

KWG RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE-MONTH PERIODS ENDED MARCH 31, 2013 AND 2012

NOTICE TO READERS OF THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:

The accompanying unaudited condensed interim consolidated financial statements of KWG Resources Inc. have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

DOUGLAS M. FLETT, Director

THOMAS E. MASTERS, Chief Financial Officer

Montreal, Quebec
May 24, 2013

KWG RESOURCES INC.
Condensed Interim Consolidated Balance Sheets
(unaudited)

(in Canadian dollars)	Notes	As at March 31, 2013	As at December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	4	6,544,144	11,066,004
Receivables	5	4,299,599	1,286,148
Marketable securities	6	212,691	571,040
Prepaid expenses		30,054	41,287
Total current assets		11,086,488	12,964,479
Non-current assets			
Property and equipment	7	76,916	82,698
Mineral property interests	8	31,494,900	31,117,244
Total non-current assets		31,571,816	31,199,942
Total assets		42,658,304	44,164,421
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	476,673	810,461
Total current liabilities		476,673	810,461
Non-current liabilities			
Warrant liability	10	-	3,205
Total non-current liabilities		-	3,205
Total liabilities		476,673	813,666
Equity attributable to the owners of the parent company			
Share capital	11	22,991,304	22,991,304
Warrants	12	2,983,661	3,170,895
Contributed surplus		12,235,061	12,025,684
Accumulated other comprehensive income		(236,425)	(5,976)
Retained earnings		4,208,030	5,168,848
Total equity		42,181,631	43,350,755
Total liabilities and equity		42,658,304	44,164,421

Nature of operations (Note 1)

Commitments (Note 17)

Subsequent events (Note 22)

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

Approved by the Board of Directors

Douglas Flett
Director

Frank Smeenk
Director

KWG RESOURCES INC.
Condensed Interim Consolidated Statements of Operations and Statements of Comprehensive Loss
(unaudited)

Condensed Interim Consolidated Statements of Operations

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2013	2012
General and administrative	14	(888,459)	(652,494)
Amortization of property and equipment	7	(8,895)	(5,274)
Stock compensation costs	13	(22,143)	(303,128)
Gain (loss) on foreign exchange		237	(792)
Loss before the undernoted		(919,260)	(961,688)
Other income (expenses)			
Finance income (expense)	15	(45,544)	(1,015,561)
Other income		781	781
Gain on revaluation of warrant liability	10	3,205	397,783
		(41,558)	(616,997)
Net loss for the period		(960,818)	(1,578,685)
Loss per share (basic and diluted)		(0.00)	(0.00)
Weighted average number of outstanding shares		691,577,273	672,142,018

Condensed Interim Consolidated Statements of Comprehensive Loss

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2013	2012
Net loss for the period		(960,818)	(1,578,685)
Other comprehensive Income			
Net change in fair value of available for sale ("AFS") assets	6	(230,449)	(212,959)
Total comprehensive loss for the period		(1,191,267)	(1,791,644)

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

KWG RESOURCES INC.
Condensed Interim Consolidated Statements of Changes in Equity
(unaudited)

(in Canadian dollars)	Notes	Share capital	Warrants	Contributed surplus	Accumulated other comprehens- ive income (loss)	Retained earnings	Total
Balance, January 1, 2012		21,308,113	7,431,617	7,091,101	283,674	10,392,316	46,506,821
Net loss for the period		-	-	-	-	(1,578,685)	(1,578,685)
Other comprehensive loss for the period		-	-	-	(212,959)	-	(212,959)
Issued for mineral property interests	8	194,162	176,238	-	-	-	370,400
Expired warrants	12	-	(1,324,990)	1,324,990	-	-	-
Stock-based compensation	13	-	-	303,128	-	-	303,128
Balance, March 31, 2012		21,502,275	6,282,865	8,719,219	70,715	8,813,631	45,388,705
Net loss for the period		-	-	-	-	(3,078,917)	(3,078,917)
Other comprehensive loss for the period		-	-	-	(76,691)	-	(76,691)
Private placements, net of share issuance costs	11	1,123,163	-	-	-	-	1,123,163
Expired warrants	12	-	(3,111,970)	3,111,970	-	-	-
Stock-based compensation	13	-	-	194,495	-	-	194,495
Normal course issuer bid	11	(200,000)	-	-	-	-	(200,000)
Deferred tax effect of previously-incurred share issue costs		565,866	-	-	-	(565,866)	-
Balance, December 31, 2012		22,991,304	3,170,895	12,025,684	(5,976)	5,168,848	43,350,755
Net loss for the period		-	-	-	-	(960,818)	(960,819)
Other comprehensive loss for the period		-	-	-	(230,449)	-	(230,449)
Expired warrants	12	-	(187,234)	187,234	-	-	-
Stock-based compensation	13	-	-	22,143	-	-	22,143
Balance, March 31, 2013		22,991,304	2,983,661	12,235,061	(236,425)	4,208,030	42,181,631

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

KWG RESOURCES INC.
Condensed Interim Consolidated Statements of Cash Flows
(unaudited)

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2013	2012
Cash flows from operating activities			
Net loss for the period		(960,818)	(1,578,685)
Adjustments for			
Amortization of property and equipment	7	8,895	5,274
Stock based compensation costs	13	22,143	303,128
Fair value changes in financial assets classified as fair value through profit & loss ("FVTPL")	6	127,900	1,235,148
Amortization of flow-through premium	15	(58,188)	(175,036)
Gain (loss) on revaluation of warrant liability	10	(3,205)	(397,783)
Net change in non-cash working capital balances		(3,274,400)	(278,416)
Net cash used by operating activities		(4,137,673)	(886,370)
Cash flows from financing activities			
Share and warrant issue expenses		-	(1,600)
Shares repurchased through normal course issuer bid	11	-	(31,775)
Net cash provided by financing activities		-	(33,375)
Cash flows from investing activities			
Expenditures on exploration and evaluation projects	8	(463,737)	(1,530,962)
Purchases of property and equipment	7	(3,113)	(6,841)
Purchase of marketable securities	6	-	(23,490)
Decrease (increase) in advances to related company	16	82,663	(9,797)
Net cash used by investing activities		(384,187)	(1,571,090)
Net change in cash and cash equivalents during the period		(4,521,860)	(2,490,835)
Cash and cash equivalents – Beginning of the period		11,066,004	16,030,551
Cash and cash equivalents – End of the period		6,544,144	13,539,716
Change in non-cash working capital balances comprises:			
Receivables		(3,096,114)	(73,459)
Prepaid expenses		11,233	4,964
Trade and other payables		(189,519)	(209,921)
Net change in non-cash working capital balances		(3,274,400)	(278,416)
Additional information - non-cash transactions			
Issuance of shares/warrants for exploration and evaluation projects	8	-	372,000
Expired warrants included in contributed surplus	12	187,234	1,324,990
Additions to exploration and evaluation projects included in accounts payable	9	10,687	49,987

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

KWG RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited) (in Canadian dollars)

1 NATURE OF OPERATIONS

Nature of Operations

KWG Resources Inc. (“KWG” or the “Company”) is an incorporated entity domiciled in Canada. The Company’s registered office is located at 600 de Maisonneuve Boulevard West, Suite 2750, Montreal, Quebec, H3A 3J2. KWG is involved in the exploration and evaluation of base and precious metals and in the development of a transportation link to access the remote areas where these are located. It has interests in properties located in Canada. It was incorporated on August 21, 1937.

The Company is listed on the TSX Venture Exchange and on the Canadian National Stock Exchange under the symbol “KWG”.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to raise additional funds to continue its exploration activities and, while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration and evaluation properties. The recoverability of deferred exploration expenses is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements.

2 BASIS OF PREPARATION

(a) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This is considered generally accepted accounting principles (“GAAP”) for Canadian public companies.

The management of KWG prepare these unaudited condensed interim consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. These unaudited condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 24, 2013.

KWG RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
(unaudited) (in Canadian dollars)

(b) Basis of Measurement

The condensed interim consolidated financial statements have been prepared under the historic cost convention, except for investments in equity securities and derivatives, including warrants, which are measured at fair value.

(c) Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Canada Chrome Corporation (formerly ChromeCana Ltd.) which was incorporated in Ontario, Canada on February 20, 2009, SMD Mining Corporation, which was incorporated in Ontario, Canada on January 16, 2008 and Canada Chrome Mining Corporation which was incorporated federally on June 4, 2010. The latter two companies have been inactive since their inception.

(d) Foreign Currency

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the KWG group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of KWG and all of its subsidiaries is the Canadian dollar.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entities’ functional currency are recognized in the consolidated statements of operations in “gain (loss) on foreign exchange”.

(e) Critical Accounting Estimates and Judgement

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management has made a number of significant estimates and valuation assumptions based on present conditions and management’s planned course of action as well as assumptions about future business and economic conditions which include, but are not limited to, the following:

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and

KWG RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited) (in Canadian dollars)

probably mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 8 for details of capitalized exploration and evaluation costs.

Impairment of mineral property interests

While assessing whether any indications of impairment exist for mineral properties and deferred exploration expenditures, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties and deferred exploration expenditures. Internal sources of information include the manner in which mineral properties and deferred exploration expenditures are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties and deferred exploration expenditures.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Contingencies

Refer to Note 17.

KWG RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements
(unaudited) (in Canadian dollars)**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in Note 3 to the 2012 audited consolidated financial statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these financial statements.

(a) New Accounting Policies

The IASB issued a number of new and revised International Accounting Standards which are effective for the Company's financial year beginning January 1, 2013. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

(b) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2012 audited consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 of those statements.

4 CASH AND CASH EQUIVALENTS

	As at March 31, 2013	As at December 31, 2012
Bank balances	110,161	3,131,032
Short-term deposits	6,433,983	7,934,972
Cash and cash equivalents	6,544,144	11,066,004

5 RECEIVABLES

	As at March 31, 2013	As at December 31, 2012
Trade receivables	-	-
Sales taxes receivable	445,913	358,755
Due from Debut Diamonds Inc.	670,161	752,824
Cash advances to Bold Ventures (Note 8)	3,005,528	-
Other receivables	177,997	174,569
Receivables	4,299,599	1,286,148

KWG RESOURCES INC.
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6 MARKETABLE SECURITIES

	As at March 31, 2013	As at December 31, 2012
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i) 7,270,000 common shares	109,050	290,800
Eloro Resources Ltd. ("Eloro") (ii) 3,080,580 common shares	61,611	107,820
Debut Diamonds Inc. (iii) 166,000 common shares	830	3,320
Total AFS	171,491	401,940
Financial assets at FVTPL:		
GoldTrain Resources Inc. (i) 7,000,000 warrants	-	21,000
Eloro Resources Ltd. (ii) 3,080,580 premium warrants 1,540,290 regular warrants	6,200 -	43,100 -
Debut Diamonds Inc. (iii) 9,702,666 warrants exercisable at \$0.07 7,000,000 warrants exercisable at \$0.07	35,000 -	105,000 -
Total fair value of financial assets at FVTPL	41,200	169,100
Marketable securities	212,691	571,040

- (i) On June 9, 2011, KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.10 on or before June 9, 2013) in GoldTrain in exchange for the settlement of a debt (debt settlement agreement between KWG and GoldTrain). Prior to the signing of this agreement, KWG sold its investment in 3,452,217 common shares of Strike Minerals Inc. to GoldTrain. GoldTrain subsequently sold these shares in a series of transactions. Both parties agreed to have this debt settled through the issuance of the GoldTrain shares and warrants. KWG's holdings represent approximately 14.71% of the issued and outstanding common shares of GoldTrain and approximately 32.67% of the outstanding warrants. The Company realized a gain on the disposal of the Strike Mineral Inc. shares in the amount of \$153,000. Subsequent to this transaction, the Company acquired an additional 270,000 common shares of GoldTrain through purchases on the open market.
- (ii) On December 21, 2011, KWG acquired 3,080,580 common shares, 3,080,580 premium warrants and 1,540,290 regular warrants of Eloro in exchange for 100% of the issued and outstanding common shares of 6949541 Canada Inc ("6949541"), a wholly-owned subsidiary of KWG. Prior to the sale, KWG sold 11 claims in Louvicourt Township and transferred \$200,000 in cash into 6949541. The premium warrants entitle the holder to purchase one common share for \$1.00 on or before November 18, 2016. If the closing price of the common shares is over \$1.50 for 20 consecutive trading days following the

KWG RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
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expiry of the 4 month hold period, the premium warrants must be exercised within 10 business days of Eoro providing written notice, or they will be cancelled. The regular warrants entitle the holder to purchase one common share for \$0.24 on or before May 18, 2013. If the closing price of the common shares is over \$0.60 for 20 consecutive days following the expiry of the 4 month hold period, the regular warrants must be exercised within 10 business days of Eoro providing written notice, or they will be cancelled.

- (iii) On August 29, 2011, KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.40 on or before August 29, 2016) in DDI in exchange for 21,000,000 common shares and 21,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.10 on or before August 29, 2016) in KWG. The value attributed to the shares was based on KWG's market value on August 29, 2011, which was \$0.085 per share since there was no comparable information for DDI. The common shares of DDI were subsequently distributed to KWG's shareholders as a return of capital in December 2011. During the first quarter of 2012, the Company purchased 166,000 common shares of DDI on the open market. On July 24, 2012 DDI announced that it was reducing the exercise price on all of its warrants to \$0.07 per warrant effective as of that day. There were no other changes to the terms of the warrants.

Warrants

The financial assets at fair value through P&L consist of warrants which are not publicly-traded. However, their valuation can be obtained through the use of a valuation model, the inputs for which are readily determinable. Any change in fair value after initial recognition, is recorded through the consolidated statements of operations as a finance income (loss). The fair value of the warrants decreased by \$127,900 during the first quarter of 2013.

The following table summaries the inputs that were used to calculate the fair value of the warrants as at March 31, 2013:

	GoldTrain	Eoro Premium	Eoro Regular	DDI \$0.10
Average dividend per share	Nil	Nil	Nil	Nil
Estimated volatility	120.00%	104.17%	0.00%	150.00%
Risk-free interest rate	1.01%	1.21%	1.01%	1.21%
Expected life of the options granted	70 days	1,327 days	48 days	1,246 days
Calculated value per warrant	\$0.000	\$0.002	\$0.000	\$0.005

Sensitivity Analysis - Equity Price Risk

All of the Company's financial assets classified as AFS are listed on public stock exchanges. For such investments, a 10% increase in the equity prices at the reporting date would have increased equity by \$17,000; an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

For FVTPL assets, the impact on operations of a 10% increase in the market price of the common shares at the reporting date would have been \$4,000.

KWG RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
(unaudited) (in Canadian dollars)

7 PROPERTY AND EQUIPMENT

	Automobiles	Computer equipment	Office equipment	Leasehold improvements	Totals
Balance, January 1, 2012					
Cost	78,690	24,680	22,875	-	126,245
Accumulated amortization	(31,488)	(20,824)	(8,096)	-	(60,408)
Net book value	47,202	3,856	14,779	-	65,837
Additions	-	5,902	18,275	27,307	51,484
Amortization	(20,591)	(5,288)	(6,468)	(2,276)	(34,623)
Balance, December 31, 2012					
Cost	78,690	30,582	41,150	27,307	177,729
Accumulated amortization	(52,079)	(26,112)	(14,564)	(2,276)	(95,031)
Net book value	26,611	4,470	26,586	25,031	82,698
Additions	-	-	3,113	-	3,113
Amortization	(4,141)	(1,191)	(2,198)	(1,365)	(8,894)
Balance, March 31, 2013					
Cost	78,690	30,582	44,263	27,307	180,842
Accumulated amortization	(56,220)	(27,303)	(16,762)	(3,641)	(103,926)
Net book value	22,470	3,279	27,501	23,666	76,916

8 MINERAL PROPERTY INTERESTS

Cumulative costs relating to the acquisition of mineral property interests and exploration and evaluation expenditures have been incurred on the following projects:

	Balance as at January 1, 2012	Current expenditures	Write downs	Balance as at December 31, 2012
Canada – Ontario				
Spider No. 1 / MacFadyen and Kyle (i)(ii)(iii)	25,132	-	(25,132)	-
Spider No. 3 / McFaulds Lake (i)	4,189,695	-	-	4,189,695
Big Daddy (i)(iv)	8,813,117	1,252,247	-	10,065,364
Diagnos (i)(ii)	178,014	-	-	178,014
Railroute Corridor (v)	15,236,311	847,860	-	16,084,171
The Temagami Iron L.P. (vi)	-	100,000	-	100,000
CME Project (vii)	-	500,000	-	500,000
	28,442,269	2,700,107	(25,132)	31,117,244
	Balance as at January 1, 2013	Current expenditures	Write downs	Balance as at March 31, 2013
Canada – Ontario				
Spider No. 3 / McFaulds Lake (i)	4,189,695	-	-	4,189,695
Big Daddy (i)(iv)	10,065,364	-	-	10,065,364
Diagnos (i)	178,014	-	-	178,014
Railroute Corridor (v)	16,084,171	83,184	-	16,167,355
The Temagami Iron L.P. (vi)	100,000	-	-	100,000
CME Project (vii)	500,000	-	-	500,000
Bold Venture Joint Venture (viii)	-	294,472	-	294,472
	31,117,244	377,656	-	31,494,900

KWG RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited) (in Canadian dollars)

- (i) On May 15, 2006, the Company and Cliffs Chromite Far North Inc. ("Cliffs"), formerly Spider Resources Inc., agreed to amend and revise their joint venture agreement. The companies agreed to treat each project in their joint venture as a separate joint venture, to enable each company to either increase or decrease its interest in a project based upon their respective strategic objectives. The Company and Cliffs agreed to have their respective interest established at 50% in all the current projects of the joint venture.

Each party's interest is diluted by not contributing further to the other party's exploration program until its interest has reached 33 1/3%. At that level, a party's interest in a project may be maintained by contribution to subsequent programs, or suffer further dilution. When an interest has been reduced to less than 10%, it will be automatically converted to a 0.5% Net Smelter Royalty ("NSR") in base metals and a 1% NSR in precious metals and diamonds.

- (ii) Ashton Mining Canada Ltd. holds a 25% claw back entitlement to any kimberlite property found or developed by KWG/Cliffs within the geographic limits of the Spider No. 1 project area, with the exception of Kyle Lake No. 1 where Ashton Mining relinquished its rights, which can be executed by paying KWG/Cliffs an amount equal to 300% of all exploration expenditures on said property.
- (iii) The Kyle project is optioned to Renforth Resources Inc. ("Renforth") the operator and on October 18, 2010 Renforth had earned a 55% interest in the Kyle project by transferring a group of 39 adjacent claims and by incurring a total of \$6 million of exploration expenditures over a period of three years. DDI's interests have been reduced to 22.5% and may be further reduced to 15% by Cliffs incurring exploration expenditures equal to its prior capital in the joint project.
- (iv) In December 2005, KWG/Cliffs entered into an agreement with Freewest Resources Canada Inc. ("Freewest") for the acquisition of a 25% interest in certain mining property claims contiguous to McFauld's Lake in Ontario. The contribution of the Company included a commitment to carry out exploration work in the amount of \$1,500,000 before October 13, 2009 of which at least \$200,000 was incurred before February 28, 2006; and accordingly, each of KWG and Cliffs has earned a 25% interest of the property.

On March 27, 2009, the Company negotiated an amendment to the Freewest Option Agreement whereby the option earn-in calls for a \$15,000,000, three-year commitment. As a result of this amendment, the Company is no longer required to prepare a bankable feasibility study within 18 months, as had been called for in the 2005 agreement. Under the amendment, KWG would have options for up to a \$7,500,000 commitment over the next three years, of which \$2,500,000 was required to be spent before March 31, 2010. In early 2010, Freewest was served with a notice that this first commitment had been met. A further \$2,500,000 was required to be spent before March 31, 2011. This requirement was satisfied through the direct payment to Freewest early in the second quarter of 2011. The final \$2,500,000 was required to be spent before March 31, 2012 and this commitment was met. Each option increases the Company's ownership by 1.5% with the result being that KWG now owns 30% of the Big Daddy project.

- (v) During 2009, the Company commenced efforts to explore and develop a transportation link to the Company's properties in Northern Ontario in order to increase the economic viability of these properties. These operations entailed a detailed analysis of railroad route alternatives, preliminary soils analysis and claim staking. Concurrent with this activity the

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Company is performing exploration activities on these claims. All costs related to this project have been capitalized. On March 2, 2012, the Company acquired 49 unpatented claims from INV Metals Inc. for consideration consisting of 3,000,000 common shares and 3,000,000 warrants (Note 11(ii)). These claims are contiguous to the claims already held by the Company and are located on the railroad route.

- (vi) On June 1, 2012 the Company purchased, for \$100,000 in cash, 2,000,000 units (representing 6.3% of the outstanding units) and 2,000,000 warrants of The Temagami Iron Limited Partnership ("Temagami"). The warrants may be exercised to acquire additional partnership units at \$0.05 each at any time within 90 days after the receipt of a compilation report on the property. These funds will be used by Temagami to update studies and provide KWG with an opportunity to review and participate further, if appropriate.
- (vii) On November 22, 2012 the Company signed an agreement with China Metallurgical Exploration Corp ("CME") to mutually undertake due diligence investigations of the "Field Goal #1, #2 and #3" claim groups by way of an airborne geophysical survey. KWG's share of the costs of these investigations was \$500,000. Within thirty days of delivery of the survey data and report, each of KWG and CME will engage a professional valuator to provide a written evaluation of the claim groups. Within sixty days of delivery of the survey data CME will either execute an agreement to sell KWG the property for such consideration as will be agreed upon at that time or CME will repay to KWG the \$500,000 expended on the survey.
- (viii) On March 4, 2013 the Company signed an agreement with Bold Ventures Inc. ("Bold") to fund Bold as the Operator to drill off the Black Horse chromite discovery. The intent of the program is to determine whether this chromite mineralization occurs in sufficient quantity and quality to demonstrate the feasibility of mining it. Bold recently concluded a four-stage option to acquire the Black Horse claims from Fancamp Exploration Ltd. ("Fancamp"), subject to Fancamp retaining a price-variable gross metal royalty (the "Fancamp Option"). Under the terms of the agreement between KWG and Bold Ventures, KWG can acquire up to 80% of Bold's interest in the Fancamp Option by funding 100% of Bold's earn-in expenditures and option payments. The current program has budgeted \$2 million to drill the chromite horizon. An additional \$1 million has been budgeted to drill a contiguous possible nickel target. For nickel and other non-chromite minerals identified during the exploration programs, the parties have agreed to form a joint venture in which KWG has a 20% working interest. KWG will have a right of first refusal to purchase all ores or concentrates produced by such joint venture whenever its joint venture interest exceeds 50%.

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9 TRADE AND OTHER PAYABLES

	Notes	March 31, 2013	December 31, 2012
Trade payables			
Exploration and evaluation projects	8	60,674	146,755
Non-project related		139,103	287,417
Accrued liabilities			
Project related		-	44,366
Non-project related		47,014	41,309
Flow-through premium liability		185,795	243,983
Lease inducement	17	44,087	46,631
		476,673	810,461

10 WARRANT LIABILITY

Included in the warrants listed in Note 12 are 197,620 warrants issued in April of 2009 exercisable in United States dollars. The fair value of these warrants is recorded as a warrant liability at the date of issuance. These warrants are revalued at each balance sheet date with the corresponding gain (loss) recorded as gain (loss) on warrant revaluation through the statement of operations and comprehensive loss. A gain on the revaluation of \$3,205 was recognized in the three months ended March 31, 2013 (2012 - \$397,783). The fair value of these warrants was estimated using a valuation model based on the following assumptions:

	Mar 31, 2013	Dec 31, 2012
U.S. exchange rate	1.0156	0.9949
Market price of shares	\$0.05	\$0.05
Average dividend per share	Nil	Nil
Estimated volatility	98.80%	65.89%
Risk-free interest rate	1.01%	1.13%
Expected life of the warrants	12 months	15 months

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11 SHARE CAPITAL

Authorized

An unlimited number of no par value common shares

Issued

Changes in the Company's share capital were as follows:

	Three months ended March 31, 2013	Year ended December 31, 2012
Issued	Number of shares	Number of shares
Balance – Beginning of period	691,577,273	671,323,941
Issued through private placements (i)	-	24,398,332
Issued for Mineral Property Interests (ii)	-	3,000,000
Cancelled following repurchase through normal course issuer bid (iii)	-	(7,145,000)
Balance – End of period	691,577,273	691,577,273

- (i) On December 31, 2012, the Company completed a non-brokered private placement of 24,398,332 “flow-through” common shares at a price of \$0.06 per share for a total consideration of \$1,463,900. The Company allocated proceeds of \$243,983 to the flow-through premium. Finder's fees of \$96,754 in cash were paid in relation to this placement.
- (ii) On March 2, 2012, the Company issued 3,000,000 common shares and 3,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.12 on or before March 2, 2017) for the acquisition of 49 unpatented claims from INV Metals Inc. (note 8(v)). The warrants were valued at \$177,000 using a valuation model based on the following assumptions: market value of \$0.065 per share, dividend yield of 0%, volatility of 159%, risk free rate of return of 1.42% and an expected life of 5 years.
- (iii) On October 5, 2011, the Company's Board of Directors authorized the purchase of up to 31,900,000 of its common shares by way of normal course purchases on the TSX Venture Exchange. This represented 5% of the common shares outstanding at the time. The cap on these purchases was \$500,000 and the purchases will terminate within one year from the date of commencement. On August 22, 2012 the Company's Board of Directors authorized an increase in this cap to \$700,000. To December 31, 2011 the Company had purchased and cancelled 4,055,000 shares under this plan for a total consideration of \$292,669. During 2012, the Company purchased a further 7,145,000 shares for a total consideration of \$409,686. All of these shares have been cancelled and the purchases have terminated.

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12 WARRANTS AND COMPENSATION OPTIONS

Changes in the Company's outstanding common share purchase warrants and compensation options were as follows:

	Three months ended March 31, 2013		Year ended December 31, 2012	
	Warrants	Compensation Options	Warrants	Compensation Options
Issued				
Balance – beginning of period	78,790,940	750,000	196,448,893	750,000
Issued for mineral property interests (Note 11(ii))	-	-	3,000,000	-
Expired	(4,443,320)	-	(120,657,953)	-
Balance – end of year	74,347,620	750,000	78,790,940	750,000

Outstanding common share purchase warrants and compensation options entitle their holders to subscribe for an equivalent number of common shares.

A summary of the Company's outstanding warrants and compensation options as at March 31, 2013 is presented below:

Number of warrants	Number of compensation options	Exercise price	Expiry date
197,620	-	0.10 U.S.	April 2014
8,750,000	750,000	0.12	June 2014
15,000,000	-	0.10	July 2014
26,400,000	-	0.10	August 2014
21,000,000	-	0.15	August 2016
3,000,000	-	0.12	March 2017
74,347,620	750,000	0.12	

13 STOCK OPTION PLAN

The Company maintains a stock option plan (the "Plan") whereby the Board of Directors may from time to time grant to employees, officers, directors and consultants of the Company or any subsidiary thereof options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board, provided that the exercise price may not be lower than the market price of the common shares at the time of the grant of the options.

As at March 31, 2013, the Plan provides (i) that the maximum number of common shares that may be reserved for issuance under the Plan shall be equal to 10% of the number of issued

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and outstanding common shares; (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant; and (iii) that the maximum number of common shares that may be reserved for issuance to insiders of the Company is limited to 10% of the common shares outstanding at the time of the grant.

Options vest over an 18-month period: 25% at the date of the grant and 12.5% in each of the following six quarters. Options granted must be exercised over a period no longer than five years after the date of grant, and they are not transferable.

A summary of changes in the Company's stock options outstanding is presented below:

Options

	Three months ended March 31, 2013		Year ended December 31, 2012	
	Number of shares	Average exercise price	Number of shares	Average exercise price
Balance – Beginning of period	57,273,200	0.113	60,593,200	0.114
Granted	-	-	7,100,000	0.100
Expired	(2,216,600)	-	(10,420,000)	0.100
Balance – End of period	55,056,600	0.113	57,273,200	0.113

The following table summarizes information about options outstanding and exercisable as at March 31, 2013:

Exercise price	Number of options	Outstanding options	Exercisable options
		Average contractual life (in years)	
0.100	25,511,600	3.66	23,636,600
0.115	3,500,000	3.48	3,500,000
0.125	24,545,000	2.60	24,545,000
0.140	1,500,000	2.75	1,500,000
0.113	55,056,600	3.13	53,181,600

Total stock compensation costs for the three months ended March 31, 2013 amounted to \$22,143 (2012 – \$303,128).

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The fair value of the options granted in March 2012 was estimated using a valuation model based on the following assumptions:

Average dividend per share	Nil
Estimated volatility	159.30%
Risk-free interest rate	1.63%
Expected life of the options granted	5 years
Weighted average of estimated fair value of each option granted	\$0.064

14 GENERAL AND ADMINISTRATIVE EXPENSES

The Company's general and administrative expenses consist of the following:

Three months ending March 31	2013	2012
Advertising and promotion	29,750	2,333
Consultants' fees	180,597	115,064
Directors' fees and insurance	29,895	19,341
Filing fees	9,966	16,248
Investor relations fees	5,873	146,537
Professional fees	380,806	116,896
Office overheads	76,256	64,804
Salaries and benefits	207,190	270,399
Travel and accommodation	9,586	16,721
Administrative recovery	(41,460)	(115,849)
	888,459	652,494

15 FINANCE INCOME / (EXPENSE)

Three months ended March 31	2013	2012
Interest income	24,168	44,551
Net change in financial assets at FVTPL	(127,900)	(1,235,148)
Premium on flow-through spending	58,188	175,036
Finance income / (expense)	(45,544)	(1,015,561)

16 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and Corporate Secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2013, officers and companies controlled by officers charged consulting fees totalling \$52,380 (2012 - \$73,303) and salaries

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and bonuses in the amount of \$80,769 (2012 - \$178,692) of which \$19,915 remained payable at March 31, 2013 (2012 - \$32,384). Directors' fees paid in the first quarter totalled \$23,750 (2012 - \$18,000). KMP received no stock options in the first quarter of 2013 (2012 - 7,100,000). In the first quarter of 2013 stock compensation expenses totalled \$56,800 for KMP (2012 - \$258,713).

Debut Diamonds Inc.

The Company shares management, administrative assistance and facilities and other technical personnel with DDI. This is not covered by a written agreement. The costs charged to DDI are equal to the costs incurred by the Company. During the first quarter of 2013, the Company charged DDI for overhead and personnel charges in the amount of \$41,460 (2012 - \$61,331) and for project costs in the amount of \$nil (2012 - \$54,518).

17 COMMITMENTS AND CONTINGENCIES

- (i) Pursuant to flow-through financing agreements closed during the year ended December 31, 2012 the Company must incur \$1,114,771 in exploration expenses by December 31, 2013.

The Company has incurred approximately \$10 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow-through agreements. As noted in Note 2 to these financial statements, there is a risk that some or all of these claims may be disallowed. No provision has been made for potential cost to the Company, if any, of such disallowance. To the extent that the costs are disallowed as deductions to shareholders, additional tax attributes would be created for the Company which would be considered for recognition at that time. Additional costs may be incurred.

Certain conditions may exist at the date the financial statements are issued which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company does not record any liability for such future events until such time as the events are probable and reasonably determinable.

- (ii) The Company has signed an operating lease for its premises located at 141 Adelaide St. W., Suite 420, Toronto, On, M5H 3L5. The lease is a net lease with a term of five years commencing on August 1, 2012. Monthly minimum rental payments are \$5,326 for October 1, 2012 through July 31, 2014 and \$5,568 for August 1, 2014 through July 31, 2017. There are no payments due for August and September 2012. The Company is also responsible for its proportionate share of the operating costs in relation to this space. In addition to waiving the first two months rental payments, the landlord reimbursed the Company for the amount of \$28,002 in relation to leasehold improvements and moving costs. The total amount of these inducements will be amortized over the life of the lease (Note 9).

18 FINANCIAL INSTRUMENTS AND FAIR VALUES

The Company has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk.

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A complete description of the Company's financial risk management is included in Note 23 to the 2012 audited consolidated financial statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these financial statements.

19 DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 24 to the Company's 2012 audited consolidated financial statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

20 CAPITAL MANAGEMENT DISCLOSURES

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$42,181,631 at March 31, 2013 and \$43,350,755 at December 31, 2012.

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments. There were no changes in the Company's approach to capital management during the first quarter of 2013. The Company is not subject to externally imposed capital requirements.

21 SEGMENTED INFORMATION

Operating segments are reported in a manner consistent with the way in which the Company's executive officers review business performance on a quarterly basis. The Company's operations comprise a single reporting operating segment engaged in mineral exploration in Canada. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

22 SUBSEQUENT EVENT

On May 10, 2013, the Company granted stock options to its directors, officers, employees and consultants to purchase a total of 12,336,000 shares at a price of \$0.10 each expiring on May 9, 2018.