

KWG RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014

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.

DOUGLAS FLETT, Director

THOMAS E. MASTERS, Chief Financial Officer

Montreal, Quebec
May 27, 2015

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

(in Canadian dollars)	Notes	As at March 31, 2015	As at December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents	5	907,036	1,388,369
Receivables	6	108,827	764,149
Marketable securities	7	145,700	136,735
Prepaid expenses		21,031	16,233
Total current assets		1,182,594	2,305,486
Non-current assets			
Property and equipment	8	67,700	76,438
Exploration and evaluation projects	9	38,774,808	37,458,687
Intangible assets	10	3,715,210	3,701,148
Total non-current assets		42,557,718	41,236,273
Total assets		43,740,312	43,541,759
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	235,626	187,135
Total liabilities		235,626	187,135
Equity			
Share capital	13	27,955,357	27,383,180
Warrants	14	3,393,317	3,414,317
Contributed surplus		14,111,630	14,057,030
Accumulated other comprehensive loss		(33,331)	(66,876)
Deficit		(1,918,701)	(1,433,027)
		43,508,272	43,354,624
Non-controlling interest	12	(3,586)	-
Total equity		43,504,686	43,354,624
Total liabilities and equity		43,740,312	43,541,759

Nature of operations (Note 1)

Commitments and contingencies (Notes 9 and 19)

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

Approved by the Board of Directors

Douglas Flett
Director

Frank Smeenk
Director

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

Condensed Interim Consolidated Statements of Operations

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2015	2014
General and administrative	16	(532,302)	(642,170)
Amortization of property and equipment	8	(8,738)	(7,459)
Stock compensation costs	15	(54,600)	(46,260)
Gain (loss) on foreign exchange		1,549	(26)
Loss before the undernoted		(594,091)	(695,915)
Other income (expenses)			
Finance income (expense)	17	43,599	78,503
Other income		781	781
Gain on conversion of receivable	4	60,973	-
Loss on disposal of marketable securities	7	(522)	-
		104,831	79,284
Net loss for the period		(489,260)	(616,631)
Net loss attributable to non-controlling interest	12	3,586	-
Net loss attributable to equity holders of KWG Resources Inc.		(485,674)	(616,631)
Loss per share (basic and diluted)		(0.00)	(0.00)
Weighted average number of outstanding shares		779,490,295	744,060,773

Condensed Interim Consolidated Statements of Comprehensive Loss

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2015	2014
Net loss for the period		(489,260)	(616,631)
Other comprehensive income			
Net change in fair value of available for sale ("AFS") assets	7	34,375	35,910
Transferred to income upon realization	7	(830)	-
Total comprehensive loss for the period		(455,715)	(580,721)
Portion attributable to non-controlling interest	12	3,586	-
Total comprehensive loss attributable to equity holders of KWG Resources Inc.		(452,129)	(580,721)

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

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

(in Canadian dollars)	Notes	Share capital	Warrants	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling Interests	Total
Balance, December 31, 2013		24,722,501	3,469,946	12,475,828	2,240,899	-	-	42,909,174
Net loss for the period		-	-	-	(616,631)	-	-	(616,631)
Other comprehensive loss for the period		-	-	-	-	35,910	-	35,910
Private placements, net of share issuance costs	13	109,830	29,473	-	-	-	-	139,303
Issued for exploration and evaluation projects	9	500,000	-	-	-	-	-	500,000
Issued for agent's compensation	13	-	520	-	-	-	-	520
Issued for services rendered	13	14,125	-	-	-	-	-	14,125
Stock-based compensation	15	-	-	46,260	-	-	-	46,260
Balance, March 31, 2014		25,346,456	3,499,939	12,522,088	1,624,268	35,910	-	43,028,661
Net loss for the period		-	-	-	(3,057,295)	-	-	(3,057,295)
Other comprehensive loss for the period		-	-	-	-	(102,786)	-	(102,786)
Private placements, net of share issuance costs	13	140,536	8,800	-	-	-	-	149,336
Issued for intangible assets	10	1,875,000	1,075,000	-	-	-	-	2,950,000
Issued for services rendered	13	21,188	-	-	-	-	-	21,188
Expired warrants	14	-	(1,169,422)	1,169,422	-	-	-	-
Stock-based compensation	15	-	-	365,520	-	-	-	365,520
Balance, December 31, 2014		27,383,180	3,414,317	14,057,030	(1,433,027)	(66,876)	-	43,354,624
Net loss for the period	12	-	-	-	(485,674)	-	(3,586)	(489,260)
Other comprehensive income for the period	7	-	-	-	-	33,545	-	33,545
Issued for exploration and evaluation projects	9	700,000	-	-	-	-	-	700,000
Issued for services rendered	13	16,103	-	-	-	-	-	16,103
Stock-based compensation	15	-	-	54,600	-	-	-	54,600
Transferred to treasury	4	(143,926)	(21,000)	-	-	-	-	(164,926)
Balance, March 31, 2015		27,955,357	3,393,317	14,111,630	(1,918,701)	(33,331)	(3,586)	43,504,686

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	
		2015	2014
Cash flows from operating activities			
Net loss for the period		(489,260)	(616,631)
Adjustments for			
Amortization of property and equipment	8	8,738	7,459
Stock-based compensation costs	15	54,600	46,260
Shares issued for services	13	16,102	14,125
Gain on conversion of receivables	4	(60,973)	-
Loss on disposal of marketable securities	7	522	-
Fair value changes in financial assets classified as fair value through profit & loss ("FVTPL")	7	(41,000)	(63,000)
Net change in non-cash working capital balances		12,296	(167,345)
Net cash used by operating activities		(498,975)	(779,132)
Cash flows from financing activities			
Share capital issued	13	-	145,000
Share and warrant issue expenses	13	-	(5,177)
Net cash provided by financing activities		-	139,823
Cash flows from investing activities			
Expenditures on exploration and evaluation projects	9	(11,209)	(1,340,981)
Expenditures on intangible assets	10	(13,407)	-
Purchase of marketable securities	7	-	(790)
Proceeds from sales of marketable securities	7	5,678	-
Cash acquired through acquisition of Debut Diamonds Inc.	4	36,580	-
Net cash used by investing activities		17,642	(1,341,771)
Net change in cash and cash equivalents during the period		(481,333)	(1,981,080)
Cash and cash equivalents – Beginning of the period		1,388,369	6,172,478
Cash and cash equivalents – End of the period		907,036	4,191,398
Change in non-cash working capital balances comprises:			
Receivables		322	(264,619)
Prepaid expenses		(4,798)	17,166
Trade and other payables		16,772	80,108
Net change in non-cash working capital balances		12,296	(167,345)
Additional information - non-cash transactions			
Issuance of shares/warrants for exploration and evaluation projects	9	700,000	500,000
Additions to exploration and evaluation projects included in accounts payable	11	494	264,623
Additions to intangible assets included in accounts payable	11	69,228	-

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

KWG RESOURCES INC.

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

1 NATURE OF OPERATIONS

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

The Company’s shares are listed for trading on the Canadian Securities Exchange under the symbol “KWG”.

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

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration and evaluation properties. The recoverability of exploration and evaluation project expenditures is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of 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, 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 the Company’s continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. 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 than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

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

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, 2014 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 27, 2015.

(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, its majority-owned (70.81%) subsidiary Debut Diamonds Inc. (“DDI”), which was incorporated in Ontario, Canada on October 18, 2007, and its wholly-owned subsidiaries: Canada Chrome Corporation, which was incorporated in Ontario, Canada on February 20, 2009, SMD Mining Corporation, which was incorporated in Ontario, Canada on January 16, 2008, Canada Chrome Mining Corporation, which was incorporated federally on June 4, 2010, Muketi Metallurgical General Partner Inc. which was incorporated in Quebec, Canada on April 2, 2014; and Muketi Metallurgical KWG-Limited Partner Inc. which was incorporated in Quebec, Canada on April 2, 2014.

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

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

other than an entities' 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 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 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

KWG RESOURCES INC.

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

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.

Contingencies and commitments

Refer to Note 19.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in Note 3 to the 2014 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, 2015. 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 2014 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 in settlement of all of the debt owed by DDI to KWG, including accrued interest thereon. As a result of this transaction, KWG now owns 144,630,000 common shares representing 70.81% of the issued and outstanding common shares of DDI.

KWG RESOURCES INC.
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This transaction has been treated as an asset acquisition as DDI does not meet the definition of a business in accordance with IFRS 3. The fair value of the DDI shares acquired was \$722,320 based on the market value of DDI on the date of the transaction, which was \$0.005 per share. The book value of the DDI debt on this date was \$661,347, therefore the Company recorded a gain of \$60,973 on the acquisition of these shares.

In addition to owning 166,000 common shares just prior to this transaction, the Company also owned 7,000,000 DDI warrants (Note 7(iii)) with a fair value of \$63,000 on January 27, 2015. The total fair value of the DDI securities held by KWG on the transaction date was \$786,150. This was allocated to DDI's identifiable assets and liabilities as follows:

Cash and cash equivalents	36,580
Receivables	6,347
Marketable securities:	
178,000 common shares of Renforth Resources Inc.	4,450
5,757,000 common shares of KWG Resources Inc.	143,925
21,000,000 warrants of KWG Resources Inc.	21,000
Exploration and evaluation project:	
MacFadyen Kimberlites	604,442
Trade and other payables	(30,594)
	786,150

5 CASH AND CASH EQUIVALENTS

	As at March 31, 2015	As at December 31, 2014
Bank balances	167,649	126,558
Short-term deposits	739,387	1,261,811
Cash and cash equivalents	907,036	1,388,369

6 RECEIVABLES

	As at March 31, 2015	As at December 31, 2014
Sales taxes receivable	24,537	26,393
Due from Debut Diamonds Inc. (Notes 4 and 18)	-	661,347
Other receivables	84,290	76,409
Receivables	108,827	764,149

KWG RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
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7 MARKETABLE SECURITIES

	As at March 31, 2015	As at December 31, 2014
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i) 10,695,000 common shares	53,475	53,475
Eloro Resources Ltd. ("Eloro") (ii) 303,058 common shares (308,058 in 2014)	50,005	16,943
Debut Diamonds Inc. ("DDI") (iii) 166,000 common shares in 2014	-	1,660
Cliffs Natural Resources Inc. (iv) 200 common shares	1,220	1,657
Total AFS	104,700	73,735
Financial assets at FVTPL:		
Eloro Resources Ltd. (ii) 308,058 premium warrants	41,000	-
Debut Diamonds Inc. (iii) 7,000,000 warrants in 2014	-	63,000
Total FVTPL	41,000	63,000
Marketable securities	145,700	136,735

- (i) On June 9, 2011, KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.10 on or before June 9, 2013) in GoldTrain in exchange for the settlement of a debt owed by GoldTrain to KWG. On June 9, 2011, the market value of the GoldTrain shares was \$280,000. The warrants were valued at \$151,200 on the date of acquisition. The 7,000,000 warrants expired unexercised. On March 5, 2014, KWG acquired 3,350,000 common shares in GoldTrain at a price of \$0.02 per share in settlement of \$67,000 of debt owed by GoldTrain to KWG. In addition to these transactions, the Company has acquired an additional 345,000 common shares through purchases on the open market. KWG's holdings represent approximately 18% of the issued and outstanding common shares of GoldTrain.
- (ii) On December 21, 2011, KWG acquired 3,080,580 common shares, 3,080,580 premium warrants and 1,540,290 regular warrants of Eloro in exchange for 100% of the issued and outstanding common shares of 6949541 Canada Inc ("6949541"), a wholly-owned subsidiary of KWG. Each premium warrant entitles the holder to purchase one common share of Eloro for \$1.00 on or before November 18, 2016. If the closing price of the common shares of Eloro is over \$1.50 per share for 20 consecutive trading days following the expiry of the 4-month hold period, the premium warrants must be exercised within 10 business days of Eloro providing written notice, or they will be cancelled. The premium warrants were valued at \$71,187 on the acquisition date. Each regular warrant entitled the holder to purchase one common share for \$0.24 on or before May 18, 2013. The regular warrants expired unexercised. On September 30, 2014, Eloro consolidated its common shares on a 1 for 10 basis. On March 16, 2015, the Company sold 5,000 Eloro shares on the open market for cash proceeds of \$850. A loss of \$899 was recognized on this disposition.

KWG RESOURCES INC.
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- (iii) On August 29, 2011, KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.40 on or before August 29, 2016) in DDI in exchange for 21,000,000 common shares and 21,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.15 on or before August 29, 2016) in KWG. The value attributed to the shares was based on KWG's market value on August 29, 2011, which was \$0.085 per share since there was no comparable information for DDI. The warrants were valued at \$1,638,000 on the acquisition date. The common shares of DDI were subsequently distributed to KWG's shareholders as a return of capital in December 2011. During the year ended December 31, 2012, the Company purchased 166,000 common shares of DDI on the open market. On July 24, 2012, DDI announced that it was reducing the exercise price on all of its warrants to \$0.07 per warrant effective as of that day. There have been no other changes to the terms of the warrants. On January 27, 2015, KWG acquired an additional 144,464,000 common shares in the capital of DDI through a private placement from treasury in settlement of all of the debt owed by DDI to KWG (Note 4). As a result of this transaction, KWG now owns 144,630,000 common shares representing 70.81% of the issued and outstanding common shares of DDI. DDI's assets and liabilities are now included in these condensed interim consolidated financial statements.
- (iv) 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.
- (v) On January 28, 2015, DDI sold 70,000 common shares of Renforth Resources Inc. ("Renforth") on the open market for cash proceeds of \$1,675. A loss of \$75 was recorded on this transaction. On February 9, 2015, DDI sold 108,000 common shares of Renforth on the open market for cash proceeds of \$3,152. A gain of \$452 was recorded on this transaction.

Warrants

The financial assets at FVTPL consist of warrants which are not publicly-traded. However, their valuation can be obtained through the use of a valuation model, the inputs for which are readily determinable. Any change in fair value after initial recognition, is recorded through the consolidated statements of operations as a finance income (loss). The fair value of the warrants increased by \$41,000 during the first quarter of 2015.

The following table summarizes the inputs that were used to calculate the fair value of the warrants as at March 31, 2015:

	Eloro Premium
Expiry date	Nov 18/16
Average dividend per share	Nil
Estimated volatility	267.28%
Risk-free interest rate	0.49%
Expected life of the options granted	597 days
<u>Calculated value per warrant</u>	<u>\$0.133</u>

Sensitivity Analysis - Equity Price Risk

All of the Company's financial assets classified as available for sale are listed on public stock exchanges. For such investments, a 10% increase in the equity prices at the reporting date

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

would have increased equity by approximately \$10,000. An equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

For financial assets classified at fair value through P&L, the impact on operations of a 10% increase in the fair value of these warrants at the reporting date would have been approximately \$4,000. An equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

8 PROPERTY AND EQUIPMENT

	Automobiles	Computer Equipment	Office Equipment	Leasehold Improvements	Totals
Balance, December 31, 2013					
Cost	70,140	30,582	44,262	27,307	172,291
Accumulated amortization	(59,855)	(29,667)	(23,401)	(7,737)	(120,660)
Net book value	10,285	915	20,861	19,570	51,631
Additions (disposals)	13,114	15,836	729	-	29,679
Amortization reversed on Disposal	29,000	-	-	-	29,000
Amortization	(17,304)	(2,234)	(8,873)	(5,461)	(33,872)
Balance, December 31, 2014					
Cost	83,254	46,418	44,991	27,307	201,970
Accumulated amortization	(48,159)	(31,901)	(32,274)	(13,198)	(125,532)
Net book value	35,095	14,517	12,717	14,109	76,438
Additions (disposals)	-	-	-	-	-
Amortization	(3,510)	(1,980)	(1,883)	(1,365)	(8,738)
Balance, March 31, 2015					
Cost	83,254	46,418	44,991	27,307	201,970
Accumulated amortization	(51,669)	(33,881)	(34,157)	(14,563)	(134,270)
Net book value	31,585	12,537	10,834	12,744	67,700

9 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, 2014	Current Expenditures	Balance as at December 31, 2014
Canada – Ontario			
Spider No. 3 / McFaulds Lake (i)	4,188,377	-	4,188,377
Big Daddy (ii)	10,238,203	(3,500)	10,234,703
Diagnos (i)	178,014	-	178,014
Railroute Corridor (iii)	16,332,916	17,251	16,350,167
The Temagami Iron L.P. (iv)	115,000	3,000	118,000
Koper Lake Project (vi)	4,199,667	2,189,759	6,389,426
	35,252,177	2,206,510	37,458,687

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	Balance as at January 1, 2015	Current Expenditures	Balance as at March 31, 2015
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)	16,350,167	4,860	16,355,027
The Temagami Iron L.P. (iv)	118,000	-	118,000
Koper Lake Project (vi)	6,389,426	705,593	7,095,019
MacFadyen Kimberlites ((vii) and Note 4)	-	605,668	605,668
	37,458,687	1,316,121	38,774,808

- (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 March 31, 2015 the Company held a 50% interest in these projects.

- (ii) In December 2005, KWG/Cliffs entered into an agreement with Freewest Resources Canada Inc. (“Freewest”) for the acquisition of a 25% interest each in certain mining property claims contiguous to McFauld’s Lake in Ontario. The contribution of the Company included a commitment to carry out exploration work in the amount of \$1,500,000 before October 13, 2009 of which at least \$200,000 was incurred before February 28, 2006; and accordingly, each of KWG and Cliffs earned a 25% interest of the property.

On March 27, 2009, the Company negotiated an amendment to the Freewest Option Agreement whereby the option earn-in calls for a \$15,000,000, three-year commitment. As a result of this amendment, the Company is no longer required to prepare a bankable feasibility study within 18 months, as had been called for in the 2005 agreement. Under the amendment, KWG would have options for up to a \$7,500,000 commitment over the next three years, of which \$2,500,000 was required to be spent before March 31, 2010. In early 2010, Freewest was served with a notice that this first commitment had been met. A further \$2,500,000 was required to be spent before March 31, 2011. This requirement was satisfied through the direct payment to Freewest early in the second quarter of 2011. Each such option increases the Company’s ownership by 1.5%. The final \$2,500,000 was required to be spent by March 31, 2012 and this requirement was met. Each option increases the Company’s ownership by 1.5% with the result being that KWG now owns 30% of the Big Daddy project.

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- (iii) During 2009, the Company commenced efforts to explore and develop a transportation link to the Company's properties in Northern Ontario in order to increase the economic viability of these properties. These operations entailed a detailed analysis of railroad route alternatives, preliminary soils analysis and claim staking. Concurrent with this activity the Company is performing exploration activities on these claims. This project and exploration activity was continued throughout 2010 and 2011. All costs related to this project have been capitalized. On March 2, 2012, the Company acquired certain unpatented claims from INV Metals Inc. for consideration consisting of 3,000,000 common shares and 3,000,000 warrants. These claims are contiguous to the claims already held by the Company and are located on the proposed railroad route.
- (iv) On June 1, 2012 the Company purchased, for \$100,000 in cash, 2,000,000 units (representing 7.5% of the outstanding units) and 2,000,000 warrants of The Temagami Iron Limited Partnership ("Temagami"). The warrants may be exercised to acquire additional partnership units at \$0.05 each at any time within 90 days after the receipt of a compilation report on the property. These funds will be used by Temagami to update studies and provide KWG with an opportunity to review and participate further, if appropriate. In April of 2013 the Company exercised 300,000 of these warrants for a cash consideration of \$15,000. The Company now owns 2,300,000 units (representing 8.6% of the outstanding units) of the partnership.
- (v) On November 22, 2012, the Company signed an agreement with China Metallurgical Exploration Corp ("CME") to mutually undertake due diligence investigations of the "Field Goal #1, #2 and #3" claim groups by way of an airborne geophysical survey. KWG's share of the costs of these investigations was \$500,000. The agreement stipulated that within thirty days of delivery of the survey data and report, each of KWG and CME would engage a professional valuator to provide a written evaluation of the claim groups. Then, within sixty days of delivery of the survey data CME would either execute an agreement to sell KWG the property for such consideration as will be agreed upon at that time or CME would repay to KWG the \$500,000 expended on the survey. During the third quarter of 2013, both parties agreed to terminate this agreement and the \$500,000 was paid to KWG.
- (vi) 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 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

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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 has agreed to extend the deadline by which the Company must incur the remaining \$2,122,899 in exploration expenditures to September 30, 2015.

(vii) 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.

10 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").

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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 (each a "Unit") with each Unit comprising one common share and one common share purchase warrant exercisable at a price of \$0.10 for five years (Note 13(iv)).

KWG has the option to acquire a further 25% interest in the Chromium IP from the vendor (held through the LP) in exchange for the issuance of an additional 12,500,000 Units to the vendor at any time within one year (the "First Option"). If the First Option is exercised, KWG will have an additional option to acquire the vendor's remaining 25% interest in the Chromium IP (held through the LP) in exchange for the issuance of a further 12,500,000 Units to the vendor at any time within one year after the exercise of the First Option thereby acquiring 100% of the LP.

All costs associated with this acquisition have been capitalized.

As of March 31, 2015, these patents were still pending and were not ready for use; therefore, no amortization has been recorded in these financial statements.

11 TRADE AND OTHER PAYABLES

	Notes	March 31, 2015	December 31, 2014
Trade payables			
Exploration and evaluation projects	9	494	-
Intangible assets	10	69,228	68,573
Non-project related		88,353	43,723
Accrued liabilities			
Non-project related		53,812	48,556
Lease inducement	19(ii)	23,739	26,283
		235,626	187,135

12 NON-CONTROLLING INTEREST

The amount shown for non-controlling interest on the condensed interim consolidated balance sheets is in relation to a non-controlling interest ownership (29.19%) in the shares of DDI. Non-controlling interests' share of DDI expenses are reflected in the condensed interim consolidated statements of operations and are charged as a reduction to the non-controlling interest account on the condensed interim consolidated balance sheets.

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13 SHARE CAPITAL

Authorized

An unlimited number of no par value common shares

Issued

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

	Year ended March 31, 2015	Year ended December 31, 2014
Issued	Number of shares	Number of shares
Balance – beginning of period	777,842,468	737,129,773
Issued through private placements (v)(vi)(vii)(ix)	-	5,100,000
Issued for exploration and evaluation projects (i)(viii)	35,000,000	10,000,000
Issued for intangible assets (iv)	-	25,000,000
Issued for services rendered (ii)(iii)	322,050	612,695
Balance – end of period	813,164,518	777,842,468
Number included above held in treasury – end of period (Note 4)	5,757,000	-

- (i) On March 17, 2015, the Company issued 35,000,000 common shares in satisfaction of the option payment due under the Bold Ventures project (Note 9(vi)). These were valued at the market value on that date of \$0.02 per share, for a total cost of \$700,000.
- (ii) On each of December 5, 2013 and February 7, 2014, 282,500 common shares were issued to AGORA International Enterprises Corp (“AGORA”) at a market value of \$0.05 per share for a total consideration of \$14,125 for each issuance. On June 17, 2014, 201,785 common shares were issued to AGORA at a market value of \$0.07 per share for a total consideration of \$14,125. On July 21, 2014, 128,410 common shares were issued to AGORA at a market value of \$0.055 per share for a total consideration of \$7,063. On January 22, 2015, 141,250 common shares were issued to AGORA at a market value of \$0.05 per share for a total consideration of \$7,063. These payments were made in full satisfaction of a shares-for-service contract signed on October 7, 2013.
- (iii) On January 27, 2015, 180,800 common shares were issued to RBL Communications Inc. (“RBL”) at a market value of \$0.05 per share for a total consideration of \$9,040. This is the first payment made under a shares-for-services contract signed on November 20, 2014 (Note 19(iii)).
- (iv) On May 12, 2014, the Company issued 25,000,000 units in conjunction with the Chromium IP Transaction (Note 10), with each unit comprising one common share and one common share purchase warrant exercisable at a price of \$0.10 for five years. The shares were valued at the market value on that date of \$0.075 per share, for a total value of \$1,875,000. The warrants were valued at \$1,075,000 using a valuation model based on the following assumptions: market value of \$0.075 per share, expected dividend yield of 0%, expected volatility of 78%, risk-free rate of return of 1.50% and a life of five years.
- (v) In April 2014, the Company completed a non-brokered private placement of 2,200,000 “flow-through” units at a price of \$0.10 per unit for a total consideration of \$220,000 (Note

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18). Each unit consisted of one “flow-through” common share and one warrant which entitles the holder to purchase one “flow-through” common share for \$0.15 within one year. The warrants were valued at \$8,800 using a valuation model based on the following assumptions: market value of \$0.065 per share, expected dividend yield of 0%, expected volatility of 73%, risk-free rate of return of 1.05% and a life of one year.

- (vi) In March 2014, the Company completed a non-brokered private placement of 1,000,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$50,000. Each unit consisted of one “flow-through” common share and one warrant which entitles the holder to purchase one “flow-through” common share for \$0.10 within three years. The warrants were valued at \$10,317 using a valuation model based on the following assumptions: market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 65%, risk-free rate of return of 1.23% and a life of three years.

Finder’s fees of \$2,500 in cash and 20,000 compensation options were paid to a qualified party in relation to this placement. Each compensation option entitles its holder to purchase one non-flow-through common share at a price of \$0.05 for a period of three years from the date of issue. The fair value of the finder’s compensation options was calculated using a valuation method based on the following assumptions: market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 65%, risk-free rate of return of 1.23% and a life of three years. As a result, the fair value of the compensation options was estimated at \$520.

- (vii) In February 2014, the Company completed non-brokered private placements of 1,700,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$85,000. Each unit consisted of one “flow-through” common share and one warrant which entitles the holder to purchase one “flow-through” common share for \$0.10 within three years. The warrants were valued at \$17,192 using a valuation model based on the following assumptions: for 700,000 warrants - market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 67%, risk-free rate of return of 1.19% and a life of three years; and for 1,000,000 warrants – market value of \$0.05 per share, expected dividend yield of 0%, expected volatility of 67%, risk-free rate of return of 1.19% and a life of three years.
- (viii) On February 7, 2014, the Company issued 10,000,000 common shares in satisfaction of the option payment due under the Bold Ventures project (Note 9(vi)). These were valued at the market value on that date of \$0.05 per share, for a total cost of \$500,000.
- (ix) In January 2014, the Company completed non-brokered private placements of 200,000 “flow-through” units at a price of \$0.05 per unit for a total consideration of \$10,000. Each unit consisted of one “flow-through” common share and one warrant which entitles the holder to purchase one “flow-through” common share for \$0.10 within three years. The warrants were valued at \$1,964 using a valuation model based on the following assumptions: market value of \$0.045 per share, expected dividend yield of 0%, expected volatility of 67%, risk-free rate of return of 1.16% and a life of three years.

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14 WARRANTS AND COMPENSATION OPTIONS

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

Issued	Year ended March 31, 2015		Year ended December 31, 2014	
	Warrants	Compensation options	Warrants	Compensation Options
Balance – beginning of period	99,370,000	352,000	119,420,000	1,082,000
Issued as part of private placement of units (Note 13(v)(vi)(vii)(ix))	-	-	5,100,000	-
Issued for intangible assets (Note 13(iv))	-	-	25,000,000	-
Issued for finders' compensation (Note 13(vi))	-	-	-	20,000
Expired	-	-	(50,150,000)	(750,000)
Balance – end of period	99,370,000	352,000	99,370,000	352,000
Number included above held in treasury – end of period (Note 4)	21,000,000	-	-	-

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

A summary of the Company's outstanding warrants and compensation options as at March 31, 2015 is presented below:

Number of warrants	Number of compensation options	Exercise price \$	Expiry date
2,200,000	-	0.15	April 2015
6,000,000	-	0.10	June 2016
21,000,000	-	0.15	August 2016
5,000,000	-	0.10	September 2016
4,760,000	-	0.10	October 2016
27,200,000	-	0.10	November 2016
-	332,000	0.05	November 2016
2,310,000	-	0.10	December 2016
200,000	-	0.10	January 2017
1,700,000	-	0.10	February 2017
1,000,000	-	0.10	March 2017
-	20,000	0.05	March 2017
3,000,000	-	0.12	March 2017
25,000,000	-	0.10	May 2019
99,370,000	352,000	0.11	

15 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,

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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, 2015, 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:

Options

	Year ended March 31, 2015		Year ended December 31, 2014	
	Number of shares	Average exercise price	Number of shares	Average exercise price
Balance – beginning of period	69,181,000	0.111	66,404,500	0.111
Granted	-	-	8,400,000	0.100
Expired	-	-	(5,623,500)	0.100
Balance – end of period	69,181,000	0.111	69,181,000	0.111

The following table summarizes information about options outstanding and exercisable as at March 31, 2015:

Exercise price	Number of options	Average contractual life (in years)	Outstanding options	Exercisable options
0.100	39,636,000	2.31		37,536,000
0.115	3,500,000	0.98		3,500,000
0.125	24,545,000	0.10		24,545,000
0.140	1,500,000	0.25		1,500,000
0.111	69,181,000	1.59		67,081,000

Total stock-based compensation costs for the three months ended March 31, 2015 amounted to \$54,600 (2014 – \$46,260).

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The fair value of the options granted in 2014 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	April 2014
Market value per share	\$0.085
Expected dividend per share	Nil
Expected volatility	79.48%
Risk-free interest rate	1.67%
Life of the options granted	5 years
Weighted average of estimated fair value of each option granted	\$0.052

16 GENERAL AND ADMINISTRATIVE EXPENSES

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

Three months ended March 31	2015	2014
Advertising and promotion	36,336	29,741
Consultants' fees	95,858	113,203
Directors' fees and insurance	29,317	25,015
Filing fees	13,046	15,775
Investor relations fees	7,477	6,858
Professional fees	40,415	275,190
Office overheads	92,230	71,768
Salaries and benefits	207,246	171,006
Travel and accommodation	10,377	23,945
Administrative recovery	-	(90,331)
	532,302	642,170

17 FINANCE INCOME

Three months ended March 31	2015	2014
Interest income	2,599	15,503
Net change in fair value of financial assets through profit or loss	41,000	63,000
Finance income	43,599	78,503

18 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 2015, officers and companies controlled by officers charged consulting fees for cash consideration of \$50,753 (\$59,201 in 2014) and salaries and bonuses in the amount of \$69,231 (\$69,231 in 2014) of which \$18,688 remained payable at March 31, 2015 (\$22,544 in 2014). The consulting fees were for services

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performed by the corporate secretary and the CFO as well as for general accounting services. Directors' fees paid in the first quarter totalled \$24,750 (\$21,121 in 2014). KMP received no stock options in the first quarter of 2015 (nil in 2014). In the first quarter of 2015, stock compensation expenses totalled \$40,300 for KMP (\$25,635 in 2014).

Included in the April 2014 private placements were 800,000 flow-through units subscribed for by KMP for gross proceeds of \$80,000 (Note 13(v)).

Debut Diamonds Inc.

The Company shares management, administrative assistance and facilities and other technical personnel with DDI in an arrangement not covered by a written agreement. Prior to 2014, the costs charged to DDI were equal to the costs incurred by the Company. Since 2013, the Company has not charged DDI for overhead and personnel charges (charges in 2013 - \$61,810). At December 31, 2012, due to adverse market conditions which management perceived were affecting the value of DDI's shares, the Company recorded a provision against the receivable from DDI in the amount of \$648,805. During 2013, DDI repaid \$91,477 of these loans. At December 31, 2014 the receivable balance was \$1,444,442 (December 31, 2013 - \$1,375,659) including interest of \$134,291 (\$65,507 at December 31, 2013). The entire receivable balance was subject to a loan agreement dated January 1, 2013. Under the loan agreement, interest was charged at 5% per annum compounded annually and the loan was to mature on January 2, 2016. Due to the uncertainty of collection, this interest had not been accrued in the financial statements. The agreement also contained a conversion provision whereby KWG could convert the amount of the loan outstanding including any accrued but unpaid interest thereon, or any portion thereof, into common shares of DDI at a rate of \$0.05 per common share. This debt was secured by a general security agreement over the assets of DDI. On January 27, 2015, the debt was converted into common shares of DDI (Note 4).

19 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 financial statements, there is 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. 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.

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,

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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 11).

- (iii) In accordance with an agreement with RBL to implement and manage a complete online awareness and marketing program, the Company has committed to issue shares to RBL with a market value of \$9,040 in April 2015 and July 2015 and shares with a market value of \$2,825 in October 2015 and January 2016.
- (iv) 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.
- (v) 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.

20 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 22 to the 2014 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.

21 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 23 to the Company's 2014 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.

22 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

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

Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$43,504,686 at March 31, 2015 and \$43,354,624 at December 31, 2014.

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 2015. The Company is not subject to externally imposed capital requirements.

23 SEGMENTED INFORMATION

Operating segments are reported in a manner consistent with the way in which the Company's executive officers review business performance on a quarterly basis. The Company's operations comprise a single reporting operating segment engaged in mineral exploration in Canada. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.