# MANAGEMENT'S DISCUSSION AND ANALYSIS

Three and Six Months Ended June 30, 2021 and 2020
(in thousands of Canadian dollars)

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of the operations of Karora Resources Inc. and its subsidiaries ("**Karora**", "**Karora Resources**", or the "**Corporation**") and constitutes management's review of the factors that affected the Corporation's financial and operating performance for the three and six months ended June 30, 2021 and 2020. This MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2021 and 2020, which are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as applicable to the presentation of interim financial statements including International Accounting Standard ("**IAS**") 34, Interim Financial Reporting, as well as other reports filed on SEDAR. The unaudited condensed interim consolidated financial statements should also be read in conjunction with the audited consolidated financial statements and the related notes for the year ended December 31, 2020, together with the notes thereto which have also been prepared in accordance with IFRS. This MD&A contains certain forward-looking statements and reference should be made to the cautionary language at the end of this MD&A.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Corporation's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors.

Additional information relating to the Corporation, including its Annual Information Form for the most recently completed fiscal year is available on SEDAR at www.sedar.com. The Corporation is a reporting issuer under applicable securities legislation in each of the provinces of Canada and its outstanding common shares are listed on the Toronto Stock Exchange under the symbol "**KRR**".

Certain non-IFRS measures are included in this MD&A. The Corporation believes that these measures provide investors an improved ability to evaluate the underlying performance of the Corporation. The non-IFRS measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore may not be comparable to other issuers.

Dollar amounts are reported in Canadian dollars, unless otherwise noted. Australian dollars are defined as A$. Information contained herein is presented as at August 9, 2021 unless otherwise indicated.

The technical and scientific information contained in this MD&A related to Beta Hunt Mine ("**Beta Hunt**"), Higginsville Gold Operations ("**HGO**") and the Spargos Reward Gold Project ("**Spargos**" or "**Spargos Reward**") has been reviewed and approved by Steve Devlin, Group Geologist, Karora Resources Inc., and a qualified person for the purposes of National Instrument ("**NI**") 43-101 – *Standards of Disclosure for Mineral Projects.*

## 1. DESCRIPTION OF BUSINESS

Karora is a multi-asset mineral resource company. The Corporation's main assets are its 100% interests in the Beta Hunt Mine, Higginsville Gold Operations and Spargos which is owned by HGO and included as part of that business segment. Beta Hunt, HGO and Spargos, which are located in Western Australia, are held through Karora Resources Pty Ltd, a 100% owned subsidiary of Karora.

Beta Hunt is a gold producing operation with nickel by-product credits and has historically delivered a number of high-grade coarse gold discoveries, including the Father's Day Vein discovery ("**Father's Day Vein**") announced in September 2018.

Karora acquired the HGO operations on June 10, 2019, which includes a 1.4 million tonnes per annum ("**Mtpa**") gold treatment plant, a large historical resource inventory, substantial portfolio of gold tenements and a series of open pits

and underground operations, two of which are currently being mined (Hidden Secret and Baloo) and a solid pipeline of potential open pit and underground operations of which Spargos, Two Boys and Aquarius are under development.

In August 2020, the Corporation acquired Spargos which is scheduled to begin production of additional high-grade gold feed source for the HGO treatment plant in the third quarter of 2021.

With the integration of the Beta Hunt and HGO complete, Karora is now focused on growing the business through sustainable organic production growth and further accretive acquisitions of properties and/or precious metals companies. On June 28, 2021 the Corporation announced a multi-year growth plan that is expected to increase gold production to between 185,000 and 205,000 ounces by 2024 at an All-in Sustaining Cost ("**AISC**") of US$885 – US$985 per ounce sold. The multi-year growth plan, including production, cost and capital investment guidance for the 2021-2024 period are outlined below in section 4 of this MD&A.

In anticipation of and in response to the global COVID-19 pandemic, the Corporation's protocols and contingency plans have mitigated impacts of the pandemic. All the Corporation's mines continued production during the first half ended June 30, 2021 and year ended December 31, 2020, as the Corporation's ongoing response to the COVID-19 pandemic continued to maintain the safety of its workforce and host communities while mitigating operational impacts.

Further information regarding each of these projects, and the related developments in respect of each, is provided under section 3, Operational Overview, Project Updates and New Developments.

## 2. EXECUTIVE SUMMARY

A condensed summary of the Corporation's performance for the three and six months ended June 30, 2021 and 2020 is shown below.

| *(in thousands of dollars except per share amounts)* | Three months ended, | | Six months ended, | |
|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 | **2021** | 2020 |
| Revenue | **$69,570** | $56,100 | **$128,854** | $110,382 |
| Production and processing costs | **29,570** | 25,775 | **58,871** | 53,061 |
| Earnings before income taxes | **10,200** | 17,242 | **20,536** | 18,126 |
| Net earnings | **5,391** | 9,818 | **11,015** | 10,357 |
| Net earnings per share - basic | **0.04** | 0.07 | **0.08** | 0.08 |
| Net earnings per share - diluted | **0.04** | 0.07 | **0.07** | 0.07 |
| Adjusted EBITDA [1,2] | **29,481** | 20,299 | **50,691** | 39,733 |
| Adjusted EBITDA per share - basic [1,2] | **0.20** | 0.15 | **0.35** | 0.29 |
| Adjusted earnings [1,2] | **14,270** | 2,731 | **22,357** | 13,386 |
| Adjusted earnings per share - basic [1,2] | **0.10** | 0.02 | **0.15** | 0.10 |
| Cash flow provided by operating activities | **26,371** | 22,328 | **45,029** | 34,532 |
| Cash investment in property, plant and equipment and mineral property interests | **(16,982)** | (10,523) | **(35,175)** | (18,225) |

1. Non-IFRS: the definition and reconciliation of these measures are included in the Non-IFRS Measures section 14 of this MD&A.
2. Earnings before interest, taxes, depreciation and amortization ("**EBITDA**").

| For the periods ended June 30, | Three months ended, 2021 | 2020 | Six months ended, 2021 | 2020 |
|---|---|---|---|---|
| **Gold Operations (Consolidated)** | | | | |
| Tonnes milled (000s) | **345** | 326 | **716** | 640 |
| Recoveries | **94%** | 92% | **93%** | 93% |
| Gold milled, grade (g/t Au) | **2.72** | 2.26 | **2.43** | 2.30 |
| Gold produced (ounces) | **29,831** | 24,078 | **54,524** | 48,895 |
| Gold sold (ounces) | **30,412** | 23,185 | **55,959** | 47,811 |
| Average realized price (US $/oz sold) | **$1,823** | $1,609 | **$1,793** | $1,549 |
| Cash operating costs (US $/oz sold)[1] | **$874** | $935 | **$910** | $950 |
| All-in sustaining cost (AISC) (US $/oz sold)[1] | **$996** | $1,065 | **$1,020** | $1,084 |
| **Gold (Beta Hunt Mine)** | | | | |
| Tonnes milled (000s) | **221** | 186 | **454** | 372 |
| Gold milled, grade (g/t Au) | **3.35** | 2.64 | **2.98** | 2.61 |
| Gold produced(ounces) | **22,354** | 16,818 | **40,615** | 33,988 |
| Gold sold (ounces) | **22,991** | 16,024 | **41,745** | 33,102 |
| Cash operating cost (US $/oz sold)[1] | **$787** | $982 | **$837** | $963 |
| **Gold (HGO Mine)** | | | | |
| Tonnes milled (000s) | **124** | 140 | **262** | 268 |
| Gold milled grade (g/t Au) | **1.99** | 1.75 | **1.77** | 1.87 |
| Gold produced (ounces) | **7,477** | 7,260 | **13,909** | 14,907 |
| Gold sold (ounces) | **7,421** | 7,161 | **14,214** | 14,709 |
| Cash operating cost (US $/oz sold)[1] | **$1,141** | $829 | **$1,120** | $923 |

1. Non-IFRS: the definition and reconciliation of these measures are included in the Non-IFRS Measures section 14 of this MD&A.

## Second Quarter and Recent Highlights

- Second quarter 2021 consolidated gold production of 29,831 ounces and gold sales of 30,412 ounces was ahead of budget, positioning the Corporation well to deliver 2021 guidance. Full year consolidated 2021 gold production guidance of 105,000 to 115,000 ounces is maintained (assumes no significant interruption to operations as a result of the COVID-19 virus).
- Second quarter 2021 consolidated AISC[1] of US$996 per oz. was in line with the full year 2021 guided range of US$985-$1,085 per ounce sold.
- Net earnings of $5.4 million, or $0.04 per share for the second quarter of 2021, down $4.4 million from $9.8 million in the second quarter of 2020. Second quarter net earnings were negatively impacted primarily due to non-cash charges related to intercompany currency translation adjustments ($4.5 million or $0.03 per share) and non-cash derivative valuations ($2.9 million or $0.02 per share) related to the Morgan Stanley participation payments on the first 10,000 gold ounces sold per annum on certain Higginsville tenements up to a cumulative total of 110,000 over an 11-year period (see Karora news release date December 19,2019).
- Adjusted EBITDA[1] was $29.5 million or $0.20 per share for the second quarter of 2021, up $9.2 million from $20.3 million in the second quarter of 2020.
- Adjusted earnings[1] of $14.3 million, or $0.10 per share for the second quarter of 2021, up $11.6 million from $2.7 million in the second quarter of 2020.
- Cash flow from operating activities of $26.4 million, an 18% increase compared to $22.3 million for the second quarter of 2020.
- Cash Position and Balance Sheet: Karora ended the second quarter of 2021 with a strong cash position of $82.2 million, and working capital of $64.8 million, slightly higher by $5.5 million and $1.6 million, respectively, from March 31, 2021. The cash position increase was due to performance and timing of planned investment into Karora's assets as part of 2021's capital program.
- On June 28, 2021 the Corporation announced a multi-year growth plan funded through operating cash flows and current cash balance and three-year production and cost guidance doubling consolidated gold production to

185,000 – 205,000 ounces by 2024 at AISC of US$885-US$985 per ounce sold, including a significant expansion of Beta Hunt to increase underground production to 2.0 Mtpa by 2024 through the addition of a second decline.

- Multi-year growth plan includes a Phase II expansion of Higginsville processing plant, increasing throughput to 2.5 Mtpa by 2024. Phase I expansion to 1.6 Mtpa from 1.4 Mtpa currently underway.
- At Beta Hunt's new Larkin Zone gold discovery, drilling intersected 7.6 grams per tonne ("**g/t**") gold over 5.8 metres, within a zone of 4.2 g/t over 12.2 metres in hole EL-EA2-003Ag. Taking into account face sample results from the 1940 cross-cut, the Larkin zone is interpreted to have a strike length of 650m (see Karora news release dated May 12, 2021). The Larkin Zone discovery was announced in September 2020.
- Second new high grade nickel discovery at Beta Hunt in the last six months, known as the "Gamma Zone - 50C", where 11.6% nickel over 4.6 metres, including 18.4% nickel over 2.2 metres was intersected in hole G50-22-005E (see Karora news release dated April 6, 2021). Drilling also intersected gold mineralization above and below the 50C trough and indicates the Beta Hunt gold mineralized system extends for over 3.5 kilometres of strike from the northern end of the A Zone (see Karora news release dated April 6, 2021).

Despite ongoing challenges associated with COVID-19 and heavy rainfall during the second quarter, Karora reported a strong first half of 2021, with production totalling 54,524 ounces, in line with expectations. First half AISC was US$1,020 per ounce sold, a US$64 improvement over the first half of 2020. The record rainfall experienced during the late second quarter in the Kalgoorlie region affected both ore haulage and mining operations across the district. The rainfall has continued into the third quarter and to date the Corporation has managed the interruption well, with maintenance to the mill completed during this period.

While the Corporation does not currently anticipate any significant impact on the Corporation's operations, including with respect to suppliers, service providers and employees due to the ongoing global COVID-19 pandemic, management monitors developments in order to be in a position to take appropriate actions as needed. Management also elected to maintain increased Run of Mine ("**ROM**") stockpile levels should disruptions to the mine site or supply chain occur in the future.

Karora's strong operational performance in the second quarter generated adjusted EBITDA[1] of $29.5 million, or $0.20 per share. Working capital was $64.8 million as of June 30, 2021, an improvement of $1.6 million compared to working capital of $63.2 million for the period ended March 31, 2021.

Karora is maintaining its consolidated production and cost guidance for its Australian operations (Beta Hunt and HGO) of 105,000 to 115,000 ounces of gold at an average AISC[1] of US$985 to US$1,085 per ounce sold. As previously reported (see Karora news release dated January 19, 2021), Karora expects gold production to increase over the course of 2021 as new mining areas in the Higginsville Central area come online and with the anticipated start-up of mining at the high grade Spargos open pit project by mid-year. As a result, 2021 gold production and grades are expected to be higher in the second half of the year compared to the first half.

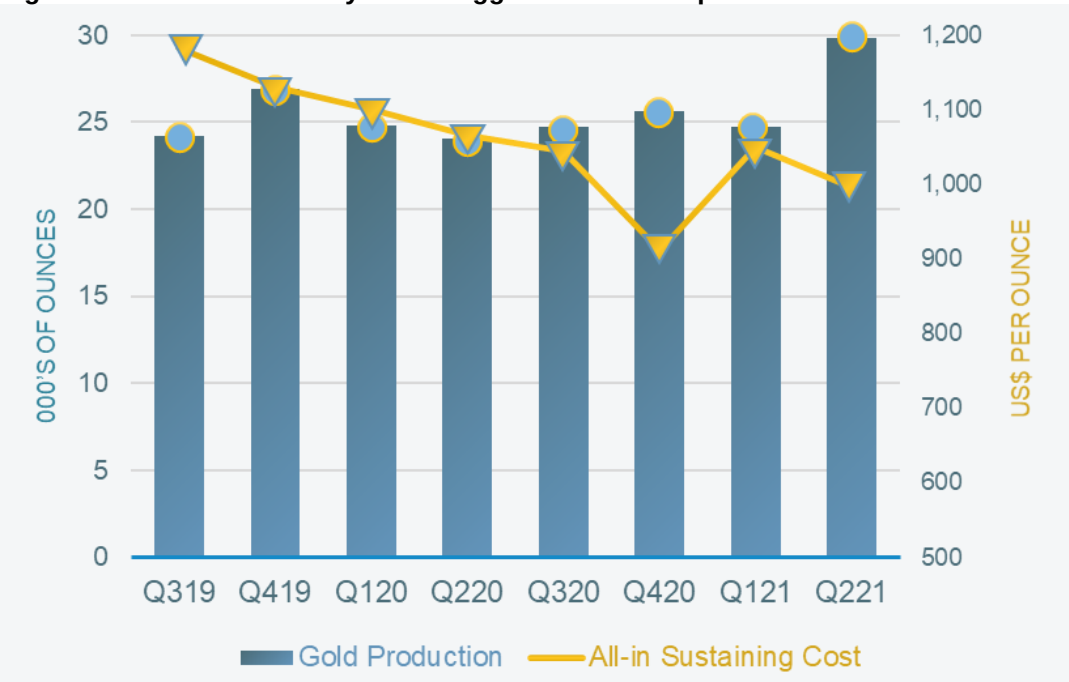
1. Non-IFRS: the definition and reconciliation of these measures are included in section 14 Non-IFRS Measures of this MD&A.

# 3. Operational overview, Project Updates and New Developments

### Consolidated Operations

The second quarter of 2021 demonstrates a step up in production to 29,831 after seven consecutive quarters of consistent production of approximately 25,000 gold ounces since the acquisition of the Higginsville Mill in mid-2019 (see Figure 1 below).

**Figure 1: Production History Since Higginsville Mill Acquisition**




Second quarter 2021 cash costs were US$874 per ounce an improvement of US$78 compared to the prior quarter. Higginsville mill feed was approximately 64% material from Beta Hunt underground and 36% from HGO open pits.

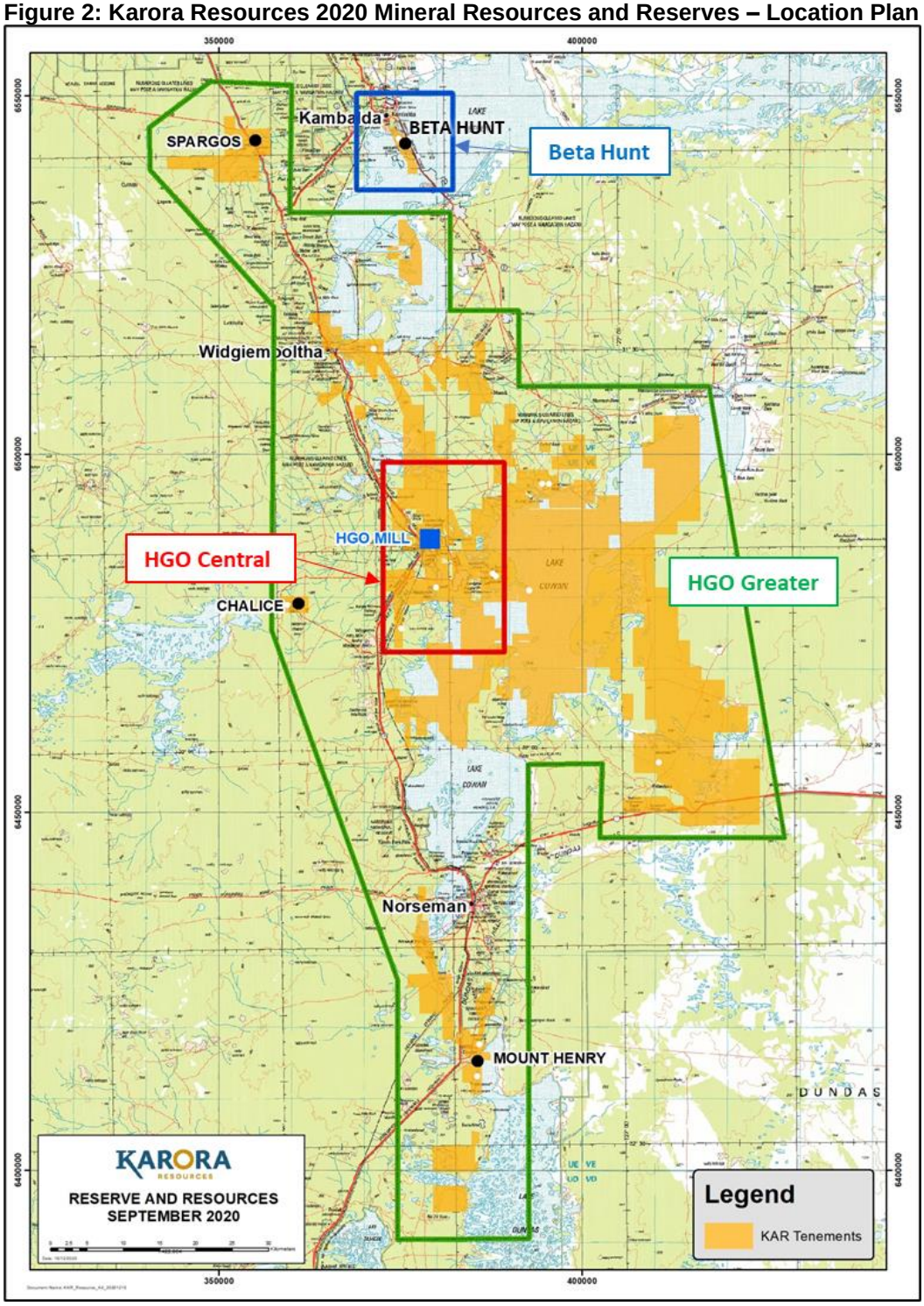
The Corporation experienced record rainfall during the second quarter which impacted both mining operations and ore haulage. The heavy rains in the region have continued into the third quarter, which the Corporation has managed via increased ore stockpiles and completing maintenance on the mill. At this time, the Corporation remains on track to deliver on its third quarter plan.

**Higginsville Operations Overview**

The HGO operations are located along the Norseman-Wiluna greenstone belt that hosts a number of world class mining centres, including Kalgoorlie (+60.0M gold ounces produced), St. Ives (+14.0M gold ounces produced) and Norseman (+6.0M gold ounces produced). The HGO tenement package is situated close to St. Ives and Norseman and totals approximately 1,900 square kilometres (combined mining and exploration tenements). The area has a strong history of gold mining commencing in the late 1800s, and most recently by Avoca Mining and Westgold Resources Ltd. The HGO treatment plant was constructed in 2009 to treat ore from the underground Trident deposit (1.0 million gold ounces produced), followed by a number of open pits and, immediately prior to its acquisition by Karora, the toll treatment of third-party material. Since the acquisition of HGO, Karora has consistently fed the HGO treatment plant at 100% capacity with feed from Karora properties.

The elimination of the Morgan Stanley Net Smelter Royalty in 2020 has unlocked opportunities for Karora to re-evaluate a large number of known historical gold resource targets previously negatively impacted by the onerous royalty. Importantly, these targets are all located within trucking distance of the HGO mill, typically near surface and have low-cost open pit mining potential.

**Figure 2: Karora Resources 2020 Mineral Resources and Reserves – Location Plan**




The HGO Gold Mineral Resource and Reserve inventory, as shown in Figure 2, is split into two main areas – HGO Central and HGO Greater. The former covers Mineral Resources within a radius approximately 10 kilometres of the HGO mill, while HGO Greater covers all Mineral Resources that fall outside the HGO Central area. HGO Central, the focus of near and medium term mining, hosts a high grade Mineral Reserve of 218,000 ounces at 2.0 g/t. On February 1, 2021, the Corporation filed a technical report for the Beta Hunt Mine and HGO entitled “Technical Report Higginsville-Beta Hunt Operation, Eastern Goldfields, Western Australia”. This report can be found on Karora’s website at www.karoraresources.com and under its profile at www.sedar.com.

**Higginsville Gold Mineral Reserves as at September 30, 2020**

| Mineral Reserve | Proven | | | Probable | | | Proven & Probable | | |
|---|---|---|---|---|---|---|---|---|---|
| | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz |
| HGO Central | 340 | 2.2 | 24 | 3,016 | 2.0 | 194 | 3,357 | 2.0 | 218 |
| HGO Greater | 7,988 | 1.3 | 333 | 5,454 | 1.5 | 268 | 13,442 | 1.4 | 602 |
| Stockpiles | 175 | 0.8 | 5 | 778 | 0.8 | 21 | 953 | 0.8 | 25 |
| **Total** | **8,503** | **1.3** | **362** | **9,249** | **1.6** | **483** | **17,752** | **1.5** | **845** |

**Higginsville Gold Mineral Resources as at September 30, 2020**

| Mineral Resource | Measured | | | Indicated | | | Measured & Indicated | | | Inferred | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz |
| HGO Central | 953 | **3.0** | 91 | 3,266 | **2.8** | 291 | 4,219 | **2.8** | 382 | 1,455 | **3.1** | 145 |
| HGO Greater | 12,234 | **1.3** | 508 | 12,094 | **1.4** | 540 | 24,328 | **1.3** | 1,048 | 3,126 | **1.6** | 165 |
| Stockpiles | 175 | **0.8** | 5 | 1,273 | **0.7** | 30 | 1,448 | **0.7** | 35 | - | **-** | - |
| **Total** | **13,362** | **1.4** | **604** | **16,633** | **1.6** | **862** | **29,994** | **1.5** | **1,466** | **4,581** | **2.1** | **310** |

## HGO Operations

HGO tonnes milled during the second quarter of 2021 were 124,000 tonnes at a grade of 1.99 g/t, a 12% improvement in grade from the previous quarter and a 14% increase compared to the second quarter of 2020. Total HGO mill gold production was 29,831 ounces at a cash cost of US $874 per ounce during the second quarter of 2021. The previously announced Phase I mill expansion is proceeding ahead of schedule. Once completed, the Phase I expansion will increase production capacity at our Higginsville mill by approximately 15%, or 550 tonnes per day, to 1.6 million tonnes per annum from the prior capacity.

## Baloo Open Pit

Mine production from Baloo totaled 34,071 tonnes for the quarter with mining of the re-optimized northeastern corner from the new southern end ramp. The Baloo open pit is nearing completion.

## Hidden Secret and Mousehollow Open Pits

At Hidden Secret, mining increased in the second quarter of 2021. Mine production from Hidden Secret totaled 156,700 tonnes for the quarter and maintained metallurgical recoveries that were aligned with testwork at 92-95%. At Mousehollow, grade control work continued during the quarter which will provide Karora additional operational flexibility and mill feed optimization once mining of the pit is started.

## Aquarius Mine

Pre-production works for the Aquarius mine commenced in the second quarter of 2021 with the final box cut, portal establishment and commencement of decline development to occur in the third quarter of 2021. The box cut has been positioned to provide most economical and practical access to the underground ore blocks and to intersect supergene ore close to the surface. These blocks will be mined as the box cut advances and will help offset overall development costs. Development of the decline will continue throughout the third and fourth quarter with initial level development ore expected late in the fourth quarter of 2021 and stope production starting shortly thereafter. The Aquarius deposit remains open along strike and at depth with follow up drilling to be carried out from the lateral underground development which will provide optimal drill bay locations.

The existing Aquarius historical resource[1,2] is 20 kt @ 19.5 g/t (Measured and indicated) and 43 kt @ 4.2g/t (Inferred) and will be updated as part of the Corporations 2021 resource report.

[1] Karora Resources profile at www.sedar.com technical report, February 6th, 2020.

[2] Westgold 2018 Annual Update of Mineral Resources & Ore Reserves dated October 2, 2018 and is available to view on the ASX (www.asx.com.au). A qualified person has not done sufficient work on behalf of Karora to classify the historical estimate noted as current mineral resources and Karora is not treating the historical estimates as current mineral resources.

**Two Boys Mine**

Karora began mine re-entry works at Two Boys underground in the second quarter of 2021 following dewatering of the historical operations. Rehabilitation will continue throughout the third quarter of 2021 in conjunction with development to access remnant and new ore blocks. A revised development and stope production plan is currently being updated to include recent face samples (5-10 g/t), surface drilling and re-mapping of historic workings. Drilling is also underway into surface mineralization adjacent to Two Boys which could extend into the upper levels of Two Boys underground, previously not considered in the mine plan.

**Spargos**

Preparation of site infrastructure and mobilization of equipment progressed well during the second quarter with pre-strip of the Spargos open pit commenced in June. Mining of lower grade ore in the first bench at Spargos is underway, with higher grades from the open pit anticipated to feed the HGO mill by mid fourth quarter.

On June 28, 2021, Karora provided its initial Mineral Resource at Spargos. The new Resource presents a 15% increase in ounces but also a higher confidence basis from which to commence mining activities compared to the historic Corona Resources Mineral Resource estimate (Corona Resources news release "Resource Estimate Update for Spargos Reward Project Eastern Goldfields Western Australia' dated on February 26, 2020"). The infill and resource definition drilling efforts completed by Karora, totalling 13,377 metres, were focused on delineating the near-term open pit mining opportunity now underway. Significant step-out potential exists beyond the current estimate, particularly at depth where down-plunge and down-dip extensions remain virtually untested.

**Spargos Gold Deposit Mineral Resource Estimate as at June 24, 2021**

| Mineral Resource | Measured | | | Indicated | | | Measured & Indicated | | | Inferred | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz |
| Spargos [1.2.3.4.5] | 241 | 2.4 | 19 | 836 | 3.2 | 86 | 1,077 | 3.0 | 105 | 401 | 3.5 | 45 |

1. *Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into Mineral Reserves.*
2. *The Mineral Resource estimates include Inferred Mineral Resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is also no certainty that Inferred Mineral Resources will be converted to Measured and Indicated categories through further drilling, or into Mineral Reserves once economic considerations are applied. Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding*
3. *Gold Mineral Resources are reported using a 0.5 g/t Au cut-off grade above 300mRL, and 1.6g/t Below 300mRL*
4. *Mineral Resources described here are based on information compiled by Graham de la Mare, Principal Resource Geologist for Karora Resources. Graham de la Mare is an employee of KRR and is a Fellow of the Australian Institute of Geoscientists (FAIG, 1056).*
5. *This Mineral Resource estimate may be materially affected by legal, political, environmental and other risks.*
6. *Mineral Resource Estimate as of June 24, 2021.*

An extensive geological review completed by Karora exposed how little drill testing exists for underground mineralization below the 300mRL (150m below surface) outside of the Mineral Resource. The northern margin is constrained by just three historic holes (including two wedges). These holes are considered to have missed the high grade plunging shoot positions which remain open at depth down plunge. The southern margin of the Mineral Resource is limited by a single historic hole and is considered virtually untested. The northern and southern strike extensions of the Spargos Mineral Resource are also poorly tested by historic drilling and represent a significant underground growth opportunity. As such, the Resource remains open in both directions.

The next stage of exploration drilling will be focused on extending high grade gold mineralization outside the margins of the current Mineral Resource and at depth to further define the potential for a high grade underground operation at Spargos. High grade results announced in November 2020, including SPRC0026: 29.8 g/t over 19.0 metres, including 99.5 g/t over 5.0 metres, SPRC0012: 27.3 g/t over 15.0 metres, including 168.0 g/t over 1.3 metres and SPRC0019: 8.0 g/t over 19.0 metres, including 20.6 g/t over 2.0 metres (see Karora news release dated November 18, 2020), highlight the potential for the discovery of additional high grade shoots which have the potential to positively impact future mined grades.

**Beta Hunt Operations Overview**

The Beta Hunt Mine is located approximately 70 kilometres by road north of the HGO mill. Ore from Beta Hunt is blended with open pit material from Higginsville for feed into the HGO treatment plant.

Beta Hunt is a mechanized underground mine that has been in operation since 1974 as a producing nickel mine with limited gold production. The mine is now primarily focused on gold production, with a smaller nickel operation producing from remnant trough positions at the south end of the mine. Gold production is sourced from two main zones – Western Flanks and A Zone. Exploration continues to focus on both gold and nickel.

**Beta Hunt Operations**

Production for the second quarter of 2021 was 220,000 tonnes mined, a 21% increase over the second quarter of 2020, and 221,000 tonnes milled, a 19% increase over the second quarter of 2020. Gold production was 22,354 ounces. Gold ounces sold were 22,991 at a cash cost of US$787 per ounce in the second quarter of 2021.

The ramp up in production is a direct reflection of improved mining techniques and a staged fleet replacement and upgrade program which has seen the addition of two CAT R2900 underground loader and two CAT AD60 trucks into the mining fleet. The first of these two new trucks recently hauled its first load of ore at Beta Hunt in May and both CAT R2900 loaders arrived in June 2021.

Nickel production is currently limited to remnant nickel resources south of the Alpha Fault; however, recent drilling has identified a number of new areas including the 30C Nickel Trough where production can potentially be increased as well as the new Gamma Zone 50C discovery.

As announced on April 6, 2021, the Corporation made a second new high grade nickel discovery at Beta Hunt in the last six months, known as the Gamma Zone 50C, where 11.6% nickel over 4.6 metres, including 18.4% nickel over 2.2 metres was intersected in hole G50-22-005E. The drilling, which was targeting nickel, also intersected gold mineralization above and below the 50C trough and suggests the Beta Hunt gold mineralized system extends for over 3.5 kilometres of strike from the northern end of the A Zone.

A revised nickel production strategy is currently being developed, based on the updated nickel mineral resource released as part of the recent Karora Resource and Reserve as at September 30, 2020.

**Beta Hunt Gold Mineral Reserves as at September 30, 2020**

| Mineral Reserve | Proven | | | Probable | | | Proven & Probable | | |
|---|---|---|---|---|---|---|---|---|---|
| | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz |
| Western Flanks | 245 | 2.4 | 19 | 4,411 | 2.7 | 381 | 4,657 | 2.7 | 400 |
| A Zone | 84 | 2.5 | 7 | 1,039 | 2.3 | 75 | 1,123 | 2.3 | 82 |
| **Total** | **329** | **2.4** | **26** | **5,450** | **2.6** | **456** | **5,780** | **2.6** | **482** |

The high-grade coarse gold discoveries associated with the shear zone / Lunnon Sediment intersection horizon, such as the Father's Day Vein, are not represented in the resource model due to the extreme nuggety nature of this type of mineralization. While the Corporation's understanding of these occurrences and their geological setting continues to improve, at present these occurrences are best considered as a potential periodic significant bonus to mine production.

**Beta Hunt Gold Mineral Resources as at September 30, 2020**

| Sept-2020 Mineral Resource | Measured | | | Indicated | | | Measured & Indicated | | | Inferred | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz | Kt | g/t | Koz |
| Western Flanks | 451 | 2.4 | 35 | 8,816 | 2.8 | 800 | 9,267 | 2.8 | 835 | 4,133 | 2.7 | 360 |
| A Zone | 180 | 2.4 | 14 | 2,553 | 2.5 | 206 | 2,733 | 2.5 | 220 | 2,013 | 2.7 | 177 |
| **Total** | **631** | **2.4** | **49** | **11,369** | **2.8** | **1,006** | **12,000** | **2.7** | **1,055** | **6,146** | **2.7** | **537** |

**Exploration Overview**

Exploration and resource definition in 2021 is underpinned by a A$20M budget. Drilling in the second quarter of 2021 totaled 15,364 m. At Beta Hunt, the infill and extensional drilling programs covering the newly discovered Larkin Zone and the northern extension of the A Zone resource were completed. Additional drilling tested the southern down-dip extension of Western Flanks adjacent to the Alpha Island Fault and the Fletcher Shear Zone. June 2021 also marked the commencement of a surface RC and diamond drilling program targeting the northern extensions of the A Zone and Western Flanks.

Resource definition drilling re-commenced following completion of the Model Earth 3D geological model used to assist in targeting mineralized positions in the Higginsville Central area. Initial targets to be tested include extensions to the Two Boys, Aquarius and Spargos deposits.

**Higginsville**

At Higginsville, a total of 10,301m of drilling was completed in the second quarter of 2021. The drilling included aircore drilling over the Lake Cowan Project area and an RC rig testing near the near-surface, southern extensions at Spargos. By quarter end, Higginsville had four RC/diamond rigs on site with drilling targeting extensions to the Two Boys and Aquarius deposits.

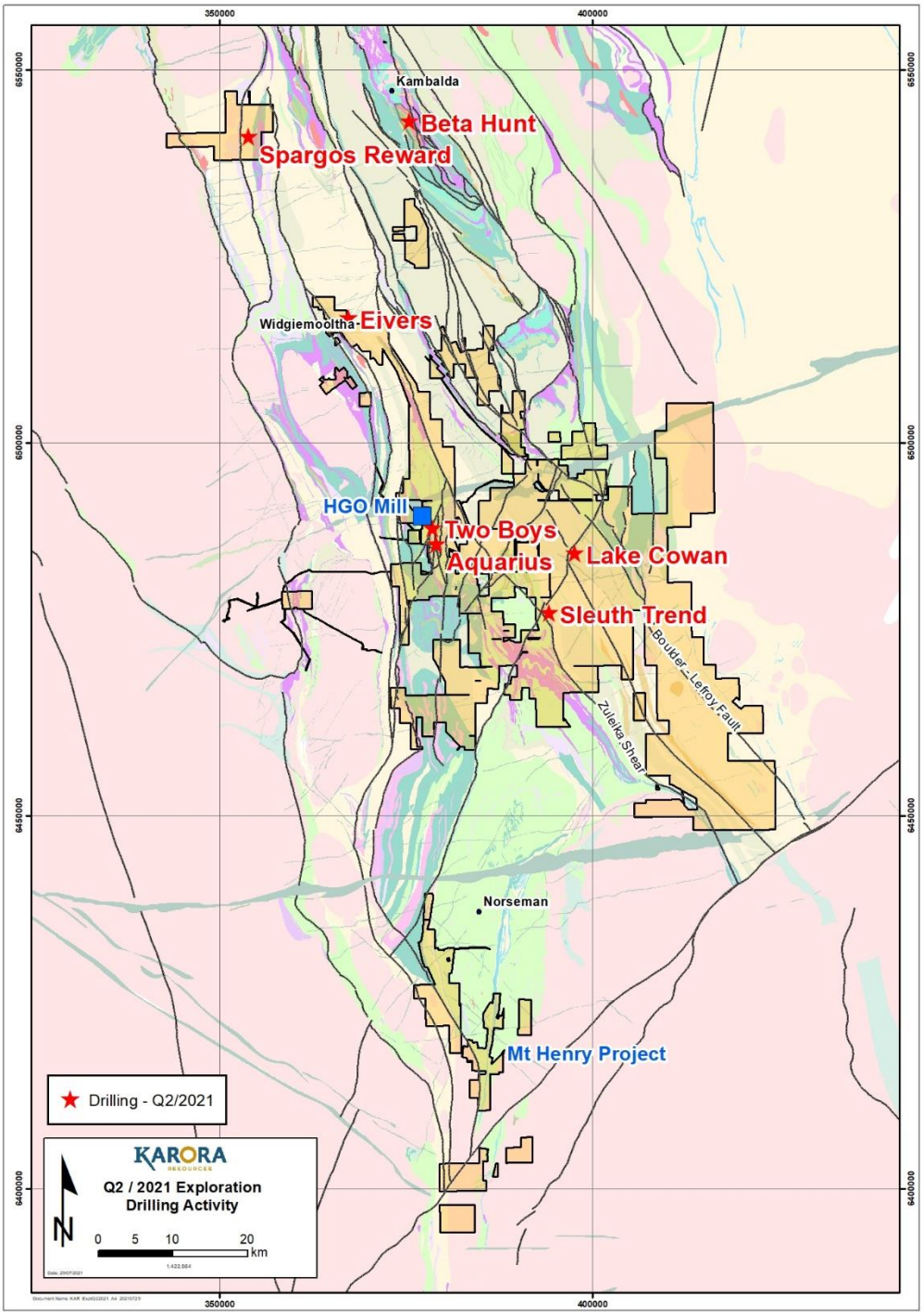
Stage 2 of the Lake Cowan aircore follow-up drill program totaled 129 holes for 4,821m drilled in the second quarter of 2021. All results from the Lake Cowan scout aircore program, including incoming assays from the Stage 2 drilling, will be evaluated and ranked with the aim of developing a follow-up drill program. As part of the evaluation, a 3D Geological & Mineralization model is being developed over the prospective Sleuth Trend which includes the Baloo deposit, Monsoon and Nanook prospects. This work is being carried out by consultants CSA Global and due for completion in the third quarter.

At Higginsville Central, the Model Earth targeting study results outlined in the MD&A for the three months ended March 31, 2021 were used to support and develop a targeted resource definition program with an initial focus on the Higginsville Central Project area. A new, dedicated resource definition team was established and 3 drill rigs were procured late in the second quarter to infill and extend existing resources prioritized for mining as part of KRR's LOM and Growth Plan. Deposits targeted as part of the initial drill program are extensions and infill drilling at Two Boys, Aquarius and Spargos. Resource Definition drilling for the second quarter of 2021 totaled 21 holes for 4,517m with results pending. An additional 2 rigs are scheduled to commence in the third quarter of 2021 as part of a significant ramp-up in drilling activity to extend the targeted Mineral Resources in support of the LOM and Growth Plan.

**Hidden Secret**

Hidden Secret is located within the Eundynie historical mining center 10km east of the HGO processing plant with mine workings dating back to the early 1900s. Hidden Secret commenced mining in the third quarter of 2020 and is expected to be completed in 2022 based on current resources and reserves.

**Figure 3: Plan view of active Karora Exploration & Resource Definition drill locations, second quarter of 2021**




## Beta Hunt

Exploration drilling at Beta Hunt during the second quarter focused on extending the Larkin Gold Zone, the southern down-dip position of the Western Flanks and the northern margin of A Zone. Exploration drilling also tested the southern extension of the Fletcher Shear Zone and a surface diamond rig commenced drill testing the up-plunge northern extensions to A Zone and Western Flanks. The second quarter also realized the commencement of nickel targeted drilling – specifically the 50C nickel trough south of the Gamma Island Fault. Drill results from the Larkin,

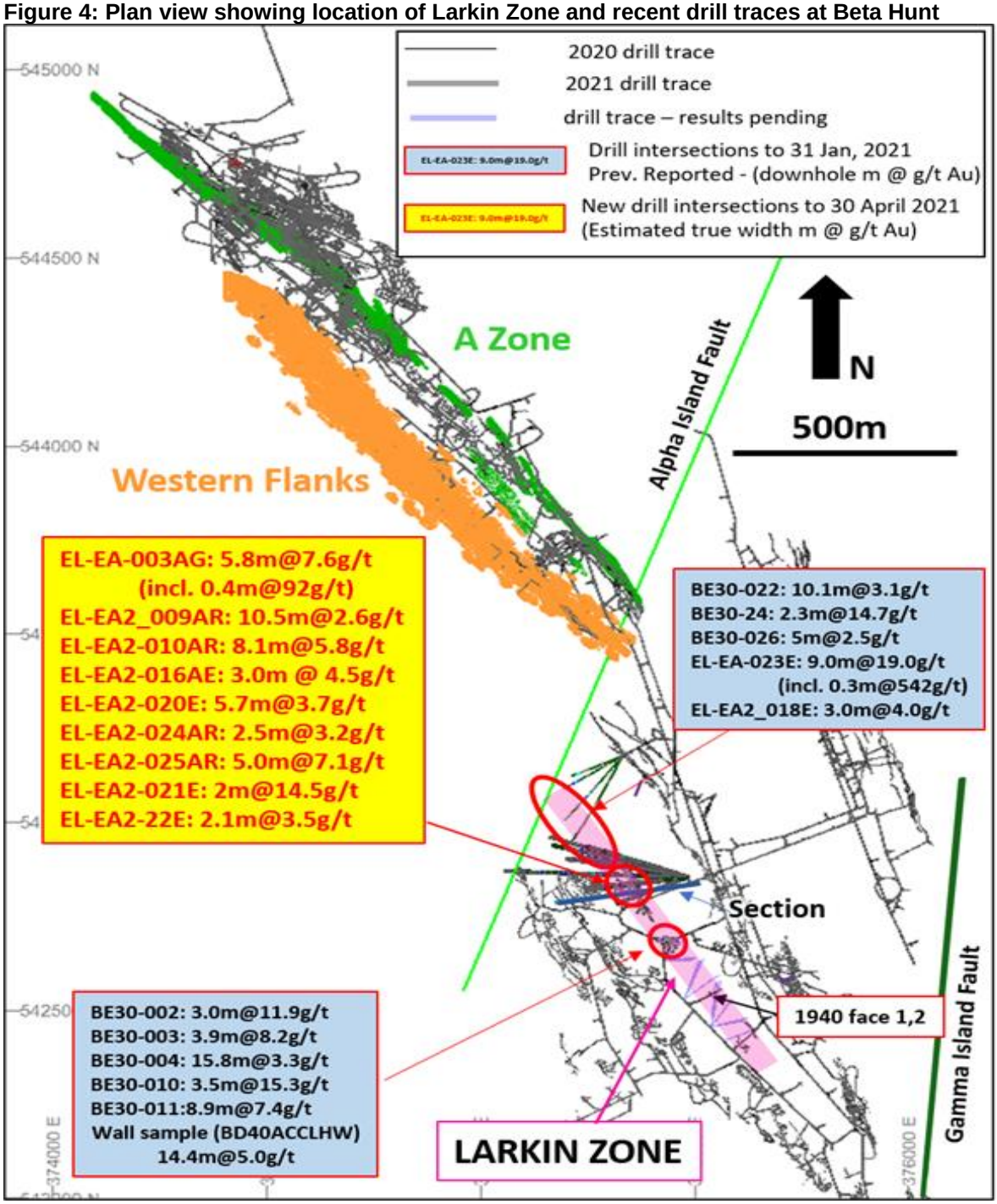
Western Flanks and A Zone (northern margin) are planned to be incorporated in an updated Beta Hunt Mineral Resource. Drilling totaled 5,063 m for the quarter.

Additional drill results[1,2], supported by face samples, from the Larkin Zone infill and step-out drilling were reported in a Karora news release on May 12, 2021. The results continue to highlight the potential of this mineralization as a third gold resource area in addition to the A Zone and Western Flanks Mineral Resource.

- EL-EA2-003AG: 7.6 g/t over 5.8 metres within a zone of 4.2g/t over 12.2 metres
- EL-EA2-009AR: 2.6 g/t over 10.5 metres and 44.8 g/t over 0.9m
- EL-EA2-010AR: 5.8 g/t over 8.1 metres
- EL-EA2-025AR: 7.1 g/t over 5.0 metres
- Face sample (Face 1-1940N): 6.1g/t over 4.6 metres
- Face sample (Face 2-1940N): 4.8g/t over 5.0 metres

*1. Interval lengths are estimated true widths*
*2. Face sample results from an exploratory drive (1940 N) along the interpreted position of the Larkin Zone – Main Zone*

**Figure 4: Plan view showing location of Larkin Zone and recent drill traces at Beta Hunt**




*Note: Previously reported drill intersections to January 31, 2021 are detailed in Karora news releases dated September 10, 2020 and February 1, 2021)*

Two U/G Fletcher holes were completed, intersecting biotite-pyrite alteration and extensional quartz veining characteristic of gold mineralization in the targeted shear position. Results are pending. A 4,500 m surface RC and diamond drill hole program testing the potential to extend the A Zone and Western Flanks 300m north along strike from the existing Mineral Resources commenced late in the quarter. Geological observations from the initial holes show the drilling intersected a wide shear zone (up to 40 m downhole) in the interpreted Western Flanks position. Results from this drilling are expected next quarter.

On the nickel front, drilling commenced late in the second quarter testing extensions to the 50C nickel trough following up on previously released results (Karora News release, April 6, 2021) that include:

- G50-22-005E: 11.6% nickel over 4.6 meters, including 18.4% Ni over 2.2 meters
- G50-22-002E: 1.2% Ni over 0.3 meters
- G50-22-003E: 2.4% Ni over 1.8 meters

*1.Downhole intervals. True widths cannot be determined with currently available information.*

The drilling is part of a 5,000m U/G diamond drill program designed to test the 50C trough and parallel 10C nickel trough over 350 m of strike. The 50C nickel trough is part of the Gamma Zone, south of the Gamma Island Fault. The 50C nickel trough position is interpreted as a potential repeat of the historic Beta Zone.

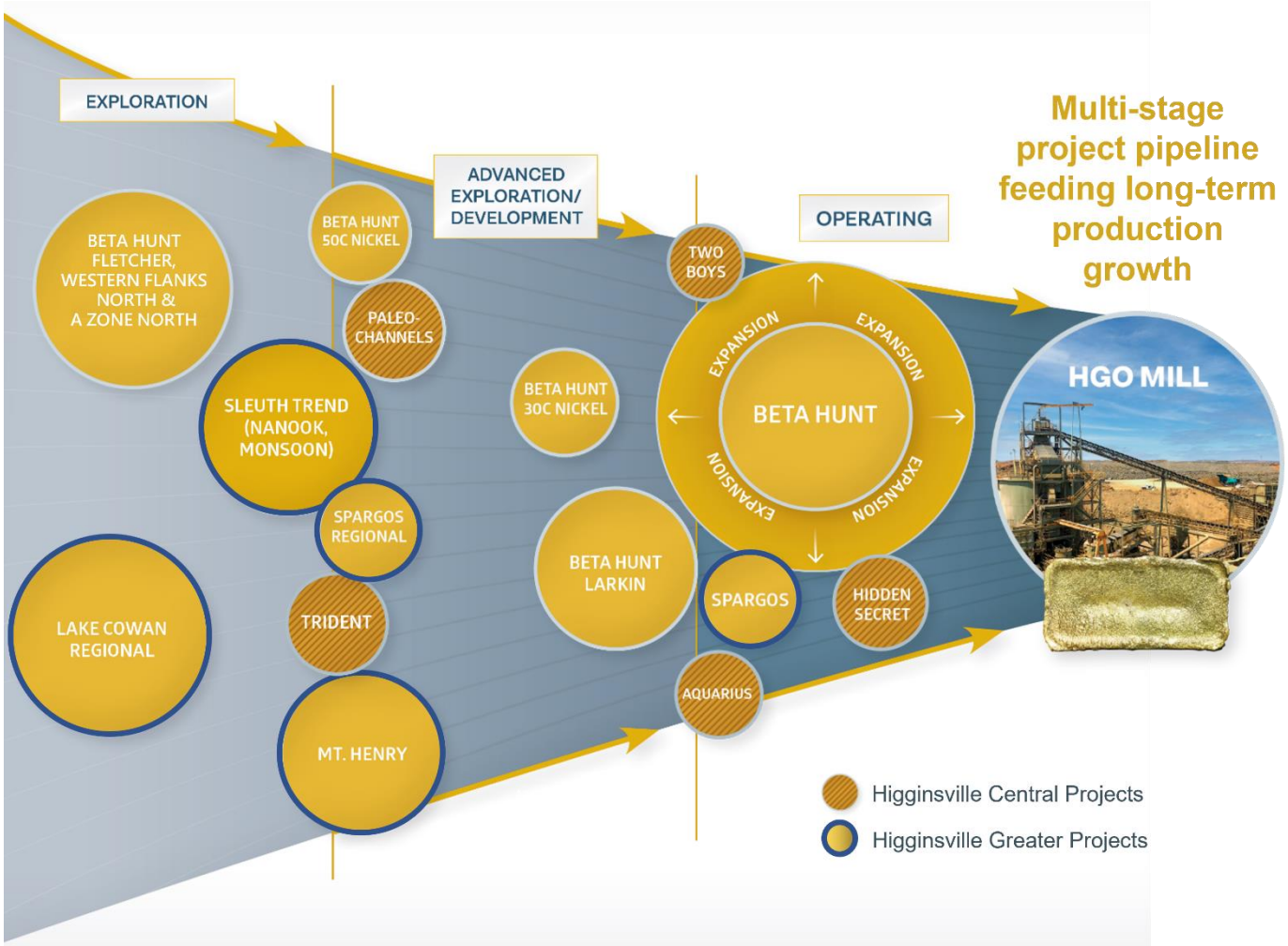
*Cautionary Statement:*
*A production decision at HGO was made by previous operators of the mine, prior to the completion of the acquisition of HGO by Karora, and Karora made a decision to continue production subsequent to the acquisition. This decision by Karora to continue production and, to the knowledge of Karora, the prior production decisions were not based on a feasibility study of mineral reserves, demonstrating economic and technical viability, and, as a result, there may be an increased uncertainty of achieving any particular level of recovery of minerals or the cost of such recovery, which include increased risks associated with developing a commercially mineable deposit. Historically, such projects have a much higher risk of economic and technical failure. There is no guarantee that anticipated production costs will be achieved. Failure to achieve the anticipated production costs would have a material adverse impact on the Corporation's cash flow and future profitability. Readers are cautioned that there is increased uncertainty and higher risk of economic and technical failure associated with such production decisions.*

# 4. OUTLOOK

The outlook and financial targets only relate to the 2021 to 2024 period. This outlook includes forward-looking information about the Corporation's operations and financial expectations and is based on management's expectations and outlook as of the date of this MD&A. This outlook, including expected results and targets, is subject to various risks, uncertainties and assumptions, which may impact future performance and our achievement of the results and targets discussed in this section. The Corporation may update the outlook depending on changes in metal prices and other factors.

Figure 5 below highlights a number of areas where Karora is either actively mining, developing or exploring. In addition to Beta Hunt and Hidden Secret, where Karora was actively mining in the second quarter of 2021, the new Aquarius and Spargos operations, and the Two Boys restart are anticipated to start production of feed to the Higginsville mill in the second half of 2021. Other areas, such as Beta Hunt's Larkin gold zone and 30C Nickel Trough represent near term potential production projects. The Corporation also has numerous additional development and exploration projects that will continue to be evaluated and advanced in 2021.

**Figure 5: Karora Project Pipeline.**




**Multi-Year Growth Plan and 2021-2024 Guidance**

On June 28, 2021, the Corporation announced three-year consolidated production guidance as part or a multi-year growth plan that is expected to see gold production double from 99,249 ounces in 2020 to a range of 185,000 – 205,000 ounces in 2024 at an AISC of US$885 – US$985 per ounce sold. For 2021, production guidance is between 105,000 to 115,000 ounces of gold at an AISC of US$985 to US$1,085 per ounce sold. Table 1 below outlines production, cost and capital investment guidance for 2021-2024.

**Table 1 – Consolidated Multi-Year Guidance to 2024**

| **Production & Costs** | | **2021** | **2022** | **2023** | **2024** |
|---|---|---|---|---|---|
| **Gold Production** | Koz | 105 - 115 | 120 – 140 | 150 – 170 | 185 - 205 |
| **All-in sustaining costs** | US$/oz | 985 - 1,085 | 900 – 990 | 890 – 990 | 885 - 985 |
| **Capital Investments** | | | | | |
| **Sustaining Capital** | A$ (Million) | 5 - 6 | 8 – 13 | 11 – 16 | 18 - 23 |
| **Growth Capital** | A$ (Million) | 40 - 46 | 45 – 55 | 47 – 57 | 30 - 40 |
| **Exploration & Resource Development** | A$ (Million) | 20 - 23 | 21 – 24 | 22 – 25 | 20 - 23 |

(1) 2021 Guidance, which was announced in January 2021 (see Karora news release dated January 19, 2021), is unchanged. This production guidance through 2024 is based on the 2020 year-end Mineral Reserves and Mineral Resources announced on December 16, 2020.
(2) The Capital Investment amounts listed above, which the Corporation expects to fund with cash on hand and cashflow from operations, includes the capital required during the applicable periods to expand the capacity of the Higginsville mill to 2.5 Mtpa. See below for further detail regarding this expansion.
(3) The material assumptions associated with the expansion of Beta Hunt mining production rate to 2.0 Mtpa in 2024 include the addition of a second ramp decline system driven parallel to the ore body, ventilation and other infrastructure that is required to support these areas, and an expanded trucking fleet. The Capital Investment amounts listed above, which the Corporation expects to fund with cash on hand and cashflow from operations, include the capital required during the applicable periods to fund this production expansion. See below for further detail regarding this expansion.
(4) The Corporation's guidance assumes targeted mining rates and costs, availability of personnel, contractors, equipment and supplies, the receipt on a timely basis of required permits and licenses, cash availability for capital investments from cash balances, cash flow from operations, or from a third-party debt financing source on terms acceptable to the Corporation, no significant events which impact operations, such as COVID-19, nickel price of US$16,000 per tonne, as well as an A$ to US$ exchange rate of 0.78 and A$ to C$ exchange rate of 0.91. Assumptions used for the purposes of guidance may prove to be incorrect and actual results may differ from those anticipated. See below "Cautionary Statement Concerning Forward-Looking Statements".
(5) Exploration expenditures include capital expenditures related to infill drilling for Mineral Resource conversion, capital expenditures for extension drilling outside of existing Mineral Resources and expensed exploration. Exploration expenditures also includes capital expenditures for the development of exploration drifts.
(6) Capital expenditures exclude capitalized depreciation.
(7) AISC guidance includes general and administrative costs and excludes share-based payment expense.
(8) See "Non-IFRS Measures" set out at the end of this MD&A.

Advanced internal study work and detailed engineering is progressing ahead of a formal construction decision by the Board of Directors.

**Higginsville Mill Expansion**

The growth plan will be driven by an expansion of Beta Hunt underground mine production to 2.0 Mtpa by 2024, from 0.8 Mtpa recorded in 2020. Increased production from Beta Hunt will be complemented by HGO. This tonnage will be processed by the Higginsville mill, which will be expanded to a capacity of 2.5 Mtpa by 2024 (Phase II), an increase from the current Phase I expansion to 1.6 Mtpa from 1.4 Mtpa which is currently underway.

The Phase II mill expansion is expected to reach a throughput rate of 2.5 Mtpa by 2024 at a total capital expenditure of A$50 million, as noted in Karora's existing technical report dated January 29, 2021. It is expected that this A$50 million spend will be incurred from mid-2022 through mid-2023.

The key areas included in the Phase II mill expansion are the installation of a new semi-autogenous grinding (SAG) mill and motor and the associated extension of the conveyor system. The existing quaternary crusher will be repurposed as a pebble crusher in the SAG mill circuit while the existing ball mill, recently upgraded gravity circuit and elution columns will be reused in the expanded plant. Additional trash screens for filtering wet media, carbon in leach (CIL) tanks and a new thickener will be installed on the back end of the mill.

Once completed, the mill expansion would provide optionality to blend Paleo channel material with material from the Corporation's other operating mines.

**Beta Hunt Mine Expansion**

The Beta Hunt Mine expansion represents the backbone of Karora's growth plan and is expected to approximately double the production capacity of the mine from the current rate of approximately 75,000-85,000 tonnes per month ("tpm") to 160,000 – 170,000 tpm by the end of 2024.

Karora commissioned Hatch Ltd. to investigate materials handling options for increased production rates at Beta Hunt. After extensive review of each option, and Karora's significantly improved mining and hauling efficiencies, the Corporation selected the addition of a second decline and expanded trucking fleet to increase mining throughput at Beta Hunt. The addition of a second decline (see Figure 6 below) will best leverage the significant experience of the Beta Hunt underground mining team which has delivered outstanding operational improvements since the restart of operations in 2019.

The new decline will duplicate the current single access into the mine intersecting the existing workings 240 vertical metres below the surface. The decline is positioned adjacent to the up-plunge extensions of current mining zones which will allow for gold mining operations concurrently with driving the decline – a distinct advantage. Increased mine development rates and expansion of the underground mining fleet will support the decline construction along with primary ventilation upgrades.

**Figure 6: Beta Hunt Mine – Oblique Long section looking Northeast highlighting position of second decline**


*Note: Mineral Resources as of September 30, 2020. For scale, Mineral Resources shown cover a strike length of 2.5 kilometres.*

It is important to note that the growth plan production and cost guidance does not include contributions from any potential high-grade coarse gold occurrences encountered from time to time at the Beta Hunt Mine. The growth plan guidance also assumes no significant disruption in operations as a result of the COVID 19 virus.

## 5. Financial Results of Operations

| *(in thousands of dollars except per share amounts)* | Three months ended, | | | Six months ended, | | |
|---|---|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Revenue | **$69,570** | $56,100 | $13,470 | **$128,854** | $110,382 | $18,472 |
| Production and processing costs | **29,570** | 25,775 | 3,795 | **58,871** | 53,061 | 5,810 |
| Royalty expense | **4,356** | 5,114 | (758) | **8,111** | 9,451 | (1,340) |
| General and administrative: share-based compensation | **2,958** | 2,207 | 751 | **4,248** | 2,046 | 2,202 |
| General and administrative: other | **5,513** | 4,641 | 872 | **10,383** | 7,804 | 2,579 |
| Depreciation and amortization | **7,718** | 5,472 | 2,246 | **15,001** | 9,526 | 5,475 |
| Operating earnings | **19,455** | 12,891 | 6,564 | **32,240** | 28,494 | 3,746 |
| Other expenses (income), net | **9,255** | (4,351) | 13,606 | **11,704** | 10,368 | 1,336 |
| Earnings before income tax | **10,200** | 17,242 | (7,042) | **20,536** | 18,126 | 2,410 |
| Income tax expense | **4,809** | 7,424 | (2,615) | **9,521** | 7,769 | 1,752 |
| Net earnings | **5,391** | 9,818 | (4,427) | **11,015** | 10,357 | 658 |
| Net earnings per share - basic | **$0.04** | $0.07 | $(0.03) | **$0.08** | $0.08 | - |
| Net earnings per share - diluted | **$0.04** | $0.07 | $(0.03) | **$0.07** | $0.07 | - |

**Three and six months ended June 31, 2021, compared with three and six months ended June 31, 2020**

Net earnings for the three months ended June 30, 2021 was $5.4 million compared to net earnings of $9.8 million for the comparable period in 2020. As described below, operating earnings increased by $6.6 million which is primarily due to an increase in revenue partially offset by higher level of production and processing costs, depreciation and amortization expense and general and administrative costs. Revenue also more than offset changes in other expenses of $13.6 million which was primarily due to higher losses from derivative instruments and foreign exchange translation. The derivative instrument movement was mainly due to the change in fair value due to the movement in gold price.

Net earnings for the six months ended June 30, 2021 was $11.0 million compared to net earnings of $10.4 million for the comparable period in 2020. As described below, operating earnings increased by $0.7 million which is primarily due to an increase in revenue partially offset by higher level of production and processing costs, depreciation and amortization expense and general and administrative costs. Increased revenues more than offset changes in other expenses of $1.3 million which was primarily due to higher losses from derivative instruments and foreign exchange translation. The derivative instrument movement was mainly due to the change in fair value due to the movement in gold price.

**Revenue**

For the three months ended June 30, 2021, the Corporation generated revenue of $69.6 million of which HGO contributed $16.8 million, and Beta Hunt contributed $52.8 million. During the comparable period in 2020, the Corporation generated revenue of $56.1 million where HGO and Beta Hunt contributed $16.9 million and $39.2 million, respectively. The increase in revenue in 2021 was the result of higher gold ounces sold and higher average realized prices on ounces sold which increased by 31% and 13%, respectively.

For the six months ended June 30, 2021, the Corporation generated revenue of $128.9 million of which HGO contributed $32.0 million, and Beta Hunt contributed $96.9 million. During the comparable period in 2020, the Corporation generated revenue of $110.4 million where HGO and Beta Hunt contributed $33.2 million and $77.2 million, respectively. The increase in revenue in 2021 was the result of higher gold ounces sold and higher average realized prices on ounces sold which increased by 17% and 16%, respectively.

**Production and processing costs**

For the three months ended June 30, 2021, production and processing costs, after adjustments for changes in inventories, were $29.6 million compared to $25.8 million in the comparable period in 2020. Production and processing costs include mining, processing, surface services and other mine general and administrative costs. The increase was due to the increase in 2021 tonnes mined and tonnes processed. As noted above, the Corporation had an increase in ounces sold of 31% which contributed to higher production and processing costs.

For the six months ended June 30, 2021, production and processing costs, after adjustments for changes in inventories, were $58.9 million compared to $53.1 million in the comparable period in 2020. The increase was due to the increase in 2021 tonnes mined and tonnes processed. As noted above, the Corporation had an increase in ounces sold of 17% which contributed to higher production and processing costs.

**Royalty expense**

Royalties for the three months ended June 30, 2021 were $4.4 million compared to $5.1 million for the comparable period in 2020. The decrease in royalty expense was mainly due to a net reduction based on the 2020 royalty buybacks offset by the increase in gold price which impacted royalty payments for Beta Hunt and HGO.

Royalties for the six months ended June 30, 2021 were $8.1 million compared to $9.5 million for the comparable period in 2020. The decrease in royalty expense was mainly due to a net reduction based on the 2020 royalty buybacks offset by the increase in gold price which impacted royalty payments for Beta Hunt and HGO.

**General and administrative : share-based compensation**

For the three months ended June 30, 2021, general and administrative: share-based compensation was an expense of $3.0 million compared to $2.2 million for the comparable period in 2020. The increase was primarily due to additional share based compensation issued to management and staff during the last half of 2020 in respect of long term incentive programs. Partially offsetting the year over year increase was a relatively higher increase in the share price during the second quarter of 2020 compared with the second quarter of 2021.

For the six months ended June 30, 2021, general and administrative: share-based compensation was an expense of $4.2 million compared to $2.0 million for the comparable period in 2020. The increase was primarily due to additional share based compensation issued to management and staff during the last half of 2020 in respect of long-term incentive programs.

**General and administrative: other**

For the three months ended June 30, 2021, general and administrative: other was an expense of $5.5 million compared to $4.6 million for the comparable period in 2020. The increase in General and administrative: other was the result of higher employee and contractor compensation and office and general expenses of $0.5 million and $0.5 million, respectively.

For the six months ended June 30, 2021, general and administrative: other was an expense of $10.4 million compared to $7.8 million for the comparable period in 2020. The increase in General and administrative: other was the result of higher employee and contractor compensation and office and general expenses of $1.0 million and $1.4 million, respectively.

**Depreciation and amortization**

Depreciation and amortization expense, after adjustments for changes in inventories, for the three months ended June 30, 2021 was $7.7 million compared to $5.5 million in the comparable period in 2020. The increase in depreciation and amortization was primarily due to the increase in mined and sold ounces as well as the additional amortization of mineral properties with shorter lifespans. Furthermore, there is a significantly higher balance of depreciable assets during the second three months of 2021 compared with the prior year. Property, plant and equipment and mineral property interests increased by $135.2 million year over year. This includes the 2020 impairment reversal on the Beta Hunt mine of $36.1 million as well as the 2020 royalty buyback arrangements of $63 million which contributed to depreciable assets.

Depreciation and amortization expense, after adjustments for changes in inventories, for the six months ended June 30, 2021 was $15.0 million compared to $9.5 million in the comparable period in 2020. The increase in depreciation and amortization was primarily due to the increase in mined and sold ounces as well as the additional amortization of mineral properties with shorter lifespans. Furthermore, there is a significantly higher balance of depreciable assets during the first half of 2021 compared with the same prior year period. Property, plant and equipment and mineral property interests increased by $135.2 million year over year. This includes the 2020 impairment reversal on the Beta Hunt mine of $36.1 million as well as the 2020 royalty buyback arrangements of $63 million which contributed to depreciable assets.

**Other expenses, net**

For the three months ended June 30, 2021, other expenses, net increased by $13.6 million. The increase in expenses was primarily due to foreign exchange losses of $4.5 million in 2021 versus a gain of $12.2 million in 2020 and an impairment loss of $6.0 million in 2020 with no impairments in 2021. The foreign exchange movement is non-cash and primarily relates to the translation of intercompany loan balances between the Australian entities and the Canadian parent. The impairment loss in 2020 was mainly due to the loss realized on the sale of Dumont.

For the six months ended June 30, 2021, other expenses, net increased by $1.3 million. The increase in expense was primarily due to foreign exchange losses of $9.1 million in 2021 versus a gain of $4.5 million in 2020 and an impairment loss of $6.0 million in 2020 with no impairments in 2021. The foreign exchange movement is non-cash and primarily relates to the translation of intercompany loan balances between the Australian entities and the Canadian parent. The impairment loss in 2020 was mainly due to the loss realized on the sale of Dumont.

### Income tax expense

For the three months ended June 30, 2021, income tax expense was $4.8 million compared to $7.4 million for the comparable period in 2020. Deferred tax expense increased by $4.8 million for the three months ended June 30, 2021. The primary reason for the increase was due to higher taxable income at the Australian operations which gave rise to a significant increase in taxable income and a reduction in loss carryforwards.

For the six months ended June 30, 2021, income tax expense was $9.5 million compared to $7.8 million for the comparable period in 2020. Deferred tax expense increased by $9.5 million for the six months ended June 30, 2021. The primary reason for the increase was due to higher taxable income at the Australian operations which gave rise to a significant increase in taxable income and a reduction in loss carryforwards.

### Summary of Quarterly Results

| *(in thousands of dollars)* | **2021** | | **2020** | | | | **2019** | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** |
| Revenues | $69,570 | $59,284 | $69,349 | $59,405 | $56,100 | $54,282 | $56,832 | $43,092 |
| Earnings (loss) | $5,391 | $5,624 | $42,906 | $34,867 | $9,818 | $539 | $10,465 | ($1,378) |
| Net earnings (loss) per share - basic | $0.04 | $0.04 | $0.30 | $0.24 | $0.07 | $0.00 | $0.08 | ($0.01) |
| Net earnings (loss) per share - diluted | $0.04 | $0.04 | $0.28 | $0.24 | $0.07 | $0.00 | $0.08 | ($0.01) |

Quarterly results vary in accordance with the Corporation's sales, production and processing costs, royalty, exploration, development, acquisition and financing activities. Historically, exploration and evaluation expenses, share-based compensation expenses, changes in the fair value of derivatives and foreign exchange variations had the most significant impact on the Corporation's quarterly results, followed by general and administrative expenses and royalty expenses. Fluctuations in the Canadian dollar, which is the Corporation's presentation currency, against the US dollar and Australian dollar will also continue to affect the Corporation's quarterly results as a result of its cash and cash equivalents and liabilities denominated in US or Australian dollars as well as its revenue being denominated in US or Australian dollars.

## 6. LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Cash flows

| *(in thousands of dollars)* | Three months ended, | | | Six months ended, | | |
|---|---|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 | Change | **2021** | 2020 | Change |
| Cash provided by operations prior to changes in working capital | **$30,142** | $18,923 | $11,219 | **$51,140** | $32,249 | $18,891 |
| Changes in non-cash working capital | **(3,720)** | 3,405 | (7,125) | **(6,060)** | 2,283 | (8,343) |
| Income taxes paid | **(51)** | - | (51) | **(51)** | - | (51) |
| Cash provided by operating activities | **26,371** | 22,328 | 4,043 | **45,029** | 34,532 | 10,497 |
| Cash used in investing activities | **(16,949)** | (10,491) | (6,458) | **(35,225)** | (18,120) | (17,105) |
| Cash provided by (used in) financing activities | **(2,578)** | 122 | (2,700) | **(4,669)** | (818) | (3,851) |
| Effect of exchange rate changes on cash and cash equivalents | **(1,431)** | (199) | (1,232) | **(2,670)** | (83) | (2,587) |
| Change in cash and cash equivalents | **$5,413** | $11,760 | $(6,347) | **$2,465** | $15,511 | $(13,046) |

Below is a summary of the Corporation's cash flows used in (provided by) operating, investing and financing activities:

### Operating Activities

For the three months ended June 30, 2021, cash provided by operating activities, prior to changes in non-cash working capital, was $30.1 million compared to cash provided of $18.9 million for the same period in 2020, representing an increase of $11.2 million. The increase is primarily due to higher operational earnings as a result of higher gold revenues. Changes in non-cash working capital in the period resulted in a use of cash of $7.1 million during the three months ended June 30, 2021 Reflecting higher inventories and lower payables at the end of the period.

For the six months ended June 30, 2021, cash provided by operating activities, prior to changes in non-cash working capital, was $51.1 million compared to $32.2 million for the same period in 2020, representing an increase of $18.9 million. The increase is primarily due to higher operational earnings as a result of higher gold revenues. Changes in non-cash working capital in the period resulted in a use of cash of $8.3 million during the six months ended June 30, 2021 similar to the three months ended June 30, 2021 described above.

**Investing Activities**

Investing activities for the three months ended June 30, 2021 reflected a use of cash of $16.9 million. The primary outflows in the three months ended June 30, 2021 were for the acquisition of property, plant and equipment of $17.0 million.

The six months ended June 30, 2021 reflected a use of cash of $35.3 million. The primary outflows in the six months ended June 30, 2021 were for the acquisition of property, plant and equipment and mineral property interests.

**Financing Activities**

For the three months ended June 30, 2021, the use of cash by financing activities of $2.6 million was higher than the cash provided of $0.1 million for the same period in 2020 due to higher debt, lease and derivative payments.

The six months ended June 30, 2021, the use of cash by financing activities of $4.7 million compared to $0.8 million for the same period in 2020 due to higher debt, lease and derivative payments.

As a result of the foregoing activities, for the three months ended June 30, 2021, the net use of cash by operating, investing and financing activities was $5.4 million compared to cash used of $11.8 million in the same period of 2020.

**Liquidity and Capital Resources**

| *(in thousands of dollars)* | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| Cash and cash equivalents | **$82,160** | $79,695 |
| Working capital [1] | **64,750** | 56,835 |
| Property, plant and equipment and mineral property interests | **249,643** | 239,044 |
| Total assets | **364,239** | 350,099 |
| Current liabilities excluding current portion of financial liabilities [2] | **44,272** | 48,295 |
| Non-current liabilities excluding non-current portion of financial liabilities [2] | **60,869** | 55,650 |
| Financial liabilities (current and non-current) [2] | **40,030** | 38,950 |
| Total liabilities | **145,171** | 142,895 |
| Shareholders' equity | **219,068** | 207,204 |

1. Working capital is calculated as current assets (including cash and cash equivalents) less current liabilities.
2. Financial liabilities include long-term debt and lease obligations.

As at June 30, 2021, the Corporation had a working capital surplus of $64.8 million compared to a $56.8 million surplus as at December 31, 2020 an improvement of $8.0 million. The increase to working capital was a result of increases in cash and cash equivalents of $2.5 million, inventories of $2.4 million and a decrease in accounts payable and accrued liabilities of $4.3 million offset by an increase in current lease obligations of $1.0 million.

Total assets as at June 30, 2021 increased by $14.3 million compared to the period ended December 31, 2020, primarily due to an increase in cash and cash equivalents of $2.5 million, property, plant and equipment and mineral property interests of $10.8 million and, inventories of $2.4 million.

Total liabilities as at June 30, 2021 increased by $2.4 million compared to the period ended December 31, 2020. This increase is primarily due to increases in deferred tax liabilities of $8.7 million, lease obligations of $2.7 million and share incentive plan liabilities of $0.6 million, offset by decreases in accounts payable and accrued liabilities of $4.3 million, asset retirement obligations of $1.4 million, derivative financial liabilities $2.5 million and debt of $1.5 million.

Karora anticipates using the growth plan as a basis to provide additional financial flexibility, the Corporation also intends to refinance its existing $30 million debt facility to lower its interest costs. The Corporation's future financing efforts may be affected by several factors including, but not limited to, general economic conditions and volatility in

the capital markets.

# 7. RESULTS OF OPERATIONS

### Mining Operations (Consolidated)

**Three months ended June 30, 2021 compared to the three months ended June 30, 2020.**

Second quarter of 2021 gold production was 29,831 ounces compared to 24,078 ounces in the second quarter of 2020 and an increase on the 24,694 ounces produced in the first quarter of 2021.

Tonnes milled for the second quarter of 2021 totalled 345kt. The consolidated gold milled grade in the second quarter was 2.72 g/t Au, 20% higher than in the second quarter of 2020. Production during the second quarter of 2021 consisted of material from Beta Hunt underground, the Baloo and Hidden Secret open pits and stockpile material.

A total of 30,412 ounces of gold were sold during the second quarter of 2021, representing a 31% increase over the same period in 2020. The additional ounces sold in the second quarter of 2021 compared to gold produced was a carry over from the first quarter of 2021 production.

| | Three months ended | | Six months ended, | |
|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 | **2021** | 2020 |
| **Gold Operating Results** | | | | |
| Tonnes milled (000s) | **345** | 326 | **716** | 640 |
| Milled grade (g/t) | **2.72** | 2.26 | **2.43** | 2.30 |
| Gold produced (ounces) | **29,831** | 24,078 | **54,524** | 48,895 |
| Gold sales (ounces) | **30,412** | 23,185 | **55,959** | 47,811 |
| Cash operating cost (US $/oz sold) [1] | **$874** | $935 | **$910** | $950 |
| All-in sustaining cost (AISC) (US $/oz sold) [1] | **$996** | $1,065 | **$1,020** | $1,084 |

1. Non-IFRS: the definition and reconciliation of these measures are included in the Non-IFRS Measures section 14 of this MD&A.

### Beta Hunt Mine

In the second quarter of 2021, 221kt of material was milled at an average grade of 3.35 g/t to produce 22,354 ounces of gold, a 33% increase from the second quarter of 2020. The timing and planning of stope production centres was the reason for the difference. Milled grades were 27% higher compared to the second quarter of 2020. Gold ounces of 22,991 were sold during the second quarter of 2021.

| | Three months ended, | | Six months ended, | |
|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 | **2021** | 2020 |
| **Beta Hunt Gold Operating Results** | | | | |
| Tonnes milled (000s) | **221** | 186 | **464** | 372 |
| Milled grade (g/t) | **3.35** | 2.64 | **2.98** | 2.61 |
| Gold produced (ounces) | **22,354** | 16,818 | **40,615** | 33,989 |
| Gold sold (ounces) | **22,991** | 16,024 | **41,745** | 33,102 |
| Cash operating cost (US $/oz sold) [1] | **$787** | $982 | **$837** | $963 |

1. Non-IFRS: the definition and reconciliation of these measures are included in the Non-IFRS Measures section of this MD&A.

### Higginsville Gold and Processing Operations

The HGO milled 345kt of material, which included 124kt of HGO material that produced 7,477 ounces at an average grade of 1.99 g/t Au for the three months ended June 30, 2021. With mining of Fairplay North open pit ceasing in December 2020 and the Baloo main open pit production winding down, production will focus on the Hidden Secret and Mousehollow open pits.

| For the periods ended June 30, | Three months ended, 2021 | 2020 | Six months ended, 2021 | 2020 |
|---|---|---|---|---|
| **Higginsville Gold Operating Results** | | | | |
| Tonnes milled (000s) | **124** | 140 | **262** | 268 |
| Milled grade (g/t) | **1.99** | 1.75 | **1.77** | 1.87 |
| Gold produced (ounces) | **7,477** | 7,260 | **13,909** | 14,907 |
| Gold sold (ounces) | **7,421** | 7,161 | **14,214** | 14,709 |
| Cash operating cost (US $/oz sold) [1] | **$1,141** | $829 | **$1,120** | $923 |

1. Non-IFRS: the definition and reconciliation of these measures are included in the Non-IFRS Measures section of this MD&A.

*Cautionary Statement:*
*A production decision at HGO was made by previous operators of the mine, prior to the completion of the acquisition of HGO by Karora and Karora made a decision to continue production subsequent to the acquisition. This decision by Karora to continue production and, to the knowledge of Karora, the prior production decision was not based on a feasibility study of mineral reserves, demonstrating economic and technical viability, and, as a result, there may be an increased uncertainty of achieving any particular level of recovery of minerals or the cost of such recovery, which include increased risks associated with developing a commercially mineable deposit. Historically, such projects have a much higher risk of economic and technical failure. There is no guarantee that anticipated production costs will be achieved. Failure to achieve the anticipated production costs would have a material adverse impact on the Corporation's cash flow and future profitability. Readers are cautioned that there is increased uncertainty and higher risk of economic and technical failure associated with such production decisions.*

## 8. Off-Balance Sheet Arrangements

As of the date of this MD&A, the Corporation does not have any off-balance sheet arrangements.

## 9. Proposed Transactions

From time to time, in the normal course of business, the Corporation considers potential acquisitions, joint ventures, and other opportunities. The Corporation will disclose such an opportunity if and when required under applicable securities rules.

## 10. Subsequent Events

As of the date of this MD&A, the Corporation does not have any subsequent events.

## 11. Outstanding Share Data

On July 31, 2020, the Corporation consolidated its common shares on the basis of one (1) post-consolidation common share for every four and a half (4.5) pre-consolidation common shares.

As at August 6, 2021, the Corporation had 147,347,038 common shares issued and outstanding and had the following securities outstanding, which are exercisable for common shares:

| | Number of Securities |
|---|---|
| Stock options | 3,561,840 |
| Warrants (21,554,565 convertible into) | 4,789,903 |

As at August 6, 2021, the Corporation had the following securities outstanding, which are redeemable, at the option of the holder, for cash or common shares:

| | Number of Securities |
|---|---|
| Deferred share units | 361,363 |
| Restricted share units | 1,587,815 |
| Performance share units | 873,315 |

Under the agreement dated March 8, 2007, pursuant to which the Corporation acquired a 100% interest in the Marbaw Mineral Claims (see the Corporation's most recent Annual Information Form on file with the Canadian provincial regulatory authorities, available at www.sedar.com), the Corporation is required to issue 1.6 million common shares of Karora to Marbaw upon the satisfaction of certain conditions. Such conditions have been satisfied other than the receipt by the Corporation of a notice from Marbaw requesting that these shares be issued.

## 12. Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to apply accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. There is disclosure of the Corporation's critical accounting policies and accounting estimates in note 2 of the audited consolidated financial statements for the year ended December 31, 2020.

There were no changes to the accounting policies applied by the Corporation to its June 30, 2021 unaudited condensed interim consolidated financial statements, compared to those applied by the Corporation to the audited consolidated financial statements for the year ended December 31, 2020 except for the presentation of cash flows related to finance charges. The cash flows relating to finance charges and finance income are now presented as investing or financing activities rather than operating activities. The Corporation has adjusted the presentation in the comparative cash flow statement to conform with the current period presentation. The Corporation has adjusted the presentation in the comparative cash flow statement to conform with the current period presentation. As a result of the change in presentation, for the six months ended June 30, 2020, cash provided by operating activities increased by $1.2 million, cash used in investing activities decreased by $0.1 million and cash used by financing activities increased by $1.3 million. As a result of the change in presentation, for the three months ended June 30, 2020, cash provided by operating activities increased by $0.5 million and cash provided by financing activities decreased by $0.5 million.

## 13. Internal Controls over Financial Reporting and Disclosure Controls and Procedures

The Corporation's management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") of the Corporation, is responsible for establishing and maintaining the Corporation's internal controls over financial reporting ("**ICFR**") and disclosure controls and procedures ("**DCP**"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance with respect to financial statement preparation and presentation.

### Changes to Internal Controls over Financial Reporting

NI 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR.

There were no changes in internal controls of the Corporation during the quarter ended June 30, 2021 that have materially affected, or are likely to materially affect, the Corporation's internal control over financial reporting.

### Disclosure controls and procedures

Management, with the participation of the CEO and the CFO, assessed the effectiveness of our DCP as of June 30, 2021. Based upon the results of that evaluation, the CEO and the CFO concluded that our DCP were effective to provide reasonable assurance that material information relating to the Corporation is accumulated and communicated to management to allow timely decisions regarding required disclosure, and that the information disclosed by us in the reports that we file is appropriately recorded, processed, summarized and reported within the time period specified in applicable securities legislation.

## 14. NON-IFRS MEASURES

This MD&A refers to cash operating cost, cash operating cost per ounce, all-in sustaining cost, EBITDA, adjusted EBITDA and adjusted EBITDA per share which are not recognized measures under IFRS. Such non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Management uses these measures internally. The use of these measures enables management to better assess performance trends. Management understands that a number of investors and others who follow the Corporation's performance assess performance in this way. Management believes that these measures better reflect the Corporation's performance and are better indications of its expected performance in future periods. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

In November 2018, the World Gold Council ("**WGC**") published its guidelines for reporting all-in sustaining costs and all-in costs. The WGC is a market development organization for the gold industry and is an association whose membership comprises leading gold mining companies. Although the WGC is not a mining industry regulatory organization, it worked closely with its member companies to develop these non-IFRS measures. Adoption of the all-in sustaining cost and all-in cost metrics is voluntary and not necessarily standard, and therefore, these measures presented by the Corporation may not be comparable to similar measures presented by other issuers.

The following tables reconcile these non-IFRS measures to the most directly comparable IFRS measures:

### MINING OPERATIONS

### Cash Operating and All-in Sustaining Costs

The Corporation uses this measure internally to evaluate the underlying operating performance of the Australian Operations. Management believes that providing cash operating cost data allows the reader the ability to better evaluate the results of the underlying operations.

**Australian Mining Operations**

Consolidated Mining Operations

| For the periods ended June 30, | Three months ended, **2021** | 2020 | Six months ended, 2021 | 2020 |
|---|---|---|---|---|
| Production and processing costs | $35,860 | $32,210 | $71,937 | $65,744 |
| Royalty expense: Government of Western Australia | 1,700 | 1,408 | 3,088 | 2,637 |
| Royalty expense: Other | 2,656 | 3,706 | 5,023 | 6,815 |
| By-product credits | (1,294) | (861) | (3,550) | (861) |
| Adjustment [1] | (6,290) | (6,435) | (13,066) | (12,683) |
| Operating costs (C$) | $32,632 | $30,028 | $63,432 | $61,652 |
| General and administrative expense – Australia [2,3] | 2,762 | 2,007 | 3,883 | 2,928 |
| Sustaining capital expenditures | 1,791 | 2,166 | 3,799 | 5,713 |
| All-in sustaining costs (C$) | $37,185 | $34,201 | $71,114 | $70,293 |
| Average exchange rate (C$1 – US$1) | 0.81 | 0.72 | 0.80 | 0.74 |
| **Operating costs (US$)** | **$26,569** | **$21,675** | **$50,898** | **$45,443** |
| **All-in sustaining costs (US$)** | **$30,276** | **$24,688** | **$57,076** | **$51,811** |
| **Operating costs (A$)** | $34,502 | $32,960 | $65,989 | $68,773 |
| **All-in sustaining costs (A$)** | $39,316 | $37,541 | $74,001 | $78,413 |
| Ounces of gold sold | 30,412 | 23,185 | 55,959 | 47,811 |
| **Cash operating costs (per ounce sold) (US$)** | **$874** | **$935** | **$910** | **$950** |
| **All-in sustaining cost (per ounce sold) (US$)** | **$996** | **$1,065** | **$1,020** | **$1,084** |
| **Cash operating costs (per ounce sold) (A$)** | **$1,134** | **$1,422** | **$1,179** | **$1,438** |
| **All-in sustaining cost (per ounce sold) (A$)** | **$1,293** | **$1,619** | **$1,322** | **$1,640** |

1. Negative adjustment for intercompany tolling transactions
2. G&A costs were reduced with R&D and Due Diligence costs
3. G&A: share-based payments were excluded in calculating AISC

**Beta Hunt Mine (gold)**

| For the periods ended June 30, | Three months ended, **2021** | 2020 | Six months ended, 2021 | 2020 |
|---|---|---|---|---|
| Production and processing costs | $19,677 | $18,604 | $40,147 | $36,832 |
| Royalty expense: Government of Western Australia | 1,288 | 979 | 2,309 | 1,773 |
| Royalty expense: Other | 2,545 | 3,031 | 4,628 | 5,461 |
| By-product credits | (1,274) | (807) | (3,508) | (807) |
| Operating costs (C$) | $22,236 | $21,807 | $43,576 | $43,259 |
| Average exchange rate (C$1 – US$1) | 0.81 | 0.72 | 0.81 | 0.74 |
| **Operating costs (US$)** | **$18,105** | **$15,742** | **$34,961** | **$31,863** |
| **Operating costs (A$)** | **$23,510** | **$23,937** | **$45,326** | **$48,231** |
| Ounces of gold sold | 22,991 | 16,024 | 41,745 | 33,102 |
| **Cash operating costs (per ounce sold) (US$)** | **$787** | **$982** | **$837** | **$963** |
| **Cash operating costs (per ounce sold) (A$)** | **$1,023** | **$1,494** | **$1,086** | **$1,457** |

**Higginsville Mine (gold)**

| For the periods ended June 30, | Three months ended, **2021** | 2020 | Six months ended, 2021 | 2020 |
|---|---|---|---|---|
| Production and processing costs | $16,183 | $13,606 | $31,790 | $28,912 |
| Royalty expense: Government of Western Australia | 412 | 429 | 779 | 864 |
| Royalty expense: Other | 111 | 675 | 395 | 1,354 |
| By-product credits | (20) | (54) | (41) | (54) |
| Adjustment[1] | (6,290) | (6,435) | (13,066) | (12,683) |
| Operating costs (C$) | $10,396 | $8,221 | $19,857 | $18,393 |
| Average exchange rate (C$1 – US$1) | 0.81 | 0.72 | 0.80 | 0.73 |
| **Operating cost (US$)** | **$8,465** | **$5,934** | **$15,926** | **$13,579** |
| **Operating cost (A$)** | **$10,992** | **$9,023** | **$20,663** | **$20,543** |
| Ounces of gold sold | 7,421 | 7,161 | 14,214 | 14,709 |
| **Cash operating costs (per ounce sold) (US$)** | **$1,141** | **$829** | **$1,120** | **$923** |
| **Cash operating costs (per ounce sold) (A$)** | **$1,481** | **$1,260** | **$1,454** | **$1,397** |

1. Negative adjustment for intercompany tolling transactions

**Quarterly Consolidated Mining Operations**

| For the three months ended, | Jun 30, 2021 | Mar 31, 2021 | Dec 31, 2020 | Sep 30, 2020 | Jun 30, 2020 |
|---|---|---|---|---|---|
| Production and processing costs | $35,860 | $36,077 | $34,361 | $34,955 | $32,210 |
| Royalty expense: Government of Western | 1,700 | 1,388 | 1,738 | 1,167 | 1,407 |
| Royalty expense: Other | 2,656 | 2,367 | 2,635 | 1,816 | 3,707 |
| By-product credits | (1,294) | (2,256) | (1,466) | (1,344) | (861) |
| Adjustment[1] | (6,290) | (6,776) | (6,574) | (6,923) | (6,435) |
| Operating costs (C$) | $32,632 | $30,800 | $30,694 | $29,671 | $30,028 |
| General and administration expense – Australia[3] | 2,762 | 1,121 | 1,954 | 1,202 | 2,007 |
| Sustaining capital expenditures | 1,791 | 2,008 | 549 | 985 | 2,166 |
| All-in sustaining costs ($) | $37,185 | $33,929 | $33,197 | $31,858 | $34,201 |
| Average exchange rate (C$1 – US$1) | 0.81 | 0.79 | 0.77 | 0.75 | 0.75 |
| **Operating costs (US$)** | **$26,569** | **$24,329** | **$23,556** | **$22,274** | **$21,675** |
| **All-in sustaining costs (US$)** | **$30,276** | **$26,800** | **$25,477** | **$23,916** | **$24,688** |
| **Operating costs (A$)** | $34,502 | **$31,487** | **$32,231** | **$31,140** | **$32,960** |
| **All-in sustaining costs (A$)** | $39,316 | **$34,686** | **$34,859** | **$33,436** | **$37,541** |
| Ounces of gold sold | 30,412 | 25,547 | 27,932 | 22,912 | 23,185 |
| **Cash operating costs (per ounce sold) (US$)** | **$874** | **$952** | **$843** | **$972** | **$935** |
| **All-in sustaining cost (per ounce sold) (US$)** | **$996** | **$1,049** | **$912** | **$1,044** | **$1,065** |
| **Cash operating costs (per ounce sold) (A$)[2]** | **$1,134** | **$1,233** | **$1,154** | **$1,359** | **$1,422** |
| **All-in sustaining cost (per ounce sold) (A$)[2]** | **$1,293** | **$1,358** | **$1,248** | **$1,459** | **$1,619** |

1. Negative adjustment for intercompany tolling transactions.
2. Quarterly costs in functional currency.
3. G&A: share-based payments were excluded in calculating AISC

## Adjusted EBITDA and Adjusted Earnings

Management believes that adjusted EBITDA and adjusted earnings are valuable indicators of the Corporation's ability to generate operating cash flows to fund working capital needs, service debt obligations, and fund exploration and evaluation, and capital expenditures. Adjusted EBITDA and adjusted earnings exclude the impact of certain items and therefore is not necessarily indicative of operating profit or cash flows from operating activities as determined under IFRS. Other companies may calculate adjusted EBITDA and adjusted earnings differently.

Adjusted EBITDA is a non-IFRS measure, which excludes the following from comprehensive earnings (loss): income tax expense (recovery); interest expense and other finance-related costs; depreciation and amortization; non-cash other expenses, net; non-cash impairment charges and reversals; non-cash portion of share-based payments; acquisition costs; derivatives and foreign exchange loss.

| *(in thousands of dollars except per share amounts)* | Three months ended, | | Six months ended, | |
|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 [4] | **2021** | 2020 [4] |
| Net earnings for the period - as reported | **$5,391** | $9,818 | **$11,015** | $10,357 |
| Finance expense, net | **965** | 769 | **2,046** | 1,750 |
| Income tax expense | **4,809** | 7,424 | **9,521** | 7,769 |
| Depreciation and amortization | **7,718** | 5,472 | **15,001** | 9,526 |
| EBITDA | **18,883** | 23,483 | **37,583** | 29,402 |
| Adjustments: | | | | |
| Non-cash share-based payments [1] | **2,308** | 1,936 | **3,450** | 1,713 |
| Share of loss of associates [1] | **-** | 8 | **-** | 425 |
| Unrealized loss (gain) on revaluation of marketable securities [2] | **857** | (22) | **497** | 12 |
| Non-cash impairment charge [2] | **-** | 6,006 | **-** | 6,006 |
| Other expense (income), net [2] | **-** | 34 | **15** | (247) |
| Loss on derivatives [2] | **2,914** | 1,076 | **54** | 6,929 |
| Foreign exchange loss (gain) [3] | **4,519** | (12,222) | **9,092** | (4,507) |
| Adjusted EBITDA | **$29,481** | $20,299 | **$50,691** | $39,733 |
| Weighted average number of common shares - basic | **146,801,153** | 135,605,419 | **146,529,214** | 135,362,683 |
| Adjusted EBITDA per share - basic | **$0.20** | $0.15 | **$0.35** | $0.29 |

Adjusted earnings is a non-IFRS measure, which excludes the following from comprehensive earnings (loss): non-cash portion of share-based payments; revaluation of marketable securities: derivatives and foreign exchange loss; tax effects of adjustments

| *(in thousands of dollars except per share amounts)* | Three months ended, | | Six months ended, | |
|---|---|---|---|---|
| For the periods ended June 30, | **2021** | 2020 | **2021** | 2020 |
| Net earnings for the period - as reported | **$5,391** | $9,818 | **$11,015** | $10,357 |
| Non-cash share-based payments [1] | **2,308** | 1,936 | **3,450** | 1,713 |
| Unrealized loss (gain) on revaluation of marketable securities [2] | **857** | (22) | **497** | 12 |
| Loss on derivatives [2] | **2,914** | 1,076 | **54** | 6,929 |
| Foreign exchange loss (gain) [3] | **4,519** | (12,222) | **9,092** | (4,507) |
| Tax impact of the above adjusting items | **(1,719)** | 2,145 | **(1,751)** | (1,118) |
| Adjusted earnings | **$14,270** | $2,731 | **$22,357** | $13,386 |
| Weighted average number of common shares - basic | **146,801,153** | 135,605,419 | **146,529,214** | 135,362,683 |
| Adjusted earnings per share - basic | **$0.10** | $0.02 | **$0.15** | $0.10 |

1. Primarily non-recurring items which do not impact cash flow.
2. Non-operating in nature which does not impact cash flows.
3. Primarily related to intercompany loans for which the loss is unrealized.
4. Revised to conform to current year's presentation.

# 15. CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains “forward-looking information”, which may include, but is not limited to, statements relating to the liquidity and capital resources of Karora, production and cost guidance, the potential of Beta Hunt, HGO and Spargos, successfully obtaining project financing, successfully obtaining permitting, the future financial or operating performance of the Corporation and its projects, the future price of and supply and demand for metals, the estimation of mineral reserves and resources, the realization of mineral reserves and resources estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new and existing deposits, costs and timing of future exploration as well as the potential of exploration at the Beta Hunt Mine, HGO, Spargos and the Corporation’s exploration properties, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, the success of mining operations, economic return estimates and potential upside. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “does not anticipate” or “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Readers should not place undue reliance on forward-looking statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could affect the outcome include, among others: project delays; general business, economic, competitive, political and social uncertainties; labour and operational disruptions due to the COVID 19 virus or other widespread public health issues, results of exploration programs; future prices of metals; availability of alternative metal sources or substitutions; actual metal recovery; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; the future cost of capital to the Corporation; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability, terrorism, insurrection or war; delays in obtaining governmental approvals, necessary permitting or in the completion of development or construction activities, as well as those factors discussed in the section entitled “Risk Factors” in the Corporation’s December 31, 2020 and 2019 Management’s Discussion and Analysis and Annual Information Form for the year ended December 31, 2020 filed on SEDAR. Such forward-looking statements are also based on a number of material factors and assumptions, including: the availability of financing at rates and on terms and conditions otherwise acceptable to the Corporation; future metal prices; permitting and development consistent with the Corporation’s expectations; foreign exchange rates; prices and availability of equipment; that contracted parties provide goods and/or services on the agreed time frames; that on-going contractual negotiations will be successful and/or be completed in a timely manner; and that no unusual geological or technical problems occur.

Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Corporation disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by applicable securities laws. Given these risks, uncertainties and the integration risk associated with the acquisition of HGO, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Readers of this report are cautioned that actual events and results may vary.

**Cautionary Note to U.S. Readers Regarding Estimates of Resources**

This MD&A uses the terms "measured", "indicated" and "inferred" when referring to mineral resources. The Corporation advises U.S. investors that while these terms are recognized and required by Canadian securities administrators, they are not recognized by the Securities and Exchange Commission (“**SEC**”). The estimation of "measured" and "indicated" mineral resources involves greater uncertainty as to their existence and economic feasibility than the estimation of proven and probable reserves. The estimation of "inferred" resources involves far greater uncertainty as to their existence and economic viability than the estimation of other categories of resources.

It cannot be assumed that all or any part of a "measured", "indicated" or “inferred" mineral resource will ever be upgraded to a higher category.

Under Canadian rules, estimates of "inferred mineral resources" may not form the basis of feasibility studies, pre-feasibility studies or other economic studies, except in prescribed cases, such as in a preliminary economic assessment under certain circumstances. The SEC normally only permits issuers to report mineralization that does not constitute "reserves" as in-place tonnage and grade without reference to unit measures. Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. U.S. investors are cautioned not to assume that any part or all of a "measured", "indicated" or "inferred" mineral resource exists or is economically or legally mineable. Information concerning descriptions of mineralization and resources contained herein may not be comparable to information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC.