

# **KWG RESOURCES INC.**

(An exploration stage company)

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SIX-MONTH PERIOD ENDED JUNE 30, 2008**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This management's discussion and analysis follows rule 51-102A of the Canadian Securities Administrators regarding continuous disclosure for reporting issuers. It is a complement and supplement to the annual and quarterly financial statements and should be read in conjunction with those statements. It represents the view of management on current activities and past and current financial results of the Company, as well as an outlook of the activities of the coming months.

## 1.1 DATE

This management's discussion and analysis (the "MD&A") for the period ended June 30, 2008 is as of August 29, 2008.

## 1.2 FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the Company's expectations, estimates and projections regarding its business, the mining industry in general and the economic environment in which it operates as of the date of the MD&A. These statements are reasonable but involve a number of risks and uncertainties, and there can be no assurance that they will prove to be accurate. Therefore, actual outcome and results may differ materially from those expressed in or implied by these forward-looking statements.

The risk and uncertainties are further described in the December 31, 2007 annual MD&A and include risks inherent to mining exploration and development, fluctuating prices, operating hazards and risks, management and control, title to assets, government regulation, environmental factors, land claims, and requirement of new capital. The Company cautions that this list of risks and uncertainties is not exhaustive.

## 1.3 NATURE OF ACTIVITIES

KWG Resources Inc. ("KWG" or the "Company") is an exploration stage company with properties in Ontario, Canada. KWG has two property groups: the diamond group and the nickel and base metal group. In October 2007, KWG incorporated Debuts Diamonds Inc. ("Debuts Diamonds"), as a wholly owned subsidiary to hold KWG's various diamond exploration undertakings. KWG will continue to hold directly the other Ontario mineral properties including the nickel and base metal claims and interests in the McFaulds Lake area, where Noront Resources Ltd ("Noront") is drilling a significant nickel and copper discovery.

KWG has no income from production since all its properties are at the exploration stage.

## 1.4 RECENT DEVELOPMENTS AND OUTLOOK

KWG continues to make progress with its mineral projects in northern Ontario. Significant recent developments since the last MD&A dated May 29, 2008 are:

(a) **Drill results from Chromitite discovery on Freewest Option:** KWG and Spider Resources Inc. ("Spider"), the joint venture partners, are encouraged by the apparent thickening of the massive Chromitite beds to the northeast, with the potential for grade and tonnage development in addition to the significant presence of Gold and Platinum (**FW-08-07** included 2.183g/t (Pt+Pd+Au) over 9.0 metres in addition to chromitite). Drilling to date has demonstrated that the massive Chromitite beds cover an area of 150 metres by 200 metres and this occurrence is open on strike to the northeast, southwest, and down dip. KWG and Spider are now considering additional drilling as required for resource definition drilling.

In March 2008, KWG/Spider commenced drilling on the Freewest Option property' ("Freewest Option"), in the James Bay Lowlands region of northern Ontario. The Freewest Option is located approximately 15 kilometres southwest of the McFaulds Lake volcanogenic massive sulphide occurrences of KWG/Spider and approximately 3.6 kilometres northeast of the Eagle One magmatic massive sulphide discovery of Noront. Spider is the operator of Freewest Option for 2008 and KWG's interest in this joint venture project is at 50% on June 30, 2008.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Previously announced drilling results from the massive chromitite layers discovered in a peridotite sill encountered in drill-holes **FW-06-03** (34.5% Cr<sub>2</sub>O<sub>3</sub>/1.03 metres), **FW-08-05** (35.6% Cr<sub>2</sub>O<sub>3</sub>/7.5 metres), **FW-08-06** (multiple intercepts like 7.15% Cr<sub>2</sub>O<sub>3</sub>/7.5 metres and 9.73% Cr<sub>2</sub>O<sub>3</sub>/6.9 metres) and **FW-08-07** (30.73% Cr<sub>2</sub>O<sub>3</sub>/14.4 metres). In addition to the Chrome elevated Platinum, Palladium and Gold have been detected (2.183 g/t (Pt + Pd + Au) over 9.0 metres). Due to the early stage of exploration, the true widths of the Chromitite intersections are unknown.

The current program has demonstrated that the massive chromitite beds or lenses intersected in these earlier drill-holes are increasing in their apparent thickness with successive step-out holes to the northeast (down the apparent dip of the Peridotite Sill complex) as summarized in the following summary table:

HOLE ID	INCLINATION	FROM (M)	TO (M)	INTERVAL (M)	BRIEF DESCRIPTION
FW-08-12	-50 deg	208.3	210.1	1.8	Semi Massive to Massive Chromite
		228.25	237.9	9.6	Semi Massive to Massive Chromite
		237.9	240.6	2.7	Massive Chromite
		240.6	248.5	8.3	Minor Chromite
				<b>29.6 m</b>	Interval thickness
		252.25	260.7	8.4	Massive Chromite (lower fault contact)
FW-08-13	-50 deg	78.4	82.3	3.9	Massive Chromite
		82.3	85.2	2.9	Semi Massive Chromite
		90.25	102	11.75	Massive Chromite
				<b>19.5</b>	Interval thickness
		102	109.8	7.8	Semi Massive Chromite
		109.8	111	1.2	Massive Chromite
		111	117	6.0	Semi Massive Chromite
		117	142.1	25.1	Massive Chromite
		<b>39.1</b>	Interval thickness		
FW-08-14	-50 deg	36.2	81.8	45.6	Massive Chromite
		82.3	103.5	21.2	Semi Massive Chromite
				<b>67.8</b>	Interval thickness
FW-08-15	-50 deg	160	164.1	4.1	Fault Zone – With Massive Chromite present as Fragments in the Fault Zone
		164.1	171.3	7.2	Massive Chromite
				<b>11.3</b>	Interval thickness

The intersections contained in the above table include comments on visual descriptions of mineralized intercepts. There are no guarantees that assay results will support or confirm these visual results, assays are pending. While the true width of the many Chromitite beds remains unknown, primarily due to the fact that the chrome enriched bodies limits are undefined as to depth, length or attitude, the Chromitite beds appear to be present in distinct cycles consisting of 'couplets' of semi massive (thin centimetre thick bands of Chromite sandwiched between barren sections of the Peridotite host rock with or without sections of containing only disseminated Chromite) of varying thickness. This 'graded' sequence transitions to or grades downwards into the massive Chromitite (+metre thick) beds. The lower massive Chromitite beds in several holes were terminated by faults that may have displaced part of the massive bed or lenses and the semi-massive couplet. This faulting may have also caused some 'stacking' or repetition of the Chromitite bed sequence.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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(b) **Middleton & Lavigne join KWG – Feeder claims optioned:** KWG has retained geologists Robert Middleton and Maurice Lavigne to manage KWG's exploration programs in the Ring of Fire in northern Ontario. Middleton & Lavigne will manage the Freewest Option project when KWG becomes operator in 2009.

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

KWG has signed a Letter of Intent to acquire an option to earn up to a 65% interest from East West Resources Corporation in its "Feeder Claims". The 12-claim group south of the Ring of Fire was identified by Middleton and Lavigne as having potential to contain a magma feeder conduit similar to the host of the Eagle 1 discovery. KWG will issue 2 million shares and pay \$50,000 for the option. In addition, the Company must incur exploration expenditures of \$250,000 in each of 2008 and 2009 to earn 50% and an additional \$1 million by August 2012 to earn 60%. An additional 5% may be earned in any mineral deposit discovered by KWG providing development and production financing.

(c) **Initial Resource Estimates for McFaulds Project:** At the **McFaulds 3** deposit, using a cut-off grade of 1.5% Cu, there is an Indicated Mineral Resource estimated to total **802,000 tonnes grading 3.75% Cu and 1.1% Zn**. At the **McFaulds 1** deposit, using a cut-off grade of 1.5% Cu, there is an Indicated Mineral Resource estimated at **279,000 tonnes grading 2.13% Cu and 0.58% Zn**.

The July 10, 2008 resource estimates were made using drill-hole data available as of August, 2007. The two estimates were based on 39 diamond core holes for the McFaulds 3 deposit totalling 12,114 metres in length and on 15 diamond core holes for the McFaulds 1 deposit totalling 4,715 metres in length. Dr. Howard Lahti, P.Geo, has reviewed the Mineral Resource estimates and is preparing a National Instrument 43-101 report on the project.

The initial Mineral Resource estimates of the McFaulds 1 and McFaulds 3 deposits are preliminary in nature. The resources, as stated, are categorized as Inferred and Indicated, however they are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. These estimated resources do not have demonstrable economic viability, as the results of an economic analysis of these mineral resources has not been done.

(d) **Drilling completed at MacFadyen Kimberlites:** This summer Debuts Diamonds contracted a helicopter-moveable drill rig to recover samples on the MacFadyen and adjacent claims previously acquired from Pele Mountain Resources Inc. for indicator mineral analysis. These samples are currently being processed for analysis. Additional drilling of two untested targets on the MacFadyen Kimberlites claims was also completed and the drill core recovered is presently being analyzed. Debuts Diamonds is now preceding with the completion of the survey of the five MacFadyen Kimberlites claims in order to convert the claims into a mining lease.

The MacFadyen Kimberlites property is located in the James Bay Lowlands of northern Ontario. The property is on the south shore of the Attawapiskat River about 86 miles (145 km) west of James Bay. Exploration on the MacFadyen Kimberlites has identified small quantities of commercial sized diamonds in 2007. The MacFadyen Kimberlites consist of 5 claims, totalling about 1,661 acres or 672 hectares, adjacent to the De Beers' Victor Mine. The Victor Mine began diamond production in January 2008.

(e) **KWG's directors re-elected at June 20, 2008 annual meeting:** Messrs. Michel Côté, Douglas Flett, Michael Harrington, Leonard Teoli, Dr. Mousseau Tremblay and Frank Smeenck were re-elected as directors of KWG at the meeting of KWG shareholders held in Montreal on June 20, 2008.

Dr. Tremblay was re-elected Chairman of the KWG's Board of Directors following the meeting and Messrs. Harrington and Smeenck were re-appointed Vice-chairman and President and CEO, respectively. Luce L. Saint-Pierre was re-appointed as Secretary and Martin Nicoletti as CFO.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## **1.5 OVERALL PERFORMANCE - FINANCIAL**

While conditions for financing small business in 2008 are unlikely to match those of 2007, local conditions and metal prices are a major factor for small exploration companies such as KWG. Strong metal prices, especially for nickel in 2007, helped KWG raise about \$6.5-million from the sale of treasury shares and warrants in fiscal 2007. On December 31, 2007, KWG had 262,863,821 common shares issued. In the first six months of 2008, KWG issued 796,000 shares upon exercise of warrants for which KWG received \$69,240 or about 9-cents a share. On June 30, 2008, KWG had \$3,874,122 cash and cash equivalents which compared to \$5,472,150 on December 31, 2007.

## **1.6 LIQUIDITY & CAPITAL RESOURCES**

The main source of financing for KWG is the issuance of equity shares. 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 June 30, 2008, KWG had working capital of \$4,339,573 compared to \$47,983 on June 30, 2007. The 2008 working capital includes \$3,874,122 in cash (June 30, 2007 (unaudited) - \$92,811) of which \$2,119,323 is reserved for exploration expenses to be made in Canada before December 31, 2008 (June 30, 2007 (unaudited) - \$53,064). Cash required for annual operating activities is in the order of approximately \$600,000; while the working capital available for non-exploration amounts to \$1,754,799. KWG has adequate working capital to finance its activities in 2008.

## **1.7 RESULTS FROM OPERATIONS**

The loss for the period ended June 30, 2008 amounted to \$6,104,284 (\$0.02 per share) compared to \$351,089 (\$0.01 per share) in 2007. The following are the main variances of results from operations:

**(i) *Interest income – \$70,229 (2007 - \$1,733)***

KWG had larger amounts to invest in the first six-months of 2008 than it had for the same period in 2007.

**(ii) *Administrative expenses - \$364,110 (2007 - \$262,43 )***

The increase is mainly related to the creation of the wholly-owned subsidiary, Debuts Diamonds and the transfer of the diamond assets to this subsidiary (\$57,389 in professional fees in 2008). In addition, the Company incurred promotional expenses of \$18,989.

**(iii) *Stock compensation costs - \$308,510 (2007 - \$82,145)***

Stock compensation cost is a non-cash item. While the first six months of 2008 stock compensation cost was higher than the same period of 2007, actual cash outlay was not affected. The Company granted 11,310,000 options in 2008 and 2,979,700 in 2007. Therefore a greater number of options vested in the current period.

**(iv) *Write-down of mining assets - \$5,383,821 (2007 - \$Nil)***

In April 2008, KWG transferred to its wholly-owned subsidiary Debuts Diamonds, its diamond group claims. The fair market value of the mining assets transferred was evaluated by an independent party at \$7,000,000. Consequently a \$5,383,821 write-down was recorded.

**(v) *Write-off of mining claims - \$116,065 (2007 - \$Nil)***

In 2008, KWG abandoned the Geraldton claims; this is a non-cash item and there was no actual cash loss.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 1.8 SUMMARY OF QUARTERLY RESULTS

(Thousands of dollars, except amount per share)

Quarter	Total income (\$)	Loss (\$)	Loss per share (basic and diluted) (\$)
June 30, 2008	25	(5,673)	<(0.02)
March 31, 2008	45	(431)	<(0.01)
December 31, 2007	25	(492)	<(0.01)
September 30, 2007	3	(219)	<(0.01)
June 30, 2007	-	(226)	<(0.01)
March 31, 2007	-	(125)	<(0.01)
December 31, 2006	-	(307)	<(0.01)
September 30, 2006	1	(157)	<(0.01)

## 1.9 SECOND QUARTER RESULTS

Administrative costs during the second quarter of 2008 amounted to \$364,110 (2007 - \$262,437). The increase is mainly attributable to the creation of the wholly-owned subsidiary Debutts Diamonds.

Write-down of mining assets during the second quarter of 2008 amounted to \$5,383,821 (June 30, 2007 (unaudited) - \$nil), resulting from the transfer of the Diamond Group claims to Debutts Diamonds in April 2008 at a value determined by independent valuation.

## 1.10 COMMITMENT

In 2008, the Company and two co signatories (the "Original Lessees") subleased the premises for the last year of the original lease. The Original Lessees remain jointly responsible until the expiry of the original lease in February 2009

## 1.11 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 2008, officers and companies controlled by officers were paid consulting fees totalling \$57,192 (June 30, 2007 (unaudited) - \$47,960) of which \$8,254 remained payable at June 30, 2008 (June 30, 2007 (unaudited) - \$13,765) and directors of the Company and a company controlled by a director of the Company were paid \$29,500 (June 30, 2007 (unaudited) - \$30,000) for professional consulting services.

## 1.12 CHANGES IN ACCOUNTING POLICY

On January 1, 2008 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 3862, "Financial instruments – Disclosures", and 3863 – "Financial instruments Presentation", Section 1535, "Capital disclosures", Section 1400, "General standards of Financial Statements Presentation".

Under Section 3862, "Financial instruments – Disclosures", and 3863 – "Financial instruments Presentation" replace handbook Section 3861, "Financial instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Under Section 1535, "Capital disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. As a result of the adoption of this new standard, the Company has added the entity's objectives under note 7 of the interim consolidated financial statements. The new requirements are effective for interim periods beginning on or after October 1, 2007.

Under Section 1400, "General standards of Financial Statements Presentation" was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

## **1.13 NATIONAL INSTRUMENT 52-109 – CERTIFICATES OF INTERIM FILING**

The Chief Executive Officer and Chief Financial Officer have signed certificates that, among things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

The Company's management has a process to evaluate the effectiveness and the design of the aforementioned controls and procedures, and is satisfied, as at June 30, 2008, that these are adequate for ensuring that complete and reliable financial information is produced.

## **1.14 INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As at June 30, 2008, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that design of internal control over financial reporting was effective as at June 30, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The company has implemented additional controls related to the approval of assumptions and additional review of non-monetary transactions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 1.15 OTHER

### (i) National Instrument 51-102 - Section 5.3

Below is the detailed analysis of exploration expenditures incurred in 2008 and 2007.

Cost and deferred exploration expenses	2008 \$	2007 \$
Balance - Beginning of period	16,897,432	15,611,907
Acquisition, staking and permits	112,498	72,891
Write-off of mining assets	(115,765)	-
Write-down of mining assets	(963,776)	-
Exploration expenses		
Drilling	365,441	820,802
Geophysics	47,124	73,494
Sampling	56,488	101,872
Consulting	59,379	35,310
Field preparation	5,858	29,939
Management	47,504	29,459
Line cutting	39,341	55,050
Camp expenses	121,711	56,108
Permits	-	10,600
Write-off of mining assets	(300)	-
Write-down of mining assets	(4,420,045)	-
	(4,644,542)	1,285,525
Balance - End of period	12,252,900	16,897,432

### (ii) National Instrument 51-102 - Section 5.4

Disclosure of Outstanding Share Data (as at August 29, 2008)

Common shares outstanding: 267,569,821

Warrants and compensation options outstanding: 88,243,465

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

NUMBER OF WARRANTS	COMPENSATION OPTIONS	EXERCISE PRICE \$	EXPIRY DATE
5,500,000	-	0.10	December 2008
891,310	-	0.10	February 2009
11,000,000	1,000,000	0.10	March 2009
5,172,250	500,000	0.10/0.05	April 2009
1,500,000	-	0.10	June 2009
1,106,000	-	0.10	July 2009
106,000	-	0.10	August 2009
6,706,000	-	0.10	September 2009
26,476,923	3,886,692	0.10	October 2009
9,375,000	-	0.12	October 2009
4,135,000	413,500	0.15	December 2009
7,062,325	1,412,465	0.18/0.185	December 2009
2,000,000	-	0.10	August 2010



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Options outstanding: 25,404,680 - average exercise price of \$0.11

NUMBER OF OPTIONS	EXPIRY DATE
400,000	September 2008
425,900	July 2009
620,500	April 2010
7,128,580	November 2010
600,000	April 2011
1,940,000	December 2011
2,950,000	April 2012
2,100,000	September 2012
500,000	October 2012
3,760,000	November 2012
2,000,000	December 2012
2,391,600	February 2013
588,100	May 2013

### **ADDITIONAL INFORMATION**

Additional information on the Company is available through regular filings of press releases and quarterly financial statements on SEDAR ([WWW.SEDAR.COM](http://WWW.SEDAR.COM)).