



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Presented in United States Dollars)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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

AS AT	June 30, 2019	December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	\$ 9,226,539	\$ 6,205,616
Receivables (Note 5)	9,906,925	7,699,572
Inventory (Note 6)	5,568,841	3,797,601
Prepayments (Note 7)	<u>3,213,416</u>	<u>1,561,109</u>
	27,915,721	19,263,898
Deferred income tax assets	21,219,833	26,470,433
Deposits on equipment (Note 9)	1,762,086	-
Property, plant and equipment (Note 9)	<u>52,997,693</u>	<u>42,034,195</u>
	<u>\$ 103,895,333</u>	<u>\$ 87,768,526</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 13,054,085	\$ 9,545,955
CRH financing (Note 10)	2,528,765	5,331,814
Lease liabilities (Note 9)	<u>402,389</u>	<u>394,125</u>
	15,985,239	15,271,894
Lease liabilities (Note 9)	940,243	799,238
Reclamation and closure cost obligations (Note 11)	<u>1,957,643</u>	<u>1,891,298</u>
	18,883,125	17,962,430
Shareholders' equity		
Share capital (Note 12)	60,399,535	54,433,383
Preferred shares (Note 12)	-	1,018,876
Contributed surplus (Note 12)	10,963,929	11,140,889
Accumulated other comprehensive loss	(252,514)	(299,438)
Retained earnings	<u>13,901,258</u>	<u>3,512,386</u>
	<u>85,012,208</u>	<u>69,806,096</u>
	<u>\$ 103,895,333</u>	<u>\$ 87,768,526</u>

Nature of business (Note 1)
Subsequent events (Note 19)

Approved and authorized by the Audit Committee on August 14, 2019:

“Saurabh Handa” Director “R. Stuart Angus” Director

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

K92 MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Presented in United States Dollars)

For the	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
REVENUE (Note 16)	\$ 23,293,370	\$ 13,734,023	\$ 47,287,543	\$ 22,260,228
COST OF SALES (Note 17)	<u>(12,509,251)</u>	<u>(7,280,960)</u>	<u>(21,830,784)</u>	<u>(11,047,794)</u>
	10,784,119	6,453,063	25,456,759	11,212,434
EXPENSES				
Accretion expense, (Note 11)	\$ 41,278	\$ 89,563	\$ 82,725	\$ 101,044
Consulting and administrative (Note 18)	593,604	469,906	1,191,479	1,164,858
Exploration and evaluation expenditures	1,365,445	309,534	2,561,789	394,063
Foreign exchange	170,362	20,100	211,532	(127)
Investor relations	136,504	146,140	266,943	216,443
Share-based payments	<u>717,695</u>	<u>841,825</u>	<u>988,106</u>	<u>1,135,103</u>
	\$ (3,024,888)	\$ (1,877,068)	\$ (5,302,574)	\$ (3,011,384)
OTHER				
Interest	(174,876)	(114,532)	(312,754)	(187,712)
Fair value gain (loss) on gold purchase agreement (Note 10)	31,273	936,529	(219,973)	750,985
Amortization of deferred loss (Note 10)	<u>(1,426,616)</u>	<u>(1,326,396)</u>	<u>(4,204,801)</u>	<u>(1,375,657)</u>
Income for the period before taxes	\$ 6,189,012	\$ 4,071,596	\$ 15,416,657	\$ 7,388,666
Income tax	<u>(900,306)</u>	<u>-</u>	<u>(5,027,785)</u>	<u>-</u>
Income for the period	\$ 5,288,706	\$ 4,071,596	\$ 10,388,872	\$ 7,388,666
Items that may be reclassified to net income				
Other comprehensive income (loss)				
Cumulative translation adjustment	<u>2,603</u>	<u>(165,153)</u>	<u>46,924</u>	<u>(374,993)</u>
Comprehensive income for the period	\$ 5,291,309	\$ 3,906,443	\$ 10,435,796	\$ 7,013,673
Basic earnings per common share	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.04
Diluted earnings per common share	\$ 0.03	\$ 0.02	\$ 0.05	\$ 0.04
Weighted average number of common shares outstanding	197,325,938	177,824,857	193,907,400	171,591,285
Weighted average number of diluted common shares outstanding	208,214,257	190,879,334	201,541,919	183,365,609

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

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

For the six months ended	June 30, 2019	June 30, 2018
CASH FROM OPERATING ACTIVITIES		
Income for the period	\$ 10,388,872	\$ 7,388,666
Items not affecting cash:		
Unrealized foreign exchange gain (loss)	250,092	(371,868)
Accrued interest	301,266	187,712
Accretion expense (Note 11)	82,725	101,044
Amortization of deferred loss (Note 10)	4,204,801	1,375,657
Fair value loss on gold purchase agreement (Note 10)	219,973	(750,985)
Deferred income tax	5,027,786	-
Share-based payments (Note 12)	988,106	1,135,103
Amortization (Note 9)	3,317,392	1,144,818
Changes in non-cash working capital items:		
Inventory	(1,771,240)	(74,917)
Receivables	(2,207,353)	(3,580,012)
CRH financing	(7,476,655)	-
Prepayments	(1,652,307)	(349,503)
Accounts payable and accrued liabilities	3,877,814	2,717,695
Net cash provided by operating activities	15,551,272	8,923,410
CASH USED IN INVESTING ACTIVITIES		
Lease payments	-	(225,031)
Proceeds from pre-production concentrate sales	-	3,690,501
Deposits for equipment	(1,762,086)	-
Acquisition of property, plant and equipment	(14,202,338)	(13,262,859)
Net cash used in investing activities	(15,964,424)	(9,797,389)
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock (Note 12)	-	5,140,870
Proceeds on exercise of warrants	2,039,339	2,114,876
Proceeds on exercise of stock options	1,742,871	109,323
Principal lease payments	(351,401)	-
Purchase of gold credits (Note 10)	-	(2,356,041)
Share issuance costs (Note 12)	-	(438,020)
Net cash provided by financing activities	3,430,809	4,571,008
Change in cash and cash equivalents during the period	3,017,657	3,697,029
Effect of foreign exchange on cash	3,266	(90,411)
Cash and cash equivalents, beginning of period	6,205,616	1,159,538
Cash and cash equivalents, end of period	\$ 9,226,539	\$ 4,766,156
Cash paid for interest	\$ 63,922	\$ -
Cash paid for taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 15)

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>						
	Number	Amount	Preferred shares	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
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	-	-	-
Exercise of warrants	2,600,000	2,293,314	-	(178,438)	-	-	2,114,876
Exercise of stock options	313,600	131,807	-	(22,484)	-	-	109,323
Share-based payments (Note 12)	-	-	-	1,160,698	-	-	1,160,698
Cumulative translation adjustment	-	-	-	-	(374,993)	-	(374,993)
Income for the period	-	-	-	-	-	7,388,666	7,388,666
Balance at June 30, 2018	179,105,010	52,783,570	1,018,876	11,296,958	(500,509)	(28,155,902)	36,442,993
Private placements	-	124,951	-	(124,951)	-	-	-
Exercise of warrants	1,914,109	1,214,398	-	(263,154)	-	-	951,244
Exercise of stock options	432,100	310,464	-	(117,789)	-	-	192,675
Share-based payments (Note 12)	-	-	-	349,825	-	-	349,825
Cumulative translation adjustment	-	-	-	-	201,071	-	201,071
Income for the period	-	-	-	-	-	31,668,288	31,668,288
Balance at December 31, 2018	181,451,219	54,433,383	1,018,876	11,140,889	(299,438)	3,512,386	69,806,096
Conversion of preferred shares	9,503,662	1,018,876	(1,018,876)	-	-	-	-
Exercise of warrants	4,195,956	2,427,558	-	(388,219)	-	-	2,039,339
Exercise of stock options	4,081,600	2,519,718	-	(776,847)	-	-	1,742,871
Share-based payments (Note 12)	-	-	-	988,106	-	-	988,106
Cumulative translation adjustment	-	-	-	-	46,924	-	46,924
Income for the period	-	-	-	-	-	10,388,872	10,388,872
Balance at June 30, 2019	199,232,437	\$ 60,339,535	\$ -	\$ 10,963,929	\$ (252,514)	\$ 13,901,258	\$ 85,012,208

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

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 Tier 1 of the TSX Venture Exchange (“**TSX-V**”) under the symbol KNT and the OTCQB 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, Canada, V6E 3V7.

2. BASIS OF PREPARATION

Statement of Compliance

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

These consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018 and are prepared consistent with the accounting policies, except where noted below.

3. SIGNIFICANT ACCOUNTING POLICIES

New standards adopted

IFRS 16 – Leases

The Company adopted IFRS 16 - Leases (“IFRS 16”) on January 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. For all leases, the lease liability was measured at January 1, 2019 as the present value of any future minimum lease payments discounted using the appropriate incremental borrowing rate. The associated right of use assets was measured at the amount equal to the lease liability on January 1, 2019. The Company’s accounting for finance leases remained substantially unchanged.

The following leases accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16. For comparative periods prior to 2019, we applied leases policies in accordance with IAS 17, Leases and IFRS 4, Determining Whether an Arrangement Contains a Lease.

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

New standards adopted (cont'd...)

IFRS 16 – Leases (cont'd...)

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, we recognize a right-of-use asset, which is included in property, plant and equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use 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 right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain 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 comprised 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.

As part of the initial application of IFRS 16, we have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

We adopted IFRS 16 as at January 1, 2019 in accordance with the transitional provisions outlined in the standard, using a cumulative catch-up approach where we have recorded leases from that date forward and have not restated comparative information.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

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

New standards adopted (cont'd...)

IFRS 16 – Leases (cont'd...)

We have recorded an office lease right-of-use asset of \$448,236 within property, plant and equipment, measured at either an amount equal to the lease liability or their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using our incremental borrowing rate on January 1, 2019. We have recorded lease liabilities of \$448,236 as at January 1, 2019.

Reconciliation of lease liabilities as of January 1, 2019:

Reconciliation of lease liabilities	January 1, 2019
Future aggregate minimum lease payments under operating leases at December 31, 2018	\$ 761,823
Effect of discounting at the incremental borrowing rate	(313,587)
Total lease liabilities as at January 1, 2019	\$ 448,236

The weighted average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 was 10%.

4. ACQUISITION OF BARRICK (KAINANTU) LIMITED

Through its wholly owned subsidiary, K92 Holdings (PNG) Limited (“**K92PNG**”), on June 11, 2014, K92 International Holdings Limited (“**K92 Intl**”) entered into a Share Sale Agreement (“**SSA**”) with Barrick (Niugini) Limited (“**Barrick**”), Mt Apex Investment Holdings Limited (“**Apex**”), and Otterburn Resource Corp., whereby K92PNG 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, K92PNG agreed to pay \$2,000,000 (paid) and upon achievement of certain milestones, a contingent payment of up to \$60,000,000. Subsequent to June 30, 2019, the Company entered an amendment agreement with Barrick Gold Corporation (“**Barrick Gold**”) and revised the contingent payment to a fixed payment of \$12,500,000, payable within 60 days of signing.

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.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

5. RECEIVABLES

AS AT	June 30, 2019	December 31, 2018
Accounts receivable	\$ 3,249,897	\$ 1,145,104
Settlement receivables	5,715,794	6,060,893
Pricing adjustments	104,578	447,930
Other	<u>836,656</u>	<u>45,645</u>
Total	<u>\$ 9,906,925</u>	<u>\$ 7,699,572</u>

6. INVENTORY

AS AT	June 30, 2019	December 31, 2018
Mine supplies, consumables and fuel	\$ 4,437,249	\$ 2,842,750
Ore stockpile	555,791	771,195
Gold concentrate	<u>575,801</u>	<u>183,656</u>
Total	<u>\$ 5,568,841</u>	<u>\$ 3,797,601</u>

7. PREPAYMENTS

Prepayments of \$3,213,416 as of June 30, 2019 (December 2018 - \$1,561,109) relate to consumable inventory, insurance, and investor relations.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

AS AT	June 30, 2019	December 31, 2018
Trade payables	\$ 8,484,716	\$ 5,455,636
Accruals and provisions	2,300,802	2,438,232
Landowners compensation	<u>2,268,567</u>	<u>1,652,087</u>
Total	\$ 13,054,085	\$ 9,545,955

Landowners' compensation

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

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Mine and Mill Refurbishment and Expansion	Mobile Fleet and Vehicles	Right-of-use assets	Total
Cost					
Balance, December 31, 2017	\$ 26,716,969	\$ 8,906,715	\$ 2,183,014	\$ 318,494	\$ 38,125,192
Additions	4,485,577	2,617,243	4,382,362	1,195,790	12,680,972
Change in reclamation and closure obligation estimate (Note 11)	(421,850)	-	-	-	(421,850)
Capitalized pre-production concentrate sales	<u>-</u>	<u>(3,690,501)</u>	<u>-</u>	<u>-</u>	<u>(3,690,501)</u>
Balance, December 31, 2018	30,780,696	7,833,457	6,565,376	1,514,284	46,693,813
Change in new standard at January 1, 2019 (Note 3)	-	-	-	448,236	448,236
Additions	<u>6,148,482</u>	<u>6,081,161</u>	<u>1,603,011</u>	<u>-</u>	<u>13,832,654</u>
Balance, June 30, 2019	\$ 36,929,178	\$ 13,914,618	\$ 8,168,387	\$ 1,962,520	\$ 60,974,703
Accumulated depreciation					
Balance, December 31, 2017	\$ -	\$ 403,974	\$ 140,187	\$ 14,191	\$ 558,352
Depreciation for the year	<u>1,825,580</u>	<u>541,384</u>	<u>1,506,897</u>	<u>227,405</u>	<u>4,101,266</u>
Balance, December 31, 2018	1,825,580	945,358	1,647,084	241,596	4,659,618
Depreciation for the period	<u>1,702,443</u>	<u>502,667</u>	<u>900,391</u>	<u>211,891</u>	<u>3,317,392</u>
Balance, June 30, 2019	\$ 3,528,023	\$ 1,448,025	\$ 2,547,475	\$ 453,487	\$ 7,977,010
Carrying amounts					
As at December 31, 2018	\$ 28,955,116	\$ 6,888,099	\$ 4,918,292	\$ 1,272,688	\$ 42,034,195
As at June 30, 2019	<u>\$ 33,401,155</u>	<u>\$ 12,466,593</u>	<u>\$ 5,620,912</u>	<u>\$ 1,509,033</u>	<u>\$ 52,997,693</u>

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

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

The net carrying amount of right-of-use assets as of June 30, 2019 was \$1,509,033 (December 31, 2018 - \$1,272,688). Assets under lease are included in right-of-use assets within property, plant and equipment. Company has recorded the following as finance leases:

	June 30, 2019	December 31, 2018
Equipment lease payable in monthly instalments of \$9,208 plus interest at 9.02% per annum. Matures September 2019.	\$ 37,475	-
Office lease payable in monthly instalments of \$10,875 (CAD\$14,232). Matures March 2023.	397,152	125,959
Equipment lease payable in monthly instalments of \$24,379 (Papua New Guinea Kina 82,083). Matures June 2022. The Company does have the ability to purchase the assets at the end of the lease or renew for an additional two-year period. \$755,741 relates to payments more than 1 year.	908,005	1,067,404
Present value of future minimum lease payments	\$ 1,342,632	\$ 1,193,363
Current portion	\$ 402,389	\$ 394,125
Long-term portion	\$ 940,243	\$ 799,238

Deposits on equipment

The Company has made deposits on equipment of \$1,762,086 (December 31, 2018 - \$Nil) related to the acquisition of mobile fleet and vehicles.

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 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 or applied for renewal certain exploration licenses adjacent to the Company's ML 150. Upon acquisition (Note 4) the Company has not assigned any value to these licenses.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

10. CRH FINANCING

Gold prepayment agreement

On February 4, 2016, amended May 25, 2018, 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 provided the Company with \$4,813,974 in exchange for a percentage of gold produced at the Irumafimpa and Kora deposits over a 36-month period, subject to a minimum of 18,000 ounces of gold and a maximum of 20,000 ounces of gold.

The Company recorded a CRH financing liability as follows:

CRH Financing Liability	June 30, 2019	December 31, 2018
CRH liability, beginning of year	\$ 12,816,084	\$ 20,003,724
Add:		
Fair value adjustment	219,973	(110,118)
Delivery of gold ounces or cash equivalent during the year	(7,476,655)	(7,539,571)
Interest	248,832	430,607
Capitalized interest	<u>-</u>	<u>31,442</u>
	5,808,234	12,816,084
Less:		
Deferred loss	7,484,270	11,894,539
Amortization of deferred loss based on delivered ounces	<u>(4,204,801)</u>	<u>(4,410,269)</u>
	<u>(3,279,469)</u>	<u>(7,484,270)</u>
Balance, end of period	\$ 2,528,765	\$ 5,331,814
CRH financing liability, short-term	\$ 2,528,765	\$ 5,331,814
CRH financing liability, long-term	\$ -	\$ -

\$789,972 (December 31, 2018 – \$789,972) representing the interest component of the CRH financing was capitalized to property, plant and equipment since the inception of the CRH financing until commercial production, as they meet the criteria of qualifying assets, thereafter interest has been expensed.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

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

Gold prepayment agreement (cont'd...)

The gold prepayment liability of \$5,808,234 (December 31, 2018 - \$12,816,084) was calculated using the following assumptions:

	June 30, 2019	December 31, 2018
Discount rate	6.30%	6.30%
Expected life of gold stream	4 months	10 months
Expected remaining repayment in gold ounces	4,501	10,272
Future gold price per ounce	\$1,304	\$1,280

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. The deferred loss is amortized as the gold ounces or equivalent are delivered under the contract.

As security for the Company's obligations under the GPA, the Company has granted CRH a comprehensive general security interest in all of the Company'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 an amended 0.50% (originally 0.25%) net smelter return ("NSR") royalty on Kora and a 0.50% NSR on Irumafimpa. For the six months ended June 30, 2019, the Company paid or accrued an NSR of \$169,519 (2018 - \$50,077).

On May 31, 2019, the Company purchased back the Kora and Irumafimpa NSR's for a purchase price of CAD\$4,000,000 (\$3,014,659), capitalized as part of additions to Mineral Properties (Note 10).

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.

11. 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.

	June 30, 2019	December 31, 2018
Balance – beginning of year	\$ 1,891,298	\$ 2,354,323
Foreign exchange movement	(16,339)	(191,834)
Change in estimates	-	(421,850)
Accretion	82,684	150,659
Balance – end of period	\$ 1,957,643	\$ 1,891,298

The provision has been measured at the estimated value of future rehabilitation costs and estimated mine life of 13 years. The estimated cash-flows were discounted to present value using a risk-free discount rate of 8.59% (December 31, 2018 – 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 \$6,126,643, with first expenditures anticipated in 2031 (previously estimated 2026). 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.

12. SHARE CAPITAL AND RESERVES

Authorized share capital

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

Issued share capital

As at June 30, 2019, the Company had 199,232,437 common shares issued and outstanding.

Share issuances

During the six months ended June 30, 2019, the Company issued 9,503,662 common shares of the Company upon the conversion of the 5,000,000 preferred shares by the preferred shareholders.

During the year ended December 31, 2018, the Company completed a private placement by issuing 14,444,500 units at a price of CAD\$0.45 per unit for 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.

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

12. 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, 2017	36,392,976	\$ 1.03	13,910,600	\$ 0.64
Granted / Issued	8,233,365	0.65	4,660,000	0.77
Exercised	(4,514,109)	0.88	(745,700)	0.53
Forfeited	-	-	(1,440,800)	0.81
Expired	<u>(33,792,976)</u>	<u>1.03</u>	<u>-</u>	<u>-</u>
Outstanding, December 31, 2018	6,319,256	\$ 0.65	16,384,100	\$ 0.67
Granted / Issued	-	-	2,425,000	1.61
Exercised	(4,196,956)	0.65	(4,081,600)	0.57
Forfeited	<u>-</u>	<u>-</u>	<u>(149,500)</u>	<u>0.92</u>
Outstanding, June 30, 2019	2,122,300	\$ 0.65	14,578,000	\$ 0.85
Number currently exercisable	2,122,300	\$ 0.65	12,385,235	\$ 0.75

Stock options outstanding

The following incentive stock options were outstanding at June 30, 2019:

Number	Exercise price (CAD)	Expiry date
3,849,000	\$ 0.45	May 20, 2021
100,000	1.93	July 29, 2021
1,980,000	1.00	December 5, 2021
2,540,000	0.65	October 23, 2022
120,000	0.60	March 9, 2023
1,834,000	0.85	April 30, 2023
1,730,000	0.74	November 19, 2023
250,000	1.10	January 31, 2024
2,175,000	1.67	May 30, 2024

12. SHARE CAPITAL AND RESERVES (cont'd...)

Warrants outstanding

The following incentive warrants were outstanding at June 30, 2019:

Number	Exercise price (CAD)	Expiry date
2,122,300	0.65	September 6, 2019

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. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's shares, 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, less applicable discount, as calculated on the date of grant.

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

	June 30, 2019	December 31, 2018
Risk-free interest rate	1.48%	2.15%
Expected life of options	4.5 years	4.5 years
Annualized volatility	60.76%	74.73%
Dividend rate	0.00%	0.00%
Forfeiture rate	5.00%	5.00%

13. 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 fair value of cash and cash equivalents and receivables approximate their carrying value due to the short-term maturity. Fair value of accounts payable and accrued liabilities and loans payable may be less than the carrying value for some of these instruments given going concern uncertainties described in Note 1.

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

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 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. Expected credit losses on accounts receivables do not have a material impact on the Company's consolidated financial statements at June 30, 2019.

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. For the six months ended June 30, 2019 the Company had operating cash-flow of \$15,551,272 (2018 - \$8,923,410) and as at June 30, 2019, the Company had a cash and cash equivalents balance of \$9,226,539 (December 31, 2018 - \$6,205,616) and a working capital of \$11,930,482 (December 31, 2018 - \$3,992,004) to settle current liabilities of \$15,985,239 (December 31, 2018 - \$15,271,894). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

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. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and cash equivalents balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at June 30, 2019, the Company did not have any investments in investment-grade short-term deposit certificates. The Company's loans payable are not exposed to interest rate risk given interest rates on loans are fixed.

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

Financial risk factors (cont'd...)

Market risk (cont'd...)

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies. Through this, the Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, prepayments, accounts payable and accrued liabilities and reclamation and closure costs obligations that are denominated in Australian Dollars, Papua New Guinea Kina, United States Dollar and Canadian Dollars and the CRH financing which can be elected to be repaid in United States Dollars as determined by CRH. 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.

a) 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 provisionally priced embedded derivative is marked to market based on the current selling price for the period.

14. SEGMENTED INFORMATION

The Company's only operating segment is the operating of gold mining activities in Papua New Guinea. 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.

Six months ended June 30, 2019	Australia	Papua New Guinea	Canada	Total
Net Income (loss)	\$ (211)	\$ 17,498,457	\$ (7,109,374)	\$ 10,388,872
Six months ended June 30, 2018	Australia	Papua New Guinea	Canada	Total
Net Income (loss)	\$ (130,085)	\$ 10,539,987	\$ (3,021,236)	\$ 7,388,666

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the six months ended June 30, 2019, the Company:

- a) Converted 5,000,000 preferred shares into common shares of the Company with a value of \$1,018,876.

During the six months ended June 30, 2018, the Company:

- b) Issued finder warrants with a fair value of \$138,921 as share issuance costs;
c) Capitalized share-based payments of \$25,595 to mineral properties; and
d) Transferred 1,888 gold credits to CRH as part of the GPA (Note 10).

16. REVENUE

For the	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018 ¹
Gold in concentrate	\$ 23,679,811	\$ 13,709,559	\$ 46,653,619	\$ 22,099,833
Copper in concentrate	490,557	328,532	1,068,586	522,820
Silver in concentrate	20,250	509	38,902	39,133
Pricing adjustments	(577,160)	(74,419)	104,569	(129,284)
Treatment and refining charges	<u>(320,088)</u>	<u>(230,158)</u>	<u>(578,133)</u>	<u>(272,274)</u>
	\$ 23,293,370	\$ 13,734,023	\$ 47,287,543	\$ 22,260,228

¹ Revenue was generated from concentrate sales from February 1, 2018, the date of declaration of commercial production. Proceeds from the sale of concentrate during the commissioning phase of the operations was recorded as pre-production revenue credited against property, plant and equipment (Note 9).

17. COST OF SALES

For the	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Direct mining and milling	\$ 2,993,491	\$ 2,456,615	\$ 5,531,866	\$ 3,272,997
Other site costs	7,685,424	4,205,648	12,821,619	6,629,979
Net smelter royalties	29,500	-	159,907	-
Depletion and depreciation	<u>1,800,836</u>	<u>618,697</u>	<u>3,317,392</u>	<u>1,144,818</u>
	\$ 12,509,251	\$ 7,280,960	\$ 21,830,784	\$ 11,047,794

K92 MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(Presented in United States Dollars)

18. CONSULTING AND ADMINISTRATIVE

For the	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Management, consulting and wages	\$ 329,965	\$ 199,727	\$ 521,115	\$ 438,444
Professional fees	105,734	156,373	248,558	194,990
Office, filing and administrative	74,400	67,643	265,990	438,946
Travel	<u>83,505</u>	<u>46,163</u>	<u>155,816</u>	<u>92,478</u>
	\$ 593,604	\$ 469,906	\$ 1,191,479	\$ 1,164,858

19. SUBSEQUENT EVENTS

Subsequent to June 30, 2019, the Company:

- a) Received CAD\$277,768 from the exercise of 313,200 stock options;
- b) Received CAD\$665,746 from the exercise of 1,024,225 warrants;
- c) The Company and Trafigura Pvt. Ltd. (“**Trafigura**”) entered into a loan agreement pursuant to which Trafigura provided a \$15,000,000 loan (the “**Loan**”) to the Company to be repaid over 2 years (three-month payment holiday). During the initial period prior to a provision of security, the agreement provides that in certain circumstances of default, Trafigura may accelerate repayment of the loan. Subject to a grace period, if the Loan is not then repaid, Trafigura may convert all or any portion of the Loan into common shares of the Company at a conversion price equal to US\$1.3794 per share.
- d) On July 30, 2019 the Company entered into an amendment agreement with Barrick Gold to amend the SSA whereby the Company revised the contingent payment to a fixed payment and will pay Barrick Gold \$12,500,000 within 60 days of signing (Note 4); and
- e) The Company completed a private placement by issuing 9,474,000 common shares at a price of CAD\$1.90 per common share for gross proceeds of CAD\$18,000,600 (\$13,673,280). As part of the financing, the Company issued 1,421,100 agent options to the underwriters who then exercised providing an additional CAD\$2,700,090 (\$2,050,992) or CAD\$20,700,690 (\$15,724,272) in aggregate. The Company paid \$1,242,041 (\$943,456) in cash commissions related to the financing.