KWG RESOURCES INC.

(An exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All of the information in the annual report and accompanying financial statements of KWG Resources Inc. is the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where necessary, management had made judgments and estimates in preparing the financial statements and such statements have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the annual report has been reviewed to ensure that it is consistent with the financial statements.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management and the external auditors to review the auditors' report and the financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the financial statements.

A firm of independent Chartered Accountants, appointed by the shareholders, audits the financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

Frank Smeenk	*Thomas E. Masters*
President & CEO	Chief Financial Officer

April 21, 2011

PRICEWATERHOUSECOOPERS

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April 21, 2011

Independent Auditor's Report

To the Shareholders of
KWG Resources Inc.

We have audited the accompanying consolidated financial statements of KWG Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive loss, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KWG Resources Inc. as at December 31, 2010 and 2009 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about KWG Resources Inc's ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

KWG Resources Inc.

(An exploration stage company)

Consolidated Balance Sheets

As at December 31, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents (note 4)	3,261,057	2,056,751
Accounts receivable	392,110	216,486
Temporary investments (note 5)	293,438	134,991
Prepaid expenses	28,079	25,022
	3,974,684	2,433,250
Capital assets (note 6)	48,232	40,101
Interests in mineral properties (note 7)	31,340,134	18,256,842
	35,363,050	20,730,193
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 7(k) & 19)	1,412,459	1,961,496
Non-controlling interests (note 8)	61,186	-
Shareholders' Equity		
Share capital (notes 9 & 19)	31,369,877	17,039,499
Warrants (note 10)	6,628,687	4,031,086
Contributed surplus (note 12)	6,054,920	3,258,431
Deficit	(10,179,317)	(5,304,514)
Accumulated other comprehensive income (loss) (note 13)	15,238	(255,805)
	33,889,405	18,768,697
	35,363,050	20,730,193

Nature of Operations and Going Concern (note 1)

Approved by the Board of Directors

(s) ________________ Director

(s) ________________ Director

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2010 and 2009

	2010 $	2009 $
Revenue		
Termination fee (note 18)	2,300,000	-
Interest and other income	49,756	20,005
	2,349,756	20,005
Expenses		
Administrative	3,440,245	2,708,367
Amortization	24,350	8,300
Stock compensation costs (note 11)	2,759,655	252,266
Warrants extension cost (note 10)	-	660,000
Write-down and write-off of mining assets (note 7(m)(i))	210,662	-
Realized loss on temporary investments (note 5)	65,096	47,500
Loss (gain) on exchange	(48,735)	443,898
	6,451,273	4,120,331
Loss before income tax and non-controlling interests	(4,101,517)	(4,100,326)
Future income tax recovery (note 14)	1,022,000	105,000
Non-controlling interests (note 8)	8,814	-
Loss for the year	(3,070,703)	(3,995,326)
Deficit – Beginning of year	(5,304,514)	(20,877,880)
Share and warrant issue expenses	(1,804,100)	(431,308)
Reduction of deficit	-	20,000,000
Deficit – End of year	(10,179,317)	(5,304,514)
Loss per share	(0.01)	(0.01)
Weighted average number of outstanding shares	559,552,490	364,914,105

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2010 and 2009

	2010 $	2009 $
Loss for the year	(3,070,703)	(3,995,326)
Other Comprehensive income (loss)		
- Change in unrealized loss on financial assets available-for-sale	271,043	(30,321)
Comprehensive Loss	(2,799,660)	(4,025,647)

KWG Resources Inc.
(An exploration stage company)
Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009

Cash flows from	2010 $	2009 $
Operating activities		
Loss for the year	(3,070,703)	(3,995,326)
Adjustments for		
Amortization of capital assets	24,350	8,300
Stock compensation costs (note 11)	2,759,655	252,266
Write-off of mining assets (note 7(m))	210,662	-
Unrealized loss on temporary investment	-	47,500
Realized loss on temporary investments (note 5)	65,096	-
Warrants extension cost	-	660,000
Non-controlling interests	(8,814)	-
Future income tax recovery (note 14)	(1,022,000)	(105,000)
	(1,041,754)	(3,132,260)
Change in non-cash working capital items	(1,373,597)	1,333,283
	(2,415,351)	(1,798,977)
Financing activities		
Share capital issued	13,510,624	8,326,414
Warrants and compensation options issued	3,266,502	1,861,526
Share and warrant issue expenses	(593,681)	(164,259)
	16,183,445	10,023,681
Investing activities		
Additions to interests in mineral properties	(12,578,074)	(7,585,527)
Acquisition of temporary investments	-	(60,000)
Proceeds from disposal of temporary investments (note 5)	47,500	-
Acquisition of capital assets	(36,382)	(48,401)
Proceeds from disposal of capital assets	3,900	-
	(12,563,056)	(7,693,928)
Effect of exchange rate changes on cash	(732)	(2,922)
Net change in cash and cash equivalents during the year	1,204,306	527,854
Cash and cash equivalents – Beginning of year	2,056,751	1,528,897
Cash and cash equivalents – End of year	3,261,057	2,056,751
Change in non-cash working capital items comprises:		
Accounts receivable	(175,624)	(120,427)
Prepaid expenses	(3,057)	(1,960)
Accounts payable and accrued liabilities	(1,194,916)	1,455,670
	(1,373,597)	1,333,283
Additional information - non-cash transactions		
Issuance of shares/warrants for mining assets	70,000	970,000
Issuance of agent compensation options	24,378	18,740
Expired warrants included in contributed surplus	36,834	379,550
Additions to mineral properties included in accounts payable	844,555	1,502,796
Financing charge included in accounts payable	50,000	-

1 Nature of Operations and Going Concern

KWG Resources Inc. (the "Company"), an exploration stage company, is involved in the exploration of base and precious metals and diamonds 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.

These financial statements have been prepared using Canadian generally accepted accounting principles 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 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 year ended December 31, 2010, the Company incurred a loss of $3,070,703 ($3,995,326 for the year ended December 31, 2009). Cash and cash equivalents as at December 31, 2010 amounted to $3,261,057 ($2,056,751 as at December 31, 2009) including funds reserved for exploration of $1,520,278 ($1,433,801 as at December 31, 2009). Accounts payable and accrued liabilities as at December 31, 2010 amounted to $1,412,459 ($1,961,496 as at December 31, 2009). In addition to ongoing working capital requirements, the Company must secure on an ongoing basis sufficient funds for its existing commitments for exploration and general and administration costs.

Management will continue to pursue all financing alternatives available to fund its ongoing 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 and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These 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 Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its majority-owned (96.81%) subsidiary Debuts Diamonds Inc. (“DDI”), which was incorporated in Ontario, Canada on October 18, 2007 and its wholly-owned subsidiaries Canada Chrome Corporation (formerly Chrome Canada Corporation) which was incorporated in Ontario, Canada on July 15, 2009 and 7207565 Canada Inc which was incorporated Federally on July 15, 2009. The latter company has been inactive since its inception.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant areas where management judgment is applied include asset valuations, future income taxes, fair value of warrants and compensation options. Actual results could differ from those estimates and such differences could be material.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

Capital assets

Capital assets represent assets located at the corporate head office and at exploration site and are recorded at the acquisition cost. Amortization is computed using the straight-line method based on the following number of periods:

Computer equipment	-	2 years
Automobiles	-	3 years
Office furniture	-	5 years

Interests in mineral properties

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.

Proceeds from the sale of exploration properties are applied in reduction of related carrying costs and any excess is recorded as a gain in the Consolidated Statements of Operations and Deficit. In the case of a partial sale, if carrying costs exceed the proceeds, only the losses are recorded.

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.

Flow-through shares

The Company may finance a portion of its exploration and development activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a charge to deficit and future income tax liability when the renunciation forms are filed with the tax authorities.

Stock option plan

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants. Any consideration paid on exercise of stock options is credited to share capital. The stock compensation cost is stated as per the periods of option acquisition. The contributed surplus resulting from the stock compensation is transferred to share capital when the options are exercised.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Other assets and liabilities as well as items from the Consolidated Statements of Operations and Deficit are translated at the rates of exchange on each transaction date. Gains and losses on translation are included in the Consolidated Statements of Operations and Deficit.

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.

Share and warrant issue expenses

Share and warrant issue expenses are recorded as an increase in deficit in the year in which they are incurred, with the exception of expenses related to financings not closed at the end of the year, which are deferred.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Dilutive loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. There was no difference between basic and diluted loss per common share as the effect of outstanding stock options and warrants on basic loss per common share would have been anti-dilutive.

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.

Financial instruments - Recognition and measurement

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with changes in fair value recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Loss. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

Fair value measurement of financial assets and liabilities recognized on the balance sheet are categorized into levels within a fair value hierarchy based on the nature of valuation inputs. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has adopted the following classification:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading".
- Receivables are classified as “Loans and Receivables”
- Temporary investments are classified as “Available-for-Sale”
- Accounts payables and accrued liabilities are classified as "Other Financial Liabilities", all of which are measured at amortized cost.

3 Capital management

The capital of the Company consists of items included in the shareholder’s equity of $33,889,405 as of December 31, 2010 ($18,768,697 as of December 31, 2009). In order to maximize its ongoing exploration activities, the Corporation will not pay any dividends in cash.

While the Company is not exposed to any external capital requirements, neither regulatory nor contractual, funds from the flow-through financing to be spent on the Company’s exploration properties are restricted for this use.

The Company’s objectives while managing capital are to safeguard its ability to continue its operations as well as its acquisitions and exploration programs. As needed, the Company raises funds through private placements. The Company does not use long term debt financing since it does not generate operating revenues. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

There were no changes in the Company’s approach to capital management during the year ended December 31, 2010.

4 Cash and cash equivalents

As at December 31, 2010, cash and cash equivalents includes an amount of $1,520,278 (2009 – $1,433,801) reserved for new exploration activities to be conducted in Canada before December 31, 2011.

5 Temporary investments

The portfolio investments consist of common shares of publicly held companies that are available for sale and are recorded at fair value.

	2010 $	2009 $
Spider Resources Inc. ("Spider") nil common shares (i) (2009 − 250,000 common shares, quoted market value of $13,750)	-	15,000
Copper Mesa Mining (formerly Ascendant Copper Corporation) ("Mesa") 353,488 common shares, quoted market value of nil (ii) (2009 – 353,488 common shares quoted market value of $17,674)	-	97,596
Strike Minerals Inc. ("Strike") 3,452,217 common shares, quoted market value of $293,438 (2009 – 3,452,217 common shares quoted market value of $103,567)	278,200	278,200
Cost	278,200	390,796
Unrealized gain (loss)	15,238	(255,805)
Fair value of temporary investments	293,438	134,991

(i) On November 17, 2010, pursuant to a takeover offer from Cliffs Natural Resources Inc., the Company tendered its 250,000 common shares of Spider Resources Inc. for $0.19 per share. A gain on disposal of $32,500 has been recognized in these financial statements as a result of this transaction.

(ii) On February 19, 2010 the common shares of Copper Mesa Mining Corporation were delisted by the Toronto Stock Exchange. There is no available market value for these shares and, as a result, the Company has determined that the value of these shares has been permanently impaired. This loss has been recognized in these financial statements.

6 Capital Assets

	December 31, 2010 $			December 31, 2009 $		
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Computer & office equipment	40,939	14,714	26,225	14,400	2,244	12,156
Automobiles	37,550	15,543	22,007	34,000	6,055	27,945
	78,489	30,257	48,232	48,400	8,299	40,101

7 Interests in mineral properties

	2010 $	2009 $
Cost and deferred exploration expenses	31,340,134	18,256,842

Exploration properties

	Balance as at December 31, 2009	Current Expend-itures/(Wr-ite downs)	Balance as at December 31, 2010	Balance as at December 31, 2008	Current Expend-itures	Balance as at December 31, 2009
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle (a)(b)(c)(d)	2,501,951	14,945	2,516,896	2,452,815	49,136	2,501,951
Spider No. 3 / McFaulds Lake (a)(e)	4,189,695	-	4,189,695	4,189,695	-	4,189,695
Wawa (a)(b)	156,944	-	156,944	156,944	-	156,944
Big Daddy (a)(f)	4,760,372	1,694,019	6,454,391	1,999,374	2,760,998	4,760,372
Diagnos (a)(b)	97,865	91,255	189,120	97,865	-	97,865
Pele Mountain (a)(b)(g)	479,278	77,600	556,878	352,532	126,746	479,278
Uniform Surround (b)(h)	7,950	-	7,950	7,950	-	7,950
East West option (i)	404,246	(202,123)	202,123	393,222	11,024	404,246
Railway infrastructure (j)	2,897,437	11,416,134	14,313,571	-	2,897,437	2,897,437
Smelter Royalty (k)	2,632,587	-	2,632,587	-	2,632,587	2,632,587
Victor West (l)	119,979	-	119,979	-	119,979	119,979
Other (m)	8,538	(8,538)	-	8,538	-	8,538
	18,256,842	13,083,292	31,340,134	9,658,935	8,597,907	18,256,842

(a) On May 15, 2006, the Company and Spider Resources Inc. ("Spider") 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 Spider 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.

(b) In April 2008, the Company transferred to its wholly-owned subsidiary DDI, the diamond group claims. The fair market value of the mining assets transferred was evaluated at $7,000,000. Consequently, the Company recorded a write-down of mining assets of $5,383,821 prior to the transfer. In December 2008, the Company recorded an additional write-down of $5,311,380 for a total of $10,695,201. The total write-down was allocated as follows:

	$
MacFadyen	9,120,028
Wawa	615,355
Pele Mountain	885,104
Uniform Surround	31,170
Diagnos	43,544
Total	10,695,201

(c) Ashton Mining Canada Ltd. holds a 25% claw back entitlement to any kimberlite property found or developed by KWG/Spider 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/Spider an amount equal to 300% of all exploration expenditures on said property.

(d) The Kyle project was optioned to the new operator, Renforth Resources Inc. (formerly Wycliffe Resources Inc) ("Renforth"), who may earn a 55% interest by transferring a group of adjacent claims and incurring a total of $6 million of exploration expenditures, over a period of three years. The Company's interest will then be reduced to 22.5% and may be further reduced to 15% by Spider incurring exploration expenditures equal to its prior capital in the KWG/Spider Joint Venture ("KWG/Spider").

(e) Following work performed in 2002 and the discovery of massive sulphide mineralization, KWG/Spider and De Beers Canada Exploration Inc. ("De Beers") entered into a royalty agreement whereby De Beers transferred the acquired participating interest in the Spider No. 3 project in consideration of a 1.5% NSR on all mineral products that may be produced from the property with the right to buy back one third (0.5%) of the NSR for a purchase price of $1,500,000 prior to April 30, 2008. This right was not exercised.

On March 6, 2009, UC Resources Ltd. ("UC"), Spider Resources Inc. and the Company signed an option agreement pertaining to the McFaulds east and west properties held jointly by Spider and the Company in the James Bay Lowlands area of Northern Ontario. The option agreement provides that UC Resources can earn up to a 55% interest in these properties by expending a total of $4,500,000 prior to March 6, 2011. This requirement has been met. In addition, UC is the operator of the exploration program during its earn-in, after which operatorship is dictated by the terms of a joint venture agreement, where operatorship resides with the party holding the greatest interest in the project.

Under the terms of the option agreement, UC had to spend $1,000,000 on exploration prior to March 6, 2008, to earn a 10% interest, which was included in the letter of intent, in the land package. In year two, UC was required to spend an additional $1,000,000 prior to March 6, 2009 to obtain an additional 15% of the property package. In year three, UC was required to spend a further $1,250,000 prior to March 6, 2010 to obtain a further 15% of the property package. A final incremental interest of 15% could be earned by UC if it spends $1,250,000 prior to March 6, 2011, thus making UC's total commitment $4,500,000 in exploration expenditures. All of these commitments have been fulfilled by UC at this time for a completed 55% interest.

(f) In December 2005, KWG/Spider entered into an agreement with Freewest Resources Canada Inc. 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 Spider 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 no longer is 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 is required to be spent before March 31, 2011. Each such option increases the Company's ownership by 1.5%.

(g) In July 2006, the Company acquired from Pele Mountain Resources Inc. certain Attawapiskat River claims located in the Porcupine Mining Division in the Province of Ontario in consideration for 10,127,860 treasury shares. The transaction was recorded at the fair value of the common shares given up at the date of the transaction. The fair value of the common shares was determined based on the quoted value of the shares. The mineral rights transferred are subject to a 1.0% net product royalty, of which 0.5% may be purchased at any time for $5,000,000.

(h) In February 2007, the Company acquired a 28.12% participating interest and a 2% NSR on a group of claims adjoining the east side of the MacFadyen joint venture property. These mineral claims surround the DeBeers claims that host the Uniform Pipe.

(i) 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. During 2010, the Company incurred no expenditures on these claims ($11,024 in 2009).

In early 2011 the Company received notice that, since it had not made an outstanding option payment on approximately one-half of these claims, the agreement was terminated for this portion of the claims. As a result, the Company has recognized a write down during the year in the amount of $202,123 on these properties.

On July 31, 2010 the Company renegotiated the agreement pertaining to the remaining claims whereby the second option period was extended from July 31, 2010 to July 31, 2011 and the third option period was extended from July 31, 2011 to July 31, 2012.

(j) During 2009, the Company through its wholly-owned subsidiary Canada Chrome Corporation, commenced operations in an effort 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. This project was continued throughout 2010. All costs related to this project have been capitalized.

(k) 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 (Note 9(viii)) 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 is also due in February 2011. Included in accounts payable at the end of the year is the amount of $500,000 related to the purchase. The transfer instrument related to this purchase is currently held in escrow for delivery to the Company when final payment is made. Should final payment not be made, the ownership would revert to the vendor and all monies paid would be forfeited (Note 19).

(l) The Company, through its wholly-owned subsidiary DDI, holds a 100% interest in certain claims in the Victor West area in the James Bay Lowlands south of The Pele Mountain property and west of the Victor Mines.

(m) Other assets of $8,538 were written off during the year.

8 Non-controlling interest

The amount shown for non-controlling interest on the balance sheet 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. Non-controlling interests' share of DDI expenses are reflected in earnings and are charged as a reduction to the balance sheet account.

9 Share capital

Authorized

An unlimited number of common shares

Issued

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

	2010		2009	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Balance – Beginning of year	477,863,510	17,039,499	288,134,821	27,835,259
Issued for Canadian exploration expenses (i)(iii)(iv)(x)	75,514,231	9,509,063	67,489,920	4,086,845
Less: Value of warrants	-	(2,282,406)	-	(754,582)
Issued for working capital requirements (ii)(iv)(vi)(vii)(ix)	26,882,390	3,332,799	80,334,056	4,825,226
Less: Value of warrants	-	(984,096)	-	(1,106,944)
Issued for acquisition of mining assets (viii)	-	-	15,000,000	970,000
Less: Value of warrants	-	-	-	(370,000)
Issued for agents' compensation (i)(iii)(x)	1,488,128	188,419	2,204,746	143,308
Less: Value of warrants	-	(37,355)	-	-
Issued following exercise of warrants and compensation options	37,720,682	4,204,954	24,699,967	1,458,649
Less: Value of warrants	-	-	-	(48,262)
Issued following exercise of stock options	3,990,000	399,000	-	-
Reduction of share capital issued (xi)	-	-	-	(20,000,000)
Balance – End of year	623,458,941	31,369,877	477,863,510	17,039,499

(i) On November 15, 2010 the Company received conditional listing approval from the TSX Venture Exchange for a private placement of treasury shares to raise up to $3,000,000. To December 31, 2010 the Company had completed non-brokered private placements of 13,956,923 "flow-through" shares for a total consideration of $1,814,400 in relation to this listing. Finders' fees consisting of 480,480 shares were paid to two qualified parties.

(ii) On April 21, 2010 the Company completed a non-brokered private placement of 26,382,390 units for total consideration of $3,297,799. These units were issued at $0.125 each and comprised one common share of the Company and one-half of a common share purchase warrant exercisable at a price of $0.15 per warrant to acquire one common share for a period of two years.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 205.55%, risk free interest rate of 1.3% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $977,177 after a pro-rata allocation of the fair value of the units' components.

(iii) On April 16, 2010 the Company completed a non-brokered private placement of 22,467,308 "flow-through" units for total consideration of $2,808,414. These units were issued at $0.125 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 $0.15 per warrant to acquire one common share for a period of two years.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 205.58%, risk free interest rate of 1.08% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $832,902 after a pro-rata allocation of the fair value of the units' components.

Finders' fees totalling $499,373 in cash and 1,007,648 compensation units were paid to eleven qualified parties in relation to this placement and the one on March 31, 2010 (note 9(iv)). Each compensation unit was comprised of one non flow-through share and one-half of a common share purchase warrant exercisable at a price of $0.15 per warrant to acquire one common share for a period of two years.

The fair value of the warrant portion of the agents' compensation units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 205.58%, risk free interest rate of 1.08% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $37,355 after a pro-rata allocation of the fair value of the units' components.

(iv) On March 31, 2010 the Company completed a non-brokered private placement of 39,090,000 "flow-through" units for total consideration of $4,886,250. These units were issued at $0.125 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 $0.15 per warrant to acquire one common share for a period of two years.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 205.84%, risk free interest rate of 0.96% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $1,449,504 after a pro-rata allocation of the fair value of the units' components.

(v) On February 23, 2010 the Company completed a private placement of 500,000 units at $0.07 per unit for a total consideration of $35,000. Each unit was comprised of one common share and one-half of a common share purchase warrant exercisable at a price of $0.10 per warrant to acquire one common share for a period of one year.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 162.46%, risk free interest rate of 0.62% and an expected life of one year. As a result, the fair value of the purchase warrants was estimated at $6,919 after a pro-rata allocation of the fair value of the units' components.

(vi) On January 20, 2009, Cliffs Natural Resources Inc. ("Cliffs") entered into an Option to Purchase Securities (the "Option Agreement") in the Company on or before March 16, 2009 in the aggregate amount of $4,516,750 (US$3,500,000).

On March 16, 2009, Cliffs assigned the Option Agreement to an affiliated entity, Cliffs Greene B.V. ("Cliffs B.V."). At that same date Cliffs B.V exercised the option to subscribe for:

50,448,987 units of the Company (each a "Unit") at a subscription price of $0.06218 (US$0.048893) per Unit, with each Unit comprised of one (1) common share in the capital of the Company (each a "Common Share") and approximately 0.44 of a non-transferable Common Share purchase warrant of the Company (each such whole common share purchase warrant, a "Warrant"), with each Warrant entitling Cliffs to purchase one (1) Common Share at $0.063065 (US$0.05) during the first year after issuance thereof and $0.12613 (US$0.10) thereafter, subject to the undertaking of the Company to reduce such price to $0.063065 (US$0.05) upon receipt of all necessary regulatory approvals. Each Warrant would be exercisable for a period of 20 business days following the issuance by the Company of five (5) Common Shares upon the exercise of any of the warrants, options and other rights to purchase or obligations to issue Common Shares outstanding as at the date of execution of the Option Agreement, and would terminate on the fifth anniversary of the date of issuance of the Warrants; and a non-transferable, non-interest bearing, secured convertible debenture of the Company in the principal amount of $1,303,425 (US$1,033,398) maturing on April 16, 2009, such amount being equal to the difference between $4,414,550 (US$3.5 million) and the aggregate subscription price of $3,111,125 (US$2,466,602) payable for the Units above (the "Debenture"). The Debenture was to be converted automatically and without any further action on the part of the Company or Cliffs into Units at the rate of $0.061670 (US$0.048894) per Unit resulting in a further issuance to Cliffs of 21,135,069 Units comprised of 21,135,069 Common Shares and 9,310,839 Warrants.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.87% and an expected life of five years. As a result, the fair value of the purchase warrants was estimated at $665,091 after a pro-rata allocation of the fair value of the units' components.

On March 16, 2009, in connection with the exercise of the option granted to Cliffs pursuant to the Option Agreement, the Company and Cliffs B.V. entered into a shareholders' agreement which provides Cliffs with certain rights of first refusal, pre-emptive rights and the ability to appoint a director to the Company Board of directors.

(vii) At the annual and special meeting of the shareholders of the Company held on April 15, 2009 (the "Shareholders' Meeting"), the disinterested shareholders approved the conversion of the principal amount of the debenture $1,303,425 (US$1,033,398) into 21,135,069 units of the Company comprised of 21,135,069 common shares and 9,310,839 warrants.

The fair value of the purchase warrants included in the units was estimated using the Black-Sholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.87% and an expected life of five years. As a result, the fair value of the purchase warrants was estimated at $267,903 after a pro-rata allocation of the fair value of the units' components.

Following the conversion of the debenture, Cliffs held an aggregate of 71,584,056 common shares and 31,535,623 warrants representing 19.9% of the issued and outstanding common shares on a fully diluted basis.

Each warrant entitles Cliffs to purchase one (1) common share at $0.05233 (US$0.05) until March 16, 2010 and $0.10466 (US$0.10) thereafter (subject to the undertaking of the Company to reduce such price to $0.05233 (US$0.05) upon regulatory approval) and is exercisable for 20 business days following the issuance by the Company of five (5) common shares upon the exercise of any of the warrants, options and other rights to purchase or obligations of the Company to issue common shares outstanding as at January 20, 2009. To the extent not previously exercised the warrants will expire on March 16, 2014.

The conversion of the debenture resulted in a change of control for purposes of certain employment and consulting agreements between the Company and its directors and officers. As a result a payment totalling $435,000 was made to directors and officers which is included in administrative expenses.

(viii) On July 22, 2009, the Company issued 15 million common shares and 15 million common share purchase warrants as partial consideration for the purchase of a 1-percent NSR (Note 7(k)). Each purchase warrant entitles the holder to purchase one common share at a price of $0.10 for a period of five years.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.87% and an expected life of five years. As a result, the fair value of the purchase warrants was estimated at $370,000 after a pro-rata allocation of the fair value of the units' components.

(ix) On August 20, 2009, the Company completed a non-brokered private placement of 20,000,000 "flow-through" units and 8,750,000 units, for total subscriptions of $1,437,500. Both "flow-through" units and units were issued at $0.05 each and comprised one common share of KWG and one common share purchase warrant exercisable at a price of $0.10 per warrant to acquire one common share for a period of five years.

Cliffs Greene B.V. ("Cliffs"), an affiliate of Cliffs Natural Resources Inc., in order to maintain its 19.9% equity interest in KWG, subscribed for all of the units. Directors and Officers of KWG and its subsidiary Canada Chrome Corporation, subscribed for $622,500 of the "flow-through" units.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.87% and an expected life of five years. As a result, the fair value of the purchase warrants was estimated at $572,500 after a pro-rata allocation of the fair value of the units' components.

(x) On December 7, 2009 the Company completed a private placement totalling 47,489,920 units at $0.065 each for an aggregated amount $3,086,845. Each unit is comprised of one flow-through common share and one half common share purchase warrant at a price of $0.10 per share until December 7, 2010. Finder's fees totalling 2,204,746 compensation units were paid to five qualified parties and each such unit was comprised of one non flow-through share and one-half common share purchase warrant. All common shares acquired in both the flow-through and non flow-through units are subject to a four month hold period.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 0.54% and an expected life of one year. As a result, the fair value of the purchase warrants was estimated at $356,982 after a pro-rata allocation of the fair value of the units' components.

The fair value of the Warrant portion of the agent's compensation units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 0.54% and an expected life of one year. As a result, the fair value of the compensation options was estimated at $18,740.

(xi) At the Shareholders' Meeting held on April 15, 2009, the shareholders also approved the reduction of the issued and paid-in capital account of the Company by $20,000,000 without reimbursement to the shareholders and the reduction of the deficit by same amount. This amount has been recorded in the current fiscal year.

10 Warrants and compensation options

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

	Year ended December 31, 2010			Year ended December 31, 2009		
Issued	**Warrants**	**Compensation options**	**Amount $**	**Warrants**	**Compensation options**	**Amount $**
Balance – Beginning of year	159,709,798	1,102,373	4,031,086	94,005,808	9,060,157	1,637,809
Issued as part of private placement of units (note 9(ii)(iii)(iv)(v)(vi)(vii)(ix)(x))	44,219,849	-	3,266,502	84,030,583	-	1,861,526
Issued for acquisition of mining assets (note 9(viii))	-	-	-	15,000,000	-	370,000
Issued for agents' compensation (note 9(iii)(x))	503,824	-	37,355	2,529,967	1,102,373	18,740
Exercised	(36,618,309)	(1,102,373)	(669,422)	(18,475,000)	(4,377,467)	(137,439)
Extension of warrants maturity date	-	-	-	-	-	660,000
Expired	(2,450,000)	-	(36,834)	(17,381,560)	(4,682,690)	(379,550)
Balance – End of year	165,365,162	-	6,628,687	159,709,798	1,102,373	4,031,086

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

On May 22, 2009, the TSX Venture Exchange approved the amendment to the terms of 56,149,248 of the company's outstanding warrants, confirming the extension of warrants having expiry dates varying from June 18 to December 21, 2009 to new expiry dates varying from June 18 to December 21, 2012. The exercise price of the warrants was not amended.

The fair value of the warrants for which the maturity period was extended was estimated using the Black-Scholes financial model based on the following assertions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.84% and an expected life of three years. As a result, the fair value of the extended purchase warrants was estimated at $660,000 which amount was accounted for as an expense in the Consolidated Statement of Operations and Deficit.

A summary of the Company's outstanding warrants and compensation options as at December 31, 2010 is presented below:

Number of warrants	Exercise price $	Expiry date
250,000	0.10	February 2011
2,416,269	0.10	October 2011
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
7,062,326	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
165,365,162		

11 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.
On May 19, 2010 the shareholders of the Company approved the conversion of the Company's Employee Incentive Stock Option Plan into a rolling option plan pursuant to which a maximum of 10% of the number of issued and outstanding common shares of the Company from time to time may be reserved and allocated for the granting of stock options.

As at December 31, 2010, 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 (as at December 31, 2009 – 40,000,000); (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant; and (iii) that the maximum number of common shares that may be reserved for issuance to insiders of the Company is limited to 10% of the common shares outstanding at the time of the grant.

Options vest over an 18-month period: 25% at the date of the grant and 12.5% in each of the following six quarters. Options granted must be exercised over a period no longer than five years after the date of grant, and they are not transferable.

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

Options at a fixed price

	2010		2009	
	Number of shares	**Average exercise price $**	**Number of shares**	**Average exercise price $**
Balance – Beginning of year	30,032,280	0.10	23,868,880	0.11
Granted	38,545,000	0.12	6,558,500	0.10
Exercised	(3,990,000)	0.10	-	-
Cancelled or expired	(6,244,080)	0.11	(395,100)	0.15
Balance – End of year	58,343,200	0.11	30,032,280	0.10

The following table summarizes information about options outstanding and exercisable as at December 31, 2010:

	Outstanding options		Exercisable options
Exercise price $	**Number of options**	**Average contractual life (in years)**	
0.10	26,388,200	2.74	16,719,825
0.12	5,410,000	1.91	5,410,000
0.125	24,545,000	4.35	12,272,500
0.14	1,500,000	4.50	750,000
0.15	500,000	2.81	500,000
	58,343,200		35,652,325

Total stock compensation costs for the year ended December 31, 2010 amounted to $2,759,655 (2009 – $252,266).

The fair value of the options granted in 2010 and 2009 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	May 2010	**June 2010**	**Dec 2010**	**2009**
Average dividend per share	Nil	Nil	Nil	Nil
Estimated volatility	170.72%	172.55%	167.94%	100%
Risk-free interest rate	0.98%	1.14%	1.37%	0.67%
Expected life of the options granted	5 years	5 years	5 years	5 years
Weighted average of estimated fair value of each option granted	$0.084	$0.13	$0.094	$0.057

12 Contributed surplus

	2010 $	2009 $
Balance – Beginning of year	3,258,431	2,626,615
Stock compensation costs (note 11)	2,759,655	252,266
Expiry of warrants (note 10)	36,834	379,550
Balance – End of year	6,054,920	3,258,431

13 Accumulated other comprehensive income (loss)

	2010 $	2009 $
Accumulated other comprehensive (loss) - beginning of year	(255,805)	(225,574)
Latent gain (loss) on temporary investments available for sale	271,043	(30,231)
Accumulated other comprehensive income (loss) - end of year	15,238	(255,805)

	2010 $	2009 $
Latent loss on temporary investments - beginning of year	(255,805)	(225,574)
Unrealized gain for the year on Spider investment	1,250	6,250
Unrealized gain (loss) for the year on Mesa investment	(17,674)	5,302
Realized loss for the year on Mesa investment	97,596	-
Unrealized gain (loss) for the year on Strike investment	189,871	(41,783)
Latent gain (loss) on temporary investments – end of year	15,238	(255,805)

With respect to the Company's investments, the latent gain (loss) on temporary investments available for sale adjustments represent the unrealized gain or loss on the Company's net investments (note 5).

14 Income taxes

The future income tax balances are summarized as follows:

(i) The provision for income taxes presented in these Consolidated Financial Statements is different from what would have resulted from applying the combined Canadian Statutory tax rate as a result of the following:

	2010 $	**2009 $**
Loss before income taxes	(4,092,703)	(4,100,326)
Combined federal and provincial income tax at 31% (32.42% in 2009)	(1,268,738)	(1,329,122)
Impact of decrease (increase) income tax rate on future income tax balances	747,845	1,830,923
Expired tax losses	111,214	99,623
Stock compensation costs	855,493	81,772
Warrants extension cost	-	213,939
Other	(16,814)	(3,135)
Valuation allowance	(1,451,000)	(999,000)
Recovery of future income taxes	(1,022,000)	(105,000)

(ii) Future income tax assets

	2010 $	**2009 $**
Current future income tax assets		
Non-capital losses	-	110,000
Share and warrant issue expenses	100,000	67,000
	100,000	177,000
Valuation allowance	(100,000)	(177,000)
Current future income tax assets	-	-
Long-term future income tax assets		
Mining assets and deferred exploration expenses	5,581,000	6,741,000
Non-capital losses	1,890,000	1,839,000
Capital losses	10,544,000	10,797,000
Share and warrant issue expenses	152,000	102,000
Investments	15,000	52,000
Exploration equipment	598,000	623,000
	18,780,000	20,154,000
Valuation allowance	(18,780,000)	(20,154,000)
Long-term future income tax assets	-	-
Total future income tax assets	-	-

In 2010 the Company issued flow-through units for gross proceeds of $9,509,063 (2009 − $4,086,845). Under the flow-through share agreements, the Company agreed to renounce $9,509,063 of qualifying expenditures to the investors effective December 31, 2010, although under Canadian tax law, the expenditures may actually be incurred up to December 31, 2011.

The Company is required to record a provision at the time the renunciation is filed with the tax authorities, by an increase in the share and warrant issue expenses relating to the flow-through shares, for the future income taxes related to the tax deductions the Company has forgone. The Company has filed and renounced to the authorities in early 2010, therefore estimated future income taxes of $1,022,000 were recorded as at December 31, 2010 (2009 − $105,000). Consequently, the Company has recognized such expenses as share and warrant issue expenses in 2010 (2009 − $105,000).

(iii) As at December 31, 2010, the cost for income tax purposes of exploration equipment, mining assets and deferred exploration expenses totaled approximately $62,040,763. The difference between the tax cost and the amount capitalized in these Consolidated Financial Statements arises from the write-off of certain assets for accounting purposes, rollover transactions and the tax benefits related to some exploration expenses being renounced in favour of subscribers.

The Company has accumulated non-capital losses for income tax purposes amounting to approximately $7,572,000. These losses will expire as follows:

		$
Year ending December 31,	2014	535,000
	2015	653,000
	2026	737,000
	2027	888,000
	2028	1,274,000
	2029	2,871,000
	2030	614,000

(iv) The Company's balance of capital losses amounts to approximately $84,355,192 and can be carried forward indefinitely against capital gains.

(v) The unamortized balance for tax purposes of share and warrant issue expenses amounting to approximately $1,012,000 is deductible over the next four years.

(vi) The tax values of assets and liabilities arising from the year ended December 31, 2010, have not been agreed with the relevant tax authorities nor have they been disputed.

15 Related party transactions

In 2010, officers and companies controlled by officers were paid consulting fees totalling $258,769 ($172,787 in 2009) of which $16,767 remained payable at December 31, 2010 (nil in 2009) and directors of the Company and a company controlled by a director of the Company were paid $241,267 ($85,699 in 2009) for professional consulting services of which $71,611 remained payable at December 31, 2010 (nil in 2009). Directors fees paid for the year totalled $56,000 ($41,000 in 2009).

16 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. Prior to 2009, the Company did not have any financial assets or liabilities denominated in currencies other than Canadian and it was therefore not exposed to significant foreign exchange risk. However, since the transactions with Cliffs Natural Resources (note 9 (vi)) the Company now 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 now exposed to US dollar fluctuations. During 2010, the company realized $48,735 in net foreign exchange gains ($443,898 in net foreign exchange losses in 2009). 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 had enough funds available to satisfy its obligations under accounts payable and accrued liabilities.

In the past few years, the Company 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 (note 1).

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.

Sensitivity Analysis

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. As at December 31, 2010, the carrying amount of the financial instrument equals the fair value.

The Company's cash and cash equivalents are held primarily in interest bearing accounts, the rates of which are not fixed. A 100 basis point change in the interest rate at December 31, 2010 would affect the Company by an annualized amount of interest equal to approximately $30,000.

The temporary investments held by the Company are considered held-for-trading and are traded on the TSX Venture Exchange ("TSX-V"). A 10% change in the quoted share price would change the fair value of the investment by $29,350.

Fair Value

The fair value of financial instruments is summarized as follows:

	2010		2009		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair value Hierarchy Level (note 2)
Financial assets					
Held for trading:					
Cash	3,261,057	3,261,057	2,056,751	2,056,751	Level 2
Available-for-sale:					
Temporary investments	293,438	293,438	134,991	134,991	Level 1

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments.

As at both December 31, 2010 and 2009, all financial instruments (cash, accounts receivable and accounts payable and accrued liabilities) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments. For temporary investments refer to note 5.

17 Commitments

Pursuant to flow-through financing agreements closed during the year ended December 31, 2010, the Company must incur $1,520,278 in exploration expenses by December 31, 2011.

18 Termination of Combination Agreement

On July 2, 2010, the Company announced that Spider Resources Inc. ("Spider") had terminated the Combination Agreement previously signed on June 14, 2010 among the Company, its wholly-owned subsidiary, 7569076 Canada Inc., and Spider. As a result of this termination Spider was required to pay a break-fee of $2,300,000 to the Company. This amount was received on July 5, 2010. All costs related to this Agreement have been expensed in these financial statements.

19 Subsequent events

(i) On January 31, 2011 the Company completed the final tranche of the non-brokered private placement announced on November 15, 2010 through the sale of 9,120,000 "flow through" shares at $0.13 each for gross proceeds of $1,185,600. Finders' fees of $35,435 in cash were paid to three qualified parties.

(ii) On February 24, 2011 the Company negotiated an agreement to conclude the previously announced acquisition of a net smelter royalty (note 7(k)) reserved in the claims containing the Black Thor, Black Label and Big Daddy chromite deposits. At that date, the outstanding balance was $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 it issued 4,000,000 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 is valued at $0.10 and will 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.

(iii) On March 24, 2011 the Company announced that it had granted options to purchase 3,500,000 treasury shares under its Incentive Stock Option Plan. The options are exercisable for 5 years at a price of $0.115. Options to purchase 1,500,000 shares were granted to two directors and options to purchase 2,000,000 shares were granted to two consultants.