

# **KWG RESOURCES INC.**

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## **CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

All of the information in the accompanying consolidated financial statements of KWG Resources Inc. is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where necessary, management has made judgments and estimates in preparing the consolidated financial statements and such statements have been prepared within acceptable limits of materiality.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management and the external auditors to review the auditor's report and the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

A firm of independent Licensed Public Accountants was appointed by the shareholders to examine the consolidated financial statements and provide an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

*Frank C. Smeenk*  
President & CEO

*Thomas E. Masters*  
Chief Financial Officer

April 30, 2019

## Independent Auditor's Report

To the Shareholders of KWG Resources Inc.

### Opinion

We have audited the consolidated financial statements of KWG Resources Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Chris Milios.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
April 30, 2019

**KWG RESOURCES INC.**  
**Consolidated Balance Sheets**

(in Canadian dollars)	Notes	As at December 31, 2018	As at December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	210,887	1,214,400
Receivables	7,29(i)	272,067	321,652
Marketable securities	8	10,789	66,365
Prepaid expenses		12,702	-
<b>Total current assets</b>		<b>506,445</b>	<b>1,602,417</b>
<b>Non-current assets</b>			
Cash surrender value of life insurance	9	22,309	33,022
Property and equipment	10	29,347	44,779
Exploration and evaluation projects	11	39,663,574	40,151,023
Intangible assets	12	4,120,375	4,307,514
<b>Total non-current assets</b>		<b>43,835,605</b>	<b>44,536,338</b>
<b>Total assets</b>		<b>44,342,050</b>	<b>46,138,755</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables and provisions	13,14,24(i)	2,956,649	2,932,951
Convertible debenture payable	15	1,044,338	-
<b>Total current liabilities</b>		<b>4,000,987</b>	<b>2,932,951</b>
<b>Long-term liabilities</b>			
Convertible debenture payable	15	-	766,217
<b>Total liabilities</b>		<b>4,000,987</b>	<b>3,699,168</b>
<b>Equity</b>			
Share capital	16	31,881,465	31,881,465
Debenture equity	15	1,732,469	1,732,469
Warrants	17	2,596,050	3,062,193
Contributed surplus		17,235,717	16,769,574
Accumulated other comprehensive (loss) income (Deficit)		(71,606) (13,033,032)	(30,290) (10,927,535)
Non-controlling interest	19	40,341,063	42,487,876
<b>Total equity</b>		<b>40,341,063</b>	<b>42,439,587</b>
<b>Total liabilities and equity</b>		<b>44,342,050</b>	<b>46,138,755</b>

**Nature of operations (Note 1)**  
**Commitments and contingencies (Notes 11 and 24)**  
**Subsequent events (Note 29)**

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

**Approved by the Board of Directors**

*Douglas Flett*  
Director

*Frank Smeenk*  
Director

**KWG RESOURCES INC.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**For the years ended December 31, 2018 and 2017**

<b>(in Canadian dollars)</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
General and administrative	20	(2,065,956)	(2,452,308)
Amortization of property and equipment	10	(15,432)	(16,346)
Amortization of intangible assets	12	(216,862)	-
Accretion expense	15	(218,121)	(44,711)
Stock-based compensation costs	18	-	(353,875)
Gain (loss) on foreign exchange		595	(4,127)
<b>Loss before the undernoted</b>		<b>(2,515,776)</b>	<b>(2,871,367)</b>
<b>Other income (expenses)</b>			
Other income		103,125	3,125
Gain (loss) on disposal of marketable securities	8	-	114,678
Loss due to loss of control of subsidiary	5	(51,661)	-
Recovery of written down (write down) of receivables		(110,043)	28,000
Part XII.6 penalties and interest	13, 24(i)	(72,975)	(57,917)
Change in flow-through indemnification provision	13, 24(i)	526,826	2,542,947
		<b>395,272</b>	<b>2,630,833</b>
<b>Net loss for the year</b>		<b>(2,120,504)</b>	<b>(240,534)</b>
<b>Net loss attributable to non-controlling interest</b>	19	<b>15,007</b>	<b>19,091</b>
<b>Net loss attributable to equity holders of KWG Resources Inc.</b>		<b>(2,105,497)</b>	<b>(221,443)</b>
<b>Loss per share (basic and diluted)</b>	22	<b>(0.00)</b>	<b>(0.00)</b>

**Consolidated Statements of Comprehensive Loss**

<b>(in Canadian dollars)</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Net loss for the year		(2,120,504)	(240,534)
Other comprehensive loss ("OCL")			
Realized loss on disposition	8	(28,520)	-
Net change in fair value of marketable securities	8	(12,796)	(38,062)
Total comprehensive loss for the year		(2,161,820)	(278,596)
Portion attributable to non-controlling interest		15,007	19,091
<b>Net comprehensive loss for the year attributable to equity holders of KWG Resources Inc.</b>		<b>(2,146,813)</b>	<b>(259,505)</b>

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

**KWG RESOURCES INC.**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2018 and 2017**

(in Canadian dollars)	Notes	Share capital	Debenture equity	Warrants	Contributed surplus	(Deficit) Retained earnings	Accumulated other comprehensive (loss)	Non-controlling Interests	Total
<b>Balance, December 31, 2016</b>		<b>30,316,604</b>	<b>67,451</b>	<b>2,437,147</b>	<b>16,209,467</b>	<b>(10,808,632)</b>	<b>7,772</b>	<b>(29,198)</b>	<b>38,200,611</b>
Net loss for the year		-	-	-	-	(221,443)	-	(19,091)	(240,534)
Other comprehensive loss for the year	8	-	-	-	-	-	(38,062)	-	(38,062)
Issue of shares and warrants under private placement	16,17	278,752	-	181,188	-	-	-	-	459,940
Issue of shares and warrants for liabilities	16,17	341,288	-	221,837	-	-	-	-	563,125
Issue of shares and warrants for services rendered	16,17	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	-	-	-	353,875	-	-	-	143,250
Conversion of debenture	15	315,216	(67,451)	3,900	-	-	-	-	251,665
Issuance of convertible debenture		-	2,165,586	-	-	-	-	-	2,165,586
Debenture equity issue costs		-	(433,117)	-	-	-	-	-	(433,117)
Issue of units for bonus on convertible debentures		363,802	-	251,580	-	-	-	-	615,382
Divestiture of shares of Debut Diamonds Inc	5	-	-	-	-	102,540	-	-	102,540
<b>Balance, December 31, 2017</b>		<b>31,881,465</b>	<b>1,732,469</b>	<b>3,062,193</b>	<b>16,769,574</b>	<b>(10,927,535)</b>	<b>(30,290)</b>	<b>(48,289)</b>	<b>42,439,587</b>
<b>Balance, December 31, 2017</b>		<b>31,881,465</b>	<b>1,732,469</b>	<b>3,062,193</b>	<b>16,769,574</b>	<b>(10,927,535)</b>	<b>(30,290)</b>	<b>(48,289)</b>	<b>42,439,587</b>
Net loss for the year		-	-	-	-	(2,105,497)	-	(15,007)	(2,120,504)
Other comprehensive income for the year	8	-	-	-	-	-	(41,316)	-	(41,316)
Expired warrants	17	-	-	(466,143)	466,143	-	-	-	-
Derecognition of non-controlling interest on loss of control	5	-	-	-	-	-	-	63,296	63,296
<b>Balance, December 31, 2018</b>		<b>31,881,465</b>	<b>1,732,469</b>	<b>2,596,050</b>	<b>17,235,717</b>	<b>(13,033,032)</b>	<b>(71,606)</b>	<b>-</b>	<b>40,341,063</b>

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



**KWG RESOURCES INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**

<b>(in Canadian dollars)</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Net Income (loss) for the year		(2,120,504)	(240,534)
Adjustments for			
Amortization of property and equipment	10	15,432	16,346
Amortization of intangible assets	12	216,862	-
Accretion expense	15	218,121	44,711
Stock-based compensation costs	18	-	353,875
Shares and warrants issued for services	16,17	-	428,076
Convertible debentures issued for services	15	-	559,910
Interest accrued on debenture liabilities	15	60,000	22,041
Shares and warrants issued for interest on debenture	16,17	-	10,237
Loss (gain) on disposal of marketable securities	8	-	(114,678)
Write down (recovery of written-down) receivables		110,043	(28,000)
Part XII.6 penalty and interest	13,24(i)	72,975	57,917
Change in flow-through indemnification provision	24(i)	(526,826)	(2,542,947)
Loss due to loss of control of subsidiary	5	51,661	-
Net change in non-cash working capital balances		512,219	(272,494)
<b>Net cash used by operating activities</b>		<b>(1,390,017)</b>	<b>(1,705,540)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares and warrants	16,17	-	459,940
Proceeds from debenture financing	15	-	2,517,000
Repayment of debenture	15	-	(71,908)
<b>Net cash provided by financing activities</b>		<b>-</b>	<b>2,905,032</b>
<b>Cash flows from investing activities</b>			
Expenditures on exploration and evaluation projects	11	(146,793)	(155,381)
Expenditures on intangible assets	12	(29,723)	(64,501)
Expenditures on capital assets	10	-	(45,763)
Decrease in cash surrender value of life insurance	9	10,713	-
Proceeds on disposition of subsidiary	5	539,370	-
Cash derecognized on loss of control	5	(1,323)	-
Proceeds from sales of marketable securities	8	14,260	246,618
<b>Net cash used by investing activities</b>		<b>386,504</b>	<b>(19,027)</b>
<b>Net change in cash and cash equivalents during the year</b>		<b>(1,003,513)</b>	<b>1,180,465</b>
Cash and cash equivalents – beginning of the year		1,214,400	33,935
<b>Cash and cash equivalents – end of the year</b>	<b>6</b>	<b>210,887</b>	<b>1,214,400</b>
<b>Change in non-cash working capital balances comprises:</b>			
Receivables		3,428	(83,201)
Prepaid expenses		(12,702)	12,010
Trade and other payables		521,493	(201,303)
<b>Net change in non-cash working capital balances</b>		<b>512,219</b>	<b>(272,494)</b>
<b>Additional information - non-cash transactions</b>			
Issuance of shares/warrants for exploration and evaluation projects	16,17	-	10,500
Issuance of shares/warrants for settlement of payables	16,17	-	563,125
Expired warrants included in contributed surplus	17	466,143	206,232
Additions to intangible assets included in accounts payable	12	-	4,328
Increase in cash surrender value of life insurance in accounts payable	9	-	33,022
Conversion of debenture payable into shares	15	-	308,879

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

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

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**1 NATURE OF OPERATIONS**

KWG Resources Inc. (“KWG” or the “Company”) is an incorporated entity domiciled in Canada. The Company’s registered office is located at 141 Adelaide St. West, Suite 420, Toronto, Ontario, M5H 3L5. KWG is involved in the exploration and evaluation of base 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 is 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 material uncertainties

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

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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**  
**Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

These financial statements were approved by the board of directors for issue on April 30, 2019.

**Basis of Measurement**

The 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. The methods used to measure fair values are discussed further in Note 26.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**Basis of Consolidation**

These 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. All of the Company's subsidiaries are incorporated in Canada.

The comparative figures for 2017 also include the accounts of Debut Diamonds Inc. ("DDI") which had been a majority-owned (66% as at December 31, 2017) subsidiary of the Company until November 25, 2018 at which time KWG sold all of the shares it owned of DDI (Note 5).

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.

**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

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

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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 entities’ functional currency are recognized in the consolidated statements of operations in “gain(loss) on foreign exchange”.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

**Financial assets and liabilities**

**Accounting policy under IFRS 9 applicable from January 1, 2018**

**Financial assets**

**Initial recognition and measurement**

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost.

**Subsequent measurement – financial assets at amortized cost**

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in other income in the consolidated statements of operations. Cash and receivable held for collection of contractual cash flows are measured at amortized cost.

**Subsequent measurement – financial assets at FVPL**

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of operations. The Company does not have any financial assets classified as financial assets at FVPL.

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

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**Subsequent measurement – financial assets at FVOCI**

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company's investments in publicly traded equity securities are classified as financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of operations when the right to receive payments is established.

**Derecognition**

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

**Impairment of financial assets**

The Company's only financial assets subject to impairment are receivables, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, receivables have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

**Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include trade and other payables and convertible debenture payable, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

**Subsequent measurement – financial liabilities at amortized cost**

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in accretion expense in the consolidated statements of operations.

**Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of operations.

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**Accounting policy under IAS 39 applicable prior to January 1, 2018**

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities as follows:

**Financial Instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

*(i) Financial assets and liabilities at fair value through profit or loss*

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Derivatives are also included in this category unless they are designated as hedges. The Company has invested in and has issued warrants that qualify as derivatives. All derivatives have been classified as held-for-trading and are included on the consolidated balance sheet within marketable securities or warrant liabilities. Gains and losses on re-measurement of the fair value of warrants are included in the consolidated statements of operations in either finance income or gain (loss) on revaluation of warrant liability.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as long-term. Warrants are classified as current.

*(ii) Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities included in marketable securities on the balance sheet.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to the statement of operations and are included in gain (loss) on marketable securities. Available-for-sale investments are classified as non-current, unless management expects to dispose of them within twelve months.

Dividends on available-for-sale equity instruments are recognized in the statement of operations as dividend income when the Company's right to receive payment is established.

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*(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise receivables, and cash, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

*(iv) Financial liabilities at amortized cost*

Financial liabilities at amortized cost consist of trade and other payables and convertible debenture payable. Trade and other payables are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

**Impairment of Financial Assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired. The criteria used to determine if objective evidence of an impairment loss include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest or principal payments; and
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

*(i) Financial assets carried at amortized cost*

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount through the use of an allowance account.

*(ii) Available-for-sale financial assets*

The impairment loss is the difference between the acquisition cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations. This amount represents the loss in accumulated other comprehensive loss that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

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**Property and Equipment**

*(i) Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net in the consolidated statement of operations.

*(ii) Amortization*

Amortization is calculated as a function of the depreciable amount, which is the cost of an asset less its residual value.

Amortization is recognized through operations as follows over the estimated useful lives of each part of an item of property and equipment.

Amortization is computed using the straight-line method based on the following number of periods:

Computer equipment	-	2 years
Automobiles	-	3 years
Office furniture	-	5 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**Impairment of Non-Financial Assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Generally, a CGU is analogous to an individual project.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that it does not exceed the carrying amount that



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would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior periods.

**Exploration and Evaluation Projects**

(iii) *Exploration & Evaluation expenditures*

Exploration & Evaluation (“E&E”) expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as Exploration and Evaluation Projects (“E&EP”) assets on an “area of interest basis” which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proven to exist and, in most cases, comprises of a single mine or deposit.

E&EP assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as E&EP assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an E&EP asset, the amount reflecting that consumption is recorded as part of the cost of the E&EP asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, E&EP assets attributable to that project are first tested for impairment and then reclassified to *mine property and development projects*. Currently, the Company does not hold any assets classified as *mine property and development projects*.

(iv) *Impairment*

E&EP assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&EP asset may exceed its recoverable amount and any impairment loss is recognized as “Write down of exploration and evaluation projects” through the consolidated statements of operations. The following facts and circumstances, among other things, indicate that E&EP assets must be tested for impairment:

- the term of the exploration license for the project has expired during the reporting period or will expire in the near future and is not expected to be renewed;

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- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the E&EP asset is unlikely to be recovered in full through such activity.

E&EP assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to mine property and development on the consolidated balance sheet.

**Borrowing Costs**

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of operations in the period in which they are incurred.

**Short-term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

**Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

**Finance Income**

Finance income comprises interest income on marketable securities, fair value ("FV") gains of financial assets classified as FVPL, and flow-through premium. Interest income is recognized as it accrues through operations, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

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**Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in other comprehensive loss ("OCL") or directly in equity, in which case it is recognized in OCL or in equity respectively.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**Share Capital**

*Common shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issuances on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of a regular common share and estimated fair value of the warrant and is recorded as a separate liability which is included in trade and other payables on the consolidated balance sheets. The proceeds attributable to the warrants issued in the Company's functional currency are also treated as equity and recorded in warrants on the balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on

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exercise. Upon expiry, the original fair value of the warrants is transferred to contributed surplus.

The effect of renunciation of the tax benefits to holders of such shares is recognized pro-rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a deferred tax liability and charged against operations as a deferred tax provision.

Furthermore, as eligible expenditures are incurred, the Company recognises a pro-rata amount of the Flow-through Premium through "Finance income" in the consolidated statements of operations with a decrement to the liability on the consolidated balance sheet. Flow-through shares renunciations of expenditures are subject to the significant judgment of management in determining the eligibility of the expenditures incurred and are potentially subject to challenge by income tax authorities based on the nature of the amounts incurred. Management has taken and will continue to take actions to mitigate the risk of challenge, if any occurs. To the extent these are disallowed, the Company would generate additional tax attributes to assess for recognition in the financial statements. Additional costs may be incurred.

**Share-Based Payment Arrangements**

*Stock Option Plan*

The Company has a stock option plan (the "Stock Option Plan") which is described in Note 18. All share-based awards made to employees and others providing similar services are recognized at the date of grant using a fair-value-based method to calculate compensation expense. Compensation expense is charged to operations over the vesting period of the options with a corresponding increase to contributed surplus. Stock options typically vest over an 18-month period. The fair values are determined at the grant date by applying the Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise prices, expected volatility based on available historical volatility of the Company's share price, expected life, expected dividends, expected forfeiture rate and the risk-free interest rate. Under graded vesting the fair value of each tranche is recognized over its respective vesting period.

The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by KWG.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For those options that expire after vesting, the recorded value is transferred to contributed surplus.

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**Earnings per Share**

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares (known as subordinated voting shares). Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of subordinated voting shares outstanding during the period (including deemed conversion of all multiple voting shares to subordinated voting shares). Diluted EPS is determined by adjusting the results of operations attributable to shareholders and the weighted average number of subordinated voting shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options, as well as deemed conversion of multiple voting shares and warrants and options thereon. Options and warrants have a dilutive effect only when the average market price of underlying shares during the period exceeds the exercise price of the options or warrants.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives and any accumulated impairment losses. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of operations when the asset is derecognized.

**Compound financial instruments (debentures)**

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

**Recent Accounting Pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – *Presentation of Financial Statements* (“IAS 1”) and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective

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for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 16 – *Leases* (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – *Leases* as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRIC 23 – *Uncertainty Over Income Tax Treatments* (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

**Changes in Accounting Policies**

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in the standard, the Company adopted the standard retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018. There were no effects on opening balances at January 1, 2018 with respect to the adoption of this policy.

**IFRS 9, *Financial Instruments***

IFRS 9 replaces International Accounting Standard (“IAS”) 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss (“FVPL”) or fair value through other comprehensive income (“FVOCI”); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

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Upon adoption of IFRS 9, the main change in the Company's accounting policy on financial instruments is equity investments previously classified as available-for-sale are now classified as financial assets measured at FVOCI.

Equity investments previously classified as available-for-sale financial assets satisfied the conditions for classification as financial assets at FVOCI and the Company elected to irrevocably designate them at FVOCI. Gains and losses in respect of these investments are recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss, are not transferred to profit or loss upon disposition and are not subject to impairment assessments.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
<b>Financial assets</b>		
Cash	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
Marketable securities	Available for sale	FVOCI
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debenture payable	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 39. Significant accounting policies outline the current and previous accounting policies pertaining to financial instruments.

**4 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:

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**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 11 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



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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 the 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 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.

**Impairment of Intangible Assets**

Management has assessed that there are no indicators of impairment with regards to its intangible assets. This assessment was made based on both internal and external sources of information including the successful granting of the patents in Canada, the United States and other countries during the 2018 year. If management's assessment were different it could result in a potential impairment in the value of the intangible asset. Such an impairment could be material.

**Contingencies and commitments**

Refer to Note 24.

**5 ACQUISITION AND DISPOSITION 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 year ended December 31, 2018, KWG disposed of all of the remaining common shares it owned in the capital of DDI, and assigned \$25,000 of the receivables from DDI to four purchasers in private transactions for aggregate cash consideration of \$559,370. Finder's fees of \$20,000 was paid.

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The loss recognized on the loss of control of DDI was calculated as follows:

<b>Fair value received:</b>	
Fair value of loan from DDI retained	67,500
Cash proceeds from sale	559,370
	<u>626,870</u>
<b>Less: net assets derecognized</b>	
Cash	1,323
Receivables	3,615
Exploration and evaluation projects	634,242
Trade and other payables	(43,945)
Derecognition of non-controlling interest	63,296
	<u>658,531</u>
	(31,661)
Transaction costs on sale of DDI shares	<u>(20,000)</u>
<b>Loss due to loss of control</b>	<b>(51,661)</b>

**6 CASH AND CASH EQUIVALENTS**

	As at December 31, 2018	As at December 31, 2017
Bank balances	210,887	1,214,400
<b>Cash and cash equivalents</b>	<b>210,887</b>	<b>1,214,400</b>

**7 RECEIVABLES**

	As at December 31, 2018	As at December 31, 2017
Sales taxes receivable	21,677	49,717
Due from DDI (Note 29(i))	67,500	-
Other receivables	182,890	271,935
<b>Receivables</b>	<b>272,067</b>	<b>321,652</b>

**8 MARKETABLE SECURITIES**

	As at December 31, 2018	As at December 31, 2017
FVOCI:		
Idaho Champion Gold Mines Canada Inc. (i) nil common shares (534,750 in 2017)	-	42,780
Eloro Resources Ltd. ("Eloro") (ii) 20,558 common shares	9,251	21,791
Cliffs Natural Resources Inc. 200 common shares	1,538	1,794
<b>Total FVOCI</b>	<b>10,789</b>	<b>66,365</b>
<b>Marketable securities</b>	<b>10,789</b>	<b>66,365</b>

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- (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. During the year, the Company sold its 178,250 common shares to an officer of the Company for cash proceeds of \$14,260. A loss of \$28,520 was recognized on this disposition in other comprehensive loss.
- (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 FVOCI 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 \$1,000 (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.

**9 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 \$9,535,868 at December 31, 2018. The insurer of these policies is Canada Life. As at December 31, 2018, these policies had a net cash surrender value equal to \$22,309 after deducting loans secured by the policies and accrued interest thereon totalling \$613,648.

**10 PROPERTY AND EQUIPMENT**

	Auto- mobiles	Computer Equipment	Office Equipment	Leasehold Improvements	Totals
<b>Balance, December 31, 2016</b>					
Cost	83,254	24,191	44,991	27,307	179,743
Accumulated amortization	(73,895)	(24,191)	(42,175)	(24,120)	(164,381)
<b>Net book value</b>	<b>9,359</b>	<b>-</b>	<b>2,816</b>	<b>3,187</b>	<b>15,362</b>
Additions (disposals)	45,763	-	-	-	45,763
Amortization	(10,630)	-	(2,529)	(3,187)	(16,346)
<b>Balance, December 31, 2017</b>					
Cost	129,017	24,191	44,991	27,307	225,506
Accumulated amortization	(84,525)	(24,191)	(44,704)	(27,307)	(180,727)
<b>Net book value</b>	<b>44,492</b>	<b>-</b>	<b>287</b>	<b>-</b>	<b>44,779</b>
Additions (disposals)	-	-	-	-	-
Amortization	(15,254)	-	(178)	-	(15,432)
<b>Balance, December 31, 2018</b>					
Cost	129,017	24,191	44,991	27,307	225,506
Accumulated amortization	(99,779)	(24,191)	(44,882)	(27,307)	(196,159)
<b>Net book value</b>	<b>29,238</b>	<b>-</b>	<b>109</b>	<b>-</b>	<b>29,347</b>

**11 EXPLORATION AND EVALUATION PROJECTS**

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

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	Balance as at January 1, 2017	Current Expend- itures	Balance as at December 31, 2017
Canada – Ontario			
Spider No. 3 / McFaulds Lake (i)(ii)	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 (disposals)	Balance as at December 31, 2018
Canada – Ontario			
Spider No. 3 / McFaulds Lake (i)(ii)	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 16(i))	8,454,043	144,578	8,598,621
MacFadyen Kimberlites (v)	634,242	(634,242)	-
Hornby Property (vi)	100,000	-	100,000
	40,151,023	(487,449)	39,663,574

- (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, 2018, 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 was performing exploration activities on these claims.

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- (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 had 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 re-designated as Subordinate Voting Shares) in satisfaction of the second option payment. On March 17, 2015, the Company issued 35,000,000 common shares (now re-designated 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

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September 30, 2016 in exchange for KWG issuing 25,000,000 common shares (now re-designated 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 re-designated 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. This property was disposed of as part of the DDI divestiture (Note 5).

(vi) On August 21, 2015, the Company issued 4,000,000 common shares (now re-designated 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.

## **12 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

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and developing and exploiting the Chromium IP. The limited partners of the LP were 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 re-designated 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 re-designated 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.

During 2018, patents were granted in Canada, the United States, Kazakstan and South Africa to the Company. Patents have a life of 20 years. The capitalized costs of the patents are amortized on a straight-line basis over a 20-year period commencing in 2018.

**13 TRADE AND OTHER PAYABLES AND PROVISIONS**

	Notes	December 31, 2018	December 31, 2017
Trade payables			
Exploration and evaluation projects	11	-	-
Intangible assets	12	-	652
Non-project related		370,177	189,342
Accrued liabilities			
Exploration and evaluation projects	11	-	-
Non-project related		529,797	232,431
Part XII.6 penalties and interest	24(i)	1,289,231	1,216,256
Flow-through indemnification provision	24(i)	767,444	1,294,270
		2,956,649	2,932,951

**14 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 of the balance payable was reversed in 2017.

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**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 11(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 re-designated 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 \$68,884 (2017 - \$15,831) has been recorded and interest of \$60,000 (2017 - \$15,000) has been accrued for the year ended December 31, 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 was comprised of 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.



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(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 \$149,237 (2017 - \$6,328) has been recorded for the year ended December 31, 2018.

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 was comprised of 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.

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**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:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of Subordinate Voting Shares	Number of Multiple Voting Shares	Number of Subordinate Voting Shares	Number of Multiple Voting Shares
<b>Issued</b>				
Balance – beginning of year	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 year (viii)	1,008,300	(3,361)	(24,108,600)	80,362
<b>Balance – end of year</b>	<b>1,018,666,527</b>	<b>194,197</b>	<b>1,017,658,227</b>	<b>197,558</b>

- (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 was comprised of 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 was comprised of 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

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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.
- (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 any shareholder at any time into one Multiple Voting Share. Similarly, each one Multiple Voting Share is

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convertible at the option of any shareholder 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 year ended December 31, 2018, 3,361 Multiple Voting Shares were converted into 1,008,300 Subordinate Voting Shares. During the year ended December 31, 2017, 24,108,600 Subordinate Voting Shares were converted into 80,362 Multiple Voting Shares.

**17 WARRANTS AND COMPENSATION OPTIONS**

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

	Year ended December 31, 2018		
Issued	Subordinate Voting Share Warrants	Multiple Voting Share Warrants	Compensation options
Balance – beginning of year	230,760,949	107,672	2,803,700
Expired	(25,776,000)	-	(199,200)
<b>Balance – end of year</b>	<b>204,984,949</b>	<b>107,672</b>	<b>2,604,500</b>

	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)
<b>Balance – end of year</b>	<b>230,760,949</b>	<b>107,672</b>	<b>2,803,700</b>

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

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A summary of the Company's outstanding warrants and compensation options as at December 31, 2018 is presented below:

<b>Number of Subordinate Voting Share Warrants</b>	<b>Number of Multiple Voting Share Warrants</b>	<b>Number of Compensation options</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
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
<b>204,984,949</b>	<b>107,672</b>	<b>2,604,500</b>		

**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 re-designated 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 December 31, 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.

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

**Options**

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of Subordinate Voting Shares	Average exercise price	Number of Subordinate Voting Shares	Average exercise price
Balance – beginning of year	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
<b>Balance – end of year</b>	<b>91,814,000</b>	<b>0.054</b>	<b>103,000,000</b>	<b>0.059</b>

The following table summarizes information about options outstanding and exercisable as at December 31, 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
<b>0.059</b>	<b>91,814,000</b>	<b>2.58</b>	<b>91,814,000</b>

Total share-based compensation costs for the year ended December 31, 2018 amounted to \$nil (2017 – \$353,875).

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 sheet in 2017 is in relation to a non-controlling interest ownership (approximately 34.2%) 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

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consolidated balance sheets. In 2018, the non-controlling interest was eliminated as a result of the disposition of DDI (Note 5).

**20 GENERAL AND ADMINISTRATIVE EXPENSES**

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

<b>Years ending December 31</b>	<b>2018</b>	<b>2017</b>
Advertising and promotion	20,048	116,616
Consultants' fees	199,995	366,625
Directors' fees and insurance	101,162	122,651
Filing fees	30,657	27,737
Investor relations fees	98,961	66,526
Professional fees	219,480	292,402
Office overheads	717,778	564,447
Salaries and benefits	593,463	766,564
Travel and accommodation	84,412	128,740
	<b>2,065,956</b>	<b>2,452,308</b>

**21 INCOME TAXES**

**Provision for Income Taxes**

A reconciliation between tax expense and the product of accounting loss multiplied by the Company's combined federal and provincial tax rate is as follows:

	<b>2018</b>	<b>2017</b>
Statutory tax rate	26.50%	26.50%
Loss before income taxes	(2,120,504)	(240,534)
Expected income tax recovery based on statutory rate	(562,000)	(64,000)
Adjustment to expected income tax benefit:		
Share- based compensation	-	94,000
Loss due to loss of control	2,743,000	
Other	1,000	108,000
Change in benefits not recognized	(2,182,000)	(138,000)
Deferred income tax provision (recovery)	-	-

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

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**Deferred Income Tax Balances**

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

<b>Deductible Temporary Differences</b>	<b>Dec 31, 2018</b>	<b>Dec 31, 2017</b>
Exploration and evaluation projects	-	6,718,000
Non capital loss carry-forwards	13,256,000	14,558,000
Capital loss carry-forwards	78,679,000	80,156,000
Share issue costs	3,000	7,000
Marketable securities	56,000	1,168,000
Property and equipment	2,549,000	2,534,000
	<b>94,543,000</b>	<b>105,141,000</b>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Company and its subsidiaries will be able to utilize the benefits.

At December 31, 2018, the Company has unclaimed non-capital losses of \$13,256,000 (2017 - \$14,558,000 expiring at various dates through 2037) which will expire at various dates through 2038. All other temporary differences can be carried forward indefinitely.

**22 LOSS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

<b>Years ended December 31</b>	<b>2018</b>	<b>2017</b>
Weighted average number of outstanding Subordinate Voting Shares (*) – basic and diluted	1,021,415,431	1,021,415,431
Net loss for the year	(2,120,504)	(240,534)
Loss per Subordinate Voting Share for the year Basic and diluted	(0.00)	(0.00)

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

Non-dilutive securities:

Convertible debentures:

Multiple Voting Shares

586,060

586,060

Multiple Voting Share Warrants

538,442

538,442

Stock options

91,814,000

103,000,000

Subordinate Share Warrants and Compensation Options

207,589,449

233,564,649

Multiple Voting Share Warrants

107,672

107,672

**23 RELATED PARTY TRANSACTIONS**

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel (“KMP”). During 2018, officers and companies controlled by officers charged consulting fees for cash consideration of \$291,488 (\$389,625 in 2017) and salaries in the amount of \$572,500 (\$527,500 in 2017) of which \$485,427 remained payable at December 31, 2018 (\$112,521 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 2018 totalled \$88,500 (\$103,700 in 2017) of which \$88,500 remained payable



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at December 31, 2018 (\$nil in 2017). KMP received no stock options in 2018 (33,700,000 in 2017). In 2018, stock compensation expenses totalled \$nil for KMP (\$350,125 in 2017). See also Note 15 (iii) and Note 16 (vi).

**24 COMMITMENTS AND CONTINGENCIES**

- (i) The Company has incurred approximately \$13 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow-through agreements. As noted in Note 3 to these consolidated financial statements, there is a risk that some or all of these claims may be disallowed. To the extent that the costs are disallowed as deductions to shareholders, additional tax attributes would be created for the Company which would be considered for recognition at that time. Additional costs may be incurred. The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax-related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

In 2015, the Canada Revenue Agency (“CRA”) 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 indemnification provision was reduced by \$2,542,947 in 2017 and a further \$526,826 in 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

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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.

## **25 FINANCIAL INSTRUMENTS AND FAIR VALUES**

### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

### **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

### **Credit Risk**

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, receivables and marketable securities.

#### ***(i) Cash and Cash Equivalents***

The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper.

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**(ii) Receivables**

The Company's receivables consist primarily of trade receivables and amounts due from related and unrelated parties. When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables.

Furthermore, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

**(iii) Marketable Securities**

The Company invests only in securities of companies listed on public stock exchanges and warrants of those companies. There is no active market for these warrants. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

**(iv) Guarantees**

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will ensure to the Company. At December 31, 2018, the Company had \$nil in guarantees outstanding (2017 - \$nil).

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

	Notes	December 31, 2018	December 31, 2017
Carrying amount			
Cash and cash equivalents	6	210,887	1,214,400
Receivables	7	272,067	321,652
Financial assets classified as FVOCI	8	10,789	66,365
		493,743	1,602,417

**Liquidity Risk**

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

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

The Company manages its liquidity risk through the mechanisms described above and as described in Capital Management Disclosures (Note 27). The Company has historically relied on issuances of shares and convertible debenture instruments to develop projects and to finance day-to-day operations and may do so again in the future.

The Company's only significant long-term liability is its two convertible debentures payable, such debentures issued in two series with fixed maturity dates of October 3, 2019 and

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December 15, 2019, respectively, and each of which has a fixed annual interest rate of 12%. All other contractually obligated cash flows are payable within the next fiscal year.

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

**Foreign Currency Risk**

The Company is exposed to foreign currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the Canadian dollar. The currencies in which these transactions are denominated, when they occur, are the United States dollars (US\$). The Company does not actively hedge its foreign currency exposure. A 10% strengthening or weakening of the US\$ would not have a material impact on the Company's equity or results of operations.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest-bearing debt, comprised of convertible debentures payable is at a fixed rate of interest. Consequently, the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

**Other Market Price Risk**

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

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

**26 DETERMINATION OF FAIR VALUES**

**Measurement Categories**

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statement of operations or comprehensive loss. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost.

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The following table shows the carrying values of financial assets and liabilities for each of these categories at the reporting date.

	Notes	December 31, 2018	December 31, 2017
<b>Assets</b>			
Amortized cost			
Cash	6	210,887	1,214,400
Receivables	7	272,067	321,652
FVOCI			
Marketable securities	8	10,789	66,365
<b>Liabilities</b>			
Amortized cost			
Trade and other payables and provisions	13	2,956,649	2,932,951
Convertible debentures	15	1,044,338	766,217

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(i) Marketable securities**

The fair value of marketable securities included is determined by reference to their quoted market closing bid price at the reporting date.

*Fair Value Hierarchy*

The different levels of valuation are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;  
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and  
Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs).

The table below analyzes financial instruments carried at fair value by valuation method:

	Level 1	Level 2	Level 3	Total
<b>As at December 31, 2018</b>				
<b>Assets</b>				
Marketable securities	10,789	-	-	10,789
<b>Total assets</b>	<b>10,789</b>	-	-	<b>10,789</b>
<b>As at December 31, 2017</b>				
<b>Assets</b>				
Marketable securities	66,365	-	-	66,365
<b>Total assets</b>	<b>66,365</b>	-	-	<b>66,365</b>

**(ii) Receivables**

The fair value of receivables is estimated at their book value due to their short term nature. Receivables are generally due within 30 days.

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**(iii) Non-derivative Financial Liabilities**

Fair value, which is determined for disclosure purposes and approximates the carrying value of trade and other payables due to their short-term nature, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**(iv) Cash equivalents**

As cash equivalents are readily converted into cash the fair value of cash equivalents is determined by reference to this value.

**27 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 \$40,341,063 at December 31, 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 2018 and 2017. The Company is not subject to externally imposed capital requirements.

**28 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.

**29 SUBSEQUENT EVENTS**

- (i) On January 9, 2019, the Company converted debt owing from DDI in the amount of \$67,500 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 DDI (at \$0.003 per unit on a pre-consolidation basis (\$0.05 per unit on a post-consolidation basis)) as part of a private placement by DDI.
- (ii) On March 18, 2019, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$775,648 to satisfy accounts payable amounts outstanding at the time (\$560,208 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

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Share from treasury upon payment of \$7.50 at any time on or before December 15, 2019. Concurrently with issuing the debentures, the Company paid a premium or bonus equal to 20% of the principal amount of such debentures, which it paid by issuing to the holders 7,347 units at a deemed value of \$21 per unit. Each unit was comprised of four Multiple Voting Shares and four 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 on or before December 15, 2019.

- (iii) On April 8, 2019, 7,900,000 stock options exercisable at \$0.10 expired unexercised.