

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

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

(Presented in thousands of United States Dollars)

AS AT	September 30, 2020	December 31, 2019
ASSETS		
Current		
Cash and cash equivalents	\$ 41,217	\$ 21,612
Receivables (Note 5)	24,920	13,064
Inventory (Note 6)	19,442	11,507
Income tax prepayment	1,544	-
Prepayments	<u>1,209</u>	<u>1,046</u>
	88,332	47,229
Deferred income tax assets	15,692	29,360
Deposits on equipment	93	317
Property, plant and equipment (Note 8)	<u>90,480</u>	<u>78,084</u>
	\$ 194,597	\$ 154,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 19,681	\$ 13,403
Current portion of lease liabilities	513	390
Current portion of loan (Note 10)	<u>6,991</u>	<u>8,390</u>
	27,185	22,183
Lease liabilities	597	771
Loan (Note 10)	-	4,894
Reclamation and closure cost obligations (Note 11)	<u>2,540</u>	<u>2,452</u>
	30,322	30,300
Shareholders' equity		
Share capital (Note 12)	82,696	77,087
Contributed surplus (Note 12)	14,944	12,128
Accumulated other comprehensive loss	(537)	(580)
Retained earnings	<u>67,172</u>	<u>36,055</u>
	<u>164,275</u>	<u>124,690</u>
	\$ 194,597	\$ 154,990

Subsequent events (Note 19)

Approved and authorized by the Audit Committee on November 12, 2020:

"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 INCOME**

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

FOR THE	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
REVENUE (Note 15)	\$ 35,605	\$ 20,989	\$ 111,095	\$ 68,277
COST OF SALES (Note 16)	<u>(15,883)</u>	<u>(12,239)</u>	<u>(49,477)</u>	<u>(34,070)</u>
Income from mine operations	19,722	8,750	61,618	34,207
EXPENSES				
General and administrative (Note 17)	\$ (1,071)	\$ (748)	\$ (2,140)	\$ (2,167)
Exploration and evaluation expenditures	(2,439)	(2,760)	(5,104)	(5,321)
Foreign exchange	168	24	(170)	(187)
Share-based payments	<u>(1,432)</u>	<u>(885)</u>	<u>(4,726)</u>	<u>(1,874)</u>
	\$ 14,948	\$ 4,381	\$ 49,478	\$ 24,658
OTHER				
Interest and finance expense (Note 18)	(529)	(465)	(1,660)	(860)
Fair value loss on gold purchase agreement (Note 9)	-	(802)	-	(1,022)
Amortization of deferred loss (Note 9)	-	(3,279)	-	(7,484)
Other	<u>-</u>	<u>(224)</u>	<u>-</u>	<u>(264)</u>
Income for the period before taxes	\$ 14,419	\$ (389)	\$ 47,818	\$ 15,028
Income tax expense	<u>(5,048)</u>	<u>-</u>	<u>(16,701)</u>	<u>(5,028)</u>
Income (loss) for the period	\$ 9,371	\$ (389)	\$ 31,117	\$ 10,000
Other comprehensive income (loss)				
Items that may be reclassified to net income				
Cumulative translation adjustment	<u>(38)</u>	<u>(412)</u>	<u>43</u>	<u>(365)</u>
Comprehensive income for the period	\$ 9,333	\$ (801)	\$ 31,160	\$ 9,635
Basic earnings per common share	\$ 0.04	\$ (0.00)	\$ 0.14	\$ 0.05
Diluted earnings per common share	\$ 0.04	\$ (0.00)	\$ 0.14	\$ 0.05
Weighted average number of common shares outstanding	215,859,480	208,043,823	214,705,107	198,671,319
Weighted average number of diluted common shares outstanding	225,070,451	208,043,823	222,559,324	207,391,791

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

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

(Presented in thousands of United States Dollars)

FOR THE	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
CASH FROM OPERATING ACTIVITIES				
Income (loss) for the period	\$ 9,371	\$ (389)	\$ 31,117	\$ 10,000
Items not affecting cash:				
Unrealized foreign exchange (gain) loss	51	(518)	733	(268)
Interest and finance expenses	14	183	384	566
Amortization of deferred loss (Note 9)	-	3,279	-	7,484
Fair value loss (gain) on gold purchase agreement (Note 9)	-	802	-	1,022
Deferred income tax	1,522	-	13,175	5,028
Share-based payments (Note 12)	1,432	886	4,726	1,874
Depreciation and depletion (Note 8)	2,393	2,630	7,470	5,947
Changes in non-cash working capital items:				
Inventory	(3,778)	(3,022)	(6,350)	(4,793)
Receivables	(1,061)	(817)	(11,901)	(3,024)
CRH financing	-	(6,693)	-	(14,170)
Income tax prepayment	(1,544)	-	(1,544)	-
Prepayments	1,006	875	(163)	(777)
Accounts payable and accrued liabilities	3,430	144	5,851	4,022
Net cash provided by (used in) operating activities	<u>12,836</u>	<u>(2,640)</u>	<u>43,498</u>	<u>12,911</u>
CASH USED IN INVESTING ACTIVITIES				
Deposits for equipment	-	(280)	(93)	(2,042)
Acquisition of mineral properties	-	(15,515)	-	(15,515)
Acquisition of property, plant and equipment	<u>(6,888)</u>	<u>(3,815)</u>	<u>(20,445)</u>	<u>(18,017)</u>
Net cash used in investing activities	<u>(6,888)</u>	<u>(19,610)</u>	<u>(20,538)</u>	<u>(35,574)</u>
CASH FROM FINANCING ACTIVITIES				
Proceeds on issuance of capital stock	-	15,672	-	15,672
Share issuance costs	-	(1,060)	-	(1,060)
Proceeds on exercise of warrants	-	1,044	-	3,083
Proceeds on exercise of stock options	2,717	253	3,699	1,996
Proceeds from loan (Note 10)	-	15,000	-	15,000
Loan transaction costs (Note 10)	-	(358)	-	(358)
Principal loan payments	(2,143)	-	(6,429)	-
Principal lease payments	<u>(120)</u>	<u>(132)</u>	<u>(345)</u>	<u>(483)</u>
Net cash provided by (used in) financing activities	<u>454</u>	<u>30,419</u>	<u>(3,075)</u>	<u>33,850</u>
Change in cash and cash equivalents during the period	6,402	8,169	19,885	11,187
Effect of foreign exchange on cash	87	150	(280)	153
Cash and cash equivalents, beginning of period	<u>34,728</u>	<u>9,227</u>	<u>21,612</u>	<u>6,206</u>
Cash and cash equivalents, end of period	<u>\$ 41,217</u>	<u>\$ 17,546</u>	<u>\$ 41,217</u>	<u>\$ 17,546</u>
Cash paid for interest	\$ 590	\$ 53	\$ 1,623	\$ 117
Cash paid for taxes	\$ 5,046	\$ -	\$ 5,046	\$ -

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 (DEFICIT)**

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

	<u>Share capital</u>		Preferred shares	Contributed surplus	Accumulated other comprehensive loss	Retained Earnings	Total
	Number	Amount					
Balance at December 31, 2018	181,451,219	54,433	1,019	11,141	(299)	3,512	69,806
Private placements	10,895,100	15,672	-	-	-	-	15,672
Share issuance costs, cash	-	(1,060)	-	-	-	-	(1,060)
Conversion of preferred shares	9,503,662	1,019	(1,019)	-	-	-	-
Exercise of warrants	6,317,406	3,670	-	(587)	-	-	3,083
Exercise of stock options	4,504,200	2,916	-	(920)	-	-	1,996
Share-based payments (Note 12)	-	-	-	1,874	-	-	1,874
Cumulative translation adjustment	-	-	-	-	(365)	-	(365)
Income for the period	-	-	-	-	-	10,000	10,000
Balance at September 30, 2019	212,671,587	76,650	-	11,508	(664)	13,512	101,006
Exercise of stock options	373,100	437	-	(139)	-	-	298
Share-based payments (Note 12)	-	-	-	759	-	-	759
Cumulative translation adjustment	-	-	-	-	84	-	84
Income for the period	-	-	-	-	-	22,543	22,543
Balance at December 31, 2019	213,044,687	77,087	-	12,128	(580)	36,055	124,690
Exercise of stock options	5,889,770	5,609	-	(1,910)	-	-	3,699
Share-based payments (Note 12)	-	-	-	4,726	-	-	4,726
Cumulative translation adjustment	-	-	-	-	43	-	43
Income for the period	-	-	-	-	-	31,117	31,117
Balance at September 30, 2020	218,934,457	\$ 82,696	\$ -	\$ 14,944	\$ (537)	\$ 67,172	\$ 164,275

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

K92 MINING INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020

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

1. NATURE OF BUSINESS

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

The Company’s head office, principal, registered and records office is 488 - 1090 West Georgia Street, Vancouver, British Columbia, Canada, 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 (IFRS) as issued by the International Accounting Standards Board 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 of the Company are presented in United States dollars, which is the functional currency of K92 Mining Ltd. and K92 Holdings International Limited. The parent company, K92 Mining Inc., has a functional currency of the Canadian Dollar (CAD) and K92 Mining (Australia) Pty Ltd. has a functional currency of the Australian Dollar (AUD).

3. SIGNIFICANT ACCOUNTING POLICIES

The Company’s accounting policies are the same as those applied in the Company’s annual consolidated financial statements for the year-ended December 31, 2019. 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, 2019.

COVID-19 Estimation Uncertainty

Since March 2020, several measures have been implemented in Canada, Australia, Papua New Guinea and the rest of the world in response to the impact of the coronavirus (“COVID-19”) pandemic. While the global impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on the Company’s business operations, including the impact on our future production, cannot be reasonably estimated at this time.

While the Company’s mine continues to operate, if the COVID-19 situation in Papua New Guinea were to significantly deteriorate, it could have an adverse impact on our business, results of operations, financial position and cash flows.

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

September 30, 2020

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

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

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

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 and received exemptions from the PNG Government to allow for the movement of PNG Nationals within PNG and of Expatriate workers from Australia during that period. After the Government of Papua New Guinea lifted the state of emergency, the Company experienced a significant improvement in the movement of personnel, and as a result our twin incline and surface exploration activities have resumed and final commissioning of the Stage 2 Plant Expansion was completed.

4. ACQUISITION OF BARRICK (KAINANTU) LIMITED

Through its wholly owned subsidiary, K92 Holdings (PNG) Limited (“**K92PNG**”), on June 11, 2014, K92 International Holdings Limited (“**K92 Intl**”) entered into a Share Sale Agreement (“**SSA**”) with Barrick (Niugini) Limited (“**Barrick**”), Mt Apex Investment Holdings Limited (“**Apex**”), and the Company, whereby K92PNG agreed to acquire all of the outstanding shares of Barrick’s wholly owned Papua New Guinea subsidiary, Barrick (Kainantu) Limited (“**Kainantu**”), that holds certain assets and mineral rights and interests in Papua New Guinea.

As consideration, K92PNG paid \$2.0 million and upon achievement of certain milestones, a contingent payment of up to \$60.0 million. On July 17, 2019, the Company entered into an amendment agreement with Barrick Gold Corporation revising the contingent payment to a fixed payment of \$12.5 million paid on August 23, 2019 and capitalized as part of additions to Mineral Properties (Note 8). The Company paid \$0.3 million (AUD\$0.4 million) in agent fees in connection with the amendment agreement, capitalized as part of additions to Mineral Properties (Note 8).

Pursuant to the PNG Mining Act, a 2% net smelter returns royalty, and a 0.50% levy on gross mine revenues are payable.

5. RECEIVABLES

AS AT	September 30, 2020	December 31, 2019
Accounts receivable	\$ 19,609	\$ 10,054
GST receivable	5,262	2,913
Other	<u>49</u>	<u>97</u>
Total	<u>\$ 24,920</u>	<u>\$ 13,064</u>

K92 MINING INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020

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

6. INVENTORY

AS AT	September 30, 2020	December 31, 2019
Mine supplies, consumables and fuel	\$ 11,352	\$ 6,592
Ore stockpile	4,434	1,983
Gold concentrate	<u>3,656</u>	<u>2,932</u>
Total	<u>\$ 19,442</u>	<u>\$ 11,507</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

AS AT	September 30, 2020	December 31, 2019
Trade payables	\$ 7,440	\$ 3,259
Accruals and provisions	7,487	6,488
Landowners accrual	<u>4,754</u>	<u>3,656</u>
Total	<u>\$ 19,681</u>	<u>\$ 13,403</u>

Landowners' compensation

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

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

September 30, 2020

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

8. 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, 2018	\$ 30,688	\$ 7,926	\$ 6,566	\$ 1,514	\$ -	\$ 46,694
Change in new standard at January 1, 2019	-	-	-	439	-	439
Additions	6,693	813	1,081	-	20,199	28,786
Acquisition costs ²	15,790	-	-	-	-	15,790
Transfers from construction in progress	-	2,827	6,981	-	(9,808)	-
Balance, December 31, 2019	53,171	11,566	14,628	1,953	10,391	91,709
Additions	4,400	1,241	181	321	15,308	21,451
Transfers from construction in progress	-	14,040	10,757	-	(24,797)	-
Balance, September 30, 2020	\$ 57,571	\$ 26,847	\$ 25,566	\$ 2,274	\$ 902	\$ 113,160
Accumulated depreciation						
Balance, December 31, 2018	\$ 1,826	\$ 945	\$ 1,647	\$ 242	\$ -	\$ 4,660
Depreciation for the year	4,544	1,183	2,773	465	-	8,965
Balance, December 31, 2019	6,370	2,128	4,420	707	-	13,625
Depreciation for the period	3,884	1,231	3,529	411	-	9,055
Balance, September 30, 2020	\$ 10,254	\$ 3,359	\$ 7,949	\$ 1,118	\$ -	\$ 22,680
Carrying amounts						
As at December 31, 2019	\$ 46,801	\$ 9,438	\$ 10,208	\$ 1,246	\$ 10,391	\$ 78,084
As at September 30, 2020	\$ 47,317	\$ 23,488	\$ 17,617	\$ 1,156	\$ 902	\$ 90,480

¹ Construction in Progress at September 30, 2020 consists of \$0.9 million in twin incline costs.² Acquisition costs during the year ended December 31, 2019 consists of \$12.5 million paid to Barrick (Note 4), \$0.3 million in agent fees related to the amending agreement with Barrick (Note 4) and a \$3.0 million payment to extinguish the NSR on the Kora and Irumafimpa deposits.

K92 MINING INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020

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

8. PROPERTY, PLANT AND EQUIPMENT (cont'd...)*Mineral properties*

The Company holds the mining rights to Mining Lease (“**ML**”) 150 until June 13, 2024. The Company’s flagship Kianantu Mine is located on ML 150. The Company also holds or has applied for renewal of Exploration Licenses (“**EL**”) 470, 693, and 1341, located adjacent to ML 150.

9. CRH FINANCINGGold prepayment agreement

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

Under the GPA, CRH provided the Company with \$4.8 million in exchange for a percentage of gold produced at the Irumafimpa and Kora deposits over a 36-month period, subject to a minimum of 18,000 ounces of gold and a maximum of 20,000 ounces of gold.

The Company completed the deliveries of the required gold ounces during the year ended December 31, 2019 and as a result the balance of the CRH financing liability at September 30, 2020 and December 31, 2019 is \$Nil:

	December 31, 2019
<u>CRH Financing Liability</u>	
CRH liability, beginning of year	\$ 12,816
Add:	
Fair value adjustment	1,022
Delivery of gold ounces or cash equivalent during the year	(14,169)
Interest	331
Capitalized interest	-
Balance, end of period	-
Less:	
Deferred loss, beginning of year	7,484
Amortization of deferred loss based on delivered ounces	(7,484)
	-
<u>Balance, end of period</u>	<u>\$ -</u>

CRH was entitled to representation on the board of directors of the Company so long as CRH maintained at least a 5% equity ownership in the Company. As of September 30, 2020, the GPA no longer remains outstanding and CRH has less than a 5% equity ownership interest in the Company.

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

September 30, 2020

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

10. LOAN

On July 1, 2019, the Company and Trafigura Pvt. Ltd. (“**Trafigura**”) entered into a loan agreement pursuant to which Trafigura provided a \$15.0 million loan (the “**Loan**”) to the Company to be repaid in monthly instalments of \$0.7 million over 2 years, bearing interest at 10% + 3-month LIBOR per annum. For the nine months ended September 30, 2020, the Company has recorded \$1.0 million in interest and finance expenses on the Loan.

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

Loan	September 30, 2020	December 31, 2019
Loan, beginning of year	\$ 13,284	\$ -
Loan proceeds, net of transaction costs	-	14,631
Principal payments	(6,429)	(1,428)
Amortization of transaction costs	136	81
Balance, end of period	\$ 6,991	\$ 13,284
Loan, current portion	\$ 6,991	\$ 8,390
Loan, non-current portion	\$ -	\$ 4,894

The Loan will be fully repaid in July, 2021 and therefore all amounts owing have been classified as current.

Subsequent to September 30, 2020, the Company paid \$1.5 million of principal and accrued interest to Trafigura as repayment of the Loan.

11. 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.

	September 30, 2020	December 31, 2019
Balance, beginning of year	\$ 2,452	\$ 1,891
Foreign exchange movement	(56)	(2)
Change in estimates	-	398
Accretion	144	165
Balance, end of period	\$ 2,540	\$ 2,452

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

September 30, 2020

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

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

The provision has been measured as the present value of the estimated future rehabilitation costs using an estimated mine life of 12 years. The estimated cash-flows used to measure the provision were discounted to a present value using a risk-free discount rate of 7.35% (December 31, 2019 – 7.35%).

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 \$6.3 million, with first expenditures anticipated in 2031. 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.

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

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

Issued share capital

As at September 30, 2020, the Company had 218,934,457 common shares issued and outstanding.

Share issuances

Except on the exercise of share options, no shares were issued during the nine months ended September 30, 2020.

During the year ended December 31, 2019, the Company:

- a) Issued 9,503,662 common shares of the Company upon the conversion of the 5,000,000 preferred shares by the preferred shareholder.
- b) Completed a private placement by issuing 9,474,000 common shares at a price of CAD\$1.90 per common share for gross proceeds of CAD\$18.0 million (\$13.6 million). As part of the financing, the Company issued 1,421,100 agent options to the underwriters which were then exercised providing an additional CAD\$2.7 million (\$2.0 million) or CAD\$20.7 million (\$15.7 million) in aggregate. The Company paid \$1.0 million in cash commissions and \$37 thousand in other costs related to the financing.

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

September 30, 2020

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

12. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options and warrants**

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number	Weighted Average Exercise Price (CAD)	Number	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2018	6,318,256	\$ 0.65	16,384,100	\$ 0.67
Granted / Issued	-	-	4,805,000	1.77
Exercised	(6,317,406)	0.65	(4,877,300)	0.63
Forfeited	-	-	(351,700)	1.01
Expired	(850)	0.65	-	-
Outstanding, December 31, 2019	-	\$ -	15,960,100	\$ 1.01
Granted / Issued	-	-	3,154,000	4.46
Exercised	-	-	(5,889,770)	0.84
Forfeited	-	-	(352,000)	2.45
Outstanding, September 30, 2020	-	\$ -	12,872,330	\$ 1.88
Number currently exercisable	-	\$ -	11,464,250	\$ 1.54

Stock options outstanding

The following incentive stock options were outstanding at September 30, 2020:

Range of exercise prices (in \$CAD)	Number of outstanding options	Number of options exercisable	Weighted-average exercise price (in \$CAD)	Weighted-average years to expiry
0.45 – 0.99	4,725,000	4,725,000	0.59	1.51
1.00 – 1.99	4,962,650	4,962,650	1.55	3.07
2.00 – 2.99	260,000	166,500	2.16	4.13
3.00 – 3.99	2,054,680	1,323,000	3.85	4.34
4.00 – 4.99	320,000	105,600	4.00	4.73
5.00 – 9.99	550,000	181,500	7.25	4.88
	12,872,330	11,464,250	1.88	2.84

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, expected share price volatility factors, 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.

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

September 30, 2020

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

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

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

	September 30, 2020	December 31, 2019
Risk-free interest rate	1.07%	1.51%
Expected life of options	4.0 years	4.0 years
Annualized volatility	68.97%	62.96%
Dividend rate	0.00%	0.00%
Forfeiture rate	1.29%	1.29%

The weighted average fair value of the options granted during the nine months ended September 30, 2020 was CAD\$2.33 (2019 - CAD\$0.84).

During the nine months ended September 30, 2020, the Company recorded stock-based compensation expense of \$4.7 million (2019 – \$1.9 million).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

The carrying values of cash, other receivables, trade and other payables, and the amortized cost of the loan approximate their fair values due to the short-term nature of these instruments.

A portion of the Company's trade receivables arose from provisional concentrate sales and are valued using quoted market prices based on the forward London Metal Exchange.

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.

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

September 30, 2020

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

14. SEGMENTED INFORMATION

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

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

Nine months ended September 30, 2020	Papua New Guinea	Canada	Total
Net Income (loss)	\$ 39,425	\$ (8,308)	\$ 31,117

Nine months ended September 30, 2019	Papua New Guinea	Canada	Total
Net Income (loss)	\$ 23,404	\$ (13,404)	\$ 10,000

15. REVENUE

For the	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Gold in concentrate	\$ 34,973	\$ 22,058	\$ 107,419	\$ 68,712
Copper in concentrate	1,021	181	2,335	1,250
Silver in concentrate	20	4	73	43
Treatment and refining charges	(1,035)	(731)	(3,209)	(1,309)
Revenue from contracts with customers	34,979	21,512	106,618	68,696
Gain (loss) on receivables at fair value	626	(523)	4,477	(419)
Total	\$ 35,605	\$ 20,989	\$ 111,095	\$ 68,277

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

September 30, 2020

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

16. COST OF SALES

For the	Three months ended September 30, 2020	Three months ended September 30, 2019 ³	Nine months ended September 30, 2020	Nine months ended September 30, 2019 ³
Direct mining and milling	\$ 4,586	\$ 1,729	\$ 13,905	\$ 7,315
Maintenance	3,482	2,554	10,334	6,416
Other site costs	7,028	6,073	17,126	14,625
Net smelter royalties	920	947	2,396	1,638
Depreciation and depletion	2,702	2,569	8,891	5,886
Change in inventories	<u>(2,835)</u>	<u>(1,633)</u>	<u>(3,175)</u>	<u>(1,810)</u>
Total	\$ 15,883	\$ 12,239	\$ 49,477	\$ 34,070

17. GENERAL AND ADMINISTRATIVE

For the	Three months ended September 30, 2020	Three months ended September 30, 2019 ³	Nine months ended September 30, 2020	Nine months ended September 30, 2019 ³
Management, consulting and wages	\$ 521	\$ 413	\$ 1,394	\$ 934
Professional fees	379	30	633	239
Office, filing and administrative	50	80	196	346
Recovery of accrued expenditures	-	-	(518)	-
Travel	5	36	93	192
Investor relations	91	189	265	456
Depreciation	<u>25</u>	<u>-</u>	<u>77</u>	<u>-</u>
Total	\$ 1,071	\$ 748	\$ 2,140	\$ 2,167

³ Certain prior year amounts have been reclassified for consistency with the current year presentation. The reclassification has no effect on the total reported amount of cost of sales.

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

September 30, 2020

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

18. INTEREST AND FINANCE EXPENSE

FOR THE	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Interest and amortization of transaction costs on loan	\$ 249	\$ 403	\$ 966	\$ 403
Other interest and finance expense	232	21	550	333
Accretion of reclamation and closure cost obligations ⁴	<u>48</u>	<u>41</u>	<u>144</u>	<u>124</u>
Total	<u>\$ 529</u>	<u>\$ 465</u>	<u>\$ 1,660</u>	<u>\$ 860</u>

19. SUBSEQUENT EVENTS

Subsequent to September 30, 2020, the Company:

- Issued 3,420,000 stock options with an exercise price of CAD\$6.73 exercisable until October 7, 2025;
- Received CAD\$0.4 million from the exercise of 142,460 stock options; and
- Paid \$2.2 million in instalment tax payments to the Papua New Guinea government.

⁴ Accretion has been reclassified to interest and finance expenses for the period ending September 30, 2020. The prior period accretion amounts have also been reclassified for consistency with the current year presentation. The reclassification has no effect on total reported income.