

K92 **MINING INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in thousands of United States Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

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

(Presented in thousands of United States Dollars)

(Unaudited)

As at	March 31, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents	\$ 88,647	\$ 109,938
Receivables (Note 4)	35,128	29,257
Inventories (Note 5)	31,936	28,510
Prepayments	<u>5,141</u>	<u>5,624</u>
	160,852	173,329
Deferred income tax assets	274	2,590
Deposits on equipment	3,072	4,338
Property, plant and equipment (Note 7)	<u>207,728</u>	<u>190,458</u>
	\$ 371,926	\$ 370,715
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 29,775	\$ 36,966
Income tax payable	5,519	4,121
Current portion of lease liabilities (Note 9)	5,474	5,324
Derivative liabilities (Note 10)	<u>2,778</u>	<u>1,747</u>
	43,546	48,158
Lease liabilities (Note 9)	3,343	4,773
Reclamation and closure cost obligations (Note 8)	<u>8,697</u>	<u>8,478</u>
	55,586	61,409
Shareholders' equity		
Share capital (Note 11)	143,692	142,066
Contributed surplus (Note 11)	27,042	26,644
Accumulated other comprehensive loss	(257)	(257)
Retained earnings	<u>145,863</u>	<u>140,853</u>
	<u>316,340</u>	<u>309,306</u>
	\$ 371,926	\$ 370,715

Subsequent events (Note 18)

Approved and authorized by the Board of Directors on May 12, 2023:

“Saurabh Handa”

Director

“Mark Eaton”

Director

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

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

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

(Unaudited)

For the three months ended	March 31, 2023	March 31, 2022
REVENUE (Note 14)	\$ 40,366	\$ 52,412
COST OF SALES (Note 15)	<u>(23,738)</u>	<u>(22,535)</u>
Earnings from mine operations	16,628	29,877
EXPENSES		
General and administrative (Note 16)	\$ (1,908)	\$ (1,799)
Exploration and evaluation expenditures	(3,772)	(2,980)
Foreign exchange	313	177
Share-based payments	<u>(1,197)</u>	<u>(923)</u>
Earnings from operations	\$ 10,064	\$ 24,352
OTHER		
Interest and finance expense (Note 17)	(1,024)	(804)
Interest income	847	88
Loss on derivative instruments (Note 10)	<u>(1,164)</u>	<u>(1,477)</u>
Earnings before taxes	\$ 8,723	\$ 22,159
Income tax expense	<u>(3,714)</u>	<u>(8,077)</u>
Net earnings and comprehensive earnings	\$ 5,009	\$ 14,082
Earnings per share (Note 11)		
Basic	\$ 0.02	\$ 0.06
Diluted	\$ 0.02	\$ 0.06
Weighted average number of shares outstanding (Note 11)		
Basic	233,661,037	224,526,997
Diluted	238,671,865	230,288,577

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

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

(Presented in thousands of United States Dollars)

(Unaudited)

For the three months ended	March 31, 2023	March 31, 2022
CASH FROM OPERATING ACTIVITIES		
Net earnings for the period	\$ 5,009	\$ 14,082
Items not affecting cash:		
Unrealized foreign exchange gain	(9)	(174)
Interest and finance expenses	764	385
Derivative instruments (Note 10)	1,164	1,477
Deferred income tax	2,317	1,292
Share-based payments (Note 11)	1,462	1,313
Depreciation and depletion	5,914	4,302
Net payments for derivatives (Note 10)	(134)	-
Changes in non-cash working capital items:		
Inventories	(2,490)	(1,712)
Receivables	(6,484)	(3,530)
Income tax payable	1,398	6,766
Prepayments	483	210
Accounts payable and accrued liabilities	<u>(6,447)</u>	<u>2,919</u>
Net cash provided by operating activities	<u>2,947</u>	<u>27,330</u>
CASH FROM INVESTING ACTIVITIES		
Deposits for equipment	(1,151)	(6,473)
Acquisition of property, plant and equipment	<u>(22,380)</u>	<u>(13,342)</u>
Net cash used in investing activities	<u>(23,531)</u>	<u>(19,815)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on exercise of stock options	563	2,119
Principal lease payments (Note 9)	<u>(1,280)</u>	<u>(1,150)</u>
Net cash (used in) provided by financing activities	<u>(717)</u>	<u>969</u>
Change in cash and cash equivalents during the period	(21,301)	8,484
Effect of foreign exchange on cash	10	163
Cash and cash equivalents, beginning of period	<u>109,938</u>	<u>71,270</u>
Cash and cash equivalents, end of period	<u>\$ 88,647</u>	<u>\$ 79,917</u>
Cash paid for interest	\$ (904)	\$ (615)
Cash received for interest income	\$ 847	\$ 88
Cash paid for taxes	\$ -	\$ -

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

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

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

(Unaudited)

	<u>Share capital</u>		<u>Contributed surplus</u>	<u>Accumulated other comprehensive loss</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>				
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)	751,040	3,812	(1,693)	-	-	2,119
Share-based payments (Note 11)	-	-	1,313	-	-	1,313
Net earnings for the period	-	-	-	-	14,082	14,082
Balance at March 31, 2022	224,993,777	\$ 95,833	\$ 27,662	\$ (257)	\$ 119,412	\$ 242,650
Shares issued on exercise of stock options (Note 11)	2,959,160	10,134	(3,971)	-	-	6,163
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)	-	-	3,063	-	-	3,063
Net earnings for the period	-	-	-	-	21,442	21,442
Balance at December 31, 2022	233,379,896	\$ 142,066	\$ 26,643	\$ (257)	\$ 140,854	\$ 309,306
Shares issued on exercise of stock options (Note 11)	325,000	840	(277)	-	-	563
Shares issued on vesting of RSUs (Note 11)	45,506	242	(242)	-	-	-
Shares issued on vesting of PSUs (Note 11)	102,389	544	(544)	-	-	-
Share-based payments (Note 11)	-	-	1,462	-	-	1,462
Net earnings for the period	-	-	-	-	5,009	5,009
Balance at March 31, 2023	233,852,791	\$ 143,692	\$ 27,042	\$ (257)	\$ 145,863	\$ 316,340

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

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

March 31, 2023

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

(Unaudited)

1. NATURE OF BUSINESS

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

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

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

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

Basis of Presentation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policy judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are substantially the same as those that management applied in the consolidated financial statements for the year ended December 31, 2022. These condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements for the year ended December 31, 2022.

The Company’s accounting policies are the same as those applied in the Company’s annual consolidated financial statements for the year-ended December 31, 2022.

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

March 31, 2023

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

(Unaudited)

4. RECEIVABLES

As at	March 31, 2023	December 31, 2022
Trade receivables	\$ 19,144	\$ 15,462
GST receivable	15,499	13,474
Other	<u>485</u>	<u>321</u>
Total	\$ 35,128	\$ 29,257

5. INVENTORIES

As at	March 31, 2023	December 31, 2022
Mine supplies, consumables and fuel	\$ 23,837	\$ 20,806
Ore stockpile	4,433	4,728
Concentrate and doré	<u>3,666</u>	<u>2,976</u>
Total	\$ 31,936	\$ 28,510

During the three months ended March 31, 2023, the cost of inventory recognized as an expense in cost of sales amounted to \$23.7 million (2022 - \$22.5 million).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2023	December 31, 2022
Trade payables	\$ 5,082	\$ 11,542
Other accounts payable and trade related accruals	6,784	6,901
Employee accruals	7,869	8,593
Landowners' compensation accrual	<u>10,040</u>	<u>9,930</u>
Total	\$ 29,775	\$ 36,966

Landowners' compensation

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

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

March 31, 2023

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

(Unaudited)

7. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Plant and Equipment	Mobile Fleet and Vehicles	Right-of-Use Assets	Construction in Progress (Expansion) 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 / write-downs	-	-	(1,164)	-	-	(1,164)
Reclamation – change in estimate	2,791	-	-	-	-	2,791
Transfers	-	11,337	10,464	-	(21,801)	-
Balance, December 31, 2022	96,781	57,956	39,899	16,822	37,040	248,498
Additions	6,002	5,391	-	-	12,659	24,052
Reclamation– changes in estimate	68	-	-	-	-	68
Transfers	-	(3,723)	8,115	-	(4,392)	-
Balance, March 31, 2023	\$ 102,851	\$ 59,624	\$ 48,014	\$ 16,822	\$ 45,307	\$ 272,618
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 / write-downs	-	-	(1,091)	-	-	(1,091)
Balance, December 31, 2022	16,479	10,458	23,942	7,161	-	58,040
Depreciation and depletion	1,228	1,573	2,722	1,327	-	6,850
Balance, March 31, 2023	\$ 17,707	\$ 12,031	\$ 26,664	\$ 8,488	\$ -	\$ 64,890
Carrying amounts						
As at December 31, 2022	\$ 80,302	\$ 47,498	\$ 15,957	\$ 9,661	\$ 37,040	\$ 190,458
As at March 31, 2023	\$ 85,144	\$ 47,593	\$ 21,350	\$ 8,334	\$ 45,307	\$ 207,728

¹ Construction in Progress at March 31, 2023 consists of \$37.3 million (2022 - \$17.1 million) in Twin Incline costs, \$0.8 million (2022 - \$Nil) in Puma Ventilation Drive costs and \$7.3 million (2022 - \$4.9 million) in other expansion costs.

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

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(Unaudited)

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

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

8. RECLAMATION AND CLOSURE COST OBLIGATIONS

When the Company exhausts or abandons a mining property or an exploration site, it is required to undertake certain reclamation and closure procedures as a result of constructive obligations and to comply with legislative requirements established by the Government of Papua New Guinea.

	March 31, 2023	December 31, 2022
Balance, beginning of period	\$ 8,478	\$ 5,571
Change in estimate	68	2,791
Accretion	151	116
Balance, end of period	\$ 8,697	\$ 8,478

The provision has been measured as the present value of the estimated future rehabilitation costs using an estimated mine life of 10 years. The estimated cash-flows used to measure the provision were discounted to a present value using a discount rate of 13.1% (2022 – 13.4%) and an inflation rate of 6.3% (2022 – 6.3%). The underlying costs in the provision are calculated using the Papua New Guinea Kina as the reclamation costs will be incurred in Papua New Guinea. As such, the discount and inflation rate used in the calculation reflect the economic factors for Papua New Guinea.

On an annual basis, the Company reviews the estimate of future costs of required reclamation and closure work. The current total estimate for all properties anticipates undiscounted future cash outflows to meet constructive obligations for reclamation and closure work in the amount of \$19.1 million (2022 - \$19.1 million), with first expenditures anticipated in 2032. These future cash outflows have been discounted at the interest rate considered applicable in Papua New Guinea where the Company’s properties are located.

9. LEASE LIABILITIES

The Company leases assets including mining equipment and buildings. The assets associated with the lease liabilities are included as Right-of-Use assets within property, plant and equipment (Note 7). During the three months ended March 31, 2023, the Company incurred \$0.3 million (2022 - \$0.4 million) related to interest and finance expenses on the lease liabilities.

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

March 31, 2023

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

(Unaudited)

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

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

Lease Liabilities as at	March 31, 2023	December 31, 2022
Lease liabilities, beginning of year	\$ 10,097	\$ 14,097
Additions	-	956
Payments	(1,540)	(6,193)
Interest expense	260	1,328
Adjustment on currency translation	-	(91)
Balance, end of period	\$ 8,817	\$ 10,097
Lease liabilities, current portion	\$ 5,474	\$ 5,324
Lease liabilities, non-current portion	\$ 3,343	\$ 4,773

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

	Within 1 Year	2-6 Years	Total
Future undiscounted lease payments	\$ 6,158	\$ 3,554	\$ 9,712
Future finance charges	(684)	(211)	(895)
Total discounted lease liabilities	\$ 5,474	\$ 3,343	\$ 8,817

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 March 31, 2023, were as follows:

Contracts Outstanding	Quantity (ounces)	Strike Price (\$/ounce)	Settlement Term	Settlement Date
Gold call contracts – sold	8,227	\$1,957	April 2023	June 30, 2023
Gold put contracts – purchased	8,227	\$1,757	April 2023	June 30, 2023
Gold call contracts – sold	5,920	\$1,976	May 2023	July 31, 2023
Gold put contracts – purchased	5,920	\$1,776	May 2023	July 31, 2023
Gold call contracts – sold	1,423	\$2,065	June 2023	August 31, 2023
Gold put contracts – purchased	1,423	\$1,865	June 2023	August 31, 2023

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

March 31, 2023

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

(Unaudited)

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

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

For the three months ended	March 31, 2023	March 31, 2022
Realized loss	\$ (134)	\$ -
Unrealized loss	(1,030)	(1,477)
Net realized and unrealized losses	\$ (1,164)	\$ (1,477)

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

As at	March 31, 2023	December 31, 2022
Derivative liabilities	\$ (2,778)	\$ (1,747)

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

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

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

Issued share capital

As at March 31, 2023, the Company had 233,852,791 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 three months ended March 31, 2023.

Equity compensation

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

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

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

March 31, 2023

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

(Unaudited)

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

The Share Compensation 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 9% of the issued and outstanding common shares, on a non-diluted basis, while the maximum number of common shares issuable through options cannot exceed 7% of the issued and outstanding common shares. For RSUs and PSUs, the total number of common shares that may be issuable cannot exceed 2% of the outstanding common shares at the time of grant.

Stock options

Stock option transactions are summarized as follows:

	Number Outstanding	Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2021	12,620,650	\$ 4.44
Exercised	(3,710,200)	2.87
Forfeited	<u>(104,600)</u>	<u>\$ 9.22</u>
Outstanding, December 31, 2022	8,805,850	\$ 5.06
Exercised	(325,000)	2.34
Forfeited	<u>(40,000)</u>	<u>7.38</u>
Outstanding, March 31, 2023	<u>8,440,850</u>	<u>\$ 5.15</u>
Number currently exercisable	<u>8,440,850</u>	<u>\$ 5.15</u>

The following incentive stock options were outstanding at March 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
0.45 – 0.99	430,000	430,000	0.84	0.12
1.00 – 1.99	1,836,750	1,836,750	1.77	1.27
2.00 – 2.99	235,000	235,000	2.17	1.64
3.00 – 3.99	1,121,000	1,121,000	3.85	1.85
4.00 – 4.99	10,200	10,200	4.00	2.23
5.00 – 8.99	<u>4,807,900</u>	<u>4,807,900</u>	7.28	2.72
	<u>8,440,850</u>	<u>8,440,850</u>	<u>5.15</u>	<u>2.13</u>

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, expected volatility, forfeiture rate, and expected life of the options. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant.

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

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

(Unaudited)

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

During the three months ended March 31, 2023, the Company granted Nil stock options (2022 – Nil).

The weighted average share price on the date of options exercised for the three months ended March 31, 2023, was CAD\$6.86 (2022 – CAD\$7.61).

During the three months ended March 31, 2023, the Company recorded share-based payment expense of \$Nil (2022 – \$0.7 million) related to the vesting of options.

Restricted share units

RSUs vest in three installments; one-third vesting one year from the grant date, one-third vesting two years from the grant date and the remainder vesting three years from the grant date. 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 three months ended March 31, 2023, the Company granted 422,918 RSUs. The estimated fair value of \$2.4 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	<u>(13,707)</u>	<u>(71)</u>
Outstanding, December 31, 2022	781,405	\$ 4,390
Granted	422,918	2,364
Vested and converted to common shares	<u>(45,506)</u>	<u>(258)</u>
Outstanding, March 31, 2023	<u>1,158,817</u>	<u>\$ 6,496</u>

During the three months ended March 31, 2023, the Company recorded a share-based payment expense of \$0.7 million (2022 – \$0.3 million) related to the vesting of RSUs.

Performance share units

PSUs vest in three installments; one-third vesting one year from the grant date, one-third vesting two years from the grant date and the remainder vesting three years from the grant date, subject to certain performance criteria having been met. The vesting of the PSUs is based on the Company's share performance in comparison to its peer group with the final number of vested PSUs ranging from 25% to 150% of the initial PSUs granted. At the discretion of the Company, PSUs can be settled in either cash or common shares, or a combination of both.

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

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

(Unaudited)

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

PSUs are recorded at fair value based on a Monte Carlo pricing model at the date of grant, adjusted for an estimated forfeiture rate, and then charged to share-based compensation over the period during which the PSUs vest. For the fair value calculation of granted PSUs during the period ended March 31, 2023, the Monte Carlo pricing model used historical share price volatility of 51% (2022 – 54% to 61%), historical share price volatility of its peer group ranging from 40% to 48% (2022 – 38% to 47%) and a Canadian risk-free rate of 3.5% (2022 – 2.0% to 3.5%).

During the three months ended March 31, 2023, the Company granted 634,377 PSUs. The estimated fair value of \$3.1 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	634,377	3,067
Vested and converted to common shares	<u>(102,389)</u>	<u>(488)</u>
Outstanding, March 31, 2023	<u>1,291,431</u>	<u>\$ 6,029</u>

During the three months ended March 31, 2023, the Company recorded a share-based payment expense of \$0.7 million (2022 – \$0.3 million) related to the vesting of PSUs.

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

March 31, 2023

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

(Unaudited)

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

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

For the three months ended	March 31, 2023		March 31, 2022	
Earnings for the period	\$	5,009	\$	14,082
Basic weighted average number of shares outstanding		233,661,037		224,526,997
Effect of dilutive securities:				
Stock options		2,864,117		4,948,925
Restricted share units		1,045,593		405,612
Performance share units		1,101,118		407,043
Diluted weighted average number of shares outstanding		238,671,865		230,288,577
Earnings per share				
Basic	\$	0.02	\$	0.06
Diluted	\$	0.02	\$	0.06

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	At March 31, 2023		At December 31, 2022	
	Level 1	Level 2	Level 1	Level 2
Trade receivables (Note 4)	\$ -	\$ 19,144	\$ -	\$ 15,462
Derivative liabilities (Note 10)	-	(2,778)	-	(1,747)
	\$ -	\$ 16,366	\$ -	\$ 13,715

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

March 31, 2023

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

(Unaudited)

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

The fair value of the Company's trade receivables, derivative assets and derivative liabilities were determined using observable market prices and market-derived inputs. There were no transfers between Level 1 and Level 2 during the period ended March 31, 2023.

As at March 31, 2023 and December 31, 2022, the carrying amounts of cash and cash equivalents, prepaids, other receivables, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

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

Concentration of Credit Risk

The Company's cash and cash equivalents are held with financial institutions in Canada, Papua New Guinea, and Australia. As of March 31, 2023, a single high-credit quality financial institution in Canada holds approximately 75% of the total cash and cash equivalents. Substantially all of the Company's cash and cash equivalents exceed government insured limits. The Company continually assesses and manages its exposure to credit risk of financial institutions.

13. SEGMENTED INFORMATION

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

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

Three months ended March 31, 2023	Kainantu Project	Corporate & Other	Total
Net earnings (loss)	\$ 8,335	\$ (3,326)	\$ 5,009
Capital expenditures	\$ 24,052	\$ -	\$ 24,052
<i>As at March 31, 2023</i>			
Property, plant and equipment	\$ 206,182	\$ 1,546	\$ 207,728
Total assets	\$ 292,430	\$ 79,496	\$ 371,926
Total liabilities	\$ 50,862	\$ 4,724	\$ 55,586

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

March 31, 2023

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

(Unaudited)

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

Three months ended March 31, 2022	Kainantu Project	Corporate & Other	Total
Net earnings (loss)	\$ 18,131	\$ (4,049)	\$ 14,082
Capital expenditures	\$ 13,948	\$ -	\$ 13,948
<hr/>			
As at December 31, 2022			
Property, plant and equipment	\$ 188,872	\$ 1,586	\$ 190,458
Total assets	\$ 267,104	\$ 103,611	\$ 370,715
Total liabilities	\$ 57,683	\$ 3,726	\$ 61,409

14. REVENUE

For the three months ended	March 31, 2023	March 31, 2022
Gold in concentrate	\$ 29,718	\$ 46,836
Copper in concentrate	5,470	4,832
Silver in concentrate	359	302
Gold and silver in doré	2,064	-
Treatment and refining charges	(1,593)	(1,562)
Revenue from contracts with customers	36,018	50,408
Gain on receivables at fair value	4,348	2,004
Total	\$ 40,366	\$ 52,412

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

March 31, 2023

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

(Unaudited)

15. COST OF SALES

For the three months ended	March 31, 2023	March 31, 2022
Direct mining and milling	\$ 5,351	\$ 5,071
Maintenance	3,402	3,667
Other site costs	7,490	8,525
Net smelter royalties	881	1,221
Change in inventories	<u>(395)</u>	<u>(737)</u>
	16,729	17,747
Non-cash costs		
Depreciation and depletion	6,744	4,397
Share-based payments	<u>265</u>	<u>391</u>
Total	\$ 23,738	\$ 22,535

16. GENERAL AND ADMINISTRATIVE

For the three months ended	March 31, 2023	March 31, 2022
Management, consulting and wages	\$ 1,133	\$ 1,254
Professional fees	89	78
Office, filing and administrative	293	242
Travel	214	80
Investor relations	151	119
Depreciation	<u>28</u>	<u>26</u>
Total	\$ 1,908	\$ 1,799

17. INTEREST AND FINANCE EXPENSE

For the three months ended	March 31, 2023	March 31, 2022
Interest on lease liabilities	\$ 260	\$ 368
Other interest	613	407
Accretion of reclamation and closure cost obligations	<u>151</u>	<u>29</u>
Total	\$ 1,024	\$ 804

K92 MINING INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2023

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

(Unaudited)

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2023, the Company paid a \$3.6 million income tax instalment to the Papua New Guinea government.