

KWG RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All of the information in the accompanying financial statements of KWG Resources Inc. is the responsibility of management. The financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where necessary, management had made judgments and estimates in preparing the financial statements and such statements have been prepared within acceptable limits of materiality.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management and the external auditors to review the auditor's report and the financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the financial statements.

A firm of independent Chartered Professional Accountants, appointed by the shareholders, audits the financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

Frank C. Smeenk
President & CEO

Thomas E. Masters
Chief Financial Officer

April 8, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of KWG Resources Inc.

We have audited the accompanying consolidated financial statements of KWG Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of operations, consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KWG Resources Inc. and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 8, 2014

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KWG RESOURCES INC.
Consolidated Balance Sheets

(in Canadian dollars)	Notes	As at December 31, 2013	As at December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	5	6,172,478	11,066,004
Receivables	6	1,516,970	1,286,148
Marketable securities	7	147,739	571,040
Prepaid expenses		38,201	41,287
Total current assets		7,875,388	12,964,479
Non-current assets			
Property and equipment	8	51,631	82,698
Exploration and evaluation projects	9	35,252,177	31,117,244
Total non-current assets		35,303,808	31,199,942
Total assets		43,179,196	44,164,421
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	270,022	810,461
Total current liabilities		270,022	810,461
Non-current liabilities			
Warrant liability	11	-	3,205
Total non-current liabilities		-	3,205
Total liabilities		270,022	813,666
Equity			
Share capital	12	24,722,501	22,991,304
Warrants	13	3,469,946	3,170,895
Contributed surplus		12,475,828	12,025,684
Accumulated other comprehensive loss		-	(5,976)
Retained earnings		2,240,899	5,168,848
Total equity		42,909,174	43,350,755
Total liabilities and equity		43,179,196	44,164,421

Nature of operations (Note 1)
Commitments and contingencies (Note 20)
Subsequent events (Note 25)

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

Approved by the Board of Directors

Douglas Flett
Director

Frank Smeenk
Director

KWG RESOURCES INC.
Consolidated Statements of Operations and Statements of Comprehensive Loss
For the years ended December 31, 2013 and 2012

(in Canadian dollars)	Notes	2013	2012
General and administrative	15	(2,531,450)	(2,710,145)
Amortization of property and equipment	8	(32,754)	(34,622)
Stock-based compensation costs	14	(262,910)	(497,623)
Write-down of exploration and evaluation projects	9	-	(25,132)
Loss on foreign exchange		(107)	(968)
Loss from operations		(2,827,221)	(3,268,490)
Other income (expenses)			
Finance income (loss)	16	181,119	(1,616,462)
Other income		3,125	3,125
Loss on disposal/write down of marketable securities	7	(288,177)	(220,349)
Gain on revaluation of warrant liability	11	3,205	1,093,379
Write-down of receivables	19	-	(648,805)
		(100,728)	(1,389,112)
Net loss for the year		(2,927,949)	(4,657,602)
Loss per share (basic and diluted)	18	(0.00)	(0.01)

Consolidated Statements of Comprehensive Loss

(in Canadian dollars)	Notes	2013	2012
Net loss for the year		(2,927,949)	(4,657,602)
Other comprehensive loss ("OCL")			
Net change in fair value of available for sale assets	7	5,976	(289,650)
Total comprehensive loss for the year		(2,921,973)	(4,947,252)

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

KWG RESOURCES INC.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2013 and 2012

(in Canadian dollars)	Notes	Share capital	Warrants	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2012		22,991,304	3,170,895	12,025,684	5,168,848	(5,976)	43,350,755
Net loss for the year		-	-	-	(2,927,949)	-	(2,927,949)
Other comprehensive income for the year:							
Change in fair value	7	-	-	-	-	(282,201)	(282,201)
Transferred to net income upon realization	7	-	-	-	-	288,177	288,177
Private placements, net of share issuance costs	12	1,717,072	478,813	-	-	-	2,195,885
Issued for agent's compensation	12	-	7,472	-	-	-	7,472
Issued for services rendered	12	14,125	-	-	-	-	14,125
Expired warrants	13	-	(187,234)	187,234	-	-	-
Stock based compensation	14	-	-	262,910	-	-	262,910
Balance, December 31, 2013		24,722,501	3,469,946	12,475,828	2,240,899	-	42,909,174
Balance, December 31, 2011		21,308,113	7,431,617	7,091,101	10,392,316	283,674	46,506,821
Net loss for the year		-	-	-	(4,657,602)	-	(4,657,602)
Other comprehensive income for the year:							
Change in fair value	7	-	-	-	-	(181,750)	(181,750)
Transferred to net income upon realization	7	-	-	-	-	(107,900)	(107,900)
Private placements, net of share issuance costs	12	1,123,163	-	-	-	-	1,123,163
Issued for exploration and evaluation projects	7	194,162	176,238	-	-	-	370,400
Expired warrants	13	-	(4,436,960)	4,436,960	-	-	-
Stock based compensation	14	-	-	497,623	-	-	497,623
Normal course issuer bid	12	(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	5,168,848	(5,976)	43,350,755

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

KWG RESOURCES INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012

(in Canadian dollars)	Notes	2013	2012
Cash flows from operating activities			
Net loss for the year		(2,927,949)	(4,657,602)
Adjustments for			
Amortization of property and equipment	8	32,754	34,622
Stock-based compensation costs	14	262,910	497,623
Write-down of exploration and evaluation projects	9	-	25,132
Shares issued for services	12	14,125	-
Finance income excluding interest	16	(243,983)	(245,655)
Fair value changes in marketable securities classified as fair value through profit and loss	7	141,100	2,016,748
Loss on disposal/write down of marketable securities	7	288,177	220,349
Gain on revaluation of warrant liability	11	(3,205)	(1,093,379)
Write-down of receivables	19	-	648,805
Net change in non-cash working capital balances		(641,187)	(142,279)
Net cash used by operating activities		(3,077,258)	(2,695,636)
Cash flows from financing activities			
Share capital issued	12	2,263,500	1,463,900
Share and warrant issue expenses	12	(60,143)	(98,354)
Shares repurchased through normal course issuer bid	12	-	(407,331)
Net cash provided by financing activities		2,203,357	958,215
Cash flows from investing activities			
Expenditures on exploration and evaluation projects	9	(4,109,415)	(2,556,672)
Purchases of property and equipment (net)	8	(1,687)	(51,483)
Purchase of marketable securities	7	-	(23,489)
Decrease (increase) in advances to related company	19	91,477	(595,482)
Net cash used by investing activities		(4,019,625)	(3,227,126)
Net change in cash and cash equivalents during the year		(4,893,526)	(4,964,547)
Cash and cash equivalents – beginning of the year		11,066,004	16,030,551
Cash and cash equivalents – end of the year		6,172,478	11,066,004
Change in non-cash working capital balances comprises:			
Receivables		(322,299)	(267,151)
Prepaid expenses		3,086	(10,229)
Trade and other payables		(321,974)	135,101
Net change in non-cash working capital balances		(641,187)	(142,279)
Additional information - non-cash transactions			
Issuance of shares/warrants for exploration and evaluation projects		-	372,000
Issuance of agent compensation options		7,472	-
Expired warrants included in contributed surplus		187,234	4,436,960
Additions to exploration and evaluation projects included in trade and other payables		122,286	96,768

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

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (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 exploration and evaluation projects and has not yet determined whether its exploration and evaluation projects 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 exploration and evaluation project expenditures 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

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

These financial statements were approved by the board of directors for issue on April 8, 2014.

Basis of Measurement

The 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. The methods used to measure fair values are discussed further in Note 22.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of Consolidation

These 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.

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".

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) *Financial assets and liabilities at fair value through profit or loss*

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Derivatives are also included in this category unless they are designated as hedges. The Company has invested in and has issued warrants that qualify as derivatives. All derivatives have been classified as held-for-trading and are included on the balance sheet within marketable securities or warrant liabilities. Gains and losses on re-measurement of the fair value of warrants are included in the consolidated statements of operations in either finance income or gain (loss) on revaluation of warrant liability.

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Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as long-term. Warrants are classified as current.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities included in marketable securities on the balance sheet.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in gain (loss) on marketable securities. Available-for-sale investments are classified as non-current, unless management expects to dispose of them within twelve months.

Dividends on available-for-sale equity instruments are recognized in the statement of operations as dividend income when the company's right to receive payment is established.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise receivables, and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

(iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost consist of trade and other payables. Trade and other payables are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired. The criteria used to determine if objective evidence of an impairment loss include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest or principal payments; and

KWG RESOURCES INC.

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- (iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) *Financial assets carried at amortized cost*

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount through the use of an allowance account.

(ii) *Available-for-sale financial assets*

The impairment loss is the difference between the acquisition cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations. This amount represents the loss in accumulated other comprehensive loss that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Property and Equipment

(i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net in the statement of operations.

(ii) *Amortization*

Amortization is calculated as a function of the depreciable amount, which is the cost of an asset less its residual value.

Amortization is recognized through operations as follows over the estimated useful lives of each part of an item of property and equipment.

Amortization is computed using the straight-line method based on the following number of periods:

Computer equipment	-	2 years
Automobiles	-	3 years
Office furniture	-	5 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Generally, a CGU is analogous to an individual project.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that it does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior periods.

Exploration and Evaluation Projects

(i) Exploration & Evaluation expenditures

Exploration & Evaluation ("E&E") expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as Exploration and Evaluation Projects ("E&EP") assets on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises of a single mine or deposit.

E&EP assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as E&EP assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to

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contractors and consultants. To the extent that a tangible asset is consumed in developing an E&EP asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, E&EP assets attributable to that project are first tested for impairment and then reclassified to *mine property and development projects*. Currently, the Company does not hold any assets classified as *mine property and development projects*.

(ii) Impairment

E&EP assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&EP asset may exceed its recoverable amount and any impairment loss is recognized as "Write down of exploration and evaluation projects" through the consolidated statements of operations. The following facts and circumstances, among other things, indicate that E&EP assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&EP asset is unlikely to be recovered in full through such activity.

E&EP assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to "Exploration and Evaluation Projects" on the balance sheet.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of operations in the period in which they are incurred.

Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of

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economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

Finance Income

Finance income comprises interest income on marketable securities, FV gains of financial assets classified as FVTPL, and flow-through premium. Interest income is recognized as it accrues through operations, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in OCL or directly in equity, in which case it is recognized in OCL or in equity respectively.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share Capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of a regular common share and estimate fair value of the warrant and is recorded as a separate liability which is included in trade and other payables on the consolidated balance sheets (Note 10). The proceeds attributable to the warrants issued in the Company's functional currency are also treated as equity and recorded in warrants on the balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise. Upon expiry, the original fair value of the warrants is transferred to contributed surplus. See Note 11 for commentary on US dollar denominated warrants.

The effect of renunciation of the tax benefits to holders of such shares is recognized pro-rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a deferred tax liability and charged against operations as a deferred tax provision.

Furthermore, as eligible expenditures are incurred, the Company recognises a pro-rata amount of the Flow-through Premium through "Finance income" in the consolidated statements of operations with a decrement to the liability on the balance sheet. Flow-through shares renunciation of expenditures are subject to the significant judgment of management in determining the eligibility of the expenditures incurred and are potentially subject to challenge by income tax authorities based on the nature of the amounts incurred. Management has taken and will continue to take actions to mitigate the risk of challenge, if any occurs. To the extent these are disallowed, the Company would generate additional tax attributes to assess for recognition in the financial statements. Additional costs may be incurred.

Normal Course Issuer Bid

On the date the Company's Board of Directors authorizes a repurchase of its shares, a liability is established for the maximum amount authorized to be expended under the plan as the Company appoints an agent to repurchase the shares on its behalf, creating a present obligation with a corresponding reduction in share capital. This liability is drawn down as the shares are repurchased. Any remaining balance in this account will be returned to share capital, if unspent, at the termination date as determined by the Board at the outset.

Share-Based Payment Arrangements

Stock Option Plan

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 14. All stock-based awards made to employees and others providing similar services are recognized at the date of grant using a fair-value-based method to calculate compensation expense. Compensation expense is charged to operations over the vesting period of the options with a corresponding increase to contributed surplus. Stock options typically vest over an 18-month period. The fair values are determined at the grant date by applying the Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise prices, expected volatility based on available historical volatility of the Company's share price, expected life, expected dividends, expected forfeiture rate and the

KWG RESOURCES INC.

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risk free interest rate. Under graded vesting the fair value of each tranche is recognized over its respective vesting period.

The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by KWG.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For those options that expire after vesting, the recorded value is transferred to contributed surplus.

Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options. Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants.

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the

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recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014.

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014.

IFRIC 21 – Levies (“IFRIC 21”) was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

Changes in Accounting Policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 7 — Financial Instruments: Disclosures (“IFRS 7”) was amended by the IASB in December 2011 to amend the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments. IFRS 10 – Consolidated Financial Statements (“IFRS 10”) was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. The adoption of this standard did not result in any changes in the consolidation status of the Company’s subsidiaries.

IFRS 11 – Joint Arrangements (“IFRS 11”) was issued by the IASB in May 2011 and will replace IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint

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venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. The adoption of this standard did not result in any changes to the Company's investments in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not result in any changes to the Company's disclosure requirements for interests in other entities.

IFRS 13 – Fair Value Measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The adoption of this standard did not result in any significant changes to the Company's disclosures of its financial instruments.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The adoption of this standard has not resulted in any disclosure requirements.

IAS 27 - Separate Financial Statements (“IAS 27”) was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The adoption of this standard did not result in any changes to the Company's financial statements.

IAS 28 - Investments in Associates and Joint Ventures (“IAS 28”) was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The adoption of this standard did not result in any changes to the Company's investments in joint ventures.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 probably mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 9 for details of capitalized exploration and evaluation costs.

Impairment of exploration and evaluation projects

While assessing whether any indications of impairment exist for exploration and evaluation projects, 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 exploration and evaluation projects. Internal sources of information include the manner in which exploration and evaluation projects 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 exploration and evaluation projects, 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 exploration and evaluation projects.

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.

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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 and commitments

Refer to Note 20.

5 CASH AND CASH EQUIVALENTS

	As at December 31, 2013	As at December 31, 2012
Bank balances	244,428	3,131,032
Short-term deposits	5,928,050	7,934,972
Cash and cash equivalents	6,172,478	11,066,004

6 RECEIVABLES

	As at December 31, 2013	As at December 31, 2012
Sales taxes receivable	666,533	358,755
Due from Debut Diamonds Inc. (Note 19)	661,347	752,824
Other receivables	189,090	174,569
Receivables	1,516,970	1,286,148

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7 MARKETABLE SECURITIES

	As at December 31, 2013	As at December 31, 2012
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i) 7,270,000 common shares	72,700	290,800
Eloro Resources Ltd. ("Eloro") (ii) 3,080,580 common shares	46,209	107,820
Debut Diamonds Inc. 166,000 common shares	830	3,320
Total AFS	119,739	401,940
Financial assets at fair value through P&L (FVTPL):		
GoldTrain Resources Inc. (i) 7,000,000 warrants in 2012	-	21,000
Eloro Resources Ltd. (ii) 3,080,580 premium warrants	-	43,100
Debut Diamonds Inc. (iii) 7,000,000 (9,702,666 in 2012) warrants exercisable at \$0.07	28,000	105,000
Total FVTPL	28,000	169,100
Marketable securities	147,739	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 Resources Inc. ("GoldTrain") in exchange for the settlement of a debt owed by GoldTrain to KWG. On June 9, 2011 the market value of the GoldTrain shares was \$280,000. The warrants were valued at \$151,200 on the date of acquisition using the Black-Scholes option pricing model based on the following assumptions: dividend yield of 0%, volatility of 144%, risk free interest rate of 1.21% and an expected life of 2 years. Subsequent to this transaction, the Company acquired an additional 270,000 common shares through purchases on the open market (Note 25(iv)). KWG's holdings represent approximately 14.71% of the issued and outstanding common shares of GoldTrain. The 7,000,000 warrants expired unexercised.
- (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 Resources Ltd ("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 transferred 11 claims in Louvicourt Township and \$200,000 in cash to 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 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 premium warrants were valued at \$71,187 on the acquisition date using the Black-Scholes options pricing model based on the following assumptions: fair value of shares at grant date of \$0.10, dividend yield of 0%, volatility of 83.93%, risk free interest rate of 1.417% and an expected life of 5 years. The regular warrants entitled the holder to

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purchase one common share for \$0.24 on or before May 18, 2013. The regular warrants have now expired.

- (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 warrants were valued at \$1,638,000 on the acquisition date using the Black-Scholes options pricing model based on the following assumptions: fair value of share at grant date \$0.085, dividend yield of 0%, volatility of 163%, risk free interest rate of 1.65% and an expected life of 5 years. The common shares of DDI were subsequently distributed to KWG's shareholders as a return of capital in December 2011. During the year ended December 31, 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 are 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 \$141,100 during the year (\$2,016,748 in 2012).

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

	Eloro Premium	DDI
Expiry date	Nov 18/16	Aug 29/16
Average dividend per share	Nil	Nil
Estimated volatility	86.06%	204.51%
Risk-free interest rate	1.62%	1.62%
Expected life of the options granted	1,052 days	971 days
Calculated value per warrant	\$0.000	\$0.004

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 approximately \$12,000, (as at December 31, 2012 - an increase of \$40,000) an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

For financial assets classified at fair value through P&L, the impact on operations of a 10% increase in the fair value of these warrants at the reporting date would have been approximately \$3,000 (\$17,000 as at December 31, 2012). An equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

The analyses were performed on the same basis for 2013 and 2012.

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8 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)
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 (disposals)	(8,550)	-	3,112	-	(5,438)
Amortization reversed on					
Disposal	7,125	-	-	-	7,125
Amortization	(14,901)	(3,555)	(8,837)	(5,461)	(32,754)
Balance, December 31, 2013					
Cost	70,140	30,582	44,262	27,307	172,291
Accumulated amortization	(59,855)	(29,667)	(23,401)	(7,737)	(120,660)
Net book value	10,285	915	20,861	19,570	51,631

9 EXPLORATION AND EVALUATION PROJECTS

Cumulative costs relating to the acquisition of and expenditures on exploration and evaluation projects have been incurred as follows:

	Balance as at January 1, 2013	Current Expenditures	Write Downs	Balance as at December 31, 2013
Canada – Ontario				
Spider No. 3 / McFaulds Lake (i)	4,189,695	(1,378)	-	4,188,317
Big Daddy (ii)	10,065,364	172,839	-	10,238,203
Diagnos (i)	178,014	-	-	178,014
Railroute Corridor (iii)	16,084,171	248,745	-	16,332,916
The Temagami Iron L.P. (iv)	100,000	15,000	-	115,000
CME Project (v)	500,000	(488,000)	(12,000)	-
Bold Venture Project (vi)	-	4,199,667	-	4,199,667
	31,117,244	4,146,873	(12,000)	35,252,117
	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)	25,132	-	(25,132)	-
Spider No. 3 / McFaulds Lake (i)	4,189,695	-	-	4,189,695
Big Daddy (i)(ii)	8,813,117	1,252,247	-	10,065,364
Diagnos (i)	178,014	-	-	178,014
Railroute Corridor (iii)	15,236,311	847,860	-	16,084,171
The Temagami Iron L.P. (iv)	-	100,000	-	100,000
CME Project (v)	-	500,000	-	500,000
	28,442,269	2,700,107	(25,132)	31,117,244

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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 initial 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. As of December 31, 2013 the Company held a 50% interest in these projects.

- (ii) 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 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. Each such option increases the Company’s ownership by 1.5%. The final \$2,500,000 was required to be spent by March 31, 2012 and this requirement 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.

- (iii) 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 Company is performing exploration activities on these claims. This project and exploration activity was continued throughout 2010 and 2011. 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 12(viii)). These claims are contiguous to the claims already held by the Company and are located on the railroad route.
- (iv) 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

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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.

- (v) 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. The agreement stipulated that within thirty days of delivery of the survey data and report, each of KWG and CME would engage a professional valuator to provide a written evaluation of the claim groups. Then, within sixty days of delivery of the survey data CME would either execute an agreement to sell KWG the property for such consideration as will be agreed upon at that time or CME would repay to KWG the \$500,000 expended on the survey. During the third quarter of 2013, both parties agreed to terminate this agreement and the \$500,000 was paid to KWG.

- (vi) On March 4, 2013 the Company signed an agreement with Bold Ventures Inc. (“Bold”) to fund Bold as the Operator to drill 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 entered into an option agreement (the “Fancamp Option”) to acquire the Black Horse claims from Fancamp Exploration Ltd. (“Fancamp”). Under the Fancamp Option, Bold can earn up to a 100% working interest in the Black Horse property through a four-stage process. Bold can earn a 50% interest under the first stage by making option payments totalling \$1,500,000 and incurring exploration expenditures of at least \$8,000,000 over a 3 year period. The second stage provides for a further 10% interest that may be earned by Bold at any time by delivery of a positive feasibility study and by making a payment of \$700,000 in cash and/or stock, at the option of Bold. Under the third stage Bold can earn a further 20% interest by agreeing to pay Fancamp \$15,000,000, payable in equal instalments, over three years with half of the amount payable in cash and the balance payable, at Bold’s option, through the issuance of common shares of Bold, or its assignee, at the market price at the time the shares are issued. If the option under the third stage is exercised, the fourth stage would provide Bold with the option to acquire Fancamp’s remaining 20% interest in exchange for a gross metal royalty. Fancamp would then be entitled to be paid 2% of the total revenue from the sale of all metals and mineral products from the property from the commencement of commercial production. Once all of the capital costs to bring the project to the production stage have been repaid entirely, the gross metal royalty may be scaled up to a maximum of 4% of the total revenue from the sale of all metals and mineral products from the property depending upon the price of product sold. The options under stages three and four must be exercised within 90 days following the date that Bold earns its 60% interest.

Under the terms of the agreement between KWG and Bold, KWG can acquire up to 80% of Bold’s interest in the Fancamp Option, in respect of chromite only, by funding 100% of Bold’s option payments and programs under the four stages listed above. Payments under the first stage in respect of the earn-in option total of \$1,500,000 are to be made as follows: funding of \$300,000 for a first program payable in escrow upon closing, \$500,000 by February 7, 2014 and \$700,000 by February 7, 2015 and in respect of the exploration expenditures totalling a minimum of \$8,000,000 are to be made as follows: \$3,000,000 payable upon closing, \$2,000,000 by March 31, 2014 and \$3,000,000 by March 31, 2015. The first option payment in the amount of \$300,000 has been paid. The Company has the option of making future option payments by way of either cash or stock of the Company. The 2013 exploration program was budgeted for \$2,000,000 to drill the chromite horizon with an additional \$1,000,000 budgeted to drill a contiguous possible nickel target. These

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (in Canadian dollars)

amounts have been fully spent to December 31, 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%. On September 30, 2013 the Company served Bold with written notice that it intends to fund the remaining commitments under stage one, totalling \$6,200,000, as required by this agreement (Note 25(ii)).

10 TRADE AND OTHER PAYABLES

	Notes	December 31, 2013	December 31, 2012
Trade payables			
Exploration and evaluation projects	9	116,569	146,755
Non-project related		51,809	287,417
Accrued liabilities			
Exploration and evaluation projects		5,717	44,366
Non-project related		59,470	41,309
Flow-through premium liability (see table below)		-	243,983
Lease inducement	20(ii)	36,457	46,631
		270,022	810,461

The following table shows the transactions and balances of the flow-through premium liability:

	Notes	December 31, 2013	December 31, 2012
Balance, as at beginning of year		243,983	245,656
Flow-through premium adjusted through finance income		(243,983)	(245,656)
Flow-through premium from financing – December 2012	12(vii)	-	243,983
Balance, as at end of year		-	243,983

11 WARRANT LIABILITY

Included in the opening warrant balance listed in Note 13 are 640,940 warrants issued in April of 2009 exercisable in United States dollars. The fair value of these warrants was recorded as a warrant liability at the date of issuance. These warrants were revalued at each balance sheet date with the corresponding gain (loss) recorded in gain (loss) on warrant revaluation through the statement of operations and comprehensive loss. A gain on the revaluation of \$3,205 was recognized in 2013 (\$1,093,379 in 2012). The fair value of these warrants was estimated using the Black-Scholes option pricing model based on the following assumptions:

	Dec 31, 2012
U.S. exchange rate	0.9949
Market price of shares	\$0.050
Expected dividend per share	Nil
Expected volatility	65.89%
Risk-free interest rate	1.13%
Contractual life of the warrants	15 months

These warrants expired unexercised in October 2013.

KWG RESOURCES INC.**Notes to the Consolidated Financial Statements (in Canadian dollars)****12 SHARE CAPITAL**

Authorized

An unlimited number of no par value common shares

Issued

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

	Year ended December 31, 2013	Year ended December 31, 2012
Issued	Number of shares	Number of shares
Balance – beginning of year	691,577,273	671,323,941
Issued through private placements (i)(iii)(iv)(v)(vi)(vii)	45,270,000	24,398,332
Issued for Exploration and Evaluation Projects (viii)	-	3,000,000
Issued for services rendered (ii)	282,500	-
Cancelled following repurchase through normal course issuer bid (ix)	-	(7,145,000)
Balance – end of year	737,129,773	691,577,273

- (i) In December 2013, the Company completed non-brokered private placements of 2,310,000 “flow-through” units at a price of \$0.05 per share for a total consideration of \$115,500. 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 within three years of the date of issue. The warrants were valued at \$20,142 using a valuation model based on the following assumptions: for 200,000 warrants - market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 69%, risk free rate of return of 1.51% and a life of 3 years; for 250,000 warrants – market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 66%, risk free rate of return of 1.62% and a life of 3 years; for 1,700,000 warrants – market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 63%, risk free rate of return of 1.62% and a life of 3 years; and for 160,000 warrants – market value of \$0.04 per share, expected dividend yield of 0%, expected volatility of 66%, risk free rate of return of 1.62% and a life of 3 years.
- (ii) On December 5, 2013, 282,500 shares were issued to AGORA International Enterprises Corp (“AGORA”) at a market value of \$0.05 per share for a total consideration of \$14,125. This was the first payment under a shares for service contract signed on October 7, 2013 (Note 20(iv)).
- (iii) In November 2013, the Company completed non-brokered private placements of 27,200,000 “flow-through” units at a price of \$0.05 per share for a total consideration of \$1,360,000. 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 within three years of the date of issue. The warrants were valued at \$291,663 using a valuation model based on the following assumptions: for 22,500,000 warrants - market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 69%, risk free rate of return of 1.51% and a life of 3 years; for 600,000 warrants – market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 69%, risk free rate of return of 1.51% and a life of 3 years; and for 4,100,000 warrants – market value of \$0.05 per share,

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expected dividend yield of 0%, expected volatility of 62%, risk free rate of return of 1.51% and a life of 3 years.

Finder's fees of \$42,000 in cash and 332,000 compensation options were paid to two qualified parties (Note 19) in relation to these placements. Each compensation unit entitles its holder to purchase one non flow-through share at a price of \$0.05 for a period of three years from the date of issue. The fair value of the agents' compensation units was estimated using a valuation method based on the following assumptions: for 250,000 options - market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 69%, risk free interest rate of 1.51% and a life of three years; and for 82,000 options – market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 62%, risk free interest rate of 1.51% and a life of three years. As a result, the fair value of the compensation options was estimated at \$7,472 after a pro-rata allocation of the fair value of the units' components.

- (iv) In October 2013, the Company completed non-brokered private placements of 4,760,000 "flow-through" units at a price of \$0.05 per share for a total consideration of \$238,000. 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 within three years of the date of issue. The warrants were valued at \$43,977 using a valuation model based on the following assumptions: for 400,000 warrants - market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 69%, risk free rate of return of 1.53% and a life of 3 years; for 360,000 warrants – market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 69%, risk free rate of return of 1.53% and a life of 3 years; and for 4,000,000 warrants – market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 61%, risk free rate of return of 1.53% and a life of 3 years.
- (v) In September 2013, the Company completed non-brokered private placements of 5,000,000 "flow-through" units at a price of \$0.05 per share for a total consideration of \$250,000. 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 within 3 years of the date of issue. The warrants were valued at \$64,111 using a valuation model based on the following assumptions: for 400,000 warrants - market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 68%, risk free rate of return of 1.72% and a life of 3 years; and for 4,600,000 warrants – market value of \$0.055 per share, expected dividend yield of 0%, expected volatility of 68%, risk free rate of return of 1.72% and a life of 3 years.
- (vi) In June 2013, the Company completed non-brokered private placements of 6,000,000 "flow-through" units at a price of \$0.05 per share for a total consideration of \$300,000 (Note 19). 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 within three years of the date of issue. The warrants were valued at \$58,920 using a valuation model based on the following assumptions: market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 66%, risk free rate of return of 1.69% and a life of 3 years.
- (vii) 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-

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (in Canadian dollars)

through premium (Note 10). Finder's fees of \$96,754 in cash were paid in relation to this placement.

- (viii) 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 9(iii)). The warrants were valued at \$177,000 on the date of issue using a valuation model based on the following assumptions: market value of \$0.065 per share, expected dividend yield of 0%, expected volatility of 159%, risk free rate of return of 1.42% and a life of 5 years
- (ix) 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 terminated 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.

13 WARRANTS AND COMPENSATION OPTIONS

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

Issued	Year ended December 31, 2013		Year ended December 31, 2012	
	Warrants	Compensation options	Warrants	Compensation Options
Balance – beginning of year	78,790,940	750,000	196,448,893	750,000
Issued for exploration and evaluation projects (Note 12(viii))	-	-	3,000,000	-
Issued as part of private placement of units (Note 12(i)(iii)(iv)(v)(vi)(vii))	45,270,000	-	-	-
Issued for agents' compensation (Note 12(iii))	-	332,000	-	-
Expired	(4,640,940)	-	(120,657,953)	-
Balance – end of year	119,420,000	1,082,000	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.

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

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

Number of warrants	Number of compensation options	Exercise price \$	Expiry date
8,750,000	750,000	0.12	June 2014
15,000,000	-	0.10	July 2014
26,400,000	-	0.10	August 2014
6,000,000	-	0.10	June 2016
21,000,000	-	0.15	August 2016
5,000,000	-	0.10	September 2016
4,760,000	-	0.10	October 2016
27,200,000	332,000	0.10	November 2016
2,310,000	-	0.10	December 2016
3,000,000	-	0.12	March 2017
119,420,000	1,082,000	0.11	

14 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 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 December 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 and outstanding common shares; and (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.

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

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number of shares	Average exercise price	Number of shares	Average exercise price
Balance – beginning of year	57,273,200	0.113	60,593,200	0.114
Granted	12,336,000	0.100	7,100,000	0.100
Expired	(3,204,700)	0.100	(10,420,000)	0.100
Balance – end of year	66,404,500	0.111	57,273,200	0.113

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

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

Exercise price	Number of options	Outstanding options	Exercisable options
		Average contractual life (in years)	
0.100	36,859,500	2.88	32,233,500
0.115	3,500,000	2.48	3,500,000
0.125	24,545,000	1.6	24,545,000
0.140	1,500,000	1.75	1,500,000
0.111	66,404,500	2.32	61,778,500

Total stock-based compensation costs for the year ended December 31, 2013 amounted to \$262,910 (2012 – \$497,623).

The fair value of the options granted in 2013 and 2012 was estimated using the Black-Scholes option pricing model based on the following assumptions:

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

15 GENERAL AND ADMINISTRATIVE EXPENSES

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

Years ending December 31	2013	2012
Advertising and promotion	57,214	22,366
Consultants' fees	475,339	595,114
Directors' fees and insurance	120,911	117,739
Filing fees	32,553	47,785
Investor relations fees	80,448	191,030
Professional fees	617,564	806,615
Office overheads	258,234	268,222
Salaries and benefits	978,801	1,042,028
Travel and accommodation	74,217	103,645
Administrative recovery	(163,831)	(484,399)
	2,531,450	2,710,145

KWG RESOURCES INC.**Notes to the Consolidated Financial Statements (in Canadian dollars)****16 FINANCE INCOME / (LOSS)**

Years ended December 31	2013	2012
Interest income	78,236	154,631
Net change in fair value of financial assets through profit or loss	(141,100)	(2,016,748)
Premium on flow-through share issuance	243,983	245,655
Finance income / (loss)	181,119	(1,616,462)

17 INCOME TAXES

A reconciliation between tax expense and the product of accounting loss multiplied by the Corporation's combined federal and provincial tax rate is as follows:

	2013	2012
Statutory tax rate	26.50%	26.50%
Income (loss) before income taxes	(2,927,949)	(4,008,797)
Tax (benefit) expense at statutory rate	(776,000)	(1,052,000)
Effect of flow-through renunciation	569,000	437,000
Stock based compensation	70,000	-
Other	(935,000)	(98,000)
Effect of tax benefits not previously recognized	1,072,000	713,000
Total tax expense	-	-

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefit of the following unused tax losses and deductible temporary differences have not been recognized in the financial statements due to the unpredictability of future earnings.

Deductible Temporary Differences	Dec 31, 2013	Dec 31, 2012
Exploration and evaluation projects	1,320,000	2,562,000
Non capital loss carry-forwards	5,520,000	2,830,000
Capital loss carry-forwards	79,861,000	79,861,000
Share issue costs	310,000	528,000
Marketable securities	2,121,000	226,000
Property and equipment	2,450,000	2,416,000
	91,582,000	88,423,000

At December 31, 2013, the Company has unclaimed non-capital losses of \$5,520,000 (2012 - \$2,830,000 expiring in 2032) which will expire at various dates through 2033. All other temporary differences can be carried forward indefinitely.

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (in Canadian dollars)

18 LOSS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

Years ended December 31	2013	2012
Weighted average number of shares outstanding – basic and diluted	700,956,848	671,207,343
Net loss for the year	(2,927,949)	(4,008,797)
Loss per share for the year Basic and diluted	(0.00)	(0.01)
Non-dilutive securities:		
Stock options	66,404,500	57,273,200
Warrants and compensation options	120,502,000	79,540,940

19 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel (“KMP”). During 2013, officers and companies controlled by officers charged consulting fees totalling \$218,271 (\$229,357 in 2012) and salaries and bonuses in the amount of \$417,308 (\$403,692 in 2012) of which \$15,000 remained payable at December 31, 2013 (\$19,898 in 2012). Directors’ fees paid for the year totalled \$102,647 (\$97,372 in 2012). KMP received 6,836,000 stock options in 2013 (7,100,000 in 2012). In 2013 stock compensation expenses totalled \$158,468 for KMP (\$438,829 in 2012).

Included in the June 2013 private placements were 2,000,000 flow-through units subscribed for by KMP for gross proceeds of \$100,000 (Note 12(vi)). Included in the finders’ fees paid for the November 2013 private placements is \$500 paid to KMP.

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 2013, the Company charged DDI for overhead and personnel charges in the amount of \$61,810 (\$251,325 in 2012) and for project costs in the amount of \$nil (\$248,121 in 2012) and it also advanced funds in the form of loans to DDI in the amount of \$297,913 during 2012. At December 31, 2012, due to adverse market conditions which management perceived were affecting the value of DDI’s shares, the Company decided to record a provision against the receivable from DDI in the amount of \$648,805. During 2013, DDI repaid \$91,477 of these loans. At December 31, 2013, the receivable balance was \$1,310,152 (\$1,401,629 at December 31, 2012). The entire receivable balance is subject to a loan agreement dated January 1, 2013. Under the loan agreement, interest is charged at 5% compounded annually and there is no set repayment date. Due to the uncertainty of collection, this interest has not been accrued in these consolidated financial statements. The agreement also contains a conversion provision whereby KWG can convert the amount of the loan outstanding including any accrued but unpaid interest thereon, or any portion thereof, into common shares of the Company at a rate of \$0.05 per common share. This debt is secured by a general security agreement over the assets of DDI.

20 COMMITMENTS AND CONTINGENCIES

(i) Pursuant to flow-through financing agreements closed during November and December 2013 the Company must incur \$1,450,000 in exploration expenses by December 31, 2014.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

The Company has incurred approximately \$12 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow-through agreements. As noted in Note 3 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. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

Certain tax-related 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 10).
- (iii) In accordance with the agreement with AGORA the Company has committed to issue shares with a market value of \$14,125 on or about January 15 and April 15, 2014 and shares with a market value of \$7,063 on or about July 15 and October 15, 2014 (Notes 12(ii) and 25(iii)).
- (iv) The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

21 FINANCIAL INSTRUMENTS AND FAIR VALUES

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (in Canadian dollars)

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

Credit Risk

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, receivables and marketable securities.

(i) Cash and Cash Equivalents

The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper.

(ii) Receivables

The Company's receivables consist primarily of trade receivables and amounts due from related and unrelated parties.

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables.

Furthermore, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

(iii) Marketable Securities

The Company invests only in securities of companies listed on public stock exchanges and warrants of those companies. There is no active market for these warrants. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

(iv) Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will ensure to the Company. At December 31, 2013, the Company had \$nil in guarantees outstanding (2012 - \$nil).

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

The Company's maximum exposure to credit risk at the reporting date was:

	Notes	December 31, 2013	December 31, 2012
Carrying amount			
Cash and cash equivalents	5	6,172,478	11,066,004
Receivables	6	850,437	927,393
Financial assets classified as AFS	7	119,739	401,940
Financial assets classified at FVTPL	7	28,000	169,100
		7,170,654	12,564,437

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and marketable securities. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as described in Capital Management Disclosures (Note 23). The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

Foreign Currency Risk

The Company is exposed to foreign currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the Canadian dollar. The currencies in which these transactions are denominated, when they occur, are the United States dollars (US\$). The Company does not actively hedge its foreign currency exposure. A 10% strengthening or weakening of the Canadian dollar would not have a material impact on the Company's equity or results of operations.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash equivalents earn interest at variable short-term rates. The estimated effect of a 0.50% change in interest rates would not have a material effect on the Company's results of operations. None of the Company's other financial instruments are interest-bearing. Consequently, the Company is

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not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

Other Market Price Risk

The Company's marketable securities and strategic investments are subject to equity price risk. The values of these investments will fluctuate as a result of changes in market prices, the price of metals or other factors affecting the value of the investments.

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Historically, such prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures. The Company does not have any hedging or other commodity-based risks respecting its operations. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals and other minerals.

22 DETERMINATION OF FAIR VALUES

Measurement Categories

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of operations or comprehensive loss. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost. The following table shows the carrying values of financial assets and liabilities for each of these categories at the reporting date.

	Notes	December 31, 2013	December 31, 2012
Assets			
Loans and receivables			
Cash	5	244,428	3,131,032
Receivables	6	850,437	927,393
Available for sale			
Marketable securities	7	119,739	401,940
Fair value through profit and loss			
Cash equivalents	5	5,928,050	7,934,972
Marketable securities	7	28,000	169,100
Liabilities			
Amortized cost			
Trade and other payables	10	270,022	810,461
Fair value through profit and loss			
Warrant liability	11	-	3,205

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Marketable securities

The fair value of marketable securities included in financial assets at fair value through operations or OCI is determined by reference to their quoted market closing bid price at the reporting date.

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Fair Value Hierarchy

The different levels of valuation are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs).

The table below analyzes financial instruments carried at fair value by valuation method:

	Level 1	Level 2	Level 3	Total
As at December 31, 2013				
Assets				
Cash equivalents	-	5,928,050	-	5,928,050
Marketable securities classified as AFS	119,739	-	-	119,739
Marketable securities classified as FVTPL	-	28,000	-	28,000
Total assets	119,739	5,956,050	-	6,075,789
As at December 31, 2012				
Assets				
Cash equivalents	-	7,934,972	-	7,934,972
Marketable securities classified as AFS	401,940	-	-	401,940
Marketable securities classified as FVTPL	-	169,100	-	169,100
Total assets	401,940	8,104,072	-	8,506,012
Liabilities				
Warrant liability classified as FVTPL	-	3,205	-	3,205
Total liabilities	-	3,205	-	3,205

(ii) Warrants and Warrant Liability

The fair values of equity warrants and the warrant liability are based upon the Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historic experience and general option-holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Notes 7 and 11 contain details of these inputs.

(iii) Receivables

The fair value of receivables is estimated at their book value due to their short term nature. Receivables are generally due within 30 days.

(iv) Non-derivative Financial Liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(v) Cash equivalents

As cash equivalents are readily converted into cash the fair value of cash equivalents is determined by reference to this value.

23 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

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Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$42,909,174 at December 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 2013 and 2012. The Company is not subject to externally imposed capital requirements.

24 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.

25 SUBSEQUENT EVENTS

- (i) In January, February and March 2014, pursuant to the non-brokered private placement announced on July 4, 2013, the Company issued 2,900,000 "flow-through" units at \$0.05 each for gross proceeds of \$145,000. 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 within the 36 month period following the subscription date.
- (ii) On February 7, 2014, the Company issued 10,000,000 shares at \$0.05 per share to Fancamp Exploration Inc. in satisfaction of the option payment of \$500,000 due under the agreement with Bold Ventures Inc. (Note 9(vi)).
- (iii) On February 7, 2014, the Company issued 282,500 shares at \$0.05 per share to AGORA. for the second payment under the shares for services contract announced November 7, 2013 (Notes 12(ii) and 20(iv)).
- (iv) On March 5, 2014, the Company acquired 3,350,000 common shares in the capital of GoldTrain (Note 7(i)) at a price of \$0.02 per share in settlement of debt owing to the Company by GoldTrain. As a result of this transaction, KWG now owns 10,634,000 common shares of GoldTrain representing approximately 18.03% of the issued and outstanding shares.