

KWG RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

THREE-MONTH PERIODS ENDED MARCH 31, 2023 AND 2022

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

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

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

DOUGLAS FLETT, Director

THOMAS E. MASTERS, Chief Financial Officer

Toronto, Ontario
May 30, 2023

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

(in Canadian dollars)	Notes	As at March 31, 2023	As at December 31, 2022
ASSETS			
Current assets			
Cash	4	412,795	921,680
Receivables	5	432,146	423,329
Prepaid expenses		18,736	14,918
Total current assets		863,677	1,359,927
Non-current assets			
Cash surrender value of life insurance	6	83,972	68,684
Property and equipment	7	29,673	34,358
Total non-current assets		123,645	103,042
Total assets		977,322	1,462,969
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables and provisions	10,18	3,865,806	3,545,265
Convertible debenture payable	11	959,013	931,452
Total current liabilities		4,824,819	4,476,717
Long-term liabilities			
Secured convertible promissory note payable	12	23,627,294	23,104,108
Loans payable	13	105,000	100,000
Total long-term liabilities		23,732,294	23,204,108
Total liabilities		28,557,113	27,680,825
Equity (Deficiency)			
Share capital	14	50,708,592	50,128,181
Debenture equity	11	5,865,293	5,865,293
Warrants	15	5,487,401	5,487,401
Contributed surplus		25,257,183	21,512,283
Accumulated other comprehensive (loss)		(72,118)	(72,118)
(Deficit)		(114,826,142)	(109,138,896)
Total equity (deficiency)		(27,579,791)	(26,217,856)
Total liabilities and equity (deficiency)		977,322	1,462,969

Nature of operations and going concern (Note 1)
Commitments and contingencies (Notes 8, 12 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 Comprehensive Loss
(Unaudited)**

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2023	2022
General and administrative	17	(1,171,453)	(798,760)
Amortization of property and equipment	7	(4,685)	(4,685)
Accretion expense	12,13	(528,186)	(123,765)
Stock compensation costs	16	(3,794,900)	-
Exploration and evaluation expenditures	8	(178,203)	(7,112)
Write down of intangible assets	9	-	(588)
Gain (loss) on foreign exchange		(100)	(993)
Loss before the undernoted		(5,677,527)	(935,903)
Other income (expenses)			
Other income		781	781
Write down of receivables	5	(10,500)	(10,288)
		(9,719)	(9,507)
Net loss and comprehensive loss for the period		(5,687,246)	(945,410)
Loss per Subordinate Voting Share (*) (basic and diluted)		(0.00)	(0.00)
Weighted average number of outstanding Subordinate Voting Shares (*)		1,997,261,426	1,618,410,916

Note: () including the effect of converting all outstanding Multiple Voting Shares to Subordinate Voting Shares on the basis of 100:1*

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	Debenture equity	Warrants	Contributed surplus	(Deficit)	Accumulated other comprehensive (loss)	Total
Balance, December 31, 2021		41,173,915	4,386,636	2,453,299	23,959,015	(73,869,543)	(72,118)	(1,968,796)
Net loss for the period		-	-	-	-	(945,410)	-	(945,410)
Exercise of warrants	15	45,744	-	(6,494)	-	-	-	39,250
Warrants issued for services rendered	15	-	-	409,695	(409,695)	-	-	-
Expired warrants	15	-	-	(456,743)	456,743	-	-	-
Balance, March 31, 2022		41,219,659	4,386,636	2,399,757	24,006,063	(74,814,953)	(72,118)	(2,874,956)
Net loss for the period		-	-	-	-	(34,323,943)	-	(34,323,943)
Exercise of warrants	15	216,097	-	(41,877)	-	-	-	174,220
Exercise of stock options	16	108,555	-	-	-	-	-	108,555
Conversion of debentures	11,14	7,934,080	(4,337,747)	705,668	(3,214,977)	-	-	1,087,024
Expired warrants	15	-	-	(311,502)	311,502	-	-	-
Issuance of secured convertible promissory note	12	-	5,816,404	-	-	-	-	5,816,404
Issue of shares for interest on secured convertible promissory note	12,14	510,411	-	-	-	-	-	510,411
Issue of shares for exploration and evaluation projects	14	35,000	-	-	-	-	-	35,000
Issue of warrants for exploration and evaluations projects	15	-	-	3,076,572	-	-	-	3,076,572
Issue of shares for service rendered	14	22,857	-	-	-	-	-	22,857
Replacement of warrants with stock options	15	-	-	(409,695)	409,695	-	-	-
Private placement	14	81,522	-	68,478	-	-	-	150,000
Balance, December 31, 2022		50,128,181	5,865,293	5,487,401	21,512,283	(109,138,896)	(72,118)	(26,217,856)
Net loss for the period		-	-	-	-	(5,687,246)	-	(5,687,246)
Exercise of stock options	16	70,000	-	-	(50,000)	-	-	20,000
Stock-based compensation	16	-	-	-	3,794,900	-	-	3,794,900
Issue of shares for interest on secured convertible promissory note	12,14	510,411	-	-	-	-	-	510,411
Balance, March 31, 2023		50,708,592	5,865,293	5,487,401	25,257,183	(114,826,142)	(72,118)	(27,579,791)

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	
		2023	2022
		\$	\$
Cash flows from operating activities			
Net (loss) for the period		(5,687,246)	(945,410)
Adjustments for			
Amortization of property and equipment	7	4,685	4,685
Accretion expense	12,13	528,186	123,765
Stock compensation costs	16	3,794,900	-
Interest accrued on debenture promissory note	12	537,972	21,350
Write down of (recovery of written down) of receivables	5	10,500	10,288
Net change in non-cash working capital balances		297,406	204,083
Net cash used by operating activities		(513,597)	(581,239)
Cash flows from financing activities			
Proceeds from exercise of stock options	14	20,000	-
Net cash provided by financing activities		20,000	-
Cash flows from investing activities			
Increase in cash surrender value of life insurance	6	(15,288)	(17,956)
Net cash used by investing activities		(15,288)	(17,956)
Net change in cash and cash equivalents during the period		(508,885)	(599,195)
Cash and cash equivalents – beginning of the period		921,680	1,825,789
Cash and cash equivalents – end of the period	4	412,795	1,226,594
Change in non-cash working capital balances comprises:			
Receivables		(94,317)	(131,623)
Prepaid expenses		(3,818)	-
Trade and other payables		395,541	335,706
Net change in non-cash working capital balances		297,406	204,083
Additional information - non-cash transactions			
Issuance of shares on exercise of warrants in payment of accounts payable	14	-	39,250
Expired warrants included in contributed surplus	15	-	456,743

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)

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. Unless the holders of convertible debentures and a convertible promissory note issued by the Company exercise their conversion rights to convert such liabilities into equity, the Company will also have to raise additional funds to repay its debenture and promissory note obligations when they come due and, while many convertible debentures have been converted into equity in the past, there can be no assurance that the holders of those compound financial instruments will convert into equity or that the Company will be able to raise sufficient additional funds in a timely way at the applicable time.

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

KWG RESOURCES INC.

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

commercial success with its technology. There is no assurance that such efforts will be successful or, if successful, will not subsequently be challenged and impugned.

The Company has a need for equity capital and financing for working capital and exploration and evaluation of its properties and pursuit of its technology's patent applications. Because of continuing operating losses and a working capital deficit the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. These conditions indicate the existence of material uncertainties 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, 2022 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 30, 2023.

(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

KWG RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

(in Canadian dollars)

financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(d) Foreign Currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(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

KWG RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

(in Canadian dollars)

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 and promissory note

The classification of the Company's convertible debentures and promissory note required management to analyze the terms and conditions of the debentures and the promissory note and use judgment to assess whether these debentures and promissory note 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.

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

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 2022 audited consolidated financial statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these financial statements.

(a) New Accounting Policies

The IASB issued a number of new and revised International Accounting Standards which are effective for the Company's financial year beginning January 1, 2023. 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 2022 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

	As at March 31, 2023	As at December 31, 2022
Bank balances	412,795	921,680
Cash	412,795	921,680

5 RECEIVABLES

	As at March 31, 2023	As at December 31, 2022
Sales taxes receivable	243,223	184,744
Other receivables	179,923	238,585
Receivables	423,146	423,329

6 CASH SURRENDER VALUE OF LIFE INSURANCE

The Company owns life insurance policies on the life of one of its officers with a total death benefit of \$1,029,937 at March 31, 2023 (December 31, 2022 - \$1,000,000). The insurer of these policies is Canada Life. As at December 31, 2022, these policies had a net cash surrender value equal to \$83,972 (December 31, 2022 - \$68,684) after deducting loans secured by the policies and accrued interest thereon totalling \$114,868 (December 31, 2022 - \$113,386).

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

7 PROPERTY AND EQUIPMENT

	Automobiles
Balance, December 31, 2021	
Cost	139,476
Accumulated amortization	(86,377)
Net book value	53,099
Amortization	(18,741)
Balance, December 31, 2022	
Cost	139,476
Accumulated amortization	(105,118)
Net book value	34,358
Amortization	(4,685)
Balance, December 31, 2022	
Cost	139,476
Accumulated amortization	(109,803)
Net book value	29,673

8 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, 2022	Current Expend- itures	Balance as at December 31, 2022
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)	23,301,273	18,300	23,319,573
Black Horse Project (iv)	8,815,156	33,298,273	42,113,429
Hornby Property (v)	100,000	-	100,000
	46,817,523	33,316,573	80,134,096

	Balance as at January 1, 2023	Current Expend- itures	Balance as at March 31, 2023
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)	23,319,573	-	23,319,573
Black Horse Project (iv)	42,113,429	178,203	42,291,632
Hornby Property (v)	100,000	-	100,000
	80,134,096	178,203	80,312,299

- (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

KWG RESOURCES INC.

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

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, 2023 and December 31, 2022, 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.

During 2021, the Company engaged consultants to prepare design engineering feasibility proposals to construct an ore haulage system and electrical power transmission lines to the Ring of Fire and several contiguous remote communities.

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

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

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

On September 1, 2022, KWG purchased of all of the rights, titles and interests beneficially owned by Fancamp in and adjacent to the Black Horse mineral properties, comprised of four mining claims located within the Ring of Fire in the Province of Ontario.

For Fancamp's interest in the these properties plus a \$1,500,000 cash payment from Fancamp, KWG delivered to Fancamp a Secured Convertible Promissory Note in the principal amount of \$34,500,000 (Note 12); issued to Fancamp 4,044,453 consideration warrants (Note 15(i)) entitling Fancamp to purchase 4,044,453 Multiple Voting Shares

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("MVS") at an exercise price of \$4.6916 per MVS prior to September 1, 2023, \$4.4783 per MVS from September 1, 2023 until August 31, 2024 or \$4.2651 per MVS thereafter until the expiry date of September 1, 2027; and granted to Fancamp a 2.0% net smelter return royalty (one-quarter of which may be purchased by KWG at any time for \$5,000,000 and the next one-quarter of which will be subject to a right of first refusal in favour of KWG) on any direct or indirect interest in the mining claims held by KWG on and after the closing date.

Bold waived its right of first refusal given to it pursuant to a joint venture agreement dated October 18, 2018 between Bold and Fancamp. KWG paid \$10,000 and issued 1,000,000 Subordinate Voting Shares (Note 14(ix)) to Bold as consideration for the waiver.

- (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.

9 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.

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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. These assets continue to have a nominal recoverable value as at March 31, 2023 and December 31, 2022.

10 TRADE AND OTHER PAYABLES AND PROVISIONS

	March 31, 2023	December 31, 2022
Trade payables	291,123	162,094
Accrued liabilities	3,574,683	3,383,171
	<u>3,865,806</u>	<u>3,545,265</u>

11 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 pre-subdivision Multiple Voting Shares and two warrants, with each such warrant enabling its holder to acquire one further pre-subdivision Multiple Voting Share from treasury upon payment of \$7.50 at any time within two years from the date of issuance of the first debenture of this series of debentures.

The value of the liability was determined by discounting the future interest payments until October 3, 2019, at a discount factor of 20% which was expected to estimate the borrowing rate available to the Company for similar instruments of debt having no conversion rights. The fair value of the conversion feature was determined to be \$61,111 and has been recorded in equity as "Debenture Equity". The liability will be accreted to its face amount over the term of the debenture. Interest expense of \$27,561 (2022 - \$21,350) has been accrued for the three months ended March 31, 2023.

Immediately following the issuance of this debenture, the Company paid a premium to the holder consisting of 14,286 units at a deemed value of \$7 per unit. Each unit was comprised of twelve Multiple Voting Shares and six share purchase warrants, with each warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$2.50 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 December 20, 2019, the holder of this convertible debenture agreed to extend its maturity until March 26, 2021. The maturity date has not been further extended. This debenture is due and payable as at March 31, 2023. As consideration for the extension, KWG distributed ferrochrome delivery warrants ("Delivery Warrants") to the debenture-holder as an extension fee and amended 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 received Delivery Warrants exchangeable for one tonne of warehoused ferrochrome.

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The terms of the Delivery Warrants 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 in the Black Horse property, if and when produced. The Delivery Warrants expire on the earlier of two years after notice from the Company that sufficient ferrochrome has been delivered to a warehouse to meet the delivery requirements for all outstanding Delivery Warrants and the date on which the Company ceases to have any interest in the Black Horse property. Management has estimated that these warrants have a nominal value at their date of issuance.

On March 31, 2023, the principal amount of \$525,000 and accrued interest of \$434,013 was due and payable. The principal is convertible at the option of the holder into Multiple Voting Shares at the rate of \$1.75 for one Multiple Voting Share. The interest is payable in Multiple Voting Shares issued at their volume-weighted average trading price on the ten trading days prior to payment.

(ii) On September 29, 2021, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$3,268,555 and \$142,102 to satisfy accounts payable amounts outstanding at the time, for an aggregate principal amount of \$3,410,657 (\$79,100 of which was owed to an entity controlled by an officer of the Company). The debentures bear interest at 12% compounded annually and are due on June 30, 2023. Interest is payable concurrently with the payment of principal at the earliest of maturity, redemption or conversion, such payment to be made either at the Company's option on 30 days' notice, by payment in cash (other than in the event of a conversion) or by the issuance of units at a deemed value of \$5.00 per unit. Each unit will be comprised of six Multiple Voting Shares and three warrants enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before December 15, 2023. The principal may be converted at the holder's option at any time or at the option of the Company after September 29, 2022 into units at a rate of \$5 per unit, with each unit being comprised of six Multiple Voting Shares and three warrants, with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before December 15, 2023. Finder's fees of \$100,350 in cash were paid on this issuance

The value of the liability was determined by discounting the future interest payments until June 30, 2023, 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 \$2,764,308 and was recorded in equity. The liability was accreted to the total interest payable over the term of the debenture.

In November 2022, all of these debentures were converted into Multiple Voting Shares and warrants – see Note 11(vi) below.

(iii) On October 7, 2021, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$295,000 and \$55,660 to satisfy accounts payable amounts outstanding at the time, for an aggregate principal amount of \$350,660 (\$55,660 of which was owed to a director). The debentures bear interest at 12% compounded annually and are due on June 30, 2023. Interest is payable concurrently with the payment of principal at the earliest of maturity, redemption or conversion, such payment to be made either at the Company's option on 30 days' notice, by payment in cash (other than in the event of a conversion) or by the issuance of units at a deemed value of \$5.00 per unit. Each unit will be comprised of six Multiple Voting Shares and three warrants enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before

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December 15, 2023. The principal may be converted at the holder's option at any time or at the option of the Company after September 29, 2022 into units at a rate of \$5 per unit, with each unit being comprised of six Multiple Voting Shares and three warrants, with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before December 15, 2023.

The value of the liability was determined by discounting the future interest payments until June 30, 2023, 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 \$293,218 and was recorded in equity. The liability was accreted to the total interest payable over the term of the debenture.

In November 2022, all principal and interest of these debentures was converted into Multiple Voting Shares and warrants – see Note 11(vi) below.

(iv) On October 22, 2021, the Company issued a number of unsecured convertible debentures for cash proceeds in the amount of \$110,000 and \$1,532,800 to satisfy accounts payable amounts outstanding at the time, for an aggregate principal amount of \$1,642,800 (\$1,397,800 of which was owed to directors and officers of the Company or entities controlled by such officer and directors). The debentures bear interest at 12% compounded annually and are due on June 30, 2023. Interest is payable concurrently with the payment of principal at the earliest of maturity, redemption or conversion, such payment to be made either at the Company's option on 30 days' notice, by payment in cash (other than in the event of a conversion) or by the issuance of units at a deemed value of \$5.00 per unit. Each unit will be comprised of six Multiple Voting Shares and three warrants, each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before December 15, 2023 or on a change of control event. The principal may be converted at the holder's option at any time or at the option of the Company after September 29, 2022 into units at a rate of \$15 per unit, with each unit being comprised of six Multiple Voting Shares and three warrants, with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before December 15, 2023 or on a change of control event.

The value of the liability was determined by discounting the future interest payments until June 30, 2023, 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 \$1,349,882 and was recorded in equity. The liability was accreted to the total interest payable over the term of the debenture.

In November 2022, all principal and interest of these debentures was converted into Multiple Voting Shares and warrants – see Note 11(vi) below.

(v) In addition to these debentures, the Company lent \$2,000,000 to an arms' length entity which agreed to provide services to the Company, which entity then used those funds to subscribe for \$2,000,000 of convertible debentures of the Company. In substance, this transaction has been accounted for as the issuance of an option to acquire shares of the Company at a fixed price, in exchange for services to be provided to the Company by this entity. The entity can acquire 133,333 units at a rate of \$15 per unit, with each unit being comprised of six Multiple Voting Shares and three warrants, with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time on or before December 15, 2023 or on a change of control event. The value of this

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option has been estimated at \$3,214,977 using a valuation model based on the following assumptions: market value of \$9.36 per unit, expected dividend yield of 0%, expected volatility of 175%, risk-free rate of return of 0.87% and a life of 2.15 years. The \$2,000,000 loan receivable and \$2,000,000 convertible debenture payable had been netted against each other in the consolidated statement of financial position as at December 31, 2021. In 2022, \$2,000,000 of principal and interest of the convertible debenture was converted into 895,506 Multiple Voting Shares and 447,753 warrants.

(vi) During 2022, convertible debentures issued in Notes 11 (ii), (iii) and (iv) including accrued interest were converted into 2,413,734 Multiple Voting Shares and 1,206,867 Multiple Voting Share Warrants, each such warrant exercisable at \$3.20 per warrant to acquire one Multiple Voting Share until December 15, 2023.

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

	Three months ended March 31, 2023	Year ended December 31, 2022
Opening balance	931,452	1,808,603
Accretion and accrued interest	27,561	206,669
Converted to equity during the period	-	(1,083,820)
Ending balance	959,013	931,452
Less: current portion	959,013	931,452
Non-current portion	-	-

12 SECURED CONVERTIBLE PROMISSORY NOTE PAYABLE

On September 1, 2022, the Company issued a secured convertible promissory note in the principal amount of \$34,500,000 to Fancamp for cash proceeds in the amount of \$1,500,000 and Fancamp's interest in four mining claims located within the Ring of Fire in the Province of Ontario (Note 9(iv)). The promissory note bears interest at 6% compounded annually, is due on September 1, 2026 and, subject to obtaining any necessary consents, is to be secured by all of the assets of KWG and its subsidiaries (including all of its tangible and intangible personal property and all present and after-acquired personal property of KWG), subject to certain encumbrances. Interest is payable quarterly in arrears on the last day of each of the months of February, May, August and November, commencing on November 30, 2022 in cash or, at the option of KWG, in Multiple Voting Shares issued at their volume-weighted average trading price on the five trading days prior to payment. The principal may be converted by the holder at any time, in whole or in part, into Multiple Voting Shares for \$4.6916 per share from the issue date to September 1, 2023; for \$4.4783 per share from September 2, 2023 to September 1, 2024; or for \$4.2651 per share from September 2, 2024 to the maturity date.

The value of the liability was determined by discounting the future interest payments until September 1, 2026, 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 \$5,816,404, net of deferred tax, and has been recorded in equity as "Debenture equity". The liability will be accreted to its face amount over the term of the promissory note.

On November 29, 2022, the Company issued 159,783 Multiple Voting Shares in satisfaction of interest owing to that date in the amount of \$510,411. On March 3, 2023, the Company

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issued 175,525 Multiple Voting Shares in satisfaction of interest owing to February 28, 2023 in the amount of \$510,411. Additional interest expense of \$175,808 (2022 - \$nil) has been accrued for the three months ended March 31, 2023.

13 LOANS PAYABLE

In April 2020, the Company received two loans, each in the amount of \$40,000, for a total of \$80,000. Up to \$20,000 of this amount will be eligible for loan forgiveness if \$60,000 is fully repaid on or before December 31, 2023. If these loans are not repaid by December 31, 2023, they will be extended for an additional 2-year term bearing an interest rate of 5% per annum. These loans can be repaid at any time without penalty and no principal payments are required until December 31, 2025 when the full amount of these loans is due. Monthly interest must be paid during the additional 2-year term.

In December 2020, the Company received two additional loans, each in the amount of \$20,000, for a total of \$40,000. Up to \$20,000 of this amount will be eligible for loan forgiveness if \$20,000 is fully repaid on or before December 31, 2023. If these loans are not repaid by December 31, 2023, they will be extended for an additional 2-year term bearing an interest rate of 5% per annum. These loans can be repaid at any time without penalty and no principal payments are required until December 31, 2025 when the full amount of these loans is due. Monthly interest must be paid during the additional 2-year term.

14 SHARE CAPITAL

Authorized

An unlimited number of no par value Subordinate Voting Shares

An unlimited number of no par value Multiple Voting Shares

An unlimited number of Preference Shares issuable in series

An unlimited number of Special Shares issuable in series

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. One hundred (ii) 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 one 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 one hundred votes for each one Multiple Voting Share. Dividend and liquidation rights for each Multiple Voting Share are correspondingly one hundred times the dividend and liquidation rights for each Subordinate Voting Share. During the year ended December 31, 2022, 1,389,216 (2021 – 99,372) Multiple Voting Shares were converted into 138,921,600 (2021 – 9,937,200) Subordinate Voting Shares.

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Issued

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

	Three months ended March 31, 2023		Year ended December 31, 2022	
	Number of Subordinate Voting Shares	Number of Multiple Voting Shares	Number of Subordinate Voting Shares	Number of Multiple Voting Shares
Issued				
Balance – beginning of period	1,182,088,332	8,105,664	1,030,269,327	5,889,497
Issued on conversion of debentures (viii),(x),(xiii),(xiv),(xv),(xvii),(xviii),(xx)	-	-	-	3,309,240
Issued on exercise of warrants (iv),(vi),(xii),(xvi),(xix)	-	-	1,285,000	59,688
Issued on exercise of stock options (ii),(xi)	2,000,000	-	9,850,500	10,005
Issued through private placement (iii)	-	-	-	66,667
Issued for services rendered (v)	-	-	761,905	-
Issued for interest (i),(vii)	-	175,525	-	159,783
Issued for exploration and evaluation projects (vii)	-	-	1,000,000	-
Converted during the period	36,291,100	(362,911)	138,921,600	(1,389,216)
Balance – end of period	1,220,379,432	7,918,278	1,182,088,332	8,105,664

- (i) On March 3, 2023, the Company issued 175,525 Multiple Voting Shares to Fancamp in satisfaction of interest owing in the amount of \$510,411 on the secured convertible promissory note (Note 12).
- (ii) On March 8, 2023, 20,000 Multiple Voting Share Options were exercised at \$1.00 each for a total cash of \$20,000. The optionee opted to immediately convert the Multiple Voting Shares into 2,000,000 Subordinate Voting Shares.
- (iii) On December 30, 2022, the Company completed a non-brokered private placement of 66,667 “flow-through” units to a director of the Company at a price of \$2.25 per unit for a total consideration of \$150,000. Payment was by way of an offset against amounts owing to this director at the time. 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 \$2.75 any time within five years of the date of issuance. The warrants were valued at \$68,478 using a valuation model based on the following assumptions: market value of \$1.25 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.
- (iv) On December 14, 2022, 53,880 Multiple Voting Share Warrants were exercised by two directors of the Company at \$2.50 each for a total consideration of \$134,700. Payment was by way of an offset against amounts owing to these directors at the time.
- (v) On December 1, 2022, the Company issued 761,905 Subordinate Voting Shares to a supplier in payment for services rendered. The market value of these shares was \$0.03 per share at the time they were issued.
- (vi) On December 1, 2022, 5,808 Multiple Voting Share Warrants were exercised by an officer of the Company at \$2.50 each for a total cash of \$14,520.

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- (vii) On November 29, 2022, the Company issued 159,783 Multiple Voting Shares to Fancamp in satisfaction of interest owing in the amount of \$510,411 on the secured convertible promissory note (Note 12).
- (viii) On November 2, 2022, the Company converted debentures with a principal amount of \$5,862,054 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$576,164 using a valuation model based on the following assumptions: market value of \$0.70 per share, expected dividend yield of 0%, expected volatility of 127%, risk-free rate of return of 3.93% and a life of 17.5 months.
- (ix) On September 2, 2022, the Company issued 1,000,000 Subordinate Voting Shares to Bold as consideration for delivering the signed waiver (Note 8(iv)). The market value of these shares was \$0.035 per share at the time they were issued.
- (x) On August 15, 2022, the Company converted debentures with a principal amount of \$150,000 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$14,514 using a valuation model based on the following assumptions: market value of \$0.70 per share, expected dividend yield of 0%, expected volatility of 127%, risk-free rate of return of 3.93% and a life of 17.5 months.
- (xi) On July 26, 2022, 98,505 Multiple Voting Share Options were exercised at \$1.00 each for a total cash of \$98,505. The optionee opted to immediately convert the Multiple Voting Shares into 9,850,505 Subordinate Voting Shares.
- (xii) On July 24, 2022, 10,005 Multiple Voting Share Options were exercised at \$1.00 each for a total cash of \$10,005.
- (xiii) In July 2022, the Company converted debentures with a principal amount of \$265,000 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$21,587 using a valuation model based on the following assumptions: market value of \$0.66 per share, expected dividend yield of 0%, expected volatility of 112%, risk-free rate of return of 3.24% and a life of 16.5 months.
- (xiv) On June 8, 2022, the Company converted debentures with a principal amount of \$110,063 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$10,649 using a valuation model based on the following assumptions: market value of \$0.70 per share, expected dividend

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yield of 0%, expected volatility of 127%, risk-free rate of return of 3.93% and a life of 17.5 months.

(xv) In June 2022, the Company converted debentures with a principal amount of \$150,000 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$12,175 using a valuation model based on the following assumptions: market value of \$0.66 per share, expected dividend yield of 0%, expected volatility of 112%, risk-free rate of return of 3.24% and a life of 17.5 months.

(xvi) On May 6, 2022, 500,000 Subordinate Voting Share Warrants were exercised at \$0.05 each for a total cash of \$25,000.

(xvii) In May 2022, the Company converted debentures with a principal amount of \$392,000 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$31,415 using a valuation model based on the following assumptions: market value of \$0.67 per share, expected dividend yield of 0%, expected volatility of 132%, risk-free rate of return of 1.83% and a life of 18.5 months.

(xviii) In April 2022, the Company converted debentures with a principal amount of \$450,000 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$35,791 using a valuation model based on the following assumptions: market value of \$0.67 per share, expected dividend yield of 0%, expected volatility of 112%, risk-free rate of return of 3.24% and a life of 19.5 months.

(xix) On March 21, 2022, 785,000 Subordinate Voting Share Warrants were exercised at \$0.05 each for a total consideration of \$39,250 by a director of the Company. Payment was by way of an offset against amounts owing to this director at the time.

(xx) In March 2022, the Company converted debentures with a principal amount of \$25,000 plus accrued interest into units with a deemed value of \$15 per unit. Each unit consisted of six Multiple Voting Shares and three Multiple Voting Share purchase warrants with each such warrant enabling its holder to acquire one further Multiple Voting Share from treasury upon payment of \$3.20 at any time before December 15, 2023 or on a change of control event. The warrants were valued at \$3,373 using a valuation model based on the following assumptions: market value of \$0.66 per share, expected dividend yield of 0%, expected volatility of 132%, risk-free rate of return of 1.83% and a life of 20.5 months.

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15 WARRANTS

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

	Three months ended		Year ended	
	March 31, 2023		December 31, 2022	
	Subordinate	Multiple	Subordinate	Multiple
	Voting	Voting	Voting	Voting
	Share	Share	Share	Share
Issued	Warrants	Warrants	Warrants	Warrants
Balance – beginning of period	-	9,674,587	70,089,386	4,231,467
Expired during the period	-	-	(68,804,386)	(262,932)
Issued on conversion of debentures (Note 14(viii),(x),(xiii),(xiv),(xv),(xvii),(xviii),(xx))	-	-	-	1,654,620
Issued through private placement (Note 14(iii))	-	-	-	66,667
Issued for exploration and evaluation projects (Note 15(i))	-	-	-	4,044,453
Exercised during the period	-	-	(1,285,000)	(59,688)
Balance – end of period	-	9,674,587	-	9,674,587

- (i) On September 1, 2022, the Company issued warrants to acquire 4,044,453 Multiple Voting Shares to Fancamp as partial consideration for the purchase of Fancamp's interests in the Black Horse project (Note 8(iv)). Each such warrant enables its holder to acquire one Multiple Voting Share from treasury upon payment of \$4.6916 prior to September 1, 2023, \$4.4783 from September 1, 2023 until August 31, 2024 or \$4.2651 thereafter until the expiry date of September 1, 2027. The warrants were valued at \$3,076,572 using a valuation model based on the following assumptions: market value of \$3.00 per share, expected dividend yield of 0%, expected volatility of 126%, risk-free rate of return of 3.37% and a life of 5 years.
- (ii) During 2021, the Company agreed to issue 120,961 finder's warrants to an individual who subsequently became a director of the Company. The finder's warrants were ultimately granted on March 21, 2022. Each such finder's warrant is exercisable into one Multiple Voting Share at an exercise price of \$4.00 for a period of 5 years. The value of the warrants at December 31, 2021 was estimated to be \$409,695 using a valuation model based on the following assumptions: market value of \$4.00 per share, expected dividend yield of 0%, expected volatility of 133%, risk-free rate of return of 2.39% and a life of 5 years. This amount is recorded in stock-based compensation expense and contributed surplus in 2021. In November 2022, these warrants were cancelled and replaced with stock options (Note 16).

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Outstanding Subordinate Voting Share purchase warrants 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 as at March 31, 2023 is presented below:

Number of Multiple Voting Share Warrants	Exercise price \$	Expiry date
1,654,620	3.20	December 2023
76,740	3.20	March 2024
11,424	3.20	June 2024
45,144	3.20	August 2024
840,000	0.67	December 2025
2,935,539	3.20	March 2026
4,044,453	4.69	September 2027
66,667	2.25	December 2027
9,674,587		

On November 18, 2022, the Company extended the time to exercise warrants issued during 2019 and 2021 so that each such warrant will have a five-year term from the applicable warrant's original date of issuance. 80,592 warrants had their expiry date extended to March 2024; 11,424 warrants had their expiry date extended to June 2024; 45,144 warrants had their expiry date extended to August 2024; and 2,959,863 warrants had their expiry date extended to March 2026.

16 STOCK OPTION PLAN AND OTHER SHARE-BASED PAYMENTS

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.

On February 7, 2023, the Company amended its stock option plan to change the plan from a "rolling up to 10%" stock option plan, whereby the number of options that may be granted under the plan at any time is restricted to up to 10% of the number of Subordinate Voting Shares of the Company outstanding at the time of such grant (calculated on the basis that all Multiple Voting Shares then outstanding being deemed to be converted into Subordinate Voting Shares) to a "fixed up to 20%" stock option plan, whereby the maximum number of options that may be granted under the plan is fixed at 20% of the number of Subordinate Voting Shares of the Company outstanding at the "shareholder approval date" (calculated on the basis that all Multiple Voting Shares then outstanding being deemed to be converted into Subordinate Voting Shares), with "shareholder approval date" meaning the date on which the shareholders of the Company most recently approved the plan or any amendment, renewal or extension of the plan. As at the shareholder approval date of February 7, 2023, the maximum number of options that may be granted under the plan is fixed at 398,530,960 Subordinate Voting Shares, being 20% of the number of Subordinate Voting Shares of the Company outstanding on that date (calculated on the basis that all Multiple Voting Shares then

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outstanding being deemed to be converted into Subordinate Voting Shares) or, alternatively, 3,985,310 Multiple Voting Shares.

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, 2023		Year ended December 31, 2022	
	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
Expired	-	-	(33,700,000)	(0.05)
Balance – end of period	-	-	-	-

Multiple Voting Share Options

	Three months ended March 31, 2023		Year ended December 31, 2022	
	Number of Multiple Voting Shares	Average exercise price \$	Number of Multiple Voting Shares	Average exercise price \$
Balance – beginning of period	1,147,312	1.66	1,134,861	1.43
Issued during the period (Note 15(ii))	1,546,100	2.97	120,961	3.20
Exercised during the period	(20,000)	1.00	(108,510)	1.00
Balance – end of period	2,673,412		1,147,312	1.66

The following table summarizes information about options outstanding and exercisable as at March 31, 2023:

Outstanding options		
Exercise price	Number of Multiple Voting Share options	Average contractual life (in years)
1.00	729,900	2.83
2.65	296,451	3.22
3.20	120,961	4.67
2.85	360,000	4.86
3.00	1,186,100	4.92

Total share-based compensation costs for the three months ended March 31, 2023 amounted to \$3,794,900 (2022 – \$nil).

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The fair value of the options granted in 2023 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	February 8, 2023	February 28, 2023
Market value per share	2.85	2.90
Expected dividend per share	Nil	Nil
Expected volatility	125%	125%
Risk-free interest rate	3.54%	3.54%
Life of the options granted	5 years	5 years
Estimated fair value of each option granted	\$2.43	\$2.46

Expected volatility is based on the Company's historical share price.

17 GENERAL AND ADMINISTRATIVE EXPENSES

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

Three months ending March 31	2023	2022
Advertising and promotion	360	-
Consultants' fees	234,740	366,599
Directors' fees and insurance	28,383	24,660
Filing fees	5,850	4,500
Interest	537,980	21,350
Investor relations fees	43,894	3,639
Professional fees	153,078	167,558
Office overheads	40,947	48,530
Salaries and benefits	108,851	159,225
Travel and accommodation	17,370	2,699
	1,171,453	798,760

18 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, President, CFO and corporate secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2023, officers and companies controlled by officers charged consulting fees for cash consideration of \$317,003 (\$238,908 in 2022) and salaries in the amount of \$160,865 (\$155,625 in 2022). The consulting fees were for services performed by the corporate secretary, the president, a director and the CFO as well as for general accounting services. Directors' fees charged in the first quarter of 2023 totalled \$25,000 (\$22,000 in 2022). See also Note 11 (ii),(iii),(iv) and Note 14(iii),(iv),(vi),(xix). Amounts owing to directors and officers as at March 31, 2023 totalled \$1,957,789 (\$1,248,620 at March 31, 2022). The Company has advanced sums to the CEO against his accruing compensation; as of March 31, 2023, net advances of \$188,812 were outstanding. Amounts receivable/payable are unsecured, non-interest bearing and have no fixed terms of repayment. KMP received 1,299,500 stock options for Multiple Voting Shares in the first quarter of 2023, stock compensation expenses totalled \$3,168,601 for KMP (\$nil in 2022). See also Note 19(i).

19 COMMITMENTS AND CONTINGENCIES

- (i) 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

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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 total commitment for the CEO's agreement along with certain other management contracts require payments totaling approximately \$1,019,000 upon termination. On a change of control, minimum payments range from \$1,525,000 to \$1,875,000 plus amounts calculated based on the share price of the Company and changes in the share price of the Company. As the triggering events have not taken place, the contingent payments have not been reflected in these consolidated financial statements.

- (ii) The Company and its subsidiary, Canada Chrome Corporation ("CCC"), entered into an agreement in January 2021 with the President and Chief Operating Officer of CCC whereby he may, over the two-year term of the agreement, earn \$70,000 per month which monthly salary may, at his option, be tendered for 1/24th of a 10% interest in CCC, for the purpose of which the total value of CCC was deemed to be \$16.8 million. Alternatively, all or any part of any unpaid salary may be tendered by him for payment in Multiple Voting Shares of the Company at \$1.00 per share at any time on or before June 18, 2024. An aggregate of 1,680,000 Multiple Voting Shares have been reserved by the Company for issuance for this contingency.
- (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 \$420,000 of qualifying exploration expenditures to a shareholder effective December 31, 2020. Under the "look back" provision governing flow-through shares, this amount was fully spent by the end of 2022.
- (v) The Company renounced \$150,000 of qualifying exploration expenditures to a shareholder effective December 31, 2022. Under the "look back" provision governing flow-through shares, \$87,500 was unspent by the end of March 2023 and has to be spent by December 31, 2023.
- (vi) The Company has entered into certain agreements which subject certain future transactions to finder's fees.
- (vii) The Company has entered into certain agreements which contain break fees that could become payable by the Company. The amount of any such amount would be determined at the time. The Company has the option to make any such payment in shares.

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 2022 audited consolidated financial statements. This note updates information about the

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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 2022 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 \$27,579,791 at March 31, 2023 and \$26,217,856 at December 31, 2022.

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments. There were no changes in the Company's approach to capital management during the first quarter of 2023. 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

- (i) On April 24, 2023, the Company completed the first tranche of a private placement of unsecured convertible debentures (the "Debentures") for proceeds of \$959,590 (including \$80,590 to satisfy accounts payable outstanding at the time). The Debentures bear interest at 5% compounded annually and are due on the earlier of April 24, 2026 or two business days after a change of control of the Company. Interest is payable annually, at the Company's option, in cash or in units at a value of \$3.00 per unit, with each such unit comprised of one MVS and one warrant (a "Warrant") exercisable at \$3.00 to purchase one MVS until the earlier of April 24, 2026 or two business days after a change of control. At any time prior to payment in cash, the principal of each Debenture can be converted at the option of the holder, in whole or in part, together with and accrued unpaid interest into units at a rate of \$3.00 per unit, with each unit being comprised of one MVS and one Warrant. On maturity, the Company may pay the principal of the Debentures in cash or, at the Company's option, in replacement debentures having the same terms as the Debentures except (a) the maturity date of the replacement debentures will be the earlier of (i) two (2) years after the maturity date of the Debentures and (ii) two business days after a change of control of the Company, (b) the expiry date of the warrants comprising

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part of the units issuable for payment of interest or on conversion will be the maturity date of the replacement debentures, and (c) the conversion rate for the replacement debentures will be the lesser of (i) \$3.00 per unit and (ii) the 30-day (ending on the maturity date of the Debentures) volume-weighted average trading price of the MVS and the Company's SVS on the Canadian Securities Exchange and any other securities exchange where such SVS and MVS are listed and posted for trading as of the maturity date of the Debentures (the SVS adjusted for the then applicable exchange ratio between SVS and MVS, currently 100 SVS for each MVS). In connection with the private placement, the Company paid finder's fees of \$43,950 by issuing 14,650 MVS and 14,650 finder's warrants, each such finder's warrant entitling the holder to purchase one MVS for \$3.00 at any time until the earlier of April 24, 2026 or two business days after a change of control of the Company.

- (ii) On May 26, 2023, the Company completed the second and final tranche of a private placement of unsecured convertible debentures for proceeds of \$1,414,000, of which an aggregate of \$1,350,000 of debentures closed in escrow pending receipt of necessary consents and other matters, bringing the total principal amount of debentures issued under the first and second tranches of the private placement to \$2,373,590. The terms of the second tranche are identical to those of the first tranche. See Note 24(i).