

# **KWG RESOURCES INC.**

(An exploration stage company)

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## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SIX-MONTH PERIOD ENDED JUNE 30, 2010**

# **KWG Resources Inc.**

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

The unaudited interim consolidated financial statements of KWG Resources Inc. for the six-month period ended June 30, 2010 have been prepared by management and have not been reviewed by the Company's external auditors.

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**RENE R. GALIPEAU**, Director

(s)

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

Montreal, Quebec  
August 30, 2010

# KWG Resources Inc.

(An exploration stage company)

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

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	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	1,303,725	2,056,751
Accounts receivable	250,412	216,486
Temporary investments (note 5)	218,861	134,991
Prepaid expenses	11,539	25,022
	<u>1,784,537</u>	<u>2,433,250</u>
<b>Capital Assets</b> (note 6)	54,377	40,101
<b>Mining assets</b> (note 7)	<u>29,518,257</u>	<u>18,256,842</u>
	<u>31,357,171</u>	<u>20,730,193</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u>2,027,662</u>	<u>1,961,496</u>
<b>Shareholders' Equity</b>		
Share capital (note 8)	28,885,166	17,039,499
Warrants and compensation options (note 9)	5,326,137	4,031,086
Contributed surplus (note 11)	4,366,799	3,258,431
Deficit	(9,174,254)	(5,304,514)
Accumulated other comprehensive loss (note 12)	<u>(74,339)</u>	<u>(255,805)</u>
	<u>29,329,509</u>	<u>18,768,697</u>
	<u>31,357,171</u>	<u>20,730,193</u>

The notes on pages 6 to 15 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 Cash Flows (in Canadian dollars) (unaudited)

	Three-month period ended June 30		Six-month period ended June 30	
	2010	2009	2010	2009
<b>Cash flows from</b>				
<b>Operating activities</b>				
Loss for the period	(2,708,890)	(1,883,834)	(2,202,062)	(2,358,410)
Adjustments for				
Stock compensation costs (note 10)	1,040,545	11,270	1,108,368	40,736
Warrants extension cost	-	660,000	-	660,000
Realized loss on temporary investments	97,596	-	97,596	-
Unrealized loss on temporary investments	-	-	-	47,500
Amortization of property, plant and equipment	6,215	879	11,850	879
Future income tax recovery	-	-	(1,022,000)	(105,000)
	(1,564,534)	(1,211,685)	(2,006,248)	(1,714,295)
<b>Financing activities</b>				
Share capital issued	7,638,133	982,597	11,845,667	3,454,732
Warrants and compensation options issued	344,950	267,903	1,295,051	932,994
Share and warrant issue expenses	(249,674)	(15,482)	(645,678)	(125,508)
	7,733,409	1,235,018	12,495,040	4,262,218
<b>Investing activities</b>				
Additions to mining assets	(3,750,380)	(580,389)	(11,261,415)	(855,410)
Acquisition of temporary investments (note 5)	-	-	-	(60,000)
Proceeds from disposal of temporary investments	-	-	400	-
Acquisition of property, plant and equipment	-	(30,766)	(26,526)	(30,766)
Change in non-cash working capital items	(4,826,888)	(1,158,845)	45,723	(96,731)
	(8,577,268)	(1,770,000)	(11,241,818)	(1,042,907)
<b>Net change in cash and cash equivalents during the period</b>	(2,408,393)	(1,746,667)	(753,026)	1,505,016
<b>Cash and cash equivalents – Beginning of the period</b>	3,712,118	4,780,580	2,056,751	1,528,897
<b>Cash and cash equivalents – End of the period</b>	1,303,725	3,033,913	1,303,725	3,033,913
Change in non-cash working capital items comprises:				
Accounts receivable	539,780	(11,167)	(33,926)	(3,435)
Prepaid expenses	8,406	(17,965)	13,483	(3,927)
Accounts payable and accrued liabilities	(5,375,074)	173,712	66,166	(89,369)
Convertible debentures	-	(1,303,425)	-	-
	(4,826,888)	(1,158,845)	45,723	(96,731)

The notes on pages 6 to 15 form an integral part of these financial statements.

# **KWG Resources Inc.**

(An exploration stage company)

**Notes to Interim Consolidated Financial Statements (in Canadian dollars)**

**June 30, 2010 and 2009 (unaudited)**

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## **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 and six month periods ended June 30, 2010 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2010.

# **KWG Resources Inc.**

(An exploration stage company)

**Notes to Interim Consolidated Financial Statements (in Canadian dollars)**

**June 30, 2010 and 2009 (unaudited)**

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## **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.

## **New accounting policies**

There have been no new accounting policies adopted in these unaudited interim consolidated financial statements. The volume of accounting pronouncements being introduced by The Canadian Institute of Chartered Accountants applicable to the Company has reduced significantly pending the transition to International Financial Reporting Standards.

## **Future accounting policies**

There have been no additional future accounting changes from those reported in Note 3 to the 2009 Audited Financial Statements.

## **3 Capital Management**

The capital of the Company consists of items included in the shareholder's equity of \$29,329,509 as of June 30, 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

# KWG Resources Inc.

(An exploration stage company)

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

June 30, 2010 and 2009 (unaudited)

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 June 30, 2010.

### 4 Cash and Cash Equivalents

As at June 30, 2010, the Company is obliged to incur qualifying exploration expenditures of \$1,506,685 by December 31, 2011 (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.

	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Spider Resources Inc. ("Spider")		
250,000 common shares, quoted market value of \$46,250		
(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 (i)		
(2009 – 353,488 common shares quoted market value of \$17,674)	-	97,596
Strike Minerals Inc. ("Strike")		
3,452,217 common shares, quoted market value of \$172,611		
(2009 – 3,452,217 common shares quoted market value of \$103,567)	278,200	278,200
Cost	293,200	390,796
Unrealized loss	(74,339)	(255,805)
Fair value of temporary investments	218,861	134,991

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

### 6 Capital Assets

	June 30, 2010 (unaudited)			December 31, 2009 (audited)		
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Computer equipment	17,634	6,462	11,172	14,400	2,244	12,156
Automobiles	34,526	11,854	22,672	34,000	6,055	27,945
Office furniture	22,000	1,467	20,533	-	-	-
	74,160	19,783	54,377	48,400	8,299	40,101



# KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (in Canadian dollars)

June 30, 2010 and 2009 (unaudited)

## 7 Mining Assets

	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Cost and deferred exploration expenses	29,518,257	18,256,842

### Exploration properties

	Balance as at December 31, 2009 (audited)	Current Expendit- ures	Balance as at June 30, 2010 (unaudited)	Balance as at December 31, 2008 (audited)	Current Expendit- ures	Balance as at June 30, 2009 (unaudited)
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle	2,501,951	-	2,501,951	2,452,815	59,636	2,512,451
Spider No. 3 / McFaulds Lake	4,189,695	-	4,189,695	4,189,695	-	4,189,695
Wawa	156,944	-	156,944	156,944	-	156,944
Freewest (a)	4,760,372	956,326	5,716,698	1,999,374	292,384	2,291,758
Diagnos	97,865	65,042	162,907	97,865	-	97,865
Pele Mountain	479,278	6,850	486,128	352,532	216,395	568,927
Uniform Surround	7,950	-	7,950	7,950	-	7,950
East West option	404,246	-	404,246	393,222	4,085	397,307
Railway infrastructure (b)	2,897,437	10,233,197	13,130,634	-	256,178	256,178
Smelter Royalty	2,632,587	-	2,632,587	-	15,949	15,949
Victor West	119,979	-	119,979	-	-	-
Other	8,538	-	8,538	8,538	-	8,538
	<u>18,256,842</u>	<u>11,261,415</u>	<u>29,518,257</u>	<u>9,658,935</u>	<u>844,627</u>	<u>10,503,562</u>

- (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.
- (b) During the first six months 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.

# KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (in Canadian dollars)

June 30, 2010 and 2009 (unaudited)

## 8 Share Capital

**Authorized** - An unlimited number of common shares

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

	June 30, 2010		December 31, 2009	
	Number of shares	Amount	Number of shares	Amount
Balance – Beginning of period	477,863,510	17,039,499	288,134,821	27,835,259
Issued for Canadian exploration expenses				
(ii)(iii)	61,557,308	7,694,664	67,489,920	4,086,845
Less: Value of warrants	-	(1,489,290)	-	(754,582)
Issued for working capital requirements (i)(iv)	26,882,390	3,332,799	80,334,056	4,825,226
Less: Value of warrants	-	(642,659)	-	(1,106,944)
Issued for acquisition of mining assets	-	-	15,000,000	970,000
Less: Value of warrants	-	-	-	(370,000)
Issued for commission	1,007,648	125,956	2,204,746	143,308
Less: Value of warrants	-	(24,379)	-	-
Issued following exercise of warrants and compensation options	21,048,350	2,729,576	24,699,967	1,458,649
Less: Value of warrants	-	-	-	(48,262)
Issued following exercise of stock options	1,190,000	119,000	-	-
Reduction of share capital issued	-	-	-	(20,000,000)
Balance – End of period	589,549,206	28,885,166	477,863,510	17,039,499

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

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk free interest rate of 1.3% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at \$638,284 after a pro rata allocation of the fair value of the units' components.

- (ii) On April 16, 2010 the Company completed a non-brokered private placement of 22,467,308 "flow-through" units for total consideration of \$2,808,414. These units were issued at \$0.125 each and comprised one flow-through common share of the Company and one-half of a common share purchase warrant exercisable at a price of \$0.15 per warrant to acquire one common share for a period of two years. Finders' fees totalling \$499,373 in cash and 1,007,648 compensation units were paid to eleven qualified parties. Each compensation unit was comprised of one non flow-through share and one-half of a common share purchase warrant exercisable at a price of \$0.15 per warrant to acquire one common share for a period of two years.

The fair value of the 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 1.08% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at \$543,564 after a pro rata allocation of the fair value of the units' components.

The fair value of the warrant portion of the agents' compensation units was estimated using the

# KWG Resources Inc.

(An exploration stage company)

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

June 30, 2010 and 2009 (unaudited)

Black-Scholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk free interest rate of 1.08% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at \$24,379 after a pro rate allocation of the fair value of the units' components.

- (iii) 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.

- (iv) 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:

	Six month period ended June 30, 2010			Year ended December 31, 2009		
	Warrants	Compensation options	Amount	Warrants	Compensation options	Amount
<b>Issued</b>						
Balance – Beginning of year	160,812,171	-	4,031,086	94,005,808	9,060,157	1,637,809
Issued as part of private placement of units (note 9(i)(ii))	44,219,849	-	2,131,948	84,030,583	-	1,861,526
Issued for acquisition of mining assets	-	-	-	15,000,000	-	370,000
Agent's compensation options	503,824	-	24,379	3,632,340	-	18,740
Exercised	(21,048,350)	-	(861,276)	(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	184,487,494	-	5,326,137	160,812,171	-	4,031,086

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

# KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (in Canadian dollars)

June 30, 2010 and 2009 (unaudited)

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A summary of the Company's outstanding warrants and compensation options as at June 30, 2010 is presented below:

Number of warrants	Exercise price \$	Expiry date
1,000,000	0.10	August 2010
12,219,960	0.10	November 2010
6,852,373	0.10	December 2010
250,000	0.10	February 2011
19,545,000	0.15	March 2012
24,424,849	0.15	April 2012
503,824	0.15	May 2012
1,500,000	0.10	June 2012
1,000,000	0.10	July 2012
29,327,809	0.10	October 2012
8,697,500	0.12	October 2012
4,135,000	0.15	December 2012
7,062,325	0.18	December 2012
26,518,854	0.10 U.S.	March 2014
15,000,000	0.10	July 2014
26,450,000	0.10	August 2014
<b>184,487,494</b>		

## 10 Stock Option Plan

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.

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

### Options at a fixed price

	Number of shares	2010 Average exercise price	Number of shares	2009 Average exercise price
Balance – Beginning of year	30,032,280	0.10	23,881,080	0.11
Granted	27,545,000	0.126	6,558,500	0.10
Exercised	(1,190,000)	0.10	-	-
Cancelled or expired	(530,500)	0.12	(395,100)	0.15
Balance – End of year	<u>55,856,780</u>	<u>0.115</u>	<u>30,032,280</u>	<u>0.10</u>

# KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (in Canadian dollars)

June 30, 2010 and 2009 (unaudited)

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The following table summarizes information about options outstanding and exercisable as at June 30, 2010:

<b>Exercise price</b>	<b>Number of</b>	<b>Outstanding options</b>	<b>Exercisable</b>
<b>\$</b>	<b>options</b>	<b>Average contractual life (in years)</b>	<b>options</b>
0.10	22,401,780	1.92	19,222,530
0.12	5,410,000	2.41	5,410,000
0.125	26,045,000	4.85	6,511,250
0.14	1,500,000	4.93	375,000
0.15	500,000	2.32	500,000
	<u>55,856,780</u>		<u>32,018,780</u>

Total stock compensation costs for the period ended June 30, 2010 amounted to \$1,108,369 (2009 – \$40,736).

## 11 Contributed Surplus

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Balance – Beginning of year	3,258,431	2,626,615
Stock compensation costs (note 10)	1,108,368	252,266
Expiry of warrants	-	379,550
Balance – End of year	<u>4,366,799</u>	<u>3,258,431</u>

## 12 Accumulated Other Comprehensive Loss

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Accumulated other comprehensive loss - beginning of year</b>	(255,805)	(225,574)
Latent gain/(loss) on temporary investments available for sale	83,870	(30,231)
Realized loss on shares of Copper Mesa	97,596	-
<b>Accumulated other comprehensive loss - end of year</b>	<u>(74,339)</u>	<u>(255,805)</u>

# KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (in Canadian dollars)

June 30, 2010 and 2009 (unaudited)

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	Six month period ended June 30, 2010 (unaudited)	Year ended December 31, 2009 (audited)
<b>Latent loss on temporary investments - beginning of year</b>	(255,805)	(225,574)
Unrealized gain (loss) for the year on Spider investment	32,500	6,250
Unrealized gain (loss) for the year on Mesa investment	(17,674)	5,302
Unrealized gain (loss) for the year on Strike investment	69,044	(41,783)
<b>Latent loss on temporary investments – end of year</b>	<b>(171,935)</b>	<b>(255,805)</b>

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).

## 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 six months of 2010, officers and companies controlled by officers charged consulting fees totalling \$166,750 (June 30, 2009 - \$148,140) of which \$44,380 remained payable at June 30, 2010 (June 30, 2009 - nil) and directors of the Company and a company controlled by a director of the Company charged \$163,133 (June 30, 2009 - \$156,427) for professional consulting services and directors fees of which \$69,000 remained payable at June 30, 2010 (June 30, 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 June 30, 2010 US dollar denominated balances

# **KWG Resources Inc.**

(An exploration stage company)

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

**June 30, 2010 and 2009 (unaudited)**

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included cash of US\$46,710 (US\$1,043,645 in 2009) and accounts payable of US\$291,011 (nil 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 June 30, 2010, the Company did not have enough funds available to satisfy its obligations under accounts payable and accrued liabilities. However, this was rectified through cash received in early July 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).

### **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 June 30, 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 5.

## **15 Commitments**

Pursuant to flow-through financing agreements closed during the period ended June 30, 2010, the Company must incur an additional \$1,506,685 in exploration expenses by December 31, 2010.

## **16 Subsequent Events**

### **(i) Termination of Combination Agreement**

On July 2, 2010, the Company announced that Spider Resources Inc. ("Spider") had terminated the Combination Agreement previously signed on June 14, 2010 among the Company, its wholly-owned subsidiary, 7569076 Canada Inc., and Spider. As a result of this termination Spider was required to pay a break-fee of \$2,300,000 to the Company. This amount was received on July 5, 2010. All costs incurred to June 30, 2010 related to this Agreement have been expensed in these financial statements.

### **(ii) Spider Shares to be Retained**

On July 9, 2010, the Company advised that it may not tender its holdings of common shares in Spider Resources Inc. ("Spider") (Note 5) to a takeover offer made by a subsidiary of Cliffs Natural Resources Inc. ("Cliffs"). Based on independent valuations undertaken by the Company, it determined to retain its Spider shares until such time as Cliffs proceeds with its stated intention of acquiring the remainder of the Spider shares held by shareholders who do not accept the offer, pursuant to an amalgamation or other acquisition transaction or a statutory squeeze-out. At that time the Company will have the statutory right to dissent and to demand to be paid, and to be paid, the fair value of its Spider shares.