

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

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

(Presented in thousands of United States Dollars)

(Unaudited)

As at	March 31, 2022	December 31, 2021
ASSETS		
Current		
Cash and cash equivalents	\$ 79,917	\$ 71,270
Receivables (Note 4)	26,423	23,249
Inventories (Note 5)	27,313	25,411
Prepayments	1,260	1,470
Derivative assets (Note 10)	<u>179</u>	<u>118</u>
	135,092	121,518
Deferred income tax assets	8,448	9,774
Deposits on equipment	6,473	1,933
Property, plant and equipment (Note 7)	<u>148,771</u>	<u>139,798</u>
	\$ 298,784	\$ 273,023
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 28,742	\$ 27,150
Income tax payable	7,410	644
Current portion of lease liabilities (Note 9)	4,891	4,797
Derivative liabilities (Note 10)	<u>1,963</u>	<u>425</u>
	43,006	33,016
Lease liabilities (Note 9)	8,011	9,300
Reclamation and closure cost obligations (Note 8)	<u>5,117</u>	<u>5,571</u>
	56,134	47,887
Shareholders' equity		
Share capital (Note 11)	95,833	92,021
Contributed surplus (Note 11)	27,662	28,042
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>119,412</u>	<u>105,330</u>
	<u>242,650</u>	<u>225,136</u>
	\$ 298,784	\$ 273,023

Subsequent events (Note 18)

Approved and authorized by the Audit Committee on May 13, 2022:

“Saurabh Handa”

Director

“Mark Eaton”

Director

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

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS**

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

(Unaudited)

For the three months ended	March 31, 2022	March 31, 2021
REVENUE (Note 14)	\$ 52,412	\$ 29,513
COST OF SALES (Note 15)	<u>(22,535)</u>	<u>(20,907)</u>
Earnings from mine operations	29,877	8,606
EXPENSES		
General and administrative (Note 16)	\$ (1,799)	\$ (1,442)
Exploration and evaluation expenditures	(2,980)	(2,421)
Foreign exchange	177	(236)
Share-based payments	<u>(923)</u>	<u>(1,682)</u>
Earnings from operations	\$ 24,352	\$ 2,825
OTHER		
Interest and finance expense (Note 17)	(716)	(435)
Gain (loss) on derivative instruments (Note 10)	<u>(1,477)</u>	<u>1,862</u>
Earnings before taxes	\$ 22,159	\$ 4,252
Income tax expense	<u>(8,077)</u>	<u>(2,064)</u>
Net earnings and comprehensive earnings	<u>\$ 14,082</u>	<u>\$ 2,188</u>
Earnings per share (Note 11)		
Basic	\$ 0.06	\$ 0.01
Diluted	<u>\$ 0.06</u>	<u>\$ 0.01</u>
Weighted average number of shares outstanding (Note 11)		
Basic	224,526,997	219,501,009
Diluted	<u>230,288,577</u>	<u>228,825,168</u>

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

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

(Presented in thousands of United States Dollars)

(Unaudited)

For the three months ended	March 31, 2022	March 31, 2021
CASH FROM OPERATING ACTIVITIES		
Net earnings for the period	\$ 14,082	\$ 2,188
Items not affecting cash:		
Unrealized foreign exchange gain	(174)	(116)
Interest and finance expenses	385	273
Derivative instruments (Note 10)	1,477	(1,862)
Deferred income tax	1,292	885
Share-based payments (Note 11)	1,313	3,005
Depreciation and depletion	4,302	3,314
Changes in non-cash working capital items:		
Inventories	(1,712)	407
Receivables	(3,530)	18,129
Income taxes	6,766	1,179
Prepayments	210	567
Accounts payable and accrued liabilities	2,919	762
Net cash provided by operating activities	<u>27,330</u>	<u>28,731</u>
CASH FROM INVESTING ACTIVITIES		
Deposits for equipment	(6,473)	(71)
Acquisition of property, plant and equipment	<u>(13,342)</u>	<u>(9,379)</u>
Net cash used in investing activities	<u>(19,815)</u>	<u>(9,450)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on exercise of stock options	2,119	636
Principal loan payments	-	(5,000)
Principal lease payments (Note 9)	<u>(1,150)</u>	<u>(297)</u>
Net cash (used in) provided by financing activities	<u>969</u>	<u>(4,661)</u>
Change in cash and cash equivalents during the period	8,484	14,620
Effect of foreign exchange on cash	163	124
Cash and cash equivalents, beginning of period	<u>71,270</u>	<u>51,495</u>
Cash and cash equivalents, end of period	<u><u>\$ 79,917</u></u>	<u><u>\$ 66,239</u></u>
Cash paid for interest	\$ 615	\$ 242
Cash paid for taxes	\$ -	\$ -

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

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

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

(Unaudited)

	<u>Share capital</u>		Contributed surplus	Accumulated other comprehensive loss	Retained Earnings	Total
	Number	Amount				
Balance at December 31, 2020	219,215,097	\$ 83,523	\$ 20,160	\$ (257)	\$ 78,089	\$ 181,515
Exercise of stock options	386,340	965	(329)	-	-	636
Share-based payments (Note 11)	-	-	2,624	-	-	2,624
Net earnings for the period	-	-	-	-	2,188	2,188
Balance at March 31, 2021	219,601,437	\$ 84,488	\$ 22,455	\$ (257)	\$ 80,277	\$ 186,963
Exercise of stock options	4,641,300	7,533	(2,845)	-	-	4,688
Share-based payments (Note 11)	-	-	8,432	-	-	8,432
Net earnings for the period	-	-	-	-	25,053	25,053
Balance at December 31, 2021	224,242,737	\$ 92,021	\$ 28,042	\$ (257)	\$ 105,330	\$ 225,136
Exercise of stock options	751,040	3,812	(1,693)	-	-	2,119
Share-based payments (Note 11)	-	-	1,313	-	-	1,313
Net earnings for the period	-	-	-	-	14,082	14,082
Balance at March 31, 2022	224,993,777	\$ 95,833	\$ 27,662	\$ (257)	\$ 119,412	\$ 242,650

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

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2022

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

(Unaudited)

1. NATURE OF BUSINESS

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

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

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments measured at fair value.

These condensed interim consolidated financial statements are presented in United States (“U.S.”) dollars. Financial information for the Company and each of its subsidiaries is measured using its functional currency, being the currency of the primary economic environment in which the entity operates.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company’s accounting policies are the same as those applied in the Company’s annual consolidated financial statements for the year-ended December 31, 2021. These condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements for the year ended December 31, 2021.

The significant accounting policy judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are substantially the same as those that management applied in the consolidated financial statements for the year ended December 31, 2021.

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.

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

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

March 31, 2022

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

(Unaudited)

4. RECEIVABLES

As at	March 31, 2022	December 31, 2021
Trade receivables	\$ 18,273	\$ 16,748
GST receivable	7,819	6,168
Other	<u>331</u>	<u>333</u>
Total	\$ 26,423	\$ 23,249

5. INVENTORIES

As at	March 31, 2022	December 31, 2021
Mine supplies, consumables and fuel	\$ 18,520	\$ 17,355
Ore stockpile	4,120	4,090
Concentrate and doré	<u>4,673</u>	<u>3,966</u>
Total	\$ 27,313	\$ 25,411

During the three months ended March 31, 2022, the cost of inventory recognized as an expense in cost of sales amounted to \$22.5 million (2021 - \$20.9 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2022	December 31, 2021
Trade payables	\$ 8,448	\$ 9,808
Other accounts payable and trade related accruals	6,120	3,770
Employee accruals	6,323	6,027
Landowners' compensation accrual	<u>7,851</u>	<u>7,545</u>
Total	\$ 28,742	\$ 27,150

Landowners' compensation

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

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

March 31, 2022

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

(Unaudited)

7. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Plant and Equipment	Mobile Fleet and Vehicles	Right-of-Use Assets	Construction in Progress (Expansion) ¹	Total
Cost						
Balance, December 31, 2020	\$ 62,013	\$ 28,811	\$ 28,029	\$ 4,153	\$ 1,815	\$ 124,821
Additions	10,473	6,177	-	14,866	22,957	54,473
Disposals / write-downs	-	-	(245)	(3,354)	-	(3,599)
Reclamation – change in estimate	2,341	-	-	-	-	2,341
Transfers	53	5,233	2,815	201	(8,302)	-
Balance, December 31, 2021	74,880	40,221	30,599	15,866	16,470	178,036
Additions	3,719	1,269	-	-	8,960	13,948
Reclamation– changes in estimate	(483)	-	-	-	-	(483)
Transfers	-	(1,508)	2,752	-	(1,244)	-
Balance, March 31, 2022	\$ 78,116	\$ 39,982	\$ 33,351	\$ 15,866	\$ 24,186	\$ 191,501
Accumulated depreciation						
Balance, December 31, 2020	\$ 10,943	\$ 3,794	\$ 9,968	\$ 1,564	\$ -	\$ 26,269
Depreciation and depletion	2,140	2,249	7,592	2,052	-	14,033
Disposals / write-downs	-	-	(160)	(1,904)	-	(2,064)
Transfers	260	(52)	(223)	15	-	-
Balance, December 31, 2021	13,343	5,991	17,177	1,727	-	38,238
Depreciation and depletion	745	669	1,773	1,305	-	4,492
Balance, March 31, 2022	\$ 14,088	\$ 6,660	\$ 18,950	\$ 3,032	\$ -	\$ 42,730
Carrying amounts						
As at December 31, 2021	\$ 61,537	\$ 34,230	\$ 13,422	\$ 14,139	\$ 16,470	\$ 139,798
As at March 31, 2022	\$ 64,028	\$ 33,322	\$ 14,401	\$ 12,834	\$ 24,186	\$ 148,771

¹ Construction in Progress at March 31, 2022 consists of \$17.1 million (2021 - \$14.1 million) in twin incline expansion costs and \$7.1 million (2021 - \$2.4 million) in other expansion costs.

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

March 31, 2022

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

(Unaudited)

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

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

8. RECLAMATION AND CLOSURE COST OBLIGATIONS

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

	March 31, 2022	December 31, 2021
Balance, beginning of year	\$ 5,571	\$ 3,040
Change in estimates	(483)	2,341
Accretion	29	190
Balance, end of period	\$ 5,117	\$ 5,571

The provision has been measured as the present value of the estimated future rehabilitation costs using an estimated mine life of 10 years. The estimated cash-flows used to measure the provision were discounted to a present value using a risk-free discount rate of 7.76% (December 31, 2021 – 6.96%).

On an annual basis, the Company reviews the estimate of future costs of required reclamation and closure work. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of \$7.0 million, with first expenditures anticipated in 2030. These future cash outflows have been discounted at the risk-free interest rate considered applicable in Papua New Guinea where the Company’s properties are located.

9. LEASES LIABILITIES

The Company leases assets including mining equipment and buildings. The assets associated with the lease liabilities are included as Right-of-Use assets within property, plant and equipment (Note 7). During the three months ended March 31, 2022, the Company incurred \$0.4 million (2021 - \$0.1 million) related to interest and finance expenses on the lease liabilities.

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

March 31, 2022

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

(Unaudited)

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

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

Lease Liabilities as at	March 31, 2022	December 31, 2021
Lease liabilities, beginning of year	\$ 14,097	\$ 2,545
Additions	-	14,866
Disposals	-	(1,281)
Payments	(1,518)	(2,610)
Interest expense	368	574
Adjustment on currency translation	(45)	3
Balance, end of period	\$ 12,902	\$ 14,097
Lease liabilities, current portion	\$ 4,891	\$ 4,797
Lease liabilities, non-current portion	\$ 8,011	\$ 9,300

The Company's lease liabilities at March 31, 2022 are summarized as follows:

	Within 1 Year	2-3 Years	Total
Future undiscounted lease payments	\$ 6,041	\$ 8,709	\$ 14,750
Future finance charges	(1,150)	(698)	(1,848)
Total discounted lease liabilities	\$ 4,891	\$ 8,011	\$ 12,902

10. DERIVATIVE INSTRUMENTS

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

The details of the open commodity contracts as at March 31, 2022 were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term ²	Settlement Date
Gold call contracts – sold	15,581	\$1,926	April 2022	June 30, 2022
Gold put contracts – purchased	15,581	\$1,726	April 2022	June 30, 2022
Gold call contracts – sold	8,731	\$1,945	May 2022	July 29, 2022
Gold put contracts – purchased	8,731	\$1,744	May 2022	July 29, 2022
Gold call contracts – sold	7,739	\$2,045	June 2022	August 31, 2022
Gold put contracts – purchased	7,739	\$1,840	June 2022	August 31, 2022

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

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

March 31, 2022

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

(Unaudited)

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

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

For the three months ended	March 31, 2022	March 31, 2021
Realized gains	\$ -	\$ 572
Unrealized loss	<u>(1,477)</u>	<u>1,290</u>
Net realized and unrealized gains (losses)	<u>\$ (1,477)</u>	<u>\$ 1,862</u>

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

As at	March 31, 2022	December 31, 2021
Derivative assets	\$ 179	\$ 118
Derivative liabilities	<u>\$ (1,963)</u>	<u>\$ (425)</u>

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

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

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

Issued share capital

As at March 31, 2022, the Company had 224,993,777 common shares issued and outstanding.

Share issuances

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

Equity compensation

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

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

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

March 31, 2022

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

(Unaudited)

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

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

Stock option transactions are summarized as follows:

	Number Outstanding	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2020	15,985,890	\$ 2.91
Granted	2,420,000	8.02
Exercised	(5,027,640)	1.32
Forfeited	<u>(757,600)</u>	<u>4.22</u>
Outstanding, December 31, 2021	12,620,650	\$ 4.44
Exercised	(751,040)	3.57
Forfeited	<u>(96,600)</u>	<u>8.02</u>
Outstanding, March 31, 2022	11,773,010	\$ 4.47
Number currently exercisable	11,059,010	\$ 4.24

The following incentive stock options were outstanding at March 31, 2022:

Range of exercise prices (in \$CAD)	Number of outstanding options	Number of options exercisable	Weighted-average exercise price (in \$CAD)	Weighted- average years to expiry
0.45 – 0.99	1,540,000	1,540,000	0.73	0.87
1.00 – 1.99	2,951,750	2,951,750	1.77	2.27
2.00 – 2.99	245,000	245,000	2.17	2.64
3.00 – 3.99	1,466,160	1,466,160	3.85	2.84
4.00 – 4.99	110,200	110,200	4.00	3.23
5.00 – 8.99	<u>5,459,900</u>	<u>4,745,900</u>	7.27	3.72
	11,773,010	11,059,010	4.47	2.85

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.

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

March 31, 2022

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

(Unaudited)

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

During the three months ended March 31, 2022, the Company granted Nil stock options (2021 – Nil). The following presents the weighted average assumptions used in the valuation of stock options:

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

The weighted average share price at the time of exercise for the three months ended March 31, 2022 was CAD\$7.61 (2021 – CAD\$8.28).

During the three months ended March 31, 2022, the Company recorded share-based payment expense of \$1.1 million (2021 – \$3.0 million) related to the stock options.

Restricted share units

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

During the three months ended March 31, 2022, the Company granted 328,370 RSUs of which one-third will vest on each of January 20, 2023, 2024 and 2025. RSUs outstanding and the fair value of RSUs are as follows:

	Number Outstanding	Fair Value
Outstanding, December 31, 2020	-	\$ -
Granted	<u>150,213</u>	<u>833</u>
Outstanding, December 31, 2021	150,213	\$ 833
Granted	<u>328,370</u>	<u>1,729</u>
Outstanding, March 31, 2022	<u>478,583</u>	<u>\$ 2,562</u>

During the three months ended March 31, 2022, the Company recorded a share-based payment expense of \$0.3 million (2021 – \$Nil) related to the vesting of RSUs.

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

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

(Unaudited)

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

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

During the three months ended March 31, 2022, the Company granted 492,556 PSUs of which one-third will vest on each of January 20, 2023, 2024 and 2025.

	Number Outstanding	Fair Value
Outstanding, December 31, 2021	-	\$ -
Granted	<u>492,556</u>	<u>2,972</u>
Outstanding, March 31, 2022	<u>492,556</u>	<u>\$ 2,972</u>

During the three months ended March 31, 2022, the Company recorded a share-based payment expense of \$0.3 million (2021 – \$Nil) related to the vesting of PSUs.

Earnings per share

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

For the year ended	March 31, 2022	March 31, 2021
Earnings for the period	\$ 14,082	\$ 2,188
Basic weighted average number of shares outstanding	224,526,997	219,501,009
Effect of dilutive securities:		
Stock options	4,948,925	9,324,159
Restricted share units	405,612	-
Performance share units	407,043	
Diluted weighted average number of shares outstanding	<u>230,288,577</u>	<u>228,825,168</u>
Earnings per share		
Basic	\$ 0.06	\$ 0.01
Diluted	\$ 0.06	\$ 0.01

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

March 31, 2022

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

(Unaudited)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

The levels in the fair value hierarchy into which the Company's financial assets and liabilities that are measured and recognized at fair value were categorized as follows:

As at	At March 31, 2022		At December 31, 2021	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 18,273	\$ -	\$ 16,748
Derivative assets (Note 10)	-	179	-	118
Derivative liabilities (Note 10)	-	(1,963)	-	(425)
	\$ -	\$ 16,489	\$ -	\$ 16,441

The fair value of the Company's trade receivables, derivative assets and derivative liabilities were determined using observable market prices and market-derived inputs. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2022.

As at March 31, 2022 and December 31, 2021, the carrying amounts of cash and cash equivalents, prepaids, receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

13. SEGMENTED INFORMATION

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

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

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

March 31, 2022

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

(Unaudited)

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

Three months ended March 31, 2022	Kainantu Project	Corporate & Other	Total
Net earnings (loss)	\$ 18,131	\$ (4,049)	\$ 14,082
Capital expenditures	\$ 13,948	\$ -	\$ 13,948
<hr/>			
As at March 31, 2022			
Property, plant and equipment	\$ 147,670	\$ 1,101	\$ 148,771
Total assets	\$ 236,660	\$ 62,124	\$ 298,784
Total liabilities	\$ 52,318	\$ 3,816	\$ 56,134
<hr/>			
Three months ended March 31, 2021	Kainantu Project	Corporate & Other	Total
Net earnings (loss)	\$ 3,276	\$ (1,088)	\$ 2,188
Capital expenditures	\$ 9,142	\$ -	\$ 9,142
<hr/>			
As at December 31, 2021			
Property, plant and equipment	\$ 138,658	\$ 1,140	\$ 139,798
Total assets	\$ 213,514	\$ 59,509	\$ 273,023
Total liabilities	\$ 46,043	\$ 1,844	\$ 47,887

14. REVENUE

For the three months ended	March 31, 2022	March 31, 2021
Gold in concentrate	\$ 46,836	\$ 37,967
Copper in concentrate	4,832	960
Silver in concentrate	302	16
Treatment and refining charges	<u>(1,562)</u>	<u>(1,006)</u>
Revenue from contracts with customers	50,408	37,937
Gain (loss) on receivables at fair value	<u>2,004</u>	<u>(8,424)</u>
Total	\$ 52,412	\$ 29,513

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

March 31, 2022

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

(Unaudited)

15. COST OF SALES

For the three months ended	March 31, 2022	March 31, 2021
Direct mining and milling	\$ 5,071	\$ 4,903
Maintenance	3,667	2,727
Other site costs	8,525	5,954
Net smelter royalties	1,221	989
Change in inventories	<u>(737)</u>	<u>2,535</u>
	17,747	17,108
Non-cash costs		
Depreciation and depletion	4,397	2,857
Share-based payments	<u>391</u>	<u>942</u>
Total	\$ 22,535	\$ 20,907

16. GENERAL AND ADMINISTRATIVE

For the three months ended	March 31, 2022	March 31, 2021
Management, consulting and wages	\$ 1,254	\$ 941
Professional fees	78	103
Office, filing and administrative	242	218
Travel	80	19
Investor relations	119	135
Depreciation	<u>26</u>	<u>26</u>
Total	\$ 1,799	\$ 1,442

17. INTEREST AND FINANCE EXPENSE

For the three months ended	March 31, 2022	March 31, 2021
Interest and amortization of transaction costs on loan	\$ -	\$ 147
Other interest and finance expense	687	240
Accretion of reclamation and closure cost obligations	<u>29</u>	<u>48</u>
Total	\$ 716	\$ 435

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2022

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

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2022, the Company paid an \$8.2 million income tax instalment to the Papua New Guinea government.