# KWG RESOURCES INC.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### UNAUDITED

THREE AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2018 AND 2017

**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

Toronto, Ontario
November 29, 2018

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

| (in Canadian dollars) | Notes | As at September 30, 2018 | As at December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 56,297 | 1,214,400 |
| Receivables | 6 | 524,185 | 321,652 |
| Marketable securities | 7 | 83,623 | 66,365 |
| Prepaid expenses | | 21,552 | - |
| **Total current assets** | | **685,657** | **1,602,417** |
| **Non-current assets** | | | |
| Cash surrender value of life insurance | 8 | 19,622 | 33,022 |
| Property and equipment | 9 | 33,197 | 44,779 |
| Exploration and evaluation projects | 10 | 40,252,817 | 40,151,023 |
| Intangible assets | 11 | 4,332,932 | 4,307,514 |
| **Total non-current assets** | | **44,638,568** | **44,536,338** |
| **Total assets** | | **45,324,225** | **46,138,755** |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade and other payables and provisions | 12,13,22(i) | 2,972,373 | 2,932,951 |
| **Total current liabilities** | | **2,972,373** | **2,932,951** |
| **Long-term liabilities** | | | |
| Convertible debenture payable | 15 | 1,288,190 | 766,217 |
| **Total liabilities** | | **4,260,563** | **3,699,168** |
| **Equity** | | | |
| Share capital | 16 | 31,881,465 | 31,881,465 |
| Debenture equity | 15 | 1,732,469 | 1,732,469 |
| Warrants | 17 | 3,062,193 | 3,062,193 |
| Contributed surplus | | 16,769,574 | 16,769,574 |
| Accumulated other comprehensive (loss) income | | (13,032) | (30,290) |
| (Deficit) | | (12,312,526) | (10,927,535) |
| | | 41,120,143 | 42,487,876 |
| Non-controlling interest | 19 | (56,481) | (48,289) |
| **Total equity** | | **41,063,662** | **42,439,587** |
| **Total liabilities and equity** | | **45,324,225** | **46,138,755** |

**Nature of operations (Note 1)**
**Commitments and contingencies (Notes 10 and 22)**
**Subsequent event (Note 27)**

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 September 30 2018 | Three-month periods ended September 30 2017 | Nine-month periods ended September 30 2018 | Nine-month periods ended September 30 2017 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| General and administrative | 20 | (584,768) | (710,947) | (1,818,858) | (1,552,194) |
| Amortization of property and equipment | 9 | (3,850) | (3,205) | (11,582) | (14,865) |
| Accretion expense | 15 | (68,799) | (2,306) | (206,397) | (22,182) |
| Stock compensation costs | 18 | - | (126,375) | - | (143,250) |
| Gain (loss) on foreign exchange | | (236) | 853 | 724 | 1,809 |
| **Loss before the undernoted** | | **(657,653)** | **(841,980)** | **(2,036,113)** | **(1,730,682)** |
| **Other income (expenses)** | | | | | |
| Other income | | 782 | 782 | 102,344 | 2,344 |
| Part XII.6 penalties and interest | 12, 22(i) | 511,622 | 2,528,348 | 481,216 | 2,499,628 |
| Gain on disposal of marketable securities | 4,7 | - | 305 | - | 114,678 |
| | | **512,404** | **2,529,435** | **583,560** | **2,616,650** |
| **Net income (loss) for the period** | | **(145,249)** | **1,687,455** | **(1,452,553)** | **885,968** |
| **Net loss attributable to non-controlling interest** | 19 | **2,547** | **3,676** | **8,192** | **13,600** |
| **Net income (loss) attributable to equity holders of KWG Resources Inc.** | | **(142,702)** | **1,691,131** | **(1,444,361)** | **899,568** |
| **Income (loss) per Subordinate Voting Share (*) (basic and diluted)** | | **(0.00)** | **0.00** | **(0.00)** | **0.00** |
| **Weighted average number of outstanding Subordinate Voting Shares (*)** | | **1,076,925,627** | **1,039,630,448** | **1,076,925,627** | **1,010,968,469** |

*Note: (*) including the effect of converting all outstanding Multiple Voting Shares to Subordinate Voting Shares on the basis of 300:1*

## Condensed Interim Consolidated Statements of Comprehensive Loss

| (in Canadian dollars) | Notes | Three-month periods ended September 30 2018 | Three-month periods ended September 30 2017 | Nine-month periods ended September 30 2018 | Nine-month periods ended September 30 2017 |
|---|---|---|---|---|---|
| Net income (loss) for the period | | (145,249) | 1,687,455 | (1,452,553) | 885,968 |
| Other comprehensive loss (“OCL”) | | | | | |
| Items that will subsequently be reclassified to net income: | | | | | |
| Net change in fair value of available-for-sale assets (“AFS”) | 7 | 25,261 | (9,268) | 17,258 | (2,535) |
| Transferred to income upon realization | 7 | - | - | - | (50,960) |
| Total comprehensive income (loss) for the period | | (119,988) | 1,678,187 | (1,435,295) | 832,473 |
| Portion attributable to non-controlling interest | 19 | 2,547 | 3,676 | 8,192 | 13,600 |
| **Total comprehensive income (loss) attributable to equity holders of KWG Resources Inc.** | | **(117,441)** | **1,681,863** | **(1,427,103)** | **846,073** |

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

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

| (in Canadian dollars) | Notes | Share capital | Debenture equity | Warrants | Contributed surplus | (Deficit) Retained earnings | Accumulated other comprehensive (loss) | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2016** | | **30,316,604** | **67,451** | **2,437,147** | **16,209,467** | **(10,808,632)** | **7,772** | **(29,198)** | **38,200,611** |
| Net income (loss) for the period | | - | - | - | - | 899,568 | - | (13,600) | 885,968 |
| Other comprehensive loss for the year | 7 | - | - | - | - | - | (53,495) | - | (53,495) |
| Issue of shares and warrants under private placement | 16 | 278,752 | - | 181,188 | - | - | - | - | 459,940 |
| Issue of shares and warrants for liabilities | 16 | 341,288 | - | 221,837 | - | - | - | - | 563,125 |
| Issue of shares and warrants for services rendered | 16 | 255,303 | - | 172,773 | - | - | - | - | 428,076 |
| Issue of shares for exploration and evaluation projects | 16 | 10,500 | - | - | - | - | - | - | 10,500 |
| Expired warrants | 17 | - | - | (206,232) | 206,232 | - | - | - | - |
| Stock-based compensation | 18 | - | - | - | 143,250 | - | - | - | 143,250 |
| Conversion of debenture | 15 | 308,879 | (67,451) | - | - | - | - | - | 241,428 |
| Divestiture of shares of Debut Diamonds Inc | 4 | - | - | - | - | 102,540 | - | - | 102,540 |
| Balance, September 30, 2017 | | 31,511,326 | - | 2,806,713 | 16,558,949 | (9,806,524) | (45,723) | (42,798) | 40,981,943 |
| Net loss for the period | | - | - | - | - | (1,121,011) | - | (5,491) | (1,126,502) |
| Other comprehensive income for the year | | - | - | - | - | - | 15,433 | - | 15,433 |
| Conversion of debenture | 15,16 | 6,337 | - | 3,900 | - | - | - | - | 10,237 |
| Issuance of convertible debenture | 15,16 | - | 2,165,586 | - | - | - | - | - | 2,165,586 |
| Debenture equity issue costs | 15,16 | - | (433,117) | - | - | - | - | - | (433,117) |
| Issue of units for bonus on convertible debentures | 16 | 363,802 | - | 251,580 | - | - | - | - | 615,382 |
| Stock-based compensation | 18 | - | - | - | 210,625 | - | - | - | 210,625 |
| **Balance, December 31, 2017** | | **31,881,465** | **1,732,469** | **3,062,193** | **16,769,574** | **(10,927,535)** | **(30,290)** | **(48,289)** | **42,439,587** |
| Net loss for the period | | - | - | - | - | (1,444,361) | - | (8,192) | (1,452,553) |
| Other comprehensive income for the period | 7 | - | - | - | - | - | 17,258 | - | 17,258 |
| Expired warrants | 17 | - | - | (466,143) | 466,143 | - | - | - | - |
| Divestiture of shares of Debut Diamonds Inc | 4 | - | - | - | - | 59,370 | - | - | 59,370 |
| **Balance, September 30, 2018** | | **31,881,465** | **1,732,469** | **2,596,050** | **17,235,717** | **(12,312,526)** | **(13,032)** | **(56,481)** | **41,063,662** |

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 | Nine-month periods ended September 30 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net Income (loss) for the period | | (1,452,553) | 885,968 |
| Adjustments for | | | |
| Amortization of property and equipment | 9 | 11,582 | 14,865 |
| Accretion expense | 15 | 206,397 | 22,182 |
| Stock-based compensation costs | 18 | - | 143,250 |
| Shares and warrants issued for services | 16 | - | 428,076 |
| Interest accrued on debenture liabilities | 15 | 315,576 | 7,412 |
| Gain on disposal of marketable securities | 7 | - | (114,678) |
| Part XII.6 penalty and interest | 12,22(i) | 45,610 | 43,319 |
| Flow-through indemnification provision | 22(i) | (526,826) | (2,542,947) |
| Net change in non-cash working capital balances | | 296,033 | 626,912 |
| **Net cash used by operating activities** | | **(1,104,181)** | **(485,641)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of shares and warrants | 16 | - | 459,940 |
| Repayment of debenture | 14 | - | (71,908) |
| **Net cash provided by financing activities** | | **-** | **388,032** |
| **Cash flows from investing activities** | | | |
| Expenditures on exploration and evaluation projects | 10 | (101,794) | (110,381) |
| Expenditures on intangible assets | 11 | (24,898) | (54,614) |
| Decrease in cash surrender value of life insurance | 8 | 13,400 | - |
| Proceeds from sales of marketable securities | 4 | 59,370 | 246,617 |
| **Net cash used by investing activities** | | **(53,922)** | **81,622** |
| **Net change in cash and cash equivalents during the period** | | **(1,158,103)** | **(15,987)** |
| Cash and cash equivalents – beginning of the period | | 1,214,400 | 33,935 |
| **Cash and cash equivalents – end of the period** | 5 | **56,297** | **17,948** |
| **Change in non-cash working capital balances comprises:** | | | |
| Receivables | | (202,533) | (30,271) |
| Prepaid expenses | | (21,552) | 12,010 |
| Trade and other payables | | 520,118 | 645,173 |
| **Net change in non-cash working capital balances** | | **296,033** | **626,912** |
| **Additional information - non-cash transactions** | | | |
| Issuance of shares/warrants for exploration and evaluation projects | 16 | - | 10,500 |
| Issuance of shares/warrants for settlement of payables | 16 | - | 563,125 |
| Expired warrants included in contributed surplus | 17 | 466,143 | 206,232 |
| Additions to intangible assets included in accounts payable | 12 | - | 4,328 |
| Decrease in cash surrender value of life insurance in accounts payable | 8 | - | 66,396 |
| Conversion of debenture payable into shares | 15 | - | 308,879 |

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

## 1 NATURE OF OPERATIONS

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

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

The Company is in the process of exploring its exploration and evaluation projects and has not yet determined whether its exploration and evaluation projects contain mineral deposits that are economically recoverable. The Company is also in the process of pursuing patents on its chromium alloy technology in several countries and preparing for the commercialization of that technology. The Company will periodically have to raise additional funds to continue its exploration and other activities and, while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

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

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. The holding of mineral rights does not provide full rights to the surface of the lands over those mineral rights – such surface rights may be held or acquired by third parties. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, failure to complete assessment work and file reports in respect thereof and non-compliance with regulatory and environmental requirements. Furthermore, there is no assurance that the interest of the Company in any of its properties may not be challenged or impugned.

While the Company has been successful in moving its patent applications forward in some countries, that process in not yet complete; moreover, the Company has not yet achieved any commercial success with its technology. There is no assurance that such efforts will be successful or, if successful, will not subsequently be challenged and impugned.

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

## 2 BASIS OF PREPARATION

### (a) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the annual financial statements for the year ended December 31, 2017 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 November 29, 2018.

### (b) Basis of Measurement

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

### (c) Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Canada Chrome Corporation, SMD Mining Corporation, Canada Chrome Mining Corporation, Muketi Metallurgical General Partner Inc. and Muketi Metallurgical KWG-Limited Partner Inc. as well as the accounts of its 66% owned subsidiary, Debut Diamonds Inc. ("DDI"). All of the Company's subsidiaries are incorporated in Canada.

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

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

**(d) Critical Accounting Estimates and Judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management has made a number of significant estimates and valuation assumptions based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions which include, but are not limited to, the following:

**Capitalization of exploration and evaluation costs**

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probably mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 10 for details of capitalized exploration and evaluation costs.

**Impairment of exploration and evaluation projects**

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

Company's exploration and evaluation projects.

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

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

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

**Convertible debentures**
The classification of the Company's convertible debentures required management to analyze the terms and conditions of debentures and use judgment to assess whether these debentures are liability, equity, or a combination of the two. IAS 32 provides the criteria for management to assess these complicated financial instruments to determine their appropriate classification(s). Factors considered are, but not limited to, whether the Company has a future

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

obligation to settle the instrument in cash or exchange other assets or liabilities, and if the settlement is already known to be equity, the amount will not vary based on the Company's future share price.

**Commitments and contingencies**
Refer to Note 22.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are set out in Note 3 to the 2017 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, 2018. 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 2017 audited consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 of those statements.

## 4 ACQUISITION OF DEBUT DIAMONDS INC.

On January 27, 2015, the Company acquired an additional 144,464,000 common shares in the capital of DDI through a private placement from treasury at a rate of $0.01 per share in settlement of all of the debt owed by DDI to KWG, including accrued interest thereon. As a result of this transaction, KWG owned 144,630,000 common shares. During the year ended December 31, 2017, KWG sold 10,254,000 of these common shares for cash proceeds of $109,822. During the quarter ended September 30, 2018, KWG sold 12,022,000 of these common shares for cash proceeds of $59,370. At September 30, 2018, KWG owns 122,354,000 common shares of DDI, which represents approximately 60% of the issued and outstanding common shares of DDI (Note 27).

## 5 CASH AND CASH EQUIVALENTS

| | As at September 30, 2018 | As at December 31, 2017 |
|---|---|---|
| Bank balances | 56,297 | 1,214,400 |
| **Cash and cash equivalents** | **56,297** | **1,214,400** |

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

## 6 RECEIVABLES

| | **As at September 30, 2018** | **As at December 31, 2017** |
|---|---|---|
| Sales taxes receivable | 28,635 | 49,717 |
| Other receivables | 495,550 | 271,935 |
| **Receivables** | 524,185 | 321,652 |

## 7 MARKETABLE SECURITIES

| | **As at September 30, 2018** | **As at December 31, 2017** |
|---|---|---|
| AFS: | | |
| Idaho Champion Gold Mines Canada Inc. (i) | | |
| 178,250 common shares (534,750 in 2017) | 71,300 | 42,780 |
| Eloro Resources Ltd. ("Eloro") (ii) | | |
| 20,558 common shares | 9,046 | 21,791 |
| Cliffs Natural Resources Inc. | | |
| 200 common shares | 3,277 | 1,794 |
| **Total AFS** | **83,623** | **66,365** |
| **Marketable securities** | **83,623** | **66,365** |

(i) On August 23, 2018, GoldTrain Resources Inc. changed its name to Idaho Champion Gold Mines Canada Inc. and, also on this date, it consolidated its shares on a one for three basis.

(ii) During the year ended December 31, 2017, the Company sold 196,000 Eloro shares on the open market for cash proceeds of $136,796. A gain of $114,678 was recognized on these dispositions.

Sensitivity Analysis - Equity Price Risk
All of the Company's financial assets classified as available for sale are listed on public stock exchanges. For such investments, a 10% increase in the equity prices at the reporting date would have increased equity by approximately $8,000 (as at December 31, 2017 - an increase of $7,000), an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

The analyses were performed on the same basis for 2018 and 2017.

## 8 CASH SURRENDER VALUE OF LIFE INSURANCE

The Company owns life insurance policies on the life of its Chief Executive Officer and other officers with a total death benefit of $8,839,851 at September 30, 2018. The insurer of these policies is Canada Life. As at September 30, 2018, these policies had a net cash surrender value equal to $19,622 after deducting loans secured by the policies and accrued interest thereon totalling $538,039.

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

## 9 PROPERTY AND EQUIPMENT

| | Auto-mobiles | Computer Equipment | Office Equipment | Leasehold Improvements | Totals |
|---|---|---|---|---|---|
| Balance, December 31, 2016 | | | | | |
| Cost | 83,254 | 24,191 | 44,991 | 27,307 | 179,743 |
| Accumulated amortization | (73,895) | (24,191) | (42,175) | (24,120) | (164,381) |
| **Net book value** | **9,359** | **-** | **2,816** | **3,187** | **15,362** |
| Additions (disposals) | 45,763 | - | - | - | 45,763 |
| Amortization | (10,630) | - | (2,529) | (3,187) | (16,346) |
| Balance, December 31, 2017 | | | | | |
| Cost | 129,017 | 24,191 | 44,991 | 27,307 | 225,506 |
| Accumulated amortization | (84,525) | (24,191) | (44,704) | (27,307) | (180,727) |
| **Net book value** | **44,492** | **-** | **287** | **-** | **44,779** |
| Additions (disposals) | - | - | - | - | - |
| Amortization | (11,441) | - | (141) | - | (11,582) |
| Balance, September 30, 2018 | | | | | |
| Cost | 129,017 | 24,191 | 44,991 | 27,307 | 225,506 |
| Accumulated amortization | (95,966) | (24,191) | (44,845) | (27,307) | (192,309) |
| **Net book value** | **33,051** | **-** | **146** | **-** | **33,197** |

## 10 EXPLORATION AND EVALUATION PROJECTS

Cumulative costs relating to the acquisition of and expenditures on exploration and evaluation projects have been incurred as follows:

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

| | Balance as at January 1, 2018 | Current Expend-itures | Balance as at September 30, 2018 |
|---|---|---|---|
| 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) | 16,361,644 | 2,215 | 16,363,859 |
| Black Horse Project ((iv) and Note 15(i)) | 8,454,043 | 99,579 | 8,553,622 |
| MacFadyen Kimberlites (v) | 634,242 | - | 634,242 |
| Hornby Property (vi) | 100,000 | - | 100,000 |
| | 40,151,023 | 101,794 | 40,252,817 |

(i) On May 15, 2006, the Company and Cliffs Chromite Far North Inc. ("Cliffs"), formerly Spider Resources Inc., agreed to amend and revise their joint venture agreement. The companies agreed to treat each project in their joint venture as a separate joint venture, to enable each company to either increase or decrease its interest in a project based upon their respective strategic objectives. The Company and Cliffs agreed to have their respective initial interest established at 50% in all the current projects of the joint venture.

Each party's interest is diluted by not contributing further to the other party's exploration program until its interest has reached 33 1/3%. At that level, a party's interest in a project may be maintained by contribution to subsequent programs, or suffer further dilution. When an interest has been reduced to less than 10%, it will be automatically converted to a 0.5% Net Smelter Royalty ("NSR") in base metals and a 1% NSR in precious metals and diamonds. As of December 31, 2017, the Company held a 50% interest in these projects.

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

(iii) During 2009, the Company commenced efforts to explore and develop a transportation link to the Company's properties in Northern Ontario in order to increase the economic viability of these properties. These operations entailed a detailed analysis of railroad route alternatives, preliminary soils analysis and claim staking. Concurrent with this activity the Company is performing exploration activities on these claims.

(iv) On March 4, 2013, the Company signed an agreement with Bold Ventures Inc. ("Bold") to fund Bold as the Operator to drill the Black Horse chromite discovery. The intent of the program is to determine whether this chromite mineralization occurs in sufficient quantity and quality to demonstrate the feasibility of mining it. Bold had entered into an option agreement (the "Fancamp Option") to acquire the Black Horse claims from Fancamp Exploration Ltd. ("Fancamp"). Under the Fancamp Option, Bold can earn up to a 100% working interest in the Black Horse property through a four-stage process. Bold can earn a 50% interest under the first stage by making option payments totalling $1,500,000 and incurring exploration expenditures of at least $8,000,000 over a 3-year period. The second stage provides for a further 10% interest that may be earned by Bold at any time by delivery of a positive feasibility study and by making a payment of $700,000 in cash and/or stock, at the option of Bold. Under the third stage, Bold can earn a further 20% interest by agreeing to pay Fancamp $15,000,000, payable in equal instalments, over three years with half of the amount payable in cash and the balance payable, at Bold's option, through the issuance of common shares of Bold, or its assignee, at the market price at the time the shares are issued. If the option under the third stage is exercised, the fourth stage would provide Bold with the option to acquire Fancamp's remaining 20% interest in exchange for a gross metal royalty. Fancamp would then be entitled to be paid 2% of the total revenue from the sale of all metals and mineral products from the property from the commencement of commercial production. Once all of the capital costs to bring the project to the production stage have been repaid entirely, the gross metal royalty may be scaled up to a maximum of 4% of the total revenue from the sale of all metals and mineral products from the property depending upon the price of product sold. The options under stages three and four must be exercised within 90 days following the date that Bold earns its 60% interest.

Under the terms of the agreement between KWG and Bold, KWG can acquire up to 80% of Bold's interest in the Fancamp Option, in respect of chromite only, by funding 100% of

Bold's option payments and programs under the four stages listed above. For nickel and other non-chromite minerals identified during the exploration programs, the parties have agreed to form a joint venture in which KWG has a 20% working interest. KWG will have a right of first refusal to purchase all ores or concentrates produced by such joint venture whenever its joint venture interest exceeds 50%. Payments under the first stage in respect of the earn-in option total of $1,500,000 are to be made as follows: funding of $300,000 for a first program, $500,000 by February 7, 2014 and $700,000 by February 7, 2015 and in respect of the exploration expenditures totalling a minimum of $8,000,000 are to be made as follows: $3,000,000 payable upon closing, $2,000,000 by March 31, 2014 and $3,000,000 by March 31, 2015. The first option payment in the amount of $300,000 was paid in cash. The Company has the option of making future option payments by way of either cash or stock of the Company. On September 30, 2013, the Company served Bold with written notice that it intended to fund the remaining commitments under stage one, totalling $6,200,000, as required by this agreement. On February 7, 2014, the Company issued 10,000,000 common shares (now redesignated as Subordinate Voting Shares) in satisfaction of the second option payment. On March 17, 2015, the Company issued 35,000,000 common shares (now redesignated as Subordinate Voting Shares) to Fancamp in satisfaction of the third option payment. At March 31, 2015, the Company had incurred exploration expenditures of $5,882,000 towards the $8,000,000 required under the option agreement. In consideration of a cash payment of $5,000, Bold agreed to extend the deadline by which the Company must incur the remaining $2,118,000 in exploration expenditures to September 30, 2015. On October 29, 2015, an agreement was reached with Bold and Fancamp to extend the deadline for a further one year to September 30, 2016 in exchange for KWG issuing 25,000,000 common shares (now redesignated as Subordinate Voting Shares) to Fancamp at a deemed value of $500,000, of which $300,000 will be credited as a reduction of the exploration expenditures under the agreements.

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

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

(v) The MacFadyen Kimberlites project consists of certain claims on the south shore of the Attawapiskat River west of James Bay. MacFadyen Kimberlites is a joint project between DDI and Cliffs. DDI is the operator of the joint project and currently has a 58.35% interest in the joint project. Ashton Mining Canada Ltd., ("Ashton"), a previous owner, holds a 25% clawback entitlement to any kimberlite found or developed by DDI and/or Cliffs on the MacFadyen Kimberlites property. Ashton can execute the clawback by paying DDI and Cliffs an amount equal to 300% of all exploration expenditures on the property.

(vi) On August 21, 2015, the Company issued 4,000,000 common shares (now redesignated as Subordinate Voting Shares) to MacDonald Mines Exploration Ltd. ("MacDonald") to acquire the Hornby Property claims. These claims constitute an extensive holding adjoining the southerly boundary of the Big Daddy property. The property is also adjacent to the Koper Lake property, which lies to the west of it. The shares were valued at the market value on that date of $0.025 per share, for a total consideration of $100,000. Under the terms of the agreement, MacDonald will retain a 2% NSR, half of which may be purchased by KWG for $1,000,000 at any time prior to production from the property. KWG will also have the first right to buy the balance of the NSR at any time the holder proposes to sell it.

## 11 INTANGIBLE ASSETS

On April 21, 2014, the Company signed an agreement to acquire 50% of the ownership rights in two United States provisional patent applications relating to the production of chromium iron alloys directly from chromite ore, and the production of low carbon chromium iron alloys directly from chromite concentrates (the “Chromium IP Transaction”). The Chromium IP Transaction includes the right to use these provisional patent applications as the basis for filing additional patent applications in the United States, Canada and elsewhere worldwide and includes a fifty-percent interest in any of the vendor’s associated intellectual property (the “Chromium IP”).

The parties’ interests in the Chromium IP is held through a limited partnership (the “LP”) established by the vendor and KWG for purposes of completing the Chromium IP Transaction and developing and exploiting the Chromium IP. The limited partners of the LP are a wholly-owned subsidiary of KWG and a corporation beneficially owned by the vendor. The general partner of the LP, which will manage the business of the LP, is another wholly-owned subsidiary of KWG.

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

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

All costs associated with this acquisition have been capitalized.

As of September 30, 2018, the patents were still pending and, as a result, were not ready for use; therefore, no amortization has been recorded in these financial statements.

## 12 TRADE AND OTHER PAYABLES AND PROVISIONS

| | Notes | September 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Trade payables | | | |
| Exploration and evaluation projects | 10 | - | - |
| Intangible assets | 11 | - | 652 |
| Non-project related | | 317,076 | 189,342 |
| Accrued liabilities | | | |
| Exploration and evaluation projects | 10 | - | - |
| Non-project related | | 625,987 | 232,431 |
| Part XII.6 penalties and interest | 22(i) | 1,261,866 | 1,216,256 |
| Flow-through indemnification provision | 22(i) | 767,444 | 1,294,270 |
| | | 2,972,373 | 2,932,952 |

## 13 RAILROAD STUDY LIABILITY

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

## 14 DEBENTURE PAYABLE

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

## 15 CONVERTIBLE DEBENTURES PAYABLE

(i) On October 14, 2016, the Company issued an unsecured convertible debenture in the amount of $267,858 to Bold as part of the settlement for operator’s fees owed to that company (Note 10(iv)). The debenture bears interest at 5% compounded annually and was due on January 15, 2019. It was convertible by Bold at any time, in whole or in part, into KWG common shares (now redesignated as Subordinate Voting Shares) at $0.05 per share. The debenture was to be repaid by KWG from any debt or equity issue in excess of $1,500,000 in any six-month period.

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

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

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

The value of the liability was determined by discounting the future interest payments until October 3, 2019, at a discount factor of 20% which was expected to estimate the borrowing rate available to the Company for similar instruments of debt having no conversion rights. The fair value of the conversion feature was determined to be $61,111 and has been recorded in equity as “Debenture Equity”. The liability will be accreted to its face amount over the term of the debenture. Accretion expense of $108,324 has been recorded and interest of $60,000 has been accrued to September 30, 2018.

Immediately following the issuance of this debenture, the Company paid a premium to the holder consisting of 4,762 units at a deemed value of $21 per unit. Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of $7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures (Note 16(ii)). The value of this premium has been recorded as a cost of issue against the convertible debenture.

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

The value of the liability was determined by discounting the future interest payments until December 15, 2019, at a discount factor of 20% which was expected to estimate the borrowing rate available to the Company for similar instruments of debt having no conversion rights. The fair value of the conversion feature was determined to be $2,104,475 and has been recorded in equity as “Debenture Equity”. The liability will be accreted to the total interest payable over the term of the debenture. Accretion expense of $120,232 has been recorded and interest of $240,576 has been accrued to September 30, 2018.

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

Immediately following the issuance of this debenture, the Company paid a premium to the holders consisting of 24,537 units at a deemed value of $21 per unit. Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of $7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures (Note 16(i)). The value of this premium has been recorded as a cost of issue against the convertible debenture.

## 16 SHARE CAPITAL

Authorized

An unlimited number of no par value Subordinate Voting Shares
An unlimited number of no par value Multiple Voting Shares

Issued

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

| | Nine months ended September 30, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| **Issued** | **Number of Subordinate Voting Shares** | **Number of Multiple Voting Shares** | **Number of Subordinate Voting Shares** | **Number of Multiple Voting Shares** |
| Balance – beginning of period | 1,017,658,227 | 197,558 | 966,320,281 | - |
| Issued under a private placement (iv)(v)(vi)(vii) | - | - | 21,901,905 | - |
| Issued for liabilities (vi) | - | - | 26,815,476 | - |
| Issued for exploration and evaluation projects (vii) | - | - | 500,000 | - |
| Issued for services rendered (iii)(iv)(v)(vi)(vii) | - | - | 20,384,529 | - |
| Issued on conversion of debenture (Note 15(i)) | - | - | 5,844,636 | - |
| Issued as premium for debentures ((i)(ii) and Note 15(ii)(iii))) | - | - | - | 117,196 |
| Converted during the period (viii) | - | - | (24,108,600) | 80,362 |
| **Balance – end of period** | **1,017,658,227** | **197,558** | **1,017,658,227** | **197,558** |

(i) On December 15, 2017, the Company issued 24,537 units at a deemed value of $21 per unit as a premium to debenture holders (Note 15(iii)). Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of $7.50 at any time within two years from the date of issuance. The warrants were valued at $223,050 using a valuation model based on the following assumptions: expected dividend yield of 0%, expected volatility of 144.07%, risk-free rate of return of 1.63% and a life of two years.

(ii) On October 3, 2017, the Company issued 4,762 units at a deemed value of $21 per unit as a premium to debenture holders (Note 15(ii)). Each unit comprises four Multiple Voting Shares and two share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of $7.50 at any time within two years from the date of issuance. The warrants were valued at $28,530 using a valuation model based on the following assumptions: expected dividend yield of 0%, expected volatility of 146.87%, risk-free rate of return of 1.53% and a life of two years.

(iii) On July 31, 2017, the Company completed a non-brokered private placement of 2,380,952 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of $0.05 for five years. 2,380,952 units were issued for services rendered at $0.021 per unit for total consideration of $50,000. The warrants were valued at $19,697 using a valuation model based on the following assumptions: market value of $0.02 per share, expected dividend yield of 0%, expected volatility of 102.33%, risk-free rate of return of 1.58% and a life of five years.

(iv) On June 30, 2017, the Company completed a non-brokered private placement of 4,915,714 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of $0.05 for five years. This private placement included 2,390,000 units issued at $0.021 per unit for total cash consideration of $50,190 and 2,525,714 units issued for services rendered at $0.021 per unit for a total consideration of $53,040. The warrants were valued at $40,667 using a valuation model based on the following assumptions: market value of $0.02 per share, expected dividend yield of 0%, expected volatility of 106.75%, risk-free rate of return of 1.08% and a life of five years.

(v) On June 8, 2017, the Company completed a non-brokered private placement of 6,309,524 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of $0.05 for five years. This private placement included 2,500,000 units issued at $0.021 per unit for total cash consideration of $52,500 and 3,809,524 units issued for services rendered at $0.021 per unit for a total consideration of $80,000. The warrants were valued at $52,197 using a valuation model based on the following assumptions: market value of $0.02 per share, expected dividend yield of 0%, expected volatility of 106.52%, risk-free rate of return of 1.08% and a life of five years.

(vi) On March 31, 2017, the Company completed a non-brokered private placement of 48,495,720 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of $0.05 for five years. This private placement included 10,511,905 units issued at $0.021 per unit for total cash consideration of $220,750, 26,815,476 units issued to satisfy accounts payable of $563,125 ($439,500 of which was owed to directors and officers of the Company) and 11,168,339 units issued for services rendered at $0.021 per unit for a total consideration of $234,535 ($205,610 of which was to directors and officers of the Company for directors' fees, salaries and consulting fees). The warrants were valued at $401,192 using a valuation model based on the following assumptions: market value of $0.02 per share, expected dividend yield of 0%, expected volatility of 107.14%, risk-free rate of return of 1.12% and a life of five years.

(vii) On March 3, 2017, the Company completed a non-brokered private placement of 7,500,000 units with each unit comprising one Subordinate Voting Share and one Subordinate Voting Share purchase warrant exercisable at a price of $0.05 for five years. This private placement included 6,500,000 units issued at $0.021 per unit for total cash consideration of $136,500 to directors of the Company, 500,000 units issued for services rendered at $0.021 per unit for a total consideration of $21,000 and 500,000 units issued for exploration and evaluation projects. The warrants were valued at $62,046 using a valuation model based on the following assumptions: market value of $0.025 per share, expected dividend yield of 0%, expected volatility of 108.03%, risk-free rate of return of 1.17% and a life of five years.

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

(viii) Effective February 14, 2017, the Company reclassified its common shares as Subordinate Voting Shares and created an unlimited number of a new class of Multiple Voting Shares. Three hundred Subordinate Voting Shares are convertible at the option of the shareholders at any time into one Multiple Voting Share. Similarly, each one Multiple Voting Share is convertible at the option of the shareholders at any time into three hundred Subordinate Voting Shares. At all meetings of shareholders, shareholders are entitled to cast one vote for each one Subordinate Voting Share and to cast three hundred votes for each one Multiple Voting Share. Dividend and liquidation rights for each Multiple Voting Share are correspondingly three hundred times the dividend and liquidation rights for each Subordinate Voting Share. During the three months ended June 30, 2017, 23,014,800 Subordinate Voting Shares were converted into 76,716 Multiple Voting Shares.

## 17 WARRANTS AND COMPENSATION OPTIONS

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

| | | **Nine months ended September 30, 2018** | |
|---|---|---|---|
| Issued | **Subordinate Voting Share Warrants** | **Multiple Voting Share Warrants** | **Compensation options** |
| Balance – beginning of period | 230,760,949 | 107,672 | 2,803,700 |
| Expired | (25,776,000) | - | (199,200) |
| **Balance – end of period** | **204,984,949** | **107,672** | **2,604,500** |

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

Outstanding Subordinate Voting Share purchase warrants and compensation options entitle their holders to subscribe for an equivalent number of Subordinate Voting Shares.

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

Outstanding Multiple Voting Share purchase warrants entitle their holders to subscribe for an equivalent number of Multiple Voting Shares.

A summary of the Company's outstanding warrants and compensation options as at September 30, 2018 is presented below:

| Number of Subordinate Voting Share Warrants | Number of Multiple Voting Share Warrants | Number of Compensation options | Exercise price $ | Expiry date |
|---|---|---|---|---|
| 25,000,000 | - | - | 0.10 | May 2019 |
| 25,000,000 | - | - | 0.10 | June 2020 |
| 84,895,563 | - | 2,604,500 | 0.05 | April 2021 |
| 55,995,720 | - | - | 0.05 | March 2022 |
| 11,225,238 | - | - | 0.05 | June 2022 |
| 2,868,428 | - | - | 0.05 | July 2022 |
| - | 9,524 | - | 7.50 | October 2019 |
| - | 98,148 | - | 7.50 | December 2019 |
| **204,984,949** | **107,672** | **2,604,500** | | |

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

## 18 STOCK OPTION PLAN

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

As at September 30, 2018, the Plan provides (i) that the maximum number of Subordinate Voting Shares that may be reserved for issuance under the Plan shall be equal to 10% of the number of issued and outstanding Subordinate Voting Shares (for these purposes, all Multiple Voting Shares are deemed to be converted to Subordinate Voting Shares on the basis of 300:1); and (ii) that the maximum number of Subordinate Voting Shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the Subordinate Voting Shares outstanding at the time of the grant.

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

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

A summary of changes in the Company's stock options outstanding is presented below:

**Options**

| | Nine months ended September 30, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| | **Number of shares** | **Average exercise price** | **Number of shares** | **Average exercise price** |
| Balance – beginning of period | 103,000,000 | 0.059 | 82,050,000 | 0.067 |
| Granted | - | - | 33,700,000 | 0.050 |
| Expired | (11,186,000) | 0.010 | (12,750,000) | 0.084 |
| **Balance – end of period** | **91,814,000** | **0.054** | **103,000,000** | **0.059** |

The following table summarizes information about options outstanding and exercisable as at September 30, 2018:

| | | **Outstanding options** | **Exercisable options** |
|---|---|---|---|
| **Exercise price** | **Number of options** | **Average contractual life (in years)** | |
| 0.050 | 83,914,000 | 2.78 | 83,914,000 |
| 0.100 | 7,900,000 | 0.52 | 7,900,000 |
| **0.059** | **91,814,000** | **2.58** | **91,814,000** |

Total share-based compensation costs for the nine months ended September 30, 2018 amounted to $nil (2017 – $16,875).

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

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

## 19 NON-CONTROLLING INTEREST

The amount shown for non-controlling interest on the consolidated balance sheets is in relation to a non-controlling interest ownership (approximately 40%) in the shares of DDI. Non-controlling interests' share of DDI expenses are reflected in the consolidated statements of operations and are charged as a reduction to the non-controlling interest account on the consolidated balance sheets.

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

## 20 GENERAL AND ADMINISTRATIVE EXPENSES

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

| | Three-month periods ended September 30 | | Nine-month periods ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Advertising and promotion | 909 | 7,301 | 14,518 | 67,032 |
| Consultants' fees | 34,437 | 86,025 | 133,387 | 304,025 |
| Debenture interest | 125,434 | 3,380 | 396,335 | 10,021 |
| Directors' fees and insurance | 24,249 | 74,854 | 74,553 | 93,569 |
| Filing fees | 15,860 | 5,789 | 25,618 | 21,027 |
| Investor relations fees | 19,975 | 22,109 | 53,599 | 46,876 |
| Professional fees | 61,862 | 29,983 | 191,694 | 141,559 |
| Office overheads | 134,404 | 174,482 | 407,515 | 350,101 |
| Salaries and benefits | 157,328 | 288,740 | 445,969 | 417,252 |
| Travel and accommodation | 10,310 | 18,284 | 75,670 | 100,732 |
| | 584,768 | 710,947 | 1,818,858 | 1,552,194 |

## 21 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During the first three quarters of 2018, officers and companies controlled by officers charged consulting fees for cash consideration of $232,217 ($221,624 in 2017) and salaries in the amount of $225,000 ($221,600 in 2017) of which $438,067 remained payable at September 30, 2018 ($311,624 in 2017). The consulting fees were for services performed by the corporate secretary and the CFO as well as for general accounting services. Directors' fees charged in the first three quarters of 2018 totalled $64,500 ($81,611 in 2017) of which $64,500 remained payable at September 30, 2018 ($62,000 in 2017). KMP received no stock options in the first three quarters of 2018 (33,700,000 in 2017). In the first three quarters of 2018, stock compensation expenses totalled $nil for KMP ($139,500 in 2017). See also Note 15 (iii) and Note 16 (vi).

## 22 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 2 to these condensed interim consolidated financial statements, there is a risk that some or all of these claims may be disallowed. To the extent that the costs are disallowed as deductions to shareholders, additional tax attributes would be created for the Company which would be considered for recognition at that time. Additional costs may be incurred. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax-related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

The Canada Revenue Agency ("CRA") recently (in 2015) conducted an audit of the Company's flow-through expenditures for the calendar years 2010 through 2013. As a result of the audit, CRA adjusted the amount of qualifying expenditures that were renounced to the subscribers aggregating approximately $6,700,000. In addition, CRA assessed additional Part XII.6 tax of approximately $1,103,180, including penalties and interest. The Company has made a provision for the entire amount of the estimated Part XII.6 tax, penalties and interest. Additionally, a provision in the amount of $3,837,217 was set up for the estimated subscriber indemnification costs based on the highest personal income tax rates in the Province of Ontario at the time these expenditures were renounced to the subscribers plus the Federal and Ontario investment tax credits available at the time. The Company has reviewed CRA's proposals and it disagrees with certain positions taken by CRA. The Company has filed formal objections to dispute the assessments.

Due to the fact that the 2010 and 2011 years are now statute-barred in the opinion of management and that CRA has not issued reassessments to any subscribers for these years as far as the Company is aware, the provision was reduced by $2,542,947 in 2017 and a further $526,827 in the third quarter of 2018.

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

(ii) The Company has signed an operating lease for its premises located at 141 Adelaide St. W., Suite 420, Toronto, On, M5H 3L5. The lease is a net lease with a term of two years commencing on August 1, 2017. Monthly minimum rental payments are $6,536 for the term of the lease. The Company is also responsible for its proportionate share of the operating costs in relation to this space.

(iii) Under the terms of an employment agreement with the Company's CEO dated October 8, 2008, in the event of a change in control of the Company and the CEO's employment is involuntarily terminated within three years following the change in control, the Company shall pay the CEO an amount equal to three times his then-current base salary and three times his annual bonus most recently paid or accrued along with any unpaid salary and vacation pay. The contract requires payments totaling $1,140,000 for the change of control and $570,000 for the termination clause. As the triggering events have not taken place, the contingent payments have not been reflected in these consolidated financial statements.

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

## 23 FINANCIAL INSTRUMENTS AND FAIR VALUES

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

A complete description of the Company's financial risk management is included in Note 26 to the 2017 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.

## 24 DETERMINATION OF FAIR VALUES

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 27 to the Company's 2017 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.

## 25 CAPITAL MANAGEMENT DISCLOSURES

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity. Shareholders' equity totalled $41,063,662 at September 30, 2018 and $42,439,587 at December 31, 2017.

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 three quarters of 2018. The Company is not subject to externally imposed capital requirements.

## 26 SEGMENTED INFORMATION

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

## 27 SUBSEQUENT EVENTS

(i) Effective as of November 25, 2018, the Company disposed of all of the common shares it owned in the capital of DDI to four purchasers in private transactions for aggregate cash consideration of $475,000.

(ii) The Company entered into an agreement with DDI, subject to certain conditions, to convert $65,000 of debt into units (each unit being comprised of one common share and one-half warrant of DDI, each whole warrant being exercisable to purchase one common share at $0.003 (or $0.05 on a post-consolidation basis) of the Issuer (at $0.003 per unit on a pre-consolidation basis ($0.05 per unit on a post-consolidation basis)) as part of a proposed private placement by DDI of up to $600,000 and debt conversion of up to $90,000 on those same terms and in connection with a proposed consolidation of DDI's shares on a 16:1 basis.

(iii) The Company was appointed sales agent of DDI to market DDI's interest in various diamond mineral resource properties to arm's length parties, pursuant to which the Company will be paid a 5% commission on any successful sale.