

# **KWG RESOURCES INC.**

(An exploration stage company)

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## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

THREE-MONTH PERIODS ENDED MARCH 31, 2011 AND 2010

# **KWG RESOURCES INC.**

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## **NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:**

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

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

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**RENE GALIPEAU**, Director

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

Montreal, Quebec  
June 29, 2011

# KWG RESOURCES INC.

(An exploration stage company)

## Condensed Interim Consolidated Balance Sheets

(unaudited)

(in Canadian dollars)	Notes	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
			(Note 17)	(Note 17)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	3,652,267	3,261,057	2,056,751
Receivables		600,343	392,110	216,486
Marketable securities	7	345,222	293,438	134,991
Prepaid expenses		14,444	28,079	25,022
<b>Total current assets</b>		<b>4,612,276</b>	<b>3,974,684</b>	<b>2,433,250</b>
<b>Non-current assets</b>				
Property and equipment	8	43,485	48,232	40,101
Mineral property interests	9	32,291,434	31,390,134	18,256,842
<b>Total non-current assets</b>		<b>32,334,919</b>	<b>31,438,366</b>	<b>18,296,943</b>
<b>Total assets</b>		<b>36,947,195</b>	<b>35,413,050</b>	<b>20,730,193</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables		1,716,530	1,412,459	1,961,496
Deferred liability	17	20,915	-	40,178
Warrant liability	17	782,842	782,842	932,994
<b>Total current liabilities</b>		<b>2,520,287</b>	<b>2,195,301</b>	<b>2,934,668</b>
<b>Equity attributable to the owners of the parent company</b>				
Share capital	11	30,193,430	29,038,614	16,962,999
Warrants	12	5,129,143	4,948,703	3,088,092
Contributed surplus		6,474,745	6,054,920	3,258,431
Accumulated other comprehensive income		67,022	15,238	(255,805)
Deficit		(7,498,464)	(6,900,912)	(5,258,192)
		<b>34,365,876</b>	<b>33,156,563</b>	<b>17,795,525</b>
Non-controlling interests	10	61,032	61,186	-
<b>Total equity</b>		<b>34,426,908</b>	<b>33,217,749</b>	<b>17,795,525</b>
<b>Total liabilities and equity</b>		<b>36,947,195</b>	<b>35,413,050</b>	<b>20,730,193</b>

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

**Commitments (Note 15)**

**Subsequent events (Note 16)**

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

**Approved by the Board of Directors**

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Director

(s)

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Director

# KWG RESOURCES INC.

(An exploration stage company)

## Condensed Interim Consolidated Statements of Operations and Deficit and Statements of Comprehensive Income (Loss) (unaudited)

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2011	2010
<b>Expenses</b>			
General and administrative		(405,311)	(489,879)
Amortization of property and equipment	8	(6,861)	(5,635)
Stock compensation costs	13	(419,825)	(67,823)
Gain on foreign exchange		(2,072)	47,187
<b>Operating loss</b>		<b>(829,925)</b>	<b>(516,150)</b>
Finance and other income	17	10,769	41,156
<b>Net finance income</b>		<b>10,769</b>	<b>41,156</b>
<b>Loss for the period before income tax</b>		<b>(819,156)</b>	<b>(474,994)</b>
Deferred Income tax recovery		221,450	358,450
<b>Net loss for the period</b>		<b>(597,706)</b>	<b>(116,544)</b>
Less: portion attributable to non-controlling interest in earnings of subsidiary	10	154	-
<b>Net loss attributable to equity holders of KWG Resources Inc.</b>		<b>(597,552)</b>	<b>(116,544)</b>
<b>Loss per share (basic and diluted)</b>		<b>(0.00)</b>	<b>(0.00)</b>
<b>Weighted average number of outstanding shares</b>		<b>631,203,163</b>	<b>478,431,219</b>

## Consolidated Statements of Comprehensive loss

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2011	2010
Net loss for the period		(597,552)	(116,544)
Other Comprehensive Income ("OCI")			
Net change in fair value of financial assets	7	51,784	67,620
<b>Total Comprehensive Loss for the Period</b>		<b>(545,768)</b>	<b>(48,924)</b>
Portion attributable to non-controlling interest		154	-
<b>Net loss attributable to equity holders of KWG Resources Inc.</b>		<b>(545,614)</b>	<b>(48,924)</b>

# KWG RESOURCES INC.

(An exploration stage company)

## Condensed Interim Consolidated Statement of Changes in Equity

(unaudited)(in Canadian dollars)

	Notes	Attributable to Equity Owners of the Parent Company					Non-controlling Interest	Total
		Share capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income		
<b>Balance, December 31, 2010</b>		<b>29,038,614</b>	<b>4,948,703</b>	<b>6,054,920</b>	<b>(6,900,912)</b>	<b>15,238</b>	<b>61,186</b>	<b>33,217,749</b>
Private placements, net of share issuance costs	11	926,171	-	-	-	-	-	926,171
Flow-through share premiums	17	(20,915)	-	-	-	-	-	(20,915)
Settlement of liability	11	400,000	187,234	-	-	-	-	587,234
Less value of warrants	11	(187,234)	-	-	-	-	-	(187,234)
Exercise of warrants	11	36,794	(6,794)	-	-	-	-	30,000
Stock based compensation	13	-	-	419,825	-	-	-	419,825
Non-controlling interest in Debuts Diamonds Inc.		-	-	-	-	-	(154)	(154)
Unrealized gain on available for sale securities	7	-	-	-	-	51,784	-	51,784
Net loss for the period attributable to the equity holders of KWG Resources Inc.		-	-	-	(597,552)	-	-	(597,552)
<b>Balance, March 31, 2011</b>		<b>30,193,430</b>	<b>5,129,143</b>	<b>6,474,745</b>	<b>(7,498,464)</b>	<b>67,022</b>	<b>61,032</b>	<b>34,426,908</b>
<b>Balance, December 31, 2009</b>		<b>16,962,999</b>	<b>3,088,092</b>	<b>3,258,431</b>	<b>(5,258,192)</b>	<b>(255,805)</b>	<b>-</b>	<b>17,795,525</b>
Private placements, net of share issuance costs	11	4,327,105	792,065	-	-	-	-	5,119,170
Less value of warrants	11	(950,101)	-	-	-	-	-	(950,101)
Flow-through share premiums	17	(19,836)	(8,364)	-	-	-	-	(28,200)
Exercise of warrants and Compensation options	11	276,570	(40,186)	-	-	-	-	236,384
Stock based compensation	13	-	-	67,824	-	-	-	67,824
Unrealized gain on available for sale securities	7	-	-	-	-	67,620	-	67,620
Net loss for the period attributable to the equity holders of KWG Resources Inc.		-	-	-	(116,544)	-	-	(116,544)
<b>Balance, March 31, 2010</b>		<b>20,596,737</b>	<b>3,831,607</b>	<b>3,326,255</b>	<b>(5,374,736)</b>	<b>(188,185)</b>	<b>-</b>	<b>22,191,678</b>

# KWG RESOURCES INC.

(An exploration stage company)

## Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(in Canadian dollars)	Notes	Three-month periods ended March 31	
		2011	2010
<b>Cash flows from operating activities</b>			
Net loss for the period		(597,024)	(116,544)
Adjustments for			
Amortization of property and equipment	8	6,861	5,635
Stock based compensation costs	13	419,825	67,823
Finance income		-	(40,178)
Income tax recovery		(221,450)	(358,450)
Net change in non-cash working capital balances		(54,517)	-
<b>Net cash used by operating activities</b>		<b>(446,305)</b>	<b>(441,714)</b>
<b>Cash flows from financing activities</b>			
Share capital issued	11	1,215,600	4,207,534
Warrants and compensation options issued	12	-	950,101
Share and warrant issue expenses		(38,661)	(396,004)
<b>Net cash provided by financing activities</b>		<b>1,176,939</b>	<b>4,761,631</b>
<b>Cash flows from investing activities</b>			
Expenditures on exploration and evaluation projects	9	(337,311)	(7,511,035)
Proceeds from disposal of property and equipment	8	-	400
Purchases of property and equipment	8	(2,113)	(26,526)
Net change in non-cash working capital balances – see below		-	4,872,611
<b>Net cash used by investing activities</b>		<b>(339,424)</b>	<b>(2,664,550)</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>391,210</b>	<b>1,655,367</b>
Cash and cash equivalents – Beginning of the period		3,261,057	2,056,751
<b>Cash and cash equivalents – End of the period</b>		<b>3,652,267</b>	<b>3,712,118</b>
<b>Change in non-cash working capital balances comprises:</b>			
Receivables		(208,233)	(573,706)
Prepaid expenses		13,635	5,077
Trade and other payables		140,081	5,441,240
<b>Net change in non-cash working capital balances</b>		<b>(54,517)</b>	<b>4,872,611</b>
<b>Additional information - non-cash transactions</b>			
Additions to mining assets included in accounts payable		563,990	6,141,641

# **KWG RESOURCES INC.**

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

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

#### **Nature of Operations**

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

The Company is listed on the TSX Venture Exchange under the symbol "KWG".

#### **Going Concern**

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

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to find additional funds to continue its exploration activities and, while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration and evaluation properties. The recoverability of deferred exploration expenses is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

For the three months ended March 31, 2011, the Company incurred a loss of \$597,552 (2010 - \$116,544). Cash and cash equivalents as at March 31, 2011 amounted to \$3,652,267 (\$3,261,057 as at December 31, 2010) including funds reserved for exploration of \$1,820,079 (\$1,520,278 as at December 31, 2010). Trade and other payables as at March 31, 2011 amounted to \$1,716,530 (\$1,412,459 as at December 31, 2010). 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.

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

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### **2 BASIS OF PREPARATION**

#### **(a) Statement of Compliance**

The company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and effective as of June 21, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 17 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

#### **(b) Basis of Measurement**

The financial statements have been prepared on the historic cost basis except for financial assets such as marketable securities which are measured at fair value and recorded through other comprehensive income or loss ("OCI").

The methods used to measure fair values are discussed further in Note 5.

#### **(c) Functional and Presentation Currency**

These financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries functional currency. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

#### **(d) Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results



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

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may differ from these estimates.

It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accompanying unaudited interim financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations and cash flows for the current periods as presented are not necessarily indicative of the results to be expected for the full year.

Management has made a number of significant estimates and valuation assumptions based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions which include, but are not limited to, the following:

- (i) Valuation of exploration and evaluation projects.
- (ii) The fair value of share-based payments, including stock based compensation and warrants.
- (iii) The value of the premium included in flow-through share issuances.
- (iv) The estimated useful life and property and equipment and
- (v) The fair value of financial assets and liabilities including investments.

### **3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### **(a) 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.

#### **(b) Foreign Currency**

##### **(i) Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

#### **(c) Financial Instruments**

##### **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments ("IFRS 9"), which impacts the classification and measurement of financial assets, has been early-adopted by the Company concurrent with its implementation of IFRS. Upon recognition, the Company designates its financial assets accounted for at fair value as being accounted for either through operations or through OCI. All subsequent gains or losses arising on financial assets at fair

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value are recorded either through operations or through OCI in accordance with that designation. The changes in value of the Company's portfolio of shares are accounted for through OCI.

### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in marketable securities, receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments, with the exception of financial assets at fair value through OCI, are recognized initially at fair value plus, for instruments not at fair value through operations, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below. Cash and cash equivalents comprise cash balances and call deposits.

Loans, receivables and borrowings are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans, receivables and borrowings are measured at amortized cost using the effective interest method, less any impairment losses. Loans, receivables and borrowings comprised of receivables or trade payables.

Accounting for finance income and expenses is discussed in Note 3(j).

### *Financial assets at fair value through OCI*

KWG's investments in marketable securities are measured at fair value and changes therein are recognized directly in OCI.

## (d) Property and Equipment

### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in the statement of operations.

### (ii) Amortization

Amortization is calculated as a function of the amortizable amount, which is the cost of an asset less its residual value.

Amortization is recognized through operations as follows over the estimated useful lives of each part of an item of property and equipment.

Amortization is computed using the straight-line method based on the following number of periods:

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

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### (e) Mineral Property Interests

#### (i) Exploration & Evaluation expenditures

Exploration & Evaluation (“E&E”) expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are capitalized as Mineral Property Interest (“MPI”) assets on an “area of interest basis” which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises of a single mine or deposit.

MPI assets are recognized if the rights to the project are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale; or
- activities on the project have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or other otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the project are continuing.

E&E expenditures are initially capitalized as intangible MPI assets. Such E&E expenditures may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible MPI asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, MPI assets attributable to that project are first tested for impairment and then reclassified to *mine property and development projects*. Currently, KWG does not hold any assets classified as *mine property and development projects*.

#### (ii) Pre-E&E (project generation) expenditures

Pre-E&E (project generation) expenditures are incurred on activities that precede exploration for an evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area. Pre-E&E expenditures are expensed immediately through the statement of operations.

#### (iii) Impairment

MPI assets are assessed for impairment when facts and circumstances suggest that the carrying amount of a MPI asset may exceed its recoverable amount and any impairment

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loss is recognized as *Writedown of exploration and evaluation projects* through the statement of operations. The following facts and circumstances, among other things, indicate that E&E assets must be tested for impairment:

- the term of exploration license for the project has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the project area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the project area have not led to the discovery of commercially viable quantities of mineral resources and the Company plans to discontinue activities in the specific area; or
- sufficient data exists to indicate that while development activity is likely to proceed, the carrying amount of the MPI asset is unlikely to be recovered in full through such activity.

MPI assets are tested for impairment on an individual project (area of interest) basis. As noted above, a project would also be tested for impairment before being transferred to *Mine property and development projects* on the balance sheet.

### (f) Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income in the period in which they are incurred.

### (g) Impairment

#### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of a financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and financial assets that are debt securities, the reversal is recognized through operations.

#### (ii) Non-financial assets

The carrying amounts of KWG's non-financial assets, other than deferred tax assets, are

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reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates, or has the potential to generate, cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Generally, a CGU is analogous to an individual project.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized through operations.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **(h) Employee Benefits**

#### **(i) Termination benefits**

Termination benefits are recognized as an expense when KWG is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if KWG has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.

#### **(ii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if KWG has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

#### **(iii) Share-based payment transactions**

The grant date fair value of options granted to employees, directors and consultants is recognized as an employee expense, with a corresponding increase in equity, over the period that the individuals become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are accounted for as equity-

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

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settled share-based payment transactions, regardless of how the equity instruments are obtained by KWG.

### (i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when the land is contaminated and there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities.

### (j) Finance Income and Finance Costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets at fair value through operations and flow-through premium. Interest income is recognized as it accrues through operations, using the effective interest method. Dividend income is recognized through operations on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Gains on the disposal of financial assets are recognized on the settlement date.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognized through operations using the effective interest method, except for those amounts capitalized as part of the cost of qualifying assets.

Foreign currency gains and losses are reported on a net basis.

### (k) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized through operations except to the extent that it relates to items recognized either in OCI or directly in equity, in which case it is recognized in OCI or in equity respectively.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for

# **KWG RESOURCES INC.**

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taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **(I) Share Capital**

#### **Common shares**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature. At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a separate deferred liability on the balance sheet (Note 17). The proceeds attributable to the warrants are also treated as equity and recorded in Warrants on the balance sheet until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise.

The effect of renunciation of the tax benefits to holders of such shares is recognized pro-rata with the associated expenditures being incurred by the Company. This could occur either before or after the formal renunciation of expenditures to the tax authorities have been made. When the eligible expenditures are incurred, the tax value of the renunciation is recorded as a share issue cost which is allocated to the equity and deferred liability accounts on the same pro-rata basis as the original investment and charged against operations as a deferred tax provision.

Furthermore, as eligible expenditures are incurred, the Company recognises a pro-rata amount of the Flow-through Premium through *Finance income* in the statement of operations with a decrement to the liability on the balance sheet.

#### **Share-based payment arrangements**

##### ***Stock Option Plan***

The Company has a stock option plan (the "Stock Option Plan") which is described in

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Note 13. All stock-based awards made to employees and non-employees are recognized at the date of grant using a fair-value-based method to calculate compensation expense. Compensation expense is charged to operations over the vesting period of the options with a corresponding increase to contributed surplus. Stock options typically vest over an 18-month period. The fair values are determined at the grant date by applying the Black-Scholes option pricing model. Measurement inputs include shares price on the measurement date, exercise prices, expected volatility, expected life, expected dividends, expected forfeiture rate and the risk free interest rate. Under graded vesting the fair value of each tranche is recognized over its respective vesting period.

### (m) Earnings per Share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise warrants and share options.

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

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these interim consolidated financial statements.

#### ***International Financial Reporting Standard 7, Financial Instruments disclosures (“IFRS 7”)***

IFRS 7 was issued in 2010 and addresses the additional disclosures in respect of risk exposures arising from transferred financial assets. This standard is required for accounting periods beginning on or after July 1, 2011, with early adoption permitted. The Company has not yet assessed the impact of the standard nor determined whether it will adopt the standard early.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, *Consolidated Financial Statements* (IFRS 10), IFRS 11, *Joint Arrangements* (IFRS 11), IFRS 12, *Disclosure of Interests in Other Entities* (IFRS 12), IAS 27, *Separate Financial Statements* (IAS 27), IFRS 13, *Fair Value Measurement* (IFRS 13) and amended IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

#### ***International Financial Reporting Standard 10, Consolidation (“IFRS 10”)***

IFRS 10 was issued in May 2011 and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. The standard is effective for annual periods beginning on



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or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements or whether to early adopt any of the new requirements.

### ***International Financial Reporting Standard 11, Joint Arrangements (“IFRS 11”)***

IFRS 11 was issued in May 2011 and requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements or whether to early adopt any of the new requirements.

### ***International Financial Reporting Standard 12, Disclosure of Interests in Other Entities (“IFRS 12”)***

IFRS 12 was issued in May 2011 and establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements or whether to early adopt any of the new requirements.

### ***International Financial Reporting Standard 13, Fair Value Measurement (“IFRS 13”)***

IFRS 13 was issued in May 2011 and is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements or whether to early adopt any of the new requirements.

### ***Amendments to Other Standards***

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. These standards are effective for annual periods beginning on or after January 1,

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2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

### **4 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT DISCLOSURES**

#### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfils its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team.

#### **Credit Risk**

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, receivables and marketable securities.

#### **Cash and cash equivalents**

The Company's cash and cash equivalents are held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper.

#### **Receivables**

The Company's receivables consist primarily of amounts due from federal and provincial governments.

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When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures, as described above.

Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations.

### ***Marketable securities***

The Company limits its exposure to credit risk by investing only in securities which are listed on public stock exchanges. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation.

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents and marketable securities. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income, the value of its E&E properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

### **Currency risk**

The Company is exposed to currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the

# **KWG RESOURCES INC.**

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Canadian dollar. The currencies in which these transactions are denominated, when they occur, are the United States dollars (US\$). The Company does not actively hedge its foreign currency exposure. A 10% strengthening or weakening of the Canadian dollar would not have a material impact on the Company's equity or results of operations.

### ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash equivalents earn interest at variable short-term rates. The estimated effect of a 50bps change in interest rate would not have a material effect on the Company's results of operations. None of the Company's other financial instruments are interest-bearing. Consequently, the Company is not exposed to any significant interest rate risk which could be caused by a sudden change in market interest rates.

### ***Other market price risk***

The Company's marketable securities and strategic investments are subject to equity price risk. The values of these investments will fluctuate as a result of changes in market prices, the price of metals or other factors affecting the value of the investments.

Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The value of the Company's mineral resource properties is related to the price of, and outlook for, base and precious metals. Historically, such prices have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to: industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities and other factors such as significant mine closures. The Company does not have any hedging or other commodity-based risks respecting its operations. The value of the Company's strategic investments is also related to the price of, and outlook for, base and precious metals and other minerals.

### ***Operational Risk***

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The Company has a small but hands-on and experienced executive team which facilitates communication across the Company. This expertise is supplemented, when necessary, by the use of experienced consultants in legal, compliance and industry-related specialties. The Company also has standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;

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- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- development of contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective and available.

Compliance with Company standards is supported by a code of conduct which is provided to employees, officers and directors.

### **Capital Management Disclosures**

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds to support continued project development and corporate activities. Capital is defined by the Company as the aggregate of its shareholders' equity. Shareholders' equity totalled \$34,365,876 at March 31, 2011, \$33,156,563 at December 31, 2010 and \$17,795,525 at January 1, 2010.

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

### **5. DETERMINATION OF FAIR VALUES**

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### **(a) Investments in Equity**

The fair value of marketable securities included in financial assets at fair value through operations or OCI is determined by reference to their quoted closing bid price at the reporting date.

#### ***Fair value hierarchy***

The different levels of valuation are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs).

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The fair value of the Company's financial instruments is summarized as follows:

	2011		2010		Fair value Hierarchy Level (note 2)
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
<b>Financial assets</b>					
Marketable securities	345,222	345,222	293,438	293,438	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 March 31, 2011 and December 31, 2010, all financial instruments (receivables and trade and other payables) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments. For marketable securities refer to note 7.

### (b) Receivables

The fair value of receivables is estimated at their book value due to their short term nature.

### (c) Share-based Payment Transactions

The fair value of share options is measured using the Black-Scholes option-pricing model. The measurement inputs are described above under Note 3(l).

## 6 CASH AND CASH EQUIVALENTS

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Bank balances	1,319,587	276,548	2,056,751
Short-term deposits	2,332,680	2,984,509	-
<b>Cash and cash equivalents</b>	<b>3,652,267</b>	<b>3,261,057</b>	<b>2,056,751</b>

# KWG RESOURCES INC.

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### 7 MARKETABLE SECURITIES

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

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>Financial assets at fair value through OCI:</b>			
Strike Minerals Inc.			
3,452,217 common shares			
Cost	278,200	278,200	278,200
Unrealized gain (loss)	67,022	15,238	(174,633)
<b>Fair value of Strike Minerals Inc shares</b>	<b>345,222</b>	<b>293,438</b>	<b>103,567</b>
Spider Resources Inc.			
Nil common shares (250,000 Jan 1, 2010)			
Cost	-	-	15,000
Unrealized loss	-	-	(1,250)
<b>Fair value of Spider Resources Inc shares</b>	<b>-</b>	<b>-</b>	<b>13,750</b>
Copper Mesa Mining Inc.			
Nil common shares (353,488 Jan 1, 2010)			
Cost	-	-	97,596
Unrealized loss	-	-	(79,922)
<b>Fair value of Copper Mesa Mining Inc. shares</b>	<b>-</b>	<b>-</b>	<b>17,674</b>
<b>Total fair value of financial assets through OCI</b>	<b>345,222</b>	<b>293,438</b>	<b>134,991</b>

The Company records its portfolio of shares at available market prices with any excess of fair value above acquisition cost being recorded as gain on financial assets at fair value through OCI.

#### Sensitivity Analysis - Equity Price Risk

All of the Company's financial assets at fair value through OCI are listed on public stock exchanges. For such investments, a 10% increase in the equity prices at the reporting date would have increased equity by \$35,000, (as at December 31, 2010 - an increase of \$29,000) an equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

The analyses were performed on the same basis for 2011 and 2010.

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### 8 PROPERTY AND EQUIPMENT

	Automobiles	Computer Equipment	Office Equipment	Totals
Balance, January 1, 2010				
Cost	34,000	14,400	-	48,400
Accumulated amortization	(6,055)	(2,244)	-	(8,299)
<b>Net book value</b>	<b>27,945</b>	<b>12,156</b>	<b>-</b>	<b>40,101</b>
Additions	8,550	5,305	22,000	35,855
Disposals	(5,000)	(766)	-	(5,766)
Amortization	(9,488)	(8,803)	(3,667)	(21,958)
Balance, December 31, 2010				
Cost	37,550	18,939	22,000	78,489
Accumulated amortization	(15,543)	(11,047)	(3,667)	(30,257)
<b>Net book value</b>	<b>22,007</b>	<b>7,892</b>	<b>18,333</b>	<b>48,232</b>
Additions	-	2,113	-	2,113
Amortization	(3,129)	(2,632)	(1,100)	(6,861)
Balance, March 31, 2011				
Cost	37,550	21,052	22,000	80,602
Accumulated amortization	(18,672)	(13,679)	(4,767)	(37,118)
<b>Net book value</b>	<b>18,878</b>	<b>7,373</b>	<b>17,233</b>	<b>43,484</b>

### 9 MINERAL PROPERTY INTERESTS

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

	Balance as at January 1, 2010	Current Expend- itures	Write Downs	Balance as at December 31, 2010	Current Expend- itures	Balance as at March 31, 2011
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle (a)(b)(c)(d)	2,501,951	14,945	-	2,516,896	-	2,516,896
Spider No. 3 / McFaulds Lake (a)(e)	4,189,695	-	-	4,189,695	-	4,189,695
Wawa (a)(b)	156,944	-	-	156,944	-	156,944
Big Daddy (a)(f)	4,760,372	1,694,019	-	6,454,391	306,386	6,760,777
Diagnos (a)(b)	97,865	91,255	-	189,120	-	189,120
Pele Mountain (a)(b)(g)	479,278	77,600	-	556,878	5,500	562,378
Uniform Surround (b)(h)	7,950	-	-	7,950	-	7,950
East West option (i)	404,246	-	(202,123)	202,123	-	202,123
Railway infrastructure (j)	2,897,437	11,416,134	-	14,313,571	579,414	14,892,985
Smelter Royalty (k)	2,632,587	50,000	-	2,682,587	10,000	2,692,587
Victor West (l)	119,979	-	-	119,979	-	119,979
Other (m)	8,538	-	(8,538)	-	-	-
	18,256,842	13,343,953	(210,661)	31,390,134	901,300	32,291,434

(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



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

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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	<u>10,695,201</u>

- (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

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

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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. ("Freeswest") 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. This requirement was satisfied through the direct payment to Freewest shortly after the end of the quarter. 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 common 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

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deposit discovered by the Company providing development and production financing. During 2010, the Company incurred no expenditures on these claims.

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 efforts to explore and develop a transportation link to the Company's properties in Northern Ontario in order to increase the economic viability of these properties. These operations entailed a detailed analysis of railroad route alternatives, preliminary soils analysis and claim staking. This project was continued throughout 2010 and 2011. 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 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. A final agreement was negotiated on February 24, 2011 for the remaining payment owing of \$500,000. The Company paid \$100,000 in cash (\$50,000 in February 2011 and \$50,000 in March 2011) and in satisfaction of the remaining \$400,000 KWG issued 4,000,000 treasury units (Note 11(i)) to complete the transaction. 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. An additional financing payment of \$10,000 was paid in March due to timing delays in issuing these shares. Both financing payments have been capitalized in accordance with the Company's reporting policies.
- (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 2010.

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### 10 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.

### 11 SHARE CAPITAL

Authorized

An unlimited number of common shares

Issued

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

	Three month period ended March 31, 2011	Year ended December 31, 2010
Issued	Number of shares	Number of shares
Balance – Beginning of period	623,458,941	477,863,510
Issued for Canadian exploration expenses (ii)(iii)(v)(vi)	9,120,000	75,514,231
Issued for working capital requirements (iv)(vii)	-	26,882,390
Issued for settlement of liability re acquisition of mining assets (i)	4,000,000	-
Issued for agents' compensation (iii)(v)	-	1,488,128
Issued following exercise of warrants and compensation options	300,000	37,720,682
Issued following exercise of stock options	-	3,990,000
<b>Balance – End of period</b>	<b>636,878,941</b>	<b>623,458,941</b>

- (i) On February 24, 2011, the Company issued 4,000,000 treasury units valued at \$0.10 per unit in satisfaction of a debt owing in the amount of \$400,000. This debt related to the purchase of a 1-percent NSR (Note 9(k)). Each unit consists of one common share and 1 purchase warrant which entitles the holder to purchase one common share at a price of \$0.15 for a period of two years.

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

- (ii) On January 31, 2011 the Company completed the final tranche of a non-brokered private placement of 9,120,000 "flow-through" shares for a total cash consideration of \$1,185,600. These shares were issued for \$0.13 each.
- (iii) On December 31, 2010 the Company completed the first tranche of a non-brokered private placement of 13,956,923 "flow-through" shares for a total consideration of \$1,814,400.

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These shares were issued for \$0.13 each. Finders' fees consisting of 480,480 shares were paid to two qualified parties.

- (iv) 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.

- (v) 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(vi)). 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.

- (vi) 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.

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(vii) 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.

### 12 WARRANTS AND COMPENSATION OPTIONS

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

Issued	Three months ended March 31, 2011		Year ended December 31, 2010	
	Warrants	Compensation options	Warrants	Compensation options
Balance – Beginning of period	165,365,162	-	159,709,798	1,102,373
Issued as part of private placement of units (note 9(v)(vi))	-	-	44,219,849	-
Issued for settlement of debt re acquisition of mining assets (i)	4,000,000	-	-	-
Issued for agents' compensation (note 9(iii)(x))	-	-	503,824	-
Exercised	(300,000)	-	(36,618,309)	(1,102,373)
Expired	-	-	(2,450,000)	-
<b>Balance – End of period</b>	<b>169,065,162</b>	<b>-</b>	<b>165,365,162</b>	<b>-</b>

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

A summary of the Company's outstanding warrants and compensation options as at March 31, 2011 is presented below:

Number of warrants	Exercise price	Expiry date
2,416,269	0.10	October 2011
19,495,000	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
4,000,000	0.15	February 2012
17,208,015	0.05/0.10 U.S.	March 2014
9,310,839	0.05/0.10 U.S.	April 2014

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15,000,000	0.10	July 2014
26,400,000	0.10	August 2014
<hr/>		
<b>169,065,162</b>		
<hr/>		

### 13 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 March 31, 2011, the Plan provides (i) that the maximum number of common shares that may be reserved for issuance under the Plan shall be equal to 10% of the number of issued and outstanding common shares; (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant; and (iii) that the maximum number of common shares that may be reserved for issuance to insiders of the Company is limited to 10% of the common shares outstanding at the time of the grant.

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

# KWG RESOURCES INC.

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

### Options at a fixed price

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number of shares	Average exercise price	Number of shares	Average exercise price
Balance – Beginning of period	58,343,200	0.10	30,032,280	0.11
Granted	3,500,000	0.15	38,545,000	0.10
Exercised	-	-	(3,990,000)	-
Cancelled or expired	-	-	(6,244,080)	0.15
<b>Balance – End of period</b>	<b>61,843,200</b>	<b>0.11</b>	<b>58,343,200</b>	<b>0.10</b>

The following table summarizes information about options outstanding and exercisable as at March 31, 2011:

Exercise price	Number of options	Outstanding options	Exercisable options
		Average contractual life (in years)	
0.10	26,388,200	2.69	18,804,013
0.12	5,410,000	1.66	5,410,000
0.125	24,545,000	4.10	15,340,625
0.14	1,500,000	4.25	937,500
0.15	4,000,000	3.74	1,375,000
	<b>61,843,200</b>		<b>41,867,138</b>

Total stock compensation costs for the period ended March 31, 2011 amounted to \$419,825 (2010 – \$67,823).

The fair value of the options granted in 2011 and 2010 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	Mar 2011	May 2010	June 2010	Dec 2010
Average dividend per share	Nil	Nil	Nil	Nil
Estimated volatility	164.85%	170.72%	172.55%	167.94%
Risk-free interest rate	1.3%	0.98%	1.14%	1.37%
Expected life of the options granted	5 years	5 years	5 years	5 years
Weighted average of estimated fair value of each option granted	\$0.108	\$0.084	\$0.13	\$0.094



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

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### **14 RELATED PARTY TRANSACTIONS**

In the first quarter of 2011, officers and companies controlled by officers charged consulting fees totalling \$51,561 (\$61,438 in 2010) of which \$21,945 remained payable at March 31, 2011 (\$35,761 in 2010) and directors of the Company and a company controlled by a director of the Company were paid nil (\$30,728 in 2010) for professional consulting services of which nil remained payable at March 31, 2011 (nil in 2010). Directors' fees paid for the first quarter of 2011 totalled \$18,000 (\$11,600 in 2010).

### **15 COMMITMENTS**

Pursuant to flow-through financing agreements closed during the year ended December 31, 2010 the Company must incur \$634,479 in exploration expenses by December 31, 2011. Pursuant to flow-through financing agreements closed during the first three months of 2011 the Company must incur an additional \$1,185,600 in exploration expenses by December 31, 2012.

### **16 SUBSEQUENT EVENTS**

- (i) On June 9, 2011 KWG acquired 7,000,000 common shares and 7,000,000 warrants (each warrant entitling the holder to purchase one common share for \$0.10 on or before June 9, 2013) in GoldTrain Resources Inc. ("GoldTrain") for a total consideration of \$350,000. The transaction was accomplished through a debt settlement agreement between KWG and GoldTrain. Prior to the signing of this agreement, KWG lent its investment in 3,452,217 common shares of Strike Minerals Inc. (note 7) to GoldTrain. GoldTrain subsequently sold these shares in a series of transactions. Both parties agreed to have this debt settled through the issuance of the GoldTrain shares, the value of which was determined to be \$350,000. KWG's holdings represent approximately 16.88% of the issued and outstanding common shares of GoldTrain and approximately 35.5% of the outstanding warrants.

### **17 EXPLANATION OF TRANSITION TO IFRS**

As stated in Note 2(a), these are KWG's first financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the periods ended March 31, 2011 and 2010, the comparative balance sheet information presented in these financial statements as at December 31, 2010 and the opening IFRS balance sheet as at January 1, 2010 (KWG's date of transition).

In preparing its opening IFRS balance sheet, KWG has adjusted amounts reported previously in financial statements prepared in accordance with predecessor Canadian GAAP in effect for the Company prior to the transition date ("pre-transition Canadian GAAP"). An explanation of how the transition from pre-transition Canadian GAAP to IFRS has affected KWG's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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The January 1, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

		January 1, 2010		
	Notes	Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		2,056,751	-	2,056,751
Receivables		216,486	-	216,486
Marketable securities	(i)	134,991	-	134,991
Prepaid expenses		25,022	-	25,022
<b>Total current assets</b>		<b>2,433,250</b>	-	<b>2,433,250</b>
<b>Non-current assets</b>				
Property and equipment	(b)	40,101	-	40,101
Mineral property interests	(c),(d)	18,256,842	-	18,256,842
<b>Total non-current assets</b>		<b>18,296,943</b>	-	<b>18,296,943</b>
<b>Total assets</b>		<b>20,730,193</b>	-	<b>20,730,193</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables		1,961,496	-	1,961,496
Deferred liability	(e)	-	40,178	40,178
Warrant liability	(f)	-	932,994	932,994
<b>Total current liabilities</b>		<b>1,961,496</b>	<b>973,172</b>	<b>2,934,668</b>
<b>Equity</b>				
Share capital	(e)	17,039,499	(76,500)	16,962,999
Warrants	(e)	4,031,086	(942,994)	3,088,092
Contributed surplus		3,258,431	-	3,258,431
Accumulated other comprehensive income	(i)	(255,805)	-	(255,805)
Deficit	(j)	(5,304,514)	46,322	(5,258,192)
<b>Total equity</b>		<b>18,768,697</b>	<b>(973,172)</b>	<b>17,795,525</b>
<b>Total liabilities and equity</b>		<b>20,730,193</b>	-	<b>20,730,193</b>

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The March 31, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	Notes	March 31, 2010		
		Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		3,712,118	-	3,712,118
Receivables		790,192	-	790,192
Marketable securities	(i)	202,611	-	202,611
Prepaid expenses		19,945	-	19,945
<b>Total current assets</b>		<b>4,724,866</b>	<b>-</b>	<b>4,724,866</b>
<b>Non-current assets</b>				
Property and equipment	(b)	60,592	-	60,592
Mineral property interests	(c),(d)	25,767,877	-	25,767,877
<b>Total non-current assets</b>		<b>25,828,469</b>	<b>-</b>	<b>25,828,469</b>
<b>Total assets</b>		<b>30,553,335</b>	<b>-</b>	<b>30,553,335</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables		7,402,736	-	7,402,736
Deferred liability	(e)	-	25,927	25,927
Warrant liability	(f)	-	932,994	932,994
<b>Total current liabilities</b>		<b>7,402,736</b>	<b>958,921</b>	<b>8,361,657</b>
<b>Equity</b>				
Share capital	(e)	21,287,218	(690,481)	20,596,737
Warrants	(e)	4,941,001	(1,109,394)	3,831,607
Contributed surplus		3,326,255	-	3,326,255
Accumulated other comprehensive income	(i)	(188,185)	-	(188,185)
Deficit	(j)	(6,215,690)	840,954	(5,374,736)
<b>Total equity</b>		<b>23,150,599</b>	<b>(958,921)</b>	<b>22,191,678</b>
<b>Total liabilities and equity</b>		<b>30,553,335</b>	<b>-</b>	<b>30,553,335</b>

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The Canadian GAAP consolidated interim statement of operations and comprehensive income for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

	Notes	For the three months ended March 31, 2010		
		Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
General and administrative		(489,879)	-	(489,879)
Amortization of property and equipment	(b)	(5,635)	-	(5,635)
Stock compensation costs	(g)	(67,823)	-	(67,823)
Gain on foreign exchange		47,187	-	47,187
<b>Operating loss</b>		<b>(516,150)</b>	<b>-</b>	<b>(516,150)</b>
Finance and other income	(h)	978	40,178	41,156
<b>Net finance income (costs)</b>		<b>978</b>	<b>40,178</b>	<b>41,156</b>
<b>Profit (loss) for the period before income tax</b>		<b>(515,172)</b>	<b>40,178</b>	<b>(474,994)</b>
Deferred Income tax recovery	(e)	1,022,000	(663,550)	358,450
<b>Net profit (loss) for the period</b>		<b>506,828</b>	<b>(623,372)</b>	<b>(116,544)</b>
Deficit – Beginning of the period	(j)	(5,304,514)	46,322	(5,258,192)
Share and warrant issue expenses	(e)	(1,418,004)	1,418,004	-
<b>Deficit – End of the period</b>		<b>(6,215,690)</b>	<b>840,954</b>	<b>(5,374,736)</b>
<b>Loss per share (basic and diluted)</b>		<b>(0.00)</b>		<b>(0.00)</b>

## Consolidated Statements of Comprehensive Income (loss)

(in Canadian dollars)	Notes	For the three months ended March 31, 2010		
		Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
Net profit (loss) for the period		506,828	(623,372)	(116,544)
Other Comprehensive Income (“OCI”)				
Net change in fair value of financial assets	(i)	67,620	-	67,620
<b>Total Comprehensive Income (Loss) for the Period</b>		<b>574,448</b>	<b>(623,372)</b>	<b>(48,924)</b>

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The December 31, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

		December 31, 2010		
	Notes	Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		3,261,057	-	3,261,057
Receivables		392,110	-	392,110
Marketable securities	(i)	293,438	-	293,438
Prepaid expenses		28,079	-	28,079
<b>Total current assets</b>		<b>3,974,684</b>	<b>-</b>	<b>3,974,684</b>
<b>Non-current assets</b>				
Property and equipment	(b)	48,232	-	48,232
Mineral property interests	(c),(d)	31,340,134	50,000	31,390,134
<b>Total non-current assets</b>		<b>31,388,366</b>	<b>50,000</b>	<b>31,438,366</b>
<b>Total assets</b>		<b>35,363,050</b>	<b>50,000</b>	<b>35,413,050</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables		1,412,459	-	1,412,459
Deferred liability	(e)	-	-	-
Warrant liability	(f)	-	782,842	782,842
<b>Total current liabilities</b>		<b>1,412,459</b>	<b>782,842</b>	<b>2,195,301</b>
Non-controlling interests		61,186	(61,186)	-
<b>Equity attributable to owners of the parent</b>				
Share capital	(e)	31,369,877	(2,331,263)	29,038,614
Warrants	(e)	6,628,687	(1,679,984)	4,948,703
Contributed surplus		6,054,920	-	6,054,920
Accumulated other comprehensive income	(i)	15,238	-	15,238
Deficit	(j)	(10,179,317)	3,278,405	(6,900,912)
		<b>33,889,405</b>	<b>(732,842)</b>	<b>33,156,563</b>
Non-controlling interests	(k)	-	61,186	61,186
<b>Total equity</b>		<b>33,889,405</b>	<b>(671,656)</b>	<b>33,217,749</b>
<b>Total liabilities and equity</b>		<b>35,363,050</b>	<b>50,000</b>	<b>35,413,050</b>

# KWG RESOURCES INC.

(An exploration stage company)

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

The Canadian GAAP consolidated statement of operations and comprehensive income for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Notes	For the year ended December 31, 2010		
		Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
General and administrative		(3,390,245)	-	(3,390,245)
Amortization of property and equipment	(b)	(24,350)	-	(24,350)
Stock compensation costs	(g)	(2,759,655)	-	(2,759,655)
Write-down and write-off of mining assets		(210,662)	-	(210,662)
Realized loss on temporary investments		(65,096)	-	(65,096)
Gain on foreign exchange		48,735	-	48,735
<b>Operating loss</b>		<b>(6,401,273)</b>	<b>-</b>	<b>(6,401,273)</b>
Finance and other income	(h)	49,756	244,755	294,511
Termination fee		2,300,000	-	2,300,000
Finance costs	(c)	(50,000)	50,000	-
<b>Net finance and other income</b>		<b>2,299,756</b>	<b>294,755</b>	<b>2,594,511</b>
<b>Profit (loss) for the year before income tax</b>		<b>(4,101,517)</b>	<b>294,755</b>	<b>(3,806,762)</b>
Deferred Income tax recovery	(e)	1,022,000	1,093,050	2,115,050
<b>Net profit (loss) for the year</b>		<b>(3,079,517)</b>	<b>1,387,805</b>	<b>(1,691,712)</b>
Less: portion attributable to non-controlling interest in earnings of subsidiary	(k)	8,814	-	8,814
<b>Net profit (loss) attributable to equity holders of KWG Resources Inc.</b>		<b>(3,070,703)</b>	<b>1,387,805</b>	<b>(1,682,898)</b>
Deficit – Beginning of the year	(j)	(5,304,514)	86,500	(5,218,014)
Share and warrant issue expenses	(e)	(1,804,100)	1,804,100	-
<b>Deficit – End of the year</b>		<b>(10,179,317)</b>	<b>3,278,405</b>	<b>(6,900,912)</b>
<b>Loss per share (basic and diluted)</b>		<b>(0.01)</b>		<b>(0.00)</b>

## Consolidated Statements of Comprehensive Income (loss)

(in Canadian dollars)	Notes	For the year ended December 31, 2010		
		Pre-transition Canadian GAAP	Effect of Transition to IFRS	IFRS
Net profit (loss) for the year		(3,079,517)	1,433,102	(1,646,415)
Other Comprehensive Income ("OCI")				
Net change in fair value of financial assets	(i)	271,043	-	271,043
<b>Total Comprehensive Income (Loss) for the Year</b>		<b>(2,808,474)</b>	<b>1,433,102</b>	<b>(1,375,372)</b>
Portion attributable to non-controlling interest	(k)	8,814	-	8,814
<b>Portion attributable to equity holders of KWG Resources Inc.</b>		<b>(2,799,660)</b>	<b>1,433,102</b>	<b>(1,366,558)</b>

# **KWG RESOURCES INC.**

(An exploration stage company)

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

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### ***a) Adjustments to the Statement of Cash Flows for 2010***

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under pre-transition Canadian GAAP.

### ***b) Property and equipment***

The Company has chosen to continue to account for its property and equipment using the cost model. The Company reviewed its property and equipment for impairment as at the transition date and determined that no impairment existed.

### ***c) Mineral property interests***

Previously the Company had expensed financing charges related to one of its projects. Under IFRS such charges are required to be capitalized. An adjustment has been made in order to conform with the new standard.

The Company has elected to continue to capitalize exploration costs; furthermore, the Company believes that the value of mineral property interests does not contain any material costs which were incurred prior to securing the legal right to explore the properties.

### ***d) Impairment of mineral property interests***

Under pre-transition Canadian GAAP, the Company evaluated its exploration and development projects for impairment. At the date of transition, the Company assessed whether this change would require a write down of its mineral property interests and determined that no adjustment was required.

### ***e) Flow-through share financing***

Under pre-transition Canadian GAAP, the Company accounted for the tax effects of renouncing expenditures in favour of its investors upon formal renunciation to the Canada Revenue Agency ("CRA") on its deadline of February 28 in each year. Furthermore, the Company recorded the entire amount of financing received as equity in share capital with an appropriate apportionment of proceeds to any warrants issued. Under IFRS, the Company's selected accounting treatment requires recognition of the tax effects of renunciation upon incurring expenditures related to the flow-through shares, as well as an identification of the premium associated with the tax benefits passed on to the subscribers of the flow-through shares and amortization thereof to operations upon incurring expenditures related to the flow-through shares. Flow-through expenditures are sometimes made in different reporting periods than the one in which formal renunciation to the CRA takes place. Furthermore, under IFRS, share issuance costs which were previously charged directly to deficit must be allocated against the equity accounts pro-rata with the recording of the original investment receipts.

The accounting policy determined by the Company is reflected in Note 3.

There is no applicable exemption available to the Company and the cumulative impact of the bifurcation of the flow-through premium as well as the different treatment of renunciation must be made. The Company made a best efforts attempt to calculate the historic impact of renunciation and premium recognition based upon the presently available information; given that historic differences would represent a reclassification between share capital and deficit upon transition, both of which are components of equity, the Company considers that any differences are not material.

# KWG RESOURCES INC.

(An exploration stage company)

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

The impact arising from the change is summarized as follows:

<b>Effect on Balance sheets</b>	<b>December 31, 2010</b>	<b>March 31, 2010</b>	<b>January 1, 2010</b>
Decrease to share capital	1,640,782	613,981	76,500
Decrease to warrants	570,590	166,400	10,000
Set up deferred liability for flow-through premium	94,603	25,927	86,500
Decrease to flow-through premium upon incurring of renounced expenses	120,530	40,178	46,322
Increase to deficit	2,237,299	794,632	46,322

### **f) Warrant liability**

Under IAS 32, a foreign currency warrant will be classified as equity only if the instrument can be settled by delivery of a fixed number of equity shares in exchange for a fixed amount of cash. If an instrument fails this test it is treated as the issuance of a derivative financial liability. The Company has a number of outstanding warrants with an exercise price denominated in United States dollars while the Company's functional currency is the Canadian dollar. These warrants are now shown on the Balance Sheet as Warrant Liability. Under pre-transition Canadian GAAP, these warrants were included in equity. The liability account will be drawn down as the warrants are exercised or upon their expiration date.

### **g) Share-based payments**

The Company has elected under IFRS 1 not to adopt retroactive application of fair value accounting on options issued and fully vested before the transition date. At the date of transition, the Company reviewed all unvested stock options and determined that no adjustments were necessary since the Company does not provide for forfeitures in its calculations of the fair value of the stock options due to the fact it has experienced only very minimal forfeitures in the past.

Accordingly, there are no differences arising from the transition to IFRS.

### **h) Finance income and finance costs**

Under IFRS there are several reclassifications required to report components of net finance income.

The reclassifications are summarized as follows:

<b>Statement of Operations</b>	<b>Year ended December 31, 2010</b>	<b>Three months ended March 31, 2010</b>
<b>Finance and Other Income</b>		
Interest income	15,006	197
Income recognized on exercise of warrants designated as liabilities	150,152	-
Other income	34,750	781
Premium on flow-through spending	94,603	40,178
	<b>294,511</b>	<b>41,156</b>



# KWG RESOURCES INC.

(An exploration stage company)

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

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### *j) IFRS 9 - Financial instruments*

The Company has chosen to early-adopt the provisions of IFRS 9 whereby it has made a determination for each of its marketable securities as to whether it will be accounted for through operations or through OCI. This will not be a retroactive adjustment but will be adopted prospectively from January 1, 2010. Once a determination is made, all gains or losses arising on each marketable security is recorded either through operations or through OCI; the concepts under pre-transition Canadian GAAP of realized and unrealized gains being treated differently and permanent impairment no longer exist. The Company has determined to account for the changes in value of its portfolio of shares through OCI.

### *j) Deficit*

The impact arising from the matters discussed above, have the following effects on the Company's deficit:

<b>Balance Sheets</b>	<b>December 31, 2010</b>	<b>March 31, 2010</b>	<b>January 1, 2010</b>
Effect of flow-through financings	2,237,299	794,632	46,322
Drawdown of warrant liability on exercise of warrants	200,152	-	-
	<u>2,437,451</u>	<u>794,632</u>	<u>46,322</u>

### *k) Non-controlling interest*

Under IFRS, non-controlling interests in the Company's subsidiary are classified as a separate component of equity. On initial recognition, non-controlling interest was measured at their proportionate share of the identifiable book value of net assets of the subsidiary. Subsequent to acquisition date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interests' share of changes to the subsidiary's equity.

There was no effect at the transition date and for the period ended March 31, 2010. For the year ended December 31, 2010 the net effect was a re-classification of the non-controlling interest from between liabilities and equity to an equity component.