KWG RESOURCES INC.

(An exploration stage company)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2010

This management's discussion and analysis (the "MD&A") is a complement and supplement to the annual and quarterly financial statements of KWG Resources Inc., ("KWG" or the "Company"), and should be read in conjunction with those statements. It represents the view of management on current activities and past and current financial results of the Company, as well as an outlook of the activities of the coming months.

DATE

This MD&A for the period ended December 31, 2010 is dated May 2, 2011.

FORWARD LOOKING INFORMATION

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation: the economic potential of the Project (as defined below); the proposed construction of a rail line; the continued maintenance, exploration and the development of the Company's properties and the costs related thereto, as well as the Company's expectation of periodically requiring additional funds therefore; exploration, development and operational plans, objectives and budgets; the expected strategic importance and value of the Company's mineral property interests outside of the Project, including expectations regarding the Company's participation in the development of the McFaulds Lake properties; expectations regarding the consultation, assessment and construction of a railroad, including the costs and timing associated therewith; mineral resource estimates; potential mineral resources; the Company's plans with respect to the distribution of the DDI (as defined below) common shares as a divided in kind to the Company's shareholders; plans with respect to the use of private placement proceeds; estimates relating to critical accounting policies; the Company's plans with respect to the conversion to IFRS, including the Company's expected timing for completing the phases of its plan and the development of an effective plan; the continuation of assessments relating to the impact of IFRS on, amongst other things, the Company and its reporting; the Company's plans for adopting and/or implementing changes to accounting policies and the impact of same on the Company's financial statements; the Company's expectations with respect to pursuing new opportunities and acquisitions and its future growth; estimated operating expenses; and the Company's ability to raise new funding.

The forward-looking information in this MD&A reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward looking information contained in this MD&A, the Company has made assumptions regarding, among other things, the Company's ability to successfully generate sufficient funds from capital markets to meet its future obligations as and when required, the quality and grade of mineralization at the Project, the effectiveness of the Company's design relating to the implementation of IFRS, assumptions relating to the Company's critical accounting policies, the Company's business, the economy and the mineral exploration industry in general, the Company's ability to obtain, maintain, renew and/or extend required permits, licences, authorizations and/or approvals from the appropriate regulatory authorities, the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand, and assumptions that no unusual geological or technical problems occur, plant and equipment work as anticipated, that the Company's railway project will be economic, no material adverse change in the price of chromite and diamonds occurs and no significant events occur outside of the Company's normal course of business. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: demand for ferrochrome by global integrated steel producers; the impact of consolidation and rationalization in the steel industry; the grade and recovery of ore varying from estimates; delays in, or the failure to, develop the projects of the Company caused by unavailability of equipment; labour or supplies, weather and climatic conditions, labour disputes, financing or other factors; risks normally incidental to exploration and development of mineral properties; uncertainties in the interpretation of drill results; the possibility that future exploration, development or mining results will not be consistent with expectations; uncertainty of mineral resources estimates; the Company's inability to obtain, maintain, renew and/or extend required licences, permits, authorizations and/or approvals from the appropriate regulatory authorities and other risks relating to the applicable regulatory framework; the Company's inability to maintain its title to its assets; capital and operating costs varying significantly from estimates; the Company's inability to participate in and/or develop the Company's property interests outside of the Project; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the inability of the Company to obtain required financing; the Company's inability to declare and/or pay a dividend on its Common Shares as proposed in the MD&A, or at all; adverse general market conditions; the Company's inability to delineate additional mineral resources and delineate mineral reserves; operating hazards and risks, management and control; environmental risks; adverse land claims; future unforeseen liabilities and other factors including, but not limited to, those listed under "Risk Factors" in this MD&A.

Any mineral resource figures referred to in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the mineral resource estimates in respect of its properties are well established, by their nature mineral resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such mineral resource estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

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

COMPANY OVERVIEW

KWG Resources Inc. ("KWG") is a mineral resource exploration company that is participating in the development of new chromite discoveries in the *Ring of Fire* area of the James Bay Lowlands of Northern Ontario, where deposits of nickel and chromite were discovered in late 2007 and through 2008.

KWG was incorporated in 1937 in Montreal, Canada where its registered office continues to be located, while its executive office is now in Toronto and its exploration office is presently in Thunder Bay. KWG had been active in the search for diamonds in the James Bay Lowlands since 1993 in a joint venture ("the K-S JV") with Spider Resources Inc. ("Spider"). In 2002 a discovery of copper and zinc was made near McFaulds Lake on claims optioned by the K-S JV to De Beers Canada Inc. some 120 km west and upstream on the Attawapiskat River from the De Beers Victor Diamond Mine adjacent to the K-S JV's MacFadyen Kimberlites. Then in 2008 the K-S JV confirmed discovery of the *Big Daddy* chromite deposit on claims optioned from Freewest Resources Canada Inc. ("Freewest") just as Freewest was drilling its adjacent *Black Thor* and *Black Label* chromite discoveries.

KWG invited Cliffs Natural Resources Inc. ("Cliffs") to subscribe to a private placement of treasury shares in early 2009, as a result of which Cliffs presently owns 17.6% of KWG's outstanding shares. Subsequently, Cliffs purchased all of the outstanding shares of both Freewest and Spider and then recently published notice of its intention to produce chromite from the Black Thor deposit. KWG and Spider had previously agreed to merge so that their combined majority interest in the higher grade *Big Daddy* chromite deposit could be mined and delivered to markets by constructing a railroad on claims staked by KWG subsidiary Canada Chrome Corporation ("CCC").

When KWG then assumed operating responsibility of the *Big Daddy* Chromite deposit (the "Project"), it was obliged to determine for its shareholders whether the Project had sufficient indicated economic viability to warrant it progressing to a feasibility study. Testing of a bulk sample recovered from the deposit by KWG enabled the Xstrata Process Support metallurgical laboratory to report that, "*provided mining and primary crushing is competently performed, the yield of saleable ore as direct shipping lumpy ore approaches 100%. Marketing plans can proceed on the basis of a high yield of direct shipping grade lumpy chromite ore".* This was one very important determinant of the project's viability.

The other crucially important determinant of whether the chromite discoveries may be economically exploited is whether the materials required for their development and mining can feasibly be transported to them and whether the ore thereafter recovered can be transported to international markets for sale, or to a domestic refinery for upgrading. For this CCC had engaged railroad engineers Krech Ojard & Associates and consulting engineers Golder Associates to sample the soil profiles of the staked right-of-way and undertake preliminary engineering, construction and logistics scoping studies and estimates. These determined that construction of a railroad along the staked claims was technically feasible.

The Company completed a preliminary economic assessment ("PEA") to determine the value of its interest in the Project, as announced and described in more detail in its news release of April 12, 2011.

KWG has a 1% Net Smelter Royalty reserved in the claims containing the important chromite discoveries made to date in the *Ring of Fire*, which includes the *Big Daddy, Black Thor*, and *Black Label* deposits. This improves the economic potential of KWG's minority interest in the *Big Daddy* deposit and provides direct participation in the chromite developments, no matter which deposit is first mined.

CCC continues to study the development of the rail transportation option. This railroad would be used for transporting materials into the discovery area as well as transporting the mined ores out. An engineering pre-feasibility study of the embankment alignment and water crossings has been completed as well as a geotechnical study. Consultations have begun on the feasibility of constructing a railroad. Several financing possibilities are being explored to fund the consultation, assessment and construction of this transportation corridor. The Company has also recommended to the principally affected First Nations communities, a suggested formula through which the area's indigenous population might be vested with an economic interest in these transportation assets.

KWG controls the MacFadyen Kimberlites and other contiguous exploration properties that are all adjacent to the De Beers Victor Diamond Mine. All these diamond exploration assets are held in the Company's subsidiary Debuts Diamonds Inc. ("DDI").

Management will continue to pursue all financing alternatives available to fund its ongoing obligations and exploration activities. Although there is no assurance that the Company will be successful in these actions, management is confident that it will be able to secure the necessary financing through the issuance of new equity to continue as a going concern. Should the Company not be able to obtain the necessary financing, there would be significant doubt as to the ability of the Company to meet its obligations as they come due.

2010 HIGHLIGHTS

January 4	$1.2 Million Received from Warrant Exercise
January 7	Consistent Chromite Mineralization Encountered at *Big Daddy*; Rare Nickel Mineral Discovered Suggesting Nearby Source for Accumulation of Nickel
January 8	Private Placement Announced
January 22	Drill Results Reported from *Big Daddy* for Final Six Holes Completed in 2009
February 16	Initial Drill Results Reported from 2010 at *Big Daddy*
February 23	Private Placement Closed
March 5	Remaining Drill Results Reported from 2010 at *Big Daddy*
March 19	$10 Million Private Placement Announced
April 1	New Director Appointed to Board - Rene Galipeau
April 7	Notified of Cliffs Participation in Private Placement
April 8	*Big Daddy* Scoping Study and Rail Feasibility Study Proposed
April 21	Private Placement Closed
May 3	Initial Resource Estimate Reported for *Big Daddy*
May 21	Board Election and Amendment to Stock Option Plan
May 24	New Director Appointed to Board - Cynthia Thomas
May 24	Special Committee Formed to Consider Strategic Alternatives
May 25	Adoption of a Shareholder Protection Rights Plan
May 25	Appointment of Financial Advisor
May 25	KWG & Spider Enter into Binding Letter Agreement Regarding Proposed Merger
June 3	Cormark Securities Inc. Engaged for Formal Valuation
June 14	Enter Into Definitive Business Combination Agreement with Spider
June 18	Addressed Notice of Superior Proposal Respecting Proposed Combination
June 22	Conditional Approval of TSXV for Proposed Business Combination
June 25	KWG & Spider Announce Match and Agree to Proceed with Amalgamation
June 29	Special Committee Determines Cliffs' Amended Offer is Not a Spider Superior Proposal
June 29	Discovery of a New Kimberlite on Diagnos Initiative Project
July 2	Termination of Combination Agreement
July 9	KWG to Retain its Spider Shares
August 9	Drilling and Bulk Sample Programs for *Big Daddy* Approved
October 13	*Big Daddy* Metallurgical Sample Recovered
November 15	$3 Million Private Placement Announced
November 16	Cliffs' Interest in KWG at 19.3%
November 17	Spider Offer Accepted
November 19	Private Placement Arranged
December 6	Xstrata Process Support Engaged for Metallurgy
December 6	$2 Million Received
December 8	Drilling Program Reviewed
December 16	Shareholder Rights Plan Terminated
December 21	Social Media Program Commenced

Recent Development Highlights

Financing

Private Placement

- In November the Company initiated a private placement of treasury shares to raise up to $3 million at $0.13 per share, the proceeds of which would be added to working capital to fund the drilling program at *Big Daddy* and ongoing engineering and assessment work on the feasibility of a railroad right-of-way by KWG's subsidiary CCC. The private placement was fully subscribed and completed on January 31, 2011.

Option & Warrant Redemption

- On December 6, 2010, the Company reported that just under $2 million had been subscribed to its capital as a result of the exercise of outstanding options and warrants, each of which enabled their holders to purchase shares from treasury for $0.10 each. The warrants were previously issued in connection with the private placement of units comprised of flow-through shares and warrants.

Corporate

- On November 17, 2010, the Company notified Cliffs Natural Resources Inc. ("Cliffs") that it would accept its offer of $0.19 per share for all of its shares of Spider Resources Inc. ("Spider"). The acceptance of the offer by KWG effected a termination of its dissent in the amalgamation of Spider with a wholly-owned subsidiary of Cliffs, after Cliffs acquired 85% of Spider's outstanding shares.

- In January 2011 invitations were extended to the Chiefs of five First Nations in the *Ring of Fire* area to join the Board of Directors of its subsidiary CCC. While no answers have yet been received, this has resulted in a number of alternatives being explored for the organization of the area First Nations communities to facilitate their participation in these developments.

- In February the Company negotiated an agreement to conclude the acquisition of a NSR reserved in the claims containing the *Black Thor, Black Label* and *Big Daddy* chromite deposits. The Company would issue 4 million treasury units to complete the transaction, the closing of which had been deferred by mutual agreement upon partial payments of the purchase price. Each unit was valued at $0.10 and would be 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.

- On March 1, 2011, the Company announced that Cameron Clark and Sheila Willis had agreed to serve as initial members of an Advisory Panel to provide counsel to the Company's management in the areas of public policy and communications. Mr. Clark is a former Deputy Minister and Ms. Willis a former Assistant Deputy Minister of Ontario's Ministry of Northern Development Mines and Forestry.

Programs

Rail Right-of-Way

- Five years' worth of assessment work was filed on almost all of the CCC mining claims that make up the 328 kilometre corridor which is a prospective route to construct railroad ore-haulage infrastructure. If approved and applied as credits to the claim blocks, CCC will have sufficient assessment work to apply for 21-year mining leases on those blocks. A previous filing made in late 2010 was approved by the Ministry of Northern Development, Mines and Forestry and became final on March 15, 2011 thereby securing tenure in many of the claims.

- CCC staked the claims and engaged Golder Associates to conduct a geotechnical sampling program. As a result of the program $7.7 million of assessment work was included in the new filing. Soil profile samples were taken from 811 hollow stem boreholes at regular intervals over the 328 kilometre study corridor.

- KWG made arrangements to donate the 5,906 samples collected to the Ontario Geological Survey with whom it consulted with on the protocols for a heavy minerals analysis of the glacial till section encountered at the bottom of most of the boreholes.

Metallurgy

- In January 2011 the first test results were received from Xstrata Process Support ("XPS"), which had completed the first of many tests needed to evaluate the marketability of chromite ore from the *Big Daddy* deposit in the *Ring of Fire*. XPS's report concluded that: "*The Big Daddy ore is competent, and provided mining and primary crushing is competently performed, the yield of saleable ore as direct shipping lumpy ore approaches 100%. Marketing plans can proceed on the basis of a high yield of direct shipping grade lumpy chromite ore. Further metallurgical test work and project planning can proceed without delay.*"

- In February a historic milestone was achieved when the first high carbon ferrochrome was produced in a test melt of the *Big Daddy* chromite bulk sample. This demonstration that the *Big Daddy* chromite may be readily smelted into ferrochrome was a landmark event in the determination of the economic viability and technical feasibility of the *Ring of Fire* chromite discoveries.

- In March the preliminary analysis from the smelting tests completed were announced. The results reported were from two separate smelting tests conducted at two different temperatures. While both tests had excellent recoveries, the test melt at the lower temperature of 1635°C resulted in a higher recovery of high grade ferrochrome.

Drilling

- In November 2010 the *Big Daddy* drilling program was interrupted by the requirement to locate a temporary campsite near the drilling locations, after the bulk sample for metallurgical testing had been recovered. The planned next program was to drill twelve holes that would test the continuity of the chromite deposit at depths of 450 and 600 metres with intercepts spaced 150 metres apart horizontally. To reduce costs the Company decided to wait to complete the drilling in the first two months of the New Year.

OUTLOOK

The recently completed PEA of KWG's interest in the Project has indicated its economic potential. The PEA has estimated that the Project alone could pay back the capital cost of constructing a railroad to it. This is highly encouraging for the development of the area and provides an opportunity to explore financing mechanisms for CCC's development of such a railroad.

KWG's interest in the adjacent McFaulds Lake properties, where ten discoveries of economically interesting grades of copper and zinc have been previously found is also enhanced by the PEA demonstrating the viability of the railroad. Management expects to be able to participate in the further development of these discoveries.

The opportunity to finance DDI has now matured with some recent resurgence of enthusiasm for diamond exploration. Global diamond demand is expanding and prices are increasing. The opportunity to identify additional diamondiferous kimberlite resources to augment the Victor plant's production and defer its ultimate closure continues to describe an opportunity for DDI and its MacFadyen and other Victor area properties. Management hopes that the value of DDI may soon be utilized to pursue these opportunities, so that the long-planned dividend of its shares to the holders of KWG's shares may be completed.

OVERALL PERFORMANCE - FINANCIAL

During the year ended December 31, 2010, the Company greatly improved its financial situation with the closing of four private placements and the receipt of a break fee from Spider Resources Inc. in the amount of $2,300,000. This latter payment resulted from the termination of a combination agreement as noted in the second quarter MD&A. The proceeds of this termination payment were mainly used to offset professional and consulting fees in the amount of $1,270,000 which were incurred in the attempted combination of KWG with Spider. Through the private placement transactions KWG issued 75,514,231 flow-through shares, 26,882,390 non-flow-through shares and 44,219,849 share purchase warrants for total proceeds of $12,841,862. Additionally the Company received proceeds totaling $3,934,532 from the exercise of warrants and stock options during the year. These funds have been used to finance the exploration work on the *Big Daddy* property in the *Ring of Fire*, to continue to develop a proposed route for a railroad link to the *Ring of Fire* and for working capital. The proceeds from the issuance of flow-through shares will be used for eligible flow-through exploration expenses and will be renounced for the 2010 and 2011 years.

The Company has maintained its focus on its strategic planning to develop what it expects could become a major North American ferro-chrome supplier deposit as well as a route to export the materials. Exploration activities on the *Big Daddy* property have been steady and progress is being made to understand the value of the deposit.

KWG's railway infrastructure project has been well timed and the need for a railway in the *Ring of Fire* seems highly economic. KWG continues to raise funds for its subsidiary CCC to develop the engineering plan to develop a railroad link to the *Ring of Fire*.

LIQUIDITY & CAPITAL RESOURCES

The main source of financing for KWG is the issuance of equity shares. Each of KWG's projects has demonstrated sufficient evidence of geological merit to warrant additional exploration. However, it is not presently possible to estimate the cost of further exploration programs, which may or may not bring individual properties to a subsequent stage of development, since they are all exploration projects and their development depends on the results of exploration. On December 31, 2010, the Company had working capital of $2,562,225 ($471,754 as at December 31, 2009) including $3,261,057 (of which $1,520,278 must be spent on qualifying resource expenditures) in cash and cash equivalents. This includes a $400,000 liability accrued on the 2009 purchase of the 1% net smelter royalty which has been renegotiated and will be satisfied through the issuance of shares. The Company forecasts operating expenditures of approximately $2.5 million for 2011. KWG currently does not have adequate working capital to finance its corporate and administrative activities and its upcoming exploration programs for the entire 2011 year. However, the Company expects to raise additional funds through further equity financings throughout 2011 to cover these costs. There is no assurance that the Company will be successful in these actions. Should the Company not be able to obtain the necessary financing, there would be significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

RESULTS FROM OPERATIONS

During the year ended December 31, 2010 the Company recorded a loss of $3,070,703 ($0.01 per share) compared to $3,995,326 ($0.01 per share) in 2009. This loss includes non-cash expenditures of $2,759,655 related to stock compensation costs ($252,266 in 2009) as well as the recording of a future income tax recovery in the amount of $1,022,000 ($105,000 in 2009) related to the renunciation to investors of resource expenditure deductions for income tax purposes. In accordance with its accounting policy, the related charge was accounted for as an increase in the deficit through share issue expenses. In 2009 there was also a non-cash expense of $660,000 recognized on the extension of the expiration of certain warrants. This expense was not repeated in 2010. The overall decrease in the loss between 2010 and 2009 was mainly a result of the receipt of a termination payment as explained in the next paragraph. The period results are explained as follows:

Income

Interest and other income amounted to $49,756 for the year ended December 31, 2010 compared with $20,005 for 2009. This included $34,750 in operator's fees for the *Big Daddy* project. The Company was not the operator of the project in 2009 so there is no comparable amount for that year. Interest income in 2010 amounted to $15,006 which was lower than the 2009 total of $20,005 due to lower interest rates and a lower average cash balance throughout 2010.

The Company also generated revenue of $2,300,000 as a result of the break fee received from Spider Resources Inc. as a result of their termination of a combination agreement. There was no comparable amount in 2009.

Expenses

Administrative Expenses

Administrative expenses for 2010 amounted to $3,440,245 compared to $2,708,367 for 2009. The main components of the administrative expenses variance of $731,878 are explained as follows:

- DDI, which became a reporting issuer in Ontario in late 2008, incurred administrative and corporate expenses amounting to $46,000 for 2010 compared to $211,000 for 2009 as DDI has been virtually inactive during the current year. Current year expenditures related mainly to professional fees incurred;

- Increased salaries of $483,000, directors fees of $22,000 and regular consulting fees of $87,000 were incurred due to greater involvement of certain officers, directors and outside consultants in relation to the reorganization and operation of the Company, the proposed amalgamation of the Company with Spider as described above and the private placements completed during the year;

- In 2009 special bonuses of $970,000 were paid to certain officers and directors of the Company. The Company did not incur any such expenses in 2010.

- Professional and special consulting fees increased by $1,270,000 in 2010 versus 2009. These increased costs are all directly related to the series of events regarding the attempted restructuring of the Company as previously noted.

- Promotional and investor relations expenses decreased by $72,000 as the Company focused on increasing its operating efficiencies in this area;

- The Company incurred financing fees of $50,000 during 2010 on the renegotiation of the debt related to the 2009 acquisition of a net smelter royalty. There was no such expense in 2009;

- During 2010 the Company recovered $100,000 of administrative expenses as a result of having operatorship of the *Big Daddy* chrome project. There was no such recovery in 2009; and

- Corporate expenses increased by $127,000 in 2010 compared to 2009 which included an increase in filing fees of $17,000, a reduction in expenditures on seminars and conferences of $9,000, increased overheads in the Toronto office of $77,000 and increased travel costs of $42,000.

Realized Loss on Temporary Investments

In the second quarter of 2010, the Company recognized a loss of $97,596 on its investment in Copper Mesa Mining Corporation (“Copper Mesa”). The shares of Copper Mesa were delisted on February 19, 2010 and since there is no known market for these shares the Company has determined that their value has been permanently impaired.

On November 17, 2010 the Company tendered its 250,000 common shares of Spider Resources Inc. for $0.19 per share, pursuant to a takeover offer from Cliffs Natural Resources Inc. A resulting gain on disposal of $32,500 has been recognized for the 2010 year.

The net result for 2010 was an overall loss on disposal of temporary investments in the amount of $65,096. The comparable loss in 2009 was $47,500.

Stock Compensation Costs

Stock compensation costs constitute a non-cash expense. During 2010, stock compensation costs amounted to $2,759,655 as compared to $252,266 in 2009. This resulted from the issuance of new stock options in the second and fourth quarters of 2010. These stock options vest throughout 2011 and early 2012. The calculated cost of these stock options is recognized as an expense over the vesting period.

Foreign Exchange Gain (Loss)

During the year, the Company realized a gain of $48,735 on the exchange and conversion of US dollars compared to a loss of $443,898 in 2009. This was a result of the Company holding a net negative US working capital balance throughout 2010 while the Canadian dollar strengthened by 5% against its US counterpart.

SELECTED FINANCIAL INFORMATION – THREE YEAR FINANCIAL HIGHLIGHTS

(Thousands of dollars, except amount per share)

	Fiscal years ended December 31		
	2010	***2009***	***2008***
Working capital	2,562	472	1,295
Total assets	35,363	20,730	11,502
Total income	2,349	20	211
Loss	(3,070)	(3,995)	(11,132)
Loss per share (basic and diluted)	(0.01)	(0.01)	(0.04)

Working capital fluctuations depend on the timing and extent of the receipts of equity financings as well as the expenditures on mineral properties. The increase in total assets from 2008 through 2010 is solely a result of expenditures on the Company's mineral properties.

SUMMARY OF QUARTERLY RESULTS

(Thousands of dollars except amount per share)

Quarter ending	***Total income***	***Income (loss)***	***Income (loss) per share (basic and diluted)***
December 31, 2010	37	(2,111)	<(0.01)
September 30, 2010	2,306	1,243	<0.01
June 30, 2010	6	(2,709)	<(0.01)
March 31, 2010	1	507	<0.01
December 31, 2009	2	(688)	<(0.01)
September 30, 2009	1	(949)	<(0.01)
June 30, 2009	14	(1,883)	<(0.01)
March 31, 2009	3	(474)	<(0.00)

The higher losses in certain quarters are attributable mainly to the recognition of mineral property write-offs and stock compensation costs during such quarters. The net income in the first quarter of 2010 was caused by the recording of a future income tax recovery caused by the renunciation of Canadian exploration expenses and the net income in the third quarter of 2010 resulted from the receipt of the termination payment from Spider.

The foregoing financial data has been prepared in accordance with Canadian GAAP and the reporting currency of such financial data is Canadian dollars.

FOURTH QUARTER RESULTS

During the fourth quarter of 2010, the Company incurred a loss of $2,111,789 ($687,948 in 2009) which consisted mainly of ongoing administrative costs of $677,229 and stock compensation costs of $1,297,881 related to the granting of additional stock options during the year.

COMMITMENTS

Pursuant to flow-through financing agreements closed during the year ended December 31, 2009, the Company was required to incur $1,433,801 in Canadian exploration expenses by December 31, 2010. This requirement was met in the first quarter of 2010.

Pursuant to flow-through financing agreements closed during the six-month period ended June 30, 2010 the Company was required to incur an additional $1,506,685 in exploration expenses by December 31, 2011. This requirement was met in the fourth quarter of 2010.

Pursuant to flow-through financing agreements closed during December 2010, the Company is required to incur an additional $1,814,400 in exploration expenses by December 31, 2011. As at December 31, 2010, the Company has incurred exploration expenses of $294,122 towards this amount.

RELATED PARTY TRANSACTIONS

Related party transactions occurred in the normal course of business and were recorded at the exchange value, reflecting the consideration determined and agreed to by the parties. During 2010, officers and companies controlled by officers charged consulting fees totalling $258,769 ($172,787 in 2009) of which $16,767 remained payable at December 31, 2010 (December 31, 2009 - nil) and directors of the Company and a company controlled by a director of the Company charged $241,267 ($85,699 in 2009) for professional consulting services and directors fees of which $71,611 remained payable at December 31, 2010 (December 31, 2009 - nil).

FUTURE ACCOUNTING CHANGES

Business Combinations/Consolidated Financial Statement/Non-Controlling Interest

In January 2009, the CICA adopted sections 1582, "*Business Combinations"*, 1601*, "Consolidated Financial Statements"* and 1602*, "Non-Controlling Interest"* which superseded current sections 1581*, "Business Combinations"* and 1600*, "Consolidated Financial Statements".* These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to International Financial Reporting Standards.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Overview

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency and hedging activities, certain contractual arrangements, debt covenants, capital requirements and compensation arrangements. Senior financial management have attended training courses on IFRS designed to be industry-specific.

Project Plan

The Company's project plan is summarized in the 2009 MD&A. No major changes have been made to the project plan or timelines with the exception that the IASB has not released the final documentation on accounting for joint venture arrangements with third parties. Consequently, the Company is not able to determine its accounting policy or to assess the impact of any differences between Canadian GAAP and IFRS for joint ventures.

Status of Project

The Company has completed Phases 1 and 2 of its IFRS transition and is approaching completion of Phase 3. The detailed assessment review has been prepared and the selection of transition election options has been made. The approach for managing dual reporting has been determined with no major IT improvements being required unless the Company makes a significant capital acquisition, secures significant financing and moves ahead towards production on a major project. In that case, it may need to upgrade accounting systems and make additional accounting policy selections. The Company has determined that, given the nature of its business and investors, its main communication tool for IFRS matters will be through the MD&A.

The Company's internal controls over financial reporting and disclosure are facilitated by the small size and hands-on involvement of senior management.

Detailed Assessment Review

In common with many junior mining companies, the main differences in accounting under IFRS relate to exploration and development properties. In particular, accounting for impairment has some major differences. Firstly, the test for impairment requires a "trigger" rather than being an annual test. It is performed on a cash-generating-unit basis (likely analogous to a defined project for the Company), the recoverable amount uses discount factors (unlike the two-tier test under existing Canadian GAAP) and write-ups are required to historic cost. The concept of a write-up is a major paradigm shift and is expected to lead to increased volatility of earnings. The Company performed impairment tests at the transition date of January 1, 2010 and determined that no adjustments were necessary.

The Company currently has entered into joint venture arrangements with third parties. Presently, the accounting policy is to account for these using the proportionate consolidation method. IFRS may remove this alternative and require equity accounting. This is not expected to represent a major change for the Company.

The definition and test for functional currency is different under IFRS. The Company is required to perform primary and secondary tests which consider such factors as the denomination of major revenues, expenditures and financing in order to determine its functional currency.

Should the Company raise debt financing in the future for any of its specific projects, interest must be capitalized to that project. Under existing Canadian GAAP, there is a choice of capitalizing or expensing interest.

Expected Transition Elections

The Company's guiding premise with respect to transition elections is to manage changes to a minimum unless there is a compelling reason for making a change. This also appears to have been the experience in other jurisdictions where IFRS conversion has already taken place. Accordingly the Company expects to make the following elections, where applicable:

- Continue to capitalize exploration costs;
- Retain prior accounting for historic business combinations – no retroactive application of IFRS;
- Use cost for property and equipment rather than revaluation; and
- Choose not to adopt retroactive application of fair value accounting on options (or predecessor options) granted prior to November 2002.

The Company is making further progress in Phase 3 of its IFRS transition. Management has confirmed that the Company's functional currency will continue to be the Canadian dollar. The Company is in the process of developing an annual financial statement template complete with face financial statements, accounting policies and note disclosures. From this, the Company will develop an interim financial reporting template using the guidance in IAS 34. The Company's timeline is to have this completed early in the second quarter of 2011.

All such work has been carried out primarily on a "business as usual" basis; should there be any significant future transactions or other changes requiring accounting policy choices, such choices will be made with IFRS transition in mind in order to manage differences until full conversion is achieved. The main focus to date has been on qualitative matters with little work so far on quantitative differences. As previously reported, management expects that there is the potential for volatility in the income statement with respect to accounting for impairment under IFRS and this is expected to represent the main quantitative difference under IFRS. However, the Company has not yet made any calculations under IFRS rules.

The Company believes that it is well-positioned to meet the transition to IFRS.

Critical accounting Policies and Estimates

Mining Assets
Exploration properties include rights in mining properties and deferred exploration expenses. Exploration costs are deferred until the economic viability of the project has been established, at which time costs are added to mining properties. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available from the Company or its joint venture partners for development of a mining property over a three-year period, or results from exploration work not warranting further investment.

Impairment of Long-Lived Assets
Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as identified by comparing their net book value to the estimated undiscounted future cash flows generated by their use and eventual disposal. Impairment is measured as the excess of the carrying value over the fair value, determined principally by discounting the estimated net future cash flows expected to be generated from the use and eventual disposal of the related asset. In the event that the Company has insufficient information about its exploration properties to estimate future cash flows to test the recoverability of the capitalized costs, the Company will test for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability.

Income Taxes
The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting values and tax values of assets and liabilities using substantively enacted or enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some or all of the income tax assets will not be realized.

Financial instruments

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. The Company does not enter in financial instrument agreements including derivative financial instruments for speculative purposes. The Company's main financial risk exposure and its financial risk management policies are as follows:

Interest Rate Risk
Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

Credit Risks
It is management's opinion that the Company is not exposed to significant credit risks.
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and accounts receivable. The Company reduces its credit risk by maintaining part of its cash in financial instruments guaranteed by and held with a Canadian chartered bank.

Foreign Exchange Risk
Foreign exchange risk is the potential adverse impact on earnings and economic value due to movements and volatilities in foreign exchange rates. The Company maintains cash denominated in US dollars and it also engages suppliers whose payments are required to be made in US dollars. As a result, the Company is exposed to US dollar fluctuations. As at December 31, 2010 US dollar denominated balances included cash of US$35,162 (US$30,925 in 2009) and accounts payable of US$166,795 (US$272,720 in 2009).

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at December 31, 2010, the Company did not have enough funds available to satisfy

its obligations under accounts payable and accrued liabilities.

In the past few years, the Company has financed its liquidity needs primarily by issuing equity securities. As the Company is currently incurring operating losses, additional capital will be required to continue exploration activities on the properties.

Price Risk
The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of developing the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a revenue producing entity.

RISKS FACTORS

The Company is engaged in the business of acquiring and exploring mineral properties in the hope of locating economic deposits of minerals. The Company's property interests are in the exploration stage only and are without a known body of commercial ore. Accordingly, there is little likelihood that the Company will realize any profits in the short to medium term. Any profitability in the future from the Company's business will be dependent upon locating an economic deposit of minerals. However, there can be no assurance, even if an economic deposit of minerals is located, that it can be commercially mined.

Additional Equity Financing
The advancement, exploration and development of KWG's properties, including continuing exploration and development projects, and, if warranted, construction of mining facilities and commencement of mining operations, will require substantial additional financing. The most likely source of such future financing that would be available to KWG is through the sale of additional equity capital. However, there can be no assurance that such financing will be available to KWG or that it will be obtained on terms favourable to KWG or will provide KWG with sufficient funding to meet its objectives or capital or operating requirements, which may adversely affect KWG's business, financial condition and results of operations. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to KWG and might involve substantial dilution to existing shareholders.

Failure to obtain sufficient financing as and when required by KWG will result in a delay or indefinite postponement of the advancement, exploration or development on any or all of KWG's properties or even a loss of a property interest, which would have a material adverse effect on KWG's business, financial condition and results of operations. Global securities markets are currently experiencing volatility, which may result in difficulty in raising equity capital and market forces may render it difficult or impossible for KWG to secure purchasers of KWG's securities at prices which will not lead to severe dilution to existing shareholders, or at all.

Going Concern
KWG's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due. There can be no assurance once a decision is made with respect to future activities that KWG will be able to execute on its plans. The consolidated financial statements of KWG do not include any adjustments related to the carrying values and classification of assets and liabilities should KWG be unable to continue as a going concern.

Regulation and Environmental Requirements
The activities of the Company require permits from various governmental authorities and are governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, environmental protection and other matters. Increased costs and delays may result of the need to comply with applicable laws and regulations. If the Company is unable to obtain or renew licenses, approvals and permits, it may be curtailed or prohibited from proceeding with exploration or development activities.

Capital Needs
The exploration, development, mining and processing of the Company's properties will require substantial additional financing. KWG’s liquidity as at the date hereof is insufficient to meet KWG’s corporate, administrative and exploration expenses and commitments for the remainder of 2011. KWG’s only source of liquidity is cash and cash equivalent balances. Liquidity requirements are managed based upon forecasted cash flows to ensure that there is sufficient working capital to meet KWG’s obligations. KWG’s ability to continue its business operations is dependent on management’s ability to secure additional financing. There is no assurance that such funding will be available to the Company or that it will be obtained on terms favourable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. KWG’s main funding requirements for 2011 are for its corporate overheads and continuation of its mineral exploration, property and project obligations, including professional fees, consultants’ fees, investor relations, salaries and benefits and office overheads of approximately $2,519,000 in the aggregate. As a result, KWG will be required to seek additional sources of equity financing before the end of the 2011 financial year, if not sooner, and has begun planning in this respect and is actively considering proposals. While KWG has been successful in raising such financing in the past, KWG’s ability to raise additional equity financing may be affected by numerous factors beyond KWG’s control, including, but not limited to, adverse market conditions and/or commodity price changes and economic downturn and those other factors listed under this “Risk Factors” section, and there can be no assurance that KWG will be successful in obtaining any additional financing required to continue its business operations and/or maintain its property interests or that it will be obtained on terms favourable to KWG or will provide KWG with sufficient funds to meet its objectives. Failure to obtain sufficient financing as and when required may result in delaying or indefinite postponement of exploration and/or development on any or all of KWG’s properties or even a loss of property interest, which would have a material adverse effect on KWG’s business, financial condition and results of operations.

Commodity Prices
The market price of the Company's common shares, its financial results and its exploration, development and mining activities have previously been, or may in the future be, significantly adversely affected by declines in the price of precious or base minerals.

Uninsured Risks
KWG's business is subject to a number of risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to KWG's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Land Title
Although KWG has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impugned. Third parties may have valid claims against the KWG properties.

OTHER

National Instrument 51-102 - Section 5.3
Below is a detailed analysis of exploration expenditures incurred for the year ended December 31, 2010 with comparative figures for the year ended December 31, 2009 on a property by property basis.

Spider No. 1/MacFadyen and Kyle

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	2,501,951	2,452,815
Exploration expenses		
Drilling	-	23,250
Engineering	9,445	10,186
Management	5,500	5,500
Reports	-	10,200
	14,945	49,136
Balance – End of the period	2,516,896	2,501,951

Freewest

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	4,760,372	1,999,374
Exploration expenses		
Camp expenses	256,133	113,454
Consulting	39,550	98,984
Drafting	9,474	29,238
Drilling	801,647	1,187,890
Environmental	13,776	-
Fuel costs	-	45,955
Geology	269,466	775,554
Geophysics	39,071	152,785
License fees	25,167	-
Line cutting	8,360	55,658
Management	107,900	164,807
Planning	32,493	33,891
Resource studies	58,084	46,527
Sampling	-	27,530
Survey	32,898	19,009
Travel & accommodation	-	9,716
	1,694,019	2,760,998
Balance – End of the period	6,454,391	4,760,372

Diagnos

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	97,865	97,865
Exploration expenses		
Drafting	229	-
Drilling	34,532	-
Geology	16,625	-
Geophysics	4,151	-
Line Cutting	6,782	-
Management	3,570	-
Planning	664	-
Staking	24,702	-
	91,255	-
Balance – End of the period	189,120	97,865

Pele Mountain

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	479,278	352,532
Exploration expenses		
Camp expenses	-	4,848
Consulting	77,600	32,935
Flight costs	-	40,463
Geology	-	48,500
	77,600	126,746
Balance – End of the period	556,878	479,278

East West Option

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	404,246	393,222
Exploration expenses		
Geophysics	-	11,024
Balance – End of period (before write down)	404,246	404,246

Railway Infrastructure

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	2,897,437	-
Exploration expenses		
Camp expenses	344,889	87,550
Claims staking	-	889,993
Draft closure plan	33,008	-
Engineering costs	6,310,314	704,884
Field consultants	226,413	167,668
Flight costs	3,105,854	432,633
Fuel costs	467,596	106,100
LiDAR data collection fees	98,106	312,532
Line cutting	810,643	-
Soil sampling	-	182,526
Travel & accommodation	19,311	13,551
	11,416,134	2,897,437
Balance – End of the period	14,313,571	2,897,437

Smelter Royalty

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	2,632,587	-
Exploration expenses		
Consulting	-	21,212
Filing fees	-	6,375
Royalty purchase	-	2,605,000
	-	2,632,587
Balance – End of the period	2,632,587	2,632,587

Victor West

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	119,979	-
Exploration expenses		
Staking	-	119,979
Balance – End of the period	119,979	119,979

All Projects Combined

Cost and deferred exploration expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	***$***
Balance – Beginning of the period	18,256,842	9,658,935
Exploration expenses		
Camp expenses	601,022	205,852
Claims staking	-	889,993
Consulting	117,150	153,131
Draft closure plan	33,008	-
Drafting	9,703	29,238
Drilling	836,179	1,211,140
Engineering	6,319,759	715,070
Environmental	13,776	-
Field consultants	226,413	167,668
Filing fees	-	6,375
Flight costs	3,105,854	473,096
Fuel costs	467,596	152,055
Geology	286,091	824,054
Geophysics	43,222	163,809
License fees	25,167	-
LiDAR data collection fees	98,106	312,532
Line cutting	825,785	55,658
Management	116,970	170,307
Planning	33,157	33,891
Reports	-	10,200
Resource studies	58,084	46,527
Royalty purchase	-	2,605,000
Soil sampling	-	210,056
Staking	24,702	119,979
Survey	32,898	19,009
Travel & accommodation	19,311	23,267
	13,293,953	8,597,907
Write downs taken in the year	(210,661)	-
Balance – End of the period	31,340,134	18,256,842

The following is a detailed break-down of administrative expenses incurred for the year ended December 31, 2010 with comparative figures for the same period in 2009.

Administrative Expenses	***Year ended December 31, 2010***	***Year ended December 31, 2009***
	$	$
Advertising & Promotion	17,218	51,230
Audit Fees	153,992	123,050
Change in Control/Special Bonuses	-	970,193
Consultant's Fees	856,612	457,434
Corporate Development	-	21,520
Directors Fees & Insurance	74,456	52,540
Filing Fees	80,155	75,417
Financing Fees	50,000	-
Investor Relations Fees	126,819	178,148
Legal Fees	1,117,887	269,683
Office Overhead	207,808	170,639
Salaries	767,663	284,266
Seminars & Conferences	3,760	12,702
Travel & Accommodation	84,278	41,545
Administrative recovery	(100,403)	-
Total Administrative Expenses	3,440,245	2,708,367

National Instrument 51-102 - Section 5.4
Disclosure of Outstanding Share Data (as at May 2, 2011)

Common shares outstanding: 632,878,941

Warrants and compensation options outstanding: 165,115,161

Each warrant entitles the holder to purchase one common share of the Company at the following prices:

Number of Warrants	***Exercise Price $***	***Expiry Date***
2,416,269	0.10	October 2012
19,545,000	0.15	March 2012
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
7,062,325	0.18	December 2012
17,208,015	0.05/0.10 U.S.	March 2014
9,310,839	0.05/0.10 U.S.	April 2014
15,000,000	0.10	July 2014
26,400,000	0.10	August 2014

Options outstanding: 61,493,200 - average exercise price of $0.115

Each option entitles the holder to purchase one Common Share of the Company at the following prices:

Number of Options	***Exercise Price $***	***Expiry Date***
1,700,000	0.10	December 2011
2,690,000	0.10	June 2012
1,820,000	0.10	September 2012
500,000	0.15	October 2012
3,410,000	0.12	November 2012
2,000,000	0.12	December 2012
2,216,600	0.10	February 2013
588,100	0.10	May 2013
400,000	0.10	October 2013
5,623,500	0.10	October 2014
24,545,000	0.125	May 2015
1,500,000	0.14	June 2015
11,000,000	0.10	December 2015
3,500,000	0.115	March 2016

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR (WWW.SEDAR.COM).