

# **KWG RESOURCES INC.**

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

THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

**NOTICE TO READERS OF THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:**

The accompanying unaudited condensed interim consolidated financial statements of KWG Resources Inc. have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

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**DOUGLAS FLETT**, Director

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**THOMAS E. MASTERS**, Chief Financial Officer

Toronto, Ontario  
May 30, 2017

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

(in Canadian dollars)	Notes	As at March 31, 2017	As at December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	337,205	33,935
Receivables	6	166,948	210,451
Marketable securities	7	70,460	133,827
Prepaid expenses		6,005	12,010
<b>Total current assets</b>		<b>580,618</b>	<b>390,223</b>
<b>Non-current assets</b>			
Cash surrender value of life insurance	8	64,085	66,694
Property and equipment	9	9,502	15,362
Exploration and evaluation projects	10	41,814,473	41,791,073
Intangible assets	11	4,295,294	4,285,829
<b>Total non-current assets</b>		<b>46,183,354</b>	<b>46,158,958</b>
<b>Total assets</b>		<b>46,763,972</b>	<b>46,549,181</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables and provisions	12	7,537,416	8,064,828
Debenture payable	13	-	71,908
<b>Total current liabilities</b>		<b>7,537,416</b>	<b>8,136,736</b>
<b>Long term liabilities</b>			
Convertible debenture payable	14	225,020	211,834
<b>Total liabilities</b>		<b>7,762,436</b>	<b>8,348,570</b>
<b>Equity</b>			
Share capital	15	31,029,277	30,316,604
Debenture equity	14	67,451	67,451
Warrants	16	2,694,153	2,437,147
Contributed surplus		16,432,574	16,209,467
Accumulated other comprehensive (loss)		(26,195)	7,772
(Deficit)		(11,164,557)	(10,808,632)
		39,032,703	38,229,809
Non-controlling interest	18	(31,167)	(29,198)
<b>Total equity</b>		<b>39,001,536</b>	<b>38,200,611</b>
<b>Total liabilities and equity</b>		<b>46,763,972</b>	<b>46,549,181</b>

**Nature of operations (Note 1)**  
**Commitments and contingencies (Notes 21)**  
**Subsequent events (Note 26)**

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

**Approved by the Board of Directors**

*Douglas Flett*  
Director

*Frank Smeenk*  
Director

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

<b>(in Canadian dollars)</b>	<b>Notes</b>	<b>Three-month periods ended March 31</b>	
		<b>2017</b>	<b>2016</b>
General and administrative	19	(514,173)	(323,426)
Amortization of property and equipment	9	(5,860)	(8,004)
Accretion expense	14	(9,883)	-
Stock compensation costs	17	(16,875)	(42,321)
Gain (loss) on foreign exchange		1,023	(3,686)
<b>Loss before the undernoted</b>		<b>(545,768)</b>	<b>(377,437)</b>
<b>Other income (expenses)</b>			
Other income		781	781
Part XII.6 penalties and interest	12	(14,280)	-
Gain on disposal of marketable securities	4,7	114,373	-
		<b>100,874</b>	<b>781</b>
<b>Net loss for the period</b>		<b>(444,894)</b>	<b>(376,656)</b>
<b>Net loss attributable to non-controlling interest</b>	18	<b>1,969</b>	<b>20,032</b>
<b>Net loss attributable to equity holders of KWG Resources Inc.</b>		<b>(442,925)</b>	<b>(356,624)</b>
<b>Loss per share (basic and diluted)</b>		<b>(0.00)</b>	<b>(0.00)</b>
<b>Weighted average number of outstanding shares</b>		<b>978,059,411</b>	<b>870,734,546</b>

**Condensed Interim Consolidated Statements of Comprehensive Loss**

<b>(in Canadian dollars)</b>	<b>Notes</b>	<b>Three-month periods ended March 31</b>	
		<b>2017</b>	<b>2016</b>
Net loss for the period		(444,894)	(376,656)
Other comprehensive income			
Net change in fair value of available for sale ("AFS") assets	7	16,993	24,214
Transferred to income upon realization	7	(50,960)	-
Total comprehensive loss for the period		(478,861)	(352,442)
Portion attributable to non-controlling interest	18	1,969	20,032
<b>Total comprehensive loss attributable to equity holders of KWG Resources Inc.</b>		<b>(476,892)</b>	<b>(332,410)</b>

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

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

(in Canadian dollars)	Notes	Share capital	Debenture equity	Warrants	Contributed surplus	(Deficit)	Accumulated other comprehensive (loss)	Non-controlling Interests	Total
<b>Balance, December 31, 2015</b>		<b>29,030,362</b>	-	<b>3,434,517</b>	<b>14,382,040</b>	<b>(8,862,392)</b>	<b>(50,487)</b>	<b>(15,716)</b>	<b>37,918,324</b>
Net loss for the period		-	-	-	-	(356,624)	-	(20,032)	(376,656)
Other comprehensive loss for the period	7	-	-	-	-	-	24,214	-	24,214
Stock-based compensation	17	-	-	-	42,321	-	-	-	42,321
Transferred to treasury		84,788	-	-	-	-	-	-	84,788
<b>Balance, March 31, 2016</b>		<b>29,115,150</b>	-	<b>3,434,517</b>	<b>14,424,361</b>	<b>(9,219,016)</b>	<b>(26,273)</b>	<b>(35,748)</b>	<b>37,692,991</b>
Net loss for the period		-	-	-	-	(1,589,616)	-	6,550	(1,583,066)
Other comprehensive loss for the period	7	-	-	-	-	-	34,045	-	34,045
Issue of shares and warrants under private placement	15	662,910	-	424,263	-	-	-	-	1,087,173
Issue of shares and warrants for liabilities	15	171,049	-	109,471	-	-	-	-	280,520
Issue of shares and warrants for services rendered	15	201,352	-	128,865	-	-	-	-	330,217
Issue of shares and warrants for finder's fees	15	31,762	-	20,328	-	-	-	-	52,090
Issued for exploration and evaluation projects	10	125,000	67,451	-	-	-	-	-	192,451
Share and warrant issue costs		(38,644)	-	(22,155)	-	-	-	-	(60,799)
Issued for services rendered	15	48,025	-	-	-	-	-	-	48,025
Expired warrants	16	-	-	(1,658,142)	1,658,142	-	-	-	-
Stock-based compensation	17	-	-	-	126,964	-	-	-	126,964
<b>Balance, December 31, 2016</b>		<b>30,316,604</b>	<b>67,451</b>	<b>2,437,147</b>	<b>16,209,467</b>	<b>(10,808,632)</b>	<b>7,772</b>	<b>(29,198)</b>	<b>38,200,611</b>
Net loss for the period		-	-	-	-	(442,925)	-	(1,969)	(444,894)
Other comprehensive income for the period	7	-	-	-	-	-	(33,967)	-	(33,967)
Issue of shares and warrants under private placement	15	216,515	-	140,735	-	-	-	-	357,250
Issue of shares and warrants for liabilities	15	341,288	-	221,837	-	-	-	-	563,125
Issue of shares and warrants for services rendered	15	144,370	-	100,666	-	-	-	-	245,036
Issue of shares and warrants for exploration and evaluation projects	15	10,500	-	-	-	-	-	-	10,500
Expired warrants	16	-	-	(206,232)	206,232	-	-	-	-
Stock-based compensation	17	-	-	-	16,875	-	-	-	16,875
Divestiture of shares of Debut Diamonds Inc.	4	-	-	-	-	87,000	-	-	87,000
<b>Balance, March 31, 2017</b>		<b>31,029,277</b>	<b>67,451</b>	<b>2,694,153</b>	<b>16,432,574</b>	<b>(11,164,557)</b>	<b>(26,195)</b>	<b>(31,167)</b>	<b>39,001,536</b>

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

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

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2017	2016
<b>Cash flows from operating activities</b>			
Net loss for the period		(444,894)	(376,656)
Adjustments for			
Amortization of property and equipment	9	5,860	8,004
Accretion expense	14	9,883	
Stock-based compensation costs	17	16,875	42,321
Shares and warrants issued for services	15	245,036	-
Interest accrued on debenture liabilities	14	3,303	-
Gain on disposal of marketable securities	7	(114,373)	-
Part XII.6 penalty and interest	12	14,280	-
Net change in non-cash working capital balances		71,605	298,964
<b>Net cash used by operating activities</b>		<b>(192,425)</b>	<b>(27,367)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares and warrants	15	357,250	-
Proceeds from issuance of treasury shares		-	84,788
Repayment of debenture	13	(71,908)	-
<b>Net cash provided by financing activities</b>		<b>285,342</b>	<b>84,788</b>
<b>Cash flows from investing activities</b>			
Expenditures on exploration and evaluation projects	10	(12,900)	(2,340)
Expenditures on intangible assets	11	(7,520)	(45,942)
Proceeds from sales of marketable securities	7	230,773	-
<b>Net cash used by investing activities</b>		<b>210,353</b>	<b>(48,282)</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>303,270</b>	<b>9,139</b>
Cash and cash equivalents – Beginning of the period		33,935	37,247
<b>Cash and cash equivalents – End of the period</b>		<b>337,205</b>	<b>46,386</b>
<b>Change in non-cash working capital balances comprises:</b>			
Receivables		43,503	44,467
Prepaid expenses		6,005	9,656
Trade and other payables		22,097	244,841
<b>Net change in non-cash working capital balances</b>		<b>298,964</b>	<b>298,964</b>
<b>Additional information - non-cash transactions</b>			
Issuance of shares/warrants for exploration and evaluation projects	15	10,500	-
Additions to exploration and evaluation projects included in accounts payable	12	-	30,826
Additions to intangible assets included in accounts payable	12	45,281	119,799
Issuance of shares/warrants for settlement of payables	15	563,125	-
Expired warrants included in contributed surplus	16	206,232	-
Decrease in cash surrender value of life insurance in accounts payable	8	2,609	-

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

## **KWG RESOURCES INC.**

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

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#### **1 NATURE OF OPERATIONS**

KWG Resources Inc. (“KWG” or the “Company”) is an incorporated entity domiciled in Canada. The Company’s registered office is located at 141 Adelaide St. West, Suite 420, Toronto, Ontario, M5H 3L5. KWG is involved in the exploration and evaluation of base and precious metals and in the development of a transportation link to access the remote areas where these are located. It has interests in properties located in Canada. It 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 symbol “KWG”.

The Company is in the process of exploring its exploration and evaluation projects and has not yet determined whether its exploration and evaluation projects contain mineral deposits that are economically recoverable. The Company will periodically have to raise additional funds to continue its exploration activities and, while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration and evaluation properties. The recoverability of exploration and evaluation project expenditures is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of 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

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

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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**

**(a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the annual financial statements for the year ended December 31, 2016 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This is considered generally accepted accounting principles for Canadian public companies.

The management of KWG prepare these unaudited condensed interim consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. These unaudited condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 30, 2017.

**(b) Basis of Measurement**

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

**(c) Basis of Consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Canada Chrome Corporation, 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 67% 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.

**(d) Foreign Currency**

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies



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other than an entity's functional currency are recognized in the consolidated statements of operations in "gain(loss) on foreign exchange".

**(e) Critical Accounting Estimated 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, operating management expertise and existing permits. See Note 9 for details of capitalized exploration and evaluation costs.

**Impairment of exploration and evaluation projects**

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

**Income taxes and recoverability of potential deferred tax assets**

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

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**(Unaudited)(in Canadian dollars)**

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

**Share-based payments**

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

**Contingencies and commitments**

Refer to Note 21.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are set out in Note 3 to the 2016 audited consolidated financial statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these financial statements.

**(a) New Accounting Policies**

The IASB issued a number of new and revised International Accounting Standards which are effective for the Company's financial year beginning January 1, 2017. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

**(b) New Standards and Interpretations Not Yet Adopted**

Since the issuance of the Company's 2016 audited consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 of those statements.

**4 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. In January and February 2017, KWG sold 8,700,000 of these common shares for cash proceeds of \$93,977. A gain of

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\$6,977 was recorded on these dispositions. At March 31, 2017, KWG owns 135,930,000 common shares of DDI, which represents 66.55% of the issued and outstanding common shares of DDI.

**5 CASH AND CASH EQUIVALENTS**

	As at March 31, 2017	As at December 31, 2016
Bank balances	337,205	33,935
<b>Cash and cash equivalents</b>	<b>337,205</b>	<b>33,935</b>

**6 RECEIVABLES**

	As at March 31, 2017	As at December 31, 2016
Sales taxes receivable	37,707	126,922
Other receivables	129,241	83,529
<b>Receivables</b>	<b>166,948</b>	<b>210,451</b>

**7 MARKETABLE SECURITIES**

	As at March 31, 2017	As at December 31, 2016
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i) 534,750 common shares (10,695,000 in 2016)	53,475	42,780
Eloro Resources Ltd. ("Eloro") (ii) 216,558 common shares (216,558 in 2016)	14,802	88,789
Cliffs Natural Resources Inc. (iii) 200 common shares	2,183	2,258
<b>Total AFS</b>	<b>70,460</b>	<b>133,827</b>
<b>Marketable securities</b>	<b>70,460</b>	<b>133,827</b>

- (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 first quarter of 2017, the Company sold 196,000 Eloro shares on the open market for cash proceeds of \$136,796. A gain of \$68,196 was recognized on these dispositions.
- (iii) On June 25, 2014, KWG acquired 200 common shares of Cliffs Natural Resources Inc. on the open market for a total cash cost of \$3,082.

**Sensitivity Analysis - Equity Price Risk**

All of the Company's financial assets classified as available for sale are listed on public stock

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**(Unaudited)(in Canadian dollars)**

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.

**8 CASH SURRENDER VALUE OF LIFE INSURANCE**

The Company owns three whole life insurance policies on the life of its Chief Executive Officer with a total death benefit of \$4,852,443. The insurer of these policies is Canada Life.

**9 PROPERTY AND EQUIPMENT**

	Automobiles	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)
<b>Net book value</b>	<b>23,397</b>	<b>6,599</b>	<b>7,385</b>	<b>8,648</b>	<b>46,029</b>
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)
<b>Net book value</b>	<b>9,359</b>	<b>-</b>	<b>2,816</b>	<b>3,187</b>	<b>15,362</b>
Additions (disposals)	-	-	-	-	-
Amortization	(3,510)	-	(985)	(1,365)	(5,860)
Balance, March 31, 2017					
Cost	83,254	-	44,991	27,307	179,743
Accumulated amortization	(77,405)	-	(43,160)	(25,485)	(170,241)
<b>Net book value</b>	<b>5,849</b>	<b>-</b>	<b>1,831</b>	<b>1,822</b>	<b>9,502</b>

**10 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 Expenditures	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

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

	Balance as at January 1, 2017	Current Expend- itures	Balance as at March 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	1,400	16,360,944
Black Horse Project (iv)	10,096,193	22,000	10,118,193
MacFadyen Kimberlites (v)	634,242	-	634,242
Hornby Property (vi)	100,000	-	100,000
	41,791,073	23,400	41,814,473

- (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, 2016 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 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

## **KWG RESOURCES INC.**

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

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issuance of common shares of Bold, or its assignee, at the market price at the time the shares are issued. If the option under the third stage is exercised, the fourth stage would provide Bold with the option to acquire Fancamp's remaining 20% interest in exchange for a gross metal royalty. Fancamp would then be entitled to be paid 2% of the total revenue from the sale of all metals and mineral products from the property from the commencement of commercial production. Once all of the capital costs to bring the project to the production stage have been repaid entirely, the gross metal royalty may be scaled up to a maximum of 4% of the total revenue from the sale of all metals and mineral products from the property depending upon the price of product sold. The options under stages three and four must be exercised within 90 days following the date that Bold earns its 60% interest.

Under the terms of the agreement between KWG and Bold, KWG can acquire up to 80% of Bold's interest in the Fancamp Option, in respect of chromite only, by funding 100% of Bold's option payments and programs under the four stages listed above. For nickel and other non-chromite minerals identified during the exploration programs, the parties have agreed to form a joint venture in which KWG has a 20% working interest. KWG will have a right of first refusal to purchase all ores or concentrates produced by such joint venture whenever its joint venture interest exceeds 50%. Payments under the first stage in respect of the earn-in option total of \$1,500,000 are to be made as follows: funding of \$300,000 for a first program, \$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 in satisfaction of the second option payment. On March 17, 2015, the Company issued 35,000,000 common 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 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 14) and 5,000,000 treasury shares in settlement of operator's fees owed to Bold under the earn-in option agreement between the parties on the Black Horse Project.

## **KWG RESOURCES INC.**

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

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- (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 to MacDonald Mines Exploration Ltd. ("MacDonald") to acquire the Hornby Property claims. These claims constitute an extensive holding 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.

#### **11 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 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 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 March 31, 2017, these patents were still pending and were not ready for use; therefore, no amortization has been recorded in these financial statements.

**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**12 TRADE AND OTHER PAYABLES AND PROVISIONS**

	Notes	March 31, 2017	December 31, 2016
Trade payables			
Exploration and evaluation projects	10	1,809,248	1,805,931
Intangible assets	11	46,451	43,336
Non-project related		642,044	615,761
Accrued liabilities			
Exploration and evaluation projects	10	-	-
Non-project related		29,762	598,309
Part XII.6 penalties and interest	21(i)	1,172,620	1,158,339
Flow-through indemnification provision	21(i)	3,837,217	3,837,217
Lease inducement	21(ii)	3,391	5,935
		<u>7,540,733</u>	<u>8,064,828</u>

**13 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.

**14 CONVERTIBLE DEBENTURE PAYABLE**

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 10(iv)). The debenture bears interest at 5% compounded annually and is due on January 15, 2019. It may be converted by Bold at any time, in whole or in part, into KWG treasury shares at \$0.05 per share. The debenture must 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 will be accreted to its face amount over the term of the debenture. Accretion expense of \$18,448 has been recorded and interest of \$6,164 has been accrued to March 31, 2017.



**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**15 SHARE CAPITAL**

Authorized

An unlimited number of no par value Subordinate Voting Shares (iii)

An unlimited number of no par value Multiple Voting Shares (iii)

Issued

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

	Three months ended March 31, 2017	Year ended December 31, 2016
<b>Issued (all Subordinate Voting Shares)</b>	<b>Number of shares</b>	<b>Number of shares</b>
Balance – beginning of period	966,320,281	871,418,968
Issued under a private placement (i),(ii),(v)	17,011,905	54,358,650
Issued for liabilities (i),(ii),(v)	26,815,476	14,026,036
Issued for finders' fees (v)	-	2,604,500
Issued for exploration and evaluation projects (ii),(iv)	500,000	5,000,000
Issued for services rendered (i),(ii),(v)	11,668,339	18,912,127
<b>Balance – end of period</b>	<b>1,022,316,001</b>	<b>966,320,281</b>

(i) 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 (\$305,750 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 (\$153,735 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.

(ii) 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.

(iii) Effective February 14, 2017, the Company reclassified its common shares as Subordinate Voting Shares and created an unlimited number of a new class of shares called Multiple Voting Shares.

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

(iv) 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 10(iv)).

(v) 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.

**16 WARRANTS AND COMPENSATION OPTIONS**

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

Issued	Three months ended March 31, 2017		Year ended December 31, 2016	
	Warrants	Compensation options	Warrants	Compensation Options
Balance – beginning of period	166,571,563	2,823,700	122,170,000	352,000
Issued under a private placement (Note 15(i),(ii),(v))	17,011,905	-	54,358,650	-
Issued for liabilities (Note 15(i),(ii),(v))	26,815,476	-	14,026,036	-
Issued for services rendered (Note 15(i),(ii),(v))	12,168,339	-	16,510,877	-
Issued for finders' fees (Note 15(v))	-	-	-	2,604,500
Expired	(5,900,000)	(20,000)	(40,494,000)	(132,800)
<b>Balance – end of period</b>	<b>216,667,283</b>	<b>2,803,700</b>	<b>166,571,563</b>	<b>2,823,700</b>

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

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**Notes to the Condensed Interim Consolidated Financial Statements**  
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A summary of the Company's outstanding warrants and compensation options as at March 31, 2017 is presented below:

<b>Number of warrants</b>	<b>Number of compensation options</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
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
<b>216,667,283</b>	<b>2,803,700</b>		

(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.

**17 STOCK OPTION PLAN**

The Company maintains a stock option plan (the "Plan") whereby the Board of Directors may from time to time grant to employees, officers, directors and consultants of the Company or any subsidiary thereof options to acquire common shares as may be determined by the Board, provided that the exercise price may not be lower than the market price of the common shares at the time of the grant of the options.

As at March 31, 2017, the Plan provides (i) that the maximum number of common shares that may be reserved for issuance under the Plan shall be equal to 10% of the number of issued and outstanding common shares; and (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant.

Options vest over an 18-month period: 25% at the date of the grant and 12.5% in each of the following six quarters. Options granted must be exercised over a period no longer than five years after the date of grant, and they are not transferable.

A summary of changes in the Company's stock options outstanding is presented below (all of these options are in respect of the Subordinate Voting Shares):

**Options**

	<b>Three months ended March 31, 2017</b>		<b>Year ended December 31, 2016</b>	
	<b>Number of shares</b>	<b>Average exercise price</b>	<b>Number of shares</b>	<b>Average exercise price</b>
Balance – beginning of period	82,050,000	0.067	86,350,000	0.069
Expired	(12,750,000)	0.084	(4,300,000)	0.115
<b>Balance – end of period</b>	<b>69,300,000</b>	<b>0.064</b>	<b>82,050,000</b>	<b>0.067</b>

**KWG RESOURCES INC.**  
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The following table summarizes information about options outstanding and exercisable as at March 31, 2017:

		Outstanding options	Exercisable options
Exercise price	Number of options	Average contractual life (in years)	
0.050	50,214,000	3.49	50,214,000
0.100	19,086,000	1.49	19,086,000
<b>0.067</b>	<b>69,300,000</b>	<b>2.94</b>	<b>69,300,000</b>

Total share-based compensation costs for the three months ended March 31, 2017 amounted to \$16,875 (2016 – \$54,600).

**18 NON-CONTROLLING INTEREST**

The amount shown for non-controlling interest on the consolidated balance sheets is in relation to a non-controlling interest ownership (33.45%, 2016 - 29.19%) 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.

**19 GENERAL AND ADMINISTRATIVE EXPENSES**

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

Three months ending March 31	2017	2016
Advertising and promotion	45,755	8,100
Consultants' fees	99,000	48,705
Directors' fees and insurance	12,715	25,728
Filing fees	3,249	3,576
Investor relations fees	20,554	1,473
Professional fees	60,356	21,850
Office overheads	79,595	72,445
Salaries and benefits	126,146	138,341
Travel and accommodation	66,803	3,208
	<b>514,173</b>	<b>323,426</b>

**20 RELATED PARTY TRANSACTIONS**

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2017, officers and companies controlled by officers charged consulting fees for cash consideration of \$116,324 (\$72,705 in 2016) and salaries and bonuses in the amount of \$71,600 (\$73,846 in 2016) of which \$56,324 remained payable at March 31, 2017 (\$96,551 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 the first quarter of 2017 totalled \$19,611 (\$22,750 in 2016) of which \$nil remained payable at March 31, 2017 (\$22,750 in 2016). KMP received no stock options in the first quarter of 2017 (nil in 2016). In the first quarter of 2017, stock compensation expenses totalled \$13,125 for KMP (\$28,384 in 2016).

**KWG RESOURCES INC.**  
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**21 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 has been set 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.

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

- (ii) The Company has signed an operating lease for its premises located at 141 Adelaide St. W., Suite 420, Toronto, On, M5H 3L5. The lease is a net lease with a term of five years commencing on August 1, 2012. Monthly minimum rental payments are \$5,326 for October 1, 2012 through July 31, 2014 and \$5,568 for August 1, 2014 through July 31, 2017. There were no payments due for August and September 2012. The Company is also responsible for its proportionate share of the operating costs in relation to this space. In addition to waiving the first two months rental payments, the landlord reimbursed the Company for the amount of \$28,002 in relation to leasehold improvements and moving costs. The total amount of these inducements will be amortized over the life of the lease (Note 12).
- (iii) 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.

## **KWG RESOURCES INC.**

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

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- (iv) The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

#### **22 FINANCIAL INSTRUMENTS AND FAIR VALUES**

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

A complete description of the Company's financial risk management is included in Note 26 to the 2016 audited consolidated financial statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these financial statements.

#### **23 DETERMINATION OF FAIR VALUES**

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 27 to the Company's 2016 audited consolidated financial statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### **24 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 \$39,001,536 at March 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 the first quarter of 2017. The Company is not subject to externally imposed capital requirements.

#### **25 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.

#### **26 SUBSEQUENT EVENTS**

On April 28, 2017, the Company's Multiple Voting Shares were listed for trading on the CSE under the symbol "KWG-A".