

# **KWG RESOURCES INC.**

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## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED**

THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

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

(in Canadian dollars)	Notes	As at June 30, 2013	As at December 31, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	5,924,303	11,066,004
Receivables	5	1,361,478	1,286,148
Marketable securities	6	88,986	571,040
Prepaid expenses		30,941	41,287
<b>Total current assets</b>		<b>7,405,708</b>	<b>12,964,479</b>
<b>Non-current assets</b>			
Property and equipment	7	67,121	82,698
Mineral property interests	8	34,633,179	31,117,244
<b>Total non-current assets</b>		<b>34,700,300</b>	<b>31,199,942</b>
<b>Total assets</b>		<b>42,106,008</b>	<b>44,164,421</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	9	207,125	810,461
<b>Total current liabilities</b>		<b>207,125</b>	<b>810,461</b>
<b>Non-current liabilities</b>			
Warrant liability	10	-	3,205
<b>Total non-current liabilities</b>		<b>-</b>	<b>3,205</b>
<b>Total liabilities</b>		<b>207,125</b>	<b>813,666</b>
<b>Equity attributable to the owners of the parent company</b>			
Share capital	11	23,145,649	22,991,304
Warrants	12	3,098,476	3,170,895
Contributed surplus		12,383,308	12,025,684
Accumulated other comprehensive loss		(339,930)	(5,976)
Retained earnings		3,611,380	5,168,848
<b>Total equity</b>		<b>41,898,883</b>	<b>43,350,755</b>
<b>Total liabilities and equity</b>		<b>42,106,008</b>	<b>44,164,421</b>

**Nature of operations (Note 1)**

**Commitments (Note 17)**

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)**

(in Canadian dollars)	Notes	Three-month periods ended June 30		Six-month periods ended June 30	
		2013	2012	2013	2012
<b>Expenses</b>					
General and administrative	14	(624,972)	(751,333)	(1,513,431)	(1,403,827)
Amortization of property and Equipment	7	(8,370)	(11,385)	(17,265)	(16,659)
Stock compensation costs	13	(148,247)	(97,740)	(170,390)	(400,868)
Gain (loss) on foreign exchange		(144)	179	93	(613)
<b>Loss before the undernoted</b>		<b>(781,733)</b>	<b>(860,279)</b>	<b>(1,700,993)</b>	<b>(1,821,967)</b>
<b>Other income (expenses)</b>					
Finance income (expense)	15	184,302	(435,392)	138,758	(1,450,953)
Other income		781	781	1,562	1,562
Gain on revaluation of warrant liability	10	-	274,499	3,205	672,282
		<b>185,083</b>	<b>(160,112)</b>	<b>143,525</b>	<b>(777,109)</b>
<b>Net loss for the period</b>		<b>(596,650)</b>	<b>(1,020,391)</b>	<b>(1,557,468)</b>	<b>(2,599,076)</b>
<b>Loss per share (basic and diluted)</b>		<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>
<b>Weighted average number of outstanding shares</b>		<b>692,368,482</b>	<b>672,493,381</b>	<b>691,975,063</b>	<b>672,317,699</b>

**Consolidated Statements of Comprehensive loss**

(in Canadian dollars)	Notes	Three-month periods ended June 30		Six-month periods ended June 30	
		2013	2012	2013	2012
Net loss for the period		(596,650)	(1,020,391)	(1,557,468)	(2,599,076)
Other comprehensive income ("OCI")					
Net change in fair value of available for sale assets	6	(103,505)	(40,500)	(333,954)	(253,459)
<b>Net comprehensive loss for the period</b>		<b>(700,155)</b>	<b>(1,060,891)</b>	<b>(1,891,422)</b>	<b>(2,852,535)</b>

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 comprehen- sive income (loss)	Retained earnings	Total
<b>Balance, December 31, 2011</b>		<b>21,308,113</b>	<b>7,431,617</b>	<b>7,091,101</b>	<b>283,674</b>	<b>10,392,316</b>	<b>46,506,821</b>
Net loss for the period		-	-	-	-	(2,599,076)	(2,599,076)
Other comprehensive loss for the period		-	-	-	(253,459)	-	(253,459)
Issued for mineral property interests	8	194,162	176,238	-	-	-	370,400
Expired warrants	12	-	(3,094,974)	3,094,974	-	-	-
Stock-based compensation	13	-	-	400,868	-	-	400,868
<b>Balance, June 30, 2012</b>		<b>21,502,275</b>	<b>4,512,881</b>	<b>10,586,943</b>	<b>30,215</b>	<b>7,793,240</b>	<b>44,425,554</b>
Net loss for the period		-	-	-	-	(2,058,526)	(2,058,526)
Other comprehensive loss for the period		-	-	-	(36,191)	-	(36,191)
Private placements, net of share issuance costs	11	1,123,163	-	-	-	-	1,123,163
Expired warrants	12	-	(1,341,986)	1,341,986	-	-	-
Stock-based compensation	13	-	-	96,755	-	-	96,755
Normal course issuer bid	11	(200,000)	-	-	-	-	(200,000)
Deferred tax effect of previously-incurred share issue costs		565,866	-	-	-	(565,866)	-
<b>Balance, December 31, 2012</b>		<b>22,991,304</b>	<b>3,170,895</b>	<b>12,025,684</b>	<b>(5,976)</b>	<b>5,168,848</b>	<b>43,350,755</b>
Net loss for the period		-	-	-	-	(1,557,468)	(1,557,468)
Other comprehensive loss for the period		-	-	-	(333,954)	-	(333,954)
Private placements, net of Share issuance costs	11	154,345	114,815	-	-	-	269,160
Expired warrants	12	-	(187,234)	187,234	-	-	-
Stock-based compensation	13	-	-	170,390	-	-	170,390
<b>Balance, June 30, 2013</b>		<b>23,145,649</b>	<b>3,098,476</b>	<b>12,383,308</b>	<b>(339,930)</b>	<b>3,611,380</b>	<b>41,898,883</b>

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	Six-month periods ended June 30	
		2013	2012
<b>Cash flows from operating activities</b>			
Net loss for the period		(1,557,468)	(2,599,076)
Adjustments for			
Amortization of property and equipment	7	17,265	16,659
Stock based compensation costs	13	170,390	400,868
Fair value changes in financial assets classified as fair value through profit & loss ("FVTPL")	6	148,100	1,711,448
Amortization of flow-through premium	15	(243,983)	(175,036)
Gain (loss) on revaluation of warrant liability	10	(3,205)	(672,282)
Net change in non-cash working capital balances		(460,544)	(185,272)
<b>Net cash used by operating activities</b>		<b>(1,929,445)</b>	<b>(1,502,691)</b>
<b>Cash flows from financing activities</b>			
Share capital issued	11	300,000	-
Share and warrant issue expenses		(840)	(1,600)
Shares repurchased through normal course issuer bid	11	-	(194,092)
<b>Net cash provided by financing activities</b>		<b>299,160</b>	<b>(195,692)</b>
<b>Cash flows from investing activities</b>			
Expenditures on exploration and evaluation projects	8	(3,612,703)	(1,588,837)
Purchases of property and equipment – net	7	(1,688)	(15,536)
Purchase of marketable securities	6	-	(123,490)
Decrease (increase) in advances to related company	16	102,975	(74,947)
<b>Net cash used by investing activities</b>		<b>(3,511,416)</b>	<b>(1,802,810)</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>(5,141,701)</b>	<b>(3,501,193)</b>
Cash and cash equivalents – Beginning of the period		11,066,004	16,030,551
<b>Cash and cash equivalents – End of the period</b>		<b>5,924,303</b>	<b>12,529,358</b>
<b>Change in non-cash working capital balances comprises:</b>			
Receivables		(178,305)	(152,788)
Prepaid expenses		10,346	(8,206)
Trade and other payables		(292,585)	(24,278)
<b>Net change in non-cash working capital balances</b>		<b>(460,544)</b>	<b>(185,272)</b>
<b>Additional information - non-cash transactions</b>			
Issuance of shares/warrants for exploration and evaluation projects	8	-	372,000
Expired warrants included in contributed surplus	12	187,234	3,094,974
Additions to exploration and evaluation projects included in accounts payable	9	-	25,360

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)**

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#### **1 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 August 14, 2013.

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

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**(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

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

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geologic and metallurgic information, history of conversion of mineral deposits to proven and 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.



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

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**Contingencies**

Refer to Note 17.

**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**

	<b>As at June 30, 2013</b>	<b>As at December 31, 2012</b>
Bank balances	296,612	3,131,032
Short-term deposits	5,627,691	7,934,972
<b>Cash and cash equivalents</b>	<b>5,924,303</b>	<b>11,066,004</b>

**5 RECEIVABLES**

	<b>As at June 30, 2013</b>	<b>As at December 31, 2012</b>
Trade receivables	41,691	-
Sales taxes receivable	489,945	358,755
Due from Debut Diamonds Inc.	649,849	752,824
Other receivables	179,993	174,569
<b>Receivables</b>	<b>1,361,478</b>	<b>1,286,148</b>

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

**6 MARKETABLE SECURITIES**

	<b>As at June 30, 2013</b>	<b>As at December 31, 2012</b>
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i) 7,270,000 common shares	36,350	290,800
Eloro Resources Ltd. ("Eloro") (ii) 3,080,580 common shares	30,806	107,820
Debut Diamonds Inc. (iii) 166,000 common shares	830	3,320
<b>Total AFS</b>	<b>67,986</b>	<b>401,940</b>
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	- - -	43,100 -
Debut Diamonds Inc. (iii) 9,702,666 warrants exercisable at \$0.07 7,000,000 warrants exercisable at \$0.07	21,000 - -	105,000 - -
<b>Total fair value of financial assets at FVTPL</b>	<b>21,000</b>	<b>169,100</b>
<b>Marketable securities</b>	<b>88,986</b>	<b>571,040</b>

- (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

## KWG RESOURCES INC.

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

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price of the common shares is over \$1.50 for 20 consecutive trading days following the expiry of the 4 month hold period, the premium warrants must be exercised within 10 business days of Eloro 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 Eloro 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 Debut Diamonds Inc (“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 \$0.15 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 \$148,100 during the first two quarters of 2013.

The following table summarizes the inputs that were used to calculate the fair value of the warrants as at June 30, 2013:

	<b>Eloro Premium</b>	<b>DDI \$0.10</b>
Average dividend per share	Nil	Nil
Estimated volatility	74.27%	150.00%
Risk-free interest rate	1.69%	1.69%
Expected life of the options granted	1,236 days	1,155 days
Calculated value per warrant	\$0.000	\$0.003

#### 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 \$7,000; 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 \$2,000.

**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**7 PROPERTY AND EQUIPMENT**

	Automobiles	Computer equipment	Office equipment	Leasehold improvements	Totals
Balance, December 31, 2011					
Cost	78,690	24,680	22,875	-	126,245
Accumulated amortization	(31,488)	(20,824)	(8,096)	-	(60,408)
<b>Net book value</b>	<b>47,202</b>	<b>3,856</b>	<b>14,779</b>	<b>-</b>	<b>65,837</b>
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)
<b>Net book value</b>	<b>26,611</b>	<b>4,470</b>	<b>26,586</b>	<b>25,031</b>	<b>82,698</b>
Additions/(disposals)	(8,550)	-	3,113	-	(5,437)
Reversal of amortization	7,125	-	-	-	7,125
Amortization	(8,044)	(2,080)	(4,410)	(2,731)	(17,265)
Balance, June 30, 2013					
Cost	70,140	30,582	44,263	27,307	172,292
Accumulated amortization	(52,998)	(28,192)	(18,974)	(5,007)	(105,171)
<b>Net book value</b>	<b>17,142</b>	<b>2,390</b>	<b>25,289</b>	<b>22,300</b>	<b>67,121</b>

**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 June 30, 2013
Canada – Ontario				
Spider No. 3 / McFaulds Lake (i)	4,189,695	(1,318)	-	4,188,377
Big Daddy (i)(iv)	10,065,364	-	-	10,065,364
Diagnos (i)	178,014	-	-	178,014
Railroute Corridor (v)	16,084,171	190,253	-	16,274,424
The Temagami Iron L.P. (vi)	100,000	15,000	-	115,000
CME Project (vii)	500,000	12,000	-	512,000
Bold Venture Joint Venture (viii)	-	3,300,000	-	3,300,000
	31,117,244	3,515,935	-	34,633,179

## **KWG RESOURCES INC.**

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

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- (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

## **KWG RESOURCES INC.**

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

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alternatives, preliminary soils analysis and claim staking. Concurrent with this activity the 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(iii)). 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. In April of 2013 the Company exercised 300,000 of these warrants for a cash consideration of \$15,000. The Company now owns 2,300,000 units of the partnership.
- (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 option payments totalling \$1,500,000 and incurring exploration expenditures totalling a minimum of \$8,000,000 over a three year period. The first option payment in the amount of \$300,000 has been paid. 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. These amounts have been fully spent to June 30, 2013. 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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**Notes to the Condensed Interim Consolidated Financial Statements**  
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**9 TRADE AND OTHER PAYABLES**

	Notes	June 30, 2013	December 31, 2012
Trade payables			
Exploration and evaluation projects	8	-	146,755
Non-project related		81,441	287,417
Accrued liabilities			
Project related		-	44,366
Non-project related		54,140	41,309
Flow-through premium liability		30,000	243,983
Lease inducement	17	41,544	46,631
		207,125	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:

	Jun 30, 2013	Dec 31, 2012
U.S. exchange rate	1.0512	0.9949
Market price of shares	\$0.05	\$0.05
Average dividend per share	Nil	Nil
Estimated volatility	78.75%	65.89%
Risk-free interest rate	1.25%	1.13%
Expected life of the warrants	9 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:

	<b>Six months ended June 30, 2013</b>	<b>Year ended December 31, 2012</b>
<b>Issued</b>	<b>Number of shares</b>	<b>Number of shares</b>
Balance – Beginning of period	691,577,273	671,323,941
Issued through private placements (i)(ii)	6,000,000	24,398,332
Issued for Mineral Property Interests (iii)	-	3,000,000
Cancelled following repurchase through normal course issuer bid (iv)	-	(7,145,000)
<b>Balance – End of period</b>	<b>697,577,273</b>	<b>691,577,273</b>

- (i) On June 30, 2013, the Company completed a non-brokered private placement of 6,000,000 “flow-through” units at a price of \$0.05 per share for a total consideration of \$300,000 (Note 16). Each unit consists of one “flow through” common share and one warrant which entitles the holder to purchase one “flow through” common share for \$0.10 on or before June 30, 2018. The warrants were valued at \$114,815 using a valuation model based on the following assumptions: market value of \$0.045 per share, dividend yield of 0%, volatility of 96%, risk free rate of return of 1.69% and an expected life of 5 years. The Company allocated proceeds of \$30,000 to the flow-through premium.
- (ii) 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.
- (iii) 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.
- (iv) 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

**KWG RESOURCES INC.**  
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\$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.

**12 WARRANTS AND COMPENSATION OPTIONS**

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

	Six months ended June 30, 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 through private placements (Note 11(i))	6,000,000	-	-	-
Issued for mineral property interests (Note 11(iii))	-	-	3,000,000	-
Expired	(4,560,940)	-	(120,657,953)	-
<b>Balance – end of year period</b>	<b>80,230,000</b>	<b>750,000</b>	<b>78,790,940</b>	<b>750,000</b>

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 June 30, 2013 is presented below:

Number of warrants	Number of compensation options	Exercise price	Expiry date
80,000	-	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
6,000,000	-	0.10	June 2018
<b>80,230,000</b>	<b>750,000</b>	<b>0.12</b>	

**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**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 June 30, 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 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**

	<b>Six months ended June 30, 2013</b>		<b>Year ended December 31, 2012</b>	
	<b>Number of shares</b>	<b>Average exercise price</b>	<b>Number of shares</b>	<b>Average exercise price</b>
Balance – Beginning of period	57,273,200	0.113	60,593,200	0.114
Granted	12,336,000	0.10	7,100,000	0.100
Expired	(2,804,700)	-	(10,420,000)	0.100
<b>Balance – End of period</b>	<b>66,804,500</b>	<b>0.111</b>	<b>57,273,200</b>	<b>0.113</b>

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The following table summarizes information about options outstanding and exercisable as at June 30, 2013:

Exercise price	Number of options	Outstanding options	Exercisable options
		Average contractual life (in years)	
0.100	37,259,500	3.45	33,288,000
0.115	3,500,000	2.73	3,500,000
0.125	24,545,000	1.85	24,545,000
0.140	1,500,000	2.00	1,500,000
<b>0.111</b>	<b>66,804,500</b>	<b>2.75</b>	<b>62,833,000</b>

Total stock compensation costs for the six months ended June 30, 2013 amounted to \$170,390 (2012 – \$400,868).

The fair value of the options granted in 2013 and 2012 was estimated using a valuation model based on the following assumptions:

	May 2013	Mar 2012
Average dividend per share	Nil	Nil
Estimated volatility	104.07%	159.30%
Risk-free interest rate	1.69%	1.63%
Expected life of the options granted	5 years	5 years
Estimated fair value of each option granted	\$0.030	\$0.064

#### 14 GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three-month periods ended June 30		Six-month periods ended June 30	
	2013	2012	2013	2012
Advertising and promotion	7,170	6,490	36,920	8,823
Consultants' fees	138,776	132,189	319,373	247,253
Directors' fees and insurance	34,023	38,223	63,918	57,564
Filing fees	17,428	17,010	27,394	33,258
Investor relations fees	47,228	14,028	53,101	160,565
Professional fees	66,264	277,459	447,070	394,355
Office overheads	64,904	68,573	141,160	133,377
Salaries and benefits	302,361	250,996	509,551	521,395
Travel and accommodation	15,314	36,324	24,900	53,045
Administrative recovery	(68,496)	(89,959)	(109,956)	(205,808)
	624,972	751,333	1,513,431	1,403,827

**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**15 FINANCE INCOME / (EXPENSE)**

	Three-month periods ended June 30		Six-month periods ended June 30	
	2013	2012	2013	2012
Interest income	18,707	40,908	42,875	85,459
Net change in financial assets at FVTPL	(20,200)	(476,300)	(148,100)	(1,711,448)
Premium on flow-through spending	185,795	-	243,983	175,036
Finance income / (expense)	184,302	(435,392)	138,758	(1,450,953)

**16 RELATED PARTY TRANSACTIONS**

The Company defines its officers (CEO, CFO and Corporate Secretary) and directors as Key Management Personnel (“KMP”). During the first two quarters of 2013, officers and companies controlled by officers charged consulting fees totalling \$122,429 (2012 - \$128,724) and salaries and bonuses in the amount of \$250,000 (2012 - \$247,923) of which \$20,826 remained payable at June 30, 2013 (2012 - \$11,488). Directors’ fees paid in the first two quarters of 2013 totalled \$52,353 (2012 - \$48,000). KMP received 6,836,000 stock options during the first two quarters of 2013 (2012 - 7,100,000). In the first two quarters of 2013 stock compensation expenses totalled \$107,198 for KMP (2012 - \$315,512).

Included in the June 2013 private placement were 2,000,000 flow-through units subscribed for by KMP (Note 11(i)).

**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 two quarters of 2013, the Company charged DDI for overhead and personnel charges in the amount of \$41,460 (2012 - \$120,663) and for project costs in the amount of \$nil (2012 - \$85,146).

**17 COMMITMENTS AND CONTINGENCIES**

- (i) Pursuant to flow-through financing agreements closed during the year ended December 31, 2012 the Company must incur \$1,463,900 in exploration expenses by December 31, 2013. This requirement was met during the second quarter of 2013.

Pursuant to flow-through financing agreements closed during June 2013 the Company must incur \$300,000 in exploration expenses by December 31, 2014.

The Company has incurred approximately \$11 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.

## **KWG RESOURCES INC.**

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

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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 were 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.

A complete description of the Company's financial risk management is included in Note 23 to the 2012 audited consolidated financial statements. There have been no 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 \$41,898,883 at June 30, 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 two quarters 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.