

KWG RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013

NOTICE TO READER

Due to time constraints the interim financials were originally filed having not been reviewed by the corporation's independent auditor.

The interim financial statements are being re-filed to reflect the completion of the auditor's review.

(s)

THOMAS E. MASTERS, Chief Financial Officer

Montreal, Quebec
June 12, 2014

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

| (in Canadian dollars) | Notes | As at March 31, 2014 | As at December 31, 2013 |
|--------------------------------------|-------|----------------------------|-------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 4,191,398 | 6,172,478 |
| Receivables | 5 | 1,764,589 | 1,516,970 |
| Marketable securities | 6 | 264,439 | 147,739 |
| Prepaid expenses | | 21,035 | 38,201 |
| Total current assets | | 6,241,461 | 7,875,388 |
| Non-current assets | | | |
| Property and equipment | 7 | 44,172 | 51,631 |
| Exploration and evaluation projects | 8 | 37,235,495 | 35,252,177 |
| Total non-current assets | | 37,279,667 | 35,303,808 |
| Total assets | | 43,521,128 | 43,179,196 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 9 | 492,467 | 270,022 |
| Total liabilities | | 492,467 | 270,022 |
| Equity | | | |
| Share capital | 10 | 25,346,456 | 24,722,501 |
| Warrants | 11 | 3,499,939 | 3,469,946 |
| Contributed surplus | | 12,522,088 | 12,475,828 |
| Accumulated other comprehensive loss | | 35,910 | - |
| Retained earnings | | 1,624,268 | 2,240,899 |
| Total equity | | 43,028,661 | 42,909,174 |
| Total liabilities and equity | | 43,521,128 | 43,179,196 |

Nature of operations (Note 1)
Commitments and contingencies (Note 16)
Subsequent events (Note 21)

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

Approved by the Board of Directors

Douglas Flett
Director

Frank Smeenk
Director

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

| (in Canadian dollars) | Notes | Three-month periods ended March 31 | |
|--|--------------|---|--------------------|
| | | 2014 | 2013 |
| General and administrative | 13 | (642,170) | (888,459) |
| Amortization of property and equipment | 7 | (7,459) | (8,895) |
| Stock compensation costs | 12 | (46,260) | (22,143) |
| Gain (loss) on foreign exchange | | (26) | 237 |
| Loss before the undernoted | | (695,915) | (919,260) |
| Other income (expenses) | | | |
| Finance income (expense) | 14 | 78,503 | (45,544) |
| Other income | | 781 | 781 |
| Gain on revaluation of warrant liability | | - | 3,205 |
| | | 79,284 | (41,558) |
| Net loss for the period | | (616,631) | (960,818) |
| Loss per share (basic and diluted) | | (0.00) | (0.00) |
| Weighted average number of outstanding shares | | 744,060,773 | 691,577,273 |

Condensed Interim Consolidated Statements of Comprehensive Loss

| (in Canadian dollars) | Notes | Three-month periods ended March 31 | |
|---|--------------|---|--------------------|
| | | 2014 | 2013 |
| Net loss for the period | | (616,631) | (960,818) |
| Other comprehensive income (loss) | | | |
| Net change in fair value of available for sale ("AFS") assets | 6 | 35,910 | (230,449) |
| Total comprehensive loss for the period | | (580,721) | (1,191,267) |

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

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

| (in Canadian dollars) | Notes | Share capital | Warrants | Contributed surplus | Retained earnings | Accumu- lated other comprehen- sive income (loss) | Total |
|---|-------|-------------------|------------------|------------------------|----------------------|---|-------------------|
| Balance, January 1, 2013 | | 22,991,304 | 3,170,895 | 12,025,684 | 5,168,848 | (5,976) | 43,350,755 |
| Net loss for the period | | - | - | - | (960,818) | - | (960,818) |
| Other comprehensive loss for the period | | - | - | - | - | (230,449) | (230,449) |
| Expired warrants | 10 | - | (187,234) | 187,234 | - | - | - |
| Stock-based compensation | 12 | - | - | 22,143 | - | - | 22,143 |
| Balance, March 31, 2013 | | 22,991,304 | 2,983,661 | 12,235,061 | 4,208,030 | (236,425) | 42,181,631 |
| Net loss for the period | | - | - | - | (1,967,131) | - | (1,967,131) |
| Other comprehensive loss for the period | | - | - | - | - | 236,425 | 236,425 |
| Private placements, net of share issuance costs | 10 | 1,717,072 | 478,813 | - | - | - | 2,195,885 |
| Issued for agent's compensation | 10 | - | 7,472 | - | - | - | 7,472 |
| Issued for services rendered | 10 | 14,125 | - | - | - | - | 14,125 |
| Stock-based compensation | 12 | - | - | 240,767 | - | - | 240,767 |
| Balance, December 31, 2013 | | 24,722,501 | 3,469,946 | 12,475,828 | 2,240,899 | - | 42,909,174 |
| Net loss for the period | | - | - | - | (616,631) | - | (616,631) |
| Other comprehensive income for the period | 6 | - | - | - | - | 35,910 | 35,910 |
| Private placements, net of share issuance costs | 10 | 109,830 | 29,473 | - | - | - | 139,303 |
| Issued for exploration and evaluation projects | 8 | 500,000 | - | - | - | - | 500,000 |
| Issued for agent's compensation | 10 | - | 520 | - | - | - | 520 |
| Issued for services rendered | 10 | 14,125 | - | - | - | - | 14,125 |
| Stock-based compensation | 12 | - | - | 46,260 | - | - | 46,260 |
| Balance, March 31, 2014 | | 25,346,456 | 3,499,939 | 12,522,088 | 1,624,268 | 35,910 | 43,028,661 |

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

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

| (in Canadian dollars) | Notes | Three-month periods ended March 31 | |
|---|-------|---------------------------------------|--------------------|
| | | 2014 | 2013 |
| Cash flows from operating activities | | | |
| Net loss for the period | | (616,631) | (960,818) |
| Adjustments for | | | |
| Amortization of property and equipment | 7 | 7,459 | 8,895 |
| Stock-based compensation costs | 12 | 46,260 | 22,143 |
| Shares issued for services | 10 | 14,125 | - |
| Fair value changes in financial assets classified as fair value through profit & loss ("FVTPL") | 6 | (63,000) | 127,900 |
| Amortization of flow-through premium | | - | (58,188) |
| Gain (loss) on revaluation of warrant liability | | - | (3,205) |
| Net change in non-cash working capital balances | | (167,345) | (3,274,400) |
| Net cash used by operating activities | | (779,132) | (4,137,673) |
| Cash flows from financing activities | | | |
| Share capital issued | 10 | 145,000 | - |
| Share and warrant issue expenses | 10 | (5,177) | - |
| Net cash provided by financing activities | | 139,823 | - |
| Cash flows from investing activities | | | |
| Expenditures on exploration and evaluation projects | 8 | (1,340,981) | (463,737) |
| Purchases of property and equipment | 7 | - | (3,113) |
| Purchase of marketable securities | 6 | (790) | - |
| Decrease in advances to related company | 15 | - | 82,663 |
| Net cash used by investing activities | | (1,341,771) | (384,187) |
| Net change in cash and cash equivalents during the period | | (1,981,080) | (4,521,860) |
| Cash and cash equivalents – Beginning of the period | | 6,172,478 | 11,066,004 |
| Cash and cash equivalents – End of the period | | 4,191,398 | 6,544,144 |
| Change in non-cash working capital balances comprises: | | | |
| Receivables | | (264,619) | (3,096,114) |
| Prepaid expenses | | 17,166 | 11,233 |
| Trade and other payables | | 80,108 | (189,519) |
| Net change in non-cash working capital balances | | (167,345) | (3,274,400) |
| Additional information - non-cash transactions | | | |
| Issuance of shares/warrants for exploration and evaluation projects | 8 | 500,000 | - |
| Expired warrants included in contributed surplus | 11 | - | 187,234 |
| Additions to exploration and evaluation projects included in accounts payable | 9 | 264,623 | 10,687 |

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

KWG RESOURCES INC.

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

1 NATURE OF OPERATIONS

Nature of Operations

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

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

The Company is in the process of exploring its 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. The holding of mineral rights does not provide full rights to the surface of the lands over those mineral rights – such surface rights may be held or acquired by third parties. 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. Furthermore, there is no assurance that the interest of the Company in any of its properties may not be challenged or impugned.

2 BASIS OF PREPARATION

(a) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This is considered generally accepted accounting principles for Canadian public companies.

The management of KWG prepare these unaudited condensed interim consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. These unaudited condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 29, 2014.

KWG RESOURCES INC.

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

(b) Basis of Measurement

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

(c) Basis of Consolidation

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

(d) Foreign Currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(e) Critical Accounting Estimates and Judgments

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 judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and

KWG RESOURCES INC.

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

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

Impairment of mineral property interests

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

Income taxes and recoverability of potential deferred tax assets

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

Share-based payments

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

Contingencies

Refer to Note 16.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in Note 3 to the 2013 audited consolidated financial statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these financial statements.

(a) New Accounting Policies

The IASB issued a number of new and revised International Accounting Standards which are effective for the Company's financial year beginning January 1, 2014. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

(b) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2013 audited consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 of those statements.

4 CASH AND CASH EQUIVALENTS

| | As at March 31, 2014 | As at December 31, 2013 |
|----------------------------------|---------------------------------|------------------------------------|
| Bank balances | 272,839 | 244,428 |
| Short-term deposits | 3,918,559 | 5,928,050 |
| Cash and cash equivalents | 4,191,398 | 6,172,478 |

5 RECEIVABLES

| | As at March 31, 2014 | As at December 31, 2013 |
|--|---------------------------------|------------------------------------|
| Sales taxes receivable | 905,916 | 666,533 |
| Due from Debut Diamonds Inc. (Note 16) | 661,347 | 661,347 |
| Other receivables | 197,326 | 189,090 |
| Receivables | 1,764,589 | 1,516,970 |

KWG RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited) (in Canadian dollars)****6 MARKETABLE SECURITIES**

| | As at March 31, 2014 | As at December 31, 2013 |
|--|-------------------------|----------------------------|
| AFS: | | |
| GoldTrain Resources Inc. ("GoldTrain") (i) 10,695,000 common shares (7,270,000 in 2013) | 124,740 | 72,700 |
| Eloro Resources Ltd. ("Eloro") (ii) 3,080,580 common shares | 46,209 | 46,209 |
| Debut Diamonds Inc. 166,000 common shares | 2,490 | 830 |
| Total AFS | 173,439 | 119,739 |
| Financial assets at FVTPL: | | |
| Eloro Resources Ltd. (ii) 3,080,580 premium warrants | - | - |
| Debut Diamonds Inc. (iii) 7,000,000 warrants exercisable at \$0.07 | 91,000 | 28,000 |
| Total FVTPL | 91,000 | 28,000 |
| Marketable securities | 264,439 | 147,739 |

- (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. The 7,000,000 warrants expired unexercised. On March 5, 2014, KWG acquired 3,350,000 common shares in GoldTrain at a price of \$0.02 per share in settlement of \$67,000 of debt owed by GoldTrain to KWG. In addition to these transactions, the Company has acquired an additional 345,000 common shares through purchases on the open market. KWG's holdings represent approximately 18.03% of the issued and outstanding common shares of GoldTrain.
- (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. 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. The regular warrants entitled the holder to 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

KWG RESOURCES INC.

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

\$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 FVTPL 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 increased by \$63,000 during the first quarter of 2014.

The following table summarizes the inputs that were used to calculate the fair value of the warrants as at March 31, 2014:

| | Eloro Premium | DDI |
|--------------------------------------|------------------|-----------|
| Expiry date | Nov 18/16 | Aug 29/16 |
| Average dividend per share | Nil | Nil |
| Estimated volatility | 95.82% | 227.30% |
| Risk-free interest rate | 1.06% | 1.06% |
| Expected life of the options granted | 962 days | 881 days |
| Calculated value per warrant | \$0.000 | \$0.013 |

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 \$17,000. 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 FVTPL, the impact on operations of a 10% increase in the fair value of these warrants at the reporting date would have been approximately \$9,000. An equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

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

7 PROPERTY AND EQUIPMENT

| | Automobiles | Computer Equipment | Office Equipment | Leasehold Improvements | Totals |
|-----------------------------------|---------------|-----------------------|---------------------|---------------------------|---------------|
| Balance, January 1, 2013 | | | | | |
| 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 |
| Additions | - | - | - | - | - |
| Amortization | (3,428) | (469) | (2,197) | (1,365) | (7,459) |
| Balance, March 31, 2014 | | | | | |
| Cost | 70,140 | 30,582 | 44,262 | 27,307 | 172,291 |
| Accumulated amortization | (63,283) | (30,136) | (25,598) | (9,102) | (128,119) |
| Net book value | 6,857 | 446 | 18,664 | 18,205 | 44,172 |

8 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 Expend- itures | Write Downs | Balance as at December 31, 2013 |
|----------------------------------|--|------------------------------|----------------|--|
| Canada – Ontario | | | | |
| Spider No. 3 / McFaulds Lake (i) | 4,189,695 | (1,318) | - | 4,188,377 |
| 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 | 500,000 | (488,000) | (12,000) | - |
| Koper Lake Project (v) | - | 4,199,667 | - | 4,199,667 |
| | 31,117,244 | 4,146,933 | (12,000) | 35,252,177 |
| | Balance as at January 1, 2014 | Current Expend- itures | Write Downs | Balance as at March 31, 2014 |
| Canada – Ontario | | | | |
| Spider No. 3 / McFaulds Lake (i) | 4,188,377 | - | - | 4,188,377 |
| Big Daddy (ii) | 10,238,203 | - | - | 10,238,203 |
| Diagnos (i) | 178,014 | - | - | 178,014 |
| Railroute Corridor (iii) | 16,332,916 | 2,931 | - | 16,335,847 |
| The Temagami Iron L.P. (iv) | 115,000 | 3,000 | - | 118,000 |
| Koper Lake Project (v) | 4,199,667 | 1,977,387 | - | 6,177,054 |
| | 35,252,177 | 1,983,318 | - | 37,235,495 |

KWG RESOURCES INC.

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

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

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studies and provide KWG with an opportunity to review and participate further, if appropriate. In April of 2013, the Company exercised 300,000 of these warrants for a cash consideration of \$15,000. The Company now owns 2,300,000 units of the partnership.

- (v) 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. 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%. 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 was paid in cash. The Company has the option of making future option payments by way of either cash or stock of the Company. 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. On February 7, 2014 the Company issued 10,000,000 shares in satisfaction of the second option payment. The first and second spending requirements in respect of exploration expenditures have been met as of March 31, 2014.

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9 TRADE AND OTHER PAYABLES

| | Notes | March 31, 2014 | December 31, 2013 |
|-------------------------------------|--------|-------------------|----------------------|
| Trade payables | | | |
| Exploration and evaluation projects | 8 | 264,623 | 116,569 |
| Non-project related | | 165,392 | 51,809 |
| Accrued liabilities | | | |
| Exploration and evaluation projects | | - | 5,717 |
| Non-project related | | 28,539 | 59,470 |
| Lease inducement | 16(ii) | 33,913 | 36,457 |
| | | 492,467 | 270,022 |

10 SHARE CAPITAL

Authorized

An unlimited number of no par value common shares

Issued

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

| | Three months ended March 31, 2014 | Year ended December 31, 2013 |
|---|--------------------------------------|---------------------------------|
| Issued | Number of shares | Number of shares |
| Balance – beginning of period | 737,129,773 | 691,577,273 |
| Issued through private placements (i)(ii)(iv)(v)(vii)(viii)(ix)(x) | 2,900,000 | 45,270,000 |
| Issued for exploration and evaluation projects (iii) | 10,000,000 | - |
| Issued for services rendered (vi) | 282,500 | 282,500 |
| Balance – end of period | 750,312,273 | 737,129,773 |

- (i) In March 2014, the Company completed a non-brokered private placement of 1,000,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$50,000. Each unit consisted 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 \$10,317 using a valuation model based on the following assumptions: - market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 65%, risk-free rate of return of 1.23% and a life of 3 years.

Finder's fees of \$2,500 in cash and 20,000 compensation options were paid to a qualified party in relation to this placement. Each compensation option 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 finder's compensation options was calculated using a valuation method based on the following assumptions: market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 65%, risk-free rate of return of 1.23% and a life of three years. As a result, the fair value of the compensation options was estimated at \$520.

- (ii) In February 2014, the Company completed non-brokered private placements of 1,700,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$85,000. Each unit consisted of one “flow-through” common share and one warrant which entitles the

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holder to purchase one “flow-through” common share for \$0.10 within three years of the date of issue. The warrants were valued at \$17,192 using a valuation model based on the following assumptions: for 700,000 warrants - market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 67%, risk-free rate of return of 1.19% and a life of 3 years; and for 1,000,000 warrants – market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 67%, risk-free rate of return of 1.19% and a life of 3 years.

- (iii) On February 7, 2014, the Company issued 10,000,000 shares in satisfaction of the option payment due under the Bold Ventures project (Note 8(v)). These were valued at the market value on that date of \$0.05 per share, for a total cost of \$500,000.
- (iv) In January 2014, the Company completed non-brokered private placements of 200,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$10,000. Each unit consisted 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 \$1,964 using a valuation model based on the following assumptions: market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 67%, risk-free rate of return of 1.16% and a life of 3 years.
- (v) In December 2013, the Company completed non-brokered private placements of 2,310,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$115,500. Each unit consisted 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.
- (vi) On each of December 5, 2013 and February 7, 2014, 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 for each issuance. These were the first two payments under a shares-for-service contract signed on October 7, 2013 (Note 16(iii)).
- (vii) In November 2013, the Company completed non-brokered private placements of 27,200,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$1,360,000. Each unit consisted 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 in relation to these placements, one of which was a related party (Note 15). Each compensation option 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 finder's compensation options 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 options' components.

- (viii) In October 2013, the Company completed non-brokered private placements of 4,760,000 "flow-through" units at a price of \$0.05 per unit for a total consideration of \$238,000. Each unit consisted 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.
- (ix) In September 2013, the Company completed non-brokered private placements of 5,000,000 "flow-through" units at a price of \$0.05 per unit for a total consideration of \$250,000. Each unit consisted 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.
- (x) In June 2013, the Company completed non-brokered private placements of 6,000,000 "flow-through" units at a price of \$0.05 per unit for a total consideration of \$300,000, some of which were subscribed for by related parties (Note 15). Each unit consisted 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.

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11 WARRANTS AND COMPENSATION OPTIONS

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

| Issued | Three months ended March 31, 2014 | | Year ended December 31, 2013 | |
|--|--------------------------------------|-------------------------|---------------------------------|-------------------------|
| | Warrants | Compensation options | Warrants | Compensation Options |
| Balance – beginning of period | 119,420,000 | 1,082,000 | 78,790,940 | 750,000 |
| Issued as part of private placement of units (Note 10(i)(ii)(iv)(v)(vii)(viii)(ix)(x)) | 2,900,000 | - | 45,270,000 | - |
| Issued for finders' compensation (Note 10(i)) | - | 20,000 | - | 332,000 |
| Expired | - | - | (4,640,940) | - |
| Balance – end of period | 122,320,000 | 1,102,000 | 119,420,000 | 1,082,000 |

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

A summary of the Company's outstanding warrants and compensation options as at March 31, 2014 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 |
| 200,000 | - | 0.10 | January 2017 |
| 1,700,000 | - | 0.10 | February 2017 |
| 1,000,000 | - | 0.10 | March 2017 |
| - | 20,000 | 0.05 | March 2017 |
| 3,000,000 | - | 0.12 | March 2017 |
| 122,320,000 | 1,102,000 | 0.11 | |

12 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 March 31, 2014, 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

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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

| | Three months ended March 31, 2014 | | Year ended December 31, 2013 | |
|--------------------------------|--------------------------------------|------------------------------|---------------------------------|------------------------------|
| | Number of shares | Average exercise price | Number of shares | Average exercise price |
| Balance – beginning of period | 66,404,500 | 0.111 | 57,273,200 | 0.113 |
| Granted | - | - | 12,336,000 | 0.100 |
| Expired | - | - | (3,204,700) | 0.100 |
| Balance – end of period | 66,404,500 | 0.111 | 66,404,500 | 0.111 |

The following table summarizes information about options outstanding and exercisable as a March 31, 2014:

| Exercise price | Number of options | Average contractual life (in years) | Outstanding options | Exercisable options |
|-------------------|----------------------|---|------------------------|------------------------|
| | | | | |
| 0.100 | 36,859,500 | 2.71 | | 33,775,500 |
| 0.115 | 3,500,000 | 2.23 | | 3,500,000 |
| 0.125 | 24,545,000 | 1.35 | | 24,545,000 |
| 0.140 | 1,500,000 | 1.50 | | 1,500,000 |
| 0.111 | 66,404,500 | 2.13 | | 63,320,500 |

Total stock-based compensation costs for the three months ended March 31, 2014 amounted to \$46,260 (2013 – \$22,143).

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

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

KWG RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited) (in Canadian dollars)****13 GENERAL AND ADMINISTRATIVE EXPENSES**

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

| Three months ending March 31 | 2014 | 2013 |
|-------------------------------------|----------------|----------------|
| Advertising and promotion | 29,741 | 29,750 |
| Consultants' fees | 113,203 | 180,597 |
| Directors' fees and insurance | 25,015 | 29,895 |
| Filing fees | 15,775 | 9,966 |
| Investor relations fees | 6,858 | 5,873 |
| Professional fees | 275,190 | 380,806 |
| Office overheads | 71,768 | 76,256 |
| Salaries and benefits | 171,006 | 207,190 |
| Travel and accommodation | 23,945 | 9,586 |
| Administrative recovery | (90,331) | (41,460) |
| | 642,170 | 888,459 |

14 FINANCE INCOME / (LOSS)

| Three months ended March 31 | 2014 | 2013 |
|--|---------------|-----------------|
| Interest income | 15,503 | 24,168 |
| Net change in FVTPL assets | 63,000 | (127,900) |
| Premium on flow-through share issuance | - | 58,188 |
| | 78,503 | (45,544) |

15 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2014, officers and companies controlled by officers charged consulting fees totalling \$59,201 (\$52,380 in 2013) and salaries and bonuses in the amount of \$69,231 (\$80,769 in 2013) of which \$22,544 remained payable at March 31, 2014 (\$19,915 in 2013). Directors' fees paid in the first quarter totalled \$21,121 (\$23,750 in 2013). KMP received no stock options in the first quarter of 2014 (nil in 2013). In the first quarter of 2014, stock compensation expenses totalled \$25,635 for KMP (\$20,827 in 2013).

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(x)). Included in the finders' fees paid for the November 2013 private placements is \$500 paid to KMP (Note 12(viii)).

Debut Diamonds Inc.

The Company shares management, administrative assistance and facilities and other technical personnel with DDI. This is not covered by a written agreement. The costs charged to DDI are equal to the costs incurred by the Company. During the first quarter of 2014, the Company charged DDI for overhead and personnel charges in the amount of \$nil (\$41,460 in 2013). 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 March 31, 2014 and at December 31, 2013, the receivable balance was \$1,310,152. 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

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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.

16 COMMITMENTS AND CONTINGENCIES

- (i) Pursuant to flow-through financing agreements closed during February and March 2014, the Company must incur \$114,000 in exploration expenses by December 31, 2015.

The Company has incurred approximately \$13 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow-through agreements. As noted in Note 2 to these financial statements, there is a risk that some or all of these expenditures may be disallowed. No provision has been made for potential cost to the Company, if any, of such disallowance. To the extent that the expenditures 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 shareholders 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 9).
- (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 April 15, 2014 and shares with a market value of \$7,063 on or about July 15 and October 15, 2014 (Note 10(vi)).
- (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.

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17 FINANCIAL INSTRUMENTS AND FAIR VALUES

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

A complete description of the Company's financial risk management is included in Note 23 to the 2013 audited consolidated financial statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these financial statements.

18 DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 24 to the Company's 2013 audited consolidated financial statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

19 CAPITAL MANAGEMENT DISCLOSURES

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$43,028,661 at March 31, 2014 and \$42,909,174 at December 31, 2013.

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments. There were no changes in the Company's approach to capital management during the first quarter of 2014. The Company is not subject to externally imposed capital requirements.

20 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.

21 SUBSEQUENT EVENTS

- (i) In April 2014, the Company issued 2,200,000 "flow-through" units at \$0.10 each for gross proceeds of \$220,000. Each unit consisted of one "flow through" common share and one warrant which entitles the holder to purchase one "flow through" common share for \$0.15 within the 12-month period following the subscription date. Included in this placement were 800,000 flow-through units subscribed for by KMP for gross proceeds of \$80,000
- (ii) On April 8, 2014, the Company granted stock options to its directors, officers, employees and consultants to purchase a total of 8,400,000 shares at a price of \$0.10 each expiring on April 8, 2019.

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

(iii) On May 12, 2014, the Company announced that it had signed an agreement to acquire 50% of the ownership rights in two United States provisional patent applications relating to the production of chromium iron alloys directly from chromate ore, and the production of low carbon chromium iron alloys directly from chromite concentrates (the "Chromium IP Transaction"). The Chromium IP Transaction includes the right to use these provisional patent applications as the basis for filing additional patent applications in the United States, Canada and elsewhere worldwide and includes a fifty-percent interest in any of the vendor's associated intellectual property (the "Chromium IP").

The parties' interests in the Chromium IP will be held through a limited partnership (the "LP") established by the vendor and KWG for purposes of completing the Chromium IP Transaction and developing and exploiting the Chromium IP. The limited partners of the LP are a wholly-owned subsidiary of KWG and a corporation beneficially owned by the vendor. The general partner of the LP, which will manage the business of the LP, is another wholly-owned subsidiary of KWG.

The vendor assigned its fifty-percent interest in the Chromium IP to the LP in exchange for 25 million units of KWG (each, a "Unit"), with each Unit comprising one common share of KWG and one common share purchase warrant of KWG exercisable at a price of \$0.10 for 5 years from closing.

KWG has the option to acquire a further 25% interest in the Chromium IP from the vendor (held through the LP) in exchange for the issuance of an additional 12.5 million Units to the vendor at any time within one year (the "First Option"). If the First Option is exercised, KWG will have an additional option to acquire the vendor's remaining 25% interest in the Chromium IP (held through the LP) in exchange for the issuance of a further 12.5 million Units to the vendor at any time within one year after the exercise of the First Option thereby acquiring 100% of the LP.