

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in United States Dollars)

FOR THE QUARTER ENDED MARCH 31, 2018 and 2017

K92 MINING INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Presented in United States Dollars)
(Unaudited)

AS AT	March 31, 2018	December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	\$ 3,789,867	\$ 1,159,538
Receivables (Note 5)	4,593,134	622,377
Inventory (Note 6)	2,771,116	2,045,636
Prepayments (Note 7)	<u>835,402</u>	<u>642,354</u>
	11,989,519	4,469,905
Property, plant and equipment (Note 11)	<u>36,622,478</u>	<u>37,566,840</u>
	<u>\$ 48,611,997</u>	<u>\$ 42,036,745</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 8,021,030	\$ 9,902,887
CRH financing (Note 13)	5,742,884	4,420,366
Finance lease (Note 11)	<u>200,325</u>	<u>242,787</u>
	13,964,239	14,566,040
Finance lease (Note 11)	46,042	85,990
CRH financing (Note 13)	2,618,533	3,688,819
Reclamation and closure cost obligations (Note 14)	<u>2,512,657</u>	<u>2,354,323</u>
	19,141,471	20,695,172
Shareholders' equity		
Share capital (Note 15)	50,358,449	46,626,267
Preferred shares (Note 13 and 15)	1,018,876	1,018,876
Contributed surplus (Note 15)	10,656,055	9,366,514
Accumulated other comprehensive loss	(335,356)	(125,516)
Deficit	<u>(32,227,498)</u>	<u>(35,544,568)</u>
	<u>29,470,526</u>	<u>21,341,573</u>
	<u>\$ 48,611,997</u>	<u>\$ 42,036,745</u>

Nature of business and going concern (Note 1)

Subsequent events (Note 18)

Approved and authorized by the Audit Committee on May 17, 2018:

“Saurabh Handa”

Director

“Mark Eaton”

Director

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

K92 MINING INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(Presented in United States Dollars)

(Unaudited)

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
REVENUE¹ (Note 8)	\$ 8,526,205	\$ -
COST OF SALES¹ (Note 9)	<u>(3,766,834)</u>	<u>-</u>
	4,759,371	-
EXPENSES		
Accretion expense (Note 14)	\$ 11,481	\$ 68,034
Consulting and administrative (Note 10)	694,952	558,537
Exploration and evaluation expenditures	84,529	91,794
Foreign exchange	(20,227)	29,895
Investor relations	70,303	293,195
Share-based payments	<u>293,278</u>	<u>518,161</u>
	\$ (1,134,316)	\$ (1,559,616)
OTHER		
Interest	(73,180)	-
Fair value gain (loss) on gold purchase agreement (Note 13)	(185,544)	(1,892,151)
Amortization of deferred loss (Note 13)	<u>(49,261)</u>	<u>(2,185,826)</u>
Income (loss) for the period	\$ 3,317,070	\$ (5,637,593)
Items that may be reclassified to net loss		
Other comprehensive income		
Cumulative translation adjustment	<u>(209,840)</u>	<u>213,928</u>
Income (loss) and comprehensive income (loss) for the period	<u>\$ 3,107,230</u>	<u>\$ (5,423,665)</u>
Basic and diluted income (loss) per common share	<u>\$ 0.02</u>	<u>\$ (0.05)</u>
Weighted average number of common shares outstanding	165,759,271	121,094,212
Weighted average number of diluted common shares outstanding	182,661,933	121,094,212

¹ Revenue includes concentrate sales from February 1, 2018, the date of declaration of commercial production, to March 31, 2018.

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

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

For the three months ended	March 31, 2018	March 31, 2017
CASH FROM OPERATING ACTIVITIES		
Income (loss) for the period	\$ 3,317,070	\$ (5,637,593)
Items not affecting cash:		
Unrealized foreign exchange gain	191,721	173,880
Accretion expense (Note 14)	11,481	68,034
Accrued interest	75,912	-
Amortization of deferred loss (Note 13)	49,261	2,185,826
Fair value loss (gain) on gold purchase agreement (Note 13)	185,544	1,892,151
Share-based payments (Note 15)	318,873	518,161
Depletion (Note 19)	526,115	-
Changes in non-cash working capital items:		
Inventory	(725,480)	(94,798)
Receivables	(3,560,701)	50,698
Prepayments	(193,048)	54,776
Accounts payable and accrued liabilities	<u>294,696</u>	<u>316,440</u>
Net cash provided by (used in) operating activities	<u>491,444</u>	<u>(472,425)</u>
CASH FROM INVESTING ACTIVITIES		
Lease payments	(82,410)	-
Proceeds from pre-production concentrate sales	3,690,501	-
Acquisition of Property, plant and equipment	<u>(6,037,261)</u>	<u>(5,085,223)</u>
Net cash used in investing activities	<u>(2,429,170)</u>	<u>(5,085,223)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock (Note 15)	5,140,870	7,555,158
Proceeds on exercise of warrants	-	215,268
Proceeds on exercise of stock options	-	15,708
Purchase of gold credits (Note 13)	(89,927)	(3,765,600)
Share issuance costs (Note 15)	<u>(438,020)</u>	<u>(26,284)</u>
Net cash provided by financing activities	<u>4,612,923</u>	<u>3,994,250</u>
Change in cash and cash equivalents during the period	2,675,197	(1,563,398)
Effect of foreign exchange on cash	(44,868)	39,949
Cash and cash equivalents, beginning of period	<u>1,159,538</u>	<u>4,291,697</u>
Cash and cash equivalents, end of period	\$ 3,789,867	\$ 2,768,248
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 17)

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

K92 MINING INC.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**

(Presented in United States Dollars)

	<u>Share capital</u>		Preferred shares	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
	Number	Amount					
Balance at December 31, 2016	119,426,527	\$ 28,315,925	\$ 1,018,876	4,268,350	(938,836)	(23,475,531)	9,188,784
Private placements	13,333,333	6,187,414	-	1,367,744	-	-	7,555,158
Share issuance costs, units	1,053,333	464,920	-	131,937	-	-	596,857
Share issuance costs, units	-	(596,857)	-	-	-	-	(596,857)
Share issuance costs, cash	-	(26,284)	-	-	-	-	(26,284)
Exercise of warrants	569,857	253,096	-	(37,828)	-	-	215,268
Exercise of stock options	46,200	18,776	-	(3,068)	-	-	15,708
Share-based payments (Note 15)	-	-	-	518,161	-	-	518,161
Cumulative translation adjustment	-	-	-	-	213,928	-	213,928
Loss for the period	-	-	-	-	-	(5,637,593)	(5,637,593)
Balance at March 31, 2017	134,429,250	34,616,990	1,018,876	6,245,296	(724,908)	(29,113,124)	12,043,130
Private placements	20,693,250	10,176,178	-	2,133,127	-	-	12,309,305
Share issuance costs, cash	-	(915,150)	-	-	-	-	(915,150)
Share issuance costs, warrants	-	(236,351)	-	236,351	-	-	-
Exercise of warrants	6,578,210	2,966,074	-	(468,373)	-	-	2,529,394
Exercise of stock options	46,200	18,526	-	(3,067)	-	-	15,459
Share-based payments (Note 15)	-	-	-	1,191,487	-	-	1,191,487
Cumulative translation adjustment	-	-	-	-	599,392	-	599,392
Loss for the period	-	-	-	-	-	(6,431,444)	(6,431,444)
Balance at December 31, 2017	161,746,910	46,626,267	1,018,876	9,366,514	(125,516)	(35,544,568)	21,341,573
Private placements	14,444,500	4,309,123	-	831,747	-	-	5,140,870
Share issuance costs, cash	-	(438,020)	-	-	-	-	(438,020)
Share issuance costs, warrants	-	(138,921)	-	138,921	-	-	-
Share-based payments (Note 15)	-	-	-	318,873	-	-	318,873
Cumulative translation adjustment	-	-	-	-	(209,840)	-	(209,840)
Income for the period	-	-	-	-	-	3,317,070	3,317,070
Balance at March 31, 2018	176,191,410	\$ 50,358,449	\$ 1,018,876	\$ 10,656,055	\$ (335,356)	\$ (32,227,498)	\$ 29,470,526

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

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018

(Presented in United States Dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

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 Tier 1 of the TSX Venture Exchange (“**TSX-V**”) under the symbol KNT. 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 and principal address is 488 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7. The registered and records office is 550 Burrard Street, Vancouver, British Columbia, V6C 0A3.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

As at March 31, 2018, the Company had a cumulative deficit of \$32,227,498, working capital deficit of \$1,800,708 and cash and cash equivalents of \$3,789,867. For the three month period ended March 31, 2018, the Company reported income of \$3,317,070 and cash inflows from operating activities of \$491,444. Continued operations of the Company are dependent on the Company’s ability to receive financial support, necessary financings, or generate profitable operations in the future. There can be no assurance that adequate additional financing will be available at terms acceptable to the Company or at all, which casts significant doubt on the Company’s ability to continue as a going concern.

The condensed consolidated interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations; these adjustments could be material.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and follow the same accounting policies and methods of application, except as explained in Note 3, as the Company’s most recent annual audited consolidated financial statements which were prepared in accordance with IFRS as issued by the IASB.

Basis of Presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial liabilities measured at fair value.

The condensed consolidated interim financial statements of the Company are presented in United States dollars, which is the functional currency of K92 Mining Ltd. and K92 Holdings International Limited. The parent company, K92 Mining Inc., has a functional currency of the Canadian Dollar and K92 Mining (Australia) Pty Ltd. has a functional currency of the Australian Dollar.

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018

(Presented in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2017 except for those policies noted below.

IFRS 15 – Revenue from contracts with customers

The Company adopted IFRS 15 effective January 1, 2018. IFRS 15 addresses revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service.

The Company did not previously have a revenue policy and there were no significant changes in accounting.

The following is the new accounting policy for revenue recognition under IFRS 15:

Revenue Recognition

Revenue is generated from the sale of metals in concentrate.

The Company produces gold concentrate, which also includes copper and silver. The Company's performance obligations relate primarily to the delivery of concentrate to customers, with each shipment representing a separate performance obligation.

Revenue from the sale of gold concentrate is recognized at the point the customer obtains control of the product. Control is transferred when title has passed to the purchaser and the customer controls the risks and rewards of ownership and the Company has a present right to a payment for the product. Control over gold concentrate is transferred to the customer and revenue is recognized when the material reaches the port of Lae, Papua New Guinea, is assayed, and delivered to an off-taker designed storage warehouse located at the port.

Gold concentrate is sold under pricing arrangements where final prices are determined by market prices subsequent to the date of sale (the Quotational Period or "QP"). Revenue from concentrate sales is recorded at the amounts estimated to be received on the date the criteria for recognizing revenue are met. Adjustments are made to settlements receivable in subsequent periods based on fluctuations in market prices until the date of final metal pricing. These subsequent changes in the fair value of settlements receivable are recorded in revenue but shown separately from revenue arising from contracts with customers.

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018

(Presented in United States Dollars)

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

IFRS 9 – Financial Instruments

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings.

The requirements in IAS 39 for classification and measurement were carried forward to IFRS 9 and the Company's accounting policy with respect to financial liabilities remains unchanged.

As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets. The change did not impact the carrying value of any financial assets on the transition date, January 1, 2018.

The following is the new accounting policy for accounts receivable under IFRS 9. All other aspects of our accounting policies for financial instruments as disclosed in Note 3 to the audited consolidated financial statements for the year ended December 31, 2017 are unaffected.

Settlement receivables

Settlement receivables are amounts due from customers for the sale of gold concentrate in the ordinary course of business.

Settlement receivables arise from the sale of gold concentrates. Settlement receivables are classified as fair value through profit and loss and are recorded at fair value at each reporting period. Changes in fair value of settlements receivable are recorded as a separate component of revenue.

New standards not yet adopted

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after January 1, 2018 or later periods. They have not been early adopted in these condensed consolidated interim financial statements, and they are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 16 Leases will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018

(Presented in United States Dollars)

4. ACQUISITION OF BARRICK (KAINANTU) LIMITED

Through its wholly owned subsidiary, on June 10, 2014, the Company entered into a Share Sale Agreement (“SSA”) with Barrick (Niugini) Limited (“**Barrick**”) and Mt Apex Investment Holdings Limited (“**Apex**”), whereby the Company agreed to acquire all of the outstanding shares of Barrick’s wholly owned Papua New Guinea subsidiary, Barrick (Kainantu) Limited (“**Kainantu**”), that holds certain assets and mineral rights and interests in Papua New Guinea.

As consideration, the Company agreed to pay up to \$62,000,000 as follows:

- \$2,000,000 (paid);
- \$20,000,000 upon the Company determining the existence of at least 1,000,000 gold equivalent ounces within 10 years, classified as a measured, indicated, probable ore resource, or a proven ore reserve equivalent ounce of gold in accordance with Australasian Code for Reporting Results, Mineral Resources and Ore Reserves; plus, cumulative production (“**Earn-Out Ounces**”); and
- \$5,000,000 for every 250,000 ounces in excess of the Earn-Out Ounces achieved by the Company within 10 years, up to a maximum of 2,000,000 ounces or \$40,000,000 in aggregate.

Pursuant to the PNG Mining Act, a 2% net smelter returns royalty, and a 0.25% levy on gross mine revenues are payable to the PNG government.

The SSA was contingent on the renewal of the mining leases which were renewed on January 23, 2015 for a period of 10 years effective from June 14, 2014 through June 13, 2024. Management has valued the consideration to be paid for Earn-Out Ounces at \$Nil.

On March 6, 2015, the Company completed the SSA with Barrick. The cost of the acquisition was \$2,525,220 consisting of \$2,000,000 in cash and \$525,220 in transaction costs.

5. RECEIVABLES

	March 31, 2018	December 31, 2017
Settlement receivables	\$ 4,589,946	\$ 556,592
Pricing adjustments	(54,865)	-
Other	<u>58,053</u>	<u>65,785</u>
Total	<u>\$ 4,593,134</u>	<u>\$ 622,377</u>

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

March 31, 2018

(Presented in United States Dollars)

6. INVENTORY

	March 31, 2018	December 31, 2017
Mine supplies, consumables and fuel	\$ 2,372,526	\$ 2,045,636
Gold concentrate	310,230	-
Ore stockpile	<u>88,360</u>	<u>-</u>
Total	<u>\$ 2,771,116</u>	<u>\$ 2,045,636</u>

7. PREPAYMENTS

Prepayments of \$835,402 as of March 31, 2018 (December 31, 2017 - \$642,354) consists of prepaid insurance and investor relations.

8. REVENUE

	Three months ended March 31, 2018	Three months ended March 31, 2017
Gold in concentrate	\$ 8,390,274	\$ -
Copper in concentrate	194,288	-
Silver in concentrate	38,624	-
Pricing adjustments	(54,865)	-
Treatment and refining charges	<u>(42,116)</u>	<u>-</u>
	<u>\$ 8,526,205</u>	<u>\$ -</u>

Revenue includes concentrate sales from February 1, 2018, the date of declaration of commercial production, to March 31, 2018. Prior to February 1, 2018, revenue was recorded as pre-production revenue credited against property, plant and equipment (Note 11).

9. COST OF SALES

	Three months ended March 31, 2018	Three months ended March 31, 2017
Direct mining and milling	\$ 816,382	\$ -
Other site costs	2,406,818	-
Depletion	<u>526,121</u>	<u>-</u>
	<u>\$ 3,749,321</u>	<u>\$ -</u>

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

March 31, 2018

(Presented in United States Dollars)

10. EXPENSES

Consulting and administrative expense consisted of the following:	Three months ended March 31, 2018	Three months ended March 31, 2017
Consulting	\$ 238,717	\$ 387,944
Professional fees	38,617	15,866
Payroll taxes on expatriate withholdings	229,406	-
Office, filing and administrative	141,897	81,663
Travel	<u>46,315</u>	<u>73,064</u>
	<u>\$ 694,952</u>	<u>\$ 558,537</u>

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

March 31, 2018

(Presented in United States Dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties and Mine under Development	Mine and Mill Refurbishment	Mobile Fleet and Vehicles	Equipment under finance lease	Total
Cost					
Balance, December 31, 2016	\$ 2,166,499	\$ 14,724,608	\$ 2,183,014	\$ 464,692	\$ 19,538,813
Additions	24,254,100	998,718	-	318,494	25,571,312
Capitalized depreciation	296,370	-	-	-	296,370
Impairment	-	(1,256,244)	-	(464,692)	(1,720,936)
Capitalized pre-production concentrate sales	-	(5,560,367)	-	-	(5,560,367)
Balance, December 31, 2017	26,716,969	8,906,715	2,183,014	318,494	38,125,192
Additions	2,485,772	369,681	416,801	-	3,272,254
Capitalized pre-production concentrate sales	-	(3,690,501)	-	-	(3,690,501)
Balance, March 31, 2018	\$ 29,202,741	\$ 5,585,895	\$ 2,599,815	\$ 318,494	\$ 37,706,945
Accumulated depreciation					
Balance, December 31, 2016	\$ -	\$ 181,768	\$ 86,420	\$ -	\$ 268,188
Impairment	-	-	-	(3,106)	(3,106)
Depreciation for the year	-	222,206	53,767	17,297	293,270
Balance, December 31, 2017	-	403,974	140,187	14,191	558,352
Depreciation for the period	392,639	93,089	36,332	4,055	526,115
Balance, March 31, 2018	\$ 392,639	\$ 497,063	\$ 176,519	\$ 18,246	\$ 1,084,467
Carrying amounts					
As at December 31, 2017	\$ 26,716,969	\$ 8,502,741	\$ 2,042,827	\$ 304,303	\$ 37,566,840
As at March 31, 2018	\$ 28,810,102	\$ 5,088,832	\$ 2,423,296	\$ 300,248	\$ 36,622,478

All of the Company's mining properties and related property, plant and equipment are located in Papua New Guinea.

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

March 31, 2018

(Presented in United States Dollars)

11. PROPERTY, PLANT AND EQUIPMENT (cont'd...)

The Company has recorded the following as finance leases:

	March 31, 2018	December 31, 2017
Equipment leases payable in monthly instalments of \$16,292 plus interest at 8.52% per annum. Matures July 2018.	\$ 65,167	\$ 114,042
Equipment lease payable in monthly instalments of \$9,208 plus interest at 9.02% per annum. Matures September 2019.	165,750	193,375
Equipment lease payable in monthly instalment of \$2,306 plus interest at 17.00% per annum. Matures October 2018.	15,450	21,360
Present value of future minimum lease payments	\$ 246,367	\$ 328,777
Current portion	\$ 200,325	\$ 242,787
Long-term portion	\$ 46,042	\$ 85,990

During the year ended December 31, 2017, the Company recorded an impairment to property, plant, and equipment of \$1,717,837 (2016 - \$Nil). The impairment was the result of third party vandalism at the mine site.

EXPLORATION AND EVALUATION ASSETS**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral titles as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties.

Mining Lease 150 (“ML 150”)

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

The Company began capitalizing costs associated with ML 150 to Mineral Properties and Mine under Development within Property, Plant and Equipment after technical feasibility and commercial viability was reached December 1, 2016.

Exploration Licenses (“EL”) 470, 693, and 1341

The Company holds certain exploration licenses adjacent to the Company’s ML 150. The Company has not assigned any value to these licenses.

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Presented in United States Dollars)

12. RELATED PARTY TRANSACTIONS

Key management compensation consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and the Board of Directors.

During the three month period ended March 31, 2018, the Company paid or accrued:

- a) Consulting fees of \$21,090 (March 31, 2017 - \$72,000) to a director and former CEO of the Company, \$25,800 (March 31, 2017 - \$25,200) to the CFO of the Company, \$77,700 (March 31, 2017 - \$65,700) to the CEO, director, and former COO of the Company, \$18,750 (March 31, 2017 - \$18,750) to the Chairman of the Board, and \$54,000 (March 31, 2017 - \$54,000) to the former president and director of the Company. The Company also paid professional fees of \$4,745 (March 31, 2017 - \$4,533) to a Company related to the CFO.
- b) Share-based compensation of \$154,752 (March 31, 2017 - \$447,556) to the officers and directors of the Company was recorded.

Included in accounts payable and accrued liabilities is \$57,537 (December 31, 2017 - \$44,335) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

13. CRH FINANCING

Gold prepayment agreement

On February 4, 2016, the Company entered into financing agreements with CRH Funding II Pte. Ltd. (“**CRH**”), an affiliate of Cartesian Royalty Holdings and Cartesian Capital Group, consisting of a gold prepayment investment and an equity investment. Upon signing, the Company drew down the first tranche under the gold prepayment agreement (the “**GPA**”), which as per the GPA must be used for project related expenditures.

Under the GPA, CRH committed to provide the Company with up to \$4,813,974 over four tranches in exchange for a percentage of gold produced at the Irumafimpa deposit over a 36-month period, subject to a minimum of 18,000 ounces of gold and a maximum of 20,000 ounces of gold. During the three months ended March 31, 2018, the Company purchased 67.6 ounces of gold credits and delivered to CRH per the terms of the GPA.

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018

(Presented in United States Dollars)

13. CRH FINANCING (cont'd...)Gold prepayment agreement (cont'd...)

The Company recorded a CRH financing liability as follows:

CRH Financing Liability	March 31, 2018	December 31, 2017
CRH liability, beginning of period	\$ 20,003,724	\$ 21,578,385
Add:		
Fair value adjustment	185,544	2,568,049
Delivery of gold ounces during the period	(89,927)	(4,594,769)
Interest	75,912	-
Capitalized interest	<u>31,442</u>	<u>452,059</u>
	20,206,695	20,003,724
Less:		
Deferred loss	14,572,176	14,572,176
Amortization of deferred loss based on delivered ounces	<u>(2,726,898)</u>	<u>(2,677,637)</u>
	<u>(11,845,278)</u>	<u>(11,894,539)</u>
Balance, end of period	\$ 8,361,417	\$ 8,109,185
CRH financing liability, short-term	\$ 5,742,884	\$ 4,420,366
CRH financing liability, long-term	\$ 2,618,533	\$ 3,688,819

\$789,972 (December 31, 2017 – \$758,530) representing the interest component of the CRH financing has been capitalized to property, plant and equipment since the inception of the CRH financing, as they meet the criteria of being qualifying assets.

The gold prepayment liability of \$20,206,695 (December 31, 2017 - \$20,003,724) was calculated using the following assumptions:

	March 31, 2018	December 31, 2017
Discount rate	8.20%	8.20%
Expected life of gold stream	19 months	22 months
Expected remaining repayment in gold ounces	16,257	16,325
Future gold price per ounce	\$1,327	\$1,331

The difference of cash received of \$962,795 and the initial fair value of the gold prepayment liability of \$15,534,971 was recorded as a deferred loss and is recognized over the units of production.

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

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13. CRH FINANCING (cont'd...)

As security for the Company's obligations under the GPA and the Class A preferred shares issued to CRH under the equity component, K92 has granted CRH a comprehensive general security interest in all of K92's present and future property, together with specific security granted by the Company's subsidiaries in Papua New Guinea.

As additional consideration for the financing, the Company's wholly owned subsidiaries in Papua New Guinea have granted CRH a 0.25% net smelter return ("NSR") royalty on Kora (with a buyback provision of \$2,000,000) and a 0.5% NSR on Irumafimpa. For the three month period ended March 31, 2018, the Company paid an NSR of \$17,512 (March 31, 2017 - \$Nil).

CRH will be entitled to representation on the board of directors of the Company so long as the GPA remains outstanding or CRH maintains at least a 5% equity ownership in the Company.

14. RECLAMATION AND CLOSURE COST OBLIGATIONS

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

	Three months ended March 31, 2018	Period ended December 31, 2017
Balance – beginning of period	\$ 2,354,323	\$ 2,170,823
Foreign exchange movement	146,853	183,500
Accretion	11,481	-
Balance – end of period	\$ 2,512,657	\$ 2,354,323

The provision has been measured at the estimated value of future rehabilitation costs and estimated mine life of 10 years. The estimated cash-flows were discounted to present value using a risk-free discount rate of 8.59% (December 31, 2017 – 8.59%).

Periodically the Company reviews the estimate of future costs of the requisite reclamation and closure work required by current legislative standards. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of \$5,498,548. These future cash outflows have been discounted at the risk-free interest rate considered applicable in Papua New Guinea where the Company's properties are located.

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

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

Issued share capital

As at March 31, 2018, the Company had 176,191,410 common shares and 5,000,000 preferred shares issued and outstanding.

Share issuances

During the three months ended March 31, 2018, the Company:

Completed a private placement by issuing 14,444,500 units at a price of CAD\$0.45 per unit from gross proceeds of CAD\$6,500,025. Each unit consisted of one common share and one-half of one common share purchase warrant, which each warrant entitling the holder to purchase one common share at a price of CAD\$0.65 for 18 months from closing. As part of the financing, the Company issued 1,011,115 agent warrants with the same terms as above with a fair value of \$138,921 using the Black-Scholes pricing model and paid \$438,020 as share issuance costs.

During the year ended December 31, 2017, the Company:

- a) Completed a brokered and non-brokered private placement by issuing 20,693,250 units at a price of CAD\$0.80 per unit for gross proceeds of CAD\$16,554,600. Each unit consisted of one common share and one share purchase warrant exercisable for one year at a price of CAD\$1.05. In connection with the offering, the Company issued finder's fee warrants with a fair value of \$236,351 with the same terms as above and paid cash of \$915,150.
- b) Completed a non-brokered private placement by issuing 13,333,333 units at a price of CAD\$0.75 per unit for gross proceeds of CAD\$10,000,000. Each unit consisted of one common share and one share purchase warrant exercisable for one year at a price of CAD\$1.00. In connection with the offering, the Company paid finder's fees of 1,053,333 shares, 1,053,333 warrants with the same terms as above and paid cash of \$26,284.

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

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15. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options and warrants**

Stock option and warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number	Weighted Average Exercise Price (CAD)	Number	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2016	21,613,755	\$ 0.93	10,550,000	\$ 0.63
Granted / Issued	36,392,976	1.03	3,520,000	0.65
Forfeited	-	-	(67,000)	1.00
Expired	(14,465,688)	1.28	-	-
Exercised	<u>(7,148,067)</u>	0.50	<u>(92,400)</u>	0.45
Outstanding, December 31, 2017	36,392,976	\$ 1.03	13,910,600	\$ 0.64
Granted / Issued	8,233,365	0.65	700,000	0.60
Forfeited	-	-	(1,173,000)	0.77
Expired	<u>(14,386,666)</u>	1.00	<u>-</u>	-
Outstanding, March 31, 2018	30,239,675	\$ 0.94	13,437,600	\$ 0.62
Number currently exercisable	30,239,675	\$ 0.94	12,737,600	\$ 0.62

Stock options outstanding

The following incentive stock options were outstanding at March 31, 2018:

Number	Exercise price (CAD)	Expiry date
6,712,600	\$ 0.45	May 20, 2021
100,000	1.93	July 29, 2021
2,575,000	1.00	December 5, 2021
3,050,000	0.65	October 23, 2022
300,000	0.65	November 28, 2022
700,000	0.60	March 9, 2023

Warrants outstanding

The following incentive warrants were outstanding at March 31, 2018:

Number	Exercise price (CAD)	Expiry date
22,006,310	1.05	June 27, 2018
8,233,365	0.65	September 6, 2019

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

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15. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options and warrants (cont'd...)****Share-based payments**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant.

The following weighted average assumptions were used for the valuation of stock options:

	March 31, 2018	December 31, 2017
Risk-free interest rate	1.97%	1.00%
Expected life of options	4.5 years	4.5 years
Annualized volatility	76.21%	67.29%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

16. SEGMENTED INFORMATION

The Company's operations are in one segment, the operating of gold mining activities. The Company's development activities are all located in Papua New Guinea, with its head office function in Canada. All of the Company's capital assets, including property, plant and equipment are located in Papua New Guinea.

Three months ended March 31, 2018	Australia	Papua New Guinea	Canada	Total
Net Income (loss)	\$ (37,905)	\$ 4,522,477	\$ (1,167,502)	\$ 3,317,070

Three months ended March 31, 2017	Australia	Papua New Guinea	Canada	Total
Net loss	\$ -	\$ 97,312	\$ 5,540,281	\$ 5,637,593

K92 MINING INC.

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17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended March 31, 2018, the Company:

- a) Issued finder warrants with a fair value of \$138,921 as share issuance costs;
- b) Capitalized share-based payments of \$25,595 to mineral properties under development; and
- c) Transferred 67 gold credits to CRH as part of the GPA (Note 13).

During the period ended March 31, 2017, the Company:

- a) Issued finder warrants with a fair value of \$131,937 as share issuance costs; and
- b) Transferred 3,000 gold credits to CRH as part of the GPA (Note 13).

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2018, the Company granted 2,230,000 stock options to directors, officers, employees and consultants of the Company exercisable at CAD\$0.85 until April 30, 2023.