

# **KWG RESOURCES INC.**

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## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED**

THREE-MONTH PERIODS ENDED MARCH 31, 2021 AND 2020

**NOTICE TO READERS OF THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:**

The accompanying unaudited condensed interim consolidated financial statements of KWG Resources Inc. have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

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**DOUGLAS FLETT**, Director

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**THOMAS E. MASTERS**, Chief Financial Officer

Toronto, Ontario  
May 31, 2021

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

(in Canadian dollars)	Notes	As at March 31, 2021	As at December 31, 2020
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	67,256	11,613
Receivables	5	2,253	8,817
Marketable securities	6	510	370
<b>Total current assets</b>		<b>70,019</b>	<b>20,800</b>
<b>Non-current assets</b>			
Cash surrender value of life insurance	7	1,436	-
<b>Total non-current assets</b>		<b>1,436</b>	<b>-</b>
<b>Total assets</b>		<b>71,455</b>	<b>20,800</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables and provisions	11,18,19(i)	2,564,094	2,474,652
Convertible debentures payable	12	770,914	1,541,934
<b>Total current liabilities</b>		<b>3,335,008</b>	<b>4,016,586</b>
<b>Long-term liabilities</b>			
Loans payable	13	85,813	80,930
<b>Total liabilities</b>		<b>3,420,821</b>	<b>4,097,516</b>
<b>Equity (Deficiency)</b>			
Share capital	14	34,485,965	32,305,617
Debenture equity	12	48,889	2,580,829
Warrants	15	3,114,072	1,725,719
Contributed surplus		18,557,532	18,368,247
Accumulated other comprehensive (loss)		(71,872)	(72,012)
(Deficit)		(59,483,952)	(58,985,116)
<b>Total equity (deficiency)</b>		<b>(3,349,366)</b>	<b>(4,076,716)</b>
<b>Total liabilities and equity (deficiency)</b>		<b>71,455</b>	<b>20,800</b>

**Nature of operations and going concern (Note 1)**  
**Commitments and contingencies (Notes 9 and 19)**  
**Subsequent events (Note 24)**

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

**Approved by the Board of Directors**

*Douglas Flett*  
Director

*Frank Smeenk*  
Director

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

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2021	2020
General and administrative	17	(291,720)	(415,054)
Amortization of property and equipment	8	-	(3,813)
Accretion expense	12,13	(35,042)	-
Stock compensation costs	16	(189,285)	-
Exploration and evaluation expenditures (net)		(2,378)	10,215
Gain (loss) on foreign exchange		683	(3,040)
<b>Loss before the undernoted</b>		<b>(517,742)</b>	<b>(411,692)</b>
<b>Other income (expenses)</b>			
Other income		781	781
Recovery of written down receivables	5	18,125	-
		<b>18,906</b>	<b>781</b>
<b>Net loss for the period</b>		<b>(498,836)</b>	<b>(410,911)</b>
<b>Loss per Subordinate Voting Share (*) (basic and diluted)</b>		<b>(0.00)</b>	<b>(0.00)</b>
<b>Weighted average number of outstanding Subordinate Voting Shares (*)</b>		<b>1,177,926,764</b>	<b>1,090,611,627</b>

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

**Condensed Interim Consolidated Statements of Comprehensive Loss**

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2021	2020
Net loss for the period		(498,836)	(410,911)
Other comprehensive income (loss) ("OCL")			
Net change in fair value of marketable securities	6	140	(238)
<b>Net comprehensive loss for the period</b>		<b>(498,696)</b>	<b>(411,149)</b>

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

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

(in Canadian dollars)	Notes	Share capital	Debent- ure equity	Warrants	Contributed surplus	(Deficit)	Accumu- lated other compreh- ensive (loss)	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2019</b>		<b>32,059,589</b>	<b>2,580,829</b>	<b>1,601,719</b>	<b>18,318,247</b>	<b>(57,373,613)</b>	<b>(75,588)</b>	<b>(2,888,817)</b>
Net loss for the period		-	-	-	-	(410,911)	-	(410,911)
Other comprehensive loss for the period	6	-	-	-	-	-	(238)	(238)
<b>Balance, March 31, 2020</b>		<b>32,059,589</b>	<b>2,580,829</b>	<b>1,601,719</b>	<b>18,318,247</b>	<b>(57,784,524)</b>	<b>(75,826)</b>	<b>(3,299,966)</b>
Net loss for the period		-	-	-	-	(1,200,592)	-	(1,200,592)
Other comprehensive loss for the period	6	-	-	-	-	-	3,814	3,814
Private placement	14	246,028	-	174,000	-	-	-	420,028
Expired warrants	15	-	-	(50,000)	50,000	-	-	-
<b>Balance, December 31, 2020</b>		<b>32,305,617</b>	<b>2,580,829</b>	<b>1,725,719</b>	<b>18,368,247</b>	<b>(58,985,116)</b>	<b>(72,012)</b>	<b>(4,076,716)</b>
Net loss for the period		-	-	-	-	(498,836)	-	(498,836)
Other comprehensive income for the period	6	-	-	-	-	-	140	140
Conversion of debentures	12,14	2,180,348	(2,531,940)	1,388,353	-	-	-	1,036,761
Stock-based compensation	16	-	-	-	189,285	-	-	189,285
<b>Balance, March 31, 2021</b>		<b>34,485,965</b>	<b>48,889</b>	<b>3,114,072</b>	<b>18,557,532</b>	<b>(59,483,952)</b>	<b>(71,872)</b>	<b>(3,349,366)</b>

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

**KWG RESOURCES INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Unaudited)**

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2021	2020
		\$	\$
<b>Cash flows from operating activities</b>			
Net (loss) for the period		(498,836)	(410,911)
Adjustments for			
Amortization of property and equipment	8	-	3,813
Accretion expense	12,13	35,042	-
Stock compensation costs	16	189,285	-
Interest accrued on debenture liabilities	12	-	109,696
Write down of (recovery of written down) of receivables		(18,125)	-
Net change in non-cash working capital balances		349,713	298,031
<b>Net cash used by operating activities</b>		<b>57,079</b>	<b>629</b>
<b>Cash flows from investing activities</b>			
Increase in cash surrender value of life insurance	7	(1,436)	(537)
<b>Net cash used by investing activities</b>		<b>(1,436)</b>	<b>(537)</b>
<b>Net change in cash and cash equivalents during the year</b>		<b>55,643</b>	<b>92</b>
Cash and cash equivalents – beginning of the year		11,613	1,618
<b>Cash and cash equivalents – end of the year</b>	4	<b>67,256</b>	<b>1,710</b>
<b>Change in non-cash working capital balances comprises:</b>			
Receivables		25,378	1,728
Trade and other payables		324,335	296,303
<b>Net change in non-cash working capital balances</b>		<b>349,713</b>	<b>298,031</b>
<b>Additional information - non-cash transactions</b>			
Issuance of shares and warrants on conversion of convertible debenture	13	1,036,761	-

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

## **KWG RESOURCES INC.**

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

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#### **1 NATURE OF OPERATIONS AND GOING CONCERN**

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 240, 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 the amounts expended on the Company’s exploration and evaluation projects 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

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

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profitable levels of operation. These conditions indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

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

## **2 BASIS OF PREPARATION**

### **(a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the annual financial statements for the year ended December 31, 2020 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This is considered generally accepted accounting principles for Canadian public companies.

The management of KWG prepare these unaudited condensed interim consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. These unaudited condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 31, 2021.

### **(b) Basis of Measurement**

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

### **(c) Basis of Consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Canada Chrome Corporation, SMD Mining Corporation, Canada Chrome Mining Corporation, Muketi Metallurgical General Partner Inc. and Muketi Metallurgical KWG-Limited Partner Inc. All of the Company's subsidiaries are incorporated in Canada.

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



## **KWG RESOURCES INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(in Canadian dollars)**

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#### **(d) Foreign Currency**

##### *(i) Functional and presentation currency*

Items included in the financial statements of each consolidated entity in the KWG group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of KWG and all of its subsidiaries is the Canadian dollar.

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity’s functional currency are recognized in the consolidated statements of operations in “gain(loss) on foreign exchange”.

#### **(e) 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:

#### **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.

## **KWG RESOURCES INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(in Canadian dollars)**

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#### **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 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.

#### **Joint arrangements**

Judgment is required to determine the type of joint arrangement that exists. This judgment involves considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

#### **Contingencies and commitments**

Refer to Note 19.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are set out in Note 3 to the 2020 audited consolidated financial statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these financial statements.

## KWG RESOURCES INC.

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

#### (a) New Accounting Policies

The IASB issued a number of new and revised International Accounting Standards which are effective for the Company's financial year beginning January 1, 2021. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

#### (b) New Standards and Interpretations Not Yet Adopted

Since the issuance of the Company's 2020 audited consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued no additional new and revised standards and interpretations which are applicable to the Company. Refer to Note 3 of those statements.

#### 4 CASH AND CASH EQUIVALENTS

	As at March 31, 2021	As at December 31, 2020
	\$	\$
Bank balances	67,256	11,613
<b>Cash and cash equivalents</b>	<b>67,256</b>	<b>11,613</b>

#### 5 RECEIVABLES

	As at March 31, 2021	As at December 31, 2020
	\$	\$
Sales taxes receivable	1,943	8,507
Other receivables	310	310
<b>Receivables</b>	<b>2,253</b>	<b>8,817</b>

#### 6 MARKETABLE SECURITIES

	As at March 31, 2021	As at December 31, 2020
	\$	\$
Financial Assets at Fair Value Through Other Comprehensive Income (Loss) ("FVOCI"):		
Noront Resources Inc. ("Noront") (i)		
2,000 common shares	510	370
<b>Total FVOCI</b>	<b>510</b>	<b>370</b>
<b>Marketable securities</b>	<b>510</b>	<b>370</b>

- (i) On May 12, 2020, the Company purchased 62,500 Noront shares on the open market for cash of \$8,240. On May 12, 2020, the Company transferred 60,500 Noront shares in settlement of a debt in the amount of \$13,200. A gain of \$5,223 was recognized on this disposition.

#### Sensitivity Analysis - Equity Price Risk

All of the Company's financial assets classified as FVOCI are listed on public stock

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

exchanges. For such investments, a 10% increase in the equity prices at the reporting date would have increased equity by approximately \$50 (as at December 31, 2020 - an increase of \$40), 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 2021 and 2020.

**7 CASH SURRENDER VALUE OF LIFE INSURANCE**

The Company owns life insurance policies on the life of its Chief Executive Officer with a total death benefit of \$2,300,000 at March 31, 2021. The insurer of these policies is Canada Life. As at March 31, 2021, these policies had a net cash surrender value equal to \$1,436 after deducting loans secured by the policies and accrued interest thereon totalling \$145,807.

**8 PROPERTY AND EQUIPMENT**

	Automobiles	Office Equipment	Totals
	\$	\$	\$
<b>Balance, December 31, 2019</b>			
Cost	129,017	44,991	174,008
Accumulated amortization	(115,034)	(44,991)	(160,025)
<b>Net book value</b>	<b>13,983</b>	<b>-</b>	<b>13,983</b>
Amortization	(13,983)	-	(13,983)
<b>Balance, December 31, 2020</b>			
Cost	129,017	44,991	174,008
Accumulated amortization	(129,017)	(44,991)	(174,008)
<b>Net book value</b>	<b>-</b>	<b>-</b>	<b>-</b>

**9 EXPLORATION AND EVALUATION PROJECTS**

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

	Balance as at January 1, 2020	Current Expend- itures (disposals)	Balance as at December 31, 2020
	\$	\$	\$
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)	16,363,859	-	16,363,859
Black Horse Project (iv)	8,600,371	(10,215)	8,590,156
Hornby Property (v)	100,000	-	100,000
	39,665,324	(10,215)	39,655,109

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

	Balance as at January 1, 2021	Current Expend- itures (disposals)	Balance as at March 31, 2021
	\$	\$	\$
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)	16,363,859	-	16,363,859
Black Horse Project (iv)	8,590,156	-	8,590,156
Hornby Property (v)	100,000	-	100,000
	39,655,109	-	39,655,109

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

Each party’s interest is diluted by not contributing further to the other party’s exploration program until its interest has reached 33 1/3%. At that level, a party’s interest in a project may be maintained by contribution to subsequent programs, or suffer further dilution. When an interest has been reduced to less than 10%, it will be automatically converted to a 0.5% Net Smelter Royalty (“NSR”) in base metals and a 1% NSR in precious metals and diamonds. As of March 31, 2021, 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.
- (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

## **KWG RESOURCES INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**(in Canadian dollars)**

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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 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 and 5,000,000 common shares (now re-designated as Subordinate Voting Shares) in

## **KWG RESOURCES INC.**

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

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settlement of operator's fees owed to Bold under the earn-in option agreement between the parties on the Black Horse Project.

- (v) 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.

## **10 INTANGIBLE ASSETS**

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

The parties' interests in the Chromium IP is held through a limited partnership (the "LP") established by the vendor and KWG for purposes of completing the Chromium IP Transaction and developing and exploiting the Chromium IP. The limited partners of the LP 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 50% 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 50% 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 had been capitalized.

During 2018, patents were granted in Canada, the United States, Kazakhstan and South Africa to the Company. Patents have a life of 20 years.

Under IAS 38, the Company is required to prepare an impairment test each year to determine if the net realizable value of the intangible assets exceeds their carrying value. This test was carried out on December 31, 2019 and, as a result of this test, an impairment loss equal to the full carrying value of the intangible assets was recognized during 2019.

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**11 TRADE AND OTHER PAYABLES AND PROVISIONS**

	Notes	March 31, 2021 \$	December 31, 2020 \$
Trade payables			
Exploration and evaluation projects	9	-	-
Intangible assets	10	11,939	8,911
Non-project related		482,325	490,620
Accrued liabilities			
Exploration and evaluation projects	9	-	-
Non-project related		2,044,297	1,949,588
Part XII.6 penalties and interest	19(i)	25,533	25,533
Flow-through indemnification provision	19(i)	-	-
		<u>2,564,094</u>	<u>2,474,652</u>

**12 CONVERTIBLE DEBENTURES PAYABLE**

(i) 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 was 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 was recorded in equity as "Debenture Equity". The liability will be accreted to its face amount over the term of the debenture. Accretion expense of \$24,625 (2020 - \$nil) and interest of \$nil (2020 - \$19,157) has been recorded for the three months ended March 31, 2021.

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. The value of this premium was been recorded as a cost of issue against the convertible debenture.

On December 20, 2019, the holder of this convertible debenture agreed to extend its maturity until March 26, 2021. As consideration for the extension, KWG will distribute ferrochrome delivery warrants ("Delivery Warrants") to the debenture-holder as an extension fee and amend the redemption amount due and bearing interest as of December 19, 2019 to \$525,000. For each \$35.00 principal amount of convertible debentures, the debenture-holder will receive Delivery Warrants exchangeable for one tonne of warehoused ferrochrome. The terms of the Delivery Warrants will provide that they may be tendered by their holders to receive ferrochrome from 1% of any future ferrochrome production from the Company's chromite mineral interests, if and when produced. Management has estimated that these



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warrants have a nominal value at their date of issuance. The Company is currently renegotiating the terms of this debenture with the debenture-holder.

(ii) 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), for an aggregate principal amount of \$2,576,908. The debentures bear interest at 12% compounded annually and are 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 was 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 \$5,534 (2020 - \$nil and interest expense of \$nil (2020 - \$61,080) has been recorded for the three months ended March 31, 2021.

Immediately following the issuance of these debentures, 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 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 within two years from the date of issuance of the first debenture of this series of debentures. The value of this premium has been recorded as a cost of issue against the convertible debenture.

On March 31, 2021, these debentures were converted into Units with each whole Unit consisting of four Multiple Voting Shares and four Multiple Voting 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 before December 15, 2022 using a deemed value of \$21 per Unit (Note 14(i)).

(iii) On March 15, 2019, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$85,000 and \$618,048 to satisfy accounts payable amounts outstanding at the time (\$475,208 of which was owed to directors and officers of the Company), for an aggregate principal amount of \$703,048. The debentures bear interest at 12% compounded annually and are 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

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rate available to the Company for similar instruments of debt having no conversion rights. The value of the residual was determined to be \$639,485 and was recorded in equity. The liability will be accreted to the total interest payable over the term of the debentures. Interest expense of \$nil (2020 - \$22,865) has been recorded for these debentures for the three months ended March 31, 2021.

Immediately following the issuance of these debentures, the Company paid a premium to the holders consisting of 6,696 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 within two years from the date of issuance of the first debenture of this series of debentures. The value of the equity residual has been allocated to the conversion feature, Multiple Voting Shares and warrants based on their relative estimated fair values.

On March 31, 2021, these debentures were converted into Units with each whole Unit consisting of four Multiple Voting Shares and four Multiple Voting 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 before December 15, 2022 using a deemed value of \$21 per Unit (Note 14(i)).

(iv) On June 17, 2019, the Company issued an unsecured convertible debenture for cash proceeds in the amount of \$100,000 to a director and officer 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 value of the residual was determined to be \$94,049 and was recorded in equity. The liability will be accreted to the total interest payable over the term of the debenture. Interest expense of \$nil (2020 - \$3,160) has been recorded for this debenture for the three months ended March 31, 2021.

Immediately following the issuance of this debenture, the Company paid a premium to the holder consisting of 952 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 within two years from the date of issuance of the first debenture of this series of debentures. The value of the equity residual has been allocated to the conversion feature, Multiple Voting Shares and warrants based on their relative estimated fair values.

On March 31, 2021, these debentures were converted into Units with each whole Unit consisting of four Multiple Voting Shares and four Multiple Voting 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 before December 15, 2022 using a deemed value of \$21 per Unit (Note 14(i)).

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### **Notes to the Condensed Interim Consolidated Financial Statements**

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(v) On August 27, 2019, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$110,000 and \$285,450 to satisfy accounts payable amounts outstanding at the time, for an aggregate principal amount of \$395,450. The debentures bear interest at 12% compounded annually and were 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 value of the residual was determined to be \$334,121 and was recorded in equity. The liability will be accreted to the total interest payable over the term of the debenture. Interest expense of \$nil (2020 - \$3,434) has been recorded for these debentures for the three months ended March 31, 2021.

Immediately following the issuance of this debenture, the Company paid a premium to the holder consisting of 3,768 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 within two years from the date of issuance of the first debenture of this series of debentures. The value of the equity residual was allocated to the conversion feature, Multiple Voting Shares and warrants based on their relative estimated fair values.

On March 31, 2021, these debentures were converted into Units with each whole Unit consisting of four Multiple Voting Shares and four Multiple Voting 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 before December 15, 2022 using a deemed value of \$21 per Unit (Note 14(i)).

(vi) On December 9, 2019, the Company, with the approval of a requisite majority of debenture-holders, extended the maturity date for the debentures issued on December 15, 2017, March 15, 2019, June 17, 2019 and August 27, 2019 until March 31, 2021. Warrants to purchase common shares issued to the purchasers of these debentures, at the time of their issuance, also had their exercise date extended to March 31, 2021. As consideration for the extension, KWG will distribute ferrochrome Delivery Warrants to the debenture-holders as an extension fee. For each \$35.00 principal amount of Convertible Debentures, the debenture-holders will receive Delivery Warrants exchangeable on a first-come aliquot basis for one ton of warehoused ferrochrome. The terms of the Delivery Warrants will provide that they may be tendered by their holders to receive ferrochrome from 1% of any future ferrochrome production from the Company's chromite mineral interests, if and when produced. The Company recognized a loss of \$532,426 in 2019 on the modification of the maturity date of the debentures.

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Changes in the Company's convertible debentures were as follows:

	Three months ended March 31, 2021	Year ended December 31, 2020
	\$	\$
Opening balance	1,541,934	1,759,020
Accretion and accrued interest	30,159	202,942
Debentures pledged for flow-through issuance	-	(420,028)
Converted to equity during the period	(801,179)	-
Ending balance	770,914	1,541,934
Less: non-current portion	-	-
Current portion	770,914	1,541,934

### 13 LOANS PAYABLE

In April 2020, the Company and its subsidiary, Canada Chrome Corporation each applied for and received the \$40,000 Canada Emergency Business Account ("CEBA") loan which is an interest-free loan to cover operating costs which was offered in the context of the Covid-19 pandemic outbreak. In December 2020, the companies each applied for and received an extension of \$20,000 on the principal of the loan. The total loan principal received in relation to the CEBA loan amounted to \$120,000.

Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of \$20,000 to each company. If these loans are not repaid by December 31, 2022, they will be extended for an additional 3-year term bearing an interest rate of 5% per annum and maturing on December 25, 2025. Management has assessed that it is unlikely the companies would be able to repay the balance of the loans by December 31, 2022 and accordingly, the total forgivable amount of \$40,000 has not been recorded as income at December 31, 2020.

The total principal amount of \$120,000 was initially measured at its fair value based on contractual cash flows and discounted using an interest rate of 20%.

A continuity of the loan payable is as follows:

Years ending December 31	Three months ended March 31, 2021	Year ended December 31, 2020
	\$	\$
Opening balance	80,930	-
Advance of loan principle	-	120,000
Discount to estimated fair value	-	(45,960)
Accretion	4,883	6,890
Ending balance	85,813	80,930
Less: current portion	-	-
Non-current portion	85,813	80,930

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**14 SHARE CAPITAL**

Authorized

An unlimited number of no par value Subordinate Voting Shares

An unlimited number of no par value Multiple Voting Shares

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 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.

Issued

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

	Three months ended March 31, 2021		Year ended December 31, 2020	
	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 period	1,019,496,927	517,137	1,019,496,927	237,137
Issued on conversion of debentures (i)	-	986,621	-	-
Issued through private placement (ii)	-	-	-	280,000
<b>Balance – end of period</b>	<b>1,019,496,927</b>	<b>1,503,758</b>	<b>1,019,496,927</b>	<b>517,137</b>

(i) In March 2021, the Company converted debentures with a principal amount of \$3,775,406 plus accrued interest into units with a deemed value of \$21 per unit. Each unit consisted of four Multiple Voting Shares and four Multiple Voting Share purchase 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 before December 15, 2022. The warrants were valued at \$1,388,353 using a valuation model based on the following assumptions: market value of \$2.21 per share, expected dividend yield of 0%, expected volatility of 191%, risk-free rate of return of 0.22% and a life of 21 months.

(ii) In December 2020, the Company completed a non-brokered private placement of 280,000 "flow-through" units to a director and officer at a price of \$1.5001 per unit for a total consideration of \$420,028 (Note 12). Each unit consisted of one "flow-through" Multiple Voting Share and one Multiple Voting Share purchase warrant which entitles the holder to purchase one Multiple Voting Share for \$2.00 any time within five years of the issuance. The warrants were valued at \$174,000 using a valuation model based on the following

**KWG RESOURCES INC.**  
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assumptions: market value of \$0.88 per share, expected dividend yield of 0%, expected volatility of 115%, risk-free rate of return of 0.41% and a life of five years.

**15 WARRANTS AND COMPENSATION OPTIONS**

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

	<b>Three months ended March 31, 2021</b>		
Issued	<b>Subordinate Voting Share Warrants</b>	<b>Multiple Voting Share Warrants</b>	<b>Compensation options</b>
Balance – beginning of period	154,984,949	423,868	2,604,500
Issued on conversion of debentures (Note 15(i))	-	986,621	-
<b>Balance – end of period</b>	<b>154,984,949</b>	<b>1,410,489</b>	<b>2,604,500</b>

	<b>Year ended December 31, 2020</b>		
Issued	<b>Subordinate Voting Share Warrants</b>	<b>Multiple Voting Share Warrants</b>	<b>Compensation options</b>
Balance – beginning of year	179,984,949	143,868	2,604,500
Expired during the year	(25,000,000)	-	-
Issued through private placement (Note 15(ii))	-	280,000	-
<b>Balance – end of year</b>	<b>154,984,949</b>	<b>423,868</b>	<b>2,604,500</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. A summary of the Company's outstanding warrants and compensation options as at March 31, 2021 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>
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
-	1,130,489	-	7.50	December 2022
-	280,000	-	2.00	December 2025
<b>154,984,949</b>	<b>1,410,489</b>	<b>2,604,500</b>		

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements****(in Canadian dollars)****16 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 March 31, 2021, 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 (including the deemed conversion of Multiple Voting Shares into Subordinate Voting Shares on the basis of 300:1).

Options vest immediately upon issue. Options granted must be exercised over a period no longer than five years after the date of grant, and they are not transferable. A summary of changes in the Company’s stock options outstanding is presented below:

**Subordinate Voting Share Options**

	Three months ended March 31, 2021		Year ended December 31, 2020	
	Number of Subordinate Voting Shares	Average exercise price \$	Number of Subordinate Voting Shares	Average exercise price \$
Balance – beginning of period	33,700,000	0.05	83,914,000	0.05
Expired	-	-	(50,214,000)	0.05
<b>Balance – end of period</b>	<b>33,700,000</b>	<b>0.05</b>	<b>33,700,000</b>	<b>0.05</b>

**Multiple Voting Share Options**

	Three months ended March 31, 2021		Year ended December 31, 2020	
	Number of Subordinate Voting Shares	Average exercise price \$	Number of Subordinate Voting Shares	Average exercise price \$
Balance – beginning of period	-	-	-	-
Issued during the period	279,470	3.00	-	-
<b>Balance – end of period</b>	<b>279,470</b>	<b>3.00</b>	<b>-</b>	<b>-</b>

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The following table summarizes information about options outstanding and exercisable as at March 31, 2021:

Exercise price	Number of Subordinate Voting Share options	Number of Multiple Voting Share options	Outstanding options	Exercisable options
			Average contractual life (in years)	
0.05	33,700,000	-	1.45	33,700,000
3.00	-	279,470	4.75	279,470

Total share-based compensation costs for the three months ended March 31, 2021 amounted to \$189,285 (2020 – \$nil).

The fair value of the options granted in 2021 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	January 2021
Market value per share	1.00
Expected dividend per share	Nil
Expected volatility	115%
Risk-free interest rate	0.41%
Life of the options granted	5 years
Weighted average of estimated fair value of each option granted	\$0.6773

**17 GENERAL AND ADMINISTRATIVE EXPENSES**

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

Three months ending March 31	2021	2020
	\$	\$
Consultants' fees	54,825	33,000
Directors' fees and insurance	21,243	22,747
Filing fees	2,250	-
Investor relations fees	2,002	-
Professional fees	13,000	8,000
Office overheads	34,967	191,067
Salaries and benefits	163,433	159,719
Travel and accommodation	-	521
	291,720	415,054

**18 RELATED PARTY TRANSACTIONS**

The Company defines its officers (CEO, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2021, officers and companies controlled by officers charged consulting fees for cash consideration of \$50,825 (\$23,500 in 2020) and salaries in the amount of \$155,625 (\$155,625 in 2020). The consulting fees were



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### **Notes to the Condensed Interim Consolidated Financial Statements**

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for services performed by the corporate secretary and the CFO as well as for general accounting services. Directors' fees charged in the first quarter of 2021 totalled \$19,000 (\$19,000 in 2020). See also Note 12 (ii),(iii),(iv), Note 15(ii) and Note 28 (i). Amounts owing to directors and officers as at March 31, 2021 totalled \$1,888,982 (\$1,685,843 at December 31, 2020). Amounts payable are unsecured, non-interest bearing and have no fixed terms of repayment. KMP received 212,790 stock options in the first quarter of 2021 (none in 2020). In the first quarter of 2021, stock compensation expenses totalled \$144,123 for KMP (\$nil in 2020).

#### **19 COMMITMENTS AND CONTINGENCIES**

- (i) The Company has incurred approximately \$13 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow-through agreements. As noted in Note 3 to these 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 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 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. 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 2019.

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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) Under the terms of an employment agreement with the Company's CEO dated October 8, 2008, in the event of a change in control of the Company and the CEO's employment is involuntarily terminated within three years following the change in control, the Company shall pay the CEO an amount equal to three times his then-current base salary and three times his annual bonus most recently paid or accrued along with any unpaid salary and vacation pay. The contract requires payments totaling \$1,140,000 for the change of control and \$570,000 for the termination clause. As the triggering events have not taken place, the contingent payments have not been reflected in these consolidated financial statements.
- (iii) 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.
- (iv) The Company renounced \$2,100,000 of qualifying exploration expenditures to the shareholders effective December 31, 2020. Under the "look back" provision governing flow-through shares, the total amount was unspent by the end of 2020 and has to be spent by December 31, 2021.

#### **20 FINANCIAL INSTRUMENTS AND FAIR VALUES**

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

A complete description of the Company's financial risk management is included in Note 24 to the 2020 audited consolidated financial statements. This note updates information about the Company's exposure to each of the above risks where there have been material or noteworthy changes. Further quantitative disclosures are included throughout these financial statements.

#### **21 DETERMINATION OF FAIR VALUES**

There have been no changes in how the Company determines fair value for both financial and non-financial assets and liabilities from the descriptions included in Note 25 to the Company's 2020 audited consolidated financial statements. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### **22 CAPITAL MANAGEMENT DISCLOSURES**

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity (deficiency). Shareholders' deficiency totalled \$3,349,366 at March 31, 2021 and \$4,076,716 at December 31, 2020.

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

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capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments. There were no changes in the Company's approach to capital management during the first quarter of 2021. The Company is not subject to externally imposed capital requirements.

**23 SEGMENTED INFORMATION**

Operating segments are reported in a manner consistent with the way in which the Company's executive officers review business performance on a quarterly basis. The Company's operations comprise a single reporting operating segment engaged 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.

**24 SUBSEQUENT EVENTS**

In April 2021, 84,895,563 Subordinate Voting Share warrants and 2,604,500 Compensation options expired unexercised.