

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

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

(Presented in thousands of United States Dollars)

As at	June 30, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 56,235	\$ 51,495
Receivables (Note 4)	12,461	26,056
Inventories (Note 5)	23,480	21,005
Income tax prepayment	5,529	534
Prepayments	1,714	1,416
Derivative assets (Note 11)	<u>530</u>	<u>-</u>
	99,949	100,506
Deferred income tax assets	13,201	16,375
Deposits on equipment	71	82
Property, plant and equipment (Note 7)	<u>111,654</u>	<u>98,552</u>
	\$ 224,875	\$ 215,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 22,070	\$ 23,241
Current portion of lease liabilities (Note 10)	1,307	1,235
Current portion of loan (Note 8)	-	4,894
Derivative liabilities (Note 11)	<u>166</u>	<u>280</u>
	23,543	29,650
Lease liabilities (Note 10)	645	1,310
Reclamation and closure cost obligations (Note 9)	<u>2,868</u>	<u>3,040</u>
	27,056	34,000
Shareholders' equity		
Share capital (Note 12)	86,896	83,523
Contributed surplus (Note 12)	26,500	20,160
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>84,680</u>	<u>78,089</u>
	<u>197,819</u>	<u>181,515</u>
	\$ 224,875	\$ 215,515

Subsequent events (Note 19)

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

"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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
REVENUE (Note 15)	\$ 35,518	\$ 47,857	\$ 65,031	\$ 75,490
COST OF SALES (Note 16)	<u>(20,948)</u>	<u>(18,371)</u>	<u>(41,855)</u>	<u>(33,594)</u>
Earnings from mine operations	14,570	29,486	23,176	41,896
EXPENSES				
General and administrative (Note 17)	\$ (936)	\$ (574)	\$ (2,344)	\$ (1,069)
Exploration and evaluation expenditures	(2,598)	(844)	(5,053)	(2,665)
Foreign exchange	307	(576)	71	(338)
Share-based payments	<u>(2,106)</u>	<u>(1,201)</u>	<u>(3,788)</u>	<u>(3,294)</u>
Earnings from operations	\$ 9,237	\$ 26,291	\$ 12,062	\$ 34,530
OTHER				
Interest and finance expense (Note 18)	(231)	(714)	(666)	(1,131)
Gain (loss) on derivative instruments (Note 11)	<u>(455)</u>	<u>-</u>	<u>1,407</u>	<u>-</u>
Income for the period before taxes	\$ 8,551	\$ 25,577	\$ 12,803	\$ 33,399
Income tax expense	<u>(4,148)</u>	<u>(8,672)</u>	<u>(6,212)</u>	<u>(11,653)</u>
Income for the period	\$ 4,403	\$ 16,905	\$ 6,591	\$ 21,746
Items that may be reclassified to net income				
Other comprehensive income				
Cumulative translation adjustment	<u>-</u>	<u>(148)</u>	<u>-</u>	<u>38</u>
Comprehensive income for the period	\$ 4,403	\$ 16,757	\$ 6,591	\$ 21,784
Basic income per common share	\$ 0.02	\$ 0.08	\$ 0.03	\$ 0.10
Diluted income per common share	\$ 0.02	\$ 0.08	\$ 0.03	\$ 0.10
Weighted average number of common shares outstanding	220,913,048	214,499,470	220,210,930	214,121,571
Weighted average number of diluted common shares outstanding	228,390,339	224,878,561	227,429,819	224,333,720

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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
CASH FROM OPERATING ACTIVITIES				
Income for the period	\$ 4,403	\$ 16,905	\$ 6,591	\$ 21,746
Items not affecting cash:				
Unrealized foreign exchange loss	(195)	(146)	(311)	682
Interest and finance expenses	(17)	164	256	370
Derivative instruments (Note 11)	455	-	(1,407)	-
Deferred income tax	2,289	8,672	3,174	11,653
Share-based payments (Note 12)	4,501	1,201	7,506	3,294
Depreciation and depletion	3,012	3,490	6,326	5,077
Proceeds from derivative instruments (Note 11)	763	-	763	-
Changes in non-cash working capital items:				
Inventories	(2,998)	(449)	(2,591)	(2,572)
Receivables	(4,589)	(8,051)	13,540	(10,840)
Income tax prepayment, net payable	(6,174)	-	(4,995)	-
Prepayments	(865)	(864)	(298)	(1,169)
Accounts payable and accrued liabilities	<u>(1,605)</u>	<u>2,247</u>	<u>(843)</u>	<u>2,421</u>
Net cash (used in) provided by operating activities	<u>(1,020)</u>	<u>23,169</u>	<u>27,711</u>	<u>30,662</u>
CASH USED IN INVESTING ACTIVITIES				
Deposits for equipment	-	136	(71)	(93)
Acquisition of property, plant and equipment	<u>(10,446)</u>	<u>(7,922)</u>	<u>(19,825)</u>	<u>(13,557)</u>
Net cash used in investing activities	<u>(10,446)</u>	<u>(7,786)</u>	<u>(19,896)</u>	<u>(13,650)</u>
CASH FROM FINANCING ACTIVITIES				
Proceeds on exercise of stock options	1,571	308	2,207	982
Principal loan payments	-	(2,143)	(5,000)	(4,286)
Principal lease payments	<u>(305)</u>	<u>(116)</u>	<u>(602)</u>	<u>(225)</u>
Net cash (used in) provided by financing activities	<u>1,266</u>	<u>(1,951)</u>	<u>(3,395)</u>	<u>(3,529)</u>
Change in cash and cash equivalents during the period	(10,200)	13,432	4,420	13,483
Effect of foreign exchange on cash	196	178	320	(367)
Cash and cash equivalents, beginning of period	<u>66,239</u>	<u>21,118</u>	<u>51,495</u>	<u>21,612</u>
Cash and cash equivalents, end of period	<u>\$ 56,235</u>	<u>\$ 34,728</u>	<u>\$ 56,235</u>	<u>\$ 34,728</u>
Cash paid for interest	\$ 287	\$ 616	\$ 529	\$ 1,033
Cash paid for taxes	\$ 6,614	\$ -	\$ 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)

	<u>Share capital</u>					
	Number	Amount	Contributed surplus	Accumulated other comprehensive loss	Retained Earnings	Total
Balance at December 31, 2019	213,044,687	\$ 77,087	\$ 12,128	\$ (580)	\$ 36,055	\$ 124,690
Exercise of stock options	1,610,250	1,520	(538)	-	-	982
Share-based payments (Note 12)	-	-	3,294	-	-	3,294
Cumulative translation adjustment	-	-	-	38	-	38
Income for the period	-	-	-	-	21,746	21,746
Balance at June 30, 2020	214,654,937	\$ 78,607	\$ 14,884	\$ (542)	\$ 57,801	\$ 150,750
Exercise of stock options	4,560,160	4,916	(1,646)	-	-	3,270
Share-based payments (Note 12)	-	-	6,922	-	-	6,922
Cumulative translation adjustment	-	-	-	285	-	285
Income for the period	-	-	-	-	20,288	20,288
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 12)	-	-	7,506	-	-	7,506
Income for the period	-	-	-	-	6,591	6,591
Balance at June 30, 2021	221,957,837	\$ 86,896	\$ 26,500	\$ (257)	\$ 84,680	\$ 197,819

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

June 30, 2021

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

1. NATURE OF BUSINESS

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

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

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Presentation

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

COVID-19 Estimation Uncertainty

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

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

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

June 30, 2021

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

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

In line with other mining operations in the country, the Company maintained normal operations at the Kainantu mine and associated facilities during the local state of emergency declared in March 2020, 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.

4. RECEIVABLES

As at	June 30, 2021	December 31, 2020
Trade receivables	\$ 10,416	\$ 24,920
GST receivable	2,018	1,088
Other	<u>27</u>	<u>48</u>
Total	<u>\$ 12,461</u>	<u>\$ 26,056</u>

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

June 30, 2021

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

5. INVENTORIES

As at	June 30, 2021	December 31, 2020
Mine supplies, consumables and fuel	\$ 14,514	\$ 11,477
Ore stockpile	3,486	5,965
Gold concentrate	5,480	3,563
Total	\$ 23,480	\$ 21,005

During the six months ended June 30, 2021, the cost of inventory recognized as an expense in cost of sales amounted to \$41.9 million (2020 - \$33.6 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	June 30, 2021	December 31, 2020
Trade payables	\$ 5,608	\$ 7,832
Other accounts payable and trade related accruals	5,671	5,651
Employee accruals	4,511	4,713
Landowners' compensation	6,280	5,045
Total	\$ 22,070	\$ 23,241

Landowners' compensation

The Company has obligations to compensate landowners annually who are affected by the operations of the Kainantu mine. These compensations are governed by the Papua New Guinean Mining Act 1992 and the 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
June 30, 2021

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

7. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Plant and Equipment	Mobile Fleet and Vehicles	Right-of-Use Assets	Construction in Progress (Expansion) ¹	Total
Cost						
Balance, December 31, 2019	\$ 53,171	\$ 11,566	\$ 14,628	\$ 1,953	\$ 10,391	\$ 91,709
Additions	7,209	3,287	-	2,200	20,019	32,715
Reclamation and closure cost – change in estimate	397	-	-	-	-	397
Transfers from construction in progress	1,236	13,958	13,401	-	(28,595)	-
Balance, December 31, 2020	62,013	28,811	28,029	4,153	1,815	124,821
Additions	7,288	2,688	-	-	9,604	19,580
Reclamation and closure cost – change in estimate	(268)	-	-	-	-	(268)
Transfers from construction in progress	-	1,472	1,669	-	(3,141)	-
Balance, June 30, 2021	\$ 69,033	\$ 32,971	\$ 29,698	\$ 4,153	\$ 8,278	\$ 144,133
Accumulated depreciation						
Balance, December 31, 2019	\$ 6,370	\$ 2,128	\$ 4,420	\$ 707	\$ -	\$ 13,625
Depreciation for the year	4,573	1,666	5,548	857	-	12,644
Balance, December 31, 2020	10,943	3,794	9,968	1,564	-	26,269
Depreciation for the period	1,038	1,016	3,645	511	-	6,210
Balance, June 30, 2021	\$ 11,981	\$ 4,810	\$ 13,613	\$ 2,075	\$ -	\$ 32,479
Carrying amounts						
As at December 31, 2020	\$ 51,070	\$ 25,017	\$ 18,061	\$ 2,589	\$ 1,815	\$ 98,552
As at June 30, 2021	\$ 57,052	\$ 28,161	\$ 16,085	\$ 2,078	\$ 8,278	\$ 111,654

¹ Construction in Progress at June 30, 2021 consists of \$6.9 million in twin incline expansion costs and \$1.4 million in other expansion costs (2020 - \$1.8 million in twin incline expansion costs).

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

June 30, 2021

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

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

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

8. LOAN

On July 1, 2019, the Company and Trafigura Pvt. Ltd. (“**Trafigura**”) entered into a loan agreement pursuant to which Trafigura provided a \$15.0 million loan (the “**Loan**”) to the Company to be repaid over 2 years, bearing interest at 10% + 3-month LIBOR per annum. For the six months ended June 30, 2021, the Company has recorded interest on the Loan of \$0.1 million to interest and finance expenses.

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

The Company settled the Loan on February 3, 2021 and has no continuing obligations under the Loan agreement.

Loan	June 30, 2021	December 31, 2020
Loan, beginning of year	\$ 4,894	\$ 13,284
Principal payments	(5,000)	(8,571)
Amortization of transaction costs	106	181
Balance, end of period	\$ -	\$ 4,894
Loan, current portion	\$ -	\$ 4,894
Loan, non-current portion	\$ -	\$ -

9. RECLAMATION AND CLOSURE COST OBLIGATIONS

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

	June 30, 2021	December 31, 2020
Balance, beginning of year	\$ 3,040	\$ 2,452
Change in estimate	(268)	397
Accretion	96	191
Balance, end of period	\$ 2,868	\$ 3,040

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

June 30, 2021

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

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

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

Annually, the Company reviews the estimate of future costs of required reclamation and closure work. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of \$6.4 million, with first expenditures anticipated in 2030. These future cash outflows have been discounted at the risk-free interest rate considered applicable in Papua New Guinea where the Company's properties are located.

10. LEASE LIABILITIES

The Company leases many assets including mining equipment and buildings. The assets associated with the lease liabilities are included as Right-of-Use assets within property, plant and equipment (Note 7). During the six months ended June 30, 2021, the Company incurred \$0.1 million (2020 - \$0.1 million) related to interest and finance expenses on the lease liabilities.

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

Lease Liabilities	June 30, 2021	December 31, 2020
Lease liabilities, beginning of year	\$ 2,545	\$ 1,161
Additions	-	2,200
Payments	(727)	(1,003)
Interest expense	125	227
Adjustment on currency translation	9	(40)
Balance, end of period	\$ 1,952	\$ 2,545
Lease liabilities, current portion	\$ 1,307	\$ 1,235
Lease liabilities, non-current portion	\$ 645	\$ 1,310

The Company's undiscounted lease liabilities at June 30, 2021 are summarized as follows:

	Within 1 Year	2-3 Years	Total
Future lease payments	\$ 1,455	\$ 676	\$ 2,131
Future finance charges	(148)	(31)	(179)
Total discounted lease liabilities	\$ 1,307	\$ 645	\$ 1,952

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

June 30, 2021

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

11. DERIVATIVE INSTRUMENTS

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

The details of the open commodity contracts as at June 30, 2021 were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term ²	Settlement Date
Gold call contracts – sold	3,564	\$1,870	July 2021	October 5, 2021
Gold put contracts – purchased	3,564	\$1,670	July 2021	October 5, 2021
Gold call contracts – sold	2,353	\$1,922	August 2021	November 5, 2021
Gold put contracts – purchased	2,353	\$1,722	August 2021	November 5, 2021
Gold call contracts – sold	9,164	\$1,982	September 2021	December 6, 2021
Gold put contracts – purchased	9,164	\$1,782	September 2021	December 6, 2021
Gold call contracts – sold	861	\$1,876	October 2021	January 5, 2022
Gold put contracts – purchased	861	\$1,676	October 2021	January 5, 2022

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

For the	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Realized gains	\$ 191	\$ -	\$ 763	\$ -
Unrealized (losses) gains	(646)	-	644	-
Total	\$ (455)	\$ -	\$ 1,407	\$ -

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

As at	June 30, 2021	December 31, 2020
Derivative assets	\$ 530	\$ -
Derivative liabilities	\$ (166)	\$ (280)

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

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

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

June 30, 2021

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

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 June 30, 2021, the Company had 221,957,837 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, 2021 (December 31, 2020 – Nil).

Stock options

Stock option transactions are summarized as follows:

	Number	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2019	15,960,100	\$ 1.01
Granted	6,604,000	5.64
Exercised	(6,170,410)	0.92
Forfeited	<u>(407,800)</u>	<u>2.50</u>
Outstanding, December 31, 2020	15,985,890	\$ 2.91
Granted	2,420,000	8.02
Exercised	(2,742,740)	1.00
Forfeited	<u>(478,700)</u>	<u>2.88</u>
Outstanding, June 30, 2021	<u>15,184,450</u>	<u>\$ 4.07</u>
Number currently exercisable	<u>12,274,050</u>	<u>\$ 3.27</u>

The following incentive stock options were outstanding at June 30, 2021:

Range of exercise prices (in CAD)	Number of outstanding options	Number of options exercisable	Weighted-average exercise price (in CAD)	Weighted- average years to expiry
0.45 – 0.99	2,240,000	2,240,000	0.73	1.65
1.00 – 1.99	4,486,750	4,486,750	1.55	2.31
2.00 – 2.99	260,000	260,000	2.16	3.38
3.00 – 3.99	1,798,200	1,798,200	3.85	3.59
4.00 – 4.99	210,200	210,200	4.00	3.98
5.00 – 9.99	<u>6,189,300</u>	<u>3,278,900</u>	7.26	4.47
	<u>15,184,450</u>	<u>12,274,050</u>	4.07	3.29

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

June 30, 2021

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

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

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, expected volatility, forfeiture rate, and expected life of the options. Under the plan the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant.

During the six months ended June 30, 2021, the Company granted 2,420,000 stock options (2020 – 2,604,000). The following presents the weighted average assumptions used in the valuation of stock options:

	June 30, 2021	December 31, 2020
Weighted average exercise price (CAD\$)	\$ 8.02	\$ 5.64
Weighted average fair value (CAD\$)	\$ 3.88	\$ 2.80
Risk-free interest rate	0.93%	0.70%
Expected life of options	4.0 years	4.0 years
Annualized volatility	63.45%	66.13%
Dividend rate	0.00%	0.00%
Forfeiture rate	1.26%	1.26%

The weighted average share price at the time of exercise for the six months ended June 30, 2021 was CAD\$8.10 (2020 – CAD\$3.57).

During the six months ended June 30, 2021, the Company recorded total stock-based compensation expense of \$7.5 million (2020 – \$3.3 million) including the amounts allocated to inventory during the period.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than 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	June 30, 2021		December 31, 2020	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 10,416	\$ -	\$ 24,920
Derivative assets (Note 11)	-	530	-	-
Derivative liabilities (Note 11)	-	(166)	-	(280)
	\$ -	\$ 10,780	\$ -	\$ 24,640

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

June 30, 2021

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

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

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

14. SEGMENTED INFORMATION

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

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

Six months ended June 30, 2021	Kainantu Project	Corporate & Other	Total
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 June 30, 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2021

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

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

Six months ended June 30, 2020	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 27,338	\$ (5,592)	\$ 21,746
Capital expenditures	\$ 14,957	\$ -	\$ 14,957
<hr/>			
Three months ended June 30, 2020			
Net income (loss)	\$ 19,087	\$ (2,182)	\$ 16,905
Capital expenditures	\$ 8,595	\$ -	\$ 8,595
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As at December 31, 2020			
Property, plant and equipment	\$ 97,258	\$ 1,294	\$ 98,552
Total assets	\$ 168,427	\$ 47,088	\$ 215,515
Total liabilities	\$ 28,193	\$ 5,807	\$ 34,000

15. REVENUE

For the	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Gold in concentrate	\$ 33,221	\$ 44,286	\$ 71,188	\$ 72,446
Copper in concentrate	3,083	935	4,043	1,314
Silver in concentrate	75	41	91	53
Treatment and refining charges	(1,307)	(1,312)	(2,313)	(2,174)
Revenue from contracts with customers	35,072	43,950	73,009	71,639
Gain (loss) on receivables at fair value	446	3,907	(7,978)	3,851
Total	\$ 35,518	\$ 47,857	\$ 65,031	\$ 75,490

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

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

16. COST OF SALES

For the	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Direct mining and milling	\$ 5,341	\$ 4,323	\$ 10,244	\$ 9,319
Maintenance	3,448	3,704	6,175	6,853
Other site costs	7,325	4,810	13,279	10,097
Net smelter royalties	877	614	1,866	1,476
Change in inventories	<u>(1,973)</u>	<u>1,512</u>	<u>562</u>	<u>(340)</u>
	15,018	14,963	32,126	27,405
Non-cash costs				
Depreciation and depletion	3,154	3,408	6,011	6,189
Share-based payments	<u>2,776</u>	<u>-</u>	<u>3,718</u>	<u>-</u>
Total	\$ 20,948	\$ 18,371	\$ 41,855	\$ 33,594

17. GENERAL AND ADMINISTRATIVE

For the	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Management, consulting and wages	\$ 666	\$ 333	\$ 1,607	\$ 872
Professional fees	55	205	124	254
Office, filing and administrative	51	29	269	147
Recovery of accrued expenditures	-	(103)	-	(518)
Travel	22	-	41	88
Investor relations	116	84	251	174
Depreciation	<u>26</u>	<u>26</u>	<u>52</u>	<u>52</u>
Total	\$ 936	\$ 574	\$ 2,344	\$ 1,069

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

18. INTEREST AND FINANCE EXPENSE

For the	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Interest and amortization of transaction costs on loan	\$ -	\$ 316	\$ 147	\$ 717
Other interest and finance expense	183	350	423	318
Accretion of reclamation and closure cost obligations	<u>48</u>	<u>48</u>	<u>96</u>	<u>96</u>
Total	<u>\$ 231</u>	<u>\$ 714</u>	<u>\$ 666</u>	<u>\$ 1,131</u>

19. SUBSEQUENT EVENTS

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