

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021

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

(Presented in thousands of United States Dollars)

(Unaudited)

As at	June 30, 2022	December 31, 2021
ASSETS		
Current		
Cash and cash equivalents	\$ 81,728	\$ 71,270
Receivables (Note 4)	20,662	23,249
Inventories (Note 5)	26,808	25,411
Prepayments	1,747	1,470
Derivative assets (Note 10)	<u>500</u>	<u>118</u>
	131,445	121,518
Deferred income tax assets	7,154	9,774
Deposits on equipment	4,042	1,933
Property, plant and equipment (Note 7)	<u>159,942</u>	<u>139,798</u>
	\$ 302,583	\$ 273,023
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 31,341	\$ 27,150
Income tax payable	940	644
Current portion of lease liabilities (Note 9)	4,966	4,797
Derivative liabilities (Note 10)	<u>191</u>	<u>425</u>
	37,438	33,016
Lease liabilities (Note 9)	6,754	9,300
Reclamation and closure cost obligations (Note 8)	<u>4,545</u>	<u>5,571</u>
	48,737	47,887
Shareholders' equity		
Share capital (Note 11)	104,364	92,021
Contributed surplus (Note 11)	25,191	28,042
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>124,548</u>	<u>105,330</u>
	<u>253,846</u>	<u>225,136</u>
	\$ 302,583	\$ 273,023

Subsequent events (Note 18)

Approved and authorized by the Board of Directors on August 12, 2022:

“Saurabh Handa”

Director

“Mark Eaton”

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 EARNINGS**

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

(Unaudited)

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
REVENUE (Note 14)	\$ 37,356	\$ 35,518	\$ 89,768	\$ 65,031
COST OF SALES (Note 15)	<u>(23,169)</u>	<u>(20,948)</u>	<u>(45,704)</u>	<u>(41,855)</u>
Earnings from mine operations	14,187	14,570	44,064	23,176
EXPENSES				
General and administrative (Note 16)	\$ (1,650)	\$ (936)	\$ (3,449)	\$ (2,344)
Exploration and evaluation expenditures	(3,774)	(2,598)	(6,754)	(5,053)
Foreign exchange	(407)	307	(230)	71
Share-based payments	<u>(773)</u>	<u>(2,106)</u>	<u>(1,696)</u>	<u>(3,788)</u>
Earnings from operations	\$ 7,583	\$ 9,237	\$ 31,935	\$ 12,062
OTHER				
Interest and finance expense (Note 17)	(602)	(231)	(1,318)	(666)
Gain (loss) on derivative instruments (Note 10)	<u>1,136</u>	<u>(455)</u>	<u>(341)</u>	<u>1,407</u>
Earnings before taxes	\$ 8,117	\$ 8,551	\$ 30,276	\$ 12,803
Income tax expense	<u>(2,981)</u>	<u>(4,148)</u>	<u>(11,058)</u>	<u>(6,212)</u>
Net earnings and comprehensive earnings	<u>\$ 5,136</u>	<u>\$ 4,403</u>	<u>\$ 19,218</u>	<u>\$ 6,591</u>
Earnings per share (Note 11)				
Basic	\$ 0.02	\$ 0.02	\$ 0.09	\$ 0.03
Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.08</u>	<u>\$ 0.03</u>
Weighted average number of shares outstanding (Note 11)				
Basic	226,489,201	220,913,048	225,513,516	220,210,930
Diluted	<u>232,140,495</u>	<u>228,390,339</u>	<u>230,658,135</u>	<u>227,429,819</u>

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)

(Unaudited)

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
CASH FROM OPERATING ACTIVITIES				
Net earnings for the period	\$ 5,136	\$ 4,403	\$ 19,218	\$ 6,591
Items not affecting cash:				
Unrealized foreign exchange loss (gain)	473	(195)	299	(311)
Interest and finance expenses	152	(17)	537	256
Derivative instruments (Note 10)	(1,136)	455	341	(1,407)
Deferred income tax	1,294	2,289	2,586	3,174
Share-based payments (Note 11)	900	4,501	2,213	7,506
Depreciation and depletion	4,626	3,012	8,928	6,326
Net proceeds (payments) from derivatives (Note 10)	(958)	763	(958)	763
Changes in non-cash working capital items:				
Inventories	483	(2,998)	(1,229)	(2,591)
Receivables	5,638	(4,589)	2,108	13,540
Income taxes	(6,470)	(6,174)	296	(4,995)
Prepayments	(487)	(865)	(277)	(298)
Accounts payable and accrued liabilities	3,494	(1,605)	6,413	(843)
Net cash (used in) provided by operating activities	<u>13,145</u>	<u>(1,020)</u>	<u>40,475</u>	<u>27,711</u>
CASH FROM INVESTING ACTIVITIES				
Deposits for equipment	-	-	(4,042)	(71)
Acquisition of property, plant and equipment	(14,840)	(10,446)	(30,613)	(19,825)
Net cash used in investing activities	<u>(14,840)</u>	<u>(10,446)</u>	<u>(34,655)</u>	<u>(19,896)</u>
CASH FROM FINANCING ACTIVITIES				
Proceeds on exercise of stock options	5,160	1,571	7,279	2,207
Principal loan payments	-	-	-	(5,000)
Principal lease payments (Note 9)	(1,179)	(305)	(2,329)	(602)
Net cash (used in) provided by financing activities	<u>3,981</u>	<u>1,266</u>	<u>4,950</u>	<u>(3,395)</u>
Change in cash and cash equivalents during the period	2,286	(10,200)	10,770	4,420
Effect of foreign exchange on cash	(475)	196	(312)	320
Cash and cash equivalents, beginning of period	<u>79,917</u>	<u>66,239</u>	<u>71,270</u>	<u>51,495</u>
Cash and cash equivalents, end of period	\$ 81,728	\$ 56,235	\$ 81,728	\$ 56,235
Cash paid for interest	\$ 530	\$ 287	\$ 1,145	\$ 529
Cash paid for taxes	\$ 8,162	\$ 6,614	\$ 8,162	\$ 6,614

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)

(Unaudited)

	<u>Share capital</u>		<u>Contributed</u>	<u>Accumulated other</u>	<u>Retained</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>surplus</u>	<u>comprehensive loss</u>	<u>Earnings</u>	
Balance at December 31, 2020	219,215,097	\$ 83,523	\$ 20,160	\$ (257)	\$ 78,089	\$ 181,515
Exercise of stock options	2,742,740	3,373	(1,166)	-	-	2,207
Share-based payments (Note 11)	-	-	7,506	-	-	7,506
Net earnings for the period	-	-	-	-	6,591	6,591
Balance at June 30, 2021	221,957,837	\$ 86,896	\$ 26,500	\$ (257)	\$ 84,680	\$ 197,819
Exercise of stock options	2,284,900	5,125	(2,008)	-	-	3,117
Share-based payments (Note 11)	-	-	3,550	-	-	3,550
Net earnings for the period	-	-	-	-	20,650	20,650
Balance at December 31, 2021	224,242,737	\$ 92,021	\$ 28,042	\$ (257)	\$ 105,330	\$ 225,136
Exercise of stock options	2,628,200	12,343	(5,064)	-	-	7,279
Share-based payments (Note 11)	-	-	2,213	-	-	2,213
Net earnings for the period	-	-	-	-	19,218	19,218
Balance at June 30, 2022	226,870,937	\$ 104,364	\$ 25,191	\$ (257)	\$ 124,548	\$ 253,846

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

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2022

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

(Unaudited)

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 OTCQX 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 have been prepared on a historical cost basis, except for the revaluation of certain financial instruments measured at fair value.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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, 2021. 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, 2021.

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, 2021, except for:

Revenue Recognition

Revenue associated with the sale of gold doré is recognized when control of the asset is transferred to the buyer. Indicators of the transfer of control include a present right to payment, legal title, transferred physical possession, transfer of significant risks and rewards, and acceptance of the asset. For the Company’s sale of gold doré, transfer of control occurs on settlement, which is also the date that title to the gold doré passes to the buyer.

During the six months ended June 30, 2022, the Company completed its first sale of gold doré for sales proceeds of \$4.6 million.

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

June 30, 2022

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

(Unaudited)

4. RECEIVABLES

As at	June 30, 2022	December 31, 2021
Trade receivables	\$ 11,322	\$ 16,748
GST receivable	9,296	6,168
Other	<u>44</u>	<u>333</u>
Total	\$ 20,662	\$ 23,249

5. INVENTORIES

As at	June 30, 2022	December 31, 2021
Mine supplies, consumables and fuel	\$ 18,706	\$ 17,355
Ore stockpile	4,803	4,090
Concentrate and doré	<u>3,299</u>	<u>3,966</u>
Total	\$ 26,808	\$ 25,411

During the six months ended June 30, 2022, the cost of inventory recognized as an expense in cost of sales amounted to \$45.7 million (2021 - \$41.9 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	June 30, 2022	December 31, 2021
Trade payables	\$ 10,006	\$ 9,808
Other accounts payable and trade related accruals	5,411	3,770
Employee accruals	7,477	6,027
Landowners' compensation accrual	<u>8,447</u>	<u>7,545</u>
Total	\$ 31,341	\$ 27,150

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 Bilimoia 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

June 30, 2022

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

(Unaudited)

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, 2020	\$ 62,013	\$ 28,811	\$ 28,029	\$ 4,153	\$ 1,815	\$ 124,821
Additions	10,473	6,177	-	14,866	22,957	54,473
Disposals / write-downs	-	-	(245)	(3,354)	-	(3,599)
Reclamation – change in estimate	2,341	-	-	-	-	2,341
Transfers	53	5,233	2,815	201	(8,302)	-
Balance, December 31, 2021	74,880	40,221	30,599	15,866	16,470	178,036
Additions	7,429	3,212	-	-	19,683	30,324
Reclamation– changes in estimate	(1,084)	-	-	-	-	(1,084)
Transfers	-	(571)	4,973	-	(4,402)	-
Balance, June 30, 2022	\$ 81,225	\$ 42,862	\$ 35,572	\$ 15,866	\$ 31,751	\$ 207,276
Accumulated depreciation						
Balance, December 31, 2020	\$ 10,943	\$ 3,794	\$ 9,968	\$ 1,564	\$ -	\$ 26,269
Depreciation and depletion	2,140	2,249	7,592	2,052	-	14,033
Disposals / write-downs	-	-	(160)	(1,904)	-	(2,064)
Transfers	260	(52)	(223)	15	-	-
Balance, December 31, 2021	13,343	5,991	17,177	1,727	-	38,238
Depreciation and depletion	1,480	1,352	3,655	2,609	-	9,096
Balance, June 30, 2022	\$ 14,823	\$ 7,343	\$ 20,832	\$ 4,336	\$ -	\$ 47,334
Carrying amounts						
As at December 31, 2021	\$ 61,537	\$ 34,230	\$ 13,422	\$ 14,139	\$ 16,470	\$ 139,798
As at June 30, 2022	\$ 66,402	\$ 35,519	\$ 14,740	\$ 11,530	\$ 31,751	\$ 159,942

¹ Construction in Progress at June 30, 2022 consists of \$22.3 million (2021 - \$6.9 million) in twin incline expansion costs and \$9.5 million (2021 - \$1.4 million) in other expansion costs.

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

June 30, 2022

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

(Unaudited)

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. 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.

	June 30, 2022	December 31, 2021
Balance, beginning of year	\$ 5,571	\$ 3,040
Change in estimates	(1,084)	2,341
Accretion	58	190
Balance, end of period	\$ 4,545	\$ 5,571

The provision has been measured as the present value of the estimated future rehabilitation costs using an estimated mine life of 10 years. The estimated cash-flows used to measure the provision were discounted to a present value using a risk-free discount rate of 8.42% (December 31, 2021 – 6.96%).

On an annual basis, 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 \$7.0 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.

9. LEASES LIABILITIES

The Company leases 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 six months ended June 30, 2022, the Company incurred \$0.7 million (2021 - \$0.1 million) related to interest and finance expenses on the lease liabilities.

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

June 30, 2022

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

(Unaudited)

9. LEASES LIABILITIES (cont'd...)

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 as at	June 30, 2022	December 31, 2021
Lease liabilities, beginning of year	\$ 14,097	\$ 2,545
Additions	-	14,866
Disposals	-	(1,281)
Payments	(3,033)	(2,610)
Interest expense	704	574
Adjustment on currency translation	(48)	3
Balance, end of period	\$ 11,720	\$ 14,097
Lease liabilities, current portion	\$ 4,966	\$ 4,797
Lease liabilities, non-current portion	\$ 6,754	\$ 9,300

The Company's lease liabilities at June 30, 2022 are summarized as follows:

	Within 1 Year	2-3 Years	Total
Future undiscounted lease payments	\$ 5,983	\$ 7,248	\$ 13,231
Future finance charges	(1,017)	(494)	(1,511)
Total discounted lease liabilities	\$ 4,966	\$ 6,754	\$ 11,720

10. DERIVATIVE INSTRUMENTS

The Company entered into zero-cost collar contracts during the period whereby it purchases gold put option contracts and sells gold call option contracts with equal and offsetting values at the inception of each contract.

The details of the open commodity contracts as at June 30, 2022 were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term ²	Settlement Date
Gold call contracts – sold	3,442	\$2,034	July 2022	September 30, 2022
Gold put contracts – purchased	3,442	\$1,829	July 2022	September 30, 2022
Gold call contracts – sold	7,273	\$1,946	August 2022	October 31, 2022
Gold put contracts – purchased	7,273	\$1,741	August 2022	October 31, 2022
Gold call contracts – sold	8,892	\$1,944	September 2022	November 30, 2022
Gold put contracts – purchased	8,892	\$1,741	September 2022	November 30, 2022

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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

June 30, 2022

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

(Unaudited)

10. DERIVATIVE INSTRUMENTS (cont'd...)

The realized and unrealized gains (losses) on the commodity contracts were as follows:

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Realized gains	\$ (958)	\$ 191	\$ (958)	\$ 763
Unrealized (losses) gains	<u>2,094</u>	<u>(646)</u>	<u>617</u>	<u>644</u>
Net realized and unrealized gains (losses)	\$ 1,136	\$ (455)	\$ (341)	\$ 1,407

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

As at	June 30, 2022	December 31, 2021
Derivative assets	\$ 500	\$ 118
Derivative liabilities	\$ (191)	\$ (425)

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.

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

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

Issued share capital

As at June 30, 2022, the Company had 226,870,937 common shares issued and outstanding.

Share issuances

Except on the exercise of share options, no shares were issued during the six months ended June 30, 2022 (December 31, 2021 - Nil).

Equity compensation

Until October 28, 2021, the Company had a "rolling" stock option plan (the "**Stock Option Plan**") whereby the Company was authorized to grant stock options ("**Options**") equal to up to 10% of the number of issued and outstanding common shares.

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

June 30, 2022

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

(Unaudited)

11. SHARE CAPITAL AND RESERVES (cont'd...)**Equity compensation (cont'd...)**

Effective October 28, 2021, the Company replaced the Stock Option Plan with a share compensation plan (the “**Share Compensation Plan**”) that provides for the issuance of Options, Restricted Share Units (“**RSUs**”), and Performance Share Units (“**PSUs**”).

Stock options

Pursuant to the Share Compensation Plan, the Company is authorized to grant Options to executive officers, directors, employees and consultants. The maximum number of Options that may be granted under the Share Compensation Plan, together with any other shares issuable pursuant to other security-based arrangements of the Company that may be granted pursuant to the Share Compensation Plan, is 9% of the issued and outstanding common shares at the time of the grant, on a non-diluted basis. The maximum number of common shares issuable pursuant to Options, on an aggregated basis, may not exceed 7% of the issued and outstanding common shares at the time of grant.

Stock option transactions are summarized as follows:

	Number Outstanding	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2020	15,985,890	\$ 2.91
Granted	2,420,000	8.02
Exercised	(5,027,640)	1.32
Forfeited	<u>(757,600)</u>	<u>4.22</u>
Outstanding, December 31, 2021	12,620,650	\$ 4.44
Exercised	(2,628,200)	3.53
Forfeited	<u>(96,600)</u>	<u>8.02</u>
Outstanding, June 30, 2022	<u>9,895,850</u>	<u>\$ 4.66</u>
Number currently exercisable	<u>9,895,850</u>	<u>\$ 4.66</u>

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

June 30, 2022

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

(Unaudited)

11. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options (cont'd...)**

The following incentive stock options were outstanding at June 30, 2022:

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	1,320,000	1,320,000	0.73	0.62
1.00 – 1.99	2,171,750	2,171,750	1.77	2.02
2.00 – 2.99	235,000	235,000	2.17	2.39
3.00 – 3.99	1,203,000	1,203,000	3.85	2.60
4.00 – 4.99	10,200	10,200	4.00	2.98
5.00 – 8.99	<u>4,955,900</u>	<u>4,955,900</u>	7.28	3.47
	9,895,850	9,895,850	4.66	2.64

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 six months ended June 30, 2022, the Company granted Nil stock options (2021 – Nil). The following presents the weighted average assumptions used in the valuation of stock options:

	June 30, 2022	December 31, 2021
Weighted average exercise price (CAD\$)	\$ -	\$ 8.02
Weighted average fair value (CAD\$)	\$ -	\$ 3.88
Risk-free interest rate	-	0.93%
Expected life of options	-	4.0 years
Annualized volatility	-	63.45%
Dividend rate	-	0.00%
Forfeiture rate	-	2.21%

The weighted average share price at the time of exercise for the six months ended June 30, 2022 was CAD\$9.08 (2021 – CAD\$8.10).

During the six months ended June 30, 2022, the Company recorded share-based payment expense of \$0.8 million (2021 – \$7.5 million) related to the stock options.

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2022

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

(Unaudited)

11. SHARE CAPITAL AND RESERVES (cont'd...)**Restricted Share Units**

Pursuant to the Share Compensation Plan, the Company is authorized to grant RSUs to executive officers, directors, employees and consultants. The maximum aggregate number of common shares that may be issuable pursuant to RSUs together with PSUs may not exceed 2% of the number of outstanding common shares, calculated at the time of grant. Unless otherwise determined by the Board in accordance with the Share Compensation Plan, the RSUs vest in three installments; one-third vesting one year from the grant date, one-third vesting two years from the grant date and the remainder vesting three years from the grant date.

During the six months ended June 30, 2022, the Company granted 344,464 RSUs. The estimated fair value of \$1.8 million is being recognized over the vesting period.

	Number Outstanding	Fair Value
Outstanding, December 31, 2020	-	\$ -
Granted	<u>150,213</u>	<u>833</u>
Outstanding, December 31, 2021	150,213	\$ 833
Granted	<u>344,464</u>	<u>1,846</u>
Outstanding, June 30, 2022	<u>494,677</u>	<u>\$ 2,679</u>

During the six months ended June 30, 2022, the Company recorded a share-based payment expense of \$0.8 million (2021 – \$Nil) related to the vesting of RSUs.

Performance Share Units

Pursuant to the Share Compensation Plan, the Company is authorized to grant PSUs to executive officers, directors, employees and consultants. The maximum aggregate number of common shares that may be issuable pursuant to PSUs together with RSUs may not exceed 2% of the number of outstanding common shares, calculated at the time of grant. Unless otherwise determined by the Board in accordance with the Share Compensation Plan, the PSUs vest in three installments; one-third vesting one year from the grant date, one-third vesting two years from the grant date and the remainder vesting three years from the grant date, subject to certain performance criteria having been met. The vesting of the PSUs is based on the Company's share performance in comparison to its peer group with the final number of PSUs vested ranging from 25% to 150% of the initial PSUs granted.

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

June 30, 2022

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

(Unaudited)

11. SHARE CAPITAL AND RESERVES (cont'd...)**Performance Share Units (cont'd...)**

During the six months ended June 30, 2022, the Company granted 492,556 PSUs. The estimated fair value of \$2.3 million is being recognized over the vesting period.

	Number Outstanding	Fair Value ³
Outstanding, December 31, 2021	-	\$ -
Granted	<u>492,556</u>	<u>2,349</u>
Outstanding, June 30, 2022	492,556	\$ 2,349

During the six months ended June 30, 2022, the Company recorded a share-based payment expense of \$0.6 million (2021 – \$Nil) related to the vesting of PSUs.

Earnings per share

The following summarizes the calculation of basic and diluted earnings per share:

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Earnings for the period	\$ 5,136	\$ 4,403	\$ 19,218	\$ 6,591
Basic weighted average number of shares outstanding	226,489,201	220,913,048	225,513,516	220,210,930
Effect of dilutive securities:				
Stock options	4,767,764	7,477,291	4,342,119	7,218,889
Restricted share units	478,583	-	442,299	-
Performance share units	404,947	-	360,201	-
Diluted weighted average number of shares outstanding	232,140,495	228,390,339	230,658,135	227,429,819
Earnings per share				
Basic	\$ 0.02	\$ 0.02	\$ 0.09	\$ 0.03
Diluted	\$ 0.02	\$ 0.02	\$ 0.08	\$ 0.03

³ The grant date fair value was determined using a Monte Carlo model.

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

June 30, 2022

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

(Unaudited)

12. 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 quoted 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 June 30, 2022		At December 31, 2021	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 11,322	\$ -	\$ 16,748
Derivative assets (Note 10)	-	500	-	118
Derivative liabilities (Note 10)	-	(191)	-	(425)
	\$ -	\$ 11,631	\$ -	\$ 16,441

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, 2022.

As at June 30, 2022 and December 31, 2021, the carrying amounts of cash and cash equivalents, prepaids, 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.

13. 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. Corporate & Other includes the Company's head office function in Canada.

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

June 30, 2022

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

(Unaudited)

13. SEGMENTED INFORMATION (cont'd...)

Six months ended June 30, 2022	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 24,832	\$ (5,614)	\$ 19,218
Capital expenditures	\$ 30,324	\$ -	\$ 30,324
Three months ended June 30, 2022			
Net income (loss)	\$ 6,701	\$ (1,565)	\$ 5,136
Capital expenditures	\$ 16,376	\$ -	\$ 16,376
As at June 30, 2022			
Property, plant and equipment	\$ 158,879	\$ 1,063	\$ 159,942
Total assets	\$ 227,197	\$ 75,386	\$ 302,583
Total liabilities	\$ 46,994	\$ 1,743	\$ 48,737
Six months ended June 30, 2021			
Net income (loss)	\$ 10,981	\$ (4,390)	\$ 6,591
Capital expenditures	\$ 19,580	\$ -	\$ 19,580
Three months ended June 30, 2021			
Net income (loss)	\$ 7,705	\$ (3,302)	\$ 4,403
Capital expenditures	\$ 10,438	\$ -	\$ 10,438
As at December 31, 2021			
Property, plant and equipment	\$ 110,433	\$ 1,221	\$ 111,654
Total assets	\$ 173,606	\$ 51,269	\$ 224,875
Total liabilities	\$ 26,496	\$ 560	\$ 27,056

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

June 30, 2022

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

(Unaudited)

14. REVENUE

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Gold and silver in doré	\$ 4,647	\$ -	\$ 4,647	\$ -
Gold in concentrate	37,577	33,221	84,413	71,188
Copper in concentrate	5,036	3,083	9,868	4,043
Silver in concentrate	308	75	610	91
Treatment and refining charges	<u>(1,651)</u>	<u>(1,307)</u>	<u>(3,213)</u>	<u>(2,313)</u>
Revenue from contracts with customers	45,917	35,072	96,325	73,009
Gain (loss) on receivables at fair value	<u>(8,561)</u>	<u>446</u>	<u>(6,557)</u>	<u>(7,978)</u>
Total	\$ 37,356	\$ 35,518	\$ 89,768	\$ 65,031

15. COST OF SALES

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Direct mining and milling	\$ 5,265	\$ 5,341	\$ 10,336	\$ 10,244
Maintenance	4,045	3,448	7,712	6,175
Other site costs	7,371	7,325	15,896	13,279
Net smelter royalties	1,172	877	2,393	1,866
Change in inventories	<u>691</u>	<u>(1,973)</u>	<u>(46)</u>	<u>562</u>
	18,544	15,018	36,291	32,126
Non-cash costs				
Depreciation and depletion	4,496	3,154	8,893	6,011
Share-based payments	<u>129</u>	<u>2,776</u>	<u>520</u>	<u>3,718</u>
Total	\$ 23,169	\$ 20,948	\$ 45,704	\$ 41,855

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

June 30, 2022

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

(Unaudited)

16. GENERAL AND ADMINISTRATIVE

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Management, consulting and wages	\$ 1,227	\$ 666	\$ 2,481	\$ 1,607
Professional fees	15	55	93	124
Office, filing and administrative	116	51	358	269
Travel	73	22	153	41
Investor relations	193	116	312	251
Depreciation	26	26	52	52
Total	\$ 1,650	\$ 936	\$ 3,449	\$ 2,344

17. INTEREST AND FINANCE EXPENSE

For the	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Interest and amortization of transaction costs on loan	\$ -	\$ -	\$ -	\$ 147
Other interest and finance expense	573	183	1,260	423
Accretion expense	29	48	58	96
Total	\$ 602	\$ 231	\$ 1,318	\$ 666

18. SUBSEQUENT EVENTS

Subsequent to June 30, 2022, the Company:

- a) Completed a bought deal financing whereby the Company issued 5,405,500 common shares at a price of CAD\$9.25 per common share for gross proceeds of CAD\$50.0 million (\$38.3 million). The Company paid CAD\$2.5 million (\$1.9 million) in cash commissions and CAD\$0.5 million (\$0.4 million) in professional fees related to the financing.
- b) Paid \$4.8 million in instalment taxes to the Papua New Guinea government.