KWG RESOURCES INC.

(An exploration stage company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

PRICEWATERHOUSECOOPERS

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April 23, 2010

Auditors' Report

To the Shareholders and Directors of
KWG Resources Inc.

We have audited the consolidated balance sheets of KWG Resources Inc. (the Company) as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive loss, shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

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KWG Resources Inc.

(An exploration stage company)

Consolidated Balance Sheets

As at December 31, 2009 and 2008

	2009 **$**	**2008** **$**
Assets		
Current assets		
Cash (note 5)	2,056,751	1,528,897
Accounts receivable	216,486	96,059
Temporary investments (note 6)	134,991	152,722
Prepaid expenses	25,022	23,062
	2,433,250	1,800,740
Capital assets (note 7)	40,101	-
Mining assets (note 8)	18,256,842	9,701,315
	20,730,193	11,502,055
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,961,496	505,826
Shareholders' Equity		
Share capital (note 9)	17,039,499	27,835,259
Warrants and compensation options (note 10)	4,031,086	1,637,809
Contributed surplus (note 12)	3,258,431	2,626,615
Deficit	(5,304,514)	(20,877,880)
Accumulated other comprehensive loss (note 13)	(255,805)	(225,574)
	18,768,697	10,996,229
	20,730,193	11,502,055

Nature of Operations and Going Concern (note 1)

Approved by the Board of Directors

(s) ______________________________ Director

(s) ______________________________ Director

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2009 and 2008

	2009 $	2008 $
Income		
Gain on disposal of royalty (note 8(j))	-	117,751
Interest income	20,005	93,036
	20,005	210,787
Expenses		
Administrative	2,708,367	1,030,819
Amortization	8,300	-
Part XII.6 taxes	-	86,000
Stock compensation costs (note 11)	252,266	448,037
Warrants extension cost (note 10)	660,000	-
Write-down and write-off of mining assets (note 8)	-	10,829,266
Unrealized loss on temporary investment (note 6(b))	47,500	88,566
Loss on exchange	443,898	-
	4,120,331	12,482,688
Loss before income tax	(4,100,326)	(12,271,901)
Future income tax recovery (note 14)	105,000	1,140,000
Loss for the year	(3,995,326)	(11,131,901)
Deficit – Beginning of year	(20,877,880)	(8,546,676)
Share and warrant issue expenses	(431,308)	(1,199,303)
Reduction of deficit	20,000,000	-
Deficit – End of year	(5,304,514)	(20,877,880)
Loss per share	(0.01)	(0.04)
Weighted average number outstanding shares	364,914,105	265,482,144

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2009 and 2008

	2009 $	2008 $
Loss for the year	(3,995,326)	(11,131,901)
Other Comprehensive loss		
- Change in unrealized loss on financial assets available-for-sale	(47,085)	(189,210)
Comprehensive Loss	(4,042,411)	(11,321,111)

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

Cash flows from	**2009** **$**	**2008** **$**
Operating activities		
Loss for the year	(3,995,326)	(11,131,901)
Adjustments for		
Amortization of capital assets	8,300	-
Stock compensation costs (note 11)	252,266	448,037
Write-down and write-off of mining assets	-	10,829,266
Write-off of accounts receivable	-	2,007
Unrealized loss on temporary investment (note 6(b))	47,500	88,566
Warrants extension cost	660,000	-
Future income tax recovery (note 14)	(105,000)	(1,140,000)
	(3,132,260)	(904,025)
Change in non-cash working capital items	1,333,283	354,619
	(1,798,977)	(549,406)
Financing activities		
Share capital issued	8,326,414	537,720
Warrants and compensation options issued	1,861,526	101,020
Share and warrant issue expenses	(164,259)	(46,370)
	10,023,681	592,370
Investing activities		
Additions to mining assets	(7,585,527)	(3,631,951)
Acquisition of temporary investments (note 6)	(60,000)	(354,266)
Acquisition of capital assets	(48,401)	-
	(7,693,928)	(3,986,217)
Effect of exchange rate changes on cash	(2,922)	-
Net change in cash and cash equivalents during the year	527,854	(3,943,253)
Cash and cash equivalents – Beginning of year	1,528,897	5,472,150
Cash and cash equivalents – End of year	2,056,751	1,528,897
Change in non-cash working capital items comprises:		
Accounts receivable	(120,427)	(37,531)
Prepaid expenses	(1,960)	(15,756)
Accounts payable and accrued liabilities	1,455,670	407,906
	1,333,283	354,619
Additional information - non-cash transactions		
Issuance of shares/warrants for mining assets	970,000	68,000
Issuance of agent compensation options	18,740	12,933
Expired warrants included in contributed surplus	378,998	182,070
Additions to mining assets included in accounts payable	1,502,796	77,708

1 Nature of Operations and Going Concern

KWG Resources Inc. (the "Company"), an exploration stage company, is involved in the exploration of base and precious metals and diamonds and in the development of a transportation link to access the remote areas where these are located. It has interests in properties located in Canada at the exploration stage.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future.

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

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

For the year ended December 31, 2009, the Company incurred a loss of $3,995,326 ($11,131,901 for the year ended December 31, 2008). Cash as at December 31, 2009 amounted to $2,056,751 ($1,528,897 as at December 31, 2008) including funds reserved for exploration of $1,433,801 ($369,808 as at December 31, 2008). Accounts payable and accrued liabilities as at December 31, 2009 amounted to $1,961,496 ($505,826 as at December 31, 2008). 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, there would be significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Debuts Diamonds Inc. ("DDI"), incorporated in Ontario, Canada on October 18, 2007, which owns all the issued and outstanding shares of SMD Mining Corporation ("SMD") incorporated in Ontario, Canada in January, 2008 and Canada Chrome Corporation (formerly Chrome Canada Corporation) incorporated in Ontario, Canada on July 15, 2009.

Use of estimates

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

Cash and cash equivalents

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

Capital assets

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

Computer & office equipment	-	2 years
Automobiles	-	3 years

Mining assets

Exploration properties include rights in mining properties and deferred exploration expenses.

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

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

Impairment of long-lived assets

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

Flow-through shares

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

Stock option plan

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

Foreign currency translation

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

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting values and tax values of assets and liabilities using substantively enacted or enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some or all of the income tax assets will not be realized.

Share and warrant issue expenses

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

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year.

Related Party Transactions

Related party transactions occurred in the normal course of business and were recorded at the exchange value, reflecting the consideration determined and agreed to by the parties.

Financial instruments - Recognition and measurement

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

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

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

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

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

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

The Company has adopted the following classification:

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

3 Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the following guidance of the Canadian Institute of Chartered Accountants’ Handbook (“CICA”) Handbook.

CICA Handbook Section 3031, "Inventories", relates to the accounting for inventories and revises and enhances the requirements for assigning costs to and disclosure of inventories. The Company records all major spare parts inventory in Property, plant and equipment in accordance with CICA Handbook Section 3031. There was no impact on the financial statements as a result of adoption of this standard.

CICA Handbook Sections 3862, "Financial Instruments – Disclosures", and CICA Handbook Section 3863, "Financial Instruments – Presentation", replaces CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurements.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides guidance for the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

In March 2009, the CICA approved EIC 174, "Mining Exploration Costs". This guidance clarified when exploration costs related to mineral properties may be capitalized and, if exploration costs are initially capitalized, when should impairment be assessed to determine whether a write-down is required. The guidance further clarified what conditions indicate impairment. This guidance is applicable to financial statements filed after March 27, 2009. The Company has considered this guidance in assessing the value of its mineral properties and has determined that there is no impairment in value at December 31, 2009.

Future accounting changes

Business Combinations/Consolidated Financial Statement/Non-Controlling Interest

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

Goodwill and Intangible Assets – Section 3064

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 "Goodwill and Intangible Assets" which replaces "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It ensures that intangible assets meet the definition of an asset, and eliminates the "matching" principle, whereby certain costs were being deferred and expensed to match with revenue earned. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. This change has no impact on the Company since it does not apply to extractive industries.

4 Capital management

The capital of the Company consists of items included in the shareholder's equity of $18,768,697 as of December 31, 2009 ($10,996,229 as of December 31, 2008). In order to maximize its ongoing exploration activities, the Corporation will not pay any dividends in cash.

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2009.

5 Cash

As at December 31, 2009, cash includes an amount of $1,433,801 (2008 – $369,808) reserved for new exploration activities to be conducted in Canada before December 31, 2010.

6 Temporary investments

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

	2009 **$**	**2008** **$**
Spider Resources Inc. ("Spider") 250,000 common shares, quoted market value of $13,750 (2008 − 250,000 common shares, quoted market value of $7,500)	15,000	15,000
Copper Mesa Mining (formerly Ascendant Copper Corporation) ("Mesa") 353,488 common shares, quoted market value of $17,674 (a) (2008 – 353,488 common shares quoted market value of $12,372)(a)	97,596	97,596
Strike Minerals Inc. ("Strike") 3,452,217 common shares, quoted market value of $103,567 (2008 – 2,952,217 common shares quoted market value of $132,850) (b)	278,200	265,700
Cost	390,796	378,296
Unrealized loss	(255,805)	(225,574)
Fair value of temporary investments	134,991	152,722

(a) On March 27, 2008, Mesa completed the acquisition of all of St. Geneviève's issued and outstanding shares. As a result, St. Geneviève is now a wholly-owned subsidiary of Mesa. In connection with the acquisition, St. Geneviève's shareholders received one Mesa share for each 6.5394054 St. Geneviève shares held.

(b) As at December 31, 2008, the assets of SMD included 2,952,217 shares of Strike purchased at a price of $354,266. As the purchase price exceeded the quoted market value at the date of purchase, an unrealized loss of $88,566 was recorded in the 2008 Consolidated Statements of Operations and Deficit. In February 2009, SMD acquired a further 500,000 shares of Strike for a consideration of $60,000 as committed for in 2008. Since the purchase price exceeded the quoted market value at the date of acquisition, an unrealized loss of $47,500 has been recorded in the 2009 Consolidated Statements of Operations and Deficit.

7 Capital Assets

	December 31, 2009		$	December 31, 2008		$
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Computer & office equipment	14,400	2,244	12,156	-	-	-
Automobiles	34,000	6,055	27,945	-	-	-
	48,400	8,299	40,101	-	-	-

8 Mining assets

	2009 $	2008 $
Cost and deferred exploration expenses	18,256,842	9,658,935
Deposits on mining assets	-	42,380
	18,256,842	9,701,315

Exploration properties

	Cost		Deferred exploration expenses		Total	Total
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle (a)(b)(c)(d)	264,867	264,867	2,237,084	2,187,948	2,501,951	2,452,815
Spider No. 3 / McFaulds Lake (a)(e)	156,281	156,281	4,033,414	4,033,414	4,189,695	4,189,695
Wawa (a)(b)	64,995	64,995	91,949	91,949	156,944	156,944
Freewest (a)(f)	58,900	58,900	4,701,472	1,940,474	4,760,372	1,999,374
Diagnos (a)(b)	19,065	19,065	78,800	78,800	97,865	97,865
Pele Mountain (a)(b)(g)	109,676	109,676	369,602	242,856	479,278	352,532
Uniform Surround (b)(h)	7,747	7,747	203	203	7,950	7,950
East West option (i)	128,849	128,849	275,397	264,373	404,246	393,222
Railway infrastructure (k)	2,897,437	-	-	-	2,897,437	-
Smelter Royalty (l)	2,632,587	-	-	-	2,632,587	-
Victor West (m)	119,979	-	-	-	119,979	-
Other	5,289	5,289	3,249	3,249	8,538	8,538
	6,465,672	815,669	11,791,170	8,843,266	18,256,842	9,658,935

(a) On May 15, 2006, the Company and Spider Resources Inc. ("Spider") agreed to amend and revise their joint venture agreement. The companies agreed to treat each project in their joint venture as a separate joint venture, to enable each company to either increase or decrease its interest in a project based upon their respective strategic objectives. The Company and Spider agreed to have their respective interest established at 50% in all the current projects of the joint venture.

Each party agreed to have its interest 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.

Write-down and write-off of mining properties	**2009** **$**	**2008** **$**
Write-down		
MacFadyen	-	9,120,028
Wawa	-	615,355
Pele Mountain	-	885,104
Uniform	-	31,170
Diagnos	-	43,544
	-	10,695,201
Write-off		
Geraldton	-	116,065
Greenstone	-	18,000
	-	134,065
Total	**-**	**10,829,266**

(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) royalty on all mineral products that may be produced from the property. KWG/Spider did not exercise the option to buy back one third (0.5%) of the royalty for a purchase price of $1,500,000 prior to April 30, 2008.

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 $4.5 million prior to March 6, 2011. 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 million 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 million prior to March 6, 2009 to obtain an additional 15% of the property package. In year three, UC was required to spend a further $1.25 million prior to March 6, 2010 to obtain a further 15% of the property package. All three of these commitments have been fulfilled by UC at this time for a completed 40% interest.

A final incremental interest of 15% can be earned by UC if it spends $1.25 million prior to March 6, 2011, thus making UC's total commitment $4.5 million in exploration expenditures.

(f) In December 2005, KWG/Spider entered into an agreement with Freewest Resources Canada Inc. for the acquisition of a 25% interest in certain mining property claims contiguous to McFauld's Lake in Ontario. The contribution of the Company included a commitment to carry out exploration work in the amount of $1,500,000 before October 13, 2009 of which at least $200,000 was incurred before February 28, 2006; and accordingly, each of KWG and Spider has earned a 25% interest of the property.

On March 27, 2009, the Company negotiated an amendment to the Freewest Option Agreement whereby the option earn-in calls for a $15 million, 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 $7.5 million commitment over the next three years, of which $2.5 million would be required to be spent before March 31, 2010. In early 2010, Freewest was served with a notice that this first commitment had been met.

(g) In July 2006, the Company acquired from Pele Mountain Resources Inc. certain Attawapiskat River claims located in the Porcupine Mining Division in the Province of Ontario in consideration for 10,127,860 treasury shares. The transaction was recorded at the fair value of the common shares given up at the date of the transaction. The fair value of the common shares was determined based on the quoted value of the shares. The mineral rights transferred are subject to a 1.0% net product royalty, of which 0.5% may be purchased at any time for $5,000,000. During the year, the Company staked additional claims for total cost including inherent acquisition expenses of $126,746.

(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 JV 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 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 must incur exploration expenditures of $250,000 in each of 2008 and 2009 and an additional $1,000,000 by August 2012 to earn 60%. An additional 5% may be earned in any mineral deposit discovered by the Company providing development and production financing. During the year, the Company incurred $11,024 ($264,373 in 2008) in exploration expenses.

(j) In December 2004, the Company disposed of its interest in Haiti in consideration for work commitments from the purchaser and a 1.5% NSR on all mineral products from the Haitian properties. The purchaser has the right to buy back the NSR by paying to the Company US$750,000 in two installments of (i) US$250,000 and (ii) US$500,000 respectively. In 2008, the Company agreed to reduce the remaining price of repurchase of the royalty to US$100,000 and received the last two installments totaling $117,751 (US$100,000). This amount was recorded as a gain on disposal of royalty since all Haitian properties had been written off in accordance with the Company's accounting principles.

(k) During the year, the Company through its wholly-owned subsidiary Canada Chrome Corporation, commenced operations in an effort to explore and develop a transportation link to the Company's properties in Northern Ontario in order to increase the economic viability of these properties. These operations entailed a detailed analysis of railroad route alternatives, preliminary soils analysis and claim staking. All costs related to this project have been capitalized.

(l) On July 22, 2009, the Company completed the purchase of a 1% net smelter royalty in the Black Thor, Black Label and Big Daddy chrome discoveries in the James Bay lowlands for cash consideration of $1,635,000 including $635,000 payable at the closing of the transaction and a further $1 million payable within one year, and the issuance of 15 million common shares and 15 million common share purchase warrants, with each share purchase warrant entitling the holder to purchase a common share at a price of 10 cents for a period of five years. The common shares have been valued at $600,000 and the warrants at $370,000 (Note 9(iii)) making the total cost of the purchase $2,605,000. Additional ancillary costs of $27,587 were also incurred and these have been capitalized. Included in accounts payable at the end of the year is the amount of $1,000,000 related to the purchase, which is due in July 2010.

(m) The Company, through its wholly-owned subsidiary DDI, purchased 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 during the year. All costs related to this purchase have been capitalized.

Cost and deferred exploration expenses	**2009** **$**	**2008** **$**
Balance – Beginning of year	9,658,935	16,897,432
Acquisition, staking and permits	5,650,003	165,845
Write-down and write-off of mining assets	-	(1,900,130)
	5,650,003	(1,734,285)
Exploration expenses		
Drilling	1,211,890	2,051,619
Geology	848,873	-
Geophysics	147,843	391,078
Sampling	103,876	118,640
Consulting	127,129	451,672
Field preparation	3,811	5,859
Management	170,439	145,211
Line cutting and road	55,658	154,931
Camp expenses	121,641	105,914
Resource studies	43,809	-
Drafting	14,080	-
Planning	33,891	-
Fuel	45,955	-
Survey	19,009	-
Write-down and write-off of mining assets	-	(8,929,136)
	2,947,904	(5,504,212)
Balance – End of year	18,256,842	9,658,935

9 Share capital

Authorized

An unlimited number of common shares

Issued

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

	2009		**2008**	
	Number of shares	**Amount** **$**	**Number of shares**	**Amount** **$**
Balance – Beginning of year	288,134,821	27,835,259	262,863,821	27,212,107
Issued for Canadian exploration expenses (iv)(v)(vii)	67,489,920	4,086,845	18,475,000	369,500
Less: Value of warrants	-	(754,582)	-	(66,510)
Issued for working capital requirements (i)(ii)(iv)(viii)	80,334,056	4,825,226	4,000,000	200,000
Less: Value of warrants	-	(1,106,944)	-	(34,510)
Issued for acquisition of mining assets (iii)	15,000,000	970,000	2,000,000	68,000
Less: Value of warrants	-	(370,000)	-	-
Issued for commission (v)	2,204,746	143,308	-	-
Issued for following exercise of warrants and compensation options	24,699,967	1,458,649	796,000	86,672
Less: Value of warrants	-	(48,262)	-	-
Reduction of share capital issued (vi)	-	(20,000,000)	-	-
Balance – End of year	477,863,510	17,039,499	288,134,821	27,835,259

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

As permitted by section 7(c) of the Option Agreement, on March 16, 2009, Cliffs assigned the Option Agreement to an affiliated entity, Cliffs Greene B.V. ("Cliffs B.V."). At that same date Cliffs B.V exercised the option to subscribe for:

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

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

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

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

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

the purchase warrants was estimated at $267,903 after a pro-rata allocation of the fair value of the units' components.

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

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

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

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

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

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

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

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

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

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

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

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

(vii) On December 31, 2008, the Company completed a private placement totalling 18,475,000 units at $0.02 each for an aggregated amount $369,500. Each unit is comprised of one flow-through common share and one common share purchase warrant at a price of $0.05 per share until December 31, 2009 and thereafter, at a price of $0.10 until December 31, 2010. Limited Market Dealer Inc. acted as agent and was paid a due diligence fee of $11,085 as well as a finder's fee consisting of a cash payment of $18,475 and 1,847,500 compensation options. Each compensation option is exercisable into one non-flow-through unit having the same other terms and conditions as the units issued in the private placement, at a price of $0.05 until December 31, 2009 and thereafter at a price of $0.10 until December 31, 2010.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 120%, risk-free interest rate of 2.22% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $66,510 after a pro-rata allocation of the fair value of the units' components.

The fair value of the agent's compensation options was estimated using a binominal pricing model based on the following assumptions: dividend yield of 0%, volatility of 120%, risk-free interest rate of 2.22% and an expected life of two years. As a result, the fair value of the compensation options was estimated at $12,933.

(viii) On August 26, 2008 the Company completed a private placement totalling 2,000,000 units at a price of $0.10 each for an aggregate amount of $200,000. Each unit is comprised of two common shares and one purchase warrant exercisable at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 119%, risk-free interest rate of 3.32% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $34,510 after a pro-rata allocation of the fair value of the units' components.

10 Warrants and compensation options

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

	Year ended December 31, 2009			Year ended December 31, 2008		
	Warrants	**Compensation options**	**Amount $**	**Warrants**	**Compensation options**	**Amount $**
Issued						
Balance – Beginning of year	94,005,808	9,060,157	1,637,809	91,830,808	7,987,157	1,723,358
Issued as part of private placement of units (note 9(i)(ii)(iv)(v)(vii)(viii))	84,030,583	-	1,861,526	20,475,000	-	101,020
Issued for acquisition of mining assets (note 9(iii))	15,000,000	-	370,000	-	-	-
Agent's compensation options (note 9(v)(vii))	2,529,967	1,102,373	18,740	-	1,847,500	12,933
Exercised	(18,475,000)	(4,377,467)	(137,439)	(500,000)	(296,000)	(17,432)
Extension of warrants maturity date	-	-	660,000	-	-	-
Expired	(17,381,560)	(4,682,690)	(379,550)	(17,800,000)	(478,500)	(182,070)
Balance – End of year	159,709,798	1,102,373	4,031,086	94,005,808	9,060,157	1,637,809

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

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

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

A summary of the Company's outstanding warrants and compensation options as at December 31, 2009 is presented below:

Number of warrants	Compensation options	Exercise price $	Expiry date
2,000,000	-	0.10	August 2010
17,994,960	-	0.10	November 2010
5,750,000	1,102,373	0.10	December 2010
2,529,967	-	0.065	October 2011
200,000	-	0.10	May 2012
1,300,000	-	0.10	June 2012
1,000,000	-	0.10	July 2012
6,600,000	-	0.10	September 2012
26,476,923	-	0.10	October 2012
9,375,000	-	0.12	October 2012
4,135,000	-	0.15	December 2012
7,062,325	-	0.18	December 2012
22,224,784	-	0.05/0.10 U.S.	March 2014
9,310,839	-	0.05/0.10 U.S.	April 2014
15,000,000	-	0.10	July 2014
28,750,000	-	0.05/0.10	August 2014
159,709,798	1,102,373		

11 Stock option plan

The Company maintains a stock option plan (the "Plan") whereby the Board of Directors may from time to time grant to employees, officers, directors and consultants of the Company or any subsidiary thereof options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board, provided that the exercise price may not be lower than the market price of the common shares at the time of the grant of the options.

As at December 31, 2009, the Plan provides (i) that the maximum number of common shares that may be reserved for issuance under the Plan shall be equal to 40,000,000 common shares (as at December 31, 2008 – 26,280,000); (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant; and (iii) that the maximum number of common shares that may be reserved for issuance to insiders of the Company is limited to 10% of the common shares outstanding at the time of the grant.

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

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

Options at a fixed price

	2009		2008	
	Number of shares	**Average exercise price $**	**Number of shares**	**Average exercise price $**
Balance – Beginning of year	23,868,880	0.11	23,881,080	0.11
Granted	6,558,500	0.10	3,379,700	0.10
Exercised	-	-	-	-
Cancelled or expired	(395,100)	0.15	(3,391,900)	0.13
Balance – End of year	30,032,280	0.10	23,868,880	0.11

The following table summarizes information about options outstanding and exercisable as at December 31, 2009:

		Outstanding options	**Exercisable options**
Exercise price $	**Number of options**	**Average contractual life (in years)**	
0.10	23,591,780	2.15	18,572,905
0.12	5,940,500	2.68	5,940,500
0.15	500,000	2.81	500,000
	30,032,280		25,013,405

Total stock compensation costs for the year ended December 31, 2009 amounted to $252,266 (2008 – $448,037).

The fair value of the options granted in 2009 and 2008 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	2009	**2008**
Average dividend per share	Nil	Nil
Estimated volatility	100%	85%
Risk-free interest rate	0.67%	3.85%
Expected life of the options granted	5 years	5 years
Weighted average of estimated fair value of each option granted	$0.057	$0.063

12 Contributed surplus

	2009 $	2008 $
Balance – Beginning of year	2,626,615	1,996,508
Stock compensation costs (note 11)	252,266	448,037
Expiry of warrants (note 10)	379,550	182,070
Balance – End of year	3,258,431	2,626,615

13 Accumulated other comprehensive income (loss)

	2009 $	2008 $
Accumulated other comprehensive income (loss) - beginning of year	(225,574)	(36,364)
Latent loss on temporary investments available for sale	(30,231)	(189,210)
Accumulated other comprehensive income (loss) - end of year	(255,805)	(225,574)

	2008 $	2008 $
Latent loss on temporary investments - beginning of year	(225,574)	(36,364)
Unrealized gain (loss) for the year on Spider investment	6,250	(22,500)
Unrealized gain (loss) for the year on Mesa investment	5,302	(33,860)
Unrealized gain (loss) for the year on Strike investment	(41,783)	(132,850)
Latent loss on temporary investments – end of year	(255,805)	(225,574)

With respect to the Company's investments, the latest loss on temporary investments available for sale adjustments represent the unrealized gain or loss on the Company's net investments (note 6).

14 Income taxes

The future income tax balances are summarized as follows:

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

	2009 **$**	**2008** **$**
Loss before income taxes	(4,100,326)	(12,271,901)
Combined federal and provincial income tax at 32.42% (32.85% in 2008)	(1,329,122)	(4,031,319)
Impact of decrease (increase) income tax rate on future income tax balances	1,830,923	(107,611)
Expired tax losses	99,623	75,226
Stock compensation costs	81,772	147,180
Non-taxable portion of capital gain	-	318
Warrants extension cost	213,939	-
Other	(3,135)	(18,545)
Valuation allowance	(999,000)	2,794,753
Recovery of future income taxes	(105,000)	(1,140,000)

(ii) Future income tax assets

	2009 **$**	**2008** **$**
Current future income tax assets		
Non-capital losses	110,000	100,000
Share and warrant issue expenses	67,000	54,000
	177,000	154,000
Valuation allowance	(177,000)	(154,000)
Current future income tax assets	-	-
Long-term future income tax assets		
Mining assets and deferred exploration expenses	6,741,000	6,546,000
Non-capital losses	1,839,000	1,277,000
Capital losses	10,797,000	12,544,000
Share and warrant issue expenses	102,000	108,000
Investments	52,000	41,000
Exploration equipment	623,000	660,000
	20,154,000	21,176,000
Valuation allowance	(20,154,000)	(21,176,000)
Long-term future income tax assets	-	-
Total future income tax assets	-	-

In 2009 the Company issued flow-through units for gross proceeds of $4,086,845 (2008 − $369,500). Under the flow-through share agreements, the Company agreed to renounce $4,086,845 of qualifying expenditures to the investors effective December 31, 2009, although under Canadian tax law, the expenditures may actually be incurred up to December 31, 2010.

The Company is required to record a provision at the time the renunciation is filed with the tax authorities, by an increase in the share and warrant issue expenses relating to the flow-through shares, for the future income taxes related to the tax deductions the Company has forgone. The Company has filed and renounced to the authorities in early 2009, therefore estimated future income taxes of $105,000 were recorded as at December 31, 2009 (2008 − $1,140,000). Consequently, the Company has recognized such expenses as share and warrant issue expenses in 2009 (2008 − $1,140,000).

(iii) As at December 31, 2009, the cost for income tax purposes of exploration equipment, mining assets and deferred exploration expenses totaled approximately $44,660,000. The difference between the tax cost and the amount capitalized in these Consolidated Financial Statements arises from the write-off of certain assets for accounting purposes, rollover transactions and the tax benefits related to some exploration expenses being renounced in favour of subscribers.

The Company has accumulated non-capital losses for income tax purposes amounting to approximately $7,317,000. These losses will expire as follows:

	$
Year ending December 31, 2010	359,000
2014	535,000
2015	653,000
2026	737,000
2027	888,000
2028	1,274,000
2029	2,871,000

(iv) The Company’s balance of capital losses amounts to approximately $84,500,760 and can be carried forward indefinitely against capital gains.

(v) The unamortized balance for tax purposes of share and warrant issue expenses amounting to approximately $641,000 is deductible over the next four years.

(vi) The tax values of assets and liabilities arising from the year ended December 31, 2009, have not been agreed with the relevant tax authorities nor have they been disputed.

15 Related party transactions

In 2009, officers and companies controlled by officers were paid consulting fees totalling $172,787 ($238,244 in 2008) of which $nil remained payable at December 31, 2009 ($4,125 in 2008) and directors of the Company and a company controlled by a director of the Company were paid $85,699 ($68,768 in 2008) for professional consulting services.

16 Financial instruments

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

Interest rate risk

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

Credit Risks

It is management's opinion that the Company is not exposed to significant credit risks.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and accounts receivable. The Company reduces its credit risk by maintaining part of its cash in financial instruments guaranteed by and held with a Canadian chartered bank.

Foreign Exchange Risk

Foreign exchange risk is the potential adverse impact on earnings and economic value due to movements and volatilities in foreign exchange rates. Prior to the current year, the Company did not have any financial assets or liabilities denominated in currencies other than Canadian and was therefore not exposed to significant foreign exchange risk. However, since the transactions with Cliffs Natural Resources (note 9 (i)(ii)) the Company now maintains cash denominated in US dollars and it also engages suppliers whose payments are required to be made in US dollars. As a result, the Company is now exposed to US dollar fluctuations. During 2009, the company realized $443,898 in net foreign exchange losses. At December 31, 2009 US dollar denominated balances included cash of US$30,925 and accounts payable of US$272,720.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at December 31, 2009, the Company had enough funds available to satisfy its obligations under accounts payable and accrued liabilities.

In the past few years, the Company financed its liquidity needs primarily by issuing equity securities. As the Company is currently incurring operating losses, additional capital will be required to continue exploration activities on the properties (note 1).

Fair Value

The fair value of financial instruments is summarized as follows:

	2009		2008		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair value Hierarchy Level (note 2)
Financial assets					
Held for trading:					
Cash	2,056,751	2,056,751	1,528,897	1,528,897	Level 2
Available-for-sale:					
Temporary investments	134,991	134,991	152,722	152,722	Level 1

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

As at both December 31, 2009 and 2008, all financial instruments (cash, accounts receivable, and accounts payable and accrued liabilities) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments. For temporary investments refer to note 6.

17 Commitments

Pursuant to flow-through financing agreements closed during the year ended December 31, 2009, the Company must incur $1,433,801 in exploration expenses by December 31, 2010.

18 Subsequent events

(i) On February 23, 2010 the Company closed a private placement of $35,000 of units at a price of $0.07 per unit, each comprised of one common share and one-half of a common share purchase warrant. Each full warrant is exercisable at a price of $0.10 to acquire one common share for a period of one year from the closing date. All securities issued are subject to a hold period of four months ending June 23, 2010. The proceeds will be affected to working capital.

(ii) On March 19, 2010 the Company announced a proposed non-brokered private placement of a maximum of $10 million of units of securities of the Company comprised of up to 80,000,000 flow-through units at a price of $0.125 per flow-through unit, with each flow-through unit comprised of one common share of the Company to be issued on a "flow-through" basis and one-half of one Common Share purchase warrant exercisable at a price of $0.15 per Warrant to acquire one Common Share for a period of 2 years from the date of the issuance of the Warrant. The gross proceeds of the private placement will be used for eligible flow-through exploration expenses to be incurred in further assessment of the Big Daddy chromite deposit in the Ring of Fire, as well as data accumulation for railroad engineering studies and will be renounced for the 2010 taxation year.

On March 31, 2010 the Company closed the first tranche of this non-brokered private placement through the sale of 39,090,000 units at $0.125 each for gross proceeds of $4,886,250. Finder's fees totaling $390,900 were paid. All securities issued pursuant to this private placement have a hold period of four months ending August 1, 2010.

On April 16, 2010 the Company closed the second tranche of this non-brokered private placement through the sale of 22,467,308 units at $0.125 each for gross proceeds of $2,808,414. Finder's fees totaling $224,673 were paid. All securities issued pursuant to this private placement have a hold period of four months ending August 17, 2010. Directors of the Company subscribed for $500,000 of these units.

(iii) On April 7, 2010 the Company was notified by Cliffs Greene B. V. ("Cliffs") that it wished to exercise its pre-emptive right to participate in the private placement announced by the Company on March 19, 2010 and it will subscribe for such number of units that it holds a 19.9% interest in the Company on a fully-diluted basis following completion of the Private Placement and the exercise of warrants referred to below. On April 21, 2010 Cliffs purchased the final tranche of the private placement (Note 18(ii)) which consisted of 26,382,390 non flow-through units at $0.125 each for gross proceeds of $3,297,799. In the result, the private placement raised a total of approximately $11 million.

In addition, Cliffs provided notice that it is exercising warrants previously issued to it to acquire 5,016,769 common shares of the Company for gross proceeds of US$250,839.45. These warrants were issued to Cliffs to enable it to avoid dilution of its interest in the Company, and became exercisable upon the exercise of warrants held by third parties to acquire 25,083,845 common shares of the Company.