KWG RESOURCES INC.

Condensed Interim Consolidated Financial Statements

Three-month periods ended March 31, 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.

RENÉ GALIPEAU, Director

THOMAS E. MASTERS, Chief Financial Officer

Montreal, Quebec
May 29, 2012

KWG RESOURCES INC.
(An exploration stage company)
Condensed Interim Consolidated Balance Sheets
(unaudited)

(in Canadian dollars)	Notes	As at March 31, 2012	As at December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	4	13,539,716	16,030,551
Receivables	5	1,155,576	1,072,320
Marketable securities	6	1,649,681	3,074,298
Prepaid expenses		26,094	31,058
Total current assets		**16,371,067**	**20,208,227**
Non-current assets			
Property and equipment	7	67,404	65,837
Mineral property interests	8	30,069,885	28,442,269
Total non-current assets		**30,137,289**	**28,508,106**
Total assets		**46,508,356**	**48,716,333**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	420,850	1,112,928
Total current liabilities		**420,850**	**1,112,928**
Non-current liabilities			
Warrant liability	10	698,801	1,096,584
Total non-current liabilities		**698,801**	**1,096,584**
Total liabilities		**1,119,651**	**2,209,512**
Equity attributable to the owners of the parent company			
Share capital	12	21,502,275	21,308,113
Warrants	13	6,282,865	7,431,617
Contributed surplus		8,719,219	7,091,101
Accumulated other comprehensive income		70,715	283,674
Retained earnings		8,813,631	10,392,316
Total equity		**45,388,705**	**46,506,821**
Total liabilities and equity		**46,508,356**	**48,716,333**

Nature of operations and going concern (Note 1)
Commitments (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

René Galipeau
Director

Frank Smeenk
Director

KWG RESOURCES INC.
(An exploration stage company)
Condensed Interim Consolidated Statements of Operations and Statements of Comprehensive Loss
(unaudited)

(in Canadian dollars)	Notes	Three-month periods ended March 31 2012	2011
General and administrative	15	(652,494)	(400,475)
Amortization of property and equipment	7	(5,274)	(6,861)
Stock compensation costs	14	(303,128)	(419,825)
Gain (loss) on foreign exchange		(792)	2,072
Operating loss		**(961,688)**	**(825,089)**
Other income (expenses)			
Finance income (expense)	16	(1,015,561)	10,670
Other income		781	781
Gain (loss) on revaluation of warrant liability	10	397,783	(221,462)
		(616,997)	**(210,011)**
Loss from continuing operations		**(1,578,685)**	**(1,035,100)**
Loss from discontinued operations	2	**-**	**(4,836)**
Net loss for the period		**(1,578,685)**	**(1,039,936)**
Net loss attributable to non-controlling interest	11	**-**	**154**
Net loss attributable to equity holders of KWG Resources Inc.		**(1,578,685)**	**(1,039,782)**
Loss per share (basic and diluted)		**(0.00)**	**(0.00)**
Weighted average number of outstanding shares		**672,142,018**	**631,203,163**

Condensed Interim Consolidated Statements of Comprehensive Loss

(in Canadian dollars)	Notes	Three-month periods ended March 31 2012	2011
Net loss for the period		(1,578,685)	(1,039,936)
Other comprehensive Income (“OCI”)			
Net change in fair value of available for sale (“AFS”) assets	6	(212,959)	51,784
Total comprehensive loss for the period		**(1,791,644)**	**(988,152)**
Portion attributable to non-controlling interest	11	-	154
Total comprehensive loss attributable to equity holders of KWG Resources Inc.		**(1,791,644)**	**(987,998)**

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

KWG RESOURCES INC.
(An exploration stage company)
Condensed Interim Consolidated Statements of Changes in Equity
(unaudited)

(in Canadian dollars)	Notes	Share capital	Warrants	Contributed Surplus	Accumulated Other Comprehesive Income	Retained earnings (Deficit)	Non-controlling Interest	Total
Balance, January 1, 2011		**28,685,901**	**5,316,679**	**5,895,585**	**15,238**	**(8,735,274)**	**61,186**	**31,239,315**
Net loss for the period		-	-	-	-	(1,039,782)	(154)	(1,039,936)
Other comprehensive loss for the period		-	-	-	51,784	-	-	(212,959)
Total comprehensive loss for the period		**-**	**-**	**-**	**51,784**	**(1,039,782)**	**(154)**	**(988,152)**
Private placements, net of share issuance costs	12	1,126,024	-	-	-	-	-	1,126,024
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	-	-	419,825	-	-	-	419,825
Balance, March 31, 2011		**30,064,026**	**5,497,428**	**6,312,560**	**67,022**	**(9,775,056)**	**61,032**	**32,227,012**
Net income (loss) for the period		-	-	-	-	13,046,457	(250,089)	12,796,368
Other comprehensive loss for the period		-	-	-	216,652	-	-	216,652
Total comprehensive loss for the period		**-**	**-**	**-**	**216,652**	**13,046,457**	**(250,089)**	**13,013,020**
Private placements, net of share issuance costs	12	1,087,753	336,756	-	-	-	-	1,424,509
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	-	-	737,974	-	-	763,125	1,501,099
Normal course issuer bid	12	(500,000)	-	-	-	-	-	(500,000)
Non-controlling interest in Debut Diamonds Inc.	11	334,614	-	-	-	-	1,906,464	2,241,078
Distribution of Debut Diamonds Inc shares	2	(11,463,280)	-	-	-	7,120,915	(2,480,532)	(6,822,897)
Balance, December 31, 2011		**21,308,113**	**7,431,617**	**7,091,101**	**283,674**	**10,392,316**	**-**	**46,506,821**
Net loss for the period		-	-	-	-	(1,578,685)	-	1,578,685
Other comprehensive loss for the period		-	-	-	(212,959)	-	-	(212,959)
Total comprehensive loss for the period		**-**	**-**	**-**	**(212,959)**	**(1,578,685)**	**-**	**(1,791,644)**
Issued for mineral property interests	8	194,162	176,238	-	-	-	-	370,400
Expired warrants	13	-	(1,324,990)	1,324,990	-	-	-	-
Stock based compensation	14	-	-	303,128	-	-	-	303,128
Balance, March 31, 2012		**21,502,275**	**6,282,865**	**8,719,219**	**70,715**	**8,813,631**	**-**	**45,388,705**

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

KWG RESOURCES INC.
(An exploration stage company)
Condensed Interim Consolidated Statements of Cash Flows
(unaudited)

(in Canadian dollars)	Notes	Three-month periods ended March 31 2011	2010
Cash flows from operating activities			
Net loss for the period		(1,578,685)	(1,039,936)
Adjustments for			
Amortization of property and equipment	7	5,274	6,861
Stock based compensation costs	14	303,128	419,825
Fair value changes in financial assets classified as fair value through profit & loss ("FVTPL")	6	1,235,148	-
Amortization of flow-through premium	16	(175,036)	-
Gain (loss) on revaluation of warrant liability	10	(397,783)	221,462
Net change in non-cash working capital balances		(278,416)	(54,517)
Net cash used by operating activities		**(886,370)**	**(446,305)**
Cash flows from financing activities			
Share capital issued	12	-	1,215,600
Warrants and compensation options issued	13	-	-
Share and warrant issue expenses		(1,600)	(38,661)
Shares repurchased through normal course issuer bid	12	(31,775)	-
Net cash provided by financing activities		**(33,375)**	**1,176,939**
Cash flows from investing activities			
Expenditures on exploration and evaluation projects	8	(1,530,962)	(337,311)
Purchases of property and equipment	7	(6,841)	(2,113)
Proceeds from disposal of property and equipment	7	-	400
Purchase of marketable securities	6	(23,490)	-
Increase in advances to related company	17	(9,797)	-
Net cash used by investing activities		**(1,571,090)**	**(339,024)**
Net change in cash and cash equivalents during the period		**(2,490,835)**	**391,610**
Cash and cash equivalents – Beginning of the period		16,030,551	3,261,057
Cash and cash equivalents – End of the period		**13,539,716**	**3,652,667**
Change in non-cash working capital balances comprises:			
Receivables		(73,459)	(208,233)
Prepaid expenses		4,964	13,635
Trade and other payables		(209,921)	140,081
Net change in non-cash working capital balances		**(278,416)**	**(54,517)**
Additional information - non-cash transactions			
Issuance of shares/warrants for exploration and evaluation projects	8	372,000	-
Expired warrants included in contributed surplus	13	1,324,990	-
Additions to exploration and evaluation projects included in accounts payable	9	49,987	563,990

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

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 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 three months ended March 31, 2012, the Company incurred a loss of $1,578,685 (2011 - $1,039,782). Cash and cash equivalents as at March 31, 2012 amounted to $13,539,716 ($16,030,551 as at December 31, 2011). Trade and other payables that will be settled in cash as at March 31, 2012 amounted to $350,231 ($867,273 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 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 International Financial Reporting Standards ("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 May 29, 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.

(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.

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:

Critical Judgements

(i) Measurement of the recoverable amount of exploration and evaluation projects;
(ii) Qualifying Canadian exploration expenditures for purposes of renouncing these to flow-through shareholders;
(iii) The fair value of share-based payments, including stock based compensation and warrants;
(iv) Determination that the Company does not have significant influence over GoldTrain Resources Inc.

Critical Estimates

(i) The estimated useful life and property and equipment;
(ii) The valuation of the distribution of DDI;
(iii) The valuation of financial assets at fair value through operations; and
(iv) The valuation of financial assets at fair value through OCI.

(unaudited) (in Canadian dollars)

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 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 March 31, 2012	As at December 31, 2011
Bank balances	264,823	2,065,186
Short-term deposits	13,274,893	13,965,365
Cash and cash equivalents	**13,539,716**	**16,030,551**

5 RECEIVABLES

	As at March 31, 2012	As at December 31, 2011
Trade receivables	-	22,374
Sales taxes receivable	188,594	210,607
Due from Debut Diamonds Inc	793,569	783,772
Other receivables	173,413	55,567
Receivables	**1,155,576**	**1,072,320**

(unaudited) (in Canadian dollars)

6 MARKETABLE SECURITIES

	As at March 31, 2012	As at December 31, 2011
AFS:		
GoldTrain Resources Inc. ("GoldTrain") (i)		
7,270,000 common shares	472,550	472,550
Eloro Resources Ltd. ("Eloro") (ii)		
3,080,580 common shares	215,641	415,900
Debut Diamonds Inc. (iii)		
166,000 common shares	10,790	-
Total AFS	**698,981**	**888,450**
Financial assets at FVTPL:		
GoldTrain Resources Inc. (i)		
7,000,000 warrants	175,000	196,000
Eloro Resources Ltd. (ii)		
3,080,580 premium warrants	101,700	123,186
1,540,290 regular warrants	21,600	45,062
Debut Diamonds Inc. (iii)		
9,702,666 warrants exercisable at $0.10	281,400	960,600
7,000,000 warrants exercisable at $0.40	371,000	861,000
Total fair value of financial assets at FVTPL	**950,700**	**2,185,848**
Marketable securities	**1,649,681**	**3,074,298**

(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 warrants. The Company realized a gain on the disposal of the Strike Mineral Inc. shares in the amount of $153,000. 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 Eloro 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 Eloro 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 Eloro providing written notice, or they will be cancelled.

(unaudited) (in Canadian dollars)

(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.

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 $1,235,148 during the first quarter of 2012.

The following table summaries the inputs that were used to calculate the fair value of the warrants as at March 31, 2012:

	GoldTrain	**Eloro Premium**	**Eloro Regular**	**DDI $0.10**	**DDI $0.40**
Average dividend per share	Nil	Nil	Nil	Nil	Nil
Estimated volatility	120.00%	120.00%	120.00%	150.00%	130.00%
Risk-free interest rate	1.19%	1.57%	1.19%	1.47%	1.19%
Expected life of the options granted	435 days	1,712 days	434 days	1,611 days	290 days
Calculated value per warrant	$0.025	$0.033	$0.014	$0.053	$0.029

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 $70,000, 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 market price of the common shares at the reporting date would have been $95,000.

(unaudited) (in Canadian dollars)

7 PROPERTY AND EQUIPMENT

	Automobiles	Computer Equipment	Office Equipment	Totals
Balance, January 1, 2011				
Cost	37,550	18,939	22,000	78,489
Accumulated amortization	(15,543)	(11,047)	(3,667)	(30,257)
Net book value	**22,007**	**7,892**	**18,333**	**48,232**
Additions	41,140	5,741	875	47,756
Amortization	(15,945)	(9,777)	(4,429)	(30,151)
Balance, December 31, 2011				
Cost	78,690	24,680	22,875	126,245
Accumulated amortization	(31,488)	(20,824)	(8,096)	(60,408)
Net book value	**47,202**	**3,856**	**14,779**	**65,837**
Additions	-	3,229	3,612	6,841
Amortization	(3,129)	(881)	(1,264)	(5,274)
Balance, March 31, 2012				
Cost	78,690	27,909	26,487	133,086
Accumulated amortization	(34,617)	(21,705)	(9,360)	(65,682)
Net book value	**44,073**	**6,204**	**17,127**	**67,404**

(unaudited) (in Canadian dollars)

8 MINERAL PROPERTY INTERESTS

Cumulative 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 (i)(ii)(iii)	2,516,896	(6,866)	-	(2,484,898)	25,132
Spider No. 3 / McFaulds Lake (i)	4,189,695	-	-	-	4,189,695
Wawa (i)(ii)	156,944	-	-	(156,944)	-
Big Daddy (i)(iv)	6,454,391	2,358,726	-	-	8,813,117
Diagnos (i)(ii)	189,120	-	-	(11,106)	178,014
Pele Mountain (i)(ii)	556,878	85,905	-	(642,783)	-
Uniform Surround (ii)	7,950	15,835	-	(23,785)	-
East West option (v)	202,123	-	(202,123)	-	-
Railroute Corridor (vi)	14,313,571	999,277	-	(76,537)	15,236,311
Smelter Royalty (vii)	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 March 31, 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	1,246,922	-	-	10,060,039
Diagnos (i)(ii)	178,014	-	-	-	178,014
Railroute Corridor (vi)	15,236,311	380,694	-		15,617,005
	28,442,269	1,627,616	-	-	30,069,885

(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.

(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. DDI'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 now 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) On July 23, 2008, the Company acquired an option to earn a 65% interest in a group of claims held by Rainy Mountain Royalty Corp. (formerly East West Resources Corporation). The Company issued 2,000,000 shares at a price of $0.034 per share and paid $50,000 for the option for a total of $118,000. The Company was required to incur exploration expenditures of $250,000 in each of 2008 and 2009 and an additional $1,000,000 by August 2012 to earn 60%. An additional 5% may be earned in any mineral deposit discovered by the Company providing development and production financing. The Company has not incurred any expenditures on these claims since 2009 and, as a result of deciding not to perform any further work on this property, the Company wrote off the balance in 2011.

(vi) 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 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.

(vii) On July 22, 2009, the Company completed the purchase of a 1% NSR in the Black Thor, Black Label and Big Daddy chrome discoveries in the James Bay lowlands for cash consideration of $1,635,000 including $635,000 payable at the closing of the transaction and a further $1 million payable within one year, and the issuance of 15 million common shares and 15 million common share purchase warrants, with each share purchase warrant entitling the holder to purchase a common share at a price of 10 cents for a period of five years. The common shares have been valued at $600,000 and the warrants at $370,000 making the total cost of the purchase $2,605,000. Additional ancillary costs of $27,587 were also incurred and these have been capitalized. Under the original terms of the purchase the remaining purchase price of $1,000,000 was to be paid in July 2010. An agreement was reached with the vendor prior to the required payment date whereby $950,000 of this amount was deferred to October 2010. In October 2010 a further agreement was reached whereby the amount owing would be paid out as follows: $50,000 in October 2010, $450,000 in December 2010 and $450,000 in February 2011. The balance owing was increased by a $50,000 financing fee which was also due in February 2011. A final agreement was negotiated on February 24, 2011 for the remaining payment owing of $500,000. The Company paid $100,000 in cash ($50,000 in February 2011 and $50,000 in March 2011) and, in satisfaction of the remaining $400,000, KWG issued 4,000,000 treasury units (Note 12(iv)) to complete the transaction. Each unit was valued at $0.10 and is comprised of one treasury share and one purchase warrant enabling its holder to acquire one further treasury share at any time within two years upon payment of $0.15. Additional financing payments of $20,000 were paid during the first six months of 2011 due to timing delays in issuing these shares. All financing payments have been capitalized in accordance with the Company's reporting policies.

On August 4, 2011, the Company completed the sale of this 1% NSR for total proceeds of US$18 million. Half of the purchase price was paid in cash and the remaining 50% was received by an escrow agent to be held in escrow for a period not to exceed three months and was to be paid to KWG upon confirmation of warranties made to the purchaser in connection with the transaction. The amount held in escrow was received on November 3, 2011. The sale of the NSR was effected by way of the sale of shares of 7207565 Canada Inc., the KWG subsidiary that held the royalty. KWG realized a gain of $14,056,530 on this transaction.

(viii) On December 21, 2011, the Company sold 11 claims in the Louvicourt Township to Eloro for consideration consisting of 3,080,580 common shares, 3,080,580 premium warrants and 1,540,290 regular warrants of Eloro (Note 6). Prior to the sale, KWG had transferred these claims in Louvicourt Township and $200,000 in cash into 6949541 Canada Inc and the transaction was accomplished through the sale of the shares of 6949541 Canada Inc. These claims had been written off by the Company a number of years ago. KWG realized a gain in the amount of $202,585 on this sale.

(ix) As a result of the distribution of the DDI shares in December 2011, the Company divested itself of the following mineral property interests:

Property Description	Amount
Spider No. 1 / MacFadyen and Kyle	2,484,898
Wawa	156,944
Diagnos	11,106
Pele Mountain	642,783
Uniform Surround	23,785
Railway infrastructure	76,537
Victor West	197,997
Nakina project	570,855
	4,164,905

9 TRADE AND OTHER PAYABLES

	Notes	**March 31, 2012**	**December 31, 2011**
Trade payables			
Exploration and evaluation projects		49,987	325,428
Non-project related		68,783	147,493
Accrued liabilities			
Non-project related		55,905	187,020
Flow-through premium liability		70,619	245,656
Share repurchase liability (re Normal Course Issuer Bid)	12	175,556	207,331
		420,850	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 $397,783 was recognized in the three months ended March 31, 2012 (2011 - loss of $221,462). The fair value of these warrants was estimated using a valuation model based on the following assumptions:

	Mar 31, 2012	**Dec 31, 2011**
U.S. exchange rate	1.0170	1.0170
Market price of shares	$0.07	$0.085
Average dividend per share	Nil	Nil
Estimated volatility	88.84%	94.37%
Risk-free interest rate	1.19%	0.95%
Expected life of the warrants	24 months	27 months

(unaudited) (in Canadian dollars)

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. The original investment, valued at $70,000, was in the form of services rendered in relation to one of the Company's mineral properties and was accordingly recorded as an increase to the cost of this property. During 2011, prior to the distribution of DDI shares by KWG, DDI received additional equity in the amount of $2,241,078, after deducting share issuance costs from non-related third party investors. Non-controlling interests' share of DDI expenses are reflected in the condensed interim consolidated statement of operations and are 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.

12 SHARE CAPITAL

Authorized

An unlimited number of no par value common shares

Issued

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

	Three months ended March 31, 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)	(432,000)	(4,055,000)
Balance – End of period	**673,891,941**	**671,323,941**

(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.

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-percent 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.

(unaudited) (in Canadian dollars)

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 estimated cap on these purchases is $500,000 and the purchases will terminate within one year from the date of commencement. 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 quarter of 2012, the Company purchased a further 432,000 shares for a total consideration of $31,776. These shares have also been cancelled.

13 WARRANTS AND COMPENSATION OPTIONS

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

	Three months ended March 31, 2012		Year ended December 31, 2011	
Issued	**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	(19,545,000)	-	(2,416,269)	-
Balance – End of period	**179,903,893**	**750,000**	**196,448,893**	**750,000**

* 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.

(unaudited) (in Canadian dollars)

A summary of the Company's outstanding warrants and compensation options as at March 31, 2012 is presented below:

Number of warrants	Number of compensation options	Exercise price	Expiry date
24,928,673	-	0.15	April 2012
200,000	-	0.10	May 2012
1,300,000	-	0.10	June 2012
1,000,000	-	0.10	July 2012
1,000,000	-	0.10	August 2012
5,000,000	-	0.10	September 2012
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
179,903,893	**750,000**	**0.12**	

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.

As at March 31, 2012, 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.

(unaudited) (in Canadian dollars)

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

Options

	Three months ended March 31, 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	-	-	(2,000,000)	0.10
Balance – End of period	**67,693,200**	**0.113**	**60,593,200**	**0.114**

The following table summarizes information about options outstanding and exercisable as at March 31, 2012:

		Outstanding options	Exercisable options
Exercise price	**Number of options**	**Average contractual life (in years)**	
0.10	32,288,200	3.01	25,088,200
0.115	3,500,000	3.98	2,625,000
0.12	5,410,000	0.66	5,410,000
0.125	24,545,000	3.10	24,545,000
0.14	1,500,000	3.25	1,500,000
0.15	500,000	0.81	500,000
0.113	**67,743,200**	**2.86**	**59,668,200**

Total stock compensation costs for the three months ended March 31, 2012 amounted to $303,128 (2011 – $419,825).

(unaudited) (in Canadian dollars)

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
Weighted average of 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 months ending March 31	2012	2011
Advertising and promotion	2,333	10,115
Consultants' fees	115,064	58,935
Directors' fees and insurance	19,341	18,562
Filing fees	16,248	31,521
Investor relations fees	146,537	8,930
Professional fees	116,896	59,913
Office overheads	64,804	59,937
Salaries and benefits	270,399	196,520
Travel and accommodation	16,721	18,472
Administrative recovery	(115,849)	(62,430)
	652,494	400,475

16 FINANCE INCOME / (EXPENSE)

Three months ended March 31	2012	2011
Interest income	44,551	10,670
Net change in financial assets at FVTPL	(1,235,148)	-
Premium on flow-through spending	175,036	-
Finance income / (expense)	(1,015,561)	10,670

17 RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and Corporate Secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2012, officers and companies controlled by officers charged consulting fees totalling $73,303 (2011 - $51,561) of which $32,384 remained payable at March 31, 2012 (2011 - $21,945). Directors' fees paid in the first quarter totalled $18,000 (2011 - $18,000) and certain directors also received salaries and bonuses in the amount of $178,692 (2011 - $64,615). KMP received 7,100,000 stock options in the first quarter of 2012 (2011 - 1,500,000). In the first quarter of 2012 stock compensation expenses totalled $222,163 for KMP (2011 - $276,558).

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 quarter of 2012, the Company charged DDI for overhead and personnel charges in the amount of $61,331 (2011 - $nil) and for project costs in the amount of $54,518 (2011 - $nil).

18 COMMITMENTS AND CONTINGENCIES

Pursuant to flow-through financing agreements closed during the year ended December 31, 2011 the Company must incur $503,078 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.

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.

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 $45,388,705 at March 31, 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 quarter 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

(i) Subsequent to the end of March the Company repurchased a further 2,473,000 shares under the normal course issuer bid share repurchase plan (Note 12(vi)) for a total cash consideration of $154,064.

(ii) On May 22, 2012 the Company was informed that it had expended the required amount to increase its ownership interest in the Big Daddy project to 30% (Note 8(iv)).