

K92 **MINING INC.**

CONSOLIDATED FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022



Independent auditor's report

To the Shareholders of K92 Mining Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of K92 Mining Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of operations and earnings for the years then ended;
- the consolidated statements of cash flows for the years then ended
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of impairment indicators of property, plant and equipment</p> <p><i>Refer to note 2 – Basis of preparation, note 3 – Material accounting policies and note 7 – Property, plant and equipment to the consolidated financial statements.</i></p> <p>The Company has \$264 million of property, plant and equipment (PP&E) capitalized related to the Kainantu Mine as at December 31, 2023. Management assesses at each reporting period whether there is any indication that assets may be impaired. Judgment is required in assessing whether certain factors would be considered an indicator of impairment. Internal and external factors, such as a significant decline in the market value of the Company's share price; significant reductions in quantity and/or grade of the recoverable resources; changes in metal prices, capital and operating costs; or changes in external market data that has the potential to impact foreign exchange or interest rates, are evaluated by management in determining whether there are any indicators of impairment. No impairment indicators were identified by management as at December 31, 2023.</p> <p>We considered this a key audit matter due to (i) the significance of the PP&E balance and (ii) the significant judgment by management in its assessment of indicators of impairment, which resulted in a high degree of subjectivity in performing audit procedures related to these judgments applied by management.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Evaluated management's assessment of indicators of impairment, which included the following:<ul style="list-style-type: none">– Assessed the completeness of external or internal factors that could be considered as indicators of impairment of the Company's PP&E, including consideration of evidence obtained in other areas of the audit.• Recalculated the Company's market capitalization and compared it to the Company's net assets as at December 31, 2023.• Assessed the changes in quantity and grade of the recoverable resources, metal prices, capital and operating costs, and foreign exchange and interest rates by considering external market data, current and past performance of the Company and evidence obtained in other areas of the audit, as applicable.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mark Patterson.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 1, 2024

K92 MINING INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Presented in thousands of United States Dollars)

As at	December 31, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents	\$ 72,652	\$ 109,938
Short-term treasury bills (Note 15)	6,463	-
Receivables (Note 4)	27,849	29,257
Inventories (Note 5)	36,023	28,510
Prepayments	3,913	5,624
Income tax prepayment	<u>597</u>	<u>-</u>
	147,497	173,329
Deferred tax assets (Note 20)	-	2,590
Deposits on equipment	1,303	4,338
Property, plant and equipment (Note 7)	<u>264,032</u>	<u>190,458</u>
	<u>\$ 412,832</u>	<u>\$ 370,715</u>
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 42,512	\$ 36,966
Income tax payable	-	4,121
Current portion of lease liabilities (Note 9)	4,156	5,324
Derivative liabilities (Note 10)	<u>1,206</u>	<u>1,747</u>
	47,874	48,158
Deferred tax liabilities (Note 20)	4,578	-
Lease liabilities (Note 9)	604	4,773
Reclamation and closure cost obligations (Note 8)	<u>8,884</u>	<u>8,478</u>
	61,940	61,409
Equity		
Share capital (Note 11)	146,161	142,066
Contributed surplus (Note 11)	30,972	26,644
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>174,016</u>	<u>140,853</u>
	<u>350,892</u>	<u>309,306</u>
	<u>\$ 412,832</u>	<u>\$ 370,715</u>

Commitments (Note 22)

Approved and authorized by the Board of Directors on April 1, 2024:

“Saurabh Handa”

Director

“Mark Eaton”

Director

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

K92 MINING INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND EARNINGS**

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

For the year ended	December 31, 2023	December 31, 2022
REVENUE (Note 16)	\$ 200,255	\$ 188,186
COST OF SALES (Note 17)	<u>(111,388)</u>	<u>(96,272)</u>
Earnings from mine operations	88,867	91,914
EXPENSES		
General and administrative (Note 18)	\$ (7,658)	\$ (6,811)
Exploration and evaluation expenditures	(19,757)	(16,219)
Disposals and write-downs of assets (Note 7)	(2,809)	-
Foreign exchange	436	(2,319)
Share-based payments	<u>(4,691)</u>	<u>(3,210)</u>
Earnings from operations	\$ 54,388	\$ 63,355
OTHER		
Interest and finance expense (Note 19)	(3,903)	(3,335)
Interest income	2,921	1,220
Loss on derivative instruments (Note 10)	<u>(2,119)</u>	<u>(1,469)</u>
Earnings before taxes	\$ 51,287	\$ 59,771
Income tax expense (Note 20)	<u>(18,124)</u>	<u>(24,248)</u>
Net earnings	<u>\$ 33,163</u>	<u>\$ 35,523</u>
Earnings per share (Note 11)		
Basic	\$ 0.14	\$ 0.16
Diluted	\$ 0.14	\$ 0.15
Weighted average number of shares outstanding (Note 11)		
Basic	234,158,827	229,007,329
Diluted	<u>238,369,994</u>	<u>233,337,894</u>

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

K92 MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Presented in thousands of United States Dollars)

For the year ended	December 31, 2023	December 31, 2022
CASH FROM OPERATING ACTIVITIES		
Net earnings for the year	\$ 33,163	\$ 35,523
Items not affecting cash:		
Unrealized foreign exchange loss (gain)	(887)	2,179
Interest and finance expenses	1,716	1,445
Derivative instruments (Note 10)	2,119	1,469
Deferred income tax	7,293	7,152
Share-based payments	6,666	4,377
Depreciation and depletion	31,855	20,340
Disposals and write-downs of assets (Note 7)	2,809	71
Net payments from derivatives (Note 10)	(2,660)	(29)
Changes in non-cash working capital items:		
Inventories	(6,496)	(2,546)
Receivables	213	(7,337)
Income tax payable	(4,121)	3,477
Prepayments	1,114	(4,154)
Accounts payable and accrued liabilities	<u>1,646</u>	<u>11,161</u>
Net cash provided by operating activities	<u>74,430</u>	<u>73,128</u>
CASH FROM INVESTING ACTIVITIES		
Deposits for equipment	(1,303)	(4,338)
Acquisition of property, plant and equipment	(100,970)	(67,390)
Purchases of short-term treasury bills (Note 15)	<u>(6,392)</u>	<u>-</u>
Net cash used in investing activities	<u>(108,665)</u>	<u>(71,728)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock (Note 11)	-	38,324
Share issuance costs (Note 11)	-	(2,336)
Proceeds on exercise of stock options	1,757	8,282
Principal lease payments (Note 9)	<u>(5,253)</u>	<u>(4,865)</u>
Net cash (used in) provided by financing activities	<u>(3,496)</u>	<u>39,405</u>
Change in cash and cash equivalents during the year	(37,731)	40,805
Effect of foreign exchange on cash	445	(2,137)
Cash and cash equivalents, beginning of year	<u>109,938</u>	<u>71,270</u>
Cash and cash equivalents, end of year	<u>\$ 72,652</u>	<u>\$ 109,938</u>
Cash paid for interest	\$ (3,476)	\$ (2,369)
Cash received for interest income	\$ 2,850	\$ 1,220
Cash paid for taxes	<u>\$ (6,495)</u>	<u>\$ (13,610)</u>

Supplemental cash flow information (Note 15)

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

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

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

	<u>Share capital</u>		Contributed surplus	Accumulated other comprehensive income (loss)	Retained Earnings	Total
	Number	Amount				
Balance at December 31, 2021	224,242,737	\$ 92,021	\$ 28,042	\$ (257)	\$ 105,330	\$ 225,136
Shares issued on exercise of stock options (Note 11)	3,710,200	13,946	(5,664)	-	-	8,282
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)	-	-	4,377	-	-	4,377
Net earnings for the year	-	-	-	-	35,523	35,523
Balance at December 31, 2022	233,379,896	\$ 142,066	\$ 26,644	\$ (257)	\$ 140,853	\$ 309,306
Shares issued on exercise of stock options (Note 11)	1,210,000	2,653	(896)	-	-	1,757
Shares issued on vesting of RSUs (Note 11)	177,530	931	(931)	-	-	-
Shares issued on vesting of PSUs (Note 11)	111,748	511	(511)	-	-	-
Share-based payments (Note 11)	-	-	6,666	-	-	6,666
Net earnings for the year	-	-	-	-	33,163	33,163
Balance at December 31, 2023	234,879,174	\$ 146,161	\$ 30,972	\$ (257)	\$ 174,016	\$ 350,892

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

K92 MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

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

1. NATURE OF BUSINESS

K92 Mining Inc. (the “**Company**”) was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on March 22, 2010. The Company’s shares are listed on 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 production of gold, copper and silver at the Kainantu Gold Mine as well as exploration and development of mineral deposits in the immediate vicinity of the mine, including Blue Lake, in Papua New Guinea.

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 consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS).

Basis of Presentation

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

These consolidated financial statements of the Company 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.

The consolidated financial statements were approved and authorized for issue by the Board of Directors on April 1, 2024.

Material accounting judgements, estimates and assumptions

The preparation of consolidated financial statements requires management to make estimates about, and apply assumptions or judgment to, future events and other matters that affect the reported amounts of the Company’s assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company’s consolidated financial statements are prepared.

- a) Sources of estimation uncertainty that have a risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next twelve months:

Depreciation and depletion of property, plant and equipment

Property, plant and equipment is the largest component of the Company’s assets and, as such, the depreciation of these assets has a significant effect on the Company’s financial statements.

Mining plant and equipment and other capital assets are depreciated over their expected economic lives using either the units of production method or the straight-line method. Depletion of each mineral property asset is provided on the units of production basis using the total number of tonnes of ore mined or tonnes of ore processed over the estimated life of mine production. For mineral property assets depleted over the estimated life of mine production, a change in the mineral resource would result in a change in the rate of depletion for that mineral property asset. For long-lived assets that are depreciated over the estimated life of mine on a straight-line basis, a change in the estimated life of mine would result in a change in the rate of depreciation.

K92 MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

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

2. BASIS OF PREPARATION (cont'd...)

Material accounting judgements, estimates and assumptions (cont'd...)

Environmental rehabilitation provision

The Company has obligations for the future restoration of its mining licence area. In most instances, removal of assets and restoration of surrounding areas occurs many years into the future. This requires assumptions regarding the removal date of infrastructure, the extent of reclamation activities required, the engineering methodology for estimating future costs, future removal technologies in determining removal cost, and a discount rate to determine the present value of the future cash outflows.

Mineral Resources

Mineral resource estimates are based on various assumptions relating to operating matters. These include assumptions such as production costs, mining and processing recoveries, cut-off grades, long term commodity prices, and inflation rates. Cost estimates are based on preliminary economic assessment estimates or operating history, and estimates are prepared by appropriately qualified persons (as defined in National Instrument 43-101).

Estimated recoverable resources and estimated life of mine production are used to determine the depreciation of property, plant and equipment, as an input to the projection of future taxable profits which support assessments of deferred income tax asset recoverability and to forecast the timing of the payment of reclamation and closure cost obligations.

b) Accounting policy judgements:

Impairment indicator assessment for property, plant and equipment

Property, plant and equipment are tested for impairment when events or changes in circumstance indicate that the carrying value may be higher than the recoverable amount. Judgement is required in assessing whether certain factors would be considered an indicator of impairment. Management evaluates both internal and external factors in determining whether there are any indicators of impairment, such as a significant decline in the market value of the Company's share price, significant reductions in the quantity and/or grade of the recoverable resources, changes in metals prices, capital and operating costs, or changes in external market data that has the potential to impact foreign exchange or interest rates.

No impairment indicators were identified by management as at December 31, 2023.

3. MATERIAL ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the subsidiaries controlled by the Company. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

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

December 31, 2023

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

3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Basis of consolidation (cont'd...)**

The consolidated financial statements include the financial statements of the Company and its legal subsidiaries which are fully owned:

Subsidiary	Country of Incorporation
K92 Mining (Australia) Pty Ltd.	Australia
K92 Holdings International Limited	British Virgin Islands
K92 Mining Limited	Papua New Guinea
Kainantu Employee Trust Ltd.	Canada

Earnings per share

Basic earnings per share is calculated by dividing the net earnings for the year attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated based on the net earnings for the year attributable to shareholders divided by the weighted average of the common shares outstanding after adjusting for the effects of all potentially dilutive common shares. This method assumes potential common shares were converted into common shares at the beginning of the period and outstanding in the money stock options were exercised with the proceeds from such exercises used to acquire common shares at the average market price during the year. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

Cash and equivalents

Cash and cash equivalents comprise cash on deposit with banks and highly liquid short-term interest-bearing investments that may be redeemed at any time or with a term to maturity at the date of purchase of 90 days or less which are subject to an insignificant risk of change in value.

Impairment

At the end of each reporting period, the Company's property, plant and equipment assets are reviewed to determine whether there is any indication that those assets may be impaired. Impairment assessments are conducted at the level of cash-generating units ("CGU"). If such indication exists, the recoverable amount of the CGU is estimated to determine the extent of the impairment, if any. The recoverable amount of the CGU is the higher of fair value less costs of disposal and value in use ("VIU"). Fair value is determined as the amount that would be obtained from the sale of the CGU in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. If the recoverable amount of a CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount, up to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

K92 MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

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

3. MATERIAL ACCOUNTING POLICIES (cont'd...)

Foreign exchange

Functional currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities is the United States dollar.

Foreign currency transactions

Transactions in foreign currencies are initially recorded into the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the statement of financial position date. Nonmonetary assets and liabilities are translated at historical exchange rates, unless the item is carried at fair value, in which case it will be translated at the exchange rate in effect at the date when the fair value was determined.

Presentation currency

The Company presents its consolidated financial statements in United States dollars.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for items not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, nor differences relating to investments in subsidiaries where the timing of reversal of the temporary difference can be controlled and it is not probable that they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the excess.

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

December 31, 2023

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

3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Provisions***Reclamation and closure cost obligations*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral property assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its present value in the period in which it is incurred if a reasonable estimate of the cost can be made. The Company records the present value of estimated future cash flows, adjusted for inflation, associated with reclamation as a liability, at a risk-free rate, when the liability is incurred, and increases the carrying value of the related assets by that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. Each period, the liability is increased to reflect the passage of time (accretion expense) and for changes in the estimated future cash flows. The Company recognizes environmental liabilities on a site-by-site basis when it can be reliably estimated.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation.

Inventories

Ore stockpile, concentrate and doré are measured at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all expenditures directly attributable to mineral extraction, processing and overheads that are incurred in extracting and processing ore. Net realizable value is determined with reference to relevant market prices, less estimated costs of completion (including royalties payable).

Mine supplies, consumables and fuel inventory are valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A periodic review is undertaken to determine the extent of any provision for obsolescence.

Exploration and evaluation assets*Exploration and evaluation licences*

All direct costs related to the acquisition of mineral property interests are capitalized on a property-by-property basis.

Exploration and evaluation expenditures

Exploration costs are charged to the statement of operations in the year incurred until the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, in which case subsequent costs incurred to develop a property are capitalized into property, plant and equipment.

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

December 31, 2023

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

3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Exploration and evaluation assets (cont'd...)***Exploration and evaluation expenditures (cont'd...)*

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors such as but not limited to:

- The extent to which mineral reserves or mineral resources have been identified through a feasibility study or similar level document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits, and
- The status of mining leases or permits.

In addition, commercial viability is deemed to be achieved when the Company determines that the project will provide a satisfactory return relative to its perceived risks. Mineral resources may be declared for an undeveloped mining project before its commercial viability has been fully determined.

Exploration and evaluation assets are tested for impairment immediately prior to reclassification to mineral properties.

Property, plant and equipment

The following table outlines the methods used to depreciate property, plant and equipment:

Mineral properties	Units of production
Plant and equipment	Units of production
Vehicles	Straight line 3 years
Office equipment	Straight line 3 years
Mobile fleet	Straight line 4 years
Equipment under lease	Straight line 3 - 4 years
Infrastructure and equipment	Straight line 3 - 10 years

Plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The costs are depreciated on either a straight-line basis over the estimated useful life of the related asset or on a units of production basis based on the estimated remaining life of the asset.

Mineral properties are carried at cost less accumulated depletion and impairment losses. The costs associated with acquiring and developing mineral properties, including expenses for mine development that provides access to additional sources of mineral reserves or resources, are capitalized to the mineral property. Once the mineral property is in production, it will be depleted based on the estimated life of mine production method. The costs of developing the mineral property are capitalized either on a per level basis or across the entire mine as appropriate. The capitalized costs are then depleted on the same basis over the estimated mine production per level or the entire life of mine.

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3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Borrowing Costs**

Borrowing costs directly related to the acquisition or construction of a qualifying asset are capitalized and added to the cost of the asset, until such time as the asset is substantially complete and ready for its intended use. Where funds are borrowed to specifically finance a project, the amount capitalized represents the actual borrowing costs incurred.

Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using the weighted average cost applicable to relevant general borrowing of the Company during the period. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Revenue Recognition

Revenue from the sale of gold concentrate and doré is recognized when the Company transfers control of the asset to the customer. Indicators of transfer of control: that the Company has the present right to payment; the customer has legal title; physical possession has been transferred to the customer; the customer has the risk and rewards of ownership; and customer acceptance.

Concentrate sales

The transfer of control occurs when the gold concentrate is assayed and delivered to a holding yard in Lae, Papua New Guinea, where it is stored and clearly marked in the name of the buyer, at which point the Company can provide a provisional invoice to the buyer for the sale.

The Company's contracts with customers provide for a provisional payment based on provisional assays and quoted metal prices. Final settlement is based on the final assays and market prices determined over a specified quotational period, which is typically three months after vessel departure from the port of Lae, Papua New Guinea. Revenue is recorded at the estimated amount to be received when the criteria for revenue recognition are met, and adjustments are made to settlements receivable in subsequent periods based on fluctuations in market prices until the date of final metal pricing. Any subsequent changes in the fair value of settlements receivable are recorded in revenue, but they are shown separately from revenue arising from contracts with customers, which is disclosed separately in the notes to the financial statements.

Doré sales

The transfer of control and sale of the gold doré occurs on the date of settlement, which is the date when risk and title to the inventory have passed to the buyer.

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3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Financial instruments***Financial assets*

Financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

- a) Fair value through profit or loss (“FVTPL”) – financial assets are classified as fair value through profit or loss if they do not meet the criteria for amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the consolidated statement of operations and comprehensive income (loss).
- b) Amortized cost – financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: 1) the objective of the Company’s business model for these financial assets is to collect their contractual cash flows; and 2) the assets contractual cash flow represents solely payments of principal and interest.

The Company’s cash and cash equivalents and accounts receivables are recorded at amortized cost.

The Company’s trade receivables are recorded at FVTPL. Trade receivables are amounts due from customers for the sale of gold concentrate in the ordinary course of business. Changes in the fair value of trade receivables are recorded as a separate component of revenue.

Financial liabilities

All financial liabilities are initially recorded at fair value and subsequently measured as FVTPL or at amortized cost. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

Financial liabilities measured at amortized cost are initially recognized at fair value less directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company’s accounts payable are recorded at amortized cost.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit loss for performing assets and the lifetime expected credit loss if the credit risk on the financial assets has increased significantly since initial recognition. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the expected credit losses are reversed after the impairment was recognized.

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3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Financial instruments (cont'd...)***Derivative financial instruments*

The Company does not apply hedge accounting and consequently all derivatives are recorded at fair value with changes in fair value recognized in net earnings as derivative gains or losses. 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.

Leases

The Company recognizes whether a contract is, or contains, a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. As a lessee, the Company recognizes a Right-of-Use (“**ROU**”) asset and a lease liability at the commencement date of the lease.

The ROU asset is initially measured at cost, which is composed of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any reclamation and closure costs, less any lease incentives received.

The ROU asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the ROU asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are composed of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

The Company does not recognize ROU assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.

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3. MATERIAL ACCOUNTING POLICIES (cont'd...)**Share-based payments**

The Company makes share-based payments, including restricted share units (“**RSUs**”), performance share units (“**PSUs**”) and options, to certain employees. The cost of share-based payments is recorded based on the estimated fair-value at the grant date and charged to earnings over the vesting period.

Initial application of amendments to accounting standards*Disclosure of Accounting Policies - Amendments to IAS 1*

Effective January 1, 2023, the Company adopted the amendments to IAS 1 Presentation of Financial Statements, focusing on the disclosure of material accounting policies over significant ones. These amendments aim to enhance the transparency and relevance of financial disclosures by requiring entities to identify and disclose accounting policies that are material in nature. The implementation of these amendments did not have a significant impact on the disclosure of accounting policies in these Consolidated Financial Statements.

New and amended accounting standards issued but not yet effective

There are no accounting standards, amendments or interpretations that are not yet effective that are expected to have a material impact on the Company.

4. RECEIVABLES

As at	December 31, 2023	December 31, 2022
Trade receivables	\$ 15,030	\$ 15,462
GST receivable	12,457	13,474
Other	<u>362</u>	<u>321</u>
Total	<u>\$ 27,849</u>	<u>\$ 29,257</u>

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5. INVENTORIES

As at	December 31, 2023	December 31, 2022
Mine supplies, consumables and fuel	\$ 26,980	\$ 20,806
Ore stockpile	3,986	4,728
Concentrate and doré	5,057	2,976
Total	\$ 36,023	\$ 28,510

During the year ended December 31, 2023, the cost of inventory recognized as an expense in cost of sales amounted to \$111.4 million (2022 - \$96.3 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	December 31, 2023	December 31, 2022
Trade payables	\$ 13,735	\$ 11,542
Other accounts payable and trade-related accruals	8,191	6,901
Employee accruals	8,737	8,593
Landowners' compensation accrual	11,849	9,930
Total	\$ 42,512	\$ 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.

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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, 2021	\$ 74,880	\$ 40,221	\$ 30,599	\$ 15,866	\$ 16,470	\$ 178,036
Additions	19,110	6,398	-	956	42,371	68,835
Disposals and write-downs	-	-	(1,164)	-	-	(1,164)
Reclamation changes 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	23,655	9,698	11,658	233	64,197	109,441
Disposals and write-downs	-	(2,945)	(9,369)	-	-	(12,314)
Reclamation changes in estimate	(186)	-	-	-	-	(186)
Transfers	-	8,816	10,901	-	(19,717)	-
Balance, December 31, 2023	\$ 120,250	\$ 73,525	\$ 53,089	\$ 17,055	\$ 81,520	\$ 345,439
Accumulated depreciation						
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 and write-downs	-	-	(1,091)	-	-	(1,091)
Balance, December 31, 2022	16,479	10,458	23,942	7,161	-	58,040
Depreciation and depletion	6,557	10,420	10,548	5,347	-	32,872
Disposals and write-downs	-	(1,261)	(8,244)	-	-	(9,505)
Balance, December 31, 2023	\$ 23,036	\$ 19,617	\$ 26,246	\$ 12,508	\$ -	\$ 81,407
Carrying amounts						
As at December 31, 2022	\$ 80,302	\$ 47,498	\$ 15,957	\$ 9,661	\$ 37,040	\$ 190,458
As at December 31, 2023	\$ 97,214	\$ 53,908	\$ 26,843	\$ 4,547	\$ 81,520	\$ 264,032

¹ Construction in Progress at December 31, 2023 consists of \$49.9 million (2022 - \$32.1 million) in Twin Incline expansion costs, \$5.3 million (2022 - \$Nil) in Puma Ventilation Drive costs, \$14.4 million (2022 - \$Nil) in Stage 3 Expansion costs, and \$11.9 million (2022 - \$4.9 million) in other expansion costs.

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

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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	December 31, 2023	December 31, 2022
Balance, beginning of year	\$ 8,478	\$ 5,571
Change in estimate	(186)	2,791
Accretion	592	116
Balance, end of year	\$ 8,884	\$ 8,478

The provision has been measured as the present value of the estimated future rehabilitation costs using an estimated mine life of 9 years. The estimated cash flows used to measure the provision were discounted to a present value using a discount rate of 12.4% (2022 – 13.4%) and an inflation rate of 4.7% (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 \$19.6 million (2022 - \$19.1 million), with first expenditures anticipated in 2032.

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 year-ended December 31, 2023, the Company incurred \$0.8 million (2022 - \$1.3 million) related to interest and finance expenses on the lease liabilities.

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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	December 31, 2023	December 31, 2022
Lease liabilities, beginning of year	\$ 10,097	\$ 14,097
Additions	233	956
Payments	(6,082)	(6,193)
Interest expense	829	1,328
Adjustment on currency translation	(317)	(91)
Balance, end of year	\$ 4,760	\$ 10,097
Lease liabilities, current portion	\$ 4,156	\$ 5,324
Lease liabilities, non-current portion	\$ 604	\$ 4,773

The Company's lease liabilities at December 31, 2023, are summarized as follows:

	Within 1 Year	2-6 Years	Total
Future undiscounted lease payments	\$ 4,409	\$ 711	\$ 5,120
Future finance charges	(253)	(107)	(360)
Total discounted lease liabilities	\$ 4,156	\$ 604	\$ 4,760

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 December 31, 2023, were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term	Settlement Date
Gold call contracts – sold	5,616	\$2,010	January 2024	March 28, 2024
Gold put contracts – purchased	5,616	\$1,810	January 2024	March 28, 2024
Gold call contracts – sold	13,583	\$2,071	February 2024	April 30, 2024
Gold put contracts – purchased	13,583	\$1,871	February 2024	April 30, 2024
Gold call contracts – sold	7,004	\$2,138	March 2024	May 31, 2024
Gold put contracts – purchased	7,004	\$1,938	March 2024	May 31, 2024

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

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

For the year ended	December 31, 2023	December 31, 2022
Realized loss	\$ (2,660)	\$ (29)
Unrealized gain (loss)	541	(1,440)
Net realized loss	\$ (2,119)	\$ (1,469)

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

As at	December 31, 2023	December 31, 2022
Derivative assets	\$ -	\$ -
Derivative liabilities	\$ (1,206)	\$ (1,747)

Fair values 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 December 31, 2023, the Company had 234,879,174 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 year-ended December 31, 2023.

Equity compensation

The Company's share compensation plan (the "**Share Compensation Plan**") provides for the issuance of Options, RSUs, and PSUs. The Share Compensation Plan was amended effective June 29, 2023 (the "**Amended Plan**").

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.

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11. SHARE CAPITAL AND RESERVES (cont'd...)**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	<u>(104,600)</u>	<u>9.22</u>
Outstanding, December 31, 2022	8,805,850	\$ 5.06
Exercised	(1,210,000)	1.97
Forfeited	<u>(267,000)</u>	<u>7.44</u>
Outstanding, December 31, 2023	7,328,850	\$ 5.48
Number currently exercisable	<u>7,328,850</u>	<u>\$ 5.48</u>

The following incentive stock options were outstanding at December 31, 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
1.00 – 1.99	1,611,750	1,611,750	1.79	0.54
2.00 – 2.99	235,000	235,000	2.17	0.89
3.00 – 3.99	891,000	891,000	3.84	1.09
4.00 – 4.99	10,200	10,200	4.00	1.48
5.00 – 8.99	<u>4,580,900</u>	<u>4,580,900</u>	7.27	1.96
	7,328,850	7,328,850	5.48	1.51

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 year-ended December 31, 2023, the Company granted Nil stock options (2022 – Nil).

The weighted average share price at the time of exercise for the year-ended December 31, 2023, was CAD\$6.44 (2022 – CAD\$8.50).

During the year-ended December 31, 2023, the Company recorded share-based payment expense of \$Nil (2022 – \$0.7 million) related to the stock options.

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11. SHARE CAPITAL AND RESERVES (cont'd...)**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 year-ended December 31, 2023, the Company granted 1,243,010 RSUs. The estimated fair value of \$6.0 million is being recognized over the vesting period.

	Number Outstanding	Fair Value
Outstanding, December 31, 2021	150,213	\$ 833
Granted	666,358	3,747
Vested and converted to common shares	(21,459)	(119)
Forfeited	(13,707)	(71)
Outstanding, December 31, 2022	781,405	\$ 4,390
Granted	1,243,010	5,981
Vested and converted to common shares	(177,530)	(931)
Forfeited	(160,232)	(905)
Outstanding, December 31, 2023	1,686,653	\$ 8,535

During the year-ended December 31, 2023, the Company recorded a share-based payment expense of \$3.6 million (2022 – \$1.9 million) related to the vesting of RSUs.

In 2023, the Kainantu Employee Trust Ltd. (the “Trust”) was established with the purpose of managing RSUs for beneficiary employees of the Company. This Trust allows for the receipt of RSUs, facilitates the sale of these shares once they have vested and converted into common shares, and manages the distribution of the resulting proceeds to the beneficiary employees. As of December 31, 2023, the Trust held 225,000 RSUs on behalf of these employees.

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.

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 year-ended December 31, 2023, the Monte Carlo pricing model used historical share price volatility ranging from 51% to 52% (2022 – 54% to 61%), historical share price volatility of its peer group ranging from 34% to 48% (2022 – 38% to 47%) and a Canadian risk-free rate of 3.5% to 4.7% (2022 – 2.0% to 3.5%).

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11. SHARE CAPITAL AND RESERVES (cont'd...)**Performance share units (cont'd...)**

During the year-ended December 31, 2023, the Company granted 1,189,509 PSUs. The estimated fair value of \$5.0 million is being recognized over the vesting period.

	Number Outstanding	Fair Value
Outstanding, December 31, 2021	-	\$ -
Granted	780,006	3,536
Forfeited	<u>(20,563)</u>	<u>(85)</u>
Outstanding, December 31, 2022	759,443	\$ 3,451
Granted	1,189,509	5,024
Vested and converted to common shares	(105,670)	(511)
Forfeited	<u>(202,753)</u>	<u>(937)</u>
Outstanding, December 31, 2023	<u>1,640,529</u>	<u>\$ 7,027</u>

During the year-ended December 31, 2023, the Company recorded a share-based payment expense of \$3.1 million (2022 – \$1.7 million) 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	December 31, 2023	December 31, 2022
Income for the year	\$ 33,163	\$ 35,523
Basic weighted average number of shares outstanding	234,158,827	229,007,329
Effect of dilutive securities:		
Stock options	1,683,952	3,182,116
Restricted share units	1,170,038	548,342
Performance share units	1,357,177	600,107
Diluted weighted average number of shares outstanding	<u>238,369,994</u>	<u>233,337,894</u>
Earnings per share		
Basic	\$ 0.14	\$ 0.16
Diluted	<u>\$ 0.14</u>	<u>\$ 0.15</u>

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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	December 31, 2023		December 31, 2022	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 15,030	\$ -	\$ 15,462
Derivative liabilities (Note 10)	-	(1,206)	-	(1,747)
	\$ -	\$ 13,824	\$ -	\$ 13,715

The fair value of the Company's trade receivables 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 year-ended December 31, 2023.

As at December 31, 2023, and December 31, 2022, the carrying amounts of cash and cash equivalents, short-term treasury bills, 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.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and trade receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**Financial risk factors (cont'd...)***Liquidity risk*

The Company has in place a planning and budgeting process to manage its liquidity risk and ensure it has sufficient liquidity to meet liabilities when due. As at December 31, 2023, the Company had a cash and cash equivalents and short-term treasury bills total balance of \$79.1 million (2022 - \$109.9 million), operating cash-flow for the year ended December 31, 2023 of \$74.4 million (2022 - \$73.1 million) to settle current liabilities of \$47.9 million (2022 - \$48.2 million). The Company's accounts payable and accrued liabilities typically have contractual maturities of 30 days and are subject to normal trade terms or are due on demand.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company's financial assets that are exposed to interest rate risk consist of cash and cash equivalents and short-term treasury bills. The Company's current policy is to invest excess cash in highly liquid short-term interest-bearing investments issued by its banking institutions. The following outlines the impact to pre-tax earnings (loss) of a 1% change in interest rates on cash and cash equivalent balances held as of December 31, 2023:

	Impact of price change on pre-tax earnings (loss)	
	1% increase	1% decrease
Interest income	\$ 497	\$ (497)

b) Foreign currency risk

The Company is subject to foreign currency risk on financial instruments denominated in currencies other than the United States Dollar. Through this, the Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, prepayments, income tax prepayments, accounts payable and accrued liabilities and reclamation and closure costs obligations that are denominated in Australian Dollars, Papua New Guinea Kina and Canadian Dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. As these exchange rates fluctuate against the United States Dollar, the Company will experience foreign exchange gains and losses.

The following table outlines the impact to pre-tax earnings (loss) of a 10% change in foreign exchange rates on cash and cash equivalent balances held in currencies other than the United States Dollar as of December 31, 2023:

	Impact of price change on pre-tax earnings (loss)	
	10% increase	10% decrease
Cash and cash equivalents	\$ 5,316	\$ (5,316)

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**Financial risk factors (cont'd...)***Market risk (cont'd...)*

c) Price risk

The Company is exposed to commodity price risk from fluctuations in market prices of the commodities that the Company produces. Gold concentrate is “provisionally priced” whereby the selling price is subject to final adjustment at the end of a period normally ranging from 30 to 90 days after delivery to the customer. Revenue is recognized on provisionally priced sales based on estimates of fair value of the consideration receivable which is based upon current market prices. At each reporting date, the trade receivable is marked to market based on the estimated settlement price. As at December 31, 2023, the fair value of trade receivables was calculated using an estimated forward gold price of \$2,041 per ounce (2022 - \$1,818 per ounce) and using an estimated forward copper price of \$3.85 per pound (2022 - \$3.79 per pound).

The following table outlines the trade receivables impact of a 10% change in gold commodity prices to pre-tax earnings (loss) as of December 31, 2023:

	Impact of price change on pre-tax earnings (loss)	
	10% increase	10% decrease
Trade receivables – gold	\$ 5,940	\$ (5,940)
Trade receivables – copper	\$ 1,218	\$ (1,218)

Commodity contracts

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 following table outlines the derivative liabilities impact of a 10% change in gold commodity prices to pre-tax earnings (loss) as of December 31, 2023:

	Impact of price change on pre-tax earnings (loss)	
	10% increase	10% decrease
Derivative assets and liabilities (net)	\$ (4,136)	\$ 1,810

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 December 31, 2023, a single Canadian chartered bank holds approximately 42% 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.

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

Financial risk factors (cont'd...)

Loan Agreement

On September 26, 2023, the Company entered into a Loan Agreement with Trafigura Pte Ltd (the "**Lender**" or the "**Offtaker**" regarding concentrate sales). Under this agreement, the Lender will provide a \$100 million senior secured loan (the "**Loan**") to the Company, with a four-year term from the date of the first advance of funds. The Loan will include an upfront fee, a commitment fee, and an interest rate with a one-year interest-only repayment grace period. It is secured by certain collateral, which comprises a charge over the Company's assets and a pledge of shares in the Company's subsidiaries (the "**Security**").

The initial drawdown of \$25.0 million under the Loan is contingent upon certain conditions precedent, including but not limited to, obtaining regulatory approvals. Subsequent drawdowns are dependent on the registration of certain items forming part of the Security. In case of an event of default under the Loan, the Lender reserves the right to accelerate repayment of the Loan, and convert all or any portion of the initial drawdown into common shares of the Company (the "**Conversion Right**"). This Conversion Right will expire upon satisfaction of having the Security registered.

As of December 31, 2023, the conditions precedent had not been satisfied; therefore, no drawdowns of the Loan were made.

13. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the development of the Kainantu Expansion Project. Capital is composed of the Company's shareholders' equity. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Company intends to continue to assess new resource properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

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

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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. Corporate & Other includes the Company's head office function in Canada.

Year ended December 31, 2023	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 41,545	\$ (8,382)	\$ 33,163
Capital expenditures	\$ 109,208	\$ 233	\$ 109,441
As at December 31, 2023			
Property, plant and equipment	\$ 262,915	\$ 1,117	\$ 264,032
Total assets	\$ 345,791	\$ 67,041	\$ 412,832
Total liabilities	\$ 58,090	\$ 3,850	\$ 61,940

Year ended December 31, 2022	Kainantu Project	Corporate & Other	Total
Net income (loss)	\$ 47,223	\$ (11,700)	\$ 35,523
Capital expenditures	\$ 68,242	\$ 593	\$ 68,835
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

15. SUPPLEMENTAL CASH FLOW INFORMATION

As at	December 31, 2023	December 31, 2022
Cash and cash equivalents		
Cash	\$ 37,537	\$ 69,615
Cash equivalents	<u>35,115</u>	<u>40,323</u>
Total	\$ 72,652	\$ 109,938

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. SUPPLEMENTAL CASH FLOW INFORMATION (cont'd...)

The following non-cash financing and investing activities occurred during the year:

For the year-ended	December 31, 2023	December 31, 2022
Change in accounts payable related to capital projects	\$ 3,900	\$ (1,345)
Change in deposits on equipment	\$ 4,338	\$ 1,933
Estimate of the reclamation and closure cost obligations	\$ (186)	\$ 2,791
ROU assets (net of disposals)	\$ 233	\$ 855

During the year-ended December 31, 2023, as part of its investing activities, the Company purchased \$6.4 million in short-term US Treasury bills. These have been shown separately from cash and cash equivalents on the statement of financial position as of December 31, 2023.

16. REVENUE

For the year ended	December 31, 2023	December 31, 2022
Gold in concentrate	\$ 162,510	\$ 177,423
Copper in concentrate	25,986	20,722
Silver in concentrate	2,336	1,431
Gold and silver in doré	19,487	11,876
Treatment and refining charges	(7,626)	(7,103)
Revenue from contracts with customers	202,693	204,349
Loss on receivables at fair value	(2,438)	(16,163)
Total	\$ 200,255	\$ 188,186

Offtake Arrangement

On September 26, 2023, the Company's Papua New Guinea subsidiary, K92 Mining Limited, and the Offtaker revised the offtake agreement initially dated July 1, 2019, (the "**Amended Offtake Agreement**"). According to the terms of the Amended Offtake Agreement, starting January 1, 2026, and continuing for seven consecutive calendar years or until a minimum of 600,000 dry metric tons of concentrate have been delivered, the Offtaker will purchase gold and copper concentrates produced at the Kainantu Gold Mine in Papua New Guinea at London Metals Exchange spot prices.

The Amended Offtake Agreement's implementation is contingent upon certain conditions precedent. These include, but are not limited to, the approval of its terms by the Bank of Papua New Guinea in accordance with the Central Banking (Foreign Exchange and Gold) Regulation, and the fulfillment of the conditions precedent outlined in the Loan Agreement.

As of December 31, 2023, the conditions precedent had not been satisfied.

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

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17. COST OF SALES

For the year ended	December 31, 2023	December 31, 2022
Direct mining and milling	\$ 24,684	\$ 20,421
Maintenance	15,354	16,487
Other site costs	34,058	32,352
Net smelter royalties	4,929	5,040
Change in inventories	<u>(1,339)</u>	<u>352</u>
	77,686	74,652
Non-cash costs		
Depreciation and depletion	31,877	20,450
Share-based payments	<u>1,825</u>	<u>1,170</u>
Total	\$ 111,388	\$ 96,272

18. GENERAL AND ADMINISTRATIVE

For the year ended	December 31, 2023	December 31, 2022
Management, consulting and wages	\$ 4,900	\$ 4,741
Professional fees	327	333
Office, filing and administrative	903	652
Travel	782	387
Investor relations	588	587
Depreciation	<u>158</u>	<u>111</u>
Total	\$ 7,658	\$ 6,811

19. INTEREST AND FINANCE EXPENSE

For the year ended	December 31, 2023	December 31, 2022
Interest on lease liabilities	\$ 829	\$ 1,329
Other interest	2,482	1,890
Accretion expense	<u>592</u>	<u>116</u>
Total	\$ 3,903	\$ 3,335

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

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20. INCOME TAXES**Income tax expense**

The Company's income tax expense is composed of the following:

	December 31, 2023	December 31, 2022
Current income tax expense	\$ 10,831	\$ 17,096
Deferred income tax expense	<u>7,293</u>	<u>7,152</u>
Income tax expense	\$ 18,124	\$ 24,248

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax expense presented in the consolidated statements of operations and earnings is provided below:

	December 31, 2023	December 31, 2022
Income for the year, before taxes	\$ 51,287	\$ 59,771
Statutory Canadian income tax rate	27%	27%
Expected income tax	\$ 13,847	\$ 16,138
Permanent differences	2,913	1,940
Difference in tax rates of foreign jurisdictions	1,479	2,156
Change in unrecognized deductible temporary differences	1,553	2,019
Foreign exchange on translation of deductible temporary differences	(1,046)	(94)
Other	<u>(622)</u>	<u>2,089</u>
Income tax expense	\$ 18,124	\$ 24,248

Deferred income taxes

Deferred income taxes are presented on the statement of financial position as follows:

	December 31, 2023	December 31, 2022
Deferred income tax asset	\$ 3,574	\$ 8,892
Deferred income tax liability	<u>(8,152)</u>	<u>(6,302)</u>
Net deferred income tax (liability) asset	\$ (4,578)	\$ 2,590

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20. INCOME TAXES (cont'd...)**Deferred income taxes (cont'd...)**

The significant components of the Company's deferred tax assets and liabilities were as follows:

	December 31, 2023	December 31, 2022
Property, plant and equipment	\$ 932	\$ 7,318
Accounts payable and accrued liabilities	2,509	1,394
Lease liabilities	133	180
Inventory, mine supplies, consumables and fuel	<u>(8,152)</u>	<u>(6,302)</u>
Net deferred income tax (liability) asset	\$ (4,578)	\$ 2,590

The change for the year in the Company's net deferred tax (liability) asset was as follows:

	December 31, 2023	December 31, 2022
Balance, beginning of the year	\$ 2,590	\$ 9,774
<i>Movement during the year</i>		
Property, plant and equipment	(6,208)	(5,096)
Other	(2,130)	(2,150)
Foreign exchange on translation of deductible temporary differences	<u>1,170</u>	<u>62</u>
Balance, end of the year	\$ (4,578)	\$ 2,590

The Company has tax losses in Canada of approximately \$51.4 million (2022 – \$51.5 million) expiring in various amounts from 2036 to 2042 and tax losses in Australia of approximately \$1.4 million (2022 – \$Nil) without expiry. A deferred tax asset has not been recognized in respect of these tax losses, as it is not probable that sufficient future taxable earnings will be available in the periods when deductions from such potential assets will be realized.

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21. RELATED PARTY TRANSACTIONS

Key management consists of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, President, and the Board of Directors. During the below periods, compensation paid or accrued to key management or companies they controlled is presented in the table below:

Year ended	December 31, 2023	December 31, 2022
Share-based compensation	\$ 4,430	\$ 3,015
Management, consulting and wages	3,539	3,612
Professional fees	313	257

Included in accounts payable and accrued liabilities is \$0.9 million (December 31, 2022 - \$0.9 million) due to key management of the Company, of which \$0.3 million (December 31, 2022 - \$0.3 million) is due to Mining, Processing and Project Consulting Pty Ltd. which is owned by the CEO and Director for management services and \$0.2 (December 31, 2022 - \$0.2 million) is due to the law firm Gowling WLG (Canada) LLP, where one director of the Company is a partner, for professional fees in the normal course of business, non-interest bearing and due on demand.

22. COMMITMENTS**Off-take Agreements**

The Company's concentrate off-take agreement (the "**Offtake Agreement**") dated July 1, 2019, requires the delivery of 100% of concentrate produced at market prices until February 12, 2028, or until 165,000 dry metric tonnes of concentrate has been delivered, at which point the buyer of the Company's concentrate will be entitled to 50% of the annual production to the end of the term. To the year ending December 31, 2023, the buyer has purchased 75,581 dry metric tonnes (2022 – 54,771 dry metric tonnes).

On September 26, 2023, the Company's Papua New Guinea subsidiary, K92 Mining Limited, and the Offtaker revised the Offtake Agreement. According to the terms of the Amended Offtake Agreement, starting January 1, 2026, and continuing for seven consecutive calendar years or until a minimum of 600,000 dry metric tons of concentrate have been delivered, the Offtaker will purchase gold and copper concentrates produced at the Kainantu Gold Mine in Papua New Guinea at London Metals Exchange spot prices.

The Amended Offtake Agreement's implementation is contingent upon certain conditions precedent. These include, but are not limited to, the approval of its terms by the Bank of Papua New Guinea in accordance with the Central Banking (Foreign Exchange and Gold) Regulation, and the fulfillment of the conditions precedent outlined in the Loan Agreement.

As of December 31, 2023, the conditions precedent had not been satisfied.

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22. COMMITMENTS (cont'd...)

Royalty and levy

The Kainantu Project is subject to a 2% net smelter returns royalty payable to local landowners and a 0.50% levy on gross revenues payable to the government in Papua New Guinea. For the year ended December 31, 2023, the Company recorded a total royalty and levy expense of \$4.9 million (2022 - \$5.0 million).

Capital commitments

As of December 31, 2023, the Company committed \$86.1 million (2022: \$Nil) towards significant capital expenditures and procurement of professional services associated with the Stage 3 Expansion.