

KWG RESOURCES INC.

(An exploration stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE-MONTH PERIOD ENDED MARCH 31, 2010

KWG Resources Inc.

NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:

The unaudited interim consolidated financial statements of KWG Resources Inc. for the three-month period ended March 31, 2010 have been prepared by management and have not been reviewed by the Company's external auditors.

(s) MICHAEL S. HARRINGTON

MICHAEL HARRINGTON, Director

(s) THOMAS E. MASTERS

THOMAS E. MASTERS, Chief Financial Officer

Montreal, Quebec
May 31, 2010

KWG Resources Inc.

(An exploration stage company)

Interim Consolidated Balance Sheets (in Canadian dollars)(unaudited)

	As at March 31, 2010	As at December 31, 2009
Assets		
Current assets		
Cash and cash equivalents (note 4)	3,712,118	2,056,751
Accounts receivable	790,192	216,486
Temporary investments (note 5)	202,611	134,991
Prepaid expenses	19,945	25,022
	<u>4,724,866</u>	<u>2,433,250</u>
Capital assets (note 6)	60,592	40,101
Mining assets (note 7)	<u>25,767,877</u>	<u>18,256,842</u>
	<u>30,553,335</u>	<u>20,730,193</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	<u>7,402,736</u>	<u>1,961,496</u>
Shareholders' Equity		
Share capital (note 8 and 16)	21,287,218	17,039,499
Warrants and compensation options (note 9)	4,941,001	4,031,086
Contributed surplus (note 11)	3,326,255	3,258,431
Deficit	(6,215,690)	(5,304,514)
Accumulated other comprehensive loss (note 12)	<u>(188,185)</u>	<u>(255,805)</u>
	<u>23,150,599</u>	<u>18,768,697</u>
	<u>30,553,335</u>	<u>20,730,193</u>

The notes on pages 6 to 18 form an integral part of these financial statements.

Approved by the Board of Directors

(s) _____ Director

(s) _____ Director

KWG Resources Inc.

(An exploration stage company)

Interim Consolidated Statements of Operations and Deficit and Statements of Comprehensive Income (Loss) for the three-month periods ending March 31, 2010 and 2009 (in Canadian dollars) (unaudited)

	2010	2009
Income		
Interest income	978	3,165
Expenses		
Administrative	489,879	480,064
Amortization on capital assets	5,635	-
Stock compensation costs (note 10)	67,823	29,466
Unrealized loss on temporary investments (note 5 (a))	-	47,500
Unrealized (gain) loss on foreign exchange	(47,187)	25,711
	516,150	582,741
Loss for the period before income tax	(515,172)	(579,576)
Future income tax recovery	1,022,000	105,000
Income (loss) for the period	506,828	(474,576)
Deficit – Beginning of the period	(5,304,514)	(20,877,880)
Share and warrant issue expenses	(1,418,004)	(215,026)
Deficit – End of the period	(6,215,690)	(21,567,482)
Loss per share (basic and diluted)	(0.00)	(0.00)
Weighted average number of outstanding shares	467,774,654	296,542,986

Interim Consolidated Statements of Comprehensive Income (loss) for the three-month periods ended March 31, 2010 and 2009

	2010	2009
Income (loss) for the period	506,828	(474,576)
Other Comprehensive income (loss)		
- Change in unrealized loss on financial assets available-for-sale	67,620	23,726
Comprehensive income (loss)	574,448	(450,850)

The notes on pages 6 to 18 form an integral part of these financial statements.

KWG Resources Inc.

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Interim Consolidated Statements of Cash Flows (in Canadian dollars)

(unaudited)

	Three-month period ended March 31	
	2010	2009
Cash flows from		
Operating activities		
Income (loss) for the period	506,828	(474,576)
Adjustments for		
Amortization of capital assets	5,635	-
Stock compensation costs (note 10)	67,823	29,466
Unrealized loss on temporary investments	-	47,500
Future income tax recovery	(1,022,000)	(105,000)
	<u>(441,714)</u>	<u>(502,610)</u>
Financing activities		
Share capital issued	4,207,534	2,472,135
Warrants and compensation options issued	950,101	665,091
Share and warrant issue expenses	(396,004)	(110,026)
	<u>4,761,631</u>	<u>3,027,200</u>
Investing activities		
Additions to mining assets	(7,511,035)	(275,021)
Proceeds from disposal of capital assets	400	-
Additions to capital assets	(26,526)	-
Acquisition of temporary investments	-	(60,000)
Change in non-cash working capital balances	4,872,611	1,062,114
	<u>(2,664,550)</u>	<u>727,093</u>
Net change in cash and cash equivalents during the period	1,655,367	3,251,683
Cash and cash equivalents – Beginning of the period	<u>2,056,751</u>	<u>1,528,897</u>
Cash and cash equivalents – End of the period	<u>3,712,118</u>	<u>4,780,580</u>
Change in non-cash working capital items comprises:		
Accounts receivable	(573,706)	7,732
Prepaid expenses	5,077	14,038
Accounts payable and accrued liabilities	5,441,240	(263,081)
Convertible debenture	-	1,303,425
	<u>4,872,611</u>	<u>1,062,114</u>
Additional information - non-cash transactions		
Expired warrants included in contributed surplus	-	136,587
Additions to mining assets included in accounts payable	6,141,641	77,708

The notes on pages 6 to 18 form an integral part of these financial statements.

KWG Resources Inc.

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

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.

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.

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 interim 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.

Presentation

The interim consolidated financial statements of the Company have been prepared by management following the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2009, except as noted hereafter. The disclosure provided hereafter is incremental to that included in the annual audited consolidated financial statements. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual audited consolidated financial statements and should be used in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2009. Operating results for the three-month period ended March 31, 2010 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2010.

KWG Resources Inc.

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

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

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.

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.

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

3 Capital management

The capital of the Company consists of items included in the shareholder's equity of \$23,150,599 as of March 31, 2010 (\$18,768,697 as of December 31, 2009). In order to maximize its ongoing exploration activities, the Corporation will not pay any dividends in cash.

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

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

There were no changes in the Company's approach to capital management during the period ended March 31, 2010.

4 Cash and cash equivalents

As at March 31, 2010, the Company is obliged to incur qualifying exploration expenditures of \$4,886,250 (December 31, 2009 – \$1,433,801) for renunciations made to flow-through share subscribers in 2010.

5 Temporary investments

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

	March 31, 2010 (unaudited) \$	December 31, 2009 (audited) \$
Spider Resources Inc. ("Spider")		
250,000 common shares, quoted market value of \$30,000		
(2009 – 250,000 common shares, quoted market value of \$13,750)	15,000	15,000
Copper Mesa Mining (formerly Ascendant Copper Corporation) ("Mesa")		
353,488 common shares, quoted market value of nil		
(2009 – 353,488 common shares quoted market value of \$17,674)	97,596	97,596
Strike Minerals Inc. ("Strike")		
3,452,217 common shares, quoted market value of \$172,611		
(2009 – 3,452,217 common shares quoted market value of \$103,567)	278,200	278,200
Cost	390,796	390,796
Unrealized loss	(188,185)	(255,805)
Fair value of temporary investments	<u>202,611</u>	<u>134,991</u>

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

6 Capital Assets

	March 31, 2010 (unaudited)			December 31, 2009 (audited)		
	\$			\$		
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Computer equipment	17,634	4,225	13,409	14,400	2,244	12,156
Automobiles	34,526	8,977	25,549	34,000	6,055	27,945
Office furniture	22,000	366	21,634	-	-	-
	74,160	13,568	60,592	48,400	8,299	40,101

7 Mining assets

	March 31, 2010 (unaudited)	December 31, 2009 (audited)
	\$	\$
Cost and deferred exploration expenses	25,767,877	18,256,842

Exploration properties

	Cost		Deferred exploration expenses		Total	Total
	March 31, 2010 (unaudited)	December 31, 2009 (audited)	March 31, 2010 (unaudited)	December 31, 2009 (audited)	March 31, 2010 (unaudited)	December 31, 2009 (audited)
	\$	\$	\$	\$	\$	\$
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle	264,867	264,867	2,237,084	2,237,084	2,501,951	2,501,951
Spider No. 3 / McFaulds Lake	156,281	156,281	4,033,414	4,033,414	4,189,695	4,189,695
Wawa	64,995	64,995	91,949	91,949	156,944	156,944
Freewest (a)	58,900	58,900	5,288,806	4,701,472	5,347,706	4,760,372
Diagnos	19,065	19,065	78,800	78,800	97,865	97,865
Pele Mountain	109,676	109,676	370,352	369,602	480,028	479,278
Uniform Surround	7,747	7,747	203	203	7,950	7,950
East West option	128,849	128,849	275,397	275,397	404,246	404,246
Railway infrastructure (b)	9,820,388	2,897,437	-	-	9,820,388	2,897,437
Smelter Royalty	2,632,587	2,632,587	-	-	2,632,587	2,632,587
Victor West	119,979	119,979	-	-	119,979	119,979
Other	5,289	5,289	3,249	3,249	8,538	8,538
	13,388,623	6,465,672	12,379,254	11,791,170	25,767,877	18,256,842

- (a) 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 is no longer required to prepare a bankable feasibility study within 18 months, as had been called for in the 2005 agreement. Under the amendment, KWG would have options for up to a \$7.5 million commitment over the next three years, of which \$2.5 million would be required to be spent before March 31, 2010. During the first quarter of 2010, Freewest was served with a notice that this first commitment had been met.

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March 31, 2010 and 2009 (unaudited)

- (b) During the first quarter of 2010, the Company through its wholly-owned subsidiary Canada Chrome Corporation, continued to explore and develop a transportation link to the Company's properties in Northern Ontario. All costs related to this project have been capitalized.

Cost and deferred exploration expenses	March 31, 2010	December 31, 2009
Balance – Beginning of year	18,256,842	9,658,935
Acquisition, staking and permits	6,922,951	5,650,003
Exploration expenses		
Drilling	361,486	1,211,890
Geology	149,040	848,873
Geophysics	2,715	147,843
Sampling	-	103,876
Consulting	7,056	127,129
Field preparation	-	3,811
Management	7,309	170,439
Line cutting and road	8,209	55,658
Camp expenses	28,104	121,641
Resource studies	1,221	43,809
Drafting	2,846	14,080
Planning	10,635	33,891
Fuel	-	45,955
Survey	9,463	19,009
	588,084	2,947,904
Balance – End of year	25,767,877	18,256,842

8 Share capital

Authorized

An unlimited number of common shares

Issued

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

	March 31, 2010		December 31, 2009	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of year	477,863,510	17,039,499	288,134,821	27,835,259
Issued for Canadian exploration expenses (i)	39,090,000	4,886,250	67,489,920	4,086,845
Less: Value of warrants	-	(945,726)	-	(754,582)
Issued for working capital requirements (ii)	500,000	35,000	80,334,056	4,825,226
Less: Value of warrants	-	(4,375)	-	(1,106,944)
Issued for acquisition of mining assets	-	-	15,000,000	970,000
Less: Value of warrants	-	-	-	(370,000)
Issued for commission	-	-	2,204,746	143,308
Issued following exercise of warrants and compensation options	2,363,846	276,570	24,699,967	1,458,649
Less: Value of warrants	-	-	-	(48,262)
Reduction of share capital issued	-	-	-	(20,000,000)
Balance – End of year	519,817,356	21,287,218	477,863,510	17,039,499

KWG Resources Inc.

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

- (i) 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 100%, 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 \$945,726 after a pro rata allocation of the fair value of the units’ components.

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

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk free interest rate of 0.62% and an expected life of one year. As a result, the fair value of the purchase warrants was estimated at \$4,375 after a pro rata allocation of the fair value of the units’ components.

9 Warrants and compensation options

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

	Three month period ended March 31, 2010			Year ended December 31, 2009		
	Warrants	Compensation options	Amount \$	Warrants	Compensation options	Amount \$
Issued						
Balance – Beginning of year	159,709,798	1,102,373	4,031,086	94,005,808	9,060,157	1,637,809
Issued as part of private placement of units (note 9(i)(ii))	19,795,000	-	950,101	84,030,583	-	1,861,526
Issued for acquisition of mining assets	-	-	-	15,000,000	-	370,000
Agent’s compensation options	-	-	-	2,529,967	1,102,373	18,740
Exercised	(2,363,846)	-	(40,186)	(18,475,000)	(4,377,467)	(137,439)
Extension of warrants maturity date	-	-	-	-	-	660,000
Expired	-	-	-	(17,381,560)	(4,682,690)	(379,550)
Balance – End of year	177,140,952	1,102,373	4,941,001	159,709,798	1,102,373	4,031,086

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

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

A summary of the Company's outstanding warrants and compensation options as at March 31, 2010 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
250,000	-	0.10	February 2011
2,453,044	-	0.065	October 2011
19,545,000	-	0.15	March 2012
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
24,190,000	-	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
<u>177,140,952</u>	<u>1,102,373</u>		

10 Stock option plan

During the three-month period ended March 31, 2010 there was no change in the Company's number of stock options outstanding (note 16).

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

Exercise price \$	Number of options	Outstanding options	Exercisable options
		Average contractual life (in years)	
0.10	23,591,780	2.15	19,442,718
0.12	5,940,500	2.68	5,940,500
0.15	500,000	2.81	500,000
	<u>30,032,280</u>		<u>25,883,218</u>

Total stock compensation costs for the period ended March 31, 2010 amounted to \$67,823 (2009 – \$29,466).

KWG Resources Inc.

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

11 Contributed surplus

	March 31, 2010 \$	December 31, 2009 \$
Balance – Beginning of year	3,258,431	2,626,615
Stock compensation costs (note 11)	67,824	252,266
Expiry of warrants	-	379,550
Balance – End of year	<u>3,326,255</u>	<u>3,258,431</u>

12 Accumulated other comprehensive loss

	March 31, 2010 (unaudited) \$	December 31, 2009 (audited) \$
Accumulated other comprehensive loss - beginning of year	(255,805)	(225,574)
Latent gain/(loss) on temporary investments available for sale	<u>67,620</u>	<u>(30,231)</u>
Accumulated other comprehensive loss - end of year	<u>(188,185)</u>	<u>(255,805)</u>

	Three month period ended March 31, 2010 \$	Year ended December 31, 2009 \$
Latent loss on temporary investments - beginning of year	(255,805)	(225,574)
Unrealized gain (loss) for the year on Spider investment	16,250	6,250
Unrealized gain (loss) for the year on Mesa investment	(17,674)	5,302
Unrealized gain (loss) for the year on Strike investment	<u>69,044</u>	<u>(41,783)</u>
Latent loss on temporary investments – end of year	<u>(188,185)</u>	<u>(255,805)</u>

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

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

13 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. In the first quarter of 2010, officers and companies controlled by officers charged consulting fees totalling \$61,438 (March 31, 2009 - \$70,952) of which \$35,761 remained payable at March 31, 2010 (March 31, 2009 - \$31,898) and directors of the Company and a company controlled by a director of the Company charged \$30,728 (March 31, 2009 - \$58,300) for professional consulting services and directors fees of which \$nil remained payable at March 31, 2010 (March 31, 2009 - \$nil).

14 Financial instruments

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

Interest rate risk

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

Credit Risks

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

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

Foreign Exchange Risk

Foreign exchange risk is the potential adverse impact on earnings and economic value due to movements and volatilities in foreign exchange rates. The Company maintains cash denominated in US dollars and it also engages suppliers whose payments are required to be made in US dollars. As a result, the Company is exposed to US dollar fluctuations. As at March 31, 2010 US dollar denominated balances included cash of US\$398,163 (US\$30,925 in 2009) and accounts payable of US\$3,098,983 (US\$272,720 in 2009).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at March 31, 2010, the Company did not have enough funds available to satisfy its obligations under accounts payable and accrued liabilities. However, this was rectified through the issuance of new equity in April 2010 (note 16).

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

KWG Resources Inc.

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Notes to Interim Consolidated Financial Statements (in Canadian dollars)

March 31, 2010 and 2009 (unaudited)

Fair Value

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, 2010 and December 31, 2009, all financial instruments (cash, accounts receivable, and accounts payable and accrued liabilities) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments. For temporary investments refer to note 6.

15 Commitments

Pursuant to flow-through financing agreements closed during the period ended March 31, 2010, the Company must incur \$4,886,250 in exploration expenses by December 31, 2010.

16 Subsequent events

- (i) On April 16, 2010 the Company closed the second tranche of a 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.
- (ii) 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 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.

- (iii) 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 shares of the Company from time to time may be reserved and allocated for the granting of stock options.
- (iv) On May 21, 2010 the Board of Directors awarded 26,045,000 options to purchase treasury shares at \$0.125 each under the provisions of the Company's revised Employee Incentive Stock Option Plan. Of the total awards 8,345,000 were allocated to employees and consultants of the Company and of its subsidiaries, 7,500,000 to directors, 4,500,000 to directors who are also officers, and 5,700,000 to officers of the Company and of its subsidiaries. The options vest over a period of 18 months and are exercisable over a period of five years.

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- (v) On May 25, 2010 the Company announced that the board of directors of the Corporation approved the adoption of a shareholder rights plan, effective May 25, 2010. The objective of the rights plan is to ensure, to the extent possible, that all shareholders of the Corporation are treated equally and fairly in connection with any initiative to acquire control of the Corporation. The rights plan is not intended to and will not prevent a take-over of the Corporation. The purpose of the rights plan is to encourage a potential bidder to make a "Permitted Bid", having terms and conditions designed to meet the objectives of the rights plan, or to negotiate the terms of an offer with the board of directors of the Corporation. A Permitted Bid is a take-over bid that is made to all holders of voting shares of the Corporation (other than the bidder) for all of the voting shares held by them, by way of a take-over bid circular prepared in compliance with applicable securities laws, that remains open for acceptance by shareholders of the Corporation for 60 days (or such shorter period of time as may be approved by the board of directors of the Corporation from time to time), and that satisfies certain other conditions, including the condition that a take-over bid made by an offeror who possesses confidential information concerning the Corporation will not constitute a Permitted Bid unless the offeror has entered into a confidentiality agreement containing a standstill provision with the Corporation within the three months that precedes the commencement of the bid. The rights plan must be confirmed by shareholders within six months of its effective date. The listing of the rights is subject to acceptance by the TSX Venture Exchange.
- (vi) On May 25, 2010 the Company announced that it had entered into a binding letter agreement ("Letter Agreement") with Spider Resources Inc. which sets out the principal terms upon which it is proposed that the two corporations will complete a business combination (the "Merger"), at the conclusion of which the shareholders of each corporation will hold 50% of the outstanding shares of the ongoing public corporation. The combined company will hold a current interest of 53% in the Big Daddy deposit, with the option to earn a further 7% to achieve a 60% interest in the project. It is anticipated that the ongoing public corporation will continue to be named "KWG Resources Inc." for a period of time after the Merger and will continue to be listed on the TSX Venture Exchange ("TSXV") and on the Canadian National Stock Exchange (the "CNSX"). Following the Merger, it is proposed that the name of the ongoing public company will be changed to "Spider-KWG Resources Inc." subject to shareholder and regulatory approvals.

Rationale for the Merger

KWG and Spider have decided to combine, as the logical next step of the continued exploration and development of their jointly held mineral projects in Northern Ontario. The Merger has been initiated in order to combine the companies' respective assets and experienced management teams, facilitate future financings and rationalize operations, all with a view to enhancing shareholder value. In particular, the Merger will result in the combined company having a majority interest in the Big Daddy Deposit with the ongoing right to operate the continued exploration, development and mining activities thereon.

Highlights of the Merger

It is anticipated that the Merger will be effected by way of a three cornered amalgamation under the *Canada Business Corporations Act* (the "CBCA"), pursuant to which Spider (a corporation formed under the CBCA) will amalgamate with a newly-incorporated, wholly-owned CBCA formed subsidiary of KWG, to become a wholly-owned subsidiary of KWG. Prior to the completion of the Merger, KWG will transfer its interests in the railway right of way, in its 1% net smelter returns royalty covering the Big Daddy deposit, the Black Thor Deposit and the Black Label Deposit

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granted by Freewest Resources Canada Inc., and cash in an amount to be agreed upon between KWG and Spider to KWG's wholly-owned subsidiary, Debuts Diamonds Inc. ("**Debuts**"), in exchange for Debut's interest in various diamond exploration projects and a number of common shares of Debuts to be specified, and will distribute all of the outstanding common shares of Debuts to the shareholders of record of KWG.

Under the terms of the Merger:

- (a) all of the common shares of Spider (the "**Spider Shares**") outstanding will be exchanged for common shares of KWG (the "**KWG Shares**") at the ratio of one (1) Spider Share for that number of KWG Shares equal to:
 - (i) the number of outstanding KWG Shares, divided by
 - (ii) the number of outstanding Spider Shares,in each case calculated as at the close of business on the date immediately preceding the effective date of the Merger (the "**Exchange Ratio**");
- (b) each of the outstanding warrants to purchase one Spider Share ("**Spider Warrant**") will, subject to regulatory approval, be exchanged for a warrant of KWG ("**KWG Warrant**") exercisable to acquire that number of KWG Shares equal to the Exchange Ratio. All other terms of such KWG Warrant, including the exercise price and the expiry date thereof, shall be the same as the Spider Warrant;
- (c) each of the outstanding options (whether or not vested) to acquire one Spider Share will, subject to regulatory approval, be exchanged for an option of KWG exercisable to acquire that number of KWG Shares equal to the Exchange Ratio at an exercise price per KWG Share and on other terms to be agreed upon and included in the definitive agreement in respect of the Merger (the "**Definitive Agreement**");
- (d) each of the outstanding compensation options of Spider (each, a "**Spider Unit Compensation Option**") to acquire a unit of Spider (each, a "**Spider Unit**"), each Spider Unit consisting of one Spider Share and one common share purchase warrant of Spider, will, subject to regulatory approval, be exchanged for one compensation option of KWG (each, a "**KWG Unit Compensation Option**") exercisable to acquire a number of units of KWG equal to the Exchange Ratio (each, a "**KWG Unit**"), each KWG Unit consisting of one KWG Share and one common share purchase warrant of KWG. All other terms of the KWG Unit Compensation Options, including the expiry dates thereof, shall be the same as the Spider Unit Compensation Options for which they are exchanged and all terms of the common share purchase warrants of KWG comprising part of the KWG Unit, including the exercise price and expiry date thereof, shall be the same as the common share purchase warrant of Spider comprising part of the Spider Unit; and
- (e) KWG shall continue with its listing on the TSXV and the CNSX.

KWG and Spider will cooperate in structuring the Merger, which may vary from the foregoing structure on the basis of tax, securities, corporate law and other advice in order to ensure the most efficient structure for each of the parties and their respective security holders. Completion of the Merger is subject to a number of conditions, including, but not limited to, confirmatory due

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diligence, the negotiation and execution of the Definitive Agreement, the receipt of all required regulatory approvals, including the approval of the TSXV, and approval of the shareholders of Spider.

The Merger will be submitted to the shareholders of Spider (the “**Spider Shareholders**”) for consideration and approval at a special meeting to be convened by Spider as soon as possible following the completion, to the satisfaction of Spider and KWG, as applicable, of their due diligence investigations and execution of definitive documentation.

Each party will pay its own costs and expenses (including all legal, accounting and financial advisory fees and expenses) in connection with the Merger, including expenses related to the preparation, execution and delivery of the Letter Agreement, the Definitive Agreement and such other required documents.

In addition, the parties have agreed that each party will pay the other a break fee of CDN\$2.3 million if, among other things, the Merger is not completed as a result of such party completing an alternative transaction, including but not limited to a merger, amalgamation, share exchange, business combination, take-over bid, sale or other disposition of material assets, recapitalization, reorganization, liquidation, sale or issuance of a material number of treasury securities (except upon the due exercise of convertible securities outstanding on the date of this news release) or rights or interests therein or thereto or rights or options to acquire any material number of treasury securities or any type of similar transaction involving it or any of its subsidiaries other than with the other party to the Letter Agreement, the board of directors of such party withdraws or modifies, in a manner materially adverse to the other party to the Letter Agreement, its approval or recommendation of the Merger or otherwise fails to make such approval or recommendation, such party enters into a letter of intent or definitive written agreement with respect to a Superior Proposal (as defined in the Letter Agreement), or if such party is subject to a take-over bid initiated by a third party. This break fee will also be payable by Spider to KWG if KWG terminates the Letter Agreement following the failure by Spider to mail a proxy circular and related documents in respect of the Merger to its shareholder on or before June 21, 2010. The parties have further agreed that, in certain other circumstances, Spider will pay a break fee to KWG of CDN\$1.1 million or, KWG will pay a break fee to Spider of CDN\$1.4 million.

Proposed Take-Over Bids for KWG and/or Spider by Cliffs Natural Resources Inc.

On May 24, 2010, Cliffs Natural Resources Inc. (“**Cliffs**”) announced that it intends to make take-over bids for all of the issued and outstanding common shares (not already owned by Cliffs or its affiliates) of KWG and/or Spider for cash consideration of \$0.13 per share. Cliffs advised that neither bid would be conditional upon the completion of the other. The board of directors of each of Spider and KWG has formed an independent special committee to consider the bid by Cliffs.