KWG RESOURCES INC.

(An exploration stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008

NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:

The unaudited interim consolidated financial statements of KWG Resources Inc. for the nine-month period ended September 30, 2008 have not been reviewed by the Company's external auditors.

(s) *Leonard Teoli*

LEONARD TEOLI, Director

(s) *Martin Nicoletti*

MARTIN NICOLETTI, Chief Financier Officer

Montréal, Québec
November 27, 2008

KWG Resources Inc.

(An exploration stage company)

Consolidated Balance Sheets

(unaudited)

	September 30, 2008 $ (unaudited)	December 31, 2007 $ (audited)
Assets		
Current assets		
Cash and cash equivalents (note 4)	2,107,462	5,472,150
Accounts receivable	105,795	60,535
Temporary investments (note 5)	245,667	76,232
Prepaid expenses	21,984	7,306
	2,480,908	5,616,223
Mining assets (note 6)	14,392,027	16,897,432
	16,872,935	22,513,655
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	404,821	164,722
Shareholders' Equity		
Share capital (note 7)	27,505,779	27,212,107
Warrants and compensation options (note 8)	1,666,356	1,723,358
Contributed surplus (note 10)	2,504,052	1,996,508
Deficit	(14,986,878)	(8,546,676)
Accumulated other comprehensive income (notes 5 and 11)	(221,195)	(36,364)
	16,468,114	22,348,933
	16,872,935	22,513,655

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Operations, Deficit and Comprehensive Income

(unaudited)

	Three-month period ended September 30		Nine-month period ended September 30	
	2008 (Unaudited) $	**2007 (Unaudited) $**	**2008 (Unaudited) $**	**2007 (Unaudited) $**
Income				
Interest income	54,070	955	124,299	2,688
Expenses				
Administrative	320,585	128,649	684,695	391,086
Stock compensation costs (note 6)	66,464	91,098	374,974	173,243
Write-down of mining assets	-	-	5,383,821	-
Write-off of mining assets	-	-	116,065	-
Write-off of receivables	-	-	2,007	-
	387,048	219,747	6,561,561	572,569
Net loss for the period	(332,978)	(218,792)	(6,437,262)	(569,881)
Deficit – Beginning of period	(14,650,960)	(7,127,170)	(8,546,676)	(6,650,083)
Share and warrant issue expenses	(2,940)	(3,075)	(2,940)	(129,073)
Deficit – End of period	(14,986,878)	(7,349,037)	(14,986,878)	(7,349,037)
Basic and diluted loss per share	(0.001)	(0.001)	(0.02)	(0.003)
Weighted average basic and diluted number of outstanding shares	264,993,154	186,105,245	263,927,377	177,455,697

Comprehensive Income (loss)

	Three-month period ended September 30		Nine-month period ended September 30	
	2008 (Unaudited) $	**2007 (Unaudited) $**	**2008 (Unaudited) $**	**2007 (Unaudited) $**
Net loss for the period	(332,048)	(218,792)	(6,437,262)	(569,881)
Other components of Comprehensive Loss:				
- Net variation of the latent loss on the financial assets available for sale	(154,895)	4,692	(184,831)	(85,214)
Comprehensive Income (loss)	(486,943)	(214,100)	(6,622,093)	(655,095)

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Cash Flows

(unaudited)

	Three-month period ended September 30		Nine-month period ended September 30	
	2008 (Unaudited) $	**2007 (Unaudited) $**	**2008 (Unaudited) $**	**2007 (Unaudited) $**
Cash flows from				
Operating activities				
Net loss for the period	(332,978)	(218,792)	(6,437,262)	(569,881)
Adjustments:				
Stock compensation costs (note 9)	66,464	91,098	374,974	173,243
Write-down of mining assets	-	-	5,383,821	-
Write-off of mining assets	-	-	116,065	-
Write-off of receivables	-	-	2,006	8,240
	(266,514)	(127,694)	(560,396)	(388,398)
Change in non-cash working capital items	167,284	55,773	178,154	54,414
	(99,230)	(71,921)	(382,242)	(333,984)
Financing activities				
Share capital issued	200,000	48,489	269,240	774,189
Warrants and compensation options exercised	-	9,000	-	168,300
Units to be issued	-	330,000	-	330,000
Share and warrant issue expenses	(2,940)	(3,075)	(2,940)	(54,620)
	197,060	384,414	266,300	1,217,869
Investing activities				
Disposal of investment	-	-	-	11,760
Acquisition of investment	(354,266)	-	(354,266)	-
Additions to mining assets	(1,510,225)	(28,784)	(2,894,481)	(1,140,562)
	(1,864,491)	(28,784)	(3,248,747)	(1,128,802)
Net change in cash and cash equivalents during the period	(1,766,661)	283,709	(3,364,689)	(244,917)
Cash and cash equivalents – Beginning of period	3,874,122	92,811	5,472,150	621,437
Cash and cash equivalents – End of period	2,107,461	376,520	2,107,461	376,520
Change in non-cash working capital items comprises:				
Accounts receivable	(55,653)	26,017	(47,267)	(20,840)
Prepaid expenses	(7,852)	5,233	(14,678)	(14,540)
Accounts payable and accrued liabilities	230,789	24,523	240,099	89,794
	167,284	55,773	178,154	54,414

1 Nature of operations

KWG Resources Inc. (the "Company"), an exploration stage company, is involved in the exploration for diamonds and base and precious metals. It has interests in properties at the exploration stage all located in Canada.

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

For the nine-month period ended September 30, 2008, the Company incurred a loss of $6,437,262. Cash and cash equivalents as at September 30, 2008 amount to $2,107,462 of which $1,424,246 can be used for working capital purposes (note 4). In addition to ongoing working capital requirements such as general and administration costs, the Company must secure sufficient funding for its existing commitments for exploration and development programs.

2 Basis of presentation

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements, and follow the same accounting policies and methods in their application as the most recent annual consolidated financial statements of the Company except for the modifications described below. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented have been reflected in the interim consolidated financial statements. The interim consolidated financial statements should be read in conjunction the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2007.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Debuts Diamonds Inc., incorporated in Ontario, Canada on October 18, 2007 and SMD Mining Corporation, incorporated in Ontario, Canada on January 16, 2008.

3 Accounting policies modifications

On January 1, 2008 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 3862.

1. Sections 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.

2. 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. The new requirements are effective for interim periods beginning on or after October 1, 2007.

3. 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.

4 Cash and cash equivalents

As at September 30, 2008, cash and cash equivalents include an amount of $683,216 (2007 – $3,363,015) reserved for new exploration activities to be conducted in Canada before December 31, 2008.

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.

	September 30, 2008 $ (unaudited)	**December 31, 2007 $ (audited)**
Spider Resources Inc. ("Spider")		
250,000 common shares, quoted market value of $12,500		
(2007 − 250,000 common shares, quoted market value of $22,500)	15,000	15,000
St. Geneviève Resources Ltd. ("St. Geneviève") (a)		
(2007 − 2,311,600 common shares, quoted market value of $46,232)	-	97,596
Mesa Copper Corporation (formerly Ascendant Copper Corporation ("Mesa") (a)		
353,488 common shares, quoted market value of $26,512		
90,216 warrants, exercise price of $0.33, expiry on December 31, 2008	97,596	-
Strike Minerals Inc. (b)		
2,952,217 common shares, quoted market value of $206,655		
(2007 – $ nil)	354,266	-
Cost	466,862	112,596
Unrealized loss	(221,195)	(36,364)
Fair value of temporary investments available-for-sale	245,667	76,232

(a) On March 27, 2008, Mesa completed the acquisition of all of St. Geneviève's issued and outstanding shares. As a result, St. Geneviève is now a wholly-owned subsidiary of Mesa. In connection with the acquisition, St. Geneviève's shareholders received one Mesa share for each 6.5394054 St. Geneviève shares held. In addition, each St. Geneviève warrant holder received one Mesa replacement warrant for each 5.5422556 St. Geneviève warrants held.

(b) On September 29, 2008 the Company acquired all the shares of SMD Mining Corporation (a private company) whose assets include 2,952,217 Strike Minerals Inc. shares.

6 Mining assets

	September 30 2008 $ (unaudited)	December 31 2007 $ (unaudited)
Cost and deferred exploration expenses	14,007,501	16,897,432
Deposits on mining assets	384,526	-
	14,392,027	16,897,432

Exploration properties

	Cost		Deferred exploration expenses		Total	
	September 30 2008 $ (unaudited)	December 31 2007 $ (audited)	September 30 2008 $ (unaudited)	December 31 2007 $ (audited)	September 30 2008 $ (unaudited)	December 31 2007 $ (audited)
Canada – Ontario						
Spider No.1/ MacFadyen and Kyle (a)	820,323	1,284,615	6,565,970	9,578,038	7,406,293	10,862,653
Spider No.3/ McFaulds Lake	156,281	156,281	4,033,414	4,030,914	4,189,695	4,187,195
Wawa	180,785	319,829	255,760	452,469	436,545	772,298
Greenstone	18,000	18,000	-	-	18,000	18,000
Freewest	58,900	30,463	1,165,810	163,200	1,224,710	193,663
Diagnos	24,801	31,690	60,740	66,736	85,541	98,426
Geraldton	-	115,765	-	300	-	116,065
Pele Mountain	305,067	539,700	29,152	51,573	334,219	591,273
Uniform Surround	21,548	52,966	565	1,000	22,113	53,966
East West (b)	160,850	-	124,872		285,722	-
Other	1,414	644	3,249	3,249	4,663	3,893
	1,767,969	2,549,953	12,239,532	14,347,479	14,007,501	16,897,432

(a) In April 2008, KWG transferred to its wholly-owned subsidiary Debuts Diamonds Inc. the diamond group claims. The fair market value of the mining assets transferred was evaluated by a non related party at $7,000,000 resulting in a $5,383,821 write-down.

(b) On July 23, 2008, the Company acquired an option to earn a 65% interest in a 12-claim group held by East West Resources Corporation. The Company will issue 2,000,000 shares and pay $50,000 for the option. It must incur exploration expenditures of $250,000 in each of 2008 and 2009 to earn 50% and an additional $1,000,000 by August 2012 to earn 60%. An additional 5% may be earned in any mineral deposit discovered by the Company providing development and production financing.

Cost and deferred exploration expenses	**September 30, 2008 $ (unaudited)**	**December 31, 2007 $ (audited)**
Balance – Beginning of period	16,897,432	15,611,907
Acquisition, staking and permits	297,556	72,891
Write-off of mining assets	(115,765)	-
Write-down of mining assets	(963,776)	-
Exploration expenses	-	-
Drilling	1,646,129	820,802
Geophysics	170,513	73,494
Sampling	92,892	101,872
Consulting	134,707	35,310
Field preparation	5,858	29,939
Management	129,551	29,459
Line cutting and road	39,341	55,050
Camp expenses	93,408	56,108
Permits	-	10,600
Write-off of mining assets	(300)	-
Write-down of mining assets	(4,420,045)	-
	(2,889,931)	1,285,525
Balance – End of period	14,007,501	16,897,432

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

Each party agreed to have its interest diluted by not contributing further to the other party's exploration program until its interest has reached $33^{1/3}$%. At that level, a party's interest in a project may be maintained by contribution to subsequent programs, or suffer further dilution. When an interest has been reduced to less than 10%, it will be automatically converted to a 0.5% Net Smelter Royalty ("NSR") in base metals and a 1% NSR in precious metals and diamonds.

The following table outlines the estimated cumulative interest by projects for the Company and Spider as at September 30, 2008.

	KWG	**SPIDER**	**TOTAL**
MacFadyen kimberlites project	63.49%	36.51%	100%
McFaulds Lake VMS project	42.28%	57.72%	100%
Kyle kimberlites project	50.00%	50.00%	100%
Wawa project	48.05%	51.95%	100%
Freewest option project	49.70%	50.30%	100%
Diagnos project	50.00%	50.00%	100%

The following table outlines the estimated cumulative interest by projects for the Company and Spider as at December 31, 2007.

	KWG	**SPIDER**	**TOTAL**
MacFadyen kimberlites project	58.35%	41.65%	100%
McFaulds Lake VMS project	43.08%	56.92%	100%
Kyle kimberlites project	50.00%	50.00%	100%
Wawa project	48.29%	51.71%	100%
Freewest option project	50.74%	49.26%	100%
Diagnos project	50.61%	49.39%	100%

7 Share capital

Authorized

An unlimited number of common shares

Issued

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

	Nine-month period ended September 30, 2008 (unaudited)		Year ended December 31, 2007 (audited)	
	Number of shares	Amount $	Number of shares	Amount $
Issued				
Balance – Beginning of period	262,863,821	27,212,107	165,085,268	21,141,367
Issued for Canadian exploration expenses (a)	-	-	49,074,650	4,004,958
Less: Value of warrants	-	-	-	(543,951)
Issued for working capital requirements	4,000,000	200,000	39,711,923	2,538,500
Less: Value of warrants	-	(93,000)	-	(640,448)
Issued for acquisition of mining asset	-	-	842,100	50,525
Less: Value of warrants	-	-	-	(10,947)
Issued for commission	-	-	799,210	40,453
Less: Value of warrants	-	-	-	(640)
Issued for consulting fees	-	-	490,250	26,500
Less: Value of warrants	-	-	-	(5,499)
Issued for debt settlement	-	-	2,400,000	120,000
Issued following exercise of options	-	-	60,420	7,489
Issued following exercise of warrants and compensation options	796,000	86,672	4,400,000	483,800
	267,659,821	27,405,779	262,863,821	27,212,107
To be issued				
For acquisition of mining assets (Note 6 (c))	2,000,000	100,000	-	-
Balance – End of period	269,659,821	27,505,779	262,863,821	27,212,107

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns to shareholders; and
- to finance the exploration and development of mineral properties and increase the value of its properties.

(a) 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.

8 Warrants and compensation options

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

	Nine-month period ended September 30, 2008			Year ended December 31, 2007		
	Warrants	**Compensation options**	**Amount $**	**Warrants**	**Compensation options**	**Amount $**
Issued						
Balance – Beginning of period	91,830,808	7,987,157	1,723,358	25,042,500	478,500	255,579
Issued as part of private placement of units	2,000,000	-	93,000	72,349,248	-	1,184,399
Issued for acquisition of mining assets	-	-	-	842,100	-	10,947
Issued for Canadian exploration expenses	-	-	-	-	-	-
Agent's remuneration	-	-	-	49,210	7,508,657	337,243
Issued for consulting fees	-	-	-	490,250	-	5,499
Exercised	(500,000)	(296,000)	(17,432)	(4,400,000)	-	(43,800)
Expired	(12,300,000)	(478,500)	(132,570)	(2,542,500)	-	(26,509)
Balance – End of period	81,030,808	7,212,657	1,666,356	91,830,808	7,987,157	1,723,358

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

A summary of the Company's outstanding warrants and compensation options as at September 30, 2008 is presented below:

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
81,030,808	7,212,657		

9 Stock option plan

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

Options at a fixed price

	Nine-month period ended September 30, 3008 (unaudited)		Year ended December 31, 2007 (audited)	
	Number of shares	**Average exercise price $**	**Number of shares**	**Average exercise price $**
Balance – Beginning of period	23,881,080	0.11	14,198,000	0.11
Granted	2,979,700	0.10	11,310,000	0.11
Exercised (note 7)			(60,420)	0.10
Cancelled or expired	(3,221,100)	0.13	(1,566,500)	0.15
Balance – End of period	23,639,680	0.11	23,881,080	0.11

The following table summarizes information about options outstanding and exercisable as at September 30, 2008:

		Outstanding options	Exercisable options
Exercise price $	**Number of options**	**Average contractual life (in years)**	
0.10	16,683,280	3.52	14,381,168
0.12	6,030,500	3.30	4,001,750
0.15	925,900	1.63	738,400
	23,639,680		19,121,318

Total stock compensation costs for the period ended September 30, 2008 amounted to $374,974 (September 30, 2007 (unaudited) - $173,243).

The fair value of the options granted in 2008 and 2007 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	Nine-month period ended September 30, 3008 (unaudited)	**Year ended December 31, 2007 (audited)**
Average dividend per share	Nil	Nil
Estimated volatility	82%	82%
Risk-free interest rate	4.28%	4.54%
Expected life of the options granted	5 years	5 years
Weighted average of estimated fair value of each option granted	$0.068	$0.062

10 Contributed surplus

	Nine-month period ended September 30, 3008 (unaudited)	**Year ended December 31, 2007 (audited)**
Balance – Beginning of period	1,996,508	1,505,028
Stock compensation costs (note 9)	374,974	466,432
Expiry of warrants (note 8)	132,570	26,509
Exercise of options (note 9)	-	(1,461)
Balance – End of period	2,504,052	1,996,508

11 Accumulated other comprehensive income (loss)

	Nine-month period ended September 30, 3008 (unaudited)	**Year ended December 31, 2007 (audited)**
	$	**$**
Accumulated latent loss on temporary investment Beginning of period	(36,364)	-
Modification following the adoption of Section 3855 "Financial instruments" (note 3 (a))	-	46,350
Latent loss on temporary investments available for sale	(184,831)	(82,714)
Accumulated latent loss on temporary investment End of period	(221,195)	(36,364)

12 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 nine-month period ended September 30, 2008, officers and companies controlled by officers were paid consulting fees totalling $84,839 (September 30, 2007 (unaudited) - $67,315) of which $9,198 remained payable at September 30, 2008 (September 30, 2007 (unaudited) - $ 7,088) and directors of the Company and a company controlled by a director of the Company were paid $ 53,261 (September 30, 2007 (unaudited) - $ 45,000) for professional consulting services.

13 Commitment

In early 2008, the Company and two co-signatories assigned their lease but they remain jointly responsible until the expiry of the lease in February 2009.

14 Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.