

# **KWG RESOURCES INC.**

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(An exploration stage company)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **- QUARTERLY HIGHLIGHTS**

**FOR THE QUARTER ENDED  
SEPTEMBER 30, 2019**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This management's discussion and analysis – quarterly highlights (the "MD&A") should be read in conjunction with the annual and the interim quarterly financial statements of KWG Resources Inc. ("KWG" or the "Company") all of which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed through the internet at [www.sedar.com](http://www.sedar.com).

### DATE

This MD&A for the quarter ended September 30, 2019 is dated as of November 29, 2019.

### COMPANY OVERVIEW

KWG is an exploration stage company that is participating in the discovery, delineation and development of chromite deposits approximately 280 km north of Nakina, in the James Bay Lowlands of Northern Ontario, including 1,024 hectares covered by four unpatented mining claims which contain the Black Horse chromite deposit (the "Koper Lake Project") and 1,241 hectares covered by seven unpatented mining claims which contain the Big Daddy chromite deposit (the "Big Daddy Project"). These deposits are globally significant sources of chromite which may be reduced into metalized iron and chrome or refined into ferrochrome, a principal ingredient in the manufacture of stainless steel. KWG has been active in exploring the James Bay Lowlands since 1993 and discovered diamond-bearing kimberlite pipes near Attawapiskat and five pipes near the Ring of Fire area in 1994. This led to the discovery of the McFaulds Lake copper-zinc volcanogenic sulphide deposits in 2002, which precipitated a staking rush that defined the "Ring of Fire".

The Company has the right to acquire: (i) up to an 80% interest in respect of chromite contained in the Koper Lake Project and (ii) up to a 20% interest in respect of the non-chromite minerals contained in the Koper Lake Project. In 2016, the Company became vested in a 50% joint venture interest in the Koper Lake Project which was renamed the Black Horse Joint Venture. The 50% joint venture interest includes 10% thereof of which Bold Ventures Inc is the beneficial owner. The Company also has a 30% joint venture interest in the Big Daddy Project.

Through Canada Chrome Corporation ("CCC"), a wholly owned subsidiary, the Company has also staked mining claims in Northern Ontario with a view to the development and construction of a proposed railway or slurry pipeline from Aroland near Nakina, Ontario to the Koper Lake Project and the Big Daddy Project, as well as exploring for, delineating and developing aggregate and other minerals.

KWG also acquired intellectual property interests, including a method for the direct reduction of chromite to metalized iron and chrome using natural gas and an accelerant. KWG subsidiary, Muketi Metallurgical LP, has received a patent for the direct reduction method in Canada, South Africa and Kazakhstan and is prosecuting remaining patent applications in India, Indonesia, Japan, South Korea, Turkey and the USA. It has also received a USA patent for production of low carbon chromium iron alloys and a corresponding Canadian patent application is expected to issue soon.

The Company incurred approximately \$13 million of expenditures which have been passed through to subscribers of "flow-through shares" (within the meaning of such term under the *Income Tax Act* (Canada)) as eligible expenditures for their purposes under flow-through agreements for the calendar years 2010 through 2013. Canada Revenue Agency ("CRA") conducted an audit of these expenditures and, in late 2015, proposed an adjustment to the amount of qualifying expenditures that were renounced to the subscribers aggregating approximately \$6,700,000 and assessed additional Part XII.6 tax of approximately \$1,103,180, including penalties and interest. The Company made a provision for the entire amount of the estimated Part XII.6 tax, penalties and interest and an amount of \$3,837,217 was set up for the estimated subscriber indemnification costs. The Company filed formal objections with CRA to dispute the assessments. Following detailed exchanges with CRA appeals' staff over the ensuing 46 months, CRA issued revised notices of reassessment on August 16, 2019

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seeking a tax balance for 2010 of \$1,626 only. The reassessment notice disclosed the addition of a retroactive \$15,000 penalty for the incorrect 2010 reporting and subsequent penalties of a further \$8,907 to compound the reassessed tax and penalty being retroactively outstanding. The Company is considering appealing this assessment and retroactive application of these penalties. (See "Commitments and Contingencies" section of this MD&A).

As of the date of this MD&A, CRA has not, to the knowledge of the Company, issued reassessments to any subscribers. As a result, and given the reassessment notice received, the Company believes that it has no further liability to indemnify subscribers and has reduced that provision to nil.

### **HIGHLIGHTS**

During and subsequent to the quarter ended September 30, 2019:

- On August 27, 2019, the Company announced the closing of another tranche of its private placement of convertible debentures. This tranche was comprised of an aggregate of \$395,450 of debentures. The debentures are convertible at the option of KWG into units (each a "Unit") with a deemed value of \$21 per unit. Each subscriber received an option to acquire an equal amount of additional debentures at any time within four (4) months from closing. Each Unit is comprised of four (4) KWG.A multiple voting shares and four (4) multiple voting share purchase warrants, with each such warrant enabling its holder to acquire one further KWG.A multiple voting share from treasury upon payment of \$7.50 at any time on or before December 15, 2019. The debentures bear interest at a rate of 12% per annum, accruing daily, compounding annually and payable at the earlier of maturity, redemption or conversion, in KWG.A multiple voting shares from treasury at their volume-weighted average price for the ten trading days prior to payment. The debentures secure repayment of the principal, plus interest earned thereon to the date of payment, plus a bonus of 20% of the original principal amount payable immediately following issuance of the debenture by the issuance of Units with a deemed value of \$21 per Unit. At any time and from time to time, KWG will have the right to redeem the debentures in whole or in part by payment in cash or convert the debentures in whole or in part into Units.
- On August 18, 2019 the Company received a notice of reassessment from CRA eliminating all but \$25,533 of current liabilities of \$4,940,397 previously accrued as a result of prior assessments – which resulting reassessment of \$25,533 is comprised of a tax balance for 2010 of \$1,626 only, plus a retroactive \$15,000 penalty for the incorrect 2010 reporting and subsequent penalties of a further \$8,907 to compound the reassessed tax and penalty being retroactively outstanding.. The Company is considering appealing the assessment of \$23,907 in retroactive penalties and interest in the notices of reassessment.
- On October 3, 2019 the Company agreed to extend to December 2, 2019 the time within which the holder of its \$500,000 convertible debenture may elect to exercise its conversion option. Within that time all or part of the sum secured by the debenture is convertible at the option of the holder into units with a deemed value of \$21 per unit (each a "Unit"). Each Unit is comprised of four (4) KWG.A multiple voting shares and four (4) multiple voting share purchase warrants, with each such warrant enabling its holder to acquire one further KWG.A multiple voting share from treasury upon payment of \$7.50 at any time on or before December 15, 2019. The debenture bears interest at a rate of 12% per annum, accruing daily, compounding annually and payable at the earlier of maturity, redemption or conversion, in KWG.A multiple voting shares from treasury at their volume-weighted average price for the ten trading days prior to payment. The debenture secures repayment of the principal, plus interest earned thereon to the date of payment, plus a premium of 3%.

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### OUTLOOK

KWG was invited on August 9, 2019, by the Canadian Environmental Assessment Agency (the Agency) to comment on its acceptance of a Project Description for the **Marten Falls Community Access Road Project** (the Project) submitted by Marten Falls First Nation (the proponent), to which the Company made the following response:

*To ensure the economic feasibility of our interests in the chromite discoveries in the Ring of Fire in northern Ontario (by enabling their access to markets), we staked contiguous claims from locations near Nakina, Ontario, to the Ring of Fire, which was completed prior to the Far North Act's promulgation. Our consent to the use of those claims will be forthcoming to any application that enhances and does not frustrate that purpose. The Supreme Court of Canada declined to interfere with the Ontario Court of Appeal's finding that we may not withhold consent to uses not offending our rights under the Mining Act, leaving intact the requirement for our consent to uses which could offend our rights under the Mining Act.*

*To properly assess that purpose it is imperative for you to fully understand the results of the research undertaken by CanmetMINING and a study completed for us by China Railway First Survey & Design Institute Group (FSDI) relating to the economics of constructing and operating a railroad line on our claims from Nakina to the Ring of Fire in connection with development of chromite mines in the Ring of Fire.*

*The prospect for the development of these mines will provide for you important parts to an understanding of the global economic context of the rationale for Ontario providing the Webequie First Nation with a road to them, and the Marten Falls First Nation with bridges across the Ogoki and Albany Rivers for a road link south to Ontario's transportation network, in addition to the ostensible utility for the inhabitants of those communities.*

*That context is absent from the material filed to date.*

*Without that holistic context, your consideration of the Project is missing a significant and substantive reason, not being completely informed of an ultimate goal of these disparate and uncoordinated activities that may appear otherwise to be economically unsound but, with that holistic context, have a sound economic basis.*

*That substantive reason should absolutely command your consideration of the Project, in our view. That substantive reason is that Canada has been demonstrated to host in the Ring of Fire in northern Ontario an extremely high-grade and very thick chromite mineral occurrence of historic proportions which may be beneficiated to supply ferrochrome to a global market for many, many years, even generations and, with our country's wealth of natural gas, be able to do so at a tremendous cost advantage. Only your agency can properly weigh the profound economic imperative that these national endowments may visit on the global order for the benefit of many generations. Only your agency can rationally balance that international strategic currency of our land and people in considering the effect of its exploitation on its locale's society and biosphere.*

*Responsible extrapolations from available data suggest that, at current metal prices, there is a staggering value of chromium in situ in the Ring of Fire, that the FSDI railroad design can deliver from it quantities greater than 100% of the world's present chromium consumption, and*

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*that a Canadian gas reduction patented process can produce ferrochrome from those deposits at significantly lower cost than all other sources.*

*As the world's nascent preference for non-corroding steel increasingly displaces corroding steels in rebar, structural steel and other aspects of infrastructure and building construction, Canada's chromium can become a most important international trade commodity. How that may occur, and the international trade considerations that will accompany that, must form part of your consideration.*

These recent developments surrounding the north-south transportation corridor have been highly encouraging and continue the conviction of KWG's management that the Company's assets will prove to be catalytic in the development of mining in the Ring of Fire. These developments, combined with previously published resource estimates, support management's opinion that the chromite deposits of the Ring of Fire may have a very long combined production life. Management believes that this will enable the depreciation and amortization of the cost of an infrastructure asset such as a railroad over a very long time. When that term is combined with the present historic low cost of the capital required to construct such an undertaking, the unit cost for projected usage can be quite modest when compared to all available alternatives. The test work done to date on the conversion of the Black Horse chromite into a metalized chrome and iron alloy using natural gas, continues to encourage KWG's management that an opportunity to create a substantial and globally significant export industry in this key industrial commodity appears achievable.

KWG is very pleased to see the areas directly affected First Nations now formally becoming proponents of the Environmental Assessment for the transportation infrastructure needed for development of these resources. KWG's management is also very encouraged that the support for the development previously pledged by the governments of Ontario and Canada is now being acted on by the Province of Ontario to initially underwrite the planning cost of community access roads.

With the allowance or acceptance of the Company's patent applications (including Canada, South Africa and Kazakhstan to date), the Company expects that its process for the production of chromium iron alloys directly from chromite ore will soon be available for further development and licensing.

### Selected Consolidated Financial Information

<b>As at and for the years ended</b>			
<b>December 31</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Summary Operating Results Data</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
General and administrative expenses	2,065,954	2,452,308	1,694,152
Share-based compensation	-	353,875	169,825
Loss from operations	(2,515,774)	(2,871,367)	(1,907,688)
Net loss for the year	(2,105,497)	(221,443)	(1,946,240)
Loss per share	(0.00)	(0.00)	(0.00)
<b>Summary Balance Sheet Data</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	210,887	1,214,400	33,935
Receivables	272,067	321,652	210,451
Marketable securities	10,789	66,365	133,827
Total current assets	506,445	1,602,417	390,223
Exploration and evaluation projects	39,663,574	40,151,023	41,791,073
Total assets	44,342,050	46,138,755	46,549,181
Trade and other payables	4,000,987	2,932,951	8,064,828
Long-term liabilities	-	766,217	211,834
Total equity	40,341,063	42,439,587	38,200,611

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### **OVERALL PERFORMANCE – FINANCIAL**

During the third quarter of 2019, the Company utilized the remaining proceeds of the sale of its interest in Debut Diamonds Inc. (“DDI”), which injected \$475,000 into the Company in late 2018 and early 2019 and the proceeds of the convertible debenture issuance, which (i) in March injected \$85,000 of cash into the Company and converted approximately \$618,000 of payables into convertible debentures, (ii) in June 2019 injected \$100,000 of cash into the company and (iii) in August 2019 injected \$110,000 of cash into the Company and converted approximately \$285,000 of payables into convertible debentures, to cover administrative and general expenses as the Company does not currently have any significant revenue sources. KWG’s exploration activities were funded from the proceeds of these cash inflows. These cash inflows were also utilized to reduce the Company’s liabilities. The Company’s other cash inflows consisted of a royalty payment of \$781. Regular operating expenditures were approximately \$117,000 higher than the third quarter of the previous year due to a non-cash expenditure of \$240,000 related to consulting fees, otherwise expenditures were lower than the previous year by \$123,000 as the Company reduced its expenditures as planned.

The Company has maintained its focus on its strategic plan to develop what it expects will become a major North American ferro-chrome source of supply to the globe’s stainless-steel makers, as well to explore and build a route to transport materials to and product from the mine site. Exploration activities on the Black Horse Project and the Big Daddy Project have not been progressed in the last few years, however, due to negative market sentiment.

KWG’s railway infrastructure project has been well-timed and the need for a railway or slurry pipeline in the Ring of Fire is increasingly appreciated to be potentially very economic. Meetings with government and First Nations officials are ongoing to determine a mutually beneficial result. As well, KWG continues to explore the available funding mechanisms that can be employed to continue development of the railroad link or slurry pipeline to the Ring of Fire.

The reporting currency of the Company is Canadian dollars and the financial data is reported in this currency.

### **LIQUIDITY & CAPITAL RESOURCES**

The main source of financing for KWG is the issuance of equity shares and convertible debentures and sale of non-core assets. Each of KWG’s projects has demonstrated sufficient evidence of geological merit to warrant additional exploration. However, it is not presently possible to estimate the cost of further exploration programs, which may or may not bring individual properties to a subsequent stage of development, since they are all exploration projects and their development depends on the results of exploration.

On September 30, 2019, the Company had a working capital deficiency of \$2,172,857 (\$3,494,542 as at December 31, 2018). It had \$6,693 in cash and cash equivalents (\$210,887 as at December 31, 2018). The increase in the working capital deficit is primarily attributable to ongoing operating expenditures.

The Company forecasts operating expenditures of approximately \$1,800,000 for 2019. The Company currently has limited working capital to finance its corporate and administrative activities. The Company expects to raise additional funds through further equity or debt financings or the sale of non-core assets throughout 2019 to cover longer term costs and exploration activities.

There is no assurance that the Company will be successful in obtaining further financing. Should the Company not be able to obtain the necessary financing, there would be significant doubt as to the

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ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company invests its unexpended cash in highly-liquid, rated financial instruments.

### **RESULTS FROM OPERATIONS**

During the three months ended September 30, 2019, the Company recorded a loss of \$824,036 (\$0.00 per share) for a cumulative income of \$44,684 (\$0.00 per share) for the nine months ended September 30, 2019 (loss of \$145,249 (\$0.00 per share) and cumulative loss of \$1,444,361 for the comparable periods in 2018). The period results are explained as follows:

#### **Income**

Other income totaled \$781 (cumulative of \$2,343) in the third quarter 2019 compared to \$782 in the same period of 2018 (cumulative of \$102,344). The higher amount in 2018 resulted from the sale of a redundant royalty.

#### *Administrative Expenses*

Administrative expenses for the three months ended September 30, 2019 amounted to \$702,195 (cumulative of \$1,628,527 for 2019) compared to \$584,768 for the same period in 2018 (cumulative of \$1,818,858 for 2018) for a net increase of approximately \$117,000 (cumulative decrease of \$190,000). The following discusses variances in the main components of the administrative expenses:

- Increased salaries and benefits of \$2,000 (cumulative increase of \$13,000) compared to the same period in 2018. Decreased directors' fees of \$1,000 (cumulative increase of \$5,000) compared to the same period in 2018;
- Professional and consultants' fees increased by \$240,000 (cumulative increase of \$224,000) compared to the same period in 2018. The increase in the third quarter of 2019 is attributable to a non-cash expenditure of \$240,000 for consulting fees; and
- Corporate expenses decreased by \$124,000 in the third quarter of 2019 (cumulative decrease of \$432,000) compared to 2018 which included a decrease in filing fees and investor relations fees of \$34,000 (cumulative decrease of \$64,000), decreased overheads of \$85,000 (cumulative decrease of \$307,000) and decreased travel and promotional costs of \$5,000 (cumulative decrease of \$61,000).

#### *Stock-based Compensation Costs*

Stock compensation costs constitute a non-cash expense. Stock compensation costs for the third quarter of 2019 totaled \$nil (\$nil cumulative to September 30, 2019) compared with \$nil for the same quarter in 2018 (\$nil cumulative to September 30, 2018). The Company did not issue any stock options in the first three quarters of both 2019 and 2018. The calculated cost of these stock options is recognized as an expense over the vesting period. 7,900,000 options expired in the second quarter of 2019 (11,186,000 options expired in the first quarter of 2018).

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### SUMMARY OF QUARTERLY RESULTS

*(Thousands of dollars except amount per subordinate voting share)*

Quarter ending	Total revenue	Net income (loss)	Loss per Subordinated Voting share (basic and diluted)
September 30, 2019	-	(824)	<(0.01)
June 30, 2019	-	1,507	<0.01
March 31, 2019	-	(638)	<(0.01)
December 31, 2018	-	(661)	<(0.01)
September 30, 2018	-	(143)	<(0.01)
June 30, 2018	-	(622)	<(0.01)
March 31, 2018	-	(679)	<(0.01)
December 31, 2017	-	(1,120)	<(0.01)

The profit in the second quarter of 2019 and the third quarter of 2017 and the reduced loss in the third quarter of 2018 were due to the reduction in the provision for subscriber indemnification costs and Part XII.6 penalties and interest. The losses for the other quarters are attributable mainly to ongoing general and administrative expenses and stock compensation costs. The loss in the fourth quarter of 2018 is mainly the result of the divestiture of DDI and regular general and administrative expenses. The increased loss in the fourth quarter of 2017 is mainly due to stock compensation expense.

### COMMITMENTS AND CONTINGENCIES

(i) The Company has incurred approximately \$13 million of expenditures which have been passed through to subscribers of "flow-through shares" as eligible expenditures for their purposes under flow-through agreements. As noted in Note 3 to the annual consolidated financial statements, there is a risk that some or all of these claims for eligible exploration expenditures renounced to subscribers may be disallowed. To the extent that the expenditures are disallowed as deductions to such subscribers, the subscribers would have a claim against the Company and 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 exploration expenditure renunciation 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 previously 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 filed formal objections to dispute the assessments. Following detailed exchanges with CRA appeals' staff over the ensuing 46 months, CRA issued revised notices of reassessment on August 16, 2019 seeking only a tax balance for 2010 of \$1,626. The reassessment notice disclosed the addition of a retroactive \$15,000 penalty for the incorrect 2010 reporting and subsequent penalties of a further \$8,907 to compound the reassessed tax and penalty being retroactively outstanding. The Company is considering appealing this assessment



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and retroactive application of these penalties. The full amount shown on the notices of reassessment has been provided for in these financial statements.

Due to the fact that the 2010 and 2011 years were statute-barred in the opinion of management and that CRA had not issued reassessments to any subscribers for these years, as far as the Company was aware, the indemnification provision was reduced by \$2,542,947 in 2017 and a further \$526,826 in 2018. As a result of the issuance of the reassessments noted above, the indemnification provision was reduced by the remaining balance of \$767,444 in the second quarter of 2019.

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 signed an operating lease for its premises located at 141 Adelaide St. W., Suite 420, Toronto, On, M5H 3L5. The lease was a net lease with a term of two years commencing on August 1, 2017 and ending on July 31, 2019. Monthly minimum rental payments were \$6,536 for the term of the lease. The Company was also responsible for its proportionate share of the operating costs in relation to this space. In late-July 2019, the Company gave notice to the landlord that it would not be renewing this lease and, accordingly, the lease expired on July 31, 2019.
- iii) Under the terms of an employment agreement with the Company's CEO dated October 8, 2008, in the event of a change in control of the Company and the CEO's employment is involuntarily terminated within three years following the change in control, the Company shall pay the CEO an amount equal to three times his then-current base salary and three times his annual bonus most recently paid or accrued along with any unpaid salary and vacation pay. The contract requires payments totaling \$1,140,000 for the change of control and \$570,000 for the termination clause. As the triggering events have not taken place, the contingent payments have not been reflected in the 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 onerous. 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.

### **RELATED PARTY TRANSACTIONS**

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During the first three quarters of 2019, officers and companies controlled by officers charged consulting fees for cash consideration of \$180,444 (\$232,217 in 2018) and salaries in the amount of \$225,000 (\$225,000 in 2018) of which \$371,994 remained payable at September 30, 2019 (\$485,427 at December 31, 2018). The consulting fees were for services performed by the corporate secretary and the CFO as well as for general accounting services. Directors' fees charged in the first three quarters of 2019 totalled \$64,424 (\$64,500 in 2018) of which \$51,667 remained payable at September 30, 2019 (\$85,000 at December 31, 2018). KMP received no stock options in the first three quarters of 2019 (none in 2018). In the first three quarters of 2019, stock compensation expenses totalled \$nil for KMP (\$nil in 2018).

### **CHANGES IN ACCOUNTING POLICIES**

The consolidated financial statements for the years ended December 31, 2018 and 2017 have been prepared using accounting policies consistent with International Financial Reporting Standards

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("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

See Note 3 to the 2018 audited annual consolidated financial statements for further information on accounting policies adopted by the Company during the year.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

See Note 3 to the 2018 audited annual consolidated financial statements for further information on recent accounting pronouncements that may have a future impact on the Company.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

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

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

#### **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 to the 2018 annual consolidated financial statements 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

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

### **Share-based payments**

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

### **Income, value added, withholding and other taxes**

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

### **Convertible debentures**

The classification of the Company's convertible debentures required management to analyze the terms and conditions of such debentures and to 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 are 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

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### **FINANCIAL INSTRUMENTS**

The following presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative and qualitative disclosures are included throughout the 2018 audited consolidated financial statements which are available on [www.SEDAR.com](http://www.SEDAR.com).

#### **Risk Management Framework**

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

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

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

#### **Credit Risk**

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

#### **Cash and Cash Equivalents**

The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. As at September 30, 2019 and December 31, 2018, the Company did not have any cash equivalents.

#### **Receivables**

The Company's receivables consist primarily of trade receivables and amounts due from related and unrelated parties, as well as recovery of net GST/HST paid.

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables.

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

#### **Marketable Securities**

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

### 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 accrue to the Company. At both September 30, 2019 and December 31, 2018, the Company had \$nil in guarantees outstanding.

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

	September 30, 2019	December 31, 2018
Carrying amount	\$	\$
Cash and cash equivalents	6,693	210,887
Receivables	330,502	272,067
Financial assets classified as fair value through other comprehensive income	6,538	10,789
	343,733	493,743

### 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 Note 27 of the 2018 annual consolidated financial statements. The Company has historically relied on issuances of shares and debt instruments to develop projects and to finance day-to-day operations and may do so again in the future.

### 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 Canadian dollar would not have a material impact on the Company's equity or results of operations.

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

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### **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 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.

### **Other Business Risks**

KWG is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage. Other than the risks relating to reliance on financing previously discussed, as well as those discussed elsewhere in this MD&A, KWG's risks include, but are not limited to, limited operating history, speculative nature of mineral exploration and development activities, operating hazards and risks, mining risks and insurance, lack of mineral reserves, environmental and other regulatory requirements, competition, stage of development, fluctuations in commodity prices, conflicts of interest, reliance on key individuals and no key man insurance other than certain life insurance policies on the Company's CEO.

*Limited Operating History* - An investment in KWG should be considered highly speculative due to the nature of KWG's business. KWG has no history of earnings, it has not paid any dividends; and it is unlikely to enjoy earnings or be paying dividends in the immediate or foreseeable future.

*Speculative Nature of Mineral Exploration and Development Activities* - Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by KWG may be affected by numerous factors which are beyond the control of KWG and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, the combination of which factors may result in KWG not receiving an adequate return of investment capital.

Substantial expenditures are required to establish mineral reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities and grades to justify commercial operations or that the funds required for development can be obtained on a timely basis. Estimates of mineral reserves, mineral deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short-term factors relating to reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

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operations. Material changes in mineral reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

KWG's mineral properties are in the exploration stage only and are without known bodies of mineral reserves. The exploration programs proposed by KWG are exploratory searches for commercial ore bodies only. Development of any of KWG's mineral properties will only follow upon obtaining satisfactory exploration results.

Some exploration properties are held under option agreements requiring capital payments, exploration expenditure and other commitments to earn an interest in the property, failing which no interest may be earned and the property may be lost. There is no assurance that the Company will be able to fulfill such obligations to earn any interest in such properties held under option.

Few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish mineral reserves, develop metallurgical processes and construct mining and processing facilities at a particular site. There is no assurance that KWG's mineral exploration activities will result in any discoveries of commercial bodies of ore. Also, no assurance can be given that any or all of KWG's properties will not be subject to prior unregistered agreements or interests or undetected claims which could be materially adverse to KWG.

*Lack of Mineral Reserves* - All of the KWG properties are considered to be in the exploration stage only and do not contain a known body of commercial ore. Mineral reserves are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet commenced production may require revision based on actual production experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates, may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period. While KWG does have estimated mineral resources, such estimated resources are not mineral reserves and do not have demonstrated economic viability.

*IP Rights* – KWG has acquired the rights to certain intellectual property patent applications. Although the Company is confident that the applications will be successful and the patents will be issued, there is no assurance of such success or issuance. Moreover, there is no assurance that such rights will not later be attacked or be circumvented. The prosecution and maintenance of such applications and patents is expensive and there is no assurance that the Company will be able to secure, exploit, maintain or defend its intellectual property rights.

*Conflicts of Interest* - Certain of the directors and officers of KWG are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers of KWG may become subject to conflicts of interest. Canadian corporate laws provide that in the event that a director or officer has an interest in a contract or proposed contract or agreement, the director or officer shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under those laws. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the applicable Canadian corporate laws.

*Operating Hazards and Risks* - Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. KWG's operations will be subject to all the hazards and risks normally incidental to exploration, development and production of

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

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metals, such as unusual or unexpected formations, cave-ins or pollution, all of which could result in work stoppages, damage to property and possible environmental damage.

*Mining Risks and Insurance* - The business of mining for gold, chromite and other metals is generally subject to a number of risks and hazards including environmental hazards, industrial accidents, labour disputes, unusual or unexpected geological conditions, pressures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, blizzards and earthquakes. No assurance can be given that such risks and hazards can be covered by insurance or, if currently available, such insurance will continue to be available or that it will be available at economically feasible premiums. Mining operations will be subject to risks normally encountered in the mining business.

*Environmental and Other Regulatory Requirements* - KWG's activities are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving which means stricter standards and enforcement, fines and penalties for non-compliance may become more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The exploration operations of KWG and development and commencement of production on its properties require permits from various federal and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. In addition, the government tax authorities may audit the Company's various tax filings and assess additional taxes not forecast by the Company.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. KWG believes it is in substantial compliance with all material laws and regulations, which currently apply to its activities. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

*Competition* - Significant and increasing competition exists for the limited number of mineral acquisition opportunities available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than KWG, KWG may be unable to acquire additional attractive mineral properties on terms it considers acceptable. Accordingly, there can be no assurance that KWG's exploration and acquisition programs will yield any reserves or result in any commercial mining operation.

*Stage of Development* - KWG is in the business of exploring for, with the ultimate goal of producing, precious and base metals from its mineral exploration properties. None of the KWG properties has



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

commenced commercial production and KWG has no history of earnings or cash flow from its operations. As a result of the foregoing, there can be no assurance that KWG will be able to develop any of its properties profitably or that its activities will generate positive cash flow.

KWG has not paid any dividends and it is unlikely to enjoy earnings or pay dividends in the immediate or foreseeable future. KWG has not sufficiently diversified such that it can mitigate the risks associated with its planned activities. KWG has limited cash and other assets.

A prospective investor in KWG must be prepared to rely solely upon the ability, expertise, judgment, discretion, integrity and good faith of KWG's management in all aspects of the development and implementation of KWG's business activities.

*Fluctuations in Commodity Prices* - The profitability, if any, in any mining operation in which KWG has an interest is significantly affected by changes in the market price of precious and base metals which fluctuate on a daily basis and are affected by numerous factors beyond KWG's control.

*Reliance on Key Individuals* - KWG's success depends to a certain degree upon certain key members of management. These individuals are a significant factor in KWG's growth and success. The loss of the service of certain members of management and certain key employees could have a material adverse effect on KWG.

*No Key Man Insurance* - KWG does not have and does not anticipate having key man insurance in place in respect of any of its senior officers or personnel, except for its CEO.

### OTHER

#### **National Instrument 51-102 - Section 5.3**

Below is a detailed analysis of exploration expenditures incurred for the nine months ended September 30, 2019 with comparative figures for the year ended December 31, 2018 on a property by property basis:

#### Railway Corridor

<b><i>Cost and deferred exploration expenses</i></b>	<b><i>Nine months ended September 30, 2019</i></b>	<b><i>Year ended December 31, 2018</i></b>
	\$	\$
Balance – Beginning of the period	16,363,859	16,361,644
Exploration expenses		
Field consultants	-	2,215
Balance – End of the period	16,363,859	16,363,859

#### Black Horse Project

<b><i>Cost and deferred exploration expenses</i></b>	<b><i>Nine months ended September 30, 2019</i></b>	<b><i>Year ended December 31, 2018</i></b>
	\$	\$
Balance – Beginning of the period	8,598,621	8,454,043
Exploration expenses		
Engineering	16,749	144,578
Balance – End of the period	8,615,370	8,598,621

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

### Chromium IP J.V.

<b>Cost and deferred exploration expenses</b>	<b>Nine months ended September 30, 2019</b>	<b>Year ended December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of the period	4,120,375	4,307,514
Exploration expenses		
Legal fees	8,759	21,310
Testing costs	-	8,413
	<u>8,759</u>	<u>29,723</u>
Amortization	(162,996)	(216,862)
Balance – End of the period	<u>3,966,138</u>	<u>4,120,375</u>

### All Projects Combined

<b>Cost and deferred exploration expenses</b>	<b>Nine months ended September 30, 2019</b>	<b>Year ended December 31, 2018</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of the period	43,783,949	44,458,537
Exploration expenses		
Engineering	16,749	144,578
Field consultants	-	2,215
Legal fees	8,759	21,310
Testing costs	-	8,413
	<u>25,508</u>	<u>176,516</u>
Divestiture of DDI	-	(634,242)
Amortization	(162,996)	(216,862)
Balance – End of the period	<u>43,646,461</u>	<u>43,783,949</u>

The following is a detailed break-down of administrative expenses incurred for the nine months ended September 30, 2019 with comparative figures for the same period in 2018.

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Advertising & promotion	550	14,518
Consultants' fees	427,490	133,387
Directors' fees & insurance	79,112	74,553
Filing fees	3,316	25,618
Investor relations fees	11,770	53,599
Professional fees	121,755	191,694
Office overheads	496,714	803,850
Salaries and benefits	458,993	445,969
Travel & accommodation	28,827	75,670
	<u>1,628,527</u>	<u>1,818,858</u>
Total administrative expenses	<u>1,628,527</u>	<u>1,818,858</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

### National Instrument 51-102 - Section 5.4

Disclosure of Outstanding Share Data (as at November 29, 2019)

**Subordinate Voting Shares outstanding:** 1,018,666,527

**Multiple Voting Shares outstanding:** 239,861

Three hundred Subordinate Voting Shares are convertible at the option of each individual shareholder at any time into one Multiple Voting Share. Similarly, each one Multiple Voting Share is convertible at the option of each individual 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.

**Subordinate Voting Share Warrants and compensation options outstanding:** 182,589,449

**Multiple Voting Share Warrants outstanding:** 153,336

Each Subordinate Voting Share warrant and each compensation option entitles the holder to purchase one Subordinate Voting Share of the Company and each Multiple Share Voting warrant entitles the holder to purchase one Multiple Voting Share at the following prices:

<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>
-	9,524	-	7.50	October 2019
-	143,812	-	7.50	December 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

**Options outstanding under Stock Option Plan:** 83,914,000 - average exercise price of \$0.05

Each option granted under the Company's Stock Option Plan entitles the holder to purchase one Subordinate Voting Share of the Company at the following prices:

<b>Number of options</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
37,714,000	0.05	August 2020
12,500,000	0.05	December 2020
33,700,000	0.05	September 2022

**Convertible debentures outstanding:** There are currently two forms of convertible debentures outstanding.

The first form is a single unsecured convertible debenture which was issued in the principal amount of \$500,000 on October 3, 2017, bears interest at 12% compounded annually and was due on October 3, 2019, but was extended to December 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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## - QUARTERLY HIGHLIGHTS

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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 (namely, until October 3, 2019).

The second is a form of unsecured convertible debenture which was issued to numerous investors in the aggregate principal amount of \$3,775,406, 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 or by the holder within 30 days prior to the maturity date of December 15, 2019, 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 (namely, until December 15, 2019).

### **FORWARD LOOKING INFORMATION**

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical facts that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation: the economic potential of the Company's projects; the proposed construction of a rail line or pipeline; the continued maintenance, exploration and development of the Company's properties and the costs related thereto, as well as the Company's expectation of periodically requiring additional funds therefor; exploration, development and operational plans, objectives and budgets; the expected strategic importance and value of the Company's mineral property interests inside and outside of its projects, including expectations regarding the exercise of the Company's option on the Koper Lake Project and the Company's participation in the development of the Koper Lake Project and the McFaulds Lake properties; expectations regarding the consultation, assessment and construction of a railroad and/or pipeline, including the costs and timing associated therewith; the expected acceptance of the Company's patent applications for chromium processing technologies and the issuance and exploitation of patents therefor; mineral resource estimates; potential mineral resources; plans with respect to the use of private placement proceeds; estimates relating to critical accounting policies; the Company's expectations with respect to pursuing new opportunities and acquisitions and its future growth; estimated operating expenses; potential reassessments by the Canada Revenue Agency and associated shareholder indemnification liabilities; and the Company's ability to raise new funding.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the inability of the Company to obtain required financing; demand for ferrochrome by global integrated steel producers; the impact of consolidation and rationalization in the steel industry; the grade and recovery of ore varying from estimates; delays in, or the failure to develop, the projects of the Company caused by unavailability of financing, equipment, labour or supplies, weather and climatic conditions, labour disputes or other factors; risks normally incidental to exploration and development of mineral properties; uncertainties in the interpretation of drill results; the possibility that future exploration, development or mining results will not be consistent with expectations; uncertainty of mineral resources estimates; the Company's inability to obtain, maintain, renew and/or extend required licenses, permits, authorizations and/or approvals from the appropriate regulatory authorities and other risks relating to the applicable regulatory framework; the Company's inability to maintain its title to its assets; the Company's inability to obtain, defend and exploit the patents for its chromium processing technologies; the Company's ability to defend its renunciations of exploration expenditures

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## - QUARTERLY HIGHLIGHTS

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to subscribers of flow-through shares; capital and operating costs varying significantly from estimates; the Company's inability to participate in, exercise options on and/or develop the Company's property interests; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the Company's inability to declare and/or pay a dividend on its common shares, or at all; adverse general market conditions; the Company's inability to delineate additional mineral resources and delineate mineral reserves; operating hazards and risks, management and control; environmental risks; adverse land claims; future unforeseen liabilities and other factors including, but not limited to, those listed under "Risk Factors" in the Financial Instruments section of this MD&A.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

### **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR ([WWW.SEDAR.COM](http://WWW.SEDAR.COM)).