

KWG RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All of the information in the accompanying consolidated financial statements of KWG Resources Inc. is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where necessary, management has made judgments and estimates in preparing the consolidated 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 consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

A firm of independent Licensed Public Accountants was appointed by the shareholders to examine the consolidated financial statements and provide 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 30, 2018

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, 2017 and 2016, and the consolidated statements of operations and 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that KWG Resources Inc. had continuing losses during the year ended December 31, 2017 and a working capital deficit as at December 31, 2017. These conditions along with other matters set forth in Note 1 indicate the existence of material uncertainties which cast significant doubt about the ability of KWG Resources Inc. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 30, 2018

KWG RESOURCES INC.
Consolidated Balance Sheets

(in Canadian dollars)	Notes	As at December 31, 2017	As at December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	1,214,400	33,935
Receivables	7	321,652	210,451
Marketable securities	8	66,365	133,827
Prepaid expenses		-	12,010
Total current assets		1,602,417	390,223
Non-current assets			
Cash surrender value of life insurance	9	33,022	66,694
Property and equipment	10	44,779	15,362
Exploration and evaluation projects	11	40,151,023	41,791,073
Intangible assets	12	4,307,514	4,285,829
Total non-current assets		44,536,338	46,158,958
Total assets		46,138,755	45,549,181
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables and provisions	13,14,25(i)	2,932,951	8,064,828
Debenture payable	15	-	71,908
Total current liabilities		2,932,951	8,136,736
Long term liabilities			
Convertible debenture payable	16	766,217	211,834
Total liabilities		3,699,168	8,348,570
Equity			
Share capital	17	31,881,465	30,316,604
Debenture equity	16	1,732,469	67,451
Warrants	18	3,062,193	2,437,147
Contributed surplus		16,769,574	16,209,467
Accumulated other comprehensive (loss) income (Deficit)		(30,290) (10,927,535)	7,772 (10,808,632)
Non-controlling interest	20	42,487,876 (48,289)	38,229,809 (29,198)
Total equity		42,439,587	38,200,611
Total liabilities and equity		46,138,755	46,549,181

Nature of operations (Note 1)

Commitments and contingencies (Notes 11 and 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, 2017 and 2016

(in Canadian dollars)	Notes	2017	2016
General and administrative	21	(2,452,308)	(1,694,152)
Amortization of property and equipment	10	(16,346)	(30,667)
Accretion expense	16	(44,711)	(8,565)
Stock-based compensation costs	19	(353,875)	(169,285)
Gain (loss) on foreign exchange		(4,127)	(5,019)
Loss before the undernoted		(2,871,367)	(1,907,688)
Other income (expenses)			
Other income		3,125	3,125
Gain on disposal of marketable securities	8	114,678	-
Recovery of written-down receivables		28,000	-
Part XII.6 penalties and interest	13, 25(i)	(57,917)	(55,159)
Change in flow-through indemnification provision	13, 25(i)	2,542,947	-
		2,630,833	(52,034)
Net loss for the year		(240,534)	(1,959,722)
Net loss attributable to non-controlling interest	20	19,091	13,482
Net loss attributable to equity holders of KWG Resources Inc.		(221,443)	(1,946,240)
Loss per share (basic and diluted)	23	(0.00)	(0.00)

Consolidated Statements of Comprehensive Loss

(in Canadian dollars)	Notes	2017	2016
Net loss for the year		(240,534)	(1,959,722)
Other comprehensive loss ("OCL")			
Items that will be reclassified subsequently to income:			
Net change in fair value of available for sale assets	8	(38,062)	58,259
Total comprehensive loss for the year		(278,596)	(1,901,463)
Portion attributable to non-controlling interest		19,091	13,482
Net comprehensive loss for the year attributable to equity holders of KWG Resources Inc.		(259,505)	(1,887,981)

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, 2017 and 2016

(in Canadian dollars)	Notes	Share capital	Debenture equity	Warrants	Contributed surplus	(Deficit) Retained earnings	Accumulated other comprehensive (loss)	Non-controlling Interests	Total
Balance, December 31, 2015		29,030,362	-	3,434,517	14,382,040	(8,862,392)	(50,487)	(15,716)	37,918,324
Net loss for the year		-	-	-	-	(1,946,240)	-	(13,482)	(1,959,722)
Other comprehensive loss for the year	8	-	-	-	-	-	58,259	-	58,259
Issue of shares and warrants under private placement	17	662,910	-	424,263	-	-	-	-	1,087,173
Issue of shares and warrants for liabilities	17	171,049	-	109,471	-	-	-	-	280,520
Issue of shares and warrants for services rendered	17	201,352	-	128,865	-	-	-	-	330,217
Issue of shares and warrants for finders' fees	17	31,762	-	20,328	-	-	-	-	52,090
Issue of shares for exploration and evaluation projects	17	125,000	67,451	-	-	-	-	-	192,451
Share and warrant issue costs Issued for services Rendered	17	(38,644)	-	(22,155)	-	-	-	-	(60,799)
Expired warrants	18	48,025	-	-	-	-	-	-	48,025
Stock based compensation	19	-	-	(1,658,142)	1,658,142	-	-	-	-
Transferred from treasury	5	-	-	-	169,285	-	-	-	169,285
		84,788	-	-	-	-	-	-	84,788
Balance, December 31, 2016		30,316,604	67,451	2,437,147	16,209,467	(10,808,632)	7,772	(29,198)	38,200,611
Balance, December 31, 2016		30,316,604	67,451	2,437,147	16,209,467	(10,808,632)	7,772	(29,198)	38,200,611
Net loss for the year		-	-	-	-	(221,443)	-	(19,091)	(240,534)
Other comprehensive income for the year	8	-	-	-	-	-	(38,062)	-	(38,062)
Issue of shares and warrants under private placement	17	278,752	-	181,188	-	-	-	-	459,940
Issue of shares and warrants for liabilities	17	341,288	-	221,837	-	-	-	-	563,125
Issue of shares and warrants for services rendered	17	255,303	-	172,773	-	-	-	-	428,076
Issue of shares for exploration and evaluation projects	17	10,500	-	-	-	-	-	-	10,500
Conversion of debenture	16	315,216	(67,451)	3,900	-	-	-	-	251,665
Issuance of convertible debenture	16	-	2,165,586	-	-	-	-	-	2,165,586
Debenture equity issue costs	16	-	(433,117)	-	-	-	-	-	(433,117)
Issue of units for bonus on convertible debentures	16	363,802	-	251,580	-	-	-	-	615,382
Expired warrants	18	-	-	(206,232)	206,232	-	-	-	-
Stock-based compensation	19	-	-	-	353,875	-	-	-	353,875
Divestiture of shares of Debut Diamonds Inc.	5	-	-	-	-	102,540	-	-	102,540
Balance, December 31, 2017		31,881,465	1,732,469	3,062,193	16,769,574	(10,927,535)	(30,290)	(48,289)	42,439,587

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, 2017 and 2016

(in Canadian dollars)	Notes	2017	2016
Cash flows from operating activities			
Net loss for the year		(240,534)	(1,959,722)
Adjustments for			
Amortization of property and equipment	10	16,346	30,667
Accretion expense	15, 16	44,711	8,565
Stock-based compensation costs	19	353,875	169,285
Shares and warrants issued for services	17	428,076	378,242
Convertible debenture issued for services	16	559,910	-
Interest accrued on debenture liabilities	15,16	22,041	7,635
Shares and warrants issued for interest on debenture	16	10,237	-
Gain on disposal of marketable securities	8	(114,678)	-
Recovery of written-down receivables		(28,000)	-
Part XII.6 penalty and interest	13,25(i)	57,917	55,159
Change in flow-through indemnification provision	13,25(i)	(2,542,947)	-
Net change in non-cash working capital balances		(272,494)	562,024
Net cash used by operating activities		(1,705,540)	(748,145)
Cash flows from financing activities			
Proceeds from issuance of shares and warrants	17	459,940	1,087,173
Proceeds from issuance of treasury shares	17	-	84,788
Proceeds from debenture financing	16	2,517,000	67,135
Repayment of debenture	15	(71,908)	-
Share and warrant issue expenses	17	-	(8,709)
Net cash provided by financing activities		2,905,032	1,230,387
Cash flows from investing activities			
Expenditures on exploration and evaluation projects	11	(155,381)	(345,654)
Expenditures on intangible assets	12	(64,501)	(139,900)
Expenditures on capital assets	10	(45,763)	-
Proceeds from sales of marketable securities	8	246,618	-
Net cash used by investing activities		(19,027)	(485,554)
Net change in cash and cash equivalents during the year		1,180,465	(3,312)
Cash and cash equivalents – beginning of the year		33,935	37,247
Cash and cash equivalents – end of the year	6	1,214,400	33,935
Change in non-cash working capital balances comprises:			
Receivables		(83,201)	(70,639)
Prepaid expenses		12,010	4,324
Trade and other payables		(201,303)	628,339
Net change in non-cash working capital balances		(272,494)	562,024
Additional information - non-cash transactions			
Issuance of shares for exploration and evaluation projects	11	10,500	125,000
Issuance of debenture for exploration and evaluation projects	16	-	267,858
Issuance of shares/warrants for settlement of payables	17	563,125	280,520
Expired warrants included in contributed surplus	18	206,232	1,658,142
Additions to exploration and evaluation projects included in trade and other payables	13	-	1,805,931
Additions to intangible assets included in accounts payable	13	4,328	43,336
Increase in cash surrender value of life insurance in accounts payable	9	33,022	66,694
Conversion of debenture payable into shares	16	308,879	-

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

KWG Resources Inc. (“KWG” or the “Company”) is an incorporated entity domiciled in Canada. The Company’s registered office is located at 141 Adelaide St. West, Suite 420, Toronto, Ontario, M5H 3L5. KWG is involved in the exploration and evaluation of base 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 also has interests in certain technology relating to the production of chromium iron alloys. It was incorporated under the laws of Quebec on August 21, 1937 and continued under the *Canada Business Corporations Act* effective June 15, 2016.

The Company’s shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbols “KWG” for the Subordinate Voting Shares and “KWG.A” for the Multiple Voting Shares.

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 mining and 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, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, failure to complete assessment work and file reports in respect thereof 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.

The Company has a need for equity capital and financing for working capital and exploration and evaluation of its properties. Because of continuing operating losses and a working capital deficit the Company’s continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (in Canadian dollars)

than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

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 30, 2018.

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 27.

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, SMD Mining Corporation, Canada Chrome Mining Corporation, Muketi Metallurgical General Partner Inc. and Muketi Metallurgical KWG-Limited Partner Inc. as well as the accounts of its 66% owned subsidiary, Debut Diamonds Inc. (“DDI”). All of the Company’s subsidiaries are incorporated in Canada.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

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”.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

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 consolidated 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.

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 loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss 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.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

(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 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 and convertible debenture payable. 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
- (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.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

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 consolidated 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 consolidated 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

KWG RESOURCES INC.

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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 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 E&EP 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;

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- 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 mine property and development on the consolidated 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 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.

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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.

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 estimated 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. 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.

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.

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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 consolidated balance sheet. Flow-through shares renunciations 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.

Share-Based Payment Arrangements

Stock Option Plan

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 18. All share-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 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

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average market price of ordinary shares during the period exceeds the exercise price of the options or warrants.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives and any accumulated impairment losses. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of operations when the asset is derecognized.

Compound financial instruments (debentures)

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2018. 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 as a complete standard in July 2014 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.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially

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measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

Changes in Accounting Policies

During 2017, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards, including IAS 7. These new standards and changes did not have any material impact on the Company’s financial statements.

4 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 probably mineral reserves, scoping and feasibility studies, proximity of operating facilities,

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operating management expertise and existing permits. See Note 11 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.

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.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit

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issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Convertible debentures

The classification of the Company's convertible debentures required management to analyze the terms and conditions of debentures and use judgment to assess whether these debentures are liability, equity, or a combination of the two. IAS 32 provides the criteria for management to assess these complicated financial instruments to determine their appropriate classification(s). Factors considered are, but not limited to, whether the Company has a future obligation to settle the instrument in cash or exchange other assets or liabilities, and if the settlement is already known to be equity, the amount will not vary based on the Company's future share price.

Contingencies and commitments

Refer to Note 25.

5 ACQUISITION OF DEBUT DIAMONDS INC.

On January 27, 2015, the Company acquired an additional 144,464,000 common shares in the capital of DDI through a private placement from treasury at a rate of \$0.01 per share in settlement of all of the debt owed by DDI to KWG, including accrued interest thereon. As a result of this transaction, KWG owned 144,630,000 common shares. During the year ended December 31, 2017, KWG sold 10,254,000 of these common shares for cash proceeds of \$109,822. At December 31, 2017, KWG owns 134,376,000 common shares of DDI, which represents approximately 66% of the issued and outstanding common shares of DDI.

6 CASH AND CASH EQUIVALENTS

	As at December 31, 2017	As at December 31, 2016
Bank balances	1,214,400	33,935
Cash and cash equivalents	1,214,400	33,935

7 RECEIVABLES

	As at December 31, 2017	As at December 31, 2016
Sales taxes receivable	49,717	126,922
Other receivables	271,935	83,529
Receivables	321,652	210,451

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8 MARKETABLE SECURITIES

	As at December 31, 2017	As at December 31, 2016
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i) 534,750 common shares	42,780	42,780
Eloro Resources Ltd. ("Eloro") (ii) 20,558 common shares (216,558 in 2016)	21,791	88,789
Cliffs Natural Resources Inc. (iii) 200 common shares	1,794	2,258
Total AFS	66,365	133,827
Marketable securities	66,365	133,827

- (i) KWG's holdings represent approximately 18% of the issued and outstanding common shares of GoldTrain. On April 29, 2016, GoldTrain consolidated its shares on a one for twenty basis.
- (ii) During the year ended December 31, 2017, the Company sold 196,000 Eloro shares on the open market for cash proceeds of \$136,796. A gain of \$114,678 was recognized on these dispositions.

Sensitivity Analysis - Equity Price Risk

All of the Company's financial assets classified as available for sale 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 \$7,000 (as at December 31, 2016 - an increase of \$13,000), 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 2017 and 2016.

9 CASH SURRENDER VALUE OF LIFE INSURANCE

The Company owns life insurance policies on the life of its Chief Executive Officer and other officers with a total death benefit of \$9,218,732 at December 31, 2017. The insurer of these policies is Canada Life. As at December 31, 2017, these policies had a net cash surrender value equal to \$33,022 after deducting loans secured by the policies and accrued interest thereon totalling \$375,955.

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10 PROPERTY AND EQUIPMENT

	Auto- mobiles	Computer Equipment	Office Equipment	Leasehold Improvements	Totals
Balance, December 31, 2015					
Cost	83,254	24,191	44,991	27,307	179,743
Accumulated amortization	(59,857)	(17,592)	(37,606)	(18,659)	(133,714)
Net book value	23,397	6,599	7,385	8,648	46,029
Additions (disposals)	-	-	-	-	-
Amortization	(14,038)	(6,599)	(4,569)	(5,461)	(30,667)
Balance, December 31, 2016					
Cost	83,254	24,191	44,991	27,307	179,743
Accumulated amortization	(73,895)	(24,191)	(42,175)	(24,120)	(164,381)
Net book value	9,359	-	2,816	3,187	15,362
Additions (disposals)	45,763	-	-	-	45,763
Amortization	(10,630)	-	(2,529)	(3,187)	(16,346)
Balance, December 31, 2017					
Cost	129,017	24,191	44,991	27,307	225,506
Accumulated amortization	(84,525)	(24,191)	(44,704)	(27,307)	(180,727)
Net book value	44,492	-	287	-	44,779

11 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, 2016	Current Expend- itures	Write Downs	Balance as at December 31, 2016
Canada – Ontario				
Spider No. 3 / McFaulds Lake (i)	4,188,377	-	-	4,188,377
Big Daddy (ii)	10,234,703	-	-	10,234,703
Diagnos (i)	178,014	-	-	178,014
Railroute Corridor (iii)	16,355,465	4,079	-	16,359,544
Black Horse Project (iv)	7,593,795	2,502,398	-	10,096,193
MacFadyen Kimberlites (v)	630,925	3,317	-	634,242
Hornby Property (vi)	100,000	-	-	100,000
	39,281,279	2,509,794	-	41,791,073

	Balance as at January 1, 2017	Current Expend- itures	Write Downs	Balance as at December 31, 2017
Canada – Ontario				
Spider No. 3 / McFaulds Lake (i)	4,188,377	-	-	4,188,377
Big Daddy (ii)	10,234,703	-	-	10,234,703
Diagnos (i)	178,014	-	-	178,014
Railroute Corridor (iii)	16,359,544	2,100	-	16,361,644
Black Horse Project ((iv) and Note 14)	10,096,193	(1,642,150)	-	8,454,043
MacFadyen Kimberlites (v)	634,242	-	-	634,242
Hornby Property (vi)	100,000	-	-	100,000
	41,791,073	(1,640,050)	-	40,151,023

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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, 2017, the Company held a 50% interest in these projects.

- (ii) The Company owns a 30% interest in certain mining property claims contiguous to McFauld’s Lake in Ontario.
- (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.
- (iv) 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 had 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

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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, \$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 intended 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 common shares (now redesignated as Subordinate Voting Shares) in satisfaction of the second option payment. On March 17, 2015, the Company issued 35,000,000 common shares (now redesignated as Subordinate Voting Shares) to Fancamp in satisfaction of the third option payment. At March 31, 2015, the Company had incurred exploration expenditures of \$5,882,000 towards the \$8,000,000 required under the option agreement. In consideration of a cash payment of \$5,000, Bold agreed to extend the deadline by which the Company must incur the remaining \$2,118,000 in exploration expenditures to September 30, 2015. On October 29, 2015, an agreement was reached with Bold and Fancamp to extend the deadline for a further one year to September 30, 2016 in exchange for KWG issuing 25,000,000 common shares (now redesignated as Subordinate Voting Shares) to Fancamp at a deemed value of \$500,000, of which \$300,000 will be credited as a reduction of the exploration expenditures under the agreements.

On October 24, 2016, Fancamp confirmed that KWG and Bold had met all of the conditions of the various agreements between the parties to vest a 50% interest and establish a joint venture for the Koper Lake Project under the terms of the option agreement with Fancamp. The parties agreed that the project will be renamed the Black Horse Project. Bold is carried through the exploration stage for a 20% interest in KWG's interest in respect of chromite. Accordingly, of the 50% vested interest, KWG has 40% and Bold has 10%. The option rights continue.

On October 14, 2016, the Company issued to Bold a convertible debenture of \$267,858 (Note 15) and 5,000,000 common shares (now redesignated as Subordinate Voting Shares) in settlement of operator's fees owed to Bold under the earn-in option agreement between the parties on the Black Horse Project.

- (v) The MacFadyen Kimberlites project consists of certain claims on the south shore of the Attawapiskat River west of James Bay. MacFadyen Kimberlites is a joint project between DDI and Cliffs. DDI is the operator of the joint project and currently has a 58.35% interest in the joint project. Ashton Mining Canada Ltd., ("Ashton"), a previous owner, holds a 25% clawback entitlement to any kimberlite found or developed by DDI and/or Cliffs on the MacFadyen Kimberlites property. Ashton can execute the clawback by paying DDI and Cliffs an amount equal to 300% of all exploration expenditures on the property.
- (vi) On August 21, 2015, the Company issued 4,000,000 common shares (now redesignated as Subordinate Voting Shares) to MacDonald Mines Exploration Ltd. ("MacDonald") to acquire the Hornby Property claims. These claims constitute an extensive holding

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adjoining the southerly boundary of the Big Daddy property. The property is also adjacent to the Koper Lake property, which lies to the west of it. The shares were valued at the market value on that date of \$0.025 per share, for a total consideration of \$100,000. Under the terms of the agreement, MacDonald will retain a 2% NSR, half of which may be purchased by KWG for \$1,000,000 at any time prior to production from the property. KWG will also have the first right to buy the balance of the NSR at any time the holder proposes to sell it.

12 INTANGIBLE ASSETS

On April 21, 2014, the Company 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 chromite 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 is 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 25,000,000 units of KWG with each unit comprising one common share (now redesignated as a Subordinate Voting Share) and one common share purchase warrant exercisable at a price of \$0.10 for five years.

On June 25, 2015, the vendor assigned its remaining fifty-percent interest in the Chromium IP to the LP in exchange for 25,000,000 units of KWG with each unit comprising one common share (now redesignated as a Subordinate Voting Share) and one common share purchase warrant exercisable at a price of \$0.10 for five years.

All costs associated with this acquisition have been capitalized.

As of December 31, 2017, the patents were still pending and, as a result, were not ready for use; therefore, no amortization has been recorded in these financial statements.

KWG RESOURCES INC.**Notes to the Consolidated Financial Statements (in Canadian dollars)****13 TRADE AND OTHER PAYABLES AND PROVISIONS**

	Notes	December 31, 2017	December 31, 2016
Trade payables			
Exploration and evaluation projects	11, 14	-	1,805,931
Intangible assets	12	652	43,336
Non-project related		189,342	615,761
Accrued liabilities			
Exploration and evaluation projects	11	-	-
Non-project related		232,431	598,309
Part XII.6 penalties and interest	25(i)	1,216,256	1,158,339
Flow-through indemnification provision	25(i)	1,294,270	3,837,217
Lease inducement	25(ii)	-	5,935
		2,932,952	8,064,828

14 RAILROAD STUDY LIABILITY

On August 22, 2016, the Company entered into a Conditional Bankable Feasibility Study Consultation Service Agreement (“BFSCS”) with China Railway First Survey & Design Institute Group., Ltd. (“FSDI”). Under the BFSCS, FSDI is to prepare a study on the economics of building and operating a railroad from the mineral properties in Ontario’s *Ring of Fire* to a junction with the CN railroad at Exton, Ontario, conditional on the development of mining projects in the Ring of Fire. The BFSCS calls for KWG to pay FSDI a total of \$1,385,000 in United States dollars (“USD”). To date, KWG has paid \$50,000 USD of this amount. The original agreement stated that if there remains any unpaid amounts owed by KWG to FSDI on or after November 30, 2017, FSDI shall gain all ownership rights to the deliverable documents and information related thereto and the remaining debt will be extinguished. The deadline has passed without any payment being made, therefore the ownership rights have reverted to FSDI. As a result, the accrual has been reversed.

15 DEBENTURE PAYABLE

On August 25, 2016, the Company issued a debenture in exchange for cash in the amount of \$50,000 in United States dollars. The debenture was secured by a charge over all of the Company’s assets. The debenture was repayable at \$52,500 in United States dollars plus interest at 5% compounded annually and was due and on February 25, 2017. It was repaid in full on February 25, 2017.

16 CONVERTIBLE DEBENTURES PAYABLE

(i) On October 14, 2016, the Company issued an unsecured convertible debenture in the amount of \$267,858 to Bold as part of the settlement for operator’s fees owed to that company (Note 11(iv)). The debenture bears interest at 5% compounded annually and was due on January 15, 2019. It was convertible by Bold at any time, in whole or in part, into KWG common shares (now redesignated as Subordinate Voting Shares) at \$0.05 per share. The debenture was to be repaid by KWG from any debt or equity issue in excess of \$1,500,000 in any six-month period.

The value of the liability was determined by discounting the future interest payments until January 15, 2019, at a discount factor of 20% which was expected to estimate the borrowing rate available to the Company for similar instruments of debt having no conversion rights. The fair value of the conversion feature was determined to be \$67,451 and has been recorded in equity as “Debenture Equity”. The liability was to be accreted to its face amount over the term of the debenture.

KWG RESOURCES INC.

Notes to the Consolidated Financial Statements (in Canadian dollars)

On July 21, 2017, 5,357,160 Subordinate Voting Shares were issued at a price of \$0.05 per share pursuant to the exercise of the conversion rights and the debenture was, accordingly, discharged. An additional 487,476 units were issued to settle the interest payable of \$10,237, with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. The warrants were valued at \$3,900 using a valuation model based on the following assumptions: expected dividend yield of 0%, expected volatility of 102.33%, risk-free rate of return of 1.58% and a life of five years.

(ii) On October 3, 2017, the Company issued an unsecured convertible debenture for cash proceeds in the amount of \$500,000. The debenture bears interest at 12% compounded annually and is due on October 3, 2019. It may be converted by the holder at any time, in whole or in part, into units at a rate of \$21 per unit, with each unit being comprised of four Multiple Voting Shares and two warrants, with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures.

The value of the liability was determined by discounting the future interest payments until October 3, 2019, at a discount factor of 20% which was expected to estimate the borrowing rate available to the Company for similar instruments of debt having no conversion rights. The fair value of the conversion feature was determined to be \$61,111 and has been recorded in equity as "Debenture Equity". The liability will be accreted to its face amount over the term of the debenture. Accretion expense of \$15,831 has been recorded and interest of \$15,000 has been accrued to December 31, 2017.

Immediately following the issuance of this debenture, the Company paid a premium to the holder consisting of 4,762 units at a deemed value of \$21 per unit. Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures (Note 17(ii)). The value of this premium has been recorded as a cost of issue against the convertible debenture.

(iii) On December 15, 2017, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$2,017,000 and \$559,908 to satisfy accounts payable amounts outstanding at the time (\$511,725 of which was owed to directors and officers of the Company). The debenture bears interest at 12% compounded annually and is due on December 15, 2019. They may be converted by the Company at any time, in whole or in part, into units at a rate of \$21 per unit, with each unit being comprised of four Multiple Voting Shares and four warrants, with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures.

The value of the liability was determined by discounting the future interest payments until December 15, 2019, at a discount factor of 20% which was expected to estimate the borrowing rate available to the Company for similar instruments of debt having no conversion rights. The fair value of the conversion feature was determined to be \$2,104,475 and has been recorded in equity as "Debenture Equity". The liability will be accreted to the total interest payable over the term of the debenture. Accretion expense of \$6,328 has been recorded and interest of \$nil has been accrued to December 31, 2017.

Immediately following the issuance of this debenture, the Company paid a premium to the holders consisting of 24,537 units at a deemed value of \$21 per unit. Each unit comprises

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four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures (Note 17(i)). The value of this premium has been recorded as a cost of issue against the convertible debenture.

17 SHARE CAPITAL

Authorized

An unlimited number of no par value Subordinate Voting Shares

An unlimited number of no par value Multiple Voting Shares

Issued

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

Issued	Year ended December 31, 2017		Year ended December 31, 2016
	Number of Subordinate Voting Shares	Number of Multiple Voting Shares	Number of Subordinate Voting Shares
Balance – beginning of year	966,320,281	-	871,418,968
Issued under a private placement (iv)(v)(vi)(vii)(x)	21,901,905	-	54,358,650
Issued for liabilities (vi)(x)	26,815,476	-	14,026,036
Issued for finders' fees (x)	-	-	2,604,500
Issued for exploration and evaluation projects (vii)(ix)	500,000	-	5,000,000
Issued for services rendered (iii)(iv)(v)(vi)(vii)(x)	20,384,529	-	18,912,127
Issued on conversion of debenture (Note 15)	5,844,636	-	-
Issued as premium for debentures ((i)(ii) and Note 16(ii)(iii)))	-	117,196	-
Converted during the year (viii)	(24,108,600)	80,362	-
Balance – end of year	1,017,658,227	197,558	966,320,281

- (i) On December 15, 2017, the Company issued 24,537 units at a deemed value of \$21 per unit as a premium to debenture holders (Note 16(iii)). Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance. The warrants were valued at \$223,050 using a valuation model based on the following assumptions: expected dividend yield of 0%, expected volatility of 144.07%, risk-free rate of return of 1.63% and a life of two years.
- (ii) On October 3, 2017, the Company issued 4,762 units at a deemed value of \$21 per unit as a premium to debenture holders (Note 16(ii)). Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance. The warrants were valued at \$28,530 using a valuation model based on the following assumptions: expected dividend yield of 0%, expected volatility of 146.87%, risk-free rate of return of 1.53% and a life of two years.
- (iii) On July 31, 2017, the Company completed a non-brokered private placement of 2,380,952 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. 2,380,952 units

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Notes to the Consolidated Financial Statements (in Canadian dollars)

were issued for services rendered at \$0.021 per unit for total consideration of \$50,000. The warrants were valued at \$19,697 using a valuation model based on the following assumptions: market value of \$0.02 per share, expected dividend yield of 0%, expected volatility of 102.33%, risk-free rate of return of 1.58% and a life of five years.

- (iv) On June 30, 2017, the Company completed a non-brokered private placement of 4,915,714 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. This private placement included 2,390,000 units issued at \$0.021 per unit for total cash consideration of \$50,190 and 2,525,714 units issued for services rendered at \$0.021 per unit for a total consideration of \$53,040. The warrants were valued at \$40,667 using a valuation model based on the following assumptions: market value of \$0.02 per share, expected dividend yield of 0%, expected volatility of 106.75%, risk-free rate of return of 1.08% and a life of five years.
- (v) On June 8, 2017, the Company completed a non-brokered private placement of 6,309,524 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. This private placement included 2,500,000 units issued at \$0.021 per unit for total cash consideration of \$52,500 and 3,809,524 units issued for services rendered at \$0.021 per unit for a total consideration of \$80,000. The warrants were valued at \$52,197 using a valuation model based on the following assumptions: market value of \$0.02 per share, expected dividend yield of 0%, expected volatility of 106.52%, risk-free rate of return of 1.08% and a life of five years.
- (vi) On March 31, 2017, the Company completed a non-brokered private placement of 48,495,720 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. This private placement included 10,511,905 units issued at \$0.021 per unit for total cash consideration of \$220,750, 26,815,476 units issued to satisfy accounts payable of \$563,125 (\$439,500 of which was owed to directors and officers of the Company) and 11,168,339 units issued for services rendered at \$0.021 per unit for a total consideration of \$234,535 (\$205,610 of which was to directors and officers of the Company for directors' fees, salaries and consulting fees). The warrants were valued at \$401,192 using a valuation model based on the following assumptions: market value of \$0.02 per share, expected dividend yield of 0%, expected volatility of 107.14%, risk-free rate of return of 1.12% and a life of five years.
- (vii) On March 3, 2017, the Company completed a non-brokered private placement of 7,500,000 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. This private placement included 6,500,000 units issued at \$0.021 per unit for total cash consideration of \$136,500 to directors of the Company, 500,000 units issued for services rendered at \$0.021 per unit for a total consideration of \$21,000 and 500,000 units issued for exploration and evaluation projects. The warrants were valued at \$62,046 using a valuation model based on the following assumptions: market value of \$0.025 per share, expected dividend yield of 0%, expected volatility of 108.03%, risk-free rate of return of 1.17% and a life of five years.
- (viii) Effective February 14, 2017, the Company reclassified its common shares as Subordinate Voting Shares and created an unlimited number of a new class of Multiple Voting Shares. Three hundred Subordinate Voting Shares are convertible at the option of the

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shareholders at any time into one Multiple Voting Share. Similarly, each one Multiple Voting Share is convertible at the option of the shareholders at any time into three hundred Subordinate Voting Shares. At all meetings of shareholders, shareholders are entitled to cast one vote for each one Subordinate Voting Share and to cast three hundred votes for each one Multiple Voting Share. Dividend and liquidation rights for each Multiple Voting Share are correspondingly three hundred times the dividend and liquidation rights for each Subordinate Voting Share. During the three months ended June 30, 2017, 23,014,800 Subordinate Voting Shares were converted into 76,716 Multiple Voting Shares.

- (ix) On October 14, 2016, the Company issued 5,000,000 Subordinate Voting Shares in partial settlement of operator's fees owed to Bold under the earn-in option agreement between the parties on the Black Horse Project (Note 11(iv)).
- (x) On April 29, 2016, the Company completed a non-brokered private placement of 84,895,563 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of \$0.05 for five years. This private placement included 54,358,650 units issued at \$0.02 per unit for total cash consideration of \$1,087,173, 14,026,036 units issued to satisfy accounts payable of \$280,520 (\$263,460 of which was owed to directors and officers of the Company) and 16,510,877 units issued for services rendered at \$0.02 per unit for a total consideration of \$330,217 (\$200,606 of which was to directors and officers of the Company for directors' fees, salaries and consulting fees). The warrants were valued at \$679,165 using a valuation model based on the following assumptions: market value of \$0.025 per share, expected dividend yield of 0%, expected volatility of 100.79%, risk-free rate of return of 1.18% and a life of five years.

Finders' fees of 2,604,500 units were paid in relation to this placement for a total consideration of \$52,090. Each unit consists of one Subordinate Voting share and one Subordinate Voting share purchase warrant exercisable at a price of \$0.05 for five years. The warrants were valued at \$20,836 using a valuation model based on the following assumptions: market value of \$0.025 per share, expected dividend yield of 0%, expected volatility of 100.79%, risk-free rate of return of 1.18% and a life of five years.

18 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, 2016	
	Warrants	Compensation options
Balance – beginning of year	122,170,000	352,000
Issued under a private placement (Note 17(iv)(v)(vi)(vii)(x))	54,358,650	-
Issued for liabilities (Note 17(vi)(vii)(x))	14,026,036	-
Issued for services rendered (Note 17(iii),(iv),(v),(vi),(vii),(x))	16,510,877	-
Issued for finders' fees (Note 17(viii))	-	2,604,500
Expired	(40,494,000)	(132,800)
Balance – end of year	166,571,563	2,823,700

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Notes to the Consolidated Financial Statements (in Canadian dollars)

Issued	Year ended December 31, 2017		
	Subordinate Share Warrants	Multi Voting Share Warrants	Compensation options
Balance – beginning of year	166,571,563	-	2,823,700
Issued under a private placement (Note 17(iv)(v)(vi)(vii)(ix))	21,901,905	-	-
Issued for liabilities (Note 17(vi)(vii)(xi))	26,815,476	-	-
Issued for services rendered (Note 17(iii),(iv),(v),(vi),(vii),(x))	20,884,529	-	-
Issued for conversion of debentures (Note 16(i))	487,476	-	-
Issued as premiums for debentures (Note 17(i)(ii))	-	107,672	-
Expired	(5,900,000)	-	(20,000)
Balance – end of year	230,760,949	107,672	2,803,700

Outstanding Subordinate Share Purchase Warrants and compensation options entitle their holders to subscribe for an equivalent number of Subordinate Shares. Outstanding Multi Voting Share Purchase Warrants entitle their holders to subscribe for an equivalent number of Multi Voting Shares.

A summary of the Company's outstanding warrants and compensation options as at December 31, 2017 is presented below:

Number of Subordinate Share Warrants	Number of Multi Voting Share Warrants	Number of Compensation options	Exercise price \$	Expiry date
25,776,000	-	199,200	0.10	June 2018(i)
25,000,000	-	-	0.10	May 2019
25,000,000	-	-	0.10	June 2020
84,895,563	-	2,604,500	0.05	April 2021
55,995,720	-	-	0.05	March 2022
11,225,238	-	-	0.05	June 2022
2,868,428	-	-	0.05	July 2022
-	9,524	-	7.50	October 2019
-	98,148	-	7.50	December 2019
230,760,949	107,672	2,803,700		

(i) On November 11, 2016, the Company received CSE approval to extend the expiry date on 25,975,200 warrants that previously expired in June through November 2016 to June 14, 2018. There were no other changes to these warrants.

19 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 (now redesignated as Subordinate Voting Shares) as may be determined by the Board, provided that the exercise price may not

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be lower than the market price of the Subordinate Voting Shares at the time of the grant of the options.

As at December 31, 2017, the Plan provides (i) that the maximum number of Subordinate Voting Shares that may be reserved for issuance under the Plan shall be equal to 10% of the number of issued and outstanding Subordinate Voting Shares (for these purposes, all Multiple Voting Shares are deemed to be converted to Subordinate Voting Shares on the basis of 300:1); and (ii) that the maximum number of Subordinate Voting Shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the Subordinate Voting 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 unless otherwise determined by the Board of Directors. 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, 2017		Year ended December 31, 2016	
	Number of shares	Average exercise price	Number of shares	Average exercise price
Balance – beginning of year	82,050,000	0.067	86,350,000	0.069
Granted	33,700,000	0.050	-	-
Expired	(12,750,000)	0.084	(4,300,000)	0.115
Balance – end of year	103,000,000	0.059	82,050,000	0.067

The following table summarizes information about options outstanding and exercisable as at December 31, 2017:

		Outstanding options	Exercisable options
Exercise price	Number of options	Average contractual life (in years)	
0.050	83,914,000	3.53	83,914,000
0.100	19,086,000	0.73	19,086,000
0.059	103,000,000	3.01	103,000,000

Total share-based compensation costs for the year ended December 31, 2017 amounted to \$353,875 (2016 – \$169,285).

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The fair value of the options granted in 2017 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	September 2017
Market value per share	\$0.015
Expected dividend per share	Nil
Expected volatility	109.13%
Risk-free interest rate	1.8%
Life of the options granted	5 years
Weighted average of estimated fair value of each option granted	<u>\$0.010</u>

20 NON-CONTROLLING INTEREST

The amount shown for non-controlling interest on the consolidated balance sheets is in relation to a non-controlling interest ownership (approximately 34%) in the shares of DDI. Non-controlling interests' share of DDI expenses are reflected in the consolidated statements of operations and are charged as a reduction to the non-controlling interest account on the consolidated balance sheets.

21 GENERAL AND ADMINISTRATIVE EXPENSES

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

Years ending December 31	2017	2016
Advertising and promotion	116,616	115,826
Consultants' fees	366,625	187,736
Directors' fees and insurance	122,651	112,391
Filing fees	27,737	22,714
Investor relations fees	66,526	64,957
Professional fees	292,402	224,626
Office overheads	564,447	330,190
Salaries and benefits	766,564	605,215
Travel and accommodation	128,740	30,497
	<u>2,452,308</u>	<u>1,694,152</u>

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22 INCOME TAXES

Provision for Income Taxes

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

	2017	2016
Statutory tax rate	26.50%	26.50%
Loss before income taxes	(240,534)	(1,959,722)
Expected income tax recovery based on statutory rate	(64,000)	(519,000)
Adjustment to expected income tax benefit:		
Share- based compensation	94,000	45,000
Other	108,000	387,000
Change in benefits not recognized	(138,000)	87,000
Deferred income tax provision (recovery)	-	-

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.

Deferred Income Tax Balances

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

Deductible Temporary Differences	Dec 31, 2017	Dec 31, 2016
Exploration and evaluation projects	6,718,000	7,514,000
Non capital loss carry-forwards	14,558,000	13,103,000
Capital loss carry-forwards	80,156,000	81,793,000
Share issue costs	7,000	22,000
Marketable securities	1,168,000	1,188,000
Property and equipment	2,534,000	2,518,000
	105,141,000	106,138,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Company and its subsidiaries will be able to utilize the benefits.

At December 31, 2017, the Company has unclaimed non-capital losses of \$14,558,000 (2016 - \$13,303,000 expiring at various dates through 2036) which will expire at various dates through 2037. All other temporary differences can be carried forward indefinitely.

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Notes to the Consolidated Financial Statements (in Canadian dollars)

23 LOSS PER SHARE

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

Years ended December 31	2017	2016
Weighted average number of outstanding Subordinate Voting Shares (*) – basic and diluted	1,021,415,431	932,871,406
Net loss for the year	(240,534)	(1,946,240)
Loss per Subordinate Voting Share for the year Basic and diluted	(0.00)	(0.00)
Note: (*) including the effect of converting all outstanding Multiple Voting Shares to Subordinate Voting Shares on the basis of 300:1		
Non-dilutive securities:		
Convertible debentures:		
Subordinate Voting Shares	-	5,357,160
Multi Voting Shares	586,060	-
Multi Voting Share Warrants	538,442	-
Stock options	103,000,000	82,850,000
Subordinate Share Warrants and Compensation Options	233,564,649	169,395,263
Multi Voting Share Warrants	107,672	-

24 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel (“KMP”). During 2017, officers and companies controlled by officers charged consulting fees for cash consideration of \$389,625 (\$123,888 in 2016) and salaries and bonuses in the amount of \$527,500 (\$73,846 in 2016) of which \$112,521 remained payable at December 31, 2017 (\$123,888 in 2016). The consulting fees were for services performed by the corporate secretary and the CFO as well as for general accounting services. Directors’ fees charged in 2017 totalled \$103,700 (\$22,750 in 2016) of which \$nil remained payable at December 31, 2017 (\$nil in 2016). KMP received 33,700,000 stock options in 2017 (none in 2016). In 2017, stock compensation expenses totalled \$350,125 for KMP (\$113,535 in 2016). As of December 31, 2017 there are receivables of \$202,730 (2016 - \$nil) owed by KMP for amounts advanced. See also Note 16 (iii) and Note 17 (vi).

25 COMMITMENTS AND CONTINGENCIES

(i) 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 3 to these consolidated financial statements, there is a risk that some or all of these claims may be disallowed. 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.

The Canada Revenue Agency (“CRA”) recently conducted an audit of the Company’s flow-through expenditures for the calendar years 2010 through 2013. As a result of the audit, CRA has adjusted the amount of qualifying expenditures that were renounced to the subscribers aggregating approximately \$6,700,000. In addition, CRA has assessed additional Part XII.6 tax of approximately \$1,103,180, including penalties and interest. The Company has made a provision for the entire amount of the estimated Part XII.6 tax, penalties and interest. Additionally, a provision in the amount of \$3,837,217 had been set

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up for the estimated subscriber indemnification costs based on the highest personal income tax rates in the Province of Ontario at the time these expenditures were renounced to the subscribers plus the Federal and Ontario investment tax credits available at the time. The Company has reviewed CRA's proposals and it disagrees with certain positions taken by CRA. The Company has filed formal objections to dispute the assessments.

Due to the fact that the 2010 and 2011 years are now statute-barred in the opinion of management and that CRA has not issued reassessments to any subscribers for these years, as far as the Company is aware, the provision has been reduced by \$2,542,947 in 2017.

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 two years commencing on August 1, 2017. Monthly minimum rental payments are \$6,536 for the term of the lease. The Company is also responsible for its proportionate share of the operating costs in relation to this space.
- (ii) Under the terms of an employment agreement with the Company's CEO dated October 8, 2008, in the event of a change in control of the Company and the CEO's employment is involuntarily terminated within three years following the change in control, the Company shall pay the CEO an amount equal to three times his then-current base salary and three times his annual bonus most recently paid or accrued along with any unpaid salary and vacation pay. The contract requires payments totaling \$1,140,000 for the change of control and \$570,000 for the termination clause. As the triggering events have not taken place, the contingent payments have not been reflected in these consolidated financial statements.
- (iii) 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.

26 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.

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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, 2017, the Company had \$nil in guarantees outstanding (2016 - \$nil).

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

	Notes	December 31, 2017	December 31, 2016
Carrying amount			
Cash and cash equivalents	6	1,214,400	33,935
Receivables	7	321,652	210,451
Financial assets classified as AFS	8	66,365	133,827
		1,602,417	378,213

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 28). 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's only significant long-term liability is its convertible debenture payable which has a fixed interest rate. 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 US\$ 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 interest bearing debt, comprised of convertible debenture payable is at a fixed rate of interest. Consequently, the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

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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 currently 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.

27 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 consolidated 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, 2017	December 31, 2016
Assets			
Loans and receivables			
Cash	6	1,214,400	33,935
Receivables	7	321,652	210,451
Available for sale			
Marketable securities	8	66,365	133,927
Liabilities			
Amortized cost			
Trade and other payables and provisions	13	2,932,951	8,064,628
Convertible debentures	16	766,217	283,742

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.

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;

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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, 2017				
Assets				
Marketable securities classified as AFS	66,365	-	-	66,365
Total assets	66,365	-	-	66,365
As at December 31, 2016				
Assets				
Marketable securities classified as AFS	133,827	-	-	133,827
Total assets	133,827	-	-	133,827

(ii) 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.

(iii) Non-derivative Financial Liabilities

Fair value, which is determined for disclosure purposes and approximates the carrying value of trade and other payables due to their short-term nature, 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.

(iv) Cash equivalents

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

28 CAPITAL MANAGEMENT DISCLOSURES

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$42,439,587 at December 31, 2017 and \$38,200,611 at December 31, 2016.

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 2017 and 2016. The Company is not subject to externally imposed capital requirements.

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29 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 principally in mineral exploration in Canada. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.