

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED SEPTEMBER 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (the "MD&A") should be read in conjunction with the annual and the interim quarterly financial statements of KWG Resources Inc., ("KWG" or the "Company").

DATE

This MD&A for the period ended September 30, 2013 is dated November 14, 2013.

COMPANY OVERVIEW

Soon after diamonds were first discovered in Canada in 1993, KWG formed an alliance with Spider Resources Inc. ("Spider") to explore for diamonds in the James Bay Lowlands of Northern Ontario. This was an area known to have potential to host diamond-bearing kimberlite intrusions. However, it was impossible to explore by conventional prospecting methods as all host rock there is covered by the limestone of a former sea-bed which is now receded to the world's largest wetlands of bogs and lakes. The partners therefore determined to use airborne surveys to locate targets that were analogous to the new discoveries in the North West Territories. One of these large regional aerial surveys included much of a subterranean crescent formation that has now been named the *Ring of Fire*. A diamond drill hole completed there by De Beers in 2001, under an option agreement with KWG and Spider, discovered a copper and zinc occurrence. This first confirmation of the crescent's mineralized character resulted in much additional exploration activity culminating in a substantial nickel discovery by Noront Resources Ltd. and then, in 2007, two very significant discoveries of large near-surface emplacements of very high-grade chromite at the *Black Thor* deposit of Freewest Resources Canada Inc. and at the *Big Daddy* deposit on adjoining claims optioned from Freewest by KWG, which it was then required to share equally with Spider under a prior "area of interest" covenant.

The Company is presently exploring the *Black Horse* chromite discovery which is adjacent to the *Big Daddy*. It has the option to earn up to an 80% joint venture interest in the *Black Horse*, a discovery previously made by Fancamp Exploration Ltd. in 2010. A drilling program that commenced in March was to determine whether the discovery is part of a more extensive continuous emplacement of chromite within the regional intrusion that hosts the *Big Daddy* and *Black Thor* deposits on strike to the north east. The results of prior drilling and data from the partially completed program were compiled in a 43-101 resource calculation published in September. The report concluded in part, "*Using a 20% cut-off, there are a total of 46.5 million tonnes at a grade of 38.8% Cr₂O₃ of Inferred Resources which should be upgradable through gravity and/or heavy media concentration.*"

In 2009, KWG solicited an equity investment from Cliffs Natural Resources Inc. ("Cliffs"), which then became a 19.9% shareholder of KWG and nominated a representative to the KWG Board of Directors. KWG soon afterward purchased an existing underlying royalty interest in the area's deposits and formulated a plan to stake claims along a series of sand ridges to provide the *Big Daddy* joint venture with exclusive mineral title to land over which its chromite discovery might be equipped for further exploration and development. A technical assessment of these claims was then completed to provide a data base of geotechnical characteristics and glacial till sample profiles. The value of this work was accepted for assessment credit and an application has now been made to bring the claims to lease.

Cliffs subsequently made application under the Public Lands Act for an easement to build a road for the purpose of developing *Black Thor*, on the claims KWG is bringing to lease for the purpose of making economic the *Big Daddy* joint venture's undertakings. KWG declined to consent as it has no

interest in the *Black Thor* deposit. The Ministry of Northern Development and Mines referred the matter to the Mining and Lands Commission of Ontario ("the Commission") to determine whether KWG was acting reasonably and, if not, to make an Order to grant the easement sought in the absence of KWG's consent. The application was dismissed in a decision released by the Commission on September 11th. On October 9th Cliffs served a Notice of Appeal to have the Commission's decision reviewed by the Divisional Court of Ontario. The appeal is expected to be heard in the Spring of 2014.

In the meantime, KWG continues to assess the viability and cost effectiveness of a railroad. The study commissioned to compare the capital and operating costs of both a railroad and an all-weather road to the Ring of Fire further solidify the belief that a railroad would best suit the Ring of Fire. The study estimates the capital costs for a roadway at \$1.052 billion and a railroad at \$1.561 billion. If 3 million tonnes per year are shipped, operating costs are estimated at \$10.50 per tonne for the railroad and \$60.78 per tonne for trucking on the road. If 5 million tonnes per year are shipped, it is estimated that those operating costs per tonne would be reduced to \$6.33 for rail and \$59.28 for trucking.

KWG's former diamond exploration assets were spun-out to the Company's shareholders in December 2011, as a return of capital to reduce the cost base of their KWG shares, by way of the distribution of the shares of Debut Diamonds Inc. ("DDI"). For every 100 shares of KWG held, a dividend in specie of 6 shares of DDI was distributed to shareholders of record on December 15, 2011.

HIGHLIGHTS

During and subsequent to the end of the period ended September 30, 2013:

Corporate

- The first two tranches of a private placement of flow-through units was completed, for proceeds of \$1,628,000. The TSX Venture Exchange conditionally approved the listing of shares resulting from placements for subscriptions totaling \$2 million and approval to extend the offering to \$2.4 million was subsequently received.

Exploration

- The Company announced drilling results from the initial diamond drill program on their Koper Lake Joint Venture with Bold Ventures Inc. under an option from Fancamp Exploration Ltd. A 43-101 resource calculation was published on the property's *Black Horse* chromite occurrence where an inferred resource of 46.5 million tonnes at a grade of 38.8% Cr₂O₃ has been documented to date. The proceeds of the private placement will fund a drilling program, this winter, designed to extend the *Black Horse* inferred resource.
- The mineralization of the massive section of the *Black Horse* chromite occurrence was confirmed to extend through approximately 109 meters.
- A smelting test of the *Black Horse* chromite determined that the *Black Horse* chromite ore smelts readily and produces both a high grade alloy and low Cr values in the discard slag. The test results demonstrated that the high grade ore tested produced Cr recoveries above 95%, which is higher than typical commercial chromium operations.
- On October 25, 2013, the Company announced that it had filed a patent application in advance of discussions to commercialize a new method of refining into direct reduction ferro chrome the chromite ore of its *Black Horse* deposit by means of natural gas.
- On September 30, 2013, the Company served Bold Ventures Inc. with written notice that it intends to fund the remaining commitments, totaling \$6,200,000, under the first stage of the option agreement between the two companies on the *Black Horse* deposit.

Canada Chrome Corporation (“CCC”) (wholly-owned subsidiary)

- CCC has been served with a Notice of Appeal by the subsidiary of Cliffs Natural Resources Inc. whose application to the Mining Commission of Ontario was dismissed on September 10, 2013. The application sought an order for the grant of an easement over CCC’s mining claims in the absence of its consent. The appeal of the decision dismissing the application is expected to be heard by the Divisional Court of Ontario in the Spring of 2014.
- CCC has made an application for the judicial review of a decision of the Minister of Natural Resources (“MNR”) to permit sampling for aggregates by a subsidiary of Cliffs on the CCC claims. The application sought an order in the nature of certiorari setting aside the decision of MNR dated April 15, 2013 in which MNR authorized the respondent, Cliffs Chromite Ontario Inc. to undertake geotechnical and aggregate testing in respect of lands covered by mining claims held by CCC

OUTLOOK

The management of KWG continues to be encouraged in its view that the Company’s assets will prove to be catalytic in the development of mining in the *Ring of Fire*. It is our opinion that the chromite deposits of the *Ring of Fire* may have a combined life equal to an amortization period appropriate for the cost of an infrastructure asset such as a railroad; perhaps 100 years or more. When that term is combined with the present historic low cost of the capital required to construct such an undertaking, the unit cost for projected usage can be quite modest when compared to all available alternatives. We continue to believe that these financial imperatives can be combined with an informed mobilization of indigenous people’s support, to achieve rationally funded infrastructure development for the area’s mineral tenants.

The grant of an easement to construct a roadway over the Company’s claims may only be issued with its consent. That consent was sought and declined. It was declined because the consideration offered did not include either a plan to mine the *Big Daddy* deposit for which, in part, the claims were acquired and assessed; or, compensation of an adequate value instead. The claims provide egress with which to make the *Big Daddy* deposit economic by enabling its production to access markets. The Company can earn a market share with its portion of *Big Daddy* production, whereas the deferral of that production to favour another deposit with that exclusive egress will irrevocably lose that opportunity to the other deposit. The Company was advised that it was therefore not unreasonable to withhold its consent in the circumstances and for the compensation offered. The Mining and Lands Commission was asked to determine whether that is the case, or not. In a decision released September 10, 2013 the Mining and Lands Commission dismissed the application for an order to grant an easement over the Company’s claims without its consent. The decision has been appealed to the Divisional Court of Ontario and it is expected that the appeal will be adjudicated in early 2014.

The Company has advised the Ministry of Mines and Northern Development that it will maintain that any Order in Council that may be sought to exempt contiguous mineral claims from the requirement that their production be processed to final art in Canada, may only extend to mineral claims in which the Company has an interest. The Company has entered an option agreement under which it may earn up to an 80% joint venture interest in the *Black Horse* chromite occurrence. Programs completed under the option agreement will enable the Company to determine the feasibility of mining the *Black Horse* chromite, with which export markets might then be developed by egress over the contiguous claims acquired for that purpose.

In testing chromite ore from the *Black Horse* occurrence, it was discovered that its reduction to metallics was possible with the use of natural gas under controlled circumstances. A patent has been applied for in advance of further testing to commercialize this direct reduction method of refining chromite into metallic chrome. The method holds significant promise of enabling the chromite of the *Black Horse* occurrence to earn a considerable share of the market for chrome inputs amongst

stainless steel makers, due to the much lower refining cost of the method when compared to refining chromite to charge ferro chrome in electric arc furnaces.

OVERALL PERFORMANCE – FINANCIAL

During the third quarter of 2013, the Company continued to utilize its cash reserves to cover ongoing administrative and general expenses as well as its planned exploration activities as the Company does not currently have any significant revenue sources. The Company's cash inflows consisted of interest income, and private placement proceeds in the amount of \$250,000. Regular expenditures for the year-to-date were roughly \$120,000 higher than originally projected mainly due to the costs of defending Cliffs' easement application.

The Company has maintained its focus on its strategic planning to develop what it expects could become a major North American ferro-chrome supplier deposit as well to explore and build a route to transport materials to and product from the mine site. The value of the deposit has been determined by the preliminary economic assessment and exploration activities on the *Big Daddy* property have progressed steadily.

KWG's railway infrastructure project has been well timed and the need for a railway in the *Ring of Fire* seems highly economic. Meetings with government and First Nations officials are ongoing to determine a mutually beneficial result. As well, KWG continues to explore the available funding mechanisms that can be employed to continue development of the railroad link to the *Ring of Fire*.

LIQUIDITY & CAPITAL RESOURCES

The main source of financing for KWG is the issuance of equity shares and sale of non-core assets. Each of KWG's projects has demonstrated sufficient evidence of geological merit to warrant additional exploration. However, it is not presently possible to estimate the cost of further exploration programs, which may or may not bring individual properties to a subsequent stage of development, since they are all exploration projects and their development depends on the results of exploration. On September 30, 2013, the Company had working capital of \$6,952,769 (\$12,154,018 as at December 31, 2012) including \$5,730,421 in cash and cash equivalents (\$11,066,004 as at December 31, 2012). The reduction in cash reserves during the first three quarters of 2013 includes the payment to Bold Ventures Inc. in the amount of \$3,300,000 to fund the joint venture's anticipated exploration activities for the year. The Company forecasts operating expenditures of approximately \$3,100,000 for fiscal 2013 and flow-through expenditure requirements of \$1,763,900. The Company's current cash reserves which result mainly from the 2011 sale of its net smelter royalty ("NSR") interests are sufficient to provide for its working capital requirements and existing commitments in the short term. Also, see note 22 to the 2012 audited consolidated financial statements for commentary on the Company's commitments and contingencies. However, management will continue to pursue all financing alternatives available to fund its future obligations and exploration activities. There is no assurance that the Company will be successful in these actions. Should the Company not be able to obtain the necessary financing, the Company would not have the ability to meet its obligations as they come due. These circumstances may cast significant doubt to the Company's ability to continue as a going concern. The Company invests its unexpended cash in highly-liquid, rated financial instruments.

RESULTS FROM OPERATIONS

The reporting currency of the Company is Canadian dollars and the financial data is reported in this currency.

During the three month period ended September 30, 2013 the Company recorded a loss of \$463,042 (\$0.00 per share) for a cumulative loss of \$2,020,510 (\$0.00 per share) for the nine months ending September 30, 2013 (profit of \$659,815 (\$0.00 per share) and cumulative loss of \$1,939,261 (\$0.00 per share) for the comparable periods in 2012). The loss includes a non-cash gain of \$nil

(cumulative of \$3,205 for 2013) compared to \$26,519 for the same three month period in 2012 (cumulative of \$698,801 for 2012) on the revaluation of the warrant liability which relates to warrants that are denominated in currencies other than Canadian dollars. These are shown as liabilities and not as part of equity. This warrant liability is then revalued at each balance sheet date thus creating a gain or loss that is reported in the statement of operations. Also included in these results are non-cash expenditures of \$46,260 (cumulative of \$216,650 for 2013) related to stock compensation costs compared to \$58,831 (cumulative of \$459,699 for 2012). The period results are explained as follows:

Income

Finance and interest income amounted to \$67,519 for the three month period ended September 30, 2013 (cumulative of \$206,277 for 2013) compared with a net income of \$1,224,938 for the same period in 2012 (cumulative net expense of \$226,015 for 2012). This includes the amortization of a deferred liability in relation to premiums realized on flow-through spending in the amount of \$30,000 for the three month period ended September 30, 2013 (cumulative of \$273,983 for 2013) compared with \$747 for the same period in 2012 (cumulative of \$175,784 in 2012) for the flow-through premium received on the issuance of shares during 2012 and 2013. Also included is a non-cash gain on the revaluation of warrant investments in the amount of \$21,000 for the three month period ended September 30, 2013 (cumulative loss of \$127,100 for 2013) compared to a loss \$1,187,300 for the same period in 2012 (cumulative gain of \$524,148 for 2012). Interest income for the quarter was \$16,519 (cumulative of \$59,394 for 2013) compared to \$36,891 for the same period in 2012 (cumulative of \$122,349 for 2012) which resulted from cash reserves due to the sale of the NSR during the latter half of 2011. Other income totaled \$781 in each of the first, second and third quarters of 2013 and 2012.

Expenses

Administrative Expenses

Administrative expenses for the three month period ended September 30, 2013 amounted to \$464,913 (cumulative of \$1,978,344 for 2013) compared to \$523,978 for the same period in 2012 (cumulative of \$1,927,805 for 2012) for a net decrease of \$59,000 (cumulative increase of \$50,000). The following discusses variances in the main components of the administrative expenses:

- Decreased salaries of \$66,000 (cumulative decrease of \$78,000) as a result of having a smaller staff complement in 2013 compared to the previous year. Decreased directors' fees of \$8,000 (cumulative decrease of \$2,000). The fluctuations in directors' fees were caused by increased stipends for committee chairs as well as the implementation of per meeting stipends. This is offset by a reduction in the number of directors in 2013;
- Professional and consultants' fees decreased by \$70,000 (cumulative increase of \$55,000) compared to 2012 due to the investigation of possible business opportunities and legal fees incurred to contest a request for an easement by Cliffs;
- Investor relations fees decreased by \$5,000 (cumulative decrease of \$113,000) compared to the same period in 2012 largely due to the fact the Company held the 2011 annual meeting in early 2012 and the 2013 AGM was held in the second quarter of 2013. Additional costs were incurred related to the 2011 AGM to poll the shareholders;
- A decrease of \$112,000 (cumulative of \$208,000) in the amount the Company recovered of its administrative expenses as a result of providing services to DDI due to the cessation of activities for DDI; and
- Corporate expenses decreased by \$22,000 in the third quarter of 2013 (cumulative decrease of \$20,000) compared to 2012 which included a decrease in filing fees of \$1,000 (cumulative decrease of \$6,000), decreased overheads \$10,000 (cumulative decrease of \$2,000) mainly due to a new lease for the Company's Toronto office and decreased travel and promotional costs of \$11,000 (cumulative decrease of \$12,000)

Stock Compensation Costs

Stock compensation costs constitute a non-cash expense. Stock compensation costs for the third quarter of 2013 totaled \$46,260 (\$216,650 cumulative to September 30, 2013) compared with \$58,831 for the same quarter in 2012 (\$459,699 cumulative to September 30, 2012). The expense was higher in 2012 as a result of the issuance of new stock options in the second quarter of 2010 as well as the first quarter of 2012. There were also additional stock options issued in the second quarter of 2013. The calculated cost of these stock options is recognized as an expense over the vesting period. The Company issued 12,336,000 stock options in the second quarter of 2013 and 7,100,000 stock options in the first quarter of 2012.

Foreign Exchange Gain (Loss)

During the third quarter of 2013, the Company realized a foreign exchange loss of \$425 (cumulative loss of \$332) compared to a loss of \$653 for the same period in 2012 (cumulative loss of \$1,266). The Company had only a minimal amount of foreign currency balances and transactions during these periods.

SUMMARY OF QUARTERLY RESULTS

(Thousands of dollars except amount per share)

<i>Quarter ending</i>	<i>Total revenue</i>	<i>Net profit (loss)</i>	<i>Income (loss) per share (basic and diluted)</i>
September 30, 2013	-	(463)	<(0.01)
June 30, 2013	-	(596)	<(0.01)
March 31, 2013	-	(961)	<(0.01)
December 31, 2012	-	(2,719)	<(0.01)
September 30, 2012	-	660	<0.01
June 30, 2012	-	(1,020)	<(0.01)
March 31, 2012	-	(1,579)	<(0.01)
December 31, 2011	-	(931)	<(0.01)

The loss in the fourth quarter of 2012 is mainly due to a decline in fair value of the Company's marketable securities and the write-down of the receivable from DDI. Profit for the third quarter of 2012 is attributable to an increase in the fair value of the Company's warrant liability. Losses for the three quarters prior to that as well as for the first three quarters of 2013 are attributable mainly to adjustments resulting from the period end revaluation of the warrant investments, ongoing general and administrative expenses and stock compensation costs.

COMMITMENTS AND CONTINGENCIES

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

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

Pursuant to flow-through financing agreements closed during September 2013, the Company must incur \$250,000 in exploration expenses by December 31, 2014.

The Company has incurred approximately \$12 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow through agreements. As noted in Note 2 to the 2012 audited consolidated financial statements, there is

always a risk that some or all of these claims may be disallowed. No provision has been made for potential cost to the Company, if any, of such disallowance. To the extent that the costs are disallowed as deductions to shareholders, additional tax attributes would be created for the Company which would be considered for recognition at that time.

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

- (ii) The Company signed an operating lease during 2012 for its premises located at 141 Adelaide Street West, Suite 420, Toronto, Ontario, M5H 3L5. The lease is a net lease with a term of five years commencing on August 1, 2012. Monthly minimum rental payments are \$5,326 for October 1, 2012 through July 31, 2014 and \$5,568 for August 1, 2014 through July 31, 2017. There are no payments due for August and September 2012. The Company is also responsible for its proportionate share of the operating costs in relation to this space. In addition to waiving the first two months rental payments, the landlord reimbursed the Company for the amount of \$28,002 in relation to leasehold improvements and moving costs. The total amount of these inducements will be amortized over the life of the lease.
- (iii) On September 30, 2013, the Company served Bold Venture Inc. with written notice that it intends to fund the remaining commitments, totaling \$6,200,000, under the first stage of the option agreement between the two companies on the *Black Horse* deposit. This would require payments in respect of the earn-in option total of \$1,200,000 to be made as follows: \$500,000 by March 31, 2014 and \$700,000 by March 31, 2015 and in respect of exploration expenditures totaling a minimum of \$5,000,000 to be made as follows: \$2,000,000 by March 31, 2014 and \$3,000,000 by March 31, 2015.

RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and Corporate Secretary) and directors as Key Management Personnel ("KMP"). During the first three quarters of 2013, officers and companies controlled by officers charged consulting fees totalling \$165,716 (2012 - \$170,765) and salaries and bonuses in the amount of \$330,769 (2012 - \$328,692) of which \$12,778 remained payable at September 30, 2013 (2012 - \$17,213). Directors' fees paid in the first three quarters of 2013 totalled \$75,572 (2012 - \$70,125). KMP received 6,836,000 stock options during the first three quarters of 2013 (2012 - 7,100,000). In the first three quarters of 2013 stock compensation expenses totalled \$132,833 for KMP (2012 - \$403,803).

Debut Diamonds Inc.

The Company shares management, administrative assistance and facilities and other technical personnel with DDI. This is not covered by a written agreement. The costs charged to DDI are equal to the costs incurred by the Company. During the first three quarters of 2013, the Company charged DDI for overhead and personnel charges in the amount of \$61,810 (2012 - \$183,993) and for project costs in the amount of \$nil (2012 - \$144,394).

NEW ACCOUNTING POLICIES

The consolidated financial statements for the years ended December 31, 2012 and 2011 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). Note 3 thereto includes the accounting policies that have been applied in preparing these financial statements as well as a summary of accounting standards and amendments issued but not yet adopted.

There have been no new accounting policies adopted by the Company in the first three quarters of 2013.

FUTURE ACCOUNTING CHANGES

The Company may enter into joint venture arrangements with third parties. Presently, the Company's accounting policy is to account for these using the proportionate consolidation method. IFRS may remove this alternative and require equity accounting. The Company is assessing the impact of this standard on its financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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:

Capital of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probably mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 8 to the interim condensed unaudited consolidated financial statements for details of capitalized exploration and evaluation costs.

Impairment of mineral property interests

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

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be

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

Share-based payments

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

FINANCIAL INSTRUMENTS

The following 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 the 2012 audited consolidated financial statements.

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.

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.

Receivables

The Company's receivables consist primarily of trade receivables, which are settled on a regular basis 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.

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.

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 enure to the Company. At both September 30, 2013 and December 31, 2012, the Company had \$nil in guarantees outstanding.

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

	September 30, 2013	December 31, 2012
Carrying amount	\$	\$
Cash and cash equivalents	5,730,421	11,066,004
Receivables	843,135	927,393
Financial assets classified as available for sale	53,413	401,940
Financial assets classified as fair value through profit & loss	42,000	169,100
	6,668,969	12,561,437

Liquidity Risk

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

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

The Company manages its liquidity risk through the mechanisms described above and as described in Capital Management Disclosures below. 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. These circumstances may cast significant doubt as to the Company's ability to continue as a going

concern and the ultimate appropriateness of the use of the accounting principles applicable to a going concern.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the current 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, the value of its E&E properties 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. The Company does not actively hedge its foreign currency exposure. A 10% strengthening or weakening of the Canadian dollar would not have a material impact on the Company's equity or results of operations.

Interest Rate Risk

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

Other Market Price Risk

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

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

Conflict of Interest Risk

Certain of the directors and officers of KWG are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers of KWG may become subject to conflicts of interest. The Canada Business Corporations Act (CBCA) provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the CBCA. To the extent that other conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the CBCA.

OTHER**National Instrument 51-102 - Section 5.3**

Below is a detailed analysis of exploration expenditures incurred for the nine months ended September 30, 2013 with comparative figures for the year ended December 31, 2012 on a property by property basis. Properties owned by DDI are no longer part of the group and have been indicated as divested in the tables below:

Spider No. 1/MacFadyen and Kyle

Cost and deferred exploration expenses	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	-	25,132
Written off	-	(25,132)
Balance – End of the period	-	-

Spider No. 3/McFaulds Lake

Cost and deferred exploration expenses	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	4,189,695	25,132
Geology	(1,318)	(25,132)
Balance – End of the period	4,188,377	-

Big Daddy

Cost and deferred exploration expenses	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	10,065,364	8,813,117
Exploration expenses		
Drilling	-	1,252,247
Studies	173,038	-
Balance – End of the period	10,238,402	10,065,364

Railway Corridor

Cost and deferred exploration expenses	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	16,084,171	15,236,311
Exploration expenses		
Claims staking	108,313	-
Field consultants	5,279	102,178
Geology	34,672	201,847
Studies	91,065	171,835
	239,329	475,860
Acquisition costs	-	372,000
Balance – End of the period	16,323,500	16,084,171

The Temagami Iron Limited Partnership
Cost and deferred exploration expenses

	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	100,000	-
Exploration expenses		
Acquisition costs	15,000	100,000
Balance – End of the period	<u>115,000</u>	<u>100,000</u>

CME Project

	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	500,000	-
Exploration expenses		
Survey	12,000	500,000
Reimbursement of costs	(500,000)	-
Written off	(12,000)	-
Balance – End of the period	<u>-</u>	<u>500,000</u>

Bold Venture Joint Venture

	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	-	-
Exploration expenses		
Drilling	3,662,090	-
Balance – End of the period	<u>3,662,090</u>	<u>-</u>

All Projects Combined

	Nine months ended September 30, 2013	Year ended December 31, 2012
	\$	\$
Balance – Beginning of the period	31,117,244	28,442,269
Acquisition costs	15,000	472,000
Exploration expenses		
Claims staking	108,313	-
Drilling	3,662,090	1,252,247
Field consultants	5,279	102,178
Geology	33,354	201,847
Studies	264,103	171,835
Survey	12,000	500,000
	<u>4,085,439</u>	<u>2,228,107</u>
Reimbursement of costs	(500,000)	-
Write downs taken in the period	(12,000)	(25,132)
Balance – End of the period	<u>34,705,683</u>	<u>31,117,244</u>

The following is a detailed break-down of administrative expenses incurred for the nine months ended September 30, 2013 with comparative figures for the same period in 2012.

	2013	2012
	\$	\$
Advertising & promotion	49,599	13,765
Consultant's fees	386,688	317,939
Directors fees & insurance	93,111	95,373
Filing fees	29,161	35,798
Investor relations fees	73,483	186,052
Professional fees	529,239	543,068
Office overheads	199,374	201,683
Salaries and benefits	696,160	773,836
Travel & accommodation	41,660	88,678
Administrative recovery	(120,131)	(328,387)
Total administrative expenses	1,978,344	1,927,805

National Instrument 51-102 - Section 5.4

Disclosure of Outstanding Share Data (as at November 14, 2013)

Common shares outstanding: 724,137,273

Warrants and compensation options outstanding: 107,710,000

Each warrant entitles the holder to purchase one common share of the Company at the following prices:

Number of warrants	Number of compensation options	Exercise price \$	Expiry date
8,750,000	750,000	0.12	June 2014
15,000,000	-	0.10	July 2014
26,400,000	-	0.10	August 2014
6,000,000	-	0.10	June 2016
21,000,000	-	0.15	August 2016
5,000,000	-	0.10	September 2016
4,760,000	-	0.10	October 2016
16,800,000	-	0.10	November 2016
-	250,000	0.05	November 2016
3,000,000	-	0.12	March 2017

Options outstanding: 66,404,500 - average exercise price of \$0.111

Each option entitles the holder to purchase one Common Share of the Company at the following prices:

Number of options	Exercise price \$	Expiry date
5,623,500	0.10	October 2014
24,545,000	0.125	May 2015
1,500,000	0.14	June 2015
11,000,000	0.10	December 2015
3,500,000	0.115	March 2016
800,000	0.10	Nov 2016
7,100,000	0.10	Mar 2017

FORWARD LOOKING INFORMATION

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation: the economic potential of the Project (as defined below); the proposed construction of a rail line; the continued maintenance, exploration and the development of the Company's properties and the costs related thereto, as well as the Company's expectation of periodically requiring additional funds therefore;

exploration, development and operational plans, objectives and budgets; the expected strategic importance and value of the Company's mineral property interests outside of the Project, including expectations regarding the Company's participation in the development of the McFaulds Lake properties; expectations regarding the consultation, assessment and construction of a railroad, including the costs and timing associated therewith; mineral resource estimates; potential mineral resources; plans with respect to the use of private placement proceeds; estimates relating to critical accounting policies; the Company's expectations with respect to pursuing new opportunities and acquisitions and its future growth; estimated operating expenses; and the Company's ability to raise new funding.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: demand for ferrochrome by global integrated steel producers; the impact of consolidation and rationalization in the steel industry; the grade and recovery of ore varying from estimates; delays in, or the failure to, develop the projects of the Company caused by unavailability of equipment; labour or supplies, weather and climatic conditions, labour disputes, financing or other factors; risks normally incidental to exploration and development of mineral properties; uncertainties in the interpretation of drill results; the possibility that future exploration, development or mining results will not be consistent with expectations; uncertainty of mineral resources estimates; the Company's inability to obtain, maintain, renew and/or extend required licenses, permits, authorizations and/or approvals from the appropriate regulatory authorities and other risks relating to the applicable regulatory framework; the Company's inability to maintain its title to its assets; capital and operating costs varying significantly from estimates; the Company's inability to participate in and/or develop the Company's property interests outside of the Project; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the inability of the Company to obtain required financing; the Company's inability to declare and/or pay a dividend on its Common Shares as proposed in the MD&A, or at all; adverse general market conditions; the Company's inability to delineate additional mineral resources and delineate mineral reserves; operating hazards and risks, management and control; environmental risks; adverse land claims; future unforeseen liabilities and other factors including, but not limited to, those listed under "Risk Factors" in the Financial Instruments section of this MD&A.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR (WWW.SEDAR.COM).