designed to connect with the 1265 Level in the mine. A total of 2,342.1 metres were drilled from surface on the mining lease.

The next quarter on the mining lease will see an additional geotechnical hole(s) drilled to test vent shaft options, and some remaining infill targets at Kora and Judd.

*Qualified Persons*

K92 Mine Geology and Mine Exploration manager, Andrew Kohler, PGeo, a qualified person under the meaning of Canadian National Instrument 43-101 – Standards Disclosure for Mineral Projects (“**NI 43-101**”), has reviewed and is responsible for the technical content in the underground grade control and exploration section of the MD&A. Data verification by Mr. Kohler includes significant time onsite reviewing drill core, face sampling, underground workings, and discussing work programs and results with geology and mining personnel.

K92 Vice-President of Exploration Chris Muller, PGeo, a qualified person under the meaning of NI 43-101, has reviewed and is responsible for the technical content in the surface exploration sections of this MD&A. Data verification by Mr. Muller includes significant time on site reviewing drill core, soil and outcrop sampling, artisanal workings, as well as discussing work programs and results with geology personnel and external consultants.

**Community Relations**

The Company continues to work towards completing the outstanding review of the existing Memorandum of Agreement (“**MOA**”), which has suffered repeated delays outside of the control of the Company or the Bilimoia Interim Landowners Association (BILA) due to Covid-19 restrictions and government review processes. The MOA underpins the relationship between the Company, the Community and Government and sets out commitments from the various parties.

In July 2020, the Company had a formal MOA meeting involving the Bilimoian landowners, the State, and the Provincial Government. Attending the meeting were representatives from the 10 clans within ML150, the PNG Mining Minister, the Managing Director of the Mineral Resources Authority of PNG and the Provincial Governor. In principle, the parties agreed on a revised MOA, subject to final review, with the expectation that the revised MOA will be finalized in 2021.



The Company is currently working on a number of community programs, including: establishing freshwater systems for local communities, providing funding for a medical clinic including a nurse and medicines, refurbishing and performing maintenance on other medical clinics, refurbishment of a number of schools in the community, provision of literacy classes, and launching an agricultural livelihood and training program with the purpose of providing greater nutritional knowledge to the local community. In addition, the Company has performed extensive work on maintenance and upgrading of district roads, including construction of the Aiyamontena, Punano and Unantu bridges. During the six months ended June 30, 2021, the Company committed 1.0 million Papua New Guinea Kina (US\$0.3 million) to establish a new market complex in the town of Kainantu, and in April 2021, the Company held business development training for two local communities over a 4-day period.

The Company has created multiple business opportunities for communities to benefit from the operation of the mine. These include four major joint venture contracts between the communities and PNG companies for the provision of services as well as numerous smaller contracts with local communities. The major contracts include catering and camp management, security, road transportation and ancillary mobile operations. During the six months ended June 30, 2021, these contracts earned \$7.4 million supporting the local community.

The Company provides scholarships to support children from landowners to undertake studies at post-secondary institutions. In 2020, a total of 50 scholarships were provided to students from local communities. In addition, the Company signed an Agreement with the University of Technology in Lae, PNG covering areas of mutual benefit including financial support for the university, work experience for students and undergraduates, technical cooperation and project generation. The Company also provides annual prizes for the top third year students in Geology, Mining and Metallurgy nationally, with the recipients receiving substantial scholarships covering their final year.

In 2020, the Company announced a COVID-19 Assistance Fund to support the Papua New Guinea National Government, the Eastern Highlands and Morobe Provincial Governments and local communities in PNG with 1.5 million Papua New Guinea Kina (US\$0.4 million) which included 0.5 million Papua New Guinea Kina (US\$0.13 million) worth of COVID-19 health accessories to Papua New Guinea's national government.

### **Sustainability**

In 2020, the Company issued its first annual Sustainability Report – the 2019 Sustainability Report – which provided an overview of how the Company manages key aspects of environmental and social responsibility, along with 2019 and 2020 performance highlights and key metrics from the SASB Metals and Mining Standard. See the “2019 Sustainability Report” filed on the Company's website.

The following summarizes the key topics in the Sustainability Report.

#### *Governance and Conduct*

The Company's Code of Business Conduct and Ethics sets out expectations for conducting business to the highest standards of openness, honesty and accountability. The Company also has a Whistleblower Policy for anonymous reporting of any potential cases of financial irregularity, fraud or misconduct. In addition, the Company aligns policies, practices and recognized frameworks and initiatives that promote ethical behaviour and respect for human rights including compliance with the Canadian Extractive Sector Transparency Measures Act, compliance with the Extractive Industries Transparency Initiative and the Company's approach to security is based on the Voluntary Principles on Security and Human Rights providing a framework for maintaining safe and secure operations while respecting human rights.

#### *Sustainable Development Goals*

The United Nations' 17 Sustainable Development Goals (“SDG”) serve as a guide for the Company's sustainability efforts. Our key areas of focus are food security (SDG 2), good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), clean water (SDG 6), decent work (SDG 8) and infrastructure development (SDG 9).

### *Engagement with Stakeholders*

During 2020 and YTD Q2 2021, the Company worked towards finalizing the MOA between the Company and local landowners, the PNG state, provincial and local governments, held meetings with landowners at the start of major drill programs, hired approximately 300 community members for exploration-related work, engaged in industry involvement with the Company's CEO John Lewins sitting on the Council of the Papua New Guinea Chamber of Mines and Petroleum, and opened a project office in the Kainantu Town to offer literacy training and other community programs.

### *Our People*

The Company employs primarily Papua New Guinea nationals, with the majority coming from local communities. At June 30, 2021, the Company had 782 employees and 326 contractors, with approximately 95% being Papua New Guinea nationals.

### *Health and Safety*

The Company's health and safety management system and procedures of the Company are based on ISO 45001 and OHSAS 18001 standards. Safety training is ongoing and includes pre-start and toolbox talks, stop-work meetings if necessary, safety alerts via notice boards and emails, contractor meetings, and activities initiated by the joint Occupational Health and Safety Committee.

The Kainantu Gold Mine camp health clinic is run by Papua New Guinea doctors, nurses and health extension officers, and includes a laboratory that has been critical for COVID-19 testing and is being expanded to enable additional standalone testing on site. We also support health clinics in the communities, paying for nurses, medicine and infrastructure.

The Company did not record any Lost Time Injury's ("LTI") during the three months ended June 30, 2021.

### *Community Relations*

The Company's 30-person community affairs and sustainable development team comprises experienced community relations practitioners, including eight village liaison officers who help to maintain good communication in their own villages and three women in specialist roles focused on empowering women, promoting agricultural production and running the Bilimoia health clinic. The team is focused on three areas: (1) Government relationships – working with local, provincial and national governments and the police, (2) Exploration – making initial contact with communities, educating people on what to expect, and keeping lines of communication open between the Company and the community, and (3) Operations – integrating the community and the Company through formal engagement in villages where we operate.

### *Environmental Stewardship*

The following are the key aspects of the Company's environmental approach:

- Our environmental management system is based on the ISO 14001 standard.
- Exploration is conducted in ways that minimize disturbance to the environment and people.
- The environmental footprints of the underground mine, processing plant and tailings facility are designed to be as small as possible.
- No cyanide is used on site.
- Essentially all of the waste rock from mining is backfilled underground or repurposed at the tailings storage facility.
- Other waste is separated according to whether it is biodegradable, hazardous, or can be reused or recycled, and is then picked up by local contractors to be managed appropriately.
- The Company's nursery grows seedlings, which we use in rehabilitating land after we have disturbed it and share with our communities to support their environmental programs.
- The Company submits quarterly and annual reports on our environmental performance to the Papua New Guinea Conservation and Environment Protection Authority for review and discussion.

**Results of Operations for the six months ended June 30, 2021 as compared to June 30, 2020**

During the six months ended June 30, 2021, the Company had net income of \$6.6 million (2020 – \$21.7 million) and income before income tax of \$12.8 million (2020 - \$33.4 million). Significant items making up the income, and changes from the prior year, are as follows:

Revenue of \$65.0 million (2020 - \$75.5 million) from the sale of gold concentrate in Papua New Guinea. The decrease in revenue is primarily due to a decrease in gold ounces sold and negative pricing adjustments to the fair value of settlement receivables due to the decline in gold prices from December 31, 2020 to June 30, 2021.

Cost of sales of \$41.9 million (2020 - \$33.6 million) consists of mining, processing, mine technical services, maintenance, finance and administration at site, operational health and safety, share-based payments, depreciation and net smelter royalties. The increase in cost of sales is attributable to the increase in operational activity, as shown by the increase in ore mined from 95,050 tonnes in YTD Q2 2020 to 127,894 tonnes in YTD Q2 2021 and an increase of over 90% in waste tonnes mined resulting from significant development to expand mining faces, levels and stopes. In addition, the Company incurred costs related to the COVID-19 pandemic, including additional pay and bonuses for employees completing longer rosters at site, additional costs related to the movement of personnel and supplies, and additional safety and medical related costs.

Income from mine operations of \$23.2 million (2020 - \$41.9 million), which is calculated subtracting cost of sales from revenue.

General and administrative costs of \$2.3 million (2020 – \$1.1 million). The increase is primarily related to an increase in corporate hires, management fees and wages, and one-time cost reversals in Papua New Guinea which occurred in the prior year quarter.

Exploration and evaluation expenditures of \$5.1 million (2020 – \$2.7 million) related to drilling, assaying, trenching, surveying and other related expenditures. The increase in exploration costs is related to additional exploration activities being undertaken by the Company including at Judd, Blue Lake/Kotampa, Karempe, and Kora. In addition, the Company had curtailed exploration activities in the comparative period due to the COVID-19 pandemic.

Share-based payments of \$3.8 million (2020 - \$3.3 million) representing option grants to directors, employees and consultants of the Company. The increase in share-based payments relates to the timing, option valuation and the number of options granted during the period. The valuation of options granted during the period increased versus the comparative period primarily due to an increase in the Company's share price.

Interest and finance expenses of \$0.7 million (2020 – \$1.1 million). This represents interest and finance expenses recorded on the loan, lease agreements and in relation to concentrate sales. The decrease compared to the comparative period was primarily due to lower interest and finance expenses recorded due to the loan being settled on February 3, 2021.

Gain on derivative instruments of \$1.4 million (2020 - \$Nil) relates to realized and unrealized income on commodity contracts. The gain is due to the decrease in gold prices from December 31, 2020 to June 30, 2021.

Income tax expense of \$6.2 million (2020 – \$11.7 million) relates to current taxes and the estimated use of the deferred income tax asset.

## Summary of Quarterly Results

The following table summarizes the last 8 quarters of the Company.

<i>(in thousands of United States Dollars, except per share amounts)</i>	June 30, 2021 (Unaudited)	March 31, 2021 (Unaudited)	December 31, 2020 (Unaudited)	September 30, 2020 (Unaudited)
Total assets	\$ 224,875	\$ 216,443	\$ 215,515	\$ 194,597
Working capital	76,406	70,733	70,856	61,147
Shareholders' equity	197,819	186,963	181,515	164,275
Revenue	35,518	29,513	48,030	35,605
Net income	4,403	2,188	10,917	9,371
Net income per share, basic	0.02	0.01	0.05	0.04
Net income per share, diluted	0.02	0.01	0.05	0.04

  

<i>(in thousands of United States Dollars, except per share amounts)</i>	June 30, 2020 (Unaudited)	March 31, 2020 (Unaudited)	December 31, 2019 (Unaudited)	September 30, 2019 (Unaudited)
Total assets	\$ 180,240	\$ 161,279	\$ 154,990	\$ 132,110
Working capital	50,476	30,493	25,046	17,904
Shareholders' equity	150,750	132,484	124,690	101,006
Revenue	47,857	27,633	33,416	20,989
Net income (loss)	16,905	4,841	22,543	(389)
Net income (loss) per share, basic	0.08	0.02	0.11	(0.00)
Net income (loss) per share, diluted	0.08	0.02	0.10	(0.00)

Total assets have risen due to the construction and completion in late 2020 of the Stage 2 Plant Expansion and ongoing development of the Kainantu project. Revenue has trended upwards due to completion of the Stage 2 Expansion and increased gold prices.

Net income for the period ending December 31, 2019 was higher than comparable periods due to the production and sale of gold from higher grade ore and included deferred tax recoveries of \$8.2 million. The net loss for September 30, 2019 was attributable to the amortization of the deferred loss and fair value loss on the gold purchase agreement that was settled in September 2019.

### Results of Operations for the three months ended June 30, 2021 as compared to June 30, 2020

During the three months ended June 30, 2021, the Company had net income of \$4.4 million (2020 –\$16.9 million) and income before income tax of \$8.6 million (2020 - \$25.6 million). Significant items making up the income, and changes from the comparative period, are as follows:

Revenue of \$35.5 million (2020 - \$47.9 million) from the sale of gold concentrate. The decrease in revenue is primarily due to a decrease in gold ounces sold, offset by higher realized gold prices versus the comparative period.

Cost of sales of \$20.9 million (2020 - \$18.4 million) consisting of mining, processing, mine technical services, maintenance, finance and administration at site, operational health and safety, share-based payments, depreciation and net smelter royalties. The increase in cost of sales is attributable to the increase in operational activity, as shown by the increase in ore mined from 37,754 tonnes in Q2 2020 to 72,011 tonnes in Q2 2021. In addition, the Company incurred costs related to the COVID-19 pandemic, including additional pay and bonuses for employees completing longer rosters at site, additional costs related to the movement of personnel and supplies, and additional safety and medical related costs.

Income from mine operations of \$14.6 million (2020 - \$29.5 million), which is calculated subtracting cost of sales from revenue.

General and administrative of \$0.9 million (2020 – \$0.6 million). The increase is primarily related to an increase in corporate hires and management fees and wages.

Exploration and evaluation expenditures of \$2.6 million (2020 – \$0.8 million) related to drilling, assaying, trenching, surveying and other related expenditures. The increase in exploration costs is related to additional

exploration activities being undertaken by the Company including at Judd, Blue Lake/Kotampa, Karempe, and Kora. In addition, the Company had curtailed exploration activities in the comparative period due to the COVID-19 pandemic.

Share-based payments of \$2.1 million (2020 - \$1.2 million) representing option grants to directors, employees and consultants of the Company. The increase in share-based payments relates to the timing, option valuation and the number of options granted during the period. The valuation of options granted during the period increased versus the comparative period primarily due to an increase in the Company's share price.

Interest and finance expenses of \$0.2 million (2020 – \$0.7 million). This represents interest and finance expenses recorded on the loan, lease agreements and concentrate sales. The decrease was primarily due to the loan being settled on February 3, 2021, and therefore no interest or finance expenses recorded on the loan in the current period.

Loss on derivative instruments of \$0.5 million (2020 - \$Nil) relating to realized and unrealized losses on commodity contracts. The loss is due to the increase in gold prices from March 31, 2021 to June 30, 2021.

Income tax expense of \$4.1 million (2020 – \$8.7 million) relates to current taxes and the estimated use of the deferred income tax asset in Papua New Guinea.

### **Non-IFRS Performance Measures**

This document includes certain non-IFRS performance measures that do not have a standardized meaning prescribed by IFRS. These measures may differ from those used by other issuers, and may not be comparable to such measures as reported by other issuers. The Company believes that these measures are commonly used by certain investors, in conjunction with conventional IFRS measures, to enhance their understanding of the Company's performance. These measures have been derived from the Company's financial statements and applied on a consistent basis. The following tables below provide a reconciliation of these non-IFRS measures to the most directly comparable IFRS measure.

#### *Cash Costs per Ounce*

Cash costs of sales include all costs absorbed into concentrate inventory, treatment and refining costs, less non-cash items such as depreciation, and by-product credits. Total cash cost per ounce sold is calculated by dividing the aggregate of the applicable costs by gold ounces sold.

#### *All-in Sustaining Cost per Ounce*

All-in sustaining costs include all cash costs above plus accretion costs of environmental provisions, corporate costs and sustaining capital expenditures, less any business development or non-sustaining costs. Total all-in sustaining cost per ounce sold is calculated by dividing the aggregate of the applicable costs by gold ounces sold.

<i>(In thousands of United States Dollars, except as noted)</i>	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
<b>Cost of Sales</b>	\$ 20,948	\$ 18,371	\$ 41,855	\$ 33,594
Add: treatment and refining costs	1,307	1,312	2,313	2,174
Less: non-cash costs included in cost of sales	(2,155)	-	(3,478)	-
Less: depreciation	(3,012)	(3,490)	(6,326)	(5,077)
Less: by-product credits	(3,158)	(976)	(4,134)	(1,367)
<b>Cash cost of sales</b>	13,930	15,217	30,230	29,324
Add: accretion	48	48	96	96
Add: general and administrative costs	936	574	2,344	1,069
Add: sustaining capital expenditures <sup>4</sup>	5,159	1,602	10,177	3,535
Less: business development	(48)	-	(122)	-
<b>All-in sustaining costs</b>	20,025	17,441	42,725	34,024
<b>Gold ounces, sold</b>	18,939	27,149	40,817	45,896
<b>Cash cost per gold ounce, sold</b>	\$ 736	\$ 560	\$ 741	\$ 639
<b>All-in sustaining cost per gold ounce, sold</b>	\$ 1,057	\$ 642	\$ 1,047	\$ 741

#### *EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)*

EBITDA is profit attributable to shareholders before income taxes, depreciation and depletion of property, plant and equipment, and interest and finance expense. EBITDA is used as a supplemental financial measure by management and by external users of our MD&A, such as investors, industry analysts, lenders and ratings agencies, to assess the Company's operating performance as compared with the operating performance of other companies in our industry, without regard to financing methods, historical cost basis or capital structure. The IFRS measure most directly comparable to EBITDA is Net Income. EBITDA should not be considered an alternative to net income or loss or any other measure of financial performance or liquidity presented in accordance with IFRS.

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
<b>Income for the period</b>	\$ 4,403	\$ 16,905	\$ 6,591	\$ 21,746
Add: Income taxes	4,148	8,672	6,212	11,653
Add: Amortization of property, plant and equipment	3,012	3,490	6,326	5,077
Add: Interest and finance expense	231	714	666	1,131
<b>EBITDA</b>	\$ 11,794	\$ 29,781	\$ 19,795	\$ 39,607

#### **Liquidity**

As at June 30, 2021, the Company had a cash and cash equivalents balance of \$56.2 million (December 31, 2020 - \$51.5 million) and working capital of \$76.4 million (December 31, 2020 - \$70.9 million), which consisted of current assets of \$99.9 million (December 31, 2020 - \$100.5 million) less current liabilities of \$23.5 million (December 31, 2020 - \$29.7 million).

Operating Activities: During the six months ended June 30, 2021, the Company generated \$27.7 million from operating activities compared to \$30.7 million for the six months ended June 30, 2020.

<sup>4</sup> Sustaining capital expenditures for the six months ended June 30, 2021 is the purchase of property, plant and equipment ("PPE") from the statement of cash flows of \$19.8 million (2020 - \$13.6 million), plus net deposits for equipment \$Nil (2020 - \$0.1 million), plus net PPE amounts included in accounts payable related to expansion costs of \$Nil million (2020 - \$0.7 million), less expansion costs of \$9.6 million (2020 - \$10.8 million).

Investing Activities: During the six months ended June 30, 2021, the Company paid \$19.8 million (2020 - \$13.6 million) for property, plant, and equipment and \$0.1 million (2020 - \$0.1 million) for deposits on equipment.

Financing Activities: During the six months ended June 30, 2021 the Company collected \$2.2 million (2020 - \$1.0 million) from the exercise of stock options. The Company paid \$5.0 million (2020 - \$4.3 million) in loan principal payments and \$0.6 million (2020 - \$0.2 million) in principal lease payments.

The Company's financial position at June 30, 2021, and the operating cash flows that are expected over the next twelve months, are expected to be sufficient to fund operational costs, capital requirements, debt repayments and other commitments.

### Capital Resources

The Company manages its capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the Company's assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

### Related Party Transactions

Key management compensation consists of the Chief Executive Officer, Senior Vice President of Operations, Chief Financial Officer, and the Board of Directors. Management, consulting and wages paid or accrued to key management or companies they controlled is presented in the table below:

<i>(In thousands of United States Dollars)</i>	Six months ended	June 30, 2021	June 30, 2020
Share-based compensation		\$ 1,680	\$ 1,503
Management, consulting and wages		702	585
Professional fees		34	20

During the six months ended June 30, 2021, the Company paid professional fees of \$12.0 thousand (2020 - \$9.0 thousand) to a Company related to the CFO for accounting services.

Included in accounts payable and accrued liabilities is \$12.2 thousand (2020 - \$0.2 million) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

### Outstanding Share Data

As at the date of this report the Company had 220,320,697 common shares issued and outstanding.

The following incentive stock options were outstanding at the date of this report:

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	2,240,000	2,240,000	0.73	1.53
1.00 – 1.99	4,366,750	4,366,750	1.54	2.17
2.00 – 2.99	245,000	245,000	2.17	3.27
3.00 – 3.99	1,680,240	1,680,240	3.85	3.48
4.00 – 4.99	110,200	110,200	4.00	3.87
5.00 – 9.99	<u>6,172,600</u>	<u>3,262,200</u>	7.27	4.36
	14,814,790	11,904,390	4.09	3.16

### Subsequent Events

Subsequent to June 30, 2021, the Company paid \$7.2 million in installment taxes to the Papua New Guinea government.

### Off-Balance Sheet Arrangements

At June 30, 2021, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

### Proposed Transactions

Except as elsewhere disclosed in this document, there are no other proposed transactions under consideration.

### Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make estimates about, and apply assumptions or judgment to, future events and other matters that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared.

The Company's significant accounting judgments, estimates and assumptions are disclosed in Note 2 of the audited Consolidated Financial Statements for the year ended December 31, 2020.

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.

### 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.

### 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	June 30, 2021		December 31, 2020	
	Level 1	Level 2	Level 1	Level 2
Trade receivables	\$ -	\$ 10,416	\$ -	\$ 24,920
Derivative assets	-	530	-	-
Derivative liabilities	-	(166)	-	(280)
	\$ -	\$ 10,780	\$ -	\$ 24,640

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 six months ended June 30, 2021.

As at June 30, 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.

### Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

#### *Disclosure Controls and Procedures*

The Company's management, including the CFO and CEO, have designed disclosure controls and procedures which provide reasonable assurance that material information is identified and communicated in a timely manner. As at June 30, 2021, the Company's CFO and CEO have concluded the Company's design of disclosure controls and procedures provide reasonable assurance material information is communicated to them by others within the Company.

#### *Internal Controls over Financial Reporting*

The Company's management, including the CFO and CEO, are responsible for establishing adequate internal controls over financial reporting. As at June 30, 2021, the Company's CFO and CEO have concluded that the internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes to the Company's internal controls during the three months ended June 30, 2021 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting or disclosure controls and procedures.

### Cautionary Statement Regarding Certain Measures of Performance

This MD&A presents certain measures, including "cash costs", "all-in sustaining costs" "gold equivalent" and "EBITDA" that are not recognized measures under IFRS. This data may not be comparable to data presented by other gold producers. For a reconciliation of these measures to the most directly comparable financial information presented in the consolidated financial statements prepared in accordance with IFRS, see Non-IFRS Financial Performance Measures in this MD&A. The Company believes that these generally accepted industry measures are realistic indicators of operating performance and are useful in performing year over year comparisons. However, these non-IFRS measures should be considered together with other data prepared in accordance with IFRS, and these measures taken by themselves, are not necessarily indicative of operating costs or cash flow measures prepared in accordance with IFRS.

### Note Regarding Forward-Looking Statements

Except for historical information, this MD&A may contain forward-looking statements within the meaning of applicable Canadian securities legislation. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following:

General economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued production, exploration and development of the Company's properties.

This MD&A contains certain forward-looking statements inclusive of, but not limited to, timing of the mine development, twin incline construction, metals production, cash costs, all-in sustaining costs, exploration costs and growth capital costs. Although forward-looking statements and information contained in this MD&A are based on the beliefs of K92 management, which we consider to be reasonable, as well as assumptions made by and information currently available to K92 management, there is no assurance that the forward-looking statement or information will prove to be accurate. The assumptions made include assumptions about K92's ability to move forward with the development and mine expansion arrangements. The forward-looking statements and information contained in this MD&A are subject to current risks, uncertainties and assumptions related to certain factors including, without limitations, obtaining all necessary approvals, feasibility of the Company's mine and plant development in PNG, completion of a Definitive Feasibility Study for the Kora Stage 3 Expansion, the accuracy of mineral reserve and mineral resources estimates, exploration and development risks, expenditure and financing requirements, title matters, the Company's dependency on the Kainantu Gold Mine for operating revenue and cash flows in the near term, operating hazards, metal prices, political and economic factors, competitive factors, general economic conditions, relationships with vendors and strategic partners, governmental regulation and supervision, the Company's ability to adequately account for potential mine closure and remediation costs, seasonality, technological change, industry practices, and one-time events as well as risks, uncertainties and other factors discussed in our annual and interim management's discussion and analysis. Should any one or more of these risks or uncertainties materialize or change, or should any underlying assumptions prove incorrect, actual results and forward-looking statements and information may vary materially from those described herein.

The list is not exhaustive and although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended that should be considered carefully, and reasons should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any person assumes responsibility for the accuracy and completeness of these forward-looking statements. We undertake no obligation to update forward-looking statements or information except as required by law.

**Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources.**

This discussion uses the terms "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.