

# **KWG RESOURCES INC.**

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## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

THREE AND NINE MONTH PERIODS ENDED  
SEPTEMBER 30, 2012 AND 2011

**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 M. FLETT**, Director

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

Montreal, Quebec  
November 14, 2012

**KWG RESOURCES INC.**  
**Interim Consolidated Balance Sheets**  
**(unaudited)**

(in Canadian dollars)	Notes	As at September 30, 2012	As at December 31, 2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	11,580,139	16,030,551
Receivables	5	1,556,326	1,072,320
Marketable securities	6	2,154,600	3,074,298
Prepaid expenses		34,072	31,058
<b>Total current assets</b>		<b>15,325,137</b>	<b>20,208,227</b>
<b>Non-current assets</b>			
Property and equipment	7	89,527	65,837
Mineral property interests	8	30,397,324	28,442,269
<b>Total non-current assets</b>		<b>30,486,851</b>	<b>28,508,106</b>
<b>Total assets</b>		<b>45,811,988</b>	<b>48,716,333</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	9	635,585	1,112,928
<b>Total current liabilities</b>		<b>635,585</b>	<b>1,112,928</b>
<b>Non-current liabilities</b>			
Warrant liability	10	397,783	1,096,584
<b>Total non-current liabilities</b>		<b>397,783</b>	<b>1,096,584</b>
<b>Total liabilities</b>		<b>1,033,368</b>	<b>2,209,512</b>
<b>Equity attributable to the owners of the parent company</b>			
Share capital	12	21,302,275	21,308,113
Warrants and compensation options	13	4,349,300	7,431,617
Contributed surplus		10,809,355	7,091,101
Accumulated other comprehensive income (loss)		(135,365)	283,674
Retained earnings		8,453,055	10,392,316
<b>Total equity</b>		<b>44,778,620</b>	<b>46,506,821</b>
<b>Total liabilities and equity</b>		<b>45,811,988</b>	<b>48,716,333</b>

**Nature of operations and going concern (Note 1)**  
**Commitments and contingencies (Note 18)**  
**Subsequent events (Note 23)**

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.**  
**Interim Consolidated Statements of Operations and Statements of**  
**Comprehensive Income (Loss)**  
**(unaudited)**

(in Canadian dollars)	Notes	Three-month periods ended September 30		Nine-month periods ended September 30	
		2012	2011	2012	2011
<b>Expenses</b>					
General and administrative	15	(523,978)	(531,426)	(1,927,805)	(1,506,261)
Amortization of property and equipment	7	(8,962)	(6,973)	(25,621)	(20,924)
Stock compensation costs	14	(58,831)	(128,755)	(459,699)	(748,928)
Gain (loss) on foreign exchange		(653)	(21,474)	(1,266)	(25,677)
<b>Operating loss</b>		<b>(592,424)</b>	<b>(688,628)</b>	<b>(2,414,391)</b>	<b>(2,301,790)</b>
<b>Other income (expenses)</b>					
Finance income (expense)	16	1,224,938	16,811	(226,015)	38,437
Other income		782	781	2,344	85,784
Gain on disposal of marketable securities	6	-	-	-	71,800
Gain on disposal of mineral property interests	8	-	14,116,630	-	14,116,630
Gain on revaluation of warrant liability	10	26,519	450,820	698,801	1,024,924
		<b>1,252,239</b>	<b>14,585,042</b>	<b>475,130</b>	<b>15,337,575</b>
<b>Profit (loss) from continuing operations</b>		<b>659,815</b>	<b>13,896,414</b>	<b>(1,939,261)</b>	<b>13,035,785</b>
<b>Loss from discontinued operations</b>		<b>-</b>	<b>(83,607)</b>	<b>-</b>	<b>(123,276)</b>
<b>Net profit (loss) for the period</b>		<b>659,815</b>	<b>13,812,807</b>	<b>(1,939,261)</b>	<b>12,912,509</b>
Net loss attributable to non-controlling interest	11	-	24,965	-	26,228
<b>Net profit (loss) attributable to equity holders of KWG Resources Inc.</b>		<b>659,815</b>	<b>13,837,772</b>	<b>(1,939,261)</b>	<b>12,938,737</b>
<b>Profit (loss) per share (basic and diluted)</b>		<b>0.00</b>	<b>0.02</b>	<b>(0.00)</b>	<b>0.02</b>
<b>Weighted average number of outstanding shares</b>		<b>670,703,745</b>	<b>636,878,941</b>	<b>671,872,715</b>	<b>635,007,805</b>

**Interim Consolidated Statements of Comprehensive Income (Loss)**

(in Canadian dollars)	Notes	Three-month periods ended September 30		Nine-month periods ended September 30	
		2012	2011	2012	2011
Net profit (loss) for the period		659,815	13,812,807	(1,939,261)	12,912,509
Other Comprehensive Income ("OCI")					
Net change in fair value of financial assets	6	(165,580)	579,238	(419,039)	564,000
<b>Total comprehensive income (loss) for the period</b>		<b>494,235</b>	<b>14,392,045</b>	<b>(2,358,300)</b>	<b>13,476,509</b>
Portion attributable to non-controlling interest		-	24,965	-	26,228
<b>Net comprehensive income (loss) attributable to equity holders of KWG Resources Inc.</b>		<b>494,235</b>	<b>14,417,010</b>	<b>(2,358,300)</b>	<b>13,502,737</b>

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

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

(in Canadian dollars)	Notes	Share Capital	Warrants and Compens- ation Options	Contributed Surplus	Accumulated Other Comprehen- sive Income (Loss)	Retained Earnings (Deficit)	Non- controlling Interest	Total
<b>Balance, January 1, 2011</b>		<b>28,685,901</b>	<b>5,316,679</b>	<b>5,895,585</b>	<b>15,238</b>	<b>(8,735,274)</b>	<b>61,186</b>	<b>31,239,315</b>
Net profit (loss) for the Period		-	-	-	-	12,938,737	(26,228)	12,912,509
Other comprehensive income for the period		-	-	-	564,000	-	-	564,000
<b>Total comprehensive Income (loss) for the Period</b>		-	-	-	<b>579,238</b>	<b>12,938,737</b>	<b>(26,228)</b>	<b>13,476,509</b>
Private placements, net of share issuance costs	12	1,124,874	-	-	-	-	-	1,124,874
Settlement of liability	12	212,766	187,234	-	-	-	-	400,000
Exercise of warrants	12	39,335	(6,485)	(2,850)	-	-	-	30,000
Stock based compensation	14	-	-	620,173	-	-	763,125	1,383,298
Non-controlling interest in Debut Diamonds Inc.	11	334,614	-	-	-	-	1,906,464	2,241,078
<b>Balance, September 30, 2011</b>		<b>30,397,490</b>	<b>5,497,428</b>	<b>6,512,908</b>	<b>579,238</b>	<b>4,203,463</b>	<b>2,704,547</b>	<b>49,895,074</b>
Net loss for the period		-	-	-	-	(932,062)	(224,015)	(1,156,077)
Other comprehensive loss for the period		-	-	-	(295,564)	-	-	(295,564)
<b>Total comprehensive loss for the period</b>		-	-	-	<b>(295,564)</b>	<b>(932,062)</b>	<b>(224,015)</b>	<b>(1,451,641)</b>
Private placements, net of share issuance costs	12	1,088,903	336,756	-	-	-	-	1,425,659
Issued for marketable securities	6	1,785,000	1,638,000	-	-	-	-	3,423,000
Expired warrants	13	-	(40,567)	40,567	-	-	-	-
Stock based compensation	14	-	-	537,626	-	-	-	537,626
Normal course issuer bid	12	(500,000)	-	-	-	-	-	(500,000)
Distribution of Debut Diamonds Inc shares	2	(11,463,280)	-	-	-	7,120,915	(2,480,532)	(6,822,897)
<b>Balance, December 31, 2011</b>		<b>21,308,113</b>	<b>7,431,617</b>	<b>7,091,101</b>	<b>283,674</b>	<b>10,392,316</b>	<b>-</b>	<b>46,506,821</b>
Net loss for the period		-	-	-	-	(1,939,261)	-	(1,939,261)
Other comprehensive loss for the period		-	-	-	(419,039)	-	-	(419,039)
<b>Total comprehensive loss for the period</b>		-	-	-	<b>(419,039)</b>	<b>(1,939,261)</b>	<b>-</b>	<b>(2,358,300)</b>
Issued for mineral property interests	8	194,162	176,238	-	-	-	-	370,400
Expired warrants	13	-	(3,258,555)	3,258,555	-	-	-	-
Stock based compensation	14	-	-	459,699	-	-	-	459,699
Normal course issuer bid	12	(200,000)	-	-	-	-	-	(200,000)
<b>Balance, September 30, 2012</b>		<b>21,302,275</b>	<b>4,349,300</b>	<b>10,809,355</b>	<b>(135,365)</b>	<b>8,453,055</b>	<b>-</b>	<b>44,778,620</b>

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**  
**September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

<b>(in Canadian dollars)</b>	<b>Notes</b>	<b>Nine-month periods ended September 30</b>	
		<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>			
Net profit (loss) for the period		(1,939,261)	12,912,509
Adjustments for			
Amortization of property and equipment	7	25,621	20,924
Stock based compensation costs	14	459,699	748,928
Fair value changes in financial assets classified as fair value through profit & loss ("FVTPL")	6	524,149	-
Amortization of flow-through premium	16	(175,784)	(7,945)
Realized gain on marketable securities		-	(71,800)
Gain on revaluation of warrant liability	10	(698,801)	(1,024,924)
Realized gain on sale of mineral property interests	8	-	(14,116,630)
Net change in non-cash working capital balances		(499,435)	(1,153,028)
<b>Net cash used by operating activities</b>		<b>(2,303,812)</b>	<b>(2,691,966)</b>
<b>Cash flows from financing activities</b>			
Share capital issued	12	-	1,215,600
Share and warrant issue expenses		(1,600)	(41,449)
Shares repurchased through normal course issuer bid	12	(242,937)	-
<b>Net cash provided by financing activities</b>		<b>(244,537)</b>	<b>1,174,151</b>
<b>Cash flows from investing activities</b>			
Expenditures on exploration and evaluation projects	8	(1,669,362)	(2,207,504)
Purchases of property and equipment	7	(49,311)	(5,741)
Proceeds from disposal of mineral property interests	8	-	8,155,817
Purchase of marketable securities	6	(23,490)	(361,262)
Proceeds from disposal of marketable securities	6	-	350,000
Increase in advances to related company	17	(159,900)	-
<b>Net cash used by investing activities</b>		<b>(1,902,063)</b>	<b>5,931,310</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>(4,450,412)</b>	<b>4,413,495</b>
Cash and cash equivalents – Beginning of the period		16,030,551	3,261,057
<b>Cash and cash equivalents – End of the period</b>		<b>11,580,139</b>	<b>7,674,552</b>
<b>Change in non-cash working capital balances comprises:</b>			
Receivables		(324,106)	(185,489)
Prepaid expenses		(3,014)	(192,664)
Trade and other payables		(172,315)	(774,875)
<b>Net change in non-cash working capital balances</b>		<b>(499,435)</b>	<b>(1,153,028)</b>
<b>Additional information - non-cash transactions</b>			
Issuance of shares/warrants for exploration and evaluation projects	8	372,000	-
Expired warrants included in contributed surplus	13	3,258,555	-
Additions to exploration and evaluation projects included in accounts payable	9	239,026	144,500

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 September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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

##### **Nature of Operations**

KWG Resources Inc. ("KWG" or the "Company") is an incorporated entity domiciled in Canada. The Company's registered office is located at 600 de Maisonneuve Boulevard West, Suite 2750, Montreal, Quebec, H3A 3J2. KWG is involved in the exploration and evaluation of base and precious 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 was incorporated on August 21, 1937.

The Company is listed on the TSX Venture Exchange and on the Canadian National Stock Exchange under the symbol "KWG".

##### **Going Concern**

These financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to find additional funds to continue its exploration 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 deferred exploration expenses 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 processing facilities; obtaining certain government approvals; and attaining profitable production.

For the nine months ended September 30, 2012, the Company incurred a loss of \$1,939,261 (2011 – profit of \$12,938,737). Cash and cash equivalents as at September 30, 2012 amounted to \$11,580,139 (\$16,030,551 as at December 31, 2011). Trade and other payables that will be settled in cash as at September 30, 2012 amounted to \$516,539 (\$867,272 as at December 31, 2011). In addition to ongoing working capital requirements, the Company must secure on an ongoing basis sufficient funds for its existing commitments for exploration, general and administration costs and future exploration activity on the Company's projects.

The Company's current cash reserves are sufficient to provide for these working capital requirements and existing commitments in the short term. However, management will continue to pursue all financing alternatives available to fund its future obligations and exploration activities. There is no assurance that the Company will be successful in these actions. Should the Company not be able to obtain the necessary financing, the Company would not have the ability to meet its obligations as they come due. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and the ultimate appropriateness of the use of accounting principles applicable to a going concern. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet

**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. 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, 2011, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). This is considered generally accepted accounting principles ("GAAP") for Canadian public companies.

The management of KWG prepare these unaudited condensed interim consolidated financial statements which are then reviewed by the Audit Committee and the Board of Directors. These unaudited condensed interim consolidated financial statements were approved by the Board of Directors for issue on November 14, 2012.

**(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 (formerly ChromeCana Ltd.) which was incorporated in Ontario, Canada on February 20, 2009, SMD Mining Corporation, which was incorporated in Ontario, Canada on January 16, 2008 and Canada Chrome Mining Corporation which was incorporated federally on June 4, 2010. The latter two companies have been inactive since their inception.

The comparative figures for 2011 also include the accounts of 7207565 Canada Inc. and 6949541 Canada Inc which had been wholly-owned subsidiaries and Debut Diamonds Inc. ("DDI") which had been a majority-owned subsidiary of the Company until December 15, 2011. On this date, the equity shares of DDI were distributed to the Company's shareholders as a return of capital. 7207565 Canada Inc. and 6949541 Canada Inc. were disposed of during 2011.

**(d) Distribution of Debut Diamonds Inc**

During 2011, the Company distributed the shares of DDI as a return of capital to its shareholders. This distribution was recognized once it was appropriately authorized and no longer at the discretion of the Company. It was measured initially and subsequently at fair value using the market price of the DDI shares.

DDI was also classified as a discontinued operation and the results of the disposal group are classified as discontinued operations in the statement of operations and the comparative amounts restated for all periods presented.



## KWG RESOURCES INC.

### Notes to the Condensed Interim Consolidated Financial Statements September 30, 2012 and 2011 (unaudited) (in Canadian dollars)

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#### (e) 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 entities' functional currency are recognized in the consolidated statements of operations in "gain (loss) on foreign exchange".

#### (f) Critical Accounting Estimates and Judgement

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.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2011.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The account policies of the Company are set out in Note 3 to the 2011 audited consolidated financial statements, as updated under New Accounting Policies below. Such policies have been applied consistently to all periods presented in these interim financial statements.

#### (a) New Accounting Policies

There have been no new accounting policies adopted by the Company.

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

Since the issuance of the Company's 2011 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 September 30, 2012	As at December 31, 2011
Bank balances	202,448	2,065,186
Short-term deposits	11,377,691	13,965,365
<b>Cash and cash equivalents</b>	<b>11,580,139</b>	<b>16,030,551</b>

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements  
September 30, 2012 and 2011 (unaudited) (in Canadian dollars)****5 RECEIVABLES**

	<b>As at September 30, 2012</b>	<b>As at December 31, 2011</b>
Trade receivables	-	22,374
Sales taxes receivable	285,953	210,607
Due from Debut Diamonds Inc	966,047	783,772
Other receivables	304,326	55,567
<b>Receivables</b>	<b>1,556,326</b>	<b>1,072,320</b>

**6 MARKETABLE SECURITIES**

	<b>As at September 30, 2012</b>	<b>As at December 31, 2011</b>
Available for sale ("AFS"):		
GoldTrain Resources Inc. ("GoldTrain") (i) 7,270,000 common shares	363,500	472,550
Eloro Resources Ltd. ("Eloro") (ii) 3,080,580 common shares	107,820	415,900
Debut Diamonds Inc. (iii) 166,000 common shares	21,580	-
<b>Total AFS</b>	<b>492,900</b>	<b>888,450</b>
Financial assets at fair value through profit and loss ("FVTPL"):		
GoldTrain Resources Inc. (i) 7,000,000 warrants	70,000	196,000
Eloro Resources Ltd. (ii) 3,080,580 premium warrants 1,540,290 regular warrants	43,100 4,600	123,186 45,062
Debut Diamonds Inc. (iii) 9,702,666 warrants exercisable at \$0.07 (\$0.10 in 2011) 7,000,000 warrants exercisable at \$0.07 (\$0.40 in 2011)	718,000 826,000	960,600 861,000
<b>Total fair value of financial assets at FVTPL</b>	<b>1,661,700</b>	<b>2,185,848</b>
<b>Marketable securities</b>	<b>2,154,600</b>	<b>3,074,298</b>

- (i) On June 9, 2011, KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.10 on or before June 9, 2013) in GoldTrain in exchange for the settlement of a debt (debt settlement agreement between KWG and GoldTrain). Prior to the signing of this agreement, KWG sold its investment in 3,452,217 common shares of Strike Minerals Inc. to GoldTrain. GoldTrain subsequently sold these shares in a series of transactions. Both parties agreed to have this debt settled through the issuance of the GoldTrain shares and warrants. KWG's holdings represent approximately 14.36% of the issued and outstanding common shares of GoldTrain and approximately 24.84% of the outstanding

## **KWG RESOURCES INC.**

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

**September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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warrants. The Company realized a gain on the disposal of the Strike Mineral Inc. shares in the amount of \$153,000 in 2011. Subsequent to this transaction, the Company acquired an additional 270,000 common shares of GoldTrain through purchases on the open market.

- (ii) On December 21, 2011, KWG acquired 3,080,580 common shares, 3,080,580 premium warrants and 1,540,290 regular warrants of Eoro in exchange for 100% of the issued and outstanding common shares of 6949541 Canada Inc ("6949541"), a wholly-owned subsidiary of KWG. Prior to the sale, KWG sold 11 claims in Louvicourt Township and transferred \$200,000 in cash into 6949541. The premium warrants entitle the holder to purchase one common share for \$1.00 on or before November 18, 2016. If the closing price of the common shares is over \$1.50 for 20 consecutive trading days following the expiry of the 4 month hold period, the premium warrants must be exercised within 10 business days of Eoro providing written notice, or they will be cancelled. The regular warrants entitle the holder to purchase one common share for \$0.24 on or before May 18, 2013. If the closing price of the common shares is over \$0.60 for 20 consecutive days following the expiry of the 4 month hold period, the regular warrants must be exercised within 10 business days of Eoro providing written notice, or they will be cancelled.
- (iii) On August 29, 2011, KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.40 on or before August 29, 2016) in DDI in exchange for 21,000,000 common shares and 21,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.10 on or before August 29, 2016) in KWG. The value attributed to the shares was based on KWG's market value on August 29, 2011, which was \$0.085 per share since there was no comparable information for DDI. The common shares of DDI were subsequently distributed to KWG's shareholders as a return of capital in December 2011. During the first quarter of 2012, the Company purchased 166,000 common shares of DDI on the open market. On July 24, 2012 DDI announced that it was reducing the exercise price on all of its warrants to \$0.07 per warrant effective as of that day. There are no other changes to the terms of the warrants. This reduction resulted in an immediate increase of \$1,306,500 in the fair value of the warrants.

#### **Warrants**

The financial assets at fair value through P&L consist of warrants which are not publicly-traded. However, their valuation can be obtained through the use of a valuation model, the inputs for which are readily determinable. Any change in fair value after initial recognition, is recorded through the consolidated statements of operations as a finance income (loss). The fair value of the warrants decreased by \$524,148 during the three quarters of 2012 and increased by \$1,187,300 for the three- month period ended September 30, 2012.

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

The following table summarizes the inputs that were used to calculate the fair value of the warrants as at September 30, 2012:

	<b>GoldTrain</b>	<b>Eloro Premium</b>	<b>Eloro Regular</b>	<b>DDI 7,000,000</b>	<b>DDI 9,702,666</b>
Average dividend per share	Nil	Nil	Nil	Nil	Nil
Estimated volatility	120.00%	131.71%	148.69%	150.00%	130.00%
Risk-free interest rate	1.10%	1.25%	1.10%	1.25%	1.10%
Expected life of the options granted	252 days	1,529 days	251 days	1,428 days	107 days
Calculated value per warrant	\$0.010	\$0.014	\$0.003	\$0.118	\$0.074

**Sensitivity Analysis - Equity Price Risk**

All of the Company's financial assets classified as AFS are listed on public stock exchanges. For such investments, a 10% increase in the equity prices at the reporting date would have increased equity by \$49,000, an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

For FVTPL assets, the impact on operations of a 10% increase in the fair value of the warrants at the reporting date would have increased equity by \$166,000, an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

**7 PROPERTY AND EQUIPMENT**

	<b>Automobiles</b>	<b>Computer &amp; Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Totals</b>
Balance, January 1, 2011				
Cost	37,550	40,939	-	78,489
Accumulated amortization	(15,543)	(14,714)	-	(30,257)
<b>Net book value</b>	<b>22,007</b>	<b>26,225</b>	-	<b>48,232</b>
Additions	41,140	6,616	-	47,756
Amortization	(15,945)	(14,206)	-	(30,151)
Balance, December 31, 2011				
Cost	78,690	47,555	-	126,245
Accumulated amortization	(31,488)	(28,920)	-	(60,408)
<b>Net book value</b>	<b>47,202</b>	<b>18,635</b>	-	<b>65,837</b>
Additions	-	22,004	27,307	49,311
Amortization	(16,450)	(8,261)	(910)	(25,621)
Balance, September 30, 2012				
Cost	78,690	69,559	27,307	175,556
Accumulated amortization	(47,938)	(37,181)	(910)	(86,029)
<b>Net book value</b>	<b>30,752</b>	<b>32,378</b>	<b>26,397</b>	<b>89,527</b>

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements  
September 30, 2012 and 2011 (unaudited) (in Canadian dollars)****8 MINERAL PROPERTY INTERESTS**

Costs relating to the acquisition of mineral property interests and exploration and evaluation expenditures have been incurred on the following projects:

	Balance as at January 1, 2011	Current Expend- itures	Write Downs	Disposals	Balance as at December 31, 2011
Canada – Ontario					
Spider No. 1 / MacFadyen and Kyle	2,516,896	(6,866)	-	(2,484,898)	25,132
Spider No. 3 / McFaulds Lake	4,189,695	-	-	-	4,189,695
Wawa	156,944	-	-	(156,944)	-
Big Daddy	6,454,391	2,358,726	-	-	8,813,117
Diagnos	189,120	-	-	(11,106)	178,014
Pele Mountain	556,878	85,905	-	(642,783)	-
Uniform Surround	7,950	15,835	-	(23,785)	-
East West option	202,123	-	(202,123)	-	-
Railroute Corridor	14,313,571	999,277	-	(76,537)	15,236,311
Smelter Royalty	2,682,587	20,000	-	(2,702,587)	-
Victor West	119,979	78,018	-	(197,997)	-
Nakina project	-	570,855	-	(570,855)	-
	31,390,134	4,121,750	(202,123)	(6,867,492)	28,442,269

	Balance as at January 1, 2012	Current Expend- itures	Write Downs	Disposals	Balance as at September 30, 2012
Canada – Ontario					
Spider No. 1 / MacFadyen and Kyle (i)(ii)(iii)	25,132	-	-	-	25,132
Spider No. 3 / McFaulds Lake (i)	4,189,695	-	-	-	4,189,695
Big Daddy (i)(iv)	8,813,117	1,252,247	-	-	10,065,364
Diagnos (i)(ii)	178,014	-	-	-	178,014
Railroute Corridor (v)	15,236,311	602,808	-	-	15,839,119
The Temagami Iron Limited Partnership (vi)	-	100,000	-	-	100,000
	28,442,269	1,955,055	-	-	30,397,324

- (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 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.

## **KWG RESOURCES INC.**

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

**September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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- (ii) Ashton Mining Canada Ltd. holds a 25% claw back entitlement to any kimberlite property found or developed by KWG/Cliffs within the geographic limits of the Spider No. 1 project area, with the exception of Kyle Lake No. 1 where Ashton Mining relinquished its rights, which can be executed by paying KWG/Cliffs an amount equal to 300% of all exploration expenditures on said property.
- (iii) The Kyle project is optioned to Renforth Resources Inc. ("Renforth") the operator and on October 18, 2010 Renforth had earned a 55% interest in the Kyle project by transferring a group of 39 adjacent claims and by incurring a total of \$6 million of exploration expenditures over a period of three years. The Company's interests have been reduced to 22.5% and may be further reduced to 15% by Cliffs incurring exploration expenditures equal to its prior capital in the joint project.
- (iv) In December 2005, KWG/Cliffs entered into an agreement with Freewest Resources Canada Inc. ("Freewest") for the acquisition of a 25% interest in certain mining property claims contiguous to McFauld's Lake in Ontario. The contribution of the Company included a commitment to carry out exploration work in the amount of \$1,500,000 before October 13, 2009 of which at least \$200,000 was incurred before February 28, 2006; and accordingly, each of KWG and Cliffs has earned a 25% interest of the property.

On March 27, 2009, the Company negotiated an amendment to the Freewest Option Agreement whereby the option earn-in calls for a \$15,000,000, three-year commitment. As a result of this amendment, the Company is no longer required to prepare a bankable feasibility study within 18 months, as had been called for in the 2005 agreement. Under the amendment, KWG would have options for up to a \$7,500,000 commitment over the next three years, of which \$2,500,000 was required to be spent before March 31, 2010. In early 2010, Freewest was served with a notice that this first commitment had been met. A further \$2,500,000 was required to be spent before March 31, 2011. This requirement was satisfied through the direct payment to Freewest early in the second quarter of 2011. The final \$2,500,000 was required to be spent before March 31, 2012 and this commitment has been met. Each option increases the Company's ownership by 1.5% with the result being that KWG now owns 30% of the Big Daddy project.

- (v) During 2009, the Company commenced efforts to explore and develop a transportation link to the Company's properties in Northern Ontario in order to ensure accessibility for purposes of creating mining structures once the economic viability of these properties has been determined. These operations entailed a detailed analysis of railroad route alternatives, preliminary soils analysis and claim staking. Concurrent with this activity the Company is performing exploration activities on these claims. This project and exploration activity was continued throughout 2010 and 2011. All costs related to this project have been capitalized. On March 2, 2012, the Company acquired 49 unpatented claims from INV Metals Inc. for consideration consisting of 3,000,000 common shares and 3,000,000 warrants (Note 12(i)). These claims are contiguous to the claims already held by the Company and are located on the railroad route.
- (vi) On June 1, 2012 the Company purchased, for \$100,000 in cash, 2,000,000 units (representing 6.3% of the outstanding units) and 2,000,000 warrants of The Temagami Iron Limited Partnership ("Temagami"). The warrants may be exercised to acquire additional partnership units at \$0.05 each at any time prior to December 1, 2012. These funds will be used by Temagami to update studies and provide KWG with an opportunity to review and participate further, if appropriate.

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements  
September 30, 2012 and 2011 (unaudited) (in Canadian dollars)****9 TRADE AND OTHER PAYABLES**

	Notes	September 30, 2012	December 31, 2011
Trade payables			
Exploration and evaluation projects		239,026	325,428
Non-project related		36,715	147,493
Accrued liabilities			
Non-project related		76,404	187,020
Lease inducement	18	49,174	-
Flow-through premium liability	12	69,872	245,656
Share repurchase liability (re Normal Course Issuer Bid)	12	164,394	207,331
		635,585	1,112,928

**10 WARRANT LIABILITY**

Included in the warrants listed in Note 13 are 26,518,854 warrants issued in March and April of 2009 exercisable in United States dollars. The fair value of these warrants is recorded as a warrant liability at the date of issuance. These warrants are revalued at each balance sheet date with the corresponding gain (loss) recorded as gain (loss) on warrant revaluation through the statement of operations and comprehensive income (loss). A gain on the revaluation of \$698,801 was recognized in the nine months ended September 30, 2012 (2011 – gain of \$1,024,924). The fair value of these warrants was estimated using a valuation model based on the following assumptions:

	September 30, 2012	December 31, 2011
U.S. exchange rate	0.9837	1.0170
Market price of shares	\$0.055	\$0.085
Average dividend per share	Nil	Nil
Estimated volatility	92.05%	94.37%
Risk-free interest rate	1.1%	0.95%
Expected life of the warrants	18 months	27 months

A 10% increase in the market price of the common shares would result in an increase in the gain on revaluation in the amount of \$70,000. A reduction of 10% would have an equal effect in the opposite direction.

**11 NON-CONTROLLING INTEREST**

The amount shown for non-controlling interest on the condensed interim consolidated statements of operations and comprehensive loss is in relation to a non-controlling interest ownership in the shares of DDI. Non-controlling interests' share of DDI expenses was reflected in the condensed interim consolidated statement of operations and was charged as a reduction to the balance sheet account non-controlling interests. This balance was eliminated as a result of the DDI distribution in mid-December 2011.

**KWG RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

**12 SHARE CAPITAL**

Authorized

An unlimited number of no par value common shares

Issued

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

	Nine months ended September 30, 2012	Year ended December 31, 2011
Issued	Number of shares	Number of shares
Balance – Beginning of period	671,323,941	623,458,941
Issued for mineral property interests (i)	3,000,000	-
Issued for Canadian exploration expenses (ii)(v)	-	26,620,000
Issued in exchange for marketable securities (iii)	-	21,000,000
Issued for settlement of liability re acquisition of mining assets (iv)	-	4,000,000
Issued following exercise of warrants and compensation options	-	250,000
Issued following exercise of stock options	-	50,000
Cancelled following repurchase through normal course issuer bid (vi)	(3,974,000)	(4,055,000)
<b>Balance – End of period</b>	<b>670,349,941</b>	<b>671,323,941</b>

- (i) On March 2, 2012, the Company issued 3,000,000 common shares and 3,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.12 on or before March 2, 2017) for the acquisition of 49 unpatented claims from INV Metals Inc. (note 8(vi)). The warrants were valued at \$177,000 using a valuation model based on the following assumptions: market value of \$0.065 per share, dividend yield of 0%, volatility of 159%, risk free rate of return of 1.42% and an expected life of 5 years.
- (ii) On December 30, 2011, the Company completed a non-brokered private placement of 17,500,000 units for a total consideration of \$1,750,000. These units were issued at \$0.10 each and comprised one "flow through" common share of the Company and one-half of a common share purchase warrant exercisable at a price of \$0.12 per warrant to acquire one common share for a period of thirty months. The Company allocated proceeds of \$262,500 to the flow-through premium.

The fair value of the purchase warrants included in the units was estimated using a valuation model based on the following assumptions: market value of \$0.085 per share, dividend yield of 0%, volatility of 110.46%, risk free interest rate of 0.95% and an expected life of thirty months. As a result, the fair value of the purchase warrants was estimated at \$322,180.

Finders' fees totalling \$75,000 in cash and 750,000 compensation units were paid to one qualified party in relation to this placement. Each compensation unit was comprised of one non flow-through common share purchase warrant exercisable at a price of \$0.12 per warrant to acquire one common share for a period of 30 months.



**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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The fair value of the warrant portion of the agents' compensation units was estimated using a valuation model based on the following assumptions: market value of \$0.085 per share, dividend yield of 0%, volatility of 110.46%, risk free interest rate of 0.95% and an expected life of thirty months. As a result, the fair value of the purchase warrants was estimated at \$35,250.

- (iii) On August 29, 2011, the Company issued 21,000,000 common shares and 21,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.15 on or before August 29, 2016) to DDI in exchange for 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.40 on or before August 29, 2016) in DDI. The warrants were valued at \$1,638,000 using a valuation model based on the following assumptions: market value of \$0.085 per share, dividend yield of 0%, volatility of 163%, risk free interest rate of 1.65% and an expected life of 5 years.
- (iv) On February 24, 2011, the Company issued 4,000,000 treasury units valued at \$0.10 per unit in satisfaction of a debt owing in the amount of \$400,000. This debt related to the purchase of a 1% NSR (Note 8(g)). Each unit consists of one common share and 1 purchase warrant which entitles the holder to purchase one common share at a price of \$0.15 for a period of two years.

The fair value of the purchase warrants included in the units was estimated using a valuations model based on the following assumptions: market value of \$0.12 per share, dividend yield of 0%, volatility of 165.43%, risk free interest rate of 1.35% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at \$187,234 after a pro-rata allocation of the fair value of the units' components.

- (v) On January 31, 2011, the Company completed the final tranche of a non-brokered private placement of 9,120,000 "flow-through" shares for a total cash consideration of \$1,185,600. These shares were issued for \$0.13 each. The Company allocated proceeds of \$20,915 to the flow-through premium.
- (vi) On October 5, 2011, the Company's Board of Directors authorized the purchase of up to 31,900,000 of its common shares by way of normal course purchases on the TSX Venture Exchange. This represented 5% of the common shares outstanding at the time. The cap on these purchases is \$500,000 and the purchases will terminate within one year from the date of commencement. On August 22, 2012 the Company's Board of Directors authorized an increase in this cap to \$700,000. To December 31, 2011 the Company had purchased and cancelled 4,055,000 shares under this plan for a total consideration of \$292,669. During the first three quarters of 2012, the Company purchased a further 3,974,000 shares for a total consideration of \$242,937. These shares have also been cancelled.

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements  
September 30, 2012 and 2011 (unaudited) (in Canadian dollars)****13 WARRANTS AND COMPENSATION OPTIONS**

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

Issued	Nine months ended September 30, 2012		Year ended December 31, 2011	
	Warrants	Compensation options	Warrants	Compensation Options
Balance – Beginning of period	196,448,893	750,000	165,365,162	-
Issued for mineral property interests (note 12(i))	3,000,000	-	-	-
Issued as part of private placement of units (note 12(ii))	-	-	8,750,000	-
Issued in exchange for marketable securities (note 12(iii))	-	-	21,000,000	-
Issued for settlement of debt re acquisition of mining assets (note 12(iv))	-	-	4,000,000	-
Issued for agents' compensation (note 12(ii))	-	-	-	750,000
Exercised *	-	-	(250,000)	-
Expired	(52,973,673)	-	(2,416,269)	-
<b>Balance – End of period</b>	<b>146,475,220</b>	<b>750,000</b>	<b>196,448,893</b>	<b>750,000</b>

\* Exercise price was \$0.10 at date of exercise with a market share price of \$0.13.

Outstanding common share purchase warrants and compensation options entitle their holders to subscribe for an equivalent number of common shares.

A summary of the Company's outstanding warrants and compensation options as at September 30, 2012 is presented below:

Number of warrants	Number of compensation options	Exercise price	Expiry date
21,911,540	-	0.10	October 2012
8,697,500	-	0.12	October 2012
4,135,000	-	0.15	December 2012
7,062,326	-	0.18	December 2012
4,000,000	-	0.15	February 2013
17,208,015	-	0.10 U.S.	March 2014
9,310,839	-	0.10 U.S.	April 2014
8,750,000	750,000	0.12	June 2014
15,000,000	-	0.10	July 2014
26,400,000	-	0.10	August 2014
21,000,000	-	0.15	August 2016
3,000,000	-	0.12	March 2017
<b>146,475,220</b>	<b>750,000</b>	<b>0.1112</b>	

**14 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 in such numbers, for such terms and at such exercise prices as may be determined by the Board, provided that the exercise price may not be lower than the market price of the common shares at the time of the grant of the options.

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements  
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The Plan provides (i) that the maximum number of common shares that may be reserved for issuance under the Plan shall be equal to 10% of the number of issued and outstanding common shares; (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant; and (iii) that the maximum number of common shares that may be reserved for issuance to insiders of the Company is limited to 10% of the common shares outstanding at the time of the grant.

Options vest over an 18-month period: 25% at the date of the grant and 12.5% in each of the following six quarters. 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:

**Options**

	Nine months ended September 30, 2012		Year ended December 31, 2011	
	Number of shares	Average exercise price	Number of shares	Average exercise price
Balance – Beginning of period	60,593,200	0.114	58,343,200	0.114
Granted	7,100,000	0.10	4,300,000	0.112
Exercised	-	-	(50,000)	0.10
Cancelled or expired	(4,510,000)	-	(2,000,000)	0.10
<b>Balance – End of period</b>	<b>63,183,200</b>	<b>0.114</b>	<b>60,593,200</b>	<b>0.114</b>

The following table summarizes information about options outstanding and exercisable as at September 30, 2012:

Exercise price	Number of options	Outstanding options	Exercisable options
		Average contractual life (in years)	
0.10	27,728,200	3.29	23,878,200
0.115	3,500,000	3.48	3,500,000
0.12	5,410,000	0.16	5,410,000
0.125	24,545,000	2.60	24,545,000
0.14	1,500,000	2.75	1,500,000
0.15	500,000	0.06	500,000
<b>0.114</b>	<b>63,183,200</b>	<b>2.69</b>	<b>59,333,200</b>

Total stock compensation costs for the nine months ended September 30, 2012 amounted to \$459,699 (2011 – \$748,928).

**KWG RESOURCES INC.****Notes to the Condensed Interim Consolidated Financial Statements  
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The fair value of the options granted in 2012 and 2011 was estimated using a valuation model based on the following assumptions:

	Mar 2012	Nov 2011	Mar 2011
Average dividend per share	Nil	Nil	Nil
Estimated volatility	159.30%	161.36%	164.85%
Risk-free interest rate	1.63%	1.46%	1.3%
Expected life of the options granted	5 years	5 years	5 years
Estimated fair value of each option granted	\$0.064	\$0.079	\$0.108

**15 GENERAL AND ADMINISTRATIVE EXPENSES**

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

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2012	2011	2012	2011
Advertising and promotion	4,942	78,405	13,765	102,231
Consultants' fees	70,686	62,668	317,939	255,223
Directors' fees and insurance	37,809	65,689	95,373	103,854
Filing fees	2,540	8,525	35,798	49,511
Investor relations fees	25,487	11,599	186,052	30,484
Professional fees	148,713	72,409	543,068	239,123
Office overheads	68,306	57,336	201,683	184,463
Salaries and benefits	252,441	181,343	773,836	591,445
Travel and accommodation	35,633	16,852	88,678	62,325
Administrative recovery (Note 17)	(122,579)	(23,400)	(328,387)	(112,398)
	523,978	531,426	1,927,805	1,506,261

**16 FINANCE INCOME / (EXPENSE)**

	Three-month periods ended September 30		Nine-month periods ended September 30	
	2012	2011	2012	2011
Interest income	36,891	15,827	122,349	30,492
Net change in financial assets at FVTPL	1,187,300	-	(524,148)	-
Premium on flow-through spending	747	984	175,784	7,945
Finance income / (expense)	1,224,938	16,811	(226,015)	38,437

**17 RELATED PARTY TRANSACTIONS**

The Company defines its officers (CEO, CFO and Corporate Secretary) and directors as Key Management Personnel ("KMP"). During the first three quarters of 2012, officers and companies controlled by officers charged consulting fees totalling \$170,765 (2011 - \$144,358) of which \$17,213 remained payable at September 30, 2012 (2011 - \$nil). Directors' fees paid in the first three quarters totalled \$70,125 (2011 - \$94,000) and a certain director also received salaries and bonuses in the amount of \$328,692 in his capacity as an officer of the Company

## **KWG RESOURCES INC.**

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

#### **September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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(2011 - \$184,615). KMP received 7,100,000 stock options during the first three quarters of 2012 (2011 - 1,500,000). In the first three quarters of 2012 stock compensation expenses totalled \$356,013 for KMP (2011 - \$820,142). KMP and parties related to them owned 6,100,000 partnership units in the Temagami Iron Limited Partnership (Note 8(vi)) as of September 30, 2012.

#### **Debut Diamonds Inc.**

The Company shares management, administrative assistance and facilities and other technical personnel with DDI. This is not covered by a written agreement. The costs charged to DDI are equal to the costs incurred by the Company. During the first three quarters of 2012, the Company charged DDI for overhead and personnel charges in the amount of \$183,993 (2011 - \$nil) and for project costs in the amount of \$144,394 (2011 - \$nil). As at September 30, 2012 DDI owed the Company \$966,047 (\$783,772 as at December 31, 2011).

## **18 COMMITMENTS AND CONTINGENCIES**

- (i) Pursuant to flow-through financing agreements closed during the year ended December 31, 2011 the Company must incur \$497,753 in exploration expenses by December 31, 2012.

The Company has incurred approximately \$8 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 the 2011 audited consolidated financial statements, there is always a risk that some or all of these claims may be disallowed. No provision has been made for potential cost to the Company, if any, of such disallowance. 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.

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

- (ii) The Company has signed an operating lease for its premises located at 141 Adelaide St. W., Suite 420, Toronto, On, M5H 3L5. The lease is a net net lease with a term of five years commencing on August 1, 2012. Monthly minimum rental payments are \$5,326 for October 1, 2012 through July 31, 2014 and \$5,568 for August 1, 2014 through July 31, 2017. There are no payments due for August and September 2012. The Company is also responsible for its proportionate share of the operating costs in relation to this space. In addition to waiving the first two months rental payments, the landlord reimbursed the Company for the amount of \$28,002 in relation to leasehold improvements and moving costs. The total amount of these inducements will be amortized over the life of the lease.

## **19 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.

## **KWG RESOURCES INC.**

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

#### **September 30, 2012 and 2011 (unaudited) (in Canadian dollars)**

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A complete description of the Company's financial risk management is included in Note 24 to the 2011 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.

#### **20 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 2011 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.

#### **21 CAPITAL MANAGEMENT DISCLOSURES**

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$44,778,620 at September 30, 2012 and \$46,506,821 at December 31, 2011.

The Company manages its capital structure and makes adjustments to it based on the level of funds available to the Company to manage its operations. In order to maintain or adjust the capital structure, the Company expects that it will be able to obtain equity, long-term debt, equipment-based financing and/or project-based financing sufficient to maintain and expand its operations. There are no assurances that these initiatives will be successful. In order to achieve these objectives, the Company invests its unexpended cash in highly-liquid, rated financial instruments. There were no changes in the Company's approach to capital management during the first three quarters of 2012. The Company is not subject to externally imposed capital requirements.

#### **22 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 in mineral exploration in Canada. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

#### **23 SUBSEQUENT EVENTS**

On October 22, 2012 the Company announced that its Board of Directors had authorized a further purchase of up to 33.5 million of its common shares by way of normal course purchases on the TSX Venture Exchange ("TSXV"). To the date of these financial statements the Company had repurchased 138,000 shares for total cash consideration of \$7,799. The cap on these purchases is \$162,000 and the purchases will terminate within one year from the date of commencement.