

KWG RESOURCES INC.

(An exploration stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE-MONTH PERIOD ENDED MARCH 31, 2009

KWG Resources Inc.

NOTICE TO READERS OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS:

The unaudited interim consolidated financial statements of KWG Resources Inc. for the three-month period ended March 31, 2009 have been prepared by management and have not been reviewed by the Company's external auditors.

(s) *Michael S. Harrington*

MICHAEL S. HARRINGTON, Director

(s) *Leonard Teoli*

LEONARD TEOLI, Chief Financial Officer

Montreal, Quebec
May 28, 2009

KWG Resources Inc.

(An exploration stage company)

Consolidated Balance Sheets

	As at March 31, 2009 \$ (unaudited)	As at December 31, 2008 \$ (audited)
Assets		
Current assets		
Cash (note 4)	4,780,580	1,528,897
Accounts receivable	88,327	96,059
Temporary investments (note 5)	188,948	152,722
Prepaid expenses	9,024	23,062
	<u>5,066,879</u>	<u>1,800,740</u>
Mining assets (note 6)	<u>10,054,044</u>	<u>9,701,315</u>
	<u>15,120,923</u>	<u>11,502,055</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	320,453	505,826
Convertible debenture (notes 7 and 16 (a))	1,303,425	-
	<u>1,623,878</u>	<u>505,826</u>
Shareholders' Equity		
Share capital (note 8 and 16 (a))	30,307,394	27,835,259
Warrants and compensation options (note 9)	2,166,313	1,637,809
Contributed surplus (note 11)	2,792,668	2,626,615
Deficit (note 16 (c))	(21,567,482)	(20,877,880)
Accumulated other comprehensive loss (note 12)	(201,848)	(225,574)
	<u>13,497,045</u>	<u>10,996,229</u>
	<u>15,120,923</u>	<u>11,502,055</u>

Approved by the Board of Directors

(s) *Michel Côté* Director

(s) *Douglas M. Flett* Director

KWG Resources Inc.

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Consolidated Statements of Operations and Deficit and Statements of Comprehensive Income (Loss) (unaudited)

	Three-month period ended March 31	
	2009 \$	2008 \$
Income		
Interest income	3,165	44,619
Expenses		
Administrative	480,064	136,438
Stock compensation costs (note 10)	29,466	221,539
Unrealized loss on temporary investments (note 5 (a))	47,500	-
Write-down and write-off of mining assets	-	116,065
Write-off of accounts receivable	-	1,624
Unrealized loss on exchange	25,711	-
	<u>582,741</u>	<u>475,666</u>
Loss for the period before income tax	<u>(579,576)</u>	<u>(431,047)</u>
Future income tax recovery	<u>105,000</u>	<u>-</u>
Loss for the period	<u>(474,576)</u>	<u>(431,047)</u>
Deficit – Beginning of the period	<u>(20,877,880)</u>	<u>(8,546,676)</u>
Share and warrant issue expenses	<u>(215,026)</u>	<u>-</u>
Deficit – End of the period	<u>(21,567,482)</u>	<u>(8,977,723)</u>
Loss per share (basic and diluted)	<u>(0.00)</u>	<u>(0.00)</u>
Weighted average number of outstanding shares (basic and diluted)	296,542,986	263,129,154

Consolidated Statements of Comprehensive Income (Loss) For the three-month periods ended March 31, 2009 and 2008

	2009 \$	2008 \$
Loss for the period	(474,576)	(431,047)
Other Comprehensive income (loss)		
- Change in unrealized loss on financial assets available-for-sale	<u>23,726</u>	<u>(92,562)</u>
Comprehensive loss	<u>(450,850)</u>	<u>(523,609)</u>

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Consolidated Statements of Cash Flows (unaudited)

	Three-month period ended March 31	
	2009 \$	2008 \$
Cash flows from		
Operating activities		
Loss for the period	(474,576)	(431,047)
Adjustments for		
Stock compensation costs (note 10)	29,466	221,539
Unrealized loss on temporary investments (note 5)	47,500	-
Write-down and write-off of mining assets	-	116,065
Write-off of accounts receivable	-	1,624
Future income tax recovery	(105,000)	-
	<u>(502,610)</u>	<u>(91,819)</u>
Change in non-cash working capital items	<u>1,062,114</u>	<u>(409,349)</u>
	<u>559,504</u>	<u>(501,168)</u>
Financing activities		
Share capital issued	2,472,135	-
Warrants and compensation options issued	665,091	69,240
Share and warrant issue expenses	(110,026)	-
	<u>3,027,200</u>	<u>69,240</u>
Investing activities		
Additions to mining assets	(275,021)	(417,066)
Acquisition of temporary investment (note 5)	(60,000)	-
	<u>(335,021)</u>	<u>(417,066)</u>
Net change in cash and cash equivalents during the period	<u>3,251,683</u>	<u>848,994</u>
Cash and cash equivalents – Beginning of the period	<u>1,528,897</u>	<u>5,472,150</u>
Cash and cash equivalents – End of the period	<u>4,780,580</u>	<u>4,623,156</u>
Change in non-cash working capital items comprises:		
Accounts receivable	7,732	(4,618)
Prepaid expenses	14,038	(295,123)
Accounts payable and accrued liabilities	(263,081)	(109,608)
Convertible debenture	1,303,425	-
	<u>1,062,114</u>	<u>(409,349)</u>
Additional information - non-cash transactions		
Expired warrants included in contributed surplus	136,587	-
Additions to mining assets included in accounts payable	77,708	-

KWG Resources Inc.

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Notes to the Interim Consolidated Financial Statements

March 31, 2009 (unaudited)

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 and located in Canada.

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.

In addition to ongoing working capital requirements, the Company must secure on an ongoing basis sufficient funds for its existing commitments for exploration and general and administration costs.

In the future, management will pursue all financing alternatives available to fund its ongoing obligations and exploration activities. Although there is no assurance that the Company will be successful in these actions, management is confident that it will be able to secure the necessary financing through the issuance of new equity to continue as a going concern which assumes the Company will continue to operate throughout the next twelve months subsequent to March 31, 2009.

2 Basis of consolidation, presentation and accounting policies

Basis of consolidation and presentation

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary 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.

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, 2008, 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 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, 2008. Operating results for the three-month period ended March 31, 2009 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2009.

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Accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") 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 are assets valuations, future income taxes and compensation options. Actual results could differ from those estimates and such differences could be material.

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Section 3064 "Goodwill and Intangible Assets" which established standards for the recognition, measurement, presentation and disclosure of Goodwill and Intangible Assets. Adoption of this standard had no effect on the interim consolidated financial statements.

International Financial Reporting Standards

In February 2008, the Canadian accounting Standards Board confirmed that public companies will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The Company is in the process of completing its initial IFRS diagnostic to identify high-level impact of adopting IFRS on its financial statements and will continue to invest in training and necessary resources to complete the conversion.

3 Capital management

The capital of the Company consists of items included in the shareholder's equity of \$13,497,046 as of March 31, 2009 (\$10,996,229 as of December 31, 2008). In order to maximize its ongoing exploration activities, the Corporation will not pay any dividend in cash.

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

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

There were no changes in the Company's approach to capital management during the period ended March 31, 2009.

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March 31, 2009 (unaudited)

4 Cash

As at March 31, 2009, cash and cash equivalents includes amounts of:

- \$86,207 (2008 – \$369,808) reserved for new exploration activities to be conducted in Canada before December 31, 2009;
- \$1,303,425 (US\$1,033,398)(nil as at December 31, 2008) held in trust as security for the repayment of the convertible debenture (note 7 and 16);
- \$63,065 (US\$50,000)(nil as at December 31, 2008) held in trust as break-up fees security to be paid to debenture holder if approval from the disinterested shareholders for the conversion of the convertible was not to be obtained.

5 Temporary investments

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

	March 31, 2009 (unaudited) \$	December 31, 2008 (audited) \$
Spider Resources Inc. (“Spider”) 250,000 common shares, quoted market value of \$7,500 (2008 – 250,000 common shares, quoted market value of \$7,500)	15,000	15,000
Copper Mesa Mining (“Mesa”) 353,488 common shares, quoted market value of \$8,837 (2008 – common shares, quoted market value of \$12,372)	97,596	97,596
Strike Minerals Inc. (“Strike”) 3,452,217 common shares, quoted market value of \$172,611 (a) (2008 – 2,952,217 common shares, quoted market value of \$132,850)	278,200	265,700
Cost	390,796	378,296
Unrealized loss (note 12)	(201,848)	(225,574)
Fair value of temporary investments	<u>188,948</u>	<u>152,722</u>

- (a) In February 2009, SMD completed the acquisition of an additional 500,000 shares of Strike for a consideration of \$60,000 as committed for in 2008. Since the purchase price exceeded the quoted market value at the date of acquisition, an unrealized loss of \$47,500 has been recorded in the Consolidated Statements of Operations and Deficit.

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March 31, 2009 (unaudited)

6 Mining assets

	March 31, 2009 (unaudited) \$	December 31, 2008 (audited) \$
Cost and deferred exploration expenses	9,957,226	9,658,935
Deposits on mining assets	96,818	42,380
	<u>10,054,044</u>	<u>9,701,315</u>

Exploration properties

	Costs		Deferred exploration expenses		Total	
	March 31, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)	March 31, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)	March 31, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle	271,909	264,867	2,201,751	2,187,948	2,473,660	2,452,815
Spider No. 3 / McFaulds Lake (b)	156,282	156,281	4,033,414	4,033,414	4,189,696	4,189,695
Wawa	64,995	64,995	91,949	91,949	156,944	156,944
Freewest (a)	58,900	58,900	2,157,767	1,940,474	2,216,667	1,999,374
Diagnos	19,065	19,065	78,800	78,800	97,865	97,865
Pele Mountain	109,676	109,676	298,922	242,856	408,598	352,532
Uniform Surround	7,747	7,747	203	203	7,950	7,950
East West option	128,849	128,849	268,458	264,373	397,307	393,222
Other	5,289	5,289	3,250	3,249	8,539	8,538
	<u>822,712</u>	<u>815,669</u>	<u>9,134,514</u>	<u>8,843,266</u>	<u>9,957,226</u>	<u>9,658,935</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 no longer is required to prepare a bankable feasibility study within 18 months, as had been called for in the 2005 agreement, upon successful completion of documentation evidencing such amendment and the receipt of all required approvals. 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.

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(b) On March 6, 2009, UC Resources Ltd. ("UC"), Spider Resources Inc. and the Company have signed an option agreement pertaining to the McFaulds east and west properties held jointly by Spider and the Company in the James Bay Lowlands area of Northern Ontario.

The option agreement provides that UC Resources can earn up to a 55% interest in these properties by expending a total of \$4.5-million prior to March 6, 2011. In addition, UC is the operator of the exploration program during its earn in, after which operatorship is dictated by the terms of a joint venture agreement, where operatorship resides with the party holding the greatest interest in the project.

Under the terms of the option agreement, UC had to spend \$1 million on exploration prior to March 6, 2008, to earn a 10% interest, which were included in the letter of intent (note 6(e)), in the land package. In year two, UC had to spend an additional \$1 million prior to March 6, 2009, to obtain an additional 15% of the property package. Both commitments have been completed by UC at this time for a completed 25% interest.

Two additional increments of 15% interest each can be earned by UC. The company must spend \$1.25 million prior to March 6, 2010, to earn an additional 15% interest, and spend a final \$1.25 million prior to March 6, 2011 for a total commitment by UC of \$4.5 million in exploration expenditures.

Cost and deferred exploration expenses	March 31, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)
Balance – Beginning of the period	9,658,935	16,897,432
Acquisition, staking and permits	7,042	165,845
Write-down and write-off of mining assets	-	(1,900,130)
	<u>7,042</u>	<u>(1,734,285)</u>
Exploration expenses		
Drilling	824	2,051,619
Geology	148,709	-
Geophysics	23,527	391,078
Sampling	1,881	118,640
Consulting	27,008	451,672
Field preparation	3,515	5,859
Management	5,440	145,211
Line cutting and road	27,882	154,931
Camp expenses	52,463	105,914
Write-down and write-off of mining assets	-	(8,929,136)
	<u>291,249</u>	<u>(5,504,212)</u>
Balance – End of the period	<u>9,957,226</u>	<u>9,658,935</u>

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7 Convertible Debenture

The debenture in the amount of \$1,303,425 (US\$1,033,398) (note 4) is non interest bearing and is convertible before April 16th, 2009 into 21,135,069 units of the Company. Subsequent to March 31, 2009 following the approval of the Company's disinterested shareholders, the debenture was converted into units of the Company (notes 8 and 16 (a)).

8 Share capital

Authorized

An unlimited number of common shares

Issued

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

	March 31, 2009		December 31, 2008	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of the period	288,134,821	27,835,259	262,863,821	27,212,107
Issued for Canadian exploration expenses (ii)	-	-	18,475,000	369,500
Less: Value of warrants	-	-	-	(66,510)
Issued for working capital requirements (i)	50,448,987	3,137,226	4,000,000	200,000
Less: Value of warrants	-	(665,091)	-	(34,510)
Issued for acquisition of mining asset	-	-	2,000,000	68,000
Issued for following exercise of warrants and compensation options	-	-	796,000	86,672
Balance – End of the period	338,583,808	30,307,394	288,134,821	27,835,259

- (i) On January 20, 2009, Cliffs Natural Resources Inc. ("Cliffs") entered into an Option to Purchase Securities (the "Option Agreement") with the Company to purchase and acquire on or before March 16, 2009, certain securities of the Company in the aggregate amount of \$4,516,750 (US\$3,500,000).

As permitted by section 7(c) of the Option Agreement, on March 16, 2009, Cliffs assigned the Option Agreement to an affiliated entity, Cliffs Greene B.V. ("Cliffs B.V."). At that same date Cliffs B.V. exercised the option to subscribe for:

1. 50,448,987 units of the Company (each a "Unit") at a subscription price of \$0.06218 (US\$0.048893) per Unit, with each Unit comprised of one (1) common share in the capital of the Company (each a "Common Share") and approximately 0.44 of a non-transferable Common Share purchase warrant of the Company (each such whole common share purchase warrant, a "Warrant"), with each Warrant entitling Cliffs to purchase one (1) Common Share at \$0.063065 (US\$0.05) during the first year after issuance thereof and \$0.12613 (US\$0.10) thereafter, subject to the undertaking of the Company to reduce such price to \$0.063065 (US\$0.05) upon receipt of all necessary regulatory approvals. Each Warrant would be exercisable for a period of 20 business days following the issuance by the Company of five (5) Common Shares upon the exercise of any of the warrants, options and other rights to purchase or obligations to issue Common Shares outstanding as at the date of execution of the Option Agreement, and would terminate on the fifth anniversary of the date of issuance of the Warrants; and

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2. a non-transferable, non-interest bearing, secured convertible debenture of the Company in the principal amount of \$1,303,425 (US\$1,033,398) maturing on April 16, 2009, such amount being equal to the difference between \$4,414,550 (US\$3.5 million) and the aggregate subscription price of \$3,111,125 (US\$2,466,602) payable for the Units above (the “Debenture”). The Debenture would not be convertible unless and until all conditions prescribed by the TSXV, including the approval of the disinterested shareholders of the Company (the “Shareholder Approval”) to the issuance of the Units upon conversion of the Debenture, have been satisfied or waived. In the event that all of such conditions would not be satisfied or waived on or before April 15, 2009, Cliffs would have the right to demand repayment thereof, in which event the Company would be required to pay to Cliffs a credit facility termination fee of \$63,065 (US\$50,000) (the “Termination Fee”) provided, however, that if the Shareholder Approval is not obtained, the Company would be required to immediately repay, in full, the principal amount of the Debenture and pay to Cliffs the Termination Fee. Upon satisfaction or waiver of such conditions, all of the principal amount of the Debenture is to be converted automatically and without any further action on the part of the Company or Cliffs into Units at the rate of \$0.061670 (US\$0.048894) per Unit resulting in a further issuance to Cliffs of 21,135,069 Units comprised of 21,135,069 Common Shares and 9,310,839 Warrants. The sole security to be granted by the Company is to be comprised of cash in an amount equal to the principal amount of the Debenture plus \$63,065 (US\$50,000) (notes 7 and 16 (a)).

The fair value of the purchase warrants included in the units was estimated using the Black-Sholes method based on the following assumptions: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.87% and an expected life of five years. As a result, the fair value of the purchase warrants was estimated at \$665,091 after a pro-rata allocation of the fair value of the units’ components.

On March 16, 2009, in connection with the exercise of the option granted to Cliffs pursuant to the Option Agreement, the Company and Cliffs B.V. entered into a shareholders agreement which provides Cliffs with certain rights of first refusal, pre-emptive rights and the ability to appoint a director to the Company Board of directors.

9 Warrants and compensation options

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

	Three-month period ended March 31, 2009 (unaudited)			Year ended December 31, 2008 (audited)		
	Warrants	Compensation options	Amount \$	Warrants	Compensation options	Amount \$
Issued						
Balance – Beginning of the period	94,005,808	9,060,157	1,637,809	91,830,808	7,987,157	1,723,358
Issued as part of private placement of units (note 8(i))	22,224,784	-	665,091	20,475,000	-	101,020
Agent’s compensation options	-	-	-	-	1,847,500	12,933
Exercised	-	-	-	(500,000)	(296,000)	(17,432)
Expired	(11,891,310)	(1,000,000)	(136,587)	(17,800,000)	(478,500)	(182,070)
Balance – End of the period	104,339,282	8,060,157	2,166,313	94,005,808	9,060,157	1,637,809

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March 31, 2009 (unaudited)

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 March 31, 2009 is presented below:

Number of warrants	Number of Compensation options	Exercise price \$	Expiry date
5,172,250	500,000	0.10/0.05	April 2009
318,000	-	0.10	April 2009
1,500,000	-	0.10	June 2009
1,000,000	-	0.10	July 2009
6,600,000	-	0.10	September 2009
26,476,923	3,886,692	0.10/0.05	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
18,475,000	1,847,500	0.05/0.10	December 2010
22,224,784	-	0.063-0.126	March 2010-March 2014
<u>104,339,282</u>	<u>8,060,157</u>		

Refer to note 16 (c) for changes subsequent to the end of the period.

10 Stock option plan

During the three-month period ended March, 31 2009 there was no change in the Company's number of stock options outstanding (note 16 (b)).

The following table summarizes information about options outstanding and exercisable as at March 31, 2009:

		Outstanding options	Exercisable options
		Average contractual life (in years)	
Exercise price \$	Number of options		
0.10	17,033,280	3.21	16,008,593
0.12	5,940,500	2.80	5,264,250
0.15	895,100	1.94	832,600
	<u>23,868,880</u>		<u>22,105,443</u>

Total stock compensation costs for the period ended March 31, 2009 amounted to \$29,466 (2008 – \$221,539).

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Notes to the Interim Consolidated Financial Statements

March 31, 2009 (unaudited)

11 Contributed surplus

	Three-month period ended March 31, 2009 (unaudited) \$	Year ended December 31, 2008 (audited) \$
Balance – Beginning of the period	2,626,615	1,996,508
Stock compensation costs (note 10)	29,466	448,037
Expiry of warrants (note 9)	136,587	182,070
	<u>2,792,668</u>	<u>2,626,615</u>

12 Accumulated other comprehensive income (loss)

	Three-month period ended March 31, 2009 (unaudited) \$	Year ended December 31, 2008 (audited) \$
Accumulated other comprehensive income (loss) - beginning of the period	(225,574)	(36,364)
Latent gain (loss) on temporary investments available for sale	23,726	(189,210)
Accumulated other comprehensive income (loss) - end of the period	<u>(201,848)</u>	<u>(225,574)</u>

	Three-month period ended March 31, 2009 (unaudited) \$	Year ended December 31, 2008 (audited) \$
Latent loss on temporary investments - beginning of the period	(225,574)	(36,364)
Unrealized loss for the period on Spider investment	-	(22,500)
Unrealized loss for the period on Mesa investment	(3,535)	(33,860)
Unrealized gain (loss) for the period on Strike investment	27,261	(132,850)
Latent loss on temporary investments – end of the period	<u>(201,848)</u>	<u>(225,574)</u>

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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 2009, officers and companies controlled by officers charged consulting fees totalling \$70,952 (March 31, 2008 (unaudited) - \$22,672) of which \$31,898 (March 31, 2008 (unaudited) - \$8,409) remained payable at March 31, 2009 and directors of the Company and a company controlled by a director of the Company charged \$58,300 (March 31, 2008 (unaudited) - \$15,000) for professional consulting services and directors fees of which \$13,741 (March 31, 2008 (unaudited) - \$nil) remained payable at March 31, 2009.

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.

Cash, accounts receivable, accounts payable and accrued liabilities and convertible debenture are non-interest bearing.

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

It is management's opinion that the Company is normally not exposed to significant foreign exchange risk. However, as at March 31, 2009, following the transaction with Cliffs, the financial assets and financial liabilities denominated in US dollars were as follows: a cash amount of US\$3,565,150 and a convertible debenture in the principal amount of US\$1,033,398. As the Company operates mainly in Canadian dollars, management will convert US funds into Canadian funds on a cash need basis and upon exchange rate analysis.

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Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at March 31, 2009, the Company had enough funds available to satisfy its obligations under accounts payable and accrued liabilities.

In the past few years, the Company 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 March 31, 2009, all financial instruments (cash, accounts receivable, accounts payable and accrued liabilities and convertible debenture) 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 year ended December 31, 2008, the Company must incur \$86,207 (\$369,808 as at December 31, 2008) in exploration expenses by December 31, 2009.

16 Subsequent events

(a) At the annual and special meeting of the shareholders of the Company held on April 15, 2009 (the "Shareholders' Meeting"), the disinterested shareholders approved the conversion of the principal amount of the debenture into 21,135,069 units of the Company comprised of 21,135,069 common shares and 9,310,839 warrants.

Following the conversion of the debenture, Cliffs now holds an aggregate of 71,584,056 common shares and 31,535,623 warrants representing 19.9% of the issued and outstanding common shares on a fully diluted basis. Each warrant entitles Cliffs to purchase one (1) common share at \$0.063065 (US\$0.05) until March 16, 2010 and \$0.12613 (US\$0.10) thereafter (subject to the undertaking of the Company to reduce such price to \$0.063065 (US\$0.05) upon regulatory approval) and is exercisable for 20 business days following the issuance by the Company of five (5) common shares upon the exercise of any of the warrants, options and other rights to purchase or obligations of the Company to issue common shares outstanding as at January 20, 2009. To the extent not previously exercised the warrants will expire on March 16, 2014, at the latest.

The conversion of the debenture resulted in a change of control for purposes of certain employment and consulting agreements between the Company and its directors and officers and in the payment of an aggregate amount of \$435,000 to directors and officers.

(b) At the Shareholders' Meeting, the shareholders also approved the increase of the maximum number of common shares that may be reserved for issuance under the Company stock option plan by 2,520,000 from 26,280,000 to 28,800,000 common shares.

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- (c) At the Shareholders' Meeting, the shareholders also approved the reduction of the issued and paid-in capital account of the Company by \$20,000,000 without reimbursement to the shareholders and the reduction of the deficit by same amount.
- (d) On May 22, 2009, TSX Venture Exchange approved the amendment to the terms of 56,149,248 of the Company's its outstanding warrants, confirming the extension of warrants having expiry dates varying from June 18 to December 21, 2009 to a new expiry date varying from June 18 to December 21, 2012. The exercise price of the warrants was not amended.
- (e) On May 26, 2009, the Company migrated to Tiers 1 of the TSX Venture Exchange.