

KWG RESOURCES INC.

(An exploration stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX-MONTH PERIOD ENDED JUNE 30, 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 six-month period ended June 30, 2009 were not reviewed by the external auditors.

(s) *Michael S. Harrington*

MICHAEL S. HARRINGTON, Director

(s) *Leonard Teoli*

LEONARD TEOLI, Chief Financial Officer

Montréal, Québec
August 26, 2009

KWG Resources Inc.

(An exploration stage company)

Consolidated Balance Sheets - unaudited

	As at June 30 2009 \$	As at December 31 2008 \$
Assets		
Current assets		
Cash and cash equivalents (note 4)	3,033,913	1,528,897
Accounts receivable	99,494	96,059
Temporary investments (note 5)	152,659	152,722
Prepaid expenses	26,989	23,062
	<hr/> 3,313,055	<hr/> 1,800,740
Property, plant and equipment (note 6)	29,887	-
Mining assets (note 7)	<hr/> 10,556,725	<hr/> 9,701,315
	<hr/> 13,899,667	<hr/> 11,502,055
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	<hr/> 416,457	<hr/> 505,826
Shareholders' Equity		
Share capital (note 8 and 16 (c))	16,289,991	27,835,259
Warrants and compensation options (notes 9 and 16 (c))	3,027,717	1,637,809
Contributed surplus (note 11)	2,870,437	2,626,615
Deficit	(8,466,798)	(20,877,880)
Accumulated other comprehensive loss (note 12)	<hr/> (238,137)	<hr/> (225,574)
	<hr/> 13,483,210	<hr/> 10,996,229
	<hr/> 13,899,667	<hr/> 11,502,055

Approved by the Board of Directors

(s) *Michel Côté* Director

(s) *Douglas M. Flett* Director

KWG Resources Inc.

(An exploration stage company)

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

	Three-month period ended June 30		Six-month period ended June 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Income				
Interest and other income	14,026	25,610	17,191	70,229
Expenses				
Administrative	910,000	227,672	1,390,064	364,110
Depreciation	879	-	879	-
Stock compensation costs (note 10)	11,270	86,971	40,736	308,510
Warrants extension cost	660,000	-	660,000	-
Write-off of accounts receivable	-	383	-	2,007
Unrealized loss on temporary investments (note 5 (a))	-	-	47,500	-
Write-down and write-off of mining assets	-	5,383,821	-	5,499,886
Loss on exchange	315,711	-	341,422	-
	<u>1,897,860</u>	<u>5,698,847</u>	<u>2,480,601</u>	<u>6,174,513</u>
Loss for the period before income taxes	(1,883,834)	(5,673,237)	(2,463,410)	(6,104,284)
Future income taxes recovery	-	-	105,000	-
Loss for the period	(1,883,834)	(5,673,237)	(2,358,410)	(6,104,284)
Deficit – Beginning of the period	(21,567,482)	(8,977,723)	(20,877,880)	(8,546,676)
Share and warrant issue expenses	(15,482)	-	(230,508)	-
Reduction of Deficit	15,000,000	-	15,000,000	-
Deficit – End of the period	<u>(8,466,798)</u>	<u>(14,650,960)</u>	<u>(8,466,798)</u>	<u>(14,650,960)</u>
Loss per share (basic and diluted)	<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.01)</u>	<u>(0.02)</u>
Weighted average number of outstanding shares (basic and diluted)	<u>356,235,074</u>	<u>263,659,821</u>	<u>326,553,925</u>	<u>263,394,488</u>
Consolidated Statements of Comprehensive Income (loss)	Three-month period ended June 30		Six-month period ended June 30	
	2009 (Unaudited) \$	2008 (Unaudited) \$	2009 (Unaudited) \$	2008 (Unaudited) \$
Loss for the period	(1,883,834)	(5,673,237)	(2,358,410)	(6,104,284)
Other Comprehensive income (loss)				
Change in unrealized loss on financial assets available-for-sale	(36,289)	(20,088)	12,563	(29,936)
Comprehensive loss	<u>(1,920,123)</u>	<u>(5,693,325)</u>	<u>(2,345,847)</u>	<u>(6,134,220)</u>

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Cash Flows (unaudited)

	Three-month period ended June 30		Six-month period ended June 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash flows from				
Operating activities				
Loss for the period	(1,883,834)	(5,673,237)	(2,358,410)	(6,104,284)
Adjustments for				
Stock compensation costs (note 10)	11,270	86,971	40,736	308,510
Warrants extension cost	660,000	-	660,000	-
Unrealized loss on temporary investments (note 5)	-	-	47,500	-
Write-down and write-off of mining assets	-	5,383,821	-	5,499,886
Amortization of property, plant and equipment	879	-	879	-
Write-off of accounts receivable	-	383	-	2,007
Future income tax recovery	-	-	(105,000)	-
	(1,211,685)	(202,062)	(1,714,295)	(293,881)
Change in non-cash working capital items	(1,158,845)	420,218	(96,731)	10,869
	(2,370,530)	218,156	(1,811,026)	(283,012)
Financing activities				
Share capital issued	982,597	-	3,454,732	69,240
Warrants and compensation options issued	267,903	-	932,994	-
Share and warrant issue expenses	(15,482)	-	(125,508)	-
	1,235,018	-	4,262,218	69,240
Investing activities				
Additions to mining assets	(580,389)	(967,190)	(855,410)	(1,384,256)
Acquisition of temporary investments	-	-	(60,000)	-
Acquisition of property, plant and equipment	(30,766)	-	(30,766)	-
	(611,155)	(967,190)	(946,176)	(1,384,256)
Net change in cash and cash equivalents during the period	(1,746,667)	(749,034)	1,505,016	(1,598,028)
Cash and cash equivalents – Beginning of the period	4,780,580	4,623,156	1,528,897	5,472,150
Cash and cash equivalents – End of the period	3,033,913	3,874,122	3,033,913	3,874,122
Change in non-cash working capital items comprises:				
Accounts receivable	(11,167)	3,767	(3,435)	8,385
Prepaid expenses	(17,965)	288,297	(3,927)	(6,826)
Accounts payable and accrued liabilities	173,712	128,154	(89,369)	9,310
Convertible debentures	(1,303,425)	-	-	-
	(1,158,845)	420,218	(96,731)	10,869

KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (unaudited)

1 Nature of operations

KWG Resources Inc. (the “Company”), an exploration stage company, is involved in the exploration for base and precious metals and diamonds. It has interests in properties at the exploration stage 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: discovering economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; obtaining 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.

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 twelve months subsequent to June 30, 2009.

2 Basis of consolidation, presentation and accounting policies

Basis of consolidation

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Debuts Diamonds Inc. (“DDI”), incorporated on October 18, 2007 under the *Business Corporations Act* (Ontario) and Chrome Canada Corporation, incorporated on July 15, 2009 under the *Canada Business Corporations Act*.

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 six-month period ended June 30, 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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Notes to Interim Consolidated Financial Statements (unaudited)

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.

Property plant and equipment

Property, plant and equipment represent assets located at the corporate head office and at exploration site and are recorded at the acquisition cost. Amortization is computed using the straight-line method based on the estimated useful life of the assets.

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 completed its initial IFRS diagnostic and identified the current impact of adopting IFRS on its financial statements. It will continue monitoring any new impact which could result from future activities.

3 Capital management

The capital of the Company consists of items included in the shareholder's equity of \$13,483,210 as of June 30, 2009 (\$10,996,229 as of December 31, 2008). In order to maximize funds available for its ongoing exploration activities, the Corporation will not pay any dividend in cash.

While the Company is not exposed to any external capital requirements, regulatory or 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 acquisition 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 June 30, 2009.

KWG Resources Inc.

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Notes to Interim Consolidated Financial Statements (unaudited)

4 Cash

As at June 30, 2009, cash and cash equivalents include \$35,000 (December 31, 2008 – \$369,808) reserved for exploration activities to be conducted in Canada before December 31, 2009;

5 Temporary investments

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

	June 30, 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 \$7,070 (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 \$138,089 (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)	(238,137)	(225,574)
Fair value of temporary investments	<u>152,659</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.

6 Property, plant and equipment

	June 30, 2009 (unaudited) \$			December 31, 2008 (audited) \$		
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Computer equipment	1,766	73	1,693	-	-	-
Rolling stock	29,000	806	28,194	-	-	-
	<u>30,766</u>	<u>879</u>	<u>29,887</u>	<u>-</u>	<u>-</u>	<u>-</u>

KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (unaudited)

7 Mining assets

	June 30, 2009 (unaudited) \$	December 31, 2008 (audited) \$
Cost and deferred exploration expenses	10,503,562	9,658,935
Deposits on mining assets	53,163	42,380
	<u>10,556,725</u>	<u>9,701,315</u>

Exploration properties

	Costs		Deferred exploration expenses		Total	
	June 30 2009 \$ (unaudited)	December 31, 2008 \$ (audited)	June 30, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)	June 30, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle	264,867	264,867	2,247,584	2,187,948	2,512,451	2,452,815
Spider No. 3 / McFaulds Lake (d)	156,281	156,281	4,033,414	4,033,414	4,189,695	4,189,695
Wawa	64,995	64,995	91,949	91,949	156,944	156,944
Freewest (c)	58,900	58,900	2,232,858	1,940,474	2,291,758	1,999,374
Diagnos	19,065	19,065	78,800	78,800	97,865	97,865
Pele Mountain (b)	229,676	109,676	339,251	242,856	568,927	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
Staking- Canada Chrome (a)	256,178	-	-	-	256,178	-
Other	21,238	5,289	3,249	3,249	24,487	8,538
	<u>1,207,796</u>	<u>815,669</u>	<u>9,295,766</u>	<u>8,843,266</u>	<u>10,503,562</u>	<u>9,658,935</u>

- (a) During the second quarter of 2009, the Company via its wholly owned subsidiary Canada Chrome Corporation, acquired rights, through staking, over 34 new claims in the McFaulds Lake area for a total cost including inherent acquisition expenses of \$256,178.
- (b) During the second quarter of 2009, the Company staked additional claims in Pele Mountain area for total cost including inherent acquisition expenses of approximately \$120,000.
- (c) 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. KWG, Spider and Freewest Resources Canada Inc. (“Freewest”) are in the process of finalizing the formal option agreement and related joint venture agreement where final terms will be set pertaining to earned interest and operatorship.

KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (unaudited)

- (d) On March 6, 2009, UC Resources Ltd. (“UC”), Spider Resources Inc. and the Company signed an option agreement (the “UC 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 UC Agreement provides that UC 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 the earn-in period 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 UC Agreement, UC had to spend \$1 million on exploration prior to March 6, 2008 to earn a 10% interest in the land package and an additional \$1 million prior to March 6, 2009 to earn an additional 15% of the land package. UC has now completed both commitments and earned a 25% interest in the land package.

UC can earn two additional increments of 15% interest by spending \$1.25 million prior to March 6, 2010 and another \$1.25 million prior to March 6, 2011. Total commitment of exploration expenditures by UC amounts to \$4.5 million.

Cost and deferred exploration expenses	June 30, 2009 \$ (unaudited)	December 31, 2008 \$ (audited)
Balance – Beginning of the period	9,658,935	16,897,432
Acquisition, staking and permits	392,127	165,845
Write-down and write-off of mining assets	-	(1,900,130)
	<u>392,127</u>	<u>(1,734,285)</u>
Exploration expenses		
Drilling	62,424	2,051,619
Geology	213,184	-
Geophysics	48,698	391,078
Sampling	39,098	118,640
Consulting	28,551	451,672
Field preparation	3,811	5,859
Management	16,852	145,211
Line cutting and road	27,882	154,931
Camp expenses	12,000	105,914
Write-down and write-off of mining assets	-	(8,929,136)
	<u>452,500</u>	<u>(5,504,212)</u>
Balance – End of the period	<u>10,503,562</u>	<u>9,658,935</u>

KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (unaudited)

8 Share capital

Authorized

An unlimited number of common shares

Issued

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

	June 30 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	-	-	18,475,000	369,500
Less: Value of warrants Issued for working capital requirements (i) (ii)	-	-	-	(66,510)
	71,584,056	4,387,726	4,000,000	200,000
Less: Value of warrants (i) (ii)	-	(932,994)	-	(34,510)
Issued for acquisition of mining asset	-	-	2,000,000	68,000
Issued following exercise of warrants and compensation options	-	-	796,000	86,672
Reduction of share capital issued (iii)	-	(15,000,000)	-	-
Balance – End of the period	359,718,877	16,289,991	288,134,821	27,835,259

(i) 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 \$1,250,500 (US\$1,033,398) into 21,135,069 units of the Company comprised of 21,135,069 common shares and 9,310,839 warrants.

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 \$267,903 after a pro-rata allocation of the fair value of the units' components.

Following the conversion of the debenture, Cliffs held 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 \$0.0581 (US\$0.05) until March 16, 2010 and \$0.1162 (US\$0.10) thereafter (subject to the undertaking of the Company to reduce such price to \$0.0581 (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 which is included in administrative expenses.

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Notes to Interim Consolidated Financial Statements (unaudited)

(ii) 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 \$0.0581 (US\$0.05) during the first year after issuance thereof and \$0.1162 (US\$0.10) thereafter, subject to the undertaking of the Company to reduce such price to \$0.0581 (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 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, in US dollars, 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 was 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 (note 8 (i)).

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.

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. Since corporate deficit at the date of the assembly was just over \$15,000,000 the reduction of capital was accounted at the maximum amount of \$15,000,000.

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

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Notes to Interim Consolidated Financial Statements (unaudited)

9 Warrants and compensation options

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

	Six-month period ended June 30, 2009			Year ended December 31, 2008		
	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) (ii))	31,535,623	-	932,994	20,475,000	-	101,020
Agent's compensation options	-	-	-	-	1,847,500	12,933
Exercised	-	-	-	(500,000)	(296,000)	(17,432)
Extension of warrants maturity date	-	-	660,000	-	-	-
Expired	(17,381,560)	(1,500,000)	(203,086)	(17,800,000)	(478,500)	(182,070)
Balance – End of the period	108,159,871	7,560,157	3,027,717	94,005,808	9,060,157	1,637,809

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

On May 22, 2009, TSX Venture Exchange approved the amendment to the terms of 56,149,248 of the Company's 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.

The fair value of the warrants for which maturity period was extended was estimated using the Black-Sholes financial model based on the following assertion: dividend yield of 0%, volatility of 100%, risk-free interest rate of 1.84% and an expected life of three years. As a result, the increase in the fair value of the extended purchase warrants was estimated at \$660,000 which amount was accounted for as an expense in the Consolidated Statement of Operations and Deficit.

KWG Resources Inc.

(An exploration stage company)

Notes to Interim Consolidated Financial Statements (unaudited)

A summary of the Company's outstanding warrants and compensation options as at June 30, 2009 is presented below:

Number of warrants	Number of Compensation options	Exercise price \$	Expiry date
1,500,000	-	0.10	June 2012
1,000,000	-	0.10	July 2012
6,600,000	-	0.10	September 2012
		0.10/0.05	October 2012/October 2009
26,476,923	3,886,692		
9,375,000	-	0.12	October 2012
4,135,000	413,500	0.15	December 2012
7,062,325	1,412,465	0.18/0.185	December 2012
2,000,000	-	0.10	August 2010
18,475,000	1,847,500	0.05/0.10	December 2010
22,224,784	-	0.058-0.116	March 2010-March 2014
9,310,839	-	0.058-0.116	April 2010-April 2014
<u>108,159,871</u>	<u>7,560,157</u>		

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

10 Stock option plan

On April 15, 2009 at the Special Shareholders' Meeting, the shareholders 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.

During the six-month period ended June, 30 2009, 635,200 options exercisable at prices ranging between \$0.10 and \$0.15 expired.

The following table summarizes information about options outstanding and exercisable as at June 30, 2009:

		Outstanding options	Exercisable options
		Average contractual life (in years)	
Exercise price \$	Number of options		
0.10	16,566,180	2.36	15,952,943
0.12	5,817,500	3.18	5,817,500
0.15	850,000	1.98	850,000
	<u>23,233,680</u>		<u>22,620,443</u>

Total stock compensation costs for the three- and six-month periods ended June 30, 2009 amounted to \$11,270 and \$40,736 respectively (86,971\$ and \$308,510 for the corresponding periods in 2008).

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11 Contributed surplus

	Six-month period ended June 30, 2009	Year ended December 31, 2008
	\$	\$
Balance – Beginning of the period	2,626,615	1,996,508
Stock compensation costs (note 10)	40,736	448,037
Expiry of warrants (note 9)	203,086	182,070
Balance – End of the period	<u>2,870,437</u>	<u>2,626,615</u>

12 Accumulated other comprehensive income (loss)

	Six-month period ended June 30, 2009	Year ended December 31, 2008
	\$	\$
Accumulated other comprehensive income (loss)		
Beginning of the period	(225,574)	(36,364)
Latent gain (loss) on temporary investments available for sale	(12,563)	(189,210)
End of the period	<u>(238,137)</u>	<u>(225,574)</u>

	Six-month period ended June 30, 2009	Year ended December 31, 2008
	\$	\$
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	(5,302)	(33,860)
Unrealized gain (loss) for the period on Strike investment	(7,261)	(132,850)
End of the period	<u>(238,137)</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 directors of the company and companies controlled by officers charged consulting fees totalling \$101,522 (June 30, 2008 - \$42,522) of which \$nil remained payable at June 30, 2009 (June 30, 2008 - \$3,187) (note 16 (c)).

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 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 usually not exposed to significant foreign exchange risk has it mainly finances and operates its activities in Canadian dollars. However, since the Cliff transactions, the Company maintains some cash denominated in US dollars and therefore is exposed the US dollar fluctuation. As at June 30, 2009, the Company holds US\$1,043,645 (nil as at December 31, 2008).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at June 30, 2009, the Company had sufficient funds available to satisfy its obligations under accounts payable and accrued liabilities.

In the past 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 Company properties (note 1).

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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 June 30, 2009, all financial instruments (cash, accounts receivable, accounts payable and accrued liabilities) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments. For temporary investments refer to note 5.

15 Commitments

Pursuant to flow-through financing agreements closed during the year ended December 31, 2008, the Company must incur \$32,500 (\$369,808 as at December 31, 2008) in exploration expenses by December 31, 2009.

16 Subsequent events

(a) On July 22, 2009, the Company completed the purchase of a one-per-cent (1%) net smelter royalty in the Black Thor, Black Label and Big Daddy chrome discoveries in the James Bay Lowlands for \$635,000 and a further \$1 million payable within one year plus the issuance of 15 million common shares and 15 million common share purchase warrants, each warrant entitling the holder to purchase a common share at a price of 10 cents for a period of five years.

(b) On August 11, 2009, the Board of directors approved the payment of \$250,000 each to two officers of the Company. An amount of \$250,000 was paid to one of the officer and an amount of \$80,000 was paid to the other officer with the balance of \$170,000 to be paid over the next five years, with a minimum of \$20,000 payable each year.

(c) On August 20, 2009 the Company has completed a non-brokered private placement of 20,000,000 “flow-through” units and 8,750,000 non-“flow-through” units, for total subscriptions of \$1,437,500. Both units were issued at \$0.05 each and comprised one common share of the Company and one common share purchase warrant exercisable at a price of \$0.10 per warrant to acquire one common share for a period of 5 years.

Cliffs Greene B.V. (“Cliffs”), an affiliate of Cliffs Natural Resources Inc. in order to maintain its 19.9% equity interest in the Company, subscribed for all of the non-“flow-through” units. Directors and officers of the Company and its subsidiary Canada Chrome Corporation, subscribed for \$622,500 of the “flow-through” units.

The net proceeds of the private placement will be used to finance the exploration work on the Freewest Option property in the Ring of Fire and for working capital. The proceeds from the flow-through units will be used for eligible flow-through exploration expenses and will be renounced for the 2009 taxation year.