# KWG RESOURCES INC.

(An exploration stage company)

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

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 year ended December 31, 2012 is dated April 17, 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.

To be able to continue to earn its interest in the *Big Daddy* deposit, 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.

Recently, Cliffs has 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 to the Cliffs application for an easement for the purpose of making *Black Thor* economic, as it has no interest in the *Black Thor* deposit. Previously, KWG had completed a preliminary economic assessment of the *Big Daddy* project to comply with the requirements of the Ontario Securities Act for public disclosure of the discovery's economic merits. The Cliffs application to the Ministry of Natural Resources ("MNR"), which administers the Public Lands Act, was referred to the Ministry of Northern Development and Mines ("MNDM"), which administers the Mining Act, and under the provisions of which KWG staked the claims and conducted assessment work. The MNDM then referred the matter to the Mining and Lands Commissioner of Ontario ("the Commissioner") to determine whether KWG was acting reasonably in the circumstances by declining its consent to the grant of an easement by MNR to Cliffs and, if not, to make an Order to grant the easement sought in the absence of KWG's consent. The Commissioner then conducted a hearing of the case based on a Record of affidavits and cross-examination transcripts as well as viva voce evidence. The hearing was concluded on February 14, 2013 with the tribunal reserving its decision in order to review the evidence and then deliver written reasons. The decision continues to be awaited at the date hereof.

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"). Coincident with the spin-out DDI received subscriptions of $3.5 million of flow-through funding to continue the sampling of its MacFadyen kimberlites near the De Beers Victor Mine. When the company was unable to complete timely exploration agreements with the Attawapiskat First Nation, a new and detailed regional airborne geophysical survey was completed instead. However, the survey failed to identify any new targets for further exploration. DDI also then drill-tested 19 potential kimberlite targets in the Nakina area and these also failed to make any discoveries warranting further exploration. DDI then participated under an option agreement in the exploration of a Timmins area property prospective for gold. That program too failed to make any new discoveries. DDI is now seeking a strategic alliance to enable resumption of the sampling of the MacFadyen kimberlites upon the issue of an exploration permit under the new Mining Act regulations concerning consultation with affected First Nations.

## HIGHLIGHTS

During and subsequent to the last quarter of the year ended December 31, 2012:

### Corporate

- A non-brokered private placement of 24,398,332 flow-through common shares was completed at a price of $0.06 per share for aggregate gross proceeds of $1,463,900.

### Exploration

- An agreement was closed with Bold Ventures Inc. through which the Company may acquire from Fancamp Exploration Ltd. its interest in the mining claims hosting the Black Horse chromite occurrence. KWG is funding 100% of the exploration programs operated by Bold to enable Bold to earn the interest under its option agreement with Fancamp. For the funding, KWG will earn an 80% interest in Bold's interest in chromite minerals identified and a 20% interest in non-chromite minerals.

### Canada Chrome Corporation ("CCC") (wholly-owned subsidiary)

- The Company released a study commissioned to compare the capital and operating costs of both a railroad and an all-weather road to the *Ring of Fire*. The study estimates the capital costs for a roadway at $1.052 billion and a railroad at $1.561 billion.
- The hearing of an application to The Mining and Lands Commissioner of Ontario concluded with the tribunal reserving its decision in order to review and consider the evidence and arguments put before it during the two-week hearing. The application seeks an Order that the Minister of Natural Resources may grant an easement under the Public Lands Act for the construction of a road by a subsidiary of Cliffs Natural Resources Inc. over mining claims recorded in the name of CCC. CCC has refused to consent to the grant pursuant to section 51 of the Mining Act.

## 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,* in the near term. Important groups of the area's First Nations are now supporting the development of a railroad enterprise for long term mineral exploitation and area development. We continue to believe that the time has come for the development of mechanisms that deliver the fair sharing with those First Nations of new revenues derived from these lands reserved by Treaty to traditional usage.

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 broad-based resource revenue sharing for them, and 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 Commissioner has been asked to determine whether that is the case, or not. While the Company is optimistic that its decision to decline consent will be vindicated, it expects the proceedings to be protracted. In the interim it intends to continue the development plan and has made application to bring the claims to lease. The Company will maintain that any Order in Council 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.

## OVERALL PERFORMANCE – FINANCIAL

During the year ended December 31, 2012, the Company utilized 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 were minimal and consisted of interest income and a recovery of administrative expenses from DDI. Regular expenditures for the year were lower than originally projected due to the planned curtailment of some of the Company's activities. Additionally expenditures were incurred related mainly due to costs related to the annual shareholders' meetings and professional fees required to provide a defense to Cliff's easement application. The Company also expended the required amount, in the first quarter of 2012, to attain a 30% ownership of the Big Daddy project.

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 December 31, 2012, the Company had working capital of $12,154,018 ($19,095,299 as at December 31, 2011) including $11,066,004 in cash and cash equivalents ($16,030,551 in 2011). The Company forecasts operating expenditures of approximately $3,100,000 for fiscal 2013 and flow-through expenditure requirements of $1,463,900. 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 year ended December 31, 2012 the Company recorded a loss of $4,657,602 ($0.01 per share) compared to a net profit of $12,006,676 ($0.02 per share) for the year ended December 31, 2011. The loss includes a non-cash gain of $1,093,379 ($1,396,188 in 2011) 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. The above loss also includes non-cash write-downs of mineral properties interests in the amount of $25,132 ($nil in 2011) and receivable from DDI in the amount of $648,805 ($nil in 2011). The period results are explained as follows:

### Income

Finance and interest income amounted to a net loss of $1,616,462 for the year ended December 31, 2012 compared with net income of $292,094 for the year ended December 31, 2011. This included the amortization of a deferred liability in the amount of $245,655 ($289,420 in 2012) for the flow-through premium received on the issuance of shares during 2012 and 2011. Also included is a non-cash loss on the revaluation of warrant investments in the amount of $2,016,748 ($65,117 in 2011). Interest income for the year was $154,631 compared to $67,791 in 2011 which resulted from higher cash reserves due to the sale of the NSR during the latter half of 2011. Other income totaled $3,125 in 2012 compared to $86,565 for 2011. The comparative amount included operator's fees on the Big Daddy joint venture.

### Expenses

*Administrative Expenses*

Administrative expenses for the year ended December 31, 2012 amounted to $2,710,145 ($2,796,335 for 2011). The following discusses variances in the main components of the administrative expenses:

- Decreased salaries of $330,000 due to additional bonuses paid out in 2011 which weren't repeated in 2012. Decreased directors' fees of $15,000 due to a retroactive increase paid in the third quarter of 2011;

- Professional and consultants' fees increased by $409,000 compared to 2011 due to the complexities of the transition to International Financial Reporting Standards and its impact on the annual financial statements, the investigation of possible restructuring options and legal fees incurred to contest a request for an easement by Cliffs;

- Investor relations fees increased by $147,000 compared to 2011 largely due to the fact the Company has held the two annual meetings in 2012 and there was no annual meeting held during 2011;

- An increase of $233,000 in the amount the Company recovered of its administrative expenses as a result of providing services to DDI. In 2011 this recovery included fees for the operatorship of the *Big Daddy* chrome project; and

- Corporate expenses decreased by $64,000 in 2012 compared to 2011 which included a decrease in filing fees of $14,000 due there being only a minor private placement in 2012, increased overheads $3,000, mainly due to a new lease for the Company's Toronto office and decreased travel and promotional costs of $53,000.

*Stock Compensation Costs*

Stock compensation costs constitute a non-cash expense. Stock compensation costs for the year ended December 31, 2012 totaled $497,623 compared with $1,157,799 in 2011. This resulted from the issuance of new stock options in the second quarter of 2010. These stock options vested throughout 2011 and early 2012. The calculated cost of these stock options is recognized as an expense over the vesting period. The Company issued 7,100,000 stock options in 2012 (4,300,000 in 2011) and 10,420,000 expired during the year (2,000,000 in 2011).

*Foreign Exchange Gain (Loss)*

For the 2012 year, the Company realized a foreign exchange loss of $968 compared to a gain of $511,750 in 2011. The Company carries a minimal amount of US dollar funds. The gain in 2011 resulted from the fact that half of the proceeds of the sale of the NSR, which was denominated in United States dollars, were held in a third party trust account for three months during which time the US dollar strengthened against the Canadian dollar.

## SUMMARY OF QUARTERLY RESULTS

*(Thousands of dollars except amount per share)*

| ***Quarter ending*** | ***Total revenue*** | ***Net Profit (loss)*** | ***Income (loss) per share (basic and diluted)*** |
|---|---:|---:|---:|
| 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) |
| September 30, 2011 | - | 13,837 | 0.02 |
| June 30, 2011 | - | 140 | <0.01 |
| March 31, 2011 | - | (1,039) | <(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 are attributable mainly to adjustments resulting from the period end revaluation of the warrant investments, ongoing general and administrative expenses, which were consistent with previous quarters and stock compensation costs.

Income for the third quarter of 2011 resulted from the sale of the NSR. The higher losses in quarters prior to this are attributable mainly to the recognition of mineral property write-offs, ongoing general and administrative expenses and stock compensation costs during such quarters.

## 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.

The Company has incurred approximately $10 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 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 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.

## RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During 2012, officers and companies controlled by officers charged consulting fees totalling $229,357 ($280,103 in 2011) and salaries and bonuses in the amount of $403,692 ($667,916 in 2011) of which $19,898 remained payable at December 31, 2012 ($18,305 in 2011). Directors' fees paid for the year totalled $97,372 ($147,060 in 2011). KMP received 7,100,000 stock options in 2012 (1,500,000 in 2011). In 2012 stock compensation expenses totalled $469,613 for KMP ($948,954 in 2011).

### 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 2012, the Company charged DDI for overhead and personnel charges in the amount of $251,325 ($58,570 in 2011) and for project costs in the amount of $248,121 ($60,870 in 2011) and it also advanced funds in the form of loans to DDI in the amount of $297,913 ($664,332 in 2011). Due to adverse market conditions which are affecting the value of DDI's shares, the Company has decided to write down the receivable from DDI by $648,805.

## 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 2012.

## 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 10 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 December 31, 2012 and December 31, 2011, the Company had $nil in guarantees outstanding.

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Carrying amount | | |
| Cash and cash equivalents | 11,066,004 | 16,030,551 |
| Receivables | 927,393 | 861,713 |
| Financial assets classified as available for sale | 401,940 | 888,450 |
| Financial assets classified as fair value through profit & loss | 169,100 | 2,284,400 |
| | 12,564,437 | 20,065,114 |

**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, 2012 with comparative figures for the year ended December 31, 2011 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*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | 25,132 | 2,516,896 |
| Exploration expenses | | |
| Drilling | - | (24,000) |
| Geology | - | 10,639 |
| Surveying | - | 6,495 |
| | - | (6,866) |
| Divestiture of DDI/written off | (25,132) | (2,484,898) |
| Balance – End of the year | - | 25,132 |

*Wawa*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | 156,944 |
| Divestiture of DDI | - | (156,944) |
| Balance – End of the year | - | - |

*Big Daddy*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | 8,813,117 | 6,454,391 |
| Exploration expenses | | |
| Drilling | 1,252,247 | 1,408,930 |
| Geology | - | 12,286 |
| Management | - | 39,589 |
| Metallurgical costs | - | 32,420 |
| MFFN compensation | - | 2,610 |
| Resource studies | - | 193,739 |
| Sample storage | - | 8,136 |
| Additional earn-in | - | 661,016 |
| | 1,252,247 | 2,358,726 |
| Balance – End of the year | 10,065,364 | 8,813,117 |

*Diagnos*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | 178,014 | 189,120 |
| Divestiture of DDI | - | (11,106) |
| Balance – End of the year | 178,014 | 178,014 |

*Pele Mountain*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | 556,878 |
| Exploration expenses | | |
| Geology | - | 10,639 |
| Reports | - | 5,500 |
| Staking | - | 7,412 |
| Surveying | - | 62,354 |
| | - | 85,905 |
| Divestiture of DDI | - | (642,783) |
| Balance – End of the year | - | - |

*Uniform Surround*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | 7,950 |
| Exploration expenses | | |
| Geology | - | 10,639 |
| Surveying | - | 5,196 |
| | - | 15,835 |
| Divestiture of DDI | - | (23,785) |
| Balance – End of the year | - | - |

*Victor West*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | 119,979 |
| Exploration expenses | | |
| Geology | - | 10,639 |
| Staking | - | 10,209 |
| Surveying | - | 57,170 |
| | - | 78,018 |
| Divestiture of DDI | - | (197,997) |
| Balance – End of the year | - | - |

*Railway Corridor*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | 15,236,311 | 14,313,571 |
| Exploration expenses | | |
| Assaying & testing | - | 71,445 |
| Camp expenses | - | 34,635 |
| Claims staking | - | 31,967 |
| Draft closure plan | - | (9,000) |
| Field consultants | 102,178 | 34,385 |
| Flight costs | - | 14,090 |
| Geology | 201,847 | 816,303 |
| Legal costs | - | 5,092 |
| Studies | 171,835 | - |
| Travel & accommodation | - | 360 |
| | 475,860 | 999,277 |
| Acquisition costs | 372,000 | - |
| Divestiture of DDI | - | (76,537) |
| Balance – End of the year | 16,084,171 | 15,236,311 |

*Nakina Project*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | - |
| Exploration expenses | | |
| Acquisition costs | - | 560,216 |
| Geology | - | 10,639 |
| | - | 570,855 |
| Divestiture of DDI | - | (570,855) |
| Balance – End of the year | - | - |

*The Temagami Iron Limited Partnership*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | - |
| Exploration expenses | | |
| Acquisition costs | 100,000 | - |
| Balance – End of the year | 100,000 | - |

*CME Project*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the year | - | - |
| Exploration expenses | | |
| Survey | 500,000 | - |
| Balance – End of the year | 100,000 | - |

*All Projects Combined*

| ***Cost and deferred exploration expenses*** | ***Year ended December 31, 2012*** | ***Year ended December 31, 2011*** |
|---|---|---|
| | ***$*** | ***$*** |
| Balance – Beginning of the period | 28,442,269 | 31,390,134 |
| Acquisition costs | 472,000 | 560,216 |
| Exploration expenses | | |
| Assaying & testing | - | 71,445 |
| Camp expenses | - | 34,635 |
| Draft closure plan | - | (9,000) |
| Drilling | 1,252,247 | 1,384,930 |
| Field consultants | 102,178 | 34,385 |
| Financing costs | - | 20,000 |
| Flight costs | - | 14,090 |
| Geology | 201,847 | 881,784 |
| Legal | - | 5,092 |
| Management | - | 39,589 |
| Metallurgical costs | - | 32,420 |
| MFFN Compensation | - | 2,610 |
| Reports | - | 5,500 |
| Resource studies | - | 193,739 |
| Sample storage | - | 8,136 |
| Shortfall payment | - | 661,016 |
| Staking | - | 49,588 |
| Studies | 171,835 | - |
| Survey | 500,000 | 131,215 |
| Travel & accommodation | - | 360 |
| | 2,228,107 | 3,561,534 |
| Write downs taken in the year | - | (202,123) |
| Properties sold/written off during the year | (25,132) | (2,702,587) |
| Divestiture of DDI | - | (4,164,905) |
| Balance – End of the year | 31,117,244 | 28,442,269 |

The following is a detailed break-down of administrative expenses incurred for the year ended December 31, 2012 with comparative figures for the year ended December 31, 2011.

| ***Administrative Expenses*** | ***2012*** | ***2011*** |
|---|---|---|
| | **$** | **$** |
| Advertising & Promotion | 22,366 | 97,058 |
| Consultant's Fees | 595,114 | 562,647 |
| Directors Fees & Insurance | 117,739 | 132,356 |
| Filing Fees | 47,785 | 62,299 |
| Investor Relations Fees | 191,030 | 44,398 |
| Professional fees | 806,615 | 429,790 |
| Office Overhead | 268,222 | 264,996 |
| Salaries and benefits | 1,042,028 | 1,371,484 |
| Travel & Accommodation | 103,645 | 82,946 |
| Administrative recovery | (484,399) | (251,639) |
| Total Administrative Expenses | 2,710,145 | 2,796,335 |

**National Instrument 51-102 - Section 5.4**
Disclosure of Outstanding Share Data (as at April 17, 2013)

***Common shares outstanding:*** 691,577,273

***Warrants and compensation options outstanding:*** 75,097,620

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*** |
|---|---|---|---|
| 197,620 | - | 0.10U.S. | April 2014 |
| 8,750,000 | 750,000 | 0.12 | June 2014 |
| 15,000,000 | - | 0.10 | July 2014 |
| 26,400,000 | - | 0.10 | August 2014 |
| 21,000,000 | - | 0.15 | August 2016 |
| 3,000,000 | - | 0.12 | March 2017 |

***Options outstanding:*** 55,056,600 - average exercise price of $0.113

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

| ***Number of Options*** | ***Exercise Price $*** | ***Expiry Date*** |
|---|---|---|
| 588,100 | 0.10 | May 2013 |
| 400,000 | 0.10 | October 2013 |
| 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).