

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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

(Presented in thousands of United States Dollars)

As at	September 30, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 54,604	\$ 51,495
Receivables (Note 4)	14,973	26,056
Inventories (Note 5)	22,182	21,005
Income tax prepayment	9,095	534
Prepayments	1,136	1,416
Derivative assets (Note 11)	<u>449</u>	<u>-</u>
	102,439	100,506
Deferred income tax assets	11,730	16,375
Deposits on equipment	71	82
Property, plant and equipment (Note 7)	<u>117,458</u>	<u>98,552</u>
	\$ 231,698	\$ 215,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 20,397	\$ 23,241
Current portion of lease liabilities (Note 10)	1,220	1,235
Current portion of loan (Note 8)	-	4,894
Derivative liabilities (Note 11)	<u>220</u>	<u>280</u>
	21,837	29,650
Lease liabilities (Note 10)	413	1,310
Reclamation and closure cost obligations (Note 9)	<u>2,915</u>	<u>3,040</u>
	25,165	34,000
Shareholders' equity		
Share capital (Note 12)	88,667	83,523
Contributed surplus (Note 12)	28,578	20,160
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>89,545</u>	<u>78,089</u>
	<u>206,533</u>	<u>181,515</u>
	\$ 231,698	\$ 215,515

Approved and authorized by the Audit Committee on November 10, 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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
REVENUE (Note 15)	\$ 35,370	\$ 35,605	\$ 100,401	\$ 111,095
COST OF SALES (Note 16)	<u>(20,132)</u>	<u>(15,883)</u>	<u>(61,987)</u>	<u>(49,477)</u>
Earnings from mine operations	15,238	19,722	38,414	61,618
EXPENSES				
General and administrative (Note 17)	\$ (1,011)	\$ (1,071)	\$ (3,355)	\$ (2,140)
Exploration and evaluation expenditures	(3,116)	(2,439)	(8,169)	(5,104)
Foreign exchange	(332)	168	(261)	(170)
Share-based payments	<u>(1,240)</u>	<u>(1,432)</u>	<u>(5,028)</u>	<u>(4,726)</u>
Earnings from operations	\$ 9,539	\$ 14,948	\$ 21,601	\$ 49,478
OTHER				
Interest and finance expense (Note 18)	(309)	(529)	(975)	(1,660)
Gain (loss) on derivative instruments (Note 11)	<u>(237)</u>	<u>-</u>	<u>1,170</u>	<u>-</u>
Income for the period before taxes	\$ 8,993	\$ 14,419	\$ 21,796	\$ 47,818
Income tax expense	<u>(4,128)</u>	<u>(5,048)</u>	<u>(10,340)</u>	<u>(16,701)</u>
Income for the period	\$ 4,865	\$ 9,371	\$ 11,456	\$ 31,117
Items that may be reclassified to net income				
Other comprehensive income				
Cumulative translation adjustment	<u>-</u>	<u>(38)</u>	<u>-</u>	<u>43</u>
Comprehensive income for the period	\$ 4,865	\$ 9,333	\$ 11,456	\$ 31,160
Basic income per common share	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.14
Diluted income per common share	\$ 0.02	\$ 0.04	\$ 0.05	\$ 0.14
Weighted average number of common shares outstanding	222,307,911	215,859,480	220,917,602	214,705,107
Weighted average number of diluted common shares outstanding	229,232,669	225,070,451	227,838,511	222,559,324

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, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
CASH FROM OPERATING ACTIVITIES				
Income for the period	\$ 4,865	\$ 9,371	\$ 11,456	\$ 31,117
Items not affecting cash:				
Unrealized foreign exchange loss	(12)	51	(323)	733
Interest and finance expenses	(26)	14	230	384
Derivative instruments (Note 11)	237	-	(1,170)	-
Deferred income tax	1,471	1,522	4,645	13,175
Share-based payments (Note 12)	2,719	1,432	10,225	4,726
Depreciation and depletion	3,447	2,393	9,773	7,470
Proceeds (payments) on derivative instruments (Note 11)	(102)	-	661	-
Changes in non-cash working capital items:				
Inventories	1,304	(3,778)	(1,287)	(6,350)
Receivables	(2,438)	(1,061)	11,102	(11,901)
Income tax prepayment, net payable	(3,566)	(1,544)	(8,561)	(1,544)
Prepayments	578	1,006	280	(163)
Accounts payable and accrued liabilities	(1,521)	3,430	(2,364)	5,851
Net cash (used in) provided by operating activities	<u>6,956</u>	<u>12,836</u>	<u>34,667</u>	<u>43,498</u>
CASH USED IN INVESTING ACTIVITIES				
Deposits for equipment	-	-	(71)	(93)
Acquisition of property, plant and equipment	(9,409)	(6,888)	(29,234)	(20,445)
Net cash used in investing activities	<u>(9,409)</u>	<u>(6,888)</u>	<u>(29,305)</u>	<u>(20,538)</u>
CASH FROM FINANCING ACTIVITIES				
Proceeds on exercise of stock options	1,130	2,717	3,337	3,699
Principal loan payments (Note 8)	-	(2,143)	(5,000)	(6,429)
Principal lease payments (Note 10)	(313)	(120)	(915)	(345)
Net cash (used in) provided by financing activities	<u>817</u>	<u>454</u>	<u>(2,578)</u>	<u>(3,075)</u>
Change in cash and cash equivalents during the period	(1,636)	6,402	2,784	19,885
Effect of foreign exchange on cash	5	87	325	(280)
Cash and cash equivalents, beginning of period	<u>56,235</u>	<u>34,728</u>	<u>51,495</u>	<u>21,612</u>
Cash and cash equivalents, end of period	<u>\$ 54,604</u>	<u>\$ 41,217</u>	<u>\$ 54,604</u>	<u>\$ 41,217</u>
Cash paid for interest	\$ 387	\$ 590	\$ 915	\$ 1,623
Cash paid for taxes	\$ 4,961	\$ 5,046	\$ 11,574	\$ 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**

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

	Share capital		Contributed surplus	Accumulated other comprehensive loss	Retained Earnings	Total
	Number	Amount				
Balance at December 31, 2019	213,044,687	\$ 77,087	\$ 12,128	\$ (580)	\$ 36,055	\$ 124,690
Exercise of stock options	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
Exercise of stock options	280,640	827	(274)	-	-	553
Share-based payments (Note 12)	-	-	5,490	-	-	5,490
Cumulative translation adjustment	-	-	-	280	-	280
Income for the period	-	-	-	-	10,917	10,917
Balance at December 31, 2020	219,215,097	\$ 83,523	\$ 20,160	\$ (257)	\$ 78,089	\$ 181,515
Exercise of stock options	3,211,400	5,144	(1,807)	-	-	3,337
Share-based payments (Note 12)	-	-	10,225	-	-	10,225
Income for the period	-	-	-	-	11,456	11,456
Balance at September 30, 2021	222,426,497	\$ 88,667	\$ 28,578	\$ (257)	\$ 89,545	\$ 206,533

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, 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 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 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

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. In response, the Company implemented a comprehensive COVID-19 Management Plan, 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**

September 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...)**

The Kainantu Gold Mine has continued to operate through the pandemic; however, COVID-19 has had a significant impact on site operations resulting in decreased production and an increase in costs.

4. RECEIVABLES

As at	September 30, 2021	December 31, 2020
Trade receivables	\$ 12,833	\$ 24,920
GST receivable	2,118	1,088
Other	<u>22</u>	<u>48</u>
Total	\$ 14,973	\$ 26,056

5. INVENTORIES

As at	September 30, 2021	December 31, 2020
Mine supplies, consumables and fuel	\$ 15,582	\$ 11,477
Ore stockpile	2,744	5,965
Gold concentrate	<u>3,856</u>	<u>3,563</u>
Total	\$ 22,182	\$ 21,005

During the nine months ended September 30, 2021, the cost of inventory recognized as an expense in cost of sales amounted to \$62.0 million (2020 - \$49.5 million).

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)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	September 30, 2021	December 31, 2020
Trade payables	\$ 5,605	\$ 7,832
Other accounts payable and trade related accruals	3,701	5,651
Employee accruals	4,577	4,713
Landowners' compensation accrual	<u>6,514</u>	<u>5,045</u>
Total	\$ 20,397	\$ 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**

September 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	9,646	2,306	-	-	16,885	28,837
Reclamation and closure cost – change in estimate	(268)	-	-	-	-	(268)
Transfers from construction in progress	-	2,562	2,782	-	(5,344)	-
Balance, September 30, 2021	\$ 71,391	\$ 33,679	\$ 30,811	\$ 4,153	\$ 13,356	\$ 153,390
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	1,694	1,547	5,655	767	-	9,663
Balance, September 30, 2021	\$ 12,637	\$ 5,341	\$ 15,623	\$ 2,331	\$ -	\$ 35,932
Carrying amounts						
As at December 31, 2020	\$ 51,070	\$ 25,017	\$ 18,061	\$ 2,589	\$ 1,815	\$ 98,552
As at September 30, 2021	\$ 58,754	\$ 28,338	\$ 15,188	\$ 1,822	\$ 13,356	\$ 117,458

¹ Construction in Progress at September 30, 2021 consists of \$11.5 million in twin incline expansion costs and \$1.9 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**

September 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 nine months ended September 30, 2021, the Company 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	September 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.

	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 3,040	\$ 2,452
Change in estimate	(268)	397
Accretion	143	191
Balance, end of period	\$ 2,915	\$ 3,040

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)

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 nine months ended September 30, 2021, the Company incurred \$0.2 million (2020 - \$0.2 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	September 30, 2021	December 31, 2020
Lease liabilities, beginning of year	\$ 2,545	\$ 1,161
Additions	-	2,200
Payments	(1,090)	(1,003)
Interest expense	175	227
Adjustment on currency translation	3	(40)
Balance, end of period	\$ 1,633	\$ 2,545
Lease liabilities, current portion	\$ 1,220	\$ 1,235
Lease liabilities, non-current portion	\$ 413	\$ 1,310

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

	Within 1 Year	2-3 Years	Total
Future lease payments	\$ 1,333	\$ 429	\$ 1,762
Future finance charges	(113)	(16)	(129)
Total discounted lease liabilities	\$ 1,220	\$ 413	\$ 1,633

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

September 30, 2021

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

11. 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 September 30, 2021 were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term ²	Settlement Date
Gold call contracts – sold	5,142	\$1,878	October 2021	January 5, 2022
Gold put contracts – purchased	5,142	\$1,678	October 2021	January 5, 2022
Gold call contracts – sold	4,515	\$1,902	November 2021	January 31, 2022
Gold put contracts – purchased	4,515	\$1,700	November 2021	January 31, 2022
Gold call contracts – sold	5,716	\$1,881	December 2021	February 28, 2022
Gold put contracts – purchased	5,716	\$1,685	December 2021	February 28, 2022
Gold call contracts – sold	5,380	\$1,850	January 2022	March 31, 2022
Gold put contracts – purchased	5,380	\$1,658	January 2022	March 31, 2022

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

For the	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Realized gains	\$ (102)	\$ -	\$ 661	\$ -
Unrealized (losses) gains	(135)	-	509	-
Total	\$ (237)	\$ -	\$ 1,170	\$ -

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

As at	September 30, 2021	December 31, 2020
Derivative assets	\$ 449	\$ -
Derivative liabilities	\$ (220)	\$ (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**

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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, 2021, the Company had 222,426,497 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, 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	(3,211,400)	1.29
Forfeited	<u>(628,700)</u>	<u>3.75</u>
Outstanding, September 30, 2021	14,565,790	\$ 4.08
Number currently exercisable	<u>11,913,290</u>	<u>\$ 3.33</u>

The following incentive stock options were outstanding at September 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	1.40
1.00 – 1.99	4,286,750	4,286,750	1.55	2.03
2.00 – 2.99	245,000	245,000	2.17	3.14
3.00 – 3.99	1,644,240	1,644,240	3.85	3.34
4.00 – 4.99	110,200	110,200	4.00	3.73
5.00 – 9.99	<u>6,039,600</u>	<u>3,387,100</u>	7.27	4.22
	14,565,790	11,913,290	4.08	3.02

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)

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 nine months ended September 30, 2021, the Company granted 2,420,000 stock options (2020 – 3,154,000). The following presents the weighted average assumptions used in the valuation of stock options:

	September 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 nine months ended September 30, 2021 was CAD\$8.16 (2020 – CAD\$6.33).

During the nine months ended September 30, 2021, the Company recorded total stock-based compensation expense of \$10.2 million (2020 – \$4.7 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	September 30, 2021		December 31, 2020	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 12,833	\$ -	\$ 24,920
Derivative assets (Note 11)	-	449	-	-
Derivative liabilities (Note 11)	-	(220)	-	(280)
	\$ -	\$ 13,062	\$ -	\$ 24,640

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)

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 nine months ended September 30, 2021.

As at September 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.

Nine months ended September 30, 2021	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 18,445	\$ (6,989)	\$ 11,456
Capital expenditures	\$ 28,837	\$ -	\$ 28,837
Three months ended September 30, 2021			
Net income (loss)	\$ 7,464	\$ (2,599)	\$ 4,865
Capital expenditures	\$ 9,257	\$ -	\$ 9,257
As at September 30, 2021			
Property, plant and equipment	\$ 116,280	\$ 1,178	\$ 117,458
Total assets	\$ 189,852	\$ 41,846	\$ 231,698
Total liabilities	\$ 24,328	\$ 837	\$ 25,165

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

September 30, 2021

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

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

Nine months ended September 30, 2020	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 39,425	\$ (8,308)	\$ 31,117
Capital expenditures	\$ 21,451	\$ -	\$ 21,451
Three months ended September 30, 2020			
Net income (loss)	\$ 12,087	\$ (2,716)	\$ 9,371
Capital expenditures	\$ 6,494	\$ -	\$ 6,494
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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Gold in concentrate	\$ 37,004	\$ 34,973	\$ 108,192	\$ 107,419
Copper in concentrate	2,992	1,021	7,035	2,335
Silver in concentrate	229	20	320	73
Treatment and refining charges	(1,388)	(1,035)	(3,701)	(3,209)
Revenue from contracts with customers	38,837	34,979	111,846	106,618
Gain (loss) on receivables at fair value	(3,467)	626	(11,445)	4,477
Total	\$ 35,370	\$ 35,605	\$ 100,401	\$ 111,095

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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Direct mining and milling	\$ 3,720	\$ 4,586	\$ 13,964	\$ 13,905
Maintenance	2,356	3,482	8,531	10,334
Other site costs	6,059	7,028	19,338	17,126
Net smelter royalties	800	920	2,666	2,396
Change in inventories	<u>2,366</u>	<u>(2,835)</u>	<u>2,928</u>	<u>(3,175)</u>
	15,301	13,181	47,427	40,586
Non-cash costs				
Depreciation and depletion	3,352	2,702	9,363	8,891
Share-based payments	<u>1,479</u>	<u>-</u>	<u>5,197</u>	<u>-</u>
Total	\$ 20,132	\$ 15,883	\$ 61,987	\$ 49,477

17. GENERAL AND ADMINISTRATIVE

For the	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Management, consulting and wages	\$ 632	\$ 521	\$ 2,239	\$ 1,394
Professional fees	85	379	209	633
Office, filing and administrative	84	50	353	196
Recovery of accrued expenditures	-	-	-	(518)
Travel	33	5	74	93
Investor relations	152	91	403	265
Depreciation	<u>25</u>	<u>25</u>	<u>77</u>	<u>77</u>
Total	\$ 1,011	\$ 1,071	\$ 3,355	\$ 2,140

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)

18. INTEREST AND FINANCE EXPENSE

For the	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Interest and amortization of transaction costs on loan	\$ -	\$ 249	\$ 147	\$ 966
Other interest and finance expense	262	232	685	550
Accretion of reclamation and closure cost obligations	<u>47</u>	<u>48</u>	<u>143</u>	<u>144</u>
Total	\$ 309	\$ 529	\$ 975	\$ 1,660