

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED MARCH 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (the "MD&A") should be read in conjunction with the annual financial statements of KWG Resources Inc., ("KWG" or the "Company").

DATE

This MD&A for the quarter ended March 31, 2012 is dated May 29, 2012.

COMPANY OVERVIEW

Soon after diamonds were first discovered in Canada, KWG in 1993 formed an alliance with Spider Resources Inc. ("Spider") to explore for diamonds in the James Bay Lowlands of Northern Ontario. This was an area known to have potential to host diamond-bearing kimberlite intrusions. However, it was impossible to explore by conventional prospecting methods as all host rock there is covered by the limestone of a former sea-bed which is now receded to the world's largest wetlands of bogs and lakes. The partners therefore determined to use airborne surveys to locate targets that were analogous to the new discoveries in the North West Territories. One of these large regional aerial surveys included much of a subterranean crescent formation that has now been named the *Ring of Fire*. A diamond drill hole completed there by De Beers in 2001, under an option agreement with KWG and Spider, discovered a copper and zinc occurrence. This first confirmation of the crescent's mineralized character resulted in much additional exploration activity culminating in a substantial nickel discovery by Noront Resources Ltd. and then, in 2007, two very significant discoveries of large near-surface emplacements of very high-grade chromite at the *Black Thor* deposit of Freewest Resources Canada Inc. and at the *Big Daddy* deposit on adjoining claims optioned from Freewest by KWG, which it was then required to share equally with Spider under a prior "area of interest" covenant.

To be able to continue to earn its interest in the Big Daddy deposit, KWG solicited an equity investment from Cliffs Natural Resources Inc. ("Cliffs"), which then became a 19.9% shareholder of KWG and nominated a representative to the KWG Board of Directors. KWG soon afterward purchased an existing underlying royalty interest in the area's deposits and formulated a plan to stake claims along a series of sand ridges to provide the Big Daddy joint venture with exclusive mineral title to land over which its chromite might be equipped for further exploration and development. A technical assessment of these claims was then completed to provide a data base of geotechnical characteristics and glacial till sample profiles. The value of this work was accepted by the Ministry of Northern Development and Mines ("MNDM") for assessment credit and an application will be made to bring the claims to lease for the purpose of making economic the Big Daddy joint venture's undertakings.

Recently, Cliffs has made application under the Public Lands Act for an easement to build a road for the purpose of developing Black Thor, over the surface of the very same mining claims KWG intends to bring to lease. KWG had previously completed a preliminary economic assessment of the Big Daddy project to comply with the requirements of the Ontario Securities Act for public disclosure of the discovery's economic merits. The Cliffs application to the Ministry of Natural Resources, which administers the Public Lands Act, requires consent from KWG pursuant to the provisions of the Mining Act for the use of the surface over the mining claims. Such consent was denied by KWG and the matter was referred to MNDM, which administers the Mining Act, and under the provisions of which KWG staked the mining claims and conducted assessment work. MNDM referred the matter to the Mining and Lands Commissioner of Ontario. The Commissioner then ordered that Cliffs provide KWG with the applicant's case and evidence, so that KWG might have an opportunity to respond in a full hearing before the Commissioner.

KWG's former diamond exploration assets were spun-out to the Company's shareholders in December 2011, as a return of capital to reduce the cost base of their KWG shares, by way of the distribution of the shares of Debut Diamonds Inc. ("DDI"). KWG also liquidated its interest in the area's underlying royalty, for cash, to arm itself with substantial working capital. When Cliffs recently acquired from UC Resources the option to earn an 85% interest in the McFaulds Lake joint venture, KWG waived its option to participate to enable Cliffs to now incur expenditures to a total of \$24 million in that joint venture to earn its majority interest.

HIGHLIGHTS

During and subsequent to the quarter ended March 31, 2012, the Company:

Corporate

- Articles of Continuance adopted under the Canada Business Corporations Act.
- Continued a normal course issuer bid for the purchase of up to 31,900,000 common shares. To date 10,848,000 common shares have been repurchased under this plan.
- Incurred required \$2,500,000 expenditures to increase ownership interest in Big Daddy to 30%.

Exploration

- Transported a bulk sample consisting of massive chromitite with a mass of 4,600kg to Xstrata Process Support in Falconbridge, Ontario, results are pending.
- Completed an aggregate total of 7,754m of NQ drilling in 23 boreholes for the resource delineation drilling program, results are pending.

Canada Chrome Corporation ("CCC")

- Acquired 49 unpatented claims located south of McFaulds Lake and the Ring of Fire that complete a section of the railway corridor. These claims also contain a potential source of aggregate material essential to the construction of any roadway or railway embankment.

OUTLOOK

The management of KWG is of the view that the Company's assets will prove to be catalytic in the development of mining in the *Ring of Fire*, in the very near term. The achievement of that will entail the area's First Nations seeing a realization of their aspirations being won from supporting the development of a railroad for long term mineral exploitation. It is encouraging that the leadership of those First Nations most directly affected appear able to achieve the consensus required for consent to these developments, which will constitute substantial change to traditional usages from time beyond memory.

It is our opinion that the chromite deposits of the *Ring of Fire* have a combined life equal to an appropriate amortization period for the cost of an infrastructure asset such as a railroad; perhaps 100 years or more. When that term is combined with the present historic low cost of the capital required to construct such an undertaking, the unit cost for projected usage is exceedingly modest when compared to all available alternatives. We believe that these financial imperatives will combine with an informed mobilization of indigenous people's support, to achieve broad-based resource revenue sharing for them, and rationally funded infrastructure development for the area's mineral tenants. We expect that our mineral interests will become highly fungible as a result of being in the vanguard of these developments.

OVERALL PERFORMANCE – FINANCIAL

During the first quarter of 2012, the Company utilized its cash reserves to cover ongoing administrative and general expenses as well as its planned exploration activities. The Company's cash inflows were minimal and consisted of interest income and a recovery of administrative expenses both from DDI. Regular expenditures for the quarter were lower than originally projected due to the planned curtailment of some of the Company's activities. Additionally expenditures were incurred related mainly due to costs related to the annual shareholders' meeting. The Company also expended the required amount, in the first quarter, to attain a 30% ownership of the Big Daddy project.

The Company has maintained its focus on its strategic planning to develop what it expects could become a major North American ferro-chrome supplier deposit as well to explore and build a route to transport materials to the mine site. The value of the deposit has been determined by the preliminary economic assessment and exploration activities on the *Big Daddy* property have progressed steadily.

KWG's railway infrastructure project has been well timed and the need for a railway in the *Ring of Fire* seems highly economic. Meetings with government and First Nations officials are ongoing to determine a mutually beneficial result. As well, KWG continues to explore the available funding mechanisms that can be employed to continue development of the railroad link to the *Ring of Fire*.

LIQUIDITY & CAPITAL RESOURCES

The main source of financing for KWG is the issuance of equity shares and sale of non-core assets. Each of KWG's projects has demonstrated sufficient evidence of geological merit to warrant additional exploration. However, it is not presently possible to estimate the cost of further exploration programs, which may or may not bring individual properties to a subsequent stage of development, since they are all exploration projects and their development depends on the results of exploration. On March 31, 2012, the Company had working capital of \$15,950,217 (\$19,095,299 as at December 31, 2011) including \$13,539,716 in cash and cash equivalents (\$16,030,551 in 2011). The Company forecasts operating expenditures of approximately \$2.4 million for fiscal 2012 and flow-through expenditure requirements of \$1.75 million, of which \$1.25 million was spent in the first quarter of 2012. The Company's current cash reserves which result mainly from the 2011 sale of the net smelter royalty ("NSR") interests are sufficient to provide for its working capital requirements and existing commitments in the short term. Also, see note 23 to the 2011 audited consolidated financial statements for commentary on the Company's commitments and contingencies. However, management will continue to pursue all financing alternatives available to fund its future obligations and exploration activities. There is no assurance that the Company will be successful in these actions. Should the Company not be able to obtain the necessary financing, the Company would not have the ability to meet its obligations as they come due. These circumstances may cast significant doubt to the Company's ability to continue as a going concern. The Company invests its unexpended cash in highly-liquid, rated financial instruments.

RESULTS FROM OPERATIONS

The reporting currency of the Company is Canadian dollars and the financial data is reported in this currency.

During the quarter ended March 31, 2012 the Company recorded a loss of \$1,578,685 (\$0.00 per share) compared to a net loss of \$1,039,782 (\$0.00 per share) for the same period in 2011. The loss includes a non-cash gain of \$397,783 (loss of \$221,462 in 2011) on the revaluation of the warrant liability which relates to warrants that are denominated in currencies other than Canadian dollars. These are shown as liabilities and not as part of equity. This warrant liability is then

revalued at each balance sheet date thus creating a gain or loss that is reported in the statement of operations. The period results are explained as follows:

Income

Finance and interest income amounted to a net loss of \$1,015,561 for the first quarter of 2012 compared to income of \$10,270 in 2011. This includes the amortization of a deferred liability in the amount of \$175,036 (\$nil in 2011) for the flow-through premium received on the issuance of shares during 2011. Also included is a non-cash loss on the revaluation of warrant investments in the amount of \$1,235,148 (\$nil in 2011). Interest income for the quarter was \$44,551 compared to \$10,670 in 2011 which resulted from higher cash reserves due to the sale of the NSR during the latter half of 2011. Other income totaled \$781 in both 2012 and 2011.

Expenses

Administrative Expenses

Administrative expenses for the first quarter of 2012 amounted to \$652,494 compared with \$400,475 for the same period in 2011. The following discusses variances in the main components of the administrative expenses:

- Increased salaries of \$74,000 as a result of having a larger staff complement in 2012 compared to the previous year, which results in a decreased need for outside consultants;
- Professional and consultants' fees increased by \$113,000 in the first quarter of 2012 compared to 2011 due to the complexities of the transition to International Financial Reporting Standards and its impact on the annual financial statements and the investigation of possible restructuring options;
- Investor relations fees increased by \$138,000 in first quarter of 2012 compared to the same period in 2011 largely due to the fact the Company held the 2011 annual meeting in early 2012 and there was no annual meeting during 2011;
- During the first quarter of 2012 the Company recovered \$115,000 (\$62,000 in 2011) of administrative expenses as a result of providing services to DDI. In 2011 this recovery was due to having operatorship of the *Big Daddy* chrome project; and
- Other corporate expenses decreased by \$20,000 in the first quarter of 2012 compared to the same period in 2011 which included a decrease in filing fees of \$15,000 due to there not being any private placements thus far in 2012, a decrease of \$8,000 in promotional expenditures due to a curtailment of these types of expenditures, a decrease in travel and accommodation expenditures of \$2,000 and increased overheads \$5,000 mainly due to the timing of the payment of an annual subscription.

Stock Compensation Costs

Stock compensation costs constitute a non-cash expense. During the first quarter of 2012, stock compensation costs totaled \$303,128 compared with \$419,825 for the same quarter in 2011. The expense was higher in 2011 as a result of the issuance of new stock options in the latter part of 2009 and in the second quarter of 2010. These stock options vest throughout 2010, 2011 and early 2012 which were greater than the options issued in the latter half of 2011 and early 2012. The calculated cost of these stock options is recognized as an expense over the vesting period. The Company issued 7,100,000 stock options in the first quarter of 2012.

Foreign Exchange Gain (Loss)

During the first quarter of 2012, the Company realized a foreign exchange loss of \$792 compared to a gain of \$2,072 for the same period in 2011. The Company had only a minimal amount of foreign currency balances and transactions during these periods.

SUMMARY OF QUARTERLY RESULTS

(Thousands of dollars except amount per share)

Quarter ending	Total revenue	Net Income (loss)	Income (loss) per share (basic and diluted)
March 31, 2012	-	(1,579)	<(0.01)
December 31, 2011	-	(931)	<(0.01)
September 30, 2011	-	13,837	0.02
June 30, 2011	-	140	<0.01
March 31, 2011	-	(1,039)	<(0.01)
December 31, 2010	-	(2,423)	<(0.01)
September 30, 2010	-	1,451	<0.01
June 30, 2010	-	(1,766)	<(0.01)

Losses for the last two quarters are attributable mainly to adjustments resulting from the period end revaluation of the warrant investments, ongoing general and administrative expenses, which were consistent with previous quarters and stock compensation costs.

Income for the third quarter of 2011 resulted from the sale of the NSR. The higher losses in quarters prior to this are attributable mainly to the recognition of mineral property write-offs, ongoing general and administrative expenses and stock compensation costs during such quarters. The net income in the third quarter of 2010 resulted from the receipt of the termination payment from Spider Resources Inc.

COMMITMENTS AND CONTINGENCIES

Pursuant to flow-through financing agreements closed during the year ended December 31, 2011 the Company must incur \$503,078 in exploration expenses by December 31, 2012.

The Company has incurred approximately \$8 million of expenditures which have been passed through to shareholders as eligible expenditures for their purposes under flow through agreements. As noted in Note 3 to the 2011 audited consolidated financial statements, there is always a risk that some or all of these claims may be disallowed. No provision has been made for potential cost to the Company, if any, of such disallowance. To the extent that the costs are disallowed as deductions to shareholders, additional tax attributes would be created for the Company which would be considered for recognition at that time.

Certain conditions may exist at the date the financial statements are issued which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company does not record any liability for such future events until such time as the events are probable and reasonably determinable.

RELATED PARTY TRANSACTIONS

The Company defines its officers (CEO, CFO and Corporate Secretary) and directors as Key Management Personnel ("KMP"). During the first quarter of 2012, officers and companies controlled by officers charged consulting fees totalling \$73,303 (2011 - \$51,561) of which \$32,384

remained payable at March 31, 2012 (2011 - \$21,945). Directors' fees paid in the first quarter totalled \$18,000 (2011 - \$18,000) and certain directors also received salaries and bonuses in the amount of \$178,692 (2011 - \$64,615). KMP received 7,100,000 stock options in the first quarter of 2012 (2011 - 1,500,000). In the first quarter of 2012 stock compensation expenses totalled \$222,163 for KMP (2011 - \$276,558).

Debut Diamonds Inc.

The Company shares management, administrative assistance and facilities and other technical personnel with DDI. This is not covered by a written agreement. The costs charged to DDI are equal to the costs incurred by the Company. During the first quarter of 2012, the Company charged DDI for overhead and personnel charges in the amount of \$61,331 (2011 - \$nil) and for project costs in the amount of \$54,518 (2011 - \$nil).

NEW ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") have been adopted in the Company's 2011 audited consolidated financial statements. Note 3 thereto includes the accounting policies that have been applied in preparing the financial statements for the years ended December 31, 2011 and 2010 and the quarterly financial statements for 2012 and 2011 as well as a summary of accounting standards and amendments issued but not yet adopted.

There have been no new accounting policies adopted by the Company in the first quarter of 2012.

FUTURE ACCOUNTING CHANGES

The Company may enter into joint venture arrangements with third parties. Presently, the Company's accounting policy is to account for these using the proportionate consolidation method. IFRS may remove this alternative and require equity accounting. The Company is assessing the impact of this standard on its financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

Critical Judgments

- (i) Measurement of the recoverable amount of exploration and evaluation projects;
- (ii) Qualifying Canadian exploration expenditures for purposes of renouncing these to flow-through shareholders;

- (iii) The fair value of share-based payments, including stock based compensation and warrants;
- (iv) Determination that the Company does not have significant influence over GoldTrain Resources Inc.

Critical Estimates

- (i) The estimated useful life and property and equipment;
- (ii) The valuation of the distribution of Debut Diamonds Inc.;
- (iii) The valuation of financial assets at fair value through operations; and
- (iv) The valuation of financial assets at fair value through OCI.

FINANCIAL INSTRUMENTS

The following presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included in the 2011 audited consolidated financial statements.

Risk Management Framework

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

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

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

Credit Risk

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

Cash and Cash Equivalents

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

Receivables

The Company's receivables consist primarily of trade receivables and amounts due from related parties, both of which are settled on a regular basis.

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables.

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

Marketable Securities

The Company invests only in securities of companies listed on public stock exchanges and warrants of those companies. There is no active market for these warrants. Such strategic investments are approved by the Board of Directors of the Company. Management actively monitors changes in the markets and management does not expect any counterparty to fail to meet its obligations. The Company's investments are generally in the junior natural resources sector and these companies are subject to similar areas of risk as the Company itself.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries or under business arrangements where the benefit of the guarantee will enure to the Company. At both March 31, 2012 and December 31, 2011, the Company had \$nil in guarantees outstanding.

The Company's maximum exposure to credit risk at the reporting date was:

	March 31, 2012	December 31, 2011
Carrying amount		
Cash and cash equivalents	13,539,716	16,030,551
Receivables	1,155,576	1,072,320
Financial assets classified as available for sale	698,981	888,450
Financial assets classified as fair value through profit & loss	950,700	2,185,848
	16,344,973	20,177,169

Liquidity Risk

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

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

The Company manages its liquidity risk through the mechanisms described above and as described in Capital Management Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and the ultimate appropriateness of the use of the accounting principles applicable to a going concern.

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

Market Risk

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

Foreign Currency Risk

The Company is exposed to foreign currency risk on purchases and other payables that are denominated in a currency other than the functional currency of the Company; the Canadian dollar. The currencies in which these transactions are denominated, when they occur, are the United States dollars. The Company does not actively hedge its foreign currency exposure. A 10% strengthening or weakening of the Canadian dollar would not have a material impact on the Company's equity or results of operations.

Interest Rate Risk

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

Other Market Price Risk

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

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

Conflict of Interest Risk

Certain of the directors and officers of KWG are engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers of KWG may become subject to conflicts of interest. The Canada Business Corporations Act (CBCA) provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the CBCA. To the extent that other conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the CBCA.

OTHER

National Instrument 51-102 - Section 5.3

Below is a detailed analysis of exploration expenditures incurred for the three months ended March

31, 2012 with comparative figures for the year ended December 31, 2011 on a property by property basis. Properties owned by DDI are no longer part of the group and have been indicated as divested in the tables below:

Spider No. 1/MacFadyen and Kyle

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	25,132	2,516,896
Exploration expenses		
Drilling	-	(24,000)
Geology	-	10,639
Surveying	-	6,495
	-	(6,866)
Divestiture of DDI	-	(2,484,898)
Balance – End of the period	25,132	25,132

Wawa

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	-	156,944
Divestiture of DDI	-	(156,944)
Balance – End of the period	-	-

Big Daddy

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	8,813,117	6,454,391
Exploration expenses		
Camp expenses	-	-
Consulting	-	-
Drafting	-	-
Drilling	1,246,922	1,408,930
Environmental	-	-
Geology	-	12,286
Geophysics	-	-
License fees	-	-
Line cutting	-	-
Management	-	39,589
Metallurgical costs	-	32,420
MFFN compensation	-	2,610
Resource studies	-	193,739
Sample storage	-	8,136
Additional earn-in	-	661,016
	1,246,922	2,358,726
Balance – End of the period	10,060,039	8,813,117

Diagnos

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	178,014	189,120
Divestiture of DDI	-	(11,106)
Balance – End of the period	178,014	178,014

Pele Mountain

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	-	556,878
Exploration expenses		
Geology	-	10,639
Reports	-	5,500
Staking	-	7,412
Surveying	-	62,354
	-	85,905
Divestiture of DDI	-	(642,783)
Balance – End of the period	-	-

Uniform Surround

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	-	7,950
Exploration expenses		
Geology	-	10,639
Surveying	-	5,196
	-	15,835
Divestiture of DDI	-	(23,785)
Balance – End of the period	-	-

Railway Corridor

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	15,236,311	14,313,571
Exploration expenses		
Assaying & testing	-	71,445
Camp expenses	-	34,635
Claims staking	-	31,967
Draft closure plan	-	(9,000)
Field consultants	4,000	34,385
Flight costs	-	14,090
Geology	4,694	816,303
Legal costs	-	5,092
Travel & accommodation	-	360
	<u>8,694</u>	<u>999,277</u>
Acquisition costs	372,000	-
Divestiture of DDI	-	(76,537)
Balance – End of the period	<u>15,617,005</u>	<u>15,236,311</u>

Victor West

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	-	119,979
Exploration expenses		
Geology	-	10,639
Staking	-	10,209
Surveying	-	57,170
	<u>-</u>	<u>78,018</u>
Divestiture of DDI	-	(197,997)
Balance – End of the period	<u>-</u>	<u>-</u>

Nakina Project

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	-	-
Exploration expenses		
Acquisition costs	-	560,216
Geology	-	10,639
	<u>-</u>	<u>570,855</u>
Divestiture of DDI	-	(570,855)
Balance – End of the period	<u>-</u>	<u>-</u>

All Projects Combined

Cost and deferred exploration expenses	Three months ended March 31, 2012	Year ended December 31, 2011
	\$	\$
Balance – Beginning of the period	28,442,269	31,390,134
Acquisition costs	372,000	560,216
Exploration expenses		
Assaying & testing	-	71,445
Camp expenses	-	34,635
Draft closure plan	-	(9,000)
Drilling	1,246,922	1,384,930
Field consultants	4,000	34,385
Financing costs	-	20,000
Flight costs	-	14,090
Geology	4,694	881,784
Legal	-	5,092
Management	-	39,589
Metallurgical costs	-	32,420
MFFN Compensation	-	2,610
Reports	-	5,500
Resource studies	-	193,739
Sample storage	-	8,136
Shortfall payment	-	661,016
Staking	-	49,588
Survey	-	131,215
Travel & accommodation	-	360
	1,255,616	3,561,534
Write downs taken in the year	-	(202,123)
Properties sold during the year	-	(2,702,587)
Divestiture of DDI	-	(4,164,905)
Balance – End of the period	30,069,885	28,442,269

The following is a detailed break-down of administrative expenses incurred for the three months ended March 31, 2012 with comparative figures for the same period in 2011.

Administrative Expenses	2012	2011
	\$	\$
Advertising & Promotion	2,333	10,115
Consultant's Fees	115,064	58,935
Directors Fees & Insurance	19,341	18,562
Filing Fees	16,248	31,521
Investor Relations Fees	146,537	8,930
Professional fees	116,896	59,913
Office Overhead	64,804	59,937
Salaries and benefits	270,399	196,520
Travel & Accommodation	16,721	18,472
Administrative recovery	(115,849)	(62,430)
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Total Administrative Expenses	652,494	400,475

National Instrument 51-102 - Section 5.4

Disclosure of Outstanding Share Data (as at May 29, 2012)

Common shares outstanding: 671,518,941

Warrants and compensation options outstanding: 155,725,220

Each warrant entitles the holder to purchase one common share of the Company at the following prices:

Number of Warrants	Number of Compensation Options	Exercise Price \$	Expiry Date
200,000	-	0.10	May 2012
1,300,000	-	0.10	June 2012
1,000,000	-	0.10	July 2012
1,000,000	-	0.10	August 2012
5,000,000	-	0.10	September 2012
21,911,540	-	0.10	October 2012
8,697,500	-	0.12	October 2012
4,135,000	-	0.15	December 2012
7,062,326	-	0.18	December 2012
4,000,000	-	0.15	February 2013
17,208,015	-	0.10U.S.	March 2014
9,310,839	-	0.10U.S.	April 2014
8,750,000	750,000	0.12	June 2014
15,000,000	-	0.10	July 2014
26,400,000	-	0.10	August 2014
21,000,000	-	0.15	August 2016
3,000,000	-	0.12	March 2017

Options outstanding: 67,743,200 - average exercise price of \$0.113

Each option entitles the holder to purchase one Common Share of the Company at the following prices:

Number of Options	Exercise Price \$	Expiry Date
2,690,000	0.10	June 2012
1,820,000	0.10	September 2012
500,000	0.15	October 2012
3,410,000	0.12	November 2012
2,000,000	0.12	December 2012
2,216,600	0.10	February 2013
588,100	0.10	May 2013
400,000	0.10	October 2013
5,673,500	0.10	October 2014
24,545,000	0.125	May 2015
1,500,000	0.14	June 2015
11,000,000	0.10	December 2015
3,500,000	0.115	March 2016
800,000	0.10	Nov 2016
7,100,000	0.10	Mar 2017

FORWARD LOOKING INFORMATION

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation: the economic potential of the Project (as defined below); the proposed construction of a rail line; the continued maintenance, exploration and the development of the Company's properties and the costs related thereto, as well as the Company's expectation of periodically requiring additional funds therefore; exploration, development and operational plans, objectives and budgets; the expected strategic importance and value of the Company's mineral property interests outside of the Project, including expectations regarding the Company's participation in the development of the McFaulds Lake properties; expectations regarding the consultation, assessment and construction of a railroad, including the costs and timing associated therewith; mineral resource estimates; potential mineral resources; the Company's plans with respect to the distribution of the DDI (as defined below) common shares as a dividend in kind to the Company's shareholders; plans with respect to the use of private placement proceeds; estimates relating to critical accounting policies; the Company's expectations with respect to pursuing new opportunities and acquisitions and its future growth; estimated operating expenses; and the Company's ability to raise new funding.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: demand for ferrochrome by global integrated steel producers; the impact of consolidation and rationalization in the steel industry; the grade and recovery of ore varying from estimates; delays in, or the failure to, develop the projects of the Company caused by unavailability

of equipment; labour or supplies, weather and climatic conditions, labour disputes, financing or other factors; risks normally incidental to exploration and development of mineral properties; uncertainties in the interpretation of drill results; the possibility that future exploration, development or mining results will not be consistent with expectations; uncertainty of mineral resources estimates; the Company's inability to obtain, maintain, renew and/or extend required licenses, permits, authorizations and/or approvals from the appropriate regulatory authorities and other risks relating to the applicable regulatory framework; the Company's inability to maintain its title to its assets; capital and operating costs varying significantly from estimates; the Company's inability to participate in and/or develop the Company's property interests outside of the Project; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the inability of the Company to obtain required financing; the Company's inability to declare and/or pay a dividend on its Common Shares as proposed in the MD&A, or at all; adverse general market conditions; the Company's inability to delineate additional mineral resources and delineate mineral reserves; operating hazards and risks, management and control; environmental risks; adverse land claims; future unforeseen liabilities and other factors including, but not limited to, those listed under "Risk Factors" in this MD&A.

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR (WWW.SEDAR.COM).