

# **K92** **MINING INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(Presented in thousands of United States Dollars)**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022**

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

(Presented in thousands of United States Dollars)

(Unaudited)

As at	June 30, 2023	December 31, 2022
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 95,557	\$ 109,938
Receivables (Note 4)	27,568	29,257
Inventories (Note 5)	32,636	28,510
Prepayments	5,099	5,624
Derivative assets (Note 10)	<u>138</u>	<u>-</u>
	160,998	173,329
<b>Deferred tax assets</b>	-	2,590
<b>Deposits on equipment</b>	3,469	4,338
<b>Property, plant and equipment (Note 7)</b>	<u>223,640</u>	<u>190,458</u>
	<u>\$ 388,107</u>	<u>\$ 370,715</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 37,154	\$ 36,966
Income tax payable	5,166	4,121
Current portion of lease liabilities (Note 9)	5,579	5,324
Derivative liabilities (Note 10)	<u>589</u>	<u>1,747</u>
	48,488	48,158
<b>Deferred tax liabilities</b>	998	-
<b>Lease liabilities (Note 9)</b>	2,179	4,773
<b>Reclamation and closure cost obligations (Note 8)</b>	<u>9,409</u>	<u>8,478</u>
	61,074	61,409
<b>Equity</b>		
Share capital (Note 11)	144,392	142,066
Contributed surplus (Note 11)	28,242	26,644
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>154,656</u>	<u>140,853</u>
	<u>327,033</u>	<u>309,306</u>
	<u>\$ 388,107</u>	<u>\$ 370,715</u>

**Subsequent events (Note 18)**

Approved and authorized by the Board of Directors on August 9, 2023:

“Saurabh Handa”

Director

“Mark Eaton”

Director

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

**K92 MINING INC.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS**  
(Presented in thousands of United States Dollars, except share and per share amounts)  
(Unaudited)

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
<b>REVENUE</b> (Note 14)	\$ 51,759	\$ 37,356	\$ 92,125	\$ 89,768
<b>COST OF SALES</b> (Note 15)	<u>(29,198)</u>	<u>(23,169)</u>	<u>(52,936)</u>	<u>(45,704)</u>
<b>Earnings from mine operations</b>	22,561	14,187	39,189	44,064
<b>EXPENSES</b>				
General and administrative (Note 16)	\$ (2,274)	\$ (1,650)	\$ (4,182)	\$ (3,449)
Exploration and evaluation expenditures	(6,323)	(3,774)	(10,095)	(6,754)
Foreign exchange	842	(407)	1,155	(230)
Share-based payments	<u>(1,373)</u>	<u>(773)</u>	<u>(2,570)</u>	<u>(1,696)</u>
<b>Earnings from operations</b>	\$ 13,433	\$ 7,583	\$ 23,497	\$ 31,935
<b>OTHER</b>				
Interest and finance expense (Note 17)	(960)	(683)	(1,984)	(1,487)
Interest income	644	81	1,491	169
Gain (loss) on derivative instruments (Note 10)	<u>263</u>	<u>1,136</u>	<u>(901)</u>	<u>(341)</u>
<b>Earnings before taxes</b>	\$ 13,380	\$ 8,117	\$ 22,103	\$ 30,276
Income tax expense	<u>(4,587)</u>	<u>(2,981)</u>	<u>(8,301)</u>	<u>(11,058)</u>
<b>Net earnings and comprehensive earnings</b>	<u>\$ 8,793</u>	<u>\$ 5,136</u>	<u>\$ 13,802</u>	<u>\$ 19,218</u>
<b>Earnings per share</b> (Note 11)				
Basic	\$ 0.04	\$ 0.02	\$ 0.06	\$ 0.09
Diluted	\$ 0.04	\$ 0.02	\$ 0.06	\$ 0.08
<b>Weighted average number of shares outstanding</b> (Note 11)				
Basic	234,469,622	226,489,201	233,927,771	225,513,516
Diluted	<u>238,816,396</u>	<u>232,140,495</u>	<u>238,339,666</u>	<u>230,658,135</u>

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

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

(Presented in thousands of United States Dollars)

(Unaudited)

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
<b>CASH FROM OPERATING ACTIVITIES</b>				
Net earnings for the period	\$ 8,793	\$ 5,136	\$ 13,802	\$ 19,218
Items not affecting cash:				
Unrealized foreign exchange loss (gain)	(1,229)	473	(1,238)	299
Interest and finance expenses	267	152	1,031	537
Derivative instruments (Note 10)	(263)	(1,136)	901	341
Deferred income tax	1,234	1,294	3,551	2,586
Share-based payments (Note 11)	1,561	900	3,023	2,213
Depreciation and depletion	7,882	4,626	13,796	8,928
Net payments for derivatives (Note 10)	(2,064)	(958)	(2,198)	(958)
Changes in non-cash working capital items:				
Inventories	(1,304)	483	(3,794)	(1,229)
Receivables	7,443	5,638	959	2,108
Income tax payable	(353)	(6,470)	1,045	296
Prepayments	42	(487)	525	(277)
Accounts payable and accrued liabilities	6,859	3,494	412	6,413
Net cash provided by operating activities	<u>28,868</u>	<u>13,145</u>	<u>31,815</u>	<u>40,475</u>
<b>CASH FROM INVESTING ACTIVITIES</b>				
Deposits for equipment	(938)	-	(2,089)	(4,042)
Acquisition of property, plant and equipment	<u>(21,102)</u>	<u>(14,840)</u>	<u>(43,482)</u>	<u>(30,613)</u>
Net cash used in investing activities	<u>(22,040)</u>	<u>(14,840)</u>	<u>(45,571)</u>	<u>(34,655)</u>
<b>CASH FROM FINANCING ACTIVITIES</b>				
Proceeds on exercise of stock options	339	5,160	902	7,279
Principal lease payments (Note 9)	<u>(1,293)</u>	<u>(1,179)</u>	<u>(2,573)</u>	<u>(2,329)</u>
Net cash (used in) provided by financing activities	<u>(954)</u>	<u>3,981</u>	<u>(1,671)</u>	<u>4,950</u>
<b>Change in cash and cash equivalents during the period</b>	5,874	2,286	(15,427)	10,770
<b>Effect of foreign exchange on cash</b>	1,036	(475)	1,046	(312)
<b>Cash and cash equivalents, beginning of period</b>	<u>88,647</u>	<u>79,917</u>	<u>109,938</u>	<u>71,270</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 95,557</u>	<u>\$ 81,728</u>	<u>\$ 95,557</u>	<u>\$ 81,728</u>
Cash paid for interest	\$ (1,409)	\$ (530)	\$ (2,313)	\$ (1,145)
Cash received for interest income	\$ 644	\$ 81	\$ 1,491	\$ 169
Cash paid for taxes	\$ (3,583)	\$ (8,162)	\$ (3,583)	\$ (8,162)

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

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

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

(Unaudited)

	<b>Share capital</b>		<b>Contributed surplus</b>	<b>Accumulated other comprehensive loss</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>Number</b>	<b>Amount</b>				
<b>Balance at December 31, 2021</b>	224,242,737	\$ 92,021	\$ 28,042	\$ (257)	\$ 105,330	\$ 225,136
Shares issued on exercise of stock options (Note 11)	2,628,200	12,343	(5,064)	-	-	7,279
Share-based payments (Note 11)	-	-	2,213	-	-	2,213
Net earnings for the period	-	-	-	-	19,218	19,218
<b>Balance at June 30, 2022</b>	226,870,937	\$ 104,364	\$ 25,191	\$ (257)	\$ 124,548	\$ 253,846
Shares issued on exercise of stock options (Note 11)	1,082,000	1,603	(600)	-	-	1,003
Shares issued on vesting of RSUs (Note 11)	21,459	111	(111)	-	-	-
Bought deal financing	5,405,500	38,324	-	-	-	38,324
Share issuance costs	-	(2,336)	-	-	-	(2,336)
Share-based payments (Note 11)	-	-	2,163	-	-	2,163
Net earnings for the period	-	-	-	-	16,306	16,306
<b>Balance at December 31, 2022</b>	233,379,896	\$ 142,066	\$ 26,643	\$ (257)	\$ 140,854	\$ 309,306
Shares issued on exercise of stock options (Note 11)	755,000	1,366	(464)	-	-	902
Shares issued on vesting of RSUs (Note 11)	75,818	375	(375)	-	-	-
Shares issued on vesting of PSUs (Note 11)	111,748	585	(585)	-	-	-
Share-based payments (Note 11)	-	-	3,023	-	-	3,023
Net earnings for the period	-	-	-	-	13,802	13,802
<b>Balance at June 30, 2023</b>	234,322,462	\$ 144,392	\$ 28,242	\$ (257)	\$ 154,656	\$ 327,033

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

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

June 30, 2023

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

(Unaudited)

**1. NATURE OF BUSINESS**

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

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

**2. BASIS OF PREPARATION****Statement of Compliance**

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

**Basis of Presentation**

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policy judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are substantially the same as those that management applied in the consolidated financial statements for the year ended December 31, 2022. 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, 2022.

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, 2022.

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

June 30, 2023

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

(Unaudited)

**4. RECEIVABLES**

As at	June 30, 2023	December 31, 2022
Trade receivables	\$ 9,903	\$ 15,462
GST receivable	17,324	13,474
Other	<u>341</u>	<u>321</u>
Total	\$ 27,568	\$ 29,257

**5. INVENTORIES**

As at	June 30, 2023	December 31, 2022
Mine supplies, consumables and fuel	\$ 25,529	\$ 20,806
Ore stockpile	4,751	4,728
Concentrate and doré	<u>2,356</u>	<u>2,976</u>
Total	\$ 32,636	\$ 28,510

During the six months ended June 30, 2023, the cost of inventory recognized as an expense in cost of sales amounted to \$52.9 million (2022 - \$45.7 million).

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As at	June 30, 2023	December 31, 2022
Trade payables	\$ 12,679	\$ 11,542
Other accounts payable and trade related accruals	6,583	6,901
Employee accruals	7,173	8,593
Landowners' compensation accrual	<u>10,719</u>	<u>9,930</u>
Total	\$ 37,154	\$ 36,966

*Landowners' compensation*

The Company has obligations to compensate landowners annually who are affected by the operations of the Kainantu mine. The actual recipients of the compensation and landowners' share of sales royalty cannot be paid as required until the legitimate landowners have been identified by the Papua New Guinean Land Titles Commission ("LTC") and so compensation payments to landowners not yet confirmed by the LTC have been accrued but not paid.

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

June 30, 2023

(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) <sup>1</sup>	Total
<b>Cost</b>						
Balance, December 31, 2021	\$ 74,880	\$ 40,221	\$ 30,599	\$ 15,866	\$ 16,470	\$ 178,036
Additions	19,110	6,398	-	956	42,371	68,835
Disposals / write-downs	-	-	(1,164)	-	-	(1,164)
Reclamation – change in estimate	2,791	-	-	-	-	2,791
Transfers	-	11,337	10,464	-	(21,801)	-
Balance, December 31, 2022	96,781	57,956	39,899	16,822	37,040	248,498
Additions	11,529	6,117	-	333	28,569	46,548
Reclamation– changes in estimate	762	-	-	-	-	762
Transfers	-	65	14,689	-	(14,754)	-
<b>Balance, June 30, 2023</b>	<b>\$ 109,072</b>	<b>\$ 64,138</b>	<b>\$ 54,588</b>	<b>\$ 17,155</b>	<b>\$ 50,855</b>	<b>\$ 295,808</b>
<b>Accumulated depreciation</b>						
Balance, December 31, 2021	\$ 13,343	\$ 5,991	\$ 17,177	\$ 1,727	\$ -	\$ 38,238
Depreciation and depletion	3,136	4,467	7,856	5,434	-	20,893
Disposals / write-downs	-	-	(1,091)	-	-	(1,091)
Balance, December 31, 2022	16,479	10,458	23,942	7,161	-	58,040
Depreciation and depletion	2,634	3,261	5,565	2,668	-	14,128
<b>Balance, June 30, 2023</b>	<b>\$ 19,113</b>	<b>\$ 13,719</b>	<b>\$ 29,507</b>	<b>\$ 9,829</b>	<b>\$ -</b>	<b>\$ 72,168</b>
<b>Carrying amounts</b>						
As at December 31, 2022	\$ 80,302	\$ 47,498	\$ 15,957	\$ 9,661	\$ 37,040	\$ 190,458
As at June 30, 2023	\$ 89,959	\$ 50,419	\$ 25,081	\$ 7,326	\$ 50,855	\$ 223,640

<sup>1</sup> Construction in Progress at June 30, 2023 consists of \$42.4 million (2022 - \$32.1 million) in Twin Incline costs, \$1.7 million (2022 - \$Nil) in Puma Ventilation Drive costs and \$6.8 million (2022 - \$4.9 million) in other expansion costs.



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

June 30, 2023

(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 and on December 6, 2022, the Government of Papua New Guinea granted an extension of ML 150 for a period of 10 years to June 13, 2034.

**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 as a result of constructive obligations and to comply with legislative requirements established by the Government of Papua New Guinea.

As at	June 30, 2023	December 31, 2022
Balance, beginning of period	\$ 8,478	\$ 5,571
Foreign exchange movement	(132)	-
Change in estimate	762	2,791
Accretion	301	116
Balance, end of period	\$ 9,409	\$ 8,478

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 discount rate of 12.3% (2022 – 13.4%) and an inflation rate of 6.3% (2022 – 6.3%). The underlying costs in the provision are calculated using the Papua New Guinea Kina as the reclamation costs will be incurred in Papua New Guinea. As such, the discount and inflation rate used in the calculation reflect the economic factors for Papua New Guinea.

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 constructive obligations for reclamation and closure work in the amount of \$19.1 million (2022 - \$19.1 million), with first expenditures anticipated in 2032. These future cash outflows have been discounted at the interest rate considered applicable in Papua New Guinea where the Company’s properties are located.

**9. LEASE LIABILITIES**

The Company leases assets including mining equipment and buildings. The assets associated with the lease liabilities are included as Right-of-Use assets within property, plant and equipment (Note 7). During the six months ended June 30, 2023, the Company incurred \$0.5 million (2022 - \$0.7 million) related to interest and finance expenses on the lease liabilities.

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

June 30, 2023

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

(Unaudited)

**9. LEASE LIABILITIES (cont'd...)**

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

Lease Liabilities as at	June 30, 2023	December 31, 2022
Lease liabilities, beginning of year	\$ 10,097	\$ 14,097
Additions	333	956
Payments	(3,057)	(6,193)
Interest expense	484	1,328
Adjustment on currency translation	(99)	(91)
Balance, end of period	\$ 7,758	\$ 10,097
Lease liabilities, current portion	\$ 5,579	\$ 5,324
Lease liabilities, non-current portion	\$ 2,179	\$ 4,773

The Company's lease liabilities at June 30, 2023 are summarized as follows:

	Within 1 Year	2-6 Years	Total
Future undiscounted lease payments	\$ 6,139	\$ 2,359	\$ 8,498
Future finance charges	(560)	(180)	(740)
Total discounted lease liabilities	\$ 5,579	\$ 2,179	\$ 7,758

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

The details of the open commodity contracts as at June 30, 2023, were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term	Settlement Date
Gold call contracts – sold	9,877	\$2,081	July 2023	September 29, 2023
Gold put contracts – purchased	9,877	\$1,881	July 2023	September 29, 2023
Gold call contracts – sold	6,786	\$2,091	August 2023	October 31, 2023
Gold put contracts – purchased	6,786	\$1,891	August 2023	October 31, 2023
Gold call contracts – sold	9,975	\$2,041	September 2023	November 30, 2023
Gold put contracts – purchased	9,975	\$1,841	September 2023	November 30, 2023

**K92 MINING INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2023

(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 losses on the commodity contracts were as follows:

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Realized losses	\$ (2,064)	\$ (958)	\$ (2,198)	\$ (958)
Unrealized gains	2,327	2,094	1,297	617
Net realized and unrealized gains (losses)	\$ 263	\$ 1,136	\$ (901)	\$ (341)

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

As at	June 30, 2023	December 31, 2022
Derivative assets	\$ 138	\$ -
Derivative liabilities	\$ (589)	\$ (1,747)

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

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

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

**Issued share capital**

As at June 30, 2023, the Company had 234,322,462 common shares issued and outstanding.

**Share issuances**

Except on the exercise of share options and the conversion of RSUs and PSUs, no other shares were issued during the six months ended June 30, 2023.

**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, RSUs, and PSUs. The Share Compensation Plan was amended effective June 29, 2023 (the "**Amended Plan**").

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

June 30, 2023

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

(Unaudited)

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

The Amended Plan allows the Company to grant Options, RSUs and PSUs to its executive officers, directors, employees, and consultants. The total number of options and shares issuable under the Plan cannot exceed 6.75% of the issued and outstanding common shares, on a non-diluted basis, while the maximum number of common shares issuable through options cannot exceed 4% of the issued and outstanding common shares. For RSUs and PSUs, the total number of common shares that may be issuable cannot exceed 2.75% of the outstanding common shares at the time of grant.

**Stock options**

Stock option transactions are summarized as follows:

	Number Outstanding	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2021	12,620,650	\$ 4.44
Exercised	(3,710,200)	2.87
Forfeited	(104,600)	\$ 9.22
Outstanding, December 31, 2022	8,805,850	\$ 5.06
Exercised	(755,000)	1.76
Forfeited	(40,000)	7.38
<b>Outstanding, June 30, 2023</b>	<b>8,010,850</b>	<b>\$ 5.37</b>
Number currently exercisable	8,010,850	\$ 5.37

The following incentive stock options were outstanding at June 30, 2023:

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	30,000	30,000	0.74	0.39
1.00 – 1.99	1,836,750	1,836,750	1.77	1.02
2.00 – 2.99	235,000	235,000	2.17	1.39
3.00 – 3.99	1,091,000	1,091,000	3.85	1.60
4.00 – 4.99	10,200	10,200	4.00	1.98
5.00 – 8.99	4,807,900	4,807,900	7.28	2.47
	8,010,850	8,010,850	5.37	1.98

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**

June 30, 2023

(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 six months ended June 30, 2023, the Company granted Nil stock options (2022 – Nil).

The weighted average share price on the date of options exercised for the six months ended June 30, 2023, was CAD\$6.97 (2022 – CAD\$9.08).

During the six months ended June 30, 2023, the Company recorded share-based payment expense of \$Nil (2022 – \$0.8 million) related to the vesting of options.

**Restricted share units**

RSUs vest in three instalments; 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. At the discretion of the Company, RSUs can be settled in either cash or common shares, or a combination of both. RSUs are recorded at fair value based on the Company's share price on the date of grant, adjusted for an estimated forfeiture rate, and then charged to share-based compensation over the period during which the RSUs vest.

During the six months ended June 30, 2023, the Company granted 793,010 RSUs. The estimated fair value of \$3.8 million is being recognized over the vesting period.

	Number Outstanding	Fair Value
Outstanding, December 31, 2021	150,213	\$ 819
Granted	666,358	3,774
Vested and converted to common shares	(21,459)	(117)
Forfeited	<u>(13,707)</u>	<u>(70)</u>
Outstanding, December 31, 2022	781,405	\$ 4,406
Granted	793,010	3,768
Vested and converted to common shares	(75,818)	(430)
Forfeited	<u>(17,110)</u>	<u>(99)</u>
Outstanding, June 30, 2023	<u>1,481,487</u>	<u>\$ 7,645</u>

During the six months ended June 30, 2023, the Company recorded a share-based payment expense of \$1.5 million (2022 – \$0.8 million) related to the vesting of RSUs.

**Performance share units**

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 vested PSUs ranging from 25% to 150% of the initial PSUs granted. At the discretion of the Company, PSUs can be settled in either cash or common shares, or a combination of both.

**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 (cont'd...)**

PSUs are recorded at fair value based on a Monte Carlo pricing model at the date of grant, adjusted for an estimated forfeiture rate, and then charged to share-based compensation over the period during which the PSUs vest. For the fair value calculation of granted PSUs during the period ended June 30, 2023, the Monte Carlo pricing model used historical share price volatility of 51% (2022 – 54% to 61%), historical share price volatility of its peer group ranging from 40% to 48% (2022 – 38% to 47%) and a Canadian risk-free rate of 3.5% (2022 – 2.0% to 3.5%).

During the six months ended June 30, 2023, the Company granted 1,189,509 PSUs. The estimated fair value of \$4.8 million is being recognized over the vesting period.

	Number Outstanding	Fair Value
Outstanding, December 31, 2021	-	\$ -
Granted	780,006	3,560
Forfeited	<u>(20,563)</u>	<u>(84)</u>
Outstanding, December 31, 2022	759,443	\$ 3,476
Granted	1,189,509	4,811
Vested and converted to common shares	(105,670)	(483)
Forfeited	<u>(25,669)</u>	<u>(105)</u>
Outstanding, June 30, 2023	<u>1,817,613</u>	<u>\$ 7,699</u>

During the six months ended June 30, 2023, the Company recorded a share-based payment expense of \$1.5 million (2022 – \$0.6 million) related to the vesting of PSUs.

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**11. SHARE CAPITAL AND RESERVES (cont'd...)****Earnings per share**

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

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Earnings for the period	\$ 8,793	\$ 5,136	\$ 13,802	\$ 19,218
Basic weighted average number of shares outstanding	234,469,622	226,489,201	233,927,771	225,513,516
Effect of dilutive securities:				
Stock options	1,957,203	4,767,764	2,180,042	4,342,119
Restricted share units	1,111,395	478,583	1,048,308	442,299
Performance share units	1,278,176	404,947	1,183,545	360,201
Diluted weighted average number of shares outstanding	238,816,396	232,140,495	238,339,666	230,658,135
<b>Earnings per share</b>				
Basic	\$ 0.04	\$ 0.02	\$ 0.06	\$ 0.09
Diluted	\$ 0.04	\$ 0.02	\$ 0.06	\$ 0.08

**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 quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The 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, 2023		December 31, 2022	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 9,903	\$ -	\$ 15,462
Derivative assets (Note 10)	-	138	-	-
Derivative liabilities (Note 10)	-	(589)	-	(1,747)
	\$ -	\$ 9,452	\$ -	\$ 13,715

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**12. 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 period ended June 30, 2023.

As at June 30, 2023 and December 31, 2022, the carrying amounts of cash and cash equivalents, prepaids, other 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.

*Concentration of Credit Risk*

The Company's cash and cash equivalents are held with financial institutions in Canada, Papua New Guinea, and Australia. As of June 30, 2023, a single high-credit quality financial institution in Canada holds approximately 70% of the total cash and cash equivalents. Substantially all of the Company's cash and cash equivalents exceed government insured limits. The Company continually assesses and manages its exposure to credit risk of financial institutions.

**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.

Six months ended June 30, 2023	Kainantu Project	Corporate & Other	Total
Net earnings (loss)	\$ 19,114	\$ (5,312)	\$ 13,802
Capital expenditures	\$ 46,215	\$ 333	\$ 46,548
Three months ended June 30, 2023			
Net earnings (loss)	\$ 10,779	\$ (1,986)	\$ 8,793
Capital expenditures	\$ 22,163	\$ 333	\$ 22,496
As at June 30, 2023			
Property, plant and equipment	\$ 221,813	\$ 1,827	\$ 223,640
Total assets	\$ 300,389	\$ 87,718	\$ 388,107
Total liabilities	\$ 56,465	\$ 4,609	\$ 61,074



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

Six months ended June 30, 2022	Kainantu Project	Corporate & Other	Total
Net earnings (loss)	\$ 24,832	\$ (5,614)	\$ 19,218
Capital expenditures	\$ 30,324	\$ -	\$ 30,324
Three months ended June 30, 2022			
Net earnings (loss)	\$ 6,701	\$ (1,565)	\$ 5,136
Capital expenditures	\$ 16,376	\$ -	\$ 16,376
As at December 31, 2022			
Property, plant and equipment	\$ 188,872	\$ 1,586	\$ 190,458
Total assets	\$ 267,104	\$ 103,611	\$ 370,715
Total liabilities	\$ 57,683	\$ 3,726	\$ 61,409

**14. REVENUE**

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Gold in concentrate	\$ 48,408	\$ 37,577	\$ 78,126	\$ 84,413
Copper in concentrate	5,598	5,036	11,068	9,868
Silver in concentrate	494	308	853	610
Gold and silver in doré	4,716	4,647	6,780	4,647
Treatment and refining charges	(1,905)	(1,651)	(3,498)	(3,213)
Revenue from contracts with customers	57,311	45,917	93,329	96,325
Loss on receivables at fair value	(5,552)	(8,561)	(1,204)	(6,557)
Total	\$ 51,759	\$ 37,356	\$ 92,125	\$ 89,768

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

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**15. COST OF SALES**

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Direct mining and milling	\$ 5,750	\$ 5,265	\$ 11,101	\$ 10,336
Maintenance	4,032	4,045	7,434	7,712
Other site costs	9,674	7,371	17,164	15,896
Net smelter royalties	1,335	1,172	2,216	2,393
Change in inventories	<u>992</u>	<u>691</u>	<u>597</u>	<u>(46)</u>
	21,783	18,544	38,512	36,291
Non-cash costs				
Depreciation and depletion	7,148	4,496	13,892	8,893
Share-based payments	<u>267</u>	<u>129</u>	<u>532</u>	<u>520</u>
Total	\$ 29,198	\$ 23,169	\$ 52,936	\$ 45,704

**16. GENERAL AND ADMINISTRATIVE**

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Management, consulting and wages	\$ 1,679	\$ 1,227	\$ 2,812	\$ 2,481
Professional fees	93	15	182	93
Office, filing and administrative	117	116	410	358
Travel	226	73	440	153
Investor relations	131	193	282	312
Depreciation	<u>28</u>	<u>26</u>	<u>56</u>	<u>52</u>
Total	\$ 2,274	\$ 1,650	\$ 4,182	\$ 3,449

**17. INTEREST AND FINANCE EXPENSE**

For the	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest on lease liabilities	\$ 224	\$ 81	\$ 484	\$ 169
Other interest	586	573	1,199	1,260
Accretion expense	<u>150</u>	<u>29</u>	<u>301</u>	<u>58</u>
Total	\$ 960	\$ 683	\$ 1,984	\$ 1,487

**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)

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**18. SUBSEQUENT EVENTS**

Subsequent to June 30, 2023, the Company paid a \$4.7 million income tax instalment to the Papua New Guinea government.