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**Consolidated Financial Statements**

**Kilo Goldmines Ltd.**

**For the Six Months Ended March 31, 2010**

**Unaudited**

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**NOTICE TO READER**

The accompanying unaudited interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

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# Kilo Goldmines Ltd.

Consolidated Balance Sheets  
Unaudited - see Notice to Reader

	March 31, 2010	September 30, 2009 (Audited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,881,827	\$ 9,242,200
Subscriptions receivable	20,000	20,000
Receivables	340,237	230,955
Prepaid expenses and deposits	179,149	50,043
	<u>3,421,213</u>	<u>9,543,198</u>
<b>Resource Properties</b> (note 5)	16,936,695	11,825,405
<b>Capital Assets</b> (note 6)	1,249,460	686,974
<b>Reclamation Bonds</b> (note 12)	<u>126,000</u>	<u>126,000</u>
	<u>\$ 21,733,368</u>	<u>\$ 22,181,577</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<u>\$ 1,158,516</u>	<u>\$ 1,586,104</u>
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (note 7)	21,708,322	20,774,735
<b>Warrants</b> (note 8)	4,131,519	3,976,519
<b>Stock Options</b> (note 9)	1,907,614	1,875,012
<b>Contributed Surplus</b> (note 10)	646,965	340,715
<b>Deficit</b>	<u>(7,819,568)</u>	<u>(6,371,508)</u>
	<u>20,574,852</u>	<u>20,595,473</u>
	<u>\$ 21,733,368</u>	<u>\$ 22,181,577</u>

## Nature of Operations (note 1)

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board of Directors:

Signed "Peter Hooper", Director

Signed "James Mustard", Director

# Kilo Goldmines Ltd.

Consolidated Statements of Operations and Deficit

For the Periods Ended March 31, 2010 and 2009

Unaudited - see Notice to Reader

	Six Months Ended		Three Months Ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
<b>Expenses</b>				
Administrative and general	\$ 165,702	\$ 54,333	\$ 90,658	\$ 28,790
Amortization	98,250	44,710	56,107	22,355
Directors' fees	16,318	-	9,000	-
Filing and transfer fees	24,820	22,500	11,423	22,500
Foreign exchange loss (gain)	35,113	15,582	30,747	5,630
Interest and financing costs	9,605	976	7,144	675
Occupancy	35,027	33,462	17,548	23,244
Professional and consulting fees (note 11)	406,477	283,532	192,931	123,101
Public and investor relations (note 11)	168,661	152,364	96,752	101,825
Salaries and wages	-	7,003	-	-
Stock-based compensation (note 9)	338,852	-	113,745	-
Travel	164,693	998	103,318	-
Less:				
Interest income	(15,458)	(3,901)	(7,473)	(10)
<b>Net Loss for the Period</b>	<b>(1,448,060)</b>	<b>(611,559)</b>	<b>(721,900)</b>	<b>(328,110)</b>
<b>Deficit - Beginning of Period</b>	<b>(6,371,508)</b>	<b>(4,349,181)</b>	<b>(7,097,668)</b>	<b>(4,632,630)</b>
<b>Deficit - End of Period</b>	<b><u>\$(7,819,568)</u></b>	<b><u>\$(4,960,740)</u></b>	<b><u>\$(7,819,568)</u></b>	<b><u>\$(4,960,740)</u></b>
<b>Loss per Share - basic and diluted</b>	<b><u>\$ (0.02)</u></b>	<b><u>\$ (0.03)</u></b>	<b><u>\$ (0.01)</u></b>	<b><u>\$ (0.01)</u></b>
<b>Weighted Average Number of Common Shares</b>				
<b>Outstanding - basic and diluted</b>	<b><u>63,364,959</u></b>	<b><u>24,010,337</u></b>	<b><u>63,931,402</u></b>	<b><u>25,111,193</u></b>

The accompanying notes form an integral part of these financial statements.

# Kilo Goldmines Ltd.

Consolidated Cash Flow Statements

For the Periods Ended March 31, 2010 and 2009

Unaudited - see Notice to Reader

	Six Months Ended		Three Months Ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
<b>Cash Provided By (Used In):</b>				
<b>Operating Activities</b>				
Net loss	\$(1,448,060)	\$ (611,559)	\$ (721,900)	\$ (328,110)
Items not affecting cash:				
Amortization	98,250	44,710	56,107	22,355
Stock based compensation	338,852	-	113,745	-
	<u>(1,010,958)</u>	<u>(566,849)</u>	<u>(552,048)</u>	<u>(305,755)</u>
Net changes in non-cash working capital:				
Receivables	(42,433)	(43,054)	(23,840)	(27,165)
Prepaid expenses and deposits	(17,909)	(13,575)	(4,171)	(9,264)
Accounts payable and accrued liabilities	(202,194)	357,924	(76,723)	67,853
	<u>(1,273,494)</u>	<u>(265,554)</u>	<u>(656,782)</u>	<u>(274,331)</u>
<b>Financing Activities</b>				
Share capital - private placements	-	3,856,663	-	3,856,663
Warrants - private placements	-	864,866	-	864,866
Transaction costs	-	(125,341)	-	(125,341)
Long term debt	-	(1,350,058)	-	(1,350,058)
Cash acquired on amalgamation	-	648,954	-	648,954
	<u>-</u>	<u>3,895,084</u>	<u>-</u>	<u>3,895,084</u>
<b>Investing Activities</b>				
Resource property expenditures	(4,477,924)	(1,453,941)	(3,078,750)	(1,356,547)
Purchase of capital assets	(608,955)	-	(109,267)	-
	<u>(5,086,879)</u>	<u>(1,453,941)</u>	<u>(3,188,017)</u>	<u>(1,356,547)</u>
<b>Change in Cash and Cash Equivalents</b>	<b>(6,360,373)</b>	<b>2,175,589</b>	<b>(3,844,799)</b>	<b>2,264,206</b>
<b>Cash and Cash Equivalents</b>				
- Beginning of Period	<u>9,242,200</u>	<u>170,062</u>	<u>6,726,626</u>	<u>81,445</u>
<b>Cash and Cash Equivalents</b>				
- End of Period	<u>\$ 2,881,827</u>	<u>\$ 2,345,651</u>	<u>\$ 2,881,827</u>	<u>\$ 2,345,651</u>
<b>Supplemental Cash Flow Information</b>				
Interest received	<u>\$ 15,458</u>	<u>\$ 3,901</u>	<u>\$ 7,473</u>	<u>\$ 10</u>
<b>Significant Non-Cash Transactions Not Disclosed Above</b>				
Shares issued for acquisition of resource properties	<u>\$ 933,587</u>	<u>\$ 1,156,006</u>	<u>\$ 546,000</u>	<u>\$ 1,156,006</u>
Warrants issued for acquisition of resource properties	<u>\$ 155,000</u>	<u>\$ 233,532</u>	<u>\$ -</u>	<u>\$ 233,532</u>

The accompanying notes form an integral part of these financial statements.

# **Kilo Goldmines Ltd.**

Notes to the Consolidated Financial Statements  
For the Six Months Ended March 31, 2010  
Unaudited - see Notice to Reader

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## **1. Nature of Operations**

Kilo Goldmines Ltd. (the “Company”) is an Ontario corporation which commenced operations on March 20, 2009 as described in note 2. A predecessor corporation, Kilo Goldmines Inc. (“Old Kilo”), commenced operations in January 2006. Prior to March 20, 2009, Kilo Goldmines Ltd. was known as Blue Ribbon Capital Corporation (“Blue Ribbon”), a Capital Pool Company as defined by the TSX Venture Exchange.

The Company is in the process of exploring its mineral resource properties (see note 5) and intends to devote the majority of its efforts to these properties. To date, the Company has not earned significant revenues and is considered to be in the development stage.

The realization of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to develop these properties, and future profitable production or proceeds of disposition from these properties.

The Company operates in one industry segment, mining exploration, and in one geographic area, the Democratic Republic of Congo (“DRC”). The Company’s operations in the DRC are affected by the DRC’s political and economic environment. Although the environment has stabilized in recent years, there is a risk that this situation could deteriorate and adversely affect the Company’s operations.

These interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced losses and negative operating cash flows. The application of the going concern concept is dependent on the Company’s ability to generate future profitable operations or raise financing to fund its operations. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become payable for at least twelve months.

These interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these interim consolidated financial statements, then adjustments may be necessary in the carrying value of assets and liabilities and the balance sheet classifications used. See also note 3.

## **2. Acquisition and Amalgamation**

On September 27, 2007, Old Kilo announced that it had entered into a Letter Agreement (the “Agreement”) with Blue Ribbon, a public corporation formed as a capital pool company. Pursuant to the Agreement, Blue Ribbon was able to acquire all of the issued and outstanding shares of the Company (the “Going Public Transaction”).

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the Six Months Ended March 31, 2010  
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## 2. Acquisition and Amalgamation (continued)

On March 20, 2009, pursuant to the Agreement, Old Kilo amalgamated with Blue Ribbon's wholly-owned subsidiary. Completion of the transaction constituted Blue Ribbon's qualifying transaction. The shareholders of Old Kilo held the majority of the outstanding shares of the Company following the transaction, and accordingly, the transaction has been accounted for as a reverse takeover. Since Blue Ribbon's operations do not constitute an economic unit, the transaction has been accounted for as a capital transaction.

Accordingly:

- i) The assets and liabilities of Old Kilo are included in the balance sheet at their historic carrying value.
- ii) The net assets of Blue Ribbon are included at fair value which equalled their carrying value.
- iii) Share capital, contributed surplus and deficit of Blue Ribbon are eliminated.

Blue Ribbon's net assets acquired are as follows:

Cash	\$	648,954
Receivables		16,702
Deferred transaction costs		48,942
Accounts payable and accrued liabilities		<u>(53,927)</u>
	\$	<u>660,671</u>

On April 21, 2009, the common shares of the Company began trading on the TSX Venture Exchange.

## 3. Interim Financial Statements

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles and are based on accounting principles and practices consistent with those used in the preparation of the Company's annual audited consolidated financial statements. These statements have not been reviewed by the Company's auditors. Certain information and note disclosure normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim consolidated financial statements should be read together with the audited consolidated financial statements and the accompanying notes for the year ended September 30, 2009.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 4. Summary of Significant Accounting Policies

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada, and reflect the following significant accounting policies:

### a) Financial Instruments

The Company records all financial instruments at fair value. Subsequent measurement and changes in fair value will depend on the initial classification of the financial instrument, as follows: held for trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Loans and receivables and other liabilities are recorded at amortized costs.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Held for trading
Receivables	Loans and receivables
Subscriptions receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

### b) Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of operations during the reporting period. Significant estimates and assumptions include those related to the recoverability of resource properties and the valuation of stock options and warrants. While management believes that the estimates and assumptions are reasonable, actual results could differ from those estimates.

### c) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and short-term money market investments which on acquisition have a term to maturity of three months or less.

### d) Resource Properties

Acquisition costs of resource properties together with direct exploration and development expenditures thereon are deferred in the accounts. If production is attained, these costs will be amortized on a units-of-production basis. If the properties are abandoned, sold or considered to be impaired in value, the costs of the properties and related deferred expenses will be written down at that time.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Senior management regularly reviews the carrying amount of mineral properties and deferred exploration and development costs to assess whether there has been any impairment in value.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 4. Summary of Significant Accounting Policies (continued)

### e) Capital Assets

Capital assets are carried at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the Company's assets on the following basis and rates per annum:

Building	25 years on a straight line basis
Vehicles	5 years on a straight line basis
Furniture and fixtures	5 years on a straight line basis
Equipment	5 years on a straight line basis
Computer equipment	3 years on a straight line basis

### f) Income Taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax assets are recorded only to the extent that, based on available evidence, it is more likely than not that they will be realized.

### g) Stock-Based Compensation and Other Stock-Based Payments

The Company records all stock-based payments using the fair value method. Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Stock-based compensation costs are amortized over the vesting period.

### h) Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Canadian Dollars at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are included in the determination of earnings for the period.

### i) Related Party Transactions

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

### j) Basic and Diluted Loss per Share

The basic loss per share is computed based on the weighted average number of common shares outstanding during the period. The diluted loss per share is calculated using the treasury method, and is equal to the basic loss per share due to the anti-dilutive effect of share purchase options.



# **Kilo Goldmines Ltd.**

Notes to the Consolidated Financial Statements  
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## **4. Summary of Significant Accounting Policies (continued)**

### **k) Basis of Consolidation**

These interim consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Kilo Goldmines Inc., and the partnership interests described in note 5. All interorganizational accounts and transactions have been eliminated on consolidation. All of the Company's exploration activities are conducted jointly with others wherein the Company enters into agreements that provide for specified percentage interest in resource properties as described in note 5. Expenditures on these properties are capitalized to resource properties. Joint venture accounting which reflects the Company's proportionate interest in resource properties is applied by the Company only when commercial feasibility is established and the parties enter into formal comprehensive agreements for ownership and resource participation.

### **l) Capital Disclosures**

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital; quantitative data about 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. Section 1535 was effective for the Company as of October 1, 2007. The Company's capital is composed of shareholders' equity. The Company's objective is to raise sufficient capital to execute its exploration plan. The Company does not use any capital-based metrics. The Company does not have any externally imposed capital requirements. There have not been any changes to the overall capital risk management strategy during the period ended March 31, 2010.

### **m) Financial Instruments**

CICA Handbook Section 3862, Financial Instruments - Disclosures, and CICA Handbook Section 3863, Financial Instruments - Presentation, replace CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing disclosure requirements while leaving presentation requirements unchanged. 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. Sections 3862 and 3863 were effective for the Company as of October 1, 2007. Disclosure requirements pertaining to Section 3862 are contained in note 13.

### **n) Recent Accounting Pronouncements Not Yet Applied**

International Financial Reporting Standards

The CICA plans to converge Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 5. Resource Properties

	<b>September 30,</b>				<b>March 31,</b>
	<b>2009</b>	<b>Additions</b>	<b>Sales</b>	<b>Write-Offs</b>	<b>2010</b>
KGL-Masters (a)	\$ 6,814,534	\$ 1,242,188	\$ -	\$ -	\$ 8,056,722
KGL-Somituri (b)	2,336,579	3,127,782	-	-	5,464,361
KGL-Sihu (c)	1,422,876	58,031	-	-	1,480,907
KGL-ERW (d)	1,058,570	650,106	-	-	1,708,676
KGL-Poko (e)	192,846	33,183	-	-	226,029
	<u>\$11,825,405</u>	<u>\$ 5,111,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$16,936,695</u>

	<b>September 30,</b>				<b>March 31,</b>
	<b>2008</b>	<b>Additions</b>	<b>Sales</b>	<b>Write-Offs</b>	<b>2009</b>
KGL-Masters (a)	\$ 3,491,083	\$ 1,108,034	\$ -	\$ -	\$ 4,599,117
KGL-Somituri (b)	1,178,545	938,811	-	-	2,117,356
KGL-Sihu (c)	879,662	534,401	-	-	1,414,063
KGL-ERW (d)	615,644	518,687	-	-	1,134,331
KGL-Poko (e)	146,297	171,220	-	-	317,517
	<u>\$ 6,311,231</u>	<u>\$ 3,271,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,582,384</u>

### a) KGL-Masters

On November 15, 2006, the Company acquired an option to acquire a 90% interest in eight Research Permits for mineral properties in the DRC, comprising approximately 3,170 square kilometres. The Research Permits expire on various dates up to October 9, 2011. The KGL-Masters SPRL partnership was created on July 5, 2007, and is 90% owned by the Company. An Assignment Agreement has been signed and the Company is in the process of transferring the property rights to the new entity. As at March 31, 2010, five of the Research Permits have been registered in the name of KGL-Masters SPRL. Pursuant to the KGL-Masters Partnership Agreement, the Company has committed to paying 25,000 United States Dollars on each of the property assignment Registration Date, and the six, twelve, and eighteen month anniversaries of the Registration Date, and to issuing 100,000 common shares of the Company on each of the Registration Date and the first and second anniversaries of the Registration Date.

The Partnership Agreement requires the Company to finance all activities of KGL-Masters by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-Masters from revenues it generates. As of March 31, 2010, interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

During the year ended September 30, 2009, KGL-Masters SPRL acquired an interest in three additional Research Permits.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 5. Resource Properties (continued)

### b) KGL-Somituri

On November 15, 2006, the Company acquired an option to acquire a 75% interest in twenty Research Permits for mineral properties in the DRC, comprising approximately 1,150 square kilometres. The twenty Research Permits expired on December 14, 2007, and have been converted into eight thirty-year Exploitation Permits. The KGL-Somituri SPRL partnership was created on December 12, 2007, and is 75% owned by the Company. An Assignment Agreement has been signed for the original twenty Research Permits, along with a first Partnership Agreement signed in July 2007.

The Company had committed to paying 50,000 Euros, 75,000 Euros, 150,000 Euros, and 300,000 Euros on the property assignment Registration Date, and the first, second, and third anniversaries of the Registration Date respectively. The Company has also committed to investing, at a minimum, 1,000,000 Euros during the first year after the Registration Date, and 500,000 Euros during each of the second and third years after the Registration Date in research activities.

During the year ended September 30, 2008, the Company signed a new Partnership Agreement under which the Company had agreed to finance all activities of KGL-Somituri between the execution date of the new Partnership Agreement and the filing of a bankable feasibility study by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-Somituri from revenues it generates to the extent of 75% of available funds, with the remaining 25% to be distributed to the equity holders. The minority partners may also request that one or more of the permits be transferred into new entities owned by the Company in exchange for a 2% net smelter royalty. As of March 31, 2010, interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

Subsequent to the period ended March 31, 2010, the Company signed a new Partnership Agreement (the "2010 Partnership Agreement"), as well as an Assignment Agreement providing for the transfer of the eight Exploitation Permits to KGL-Somituri. As a result of the transfer of the Exploitation Permits, the State will be entitled to a 5% equity interest in KGL-Somituri. Under the 2010 Partnership Agreement signed on April 29, 2010 (the "Effective Date"), the Company has committed to paying 75,000 Euros, 200,000 Euros (or an equivalent value in Company common shares) and 250,000 Euros (or an equivalent value in Company common shares), on the Effective Date, three days following the Effective Date, and three days following the property assignment Registration Date, respectively. The Company has also committed to investing 2,000,000 Euros during the three years following the Effective Date with a minimum of 1,000,000 Euros during the first year.

Under the 2010 Partnership Agreement, the Company has also agreed to finance all activities of KGL-Somituri, until the filing of a bankable feasibility study, by way of loans which bear interest at the rate of 5%. Within thirty days of the receipt of a bankable feasibility study, the minority partners may collectively elect to exchange their equity participation for either a 2% net smelter royalty, or a 1% net smelter royalty plus an amount equal to 2 Euros per ounce of proven mineral reserves. The 2010 Partnership Agreement cancels and replaces the ones signed in 2007 and 2008.

# Kilo Goldmines Ltd.

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## 5. Resource Properties (continued)

### c) KGL-Sihu

On November 15, 2006, the Company acquired an option to acquire a 100% interest in twelve Research Permits for mineral properties in the DRC comprising approximately 370 square kilometres. Eleven of the Research Permits originally expired on February 6, 2008, but have been renewed until April 6, 2013. One Research Permit overlaps with a Research Permit held by another entity and the Company has not applied for an extension on the original February 6, 2008 expiration date of this Research Permit, as it does not intend to explore and develop this property. The KGL-Sihu SPRL partnership was created on July 23, 2007, and is 99% owned by the Company; the remaining 1% is owned by a former director of the Company. A Memorandum of Agreement and an Assignment Agreement have been signed and the Company is in the process of transferring the property rights to the new entity. Pursuant to the KGL-Sihu Memorandum Agreement which was executed between the parties, the Company has committed to paying 100,000 United States Dollars within 15 days of the signing of the Memorandum of Agreement, 100,000 United States Dollars on the earlier of December 31, 2007 or the date on which shares of the Company begin to trade on a public stock exchange, and 135,000 United States Dollars on each of the first and second anniversaries of the date on which shares of the Company begin to trade on a public stock exchange.

During the year ended September 30, 2008, KGL-Sihu SPRL acquired an interest in two additional Research Permits, which expire on July 18, 2012. The Company is in the process of transferring the property rights into KGL-Sihu SPRL.

Pursuant to an agreement dated November 15, 2006, the rights to the three above-noted properties (collectively the "West Kilo Project") were acquired from Moto Goldmines Limited ("Moto") by assumption of Moto's responsibilities relating to the properties and for consideration of 4,000,000 common shares of the Company which shall be increased if and only if such number of common shares do not constitute at least 25% of the Company's outstanding common shares upon the completion of the Going Public Transaction (see also note 2). Moto also has the right, at its option, exercisable when a banking feasibility study is concluded (if at that stage the measured resources exceed two million ounces) to acquire a 10% equity interest in the West Kilo Project for consideration of 5,000,000 United States Dollars.

During the year ended September 30, 2008, the agreement with Moto was amended so that the common shares issued to Moto as consideration shall be increased so that the total number of shares issued as consideration for the West Kilo Project shall constitute 20% of the Company's common shares, instead of 25%, upon completion of the Going Public Transaction. The Amendment expired December 16, 2008. Moto also has the right to nominate one person to the Company's Board of Directors and to veto any private placement contemplated by the Company for a period of six months from the commencement of trading of the Company's shares on the Exchange.

During the year ended September 30, 2009, the Company issued 3,853,353 common shares and 1,297,400 warrants exercisable at \$0.60 per share at any time on or before March 20, 2011 in full satisfaction of its obligation to Moto.

# Kilo Goldmines Ltd.

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## 5. Resource Properties (continued)

### d) KGL-ERW

On November 17, 2006, the Company acquired an option to acquire a 75% interest in twenty Research Permits for mineral properties in the DRC, comprising approximately 7,000 square kilometres. The Research Permits expire on February 4, 2012. The KGL-ERW SPRL partnership was created on July 4, 2007 and is 75% owned by the Company. An Assignment Agreement has been signed and the property rights have been transferred to the new entity. Pursuant to the KGL-ERW Partnership Agreement, the Company had committed to paying 60,000 United States Dollars, 140,000 United States Dollars, 200,000 United States Dollars, and 300,000 United States Dollars on the property assignment Registration Date, and the first, second, and third anniversaries of the Registration Date respectively. The Company had also committed to issuing options to purchase 200,000 shares of the Company on each of the first, second, and third anniversaries of the Registration Date. The options vest on the first, second, and third anniversaries of the Registration Date, respectively, and are exercisable within three years of the vesting date at an exercise price equal to their fair market value on the vesting date. Furthermore, the Company had committed to investing, at a minimum, 500,000 United States Dollars during the first year after the Registration Date, and 1,000,000 United States Dollars during each of the second and third years after the Registration Date in research activities.

A failure to meet the above-noted payment and investment obligations allows the minority partner to ask for cancellation of the Agreement and reassignment of the Research Permits for consideration of one dollar. The Partnership Agreement requires the Company to finance all activities of KGL-ERW by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-ERW from revenues it generates to the extent of 75% of available funds, with the remaining 25% to be distributed to the equity holders. As of March 31, 2010, interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

During the period ended March 31, 2010, the Partnership Agreement was amended by way of a Partnership Amending Agreement. Pursuant to the Partnership Amending Agreement, the Company's obligation to pay 60,000 United States Dollars, 140,000 United States Dollars, 200,000 United States Dollars, and 300,000 United States Dollars on the property assignment Registration Date, and the first, second and third anniversaries of the Registration Date respectively was replaced by the payment of 200,000 United States Dollars upon signing of the Partnership Amending Agreement, and the issuance of 1,050,000 common shares of the Company. Also pursuant to the Partnership Amending Agreement, the Company's obligation to issue options to purchase 200,000 shares of the Company on each of the first, second, and third anniversaries of the Registration Date has been replaced by the issuance of warrants to purchase 500,000 common shares of the Company upon signing of the Partnership Amending Agreement, and warrants to purchase 250,000 common shares of the Company on the second anniversary of the Effective Date of the Partnership Amending Agreement, provided the agreement with Rio Tinto Mining and Exploration Limited, as discussed below, has not previously been terminated.

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## 5. Resource Properties (continued)

Within six months of the third anniversary of the Registration Date, the Company was obligated to select four contiguous areas, each having a maximum area of 200 square kilometres upon which KGL-ERW must focus its mining activities. The balance of the area was to be returned to the minority partner for one dollar, subject to a right of first refusal in favour of the Company. The minority partner was entitled to request that one or more of the permits be transferred into new entities owned by the Company in exchange for a 2% net smelter royalty.

During the year ended September 30, 2009, the Company signed an agreement with Rio Tinto Mining and Exploration Limited ("Rio") granting Rio an earn-in with respect to certain mineral rights (primarily iron ore) on its ERW property. In conjunction with this agreement, the Company's obligation to select four contiguous areas, each having a maximum area of 200 square kilometres upon which KGL-ERW must focus its mining activities was cancelled and the minority partner's right to require a net smelter royalty was limited to the non-Rio properties. Similarly, the minimum investment obligations of the Company were reduced to approximately 40% of the original amount, and the right of the minority partner to re-acquire the research permits for \$1 in case of the Company's failure to fulfill its payment and minimum investment obligations was limited to the non-Rio properties. Rio has the ability to earn a 51% interest in those mineral rights by making cash payments and exploration expenditures totalling 23,000,000 United States Dollars by December 31, 2011. Rio can earn an additional 24% interest by making additional cash payments and exploration expenditures totalling 60,000,000 United States Dollars by December 31, 2016. Subsequently, the Company will have several funding and net smelter royalty conversion options available to exercise at its option.

During the year ended September 30, 2009, this agreement was amended. Pursuant to the amendment, Rio would have the ability to earn a 51% interest in the mineral rights by making cash payments and exploration expenditures totalling 23,000,000 United States Dollars by December 31, 2013. Rio can earn an additional 13% interest by making additional cash payments and exploration expenditures totalling 33,600,000 United States Dollars by December 31, 2018. Finally, Rio can earn an additional 11% interest by making additional cash payments and exploration expenditures totalling 26,400,000 United States Dollars by December 31, 2020. All other terms and conditions of the original agreement remain unchanged. Pursuant to the Partnership Amending Agreement as described above, the Company is obligated to pay, to the minority partner of KGL-ERW, 40% of the cash payments received from Rio less all reasonable costs and expenses associated with the Rio agreement.

### e) KGL-Poko

On July 9, 2007, the Company acquired an 82.5% interest in fourteen Research Permits for mineral properties in the DRC, comprising approximately 4,100 square kilometres, for consideration of 91,400 United States Dollars. The Research Permits expire on October 9, 2011. The KGL-Poko SPRL partnership was created on July 23, 2007 and is 82.5% owned by the Company. An Assignment Agreement has been signed and the Company is in the process of transferring the property rights to the new entity. As at March 31, 2010, twelve of the Research Permits were identified as being held under force majeure by the DRC's Ministry of Mines.

The Partnership Agreement requires the Company to finance all activities of KGL-Poko by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-Poko from revenues it generates. As of March 31, 2010, interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

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## 5. Resource Properties (continued)

Mining activities in the DRC are governed by the Mining Code 2002 and the Mining Regulations of the DRC's Ministry of Mines. The Mining Code 2002 provides three types of licenses or permits that may be granted by the Minister of Mines. A Prospecting Certificate allows the holder to prospect plots of land as specified by the Prospecting Certificate for a period of two years. Although a Prospecting Certificate is not renewable, successive Prospecting Certificates can be issued for the same plot of land. A Prospecting Certificate does not indicate a mineral or mining right.

Exploration Licenses entitle the holder to the exclusive right to carry out exploration activity for mineral substances on a specified plot of land. This exclusive right is indicated by a mining title called "Exploration Certificate" or "Research Permit". In the case of mineral substances, this exclusive right is valid for five years and is renewable for two additional five-year periods.

Once the holder of an Exploration License can prove the existence of an economically exploitable deposit to the Ministry of Mines, the holder can convert the Exploration License to an Exploitation License. This Exploitation License is evidenced by a mining title called an "Exploitation Certificate" or "Exploitation Permit", and entitles the holder to the exclusive right to carry out exploitation, construction and exploration of mineral substances on the plots of land covered by the Exploitation License for a period of thirty years, renewable several times for periods of fifteen years.

## 6. Capital Assets

	March 31, 2010			September 30, 2009
	Cost	Accumulated Amortization	Net	Net
Land	\$ 210,132	\$ -	\$ 210,132	\$ 210,132
Building	203,962	20,396	183,566	187,646
Vehicles	810,345	172,266	638,079	249,754
Furniture and fixtures	23,746	7,523	16,223	17,580
Equipment	208,772	17,591	191,181	9,305
Computer equipment	24,260	13,981	10,279	12,557
	<u>\$ 1,481,217</u>	<u>\$ 231,757</u>	<u>\$ 1,249,460</u>	<u>\$ 686,974</u>

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## 7. Share Capital

### a) Authorized:

Unlimited common shares  
Unlimited preferred shares

### b) Common Shares Issued and Outstanding:

	<u>Number</u>	<u>Amount</u>
Balance - September 30, 2009	62,136,766	\$ 20,774,735
Issued pursuant to settlement of debt	861,303	387,587
Issued pursuant to property acquisition	<u>1,050,000</u>	<u>546,000</u>
Balance - March 31, 2010	<u><u>64,048,069</u></u>	<u><u>\$ 21,708,322</u></u>

During the period ended March 31, 2010, the Company:

- i) issued 861,303 common shares at an effective issue price of \$0.45 per share pursuant to a debt settlement agreement.
- ii) issued 1,050,000 common shares at an effective issue price of \$0.52 per share pursuant to a Partnership Amending Agreement (see note 5(d)).

## 8. Warrants

	<u>Number</u>	<u>Amount</u>
Balance - September 30, 2009	20,112,400	\$ 3,976,519
Issued pursuant to property acquisition	<u>500,000</u>	<u>155,000</u>
Balance - March 31, 2010	<u><u>20,612,400</u></u>	<u><u>\$ 4,131,519</u></u>

During the period ended March 31, 2010, the Company issued 500,000 warrants in connection with property acquisitions as described in note 5. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.60 per share at any time on or before December 13, 2011.

The fair value of the warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.60%
Expected life	2 years
Expected volatility	120%

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's warrants.



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## 8. Warrants (continued)

As at March 31, 2010, the following warrants were issued and outstanding:

- a) 2,350,000 warrants entitling the holder to purchase one common share of the Company at \$1.50 per share at any time on or before April 21, 2010.
- b) 6,327,400 warrants entitling the holder to purchase one common share of the Company at \$0.60 per share at any time on or before March 20, 2011.
- c) 310,000 warrants entitling the holder to purchase one common share of the Company at \$0.60 per share at any time on or before April 15, 2011.
- d) 11,125,000 warrants entitling the holder to purchase one common share of the Company at \$0.60 per share at any time on or before September 24, 2011.
- e) 500,000 warrants entitling the holder to purchase one common share of the Company at \$0.60 per share at any time on or before December 13, 2011.

## 9. Stock Options

- a) The Company has adopted an amended and restated incentive stock option plan (the "Option Plan"), which provides that the board of directors of the Company may from time to time, in its discretion, and in accordance with the Exchange Requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase Company Shares, provided that the number of Company Shares reserved for issuance, together with any options issued to Eligible Charitable Organizations, will not exceed 6,044,019 Company Shares. Such options will be exercisable for a period of up to 5 years from the date of grant. The number of Company Shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding Company Shares, the number of Company Shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding Company Shares and the number of Company Shares reserved for issuance to persons employed to provide investor relations services will not exceed two percent (2%) of the issued and outstanding Company Shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Options generally vest over a period of twelve to eighteen months.
- b) During the period ended March 31, 2010, the Company:
  - i) Granted 1,227,500 stock options to an officer and consultants of the Company, 409,166 of which vest immediately, with a further 409,166 and 409,168 options vesting on each of the seven and thirteen month anniversaries of the grant date. Each option entitles the holder to purchase one common share at a price of \$0.45 at any time on or before October 20, 2014.

The fair value of these stock options was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.60%
Expected life	5.0 years
Expected volatility	105%

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## 9. Stock Options (continued)

- ii) Granted 122,500 fully vested stock options to an agent in connection with private placements completed during the year ended September 30, 2008. Each option entitles the holder to purchase one common share at a price of \$1.50 at any time on or before April 21, 2010.

The fair value of these stock options was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	0.60%
Expected life	0.3 years
Expected volatility	105%

- c) A summary of changes to stock options is as follows:

	<u>Number</u>	<u>Amount</u>
Balance - September 30, 2009	5,578,333	\$ 1,875,012
Granted	1,350,000	139,116
Expired	(1,113,750)	(306,250)
Stock-based compensation expensed	<u>-</u>	<u>199,736</u>
Balance - March 31, 2010	<u>5,814,583</u>	<u>\$ 1,907,614</u>

- d) Stock options were granted, exercised and expired/cancelled as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance - September 30, 2009	5,578,333	\$ 0.71
Granted	1,350,000	0.45
Expired	<u>(1,113,750)</u>	<u>(0.68)</u>
Balance - March 31, 2010	<u>5,814,583</u>	<u>\$ 0.71</u>

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## 9. Stock Options (continued)

e) As at March 31, 2010, the following options were outstanding:

Option Price	Number of Options		Weighted Average Remaining Contractual Life
	Unvested	Vested	
\$ 0.60	-	637,883	2.0 years
\$ 0.30	-	400,000	2.0 years
\$ 1.00	-	500,000	2.0 years
\$ 1.50	-	750,000	2.0 years
\$ 0.50	-	319,200	1.0 years
\$ 0.50	66,666	233,334	1.0 years
\$ 0.60	-	1,557,500	1.5 years
\$ 0.45	818,334	409,166	4.5 years
\$ 1.50	-	122,500	0.1 years
	<u>885,000</u>	<u>4,929,583</u>	

## 10. Contributed Surplus

Contributed surplus consists of cancelled and expired stock options. A summary of changes to contributed surplus is as follows:

Balance - September 30, 2009	\$ 340,715
Options expired	<u>306,250</u>
Balance - March 31, 2010	<u>\$ 646,965</u>

## 11. Related Party Transactions

During the period ended March 31, 2010, the Company:

- Incurred management fees of \$114,000 with a company controlled by a director. The Company also incurred consulting fees of \$72,000 with two individuals related to this director. The director is also an officer.
- Incurred legal fees of \$54,974 with a firm in which a director and a former director are partners, all of which was capitalized as property acquisition costs. As at March 31, 2010, accounts payable and accrued liabilities included \$14,648 related to this law firm.
- Incurred accounting fees of \$104,505 with an accounting firm in which a former officer is a partner. As at March 31, 2010, accounts payable and accrued liabilities included \$32,030 related to this accounting firm.
- Incurred publicity and advertising fees of \$23,700 with two companies controlled by a person related to a director. The director is also an officer.
- Incurred management fees of \$125,000 with a director. The director is also an officer.

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## **11. Related Party Transactions** (continued)

f) Incurred consulting fees of \$7,500 with a company controlled by an officer.

Additional related party transactions are described separately in note 5(c).

## **12. Reclamation Bonds**

During the year ended September 30, 2008, the Company paid \$126,000 in reclamation bonds as required by the DRC's Ministry of Mines. These amounts represent deposits on restoration costs to be incurred in the future to restore the resource properties to a specified state. Based on the exploration work performed to March 31, 2010 on the resource properties in the DRC, the Company's management estimates that no future obligations for site restoration costs exist as at March 31, 2010.

## **13. Financial Instruments**

### **Fair Values**

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

### **Commodity Price Risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

### **Credit Risk**

The Company monitors the financial condition of its venture partners and counterparties to contracts. The Company does not have a significant exposure to any individual third party. Credit risk on amounts receivable is limited to the outstanding balance of such amounts.

### **Currency Risk**

The Company's primary operations are located in the DRC. The Company pays most of its DRC costs in United States Dollars, and is therefore subject to foreign exchange risk on this payment stream. It also pays suppliers in United Kingdom Pounds Sterling and European Euros and is therefore subject to foreign exchange risk on these payment streams.

As at March 31, 2010, cash and cash equivalents include 591,369 United States Dollars, receivables include 63,605 United States Dollars, and accounts payable and accrued liabilities include 729,415 United States Dollars, 78,271 United Kingdom Pounds Sterling and 836 European Euros.

At March 31, 2010, if the Canadian Dollar had weakened (strengthened) 10 percent against the United States Dollar with all other variables held constant, the net loss for the period would have been \$7,562 higher (lower).

At March 31, 2010, if the Canadian Dollar had weakened (strengthened) 10 percent against the United Kingdom Pound Sterling with all other variables held constant, the net loss for the period would have been \$12,071 higher (lower).

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## 13. Financial Instruments (continued)

At March 31, 2010, if the Canadian Dollar had weakened (strengthened) 10 percent against the European Euro with all other variables held constant, the net loss for the period would have been \$115 higher (lower).

## 14. Commitments

- a) The Company has monthly obligations of \$19,000 and 16,150 United States Dollars pursuant to consulting agreements. The agreements do not have a fixed term and can be cancelled by either party.
- b) The Company has committed to spending \$230,000 on community-based initiatives in the DRC to improve the lives of the inhabitants of the areas in which the Company is focusing its exploration efforts. This commitment does not have a specified term and as at March 31, 2010, the Company had spent approximately \$153,000.
- c) The Company has entered into leases for office premises and office equipment. The minimum lease commitments under these leases are as follows:

2010	\$ 71,751
2011	\$ 71,751
2012	\$ 76,355
2013	\$ 76,355
Thereafter	\$ 57,645

- d) During the year ended September 30, 2009, the Company entered into an agreement for the provision of consulting services in exchange for a monthly fee of \$5,000 payable monthly until April 1, 2010.
- e) During the year ended September 30, 2009, the Company entered into an agreement for the provision of public and investor relations services in exchange for a monthly fee of \$5,000 payable monthly, and the issuance of 300,000 stock options which vest over a period of one year from the date of the start of the agreement. The agreement can be terminated by either party by giving thirty days written notice. As at September 30, 2009, 100,000 of these stock options had vested.
- f) During the year ended September 30, 2009, the Company entered into an agreement for the rental of a bulldozer in the DRC in exchange for a monthly fee of 15,000 United States Dollars. The contract has an indefinite term and can be cancelled by the Company by giving one month notice to the vendor.
- g) During the year ended September 30, 2009, the Company entered into drilling agreement for 6,000 metres of diamond drilling in the DRC. The total value of the agreement is unknown as the invoiced amounts under the agreement will depend on several factors that cannot be reasonably estimated as of the date of these financial statements.

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## 14. Commitments (continued)

- h) During the year ended September 30, 2009, the Company entered into an agreement for the provision of public and investor relations services for a period of six months commencing May 1, 2009 in exchange for a fee of 3,000 Euros payable upon the signing of the agreement and 3,000 Euros payable August 1, 2009. This agreement automatically renews for an additional six month period unless terminated by either party by way of written notice received no later than 30 days prior to the expiry of the original six month period of the agreement.
- i) During the year ended September 30, 2009, the Company entered into an employment agreement with their new CEO for a period ending January 10, 2010. The annual salary of \$250,000 is to be paid in monthly installments. An extension or renewal of the agreement is to be evidenced in writing by both parties. During the period ended March 31, 2010 the term of this agreement was extended to March 11, 2011.
- j) During the period ended March 31, 2010, the Company granted options to acquire 2,867,500 common shares to directors and officers in addition to the options disclosed in note 9 (b)(i). Each option entitles the holder to purchase one common share of the Company at a price of \$0.45 per share for a five year period. The options vest as to one-third immediately and one-third on each of the seven and thirteen month anniversaries of the date of grant. All of the 2,867,500 options are subject to shareholder approval for the increase in the number of shares reserved under its stock option plan to maintain the ratio of shares reserved under the plan to outstanding shares at 15% as a result of the private placement completed during the year ended September 30, 2009. All options granted are subject to regulatory approval and a four-month holding period. As the grant of these options is subject to shareholder approval, the fair value of these options has not been recognized in the period ended March 31, 2010.
- k) During the period ended March 31, 2010, the Company entered into an agreement for the provision of consulting services until September 30, 2010 in exchange for a fee of \$30,000 payable upon the signing of the agreement, and payments of \$18,000 on each of March 1, 2010, June 1, 2010 and September 1, 2010.
- l) Additional commitments are disclosed in note 5.

## 15. Subsequent Events

Subsequent to March 31, 2010, the Company entered into an agreement for the provision of investor relations services in exchange for a monthly cash payment of \$6,000 and the issuance of 300,000 stock options with a company controlled by an individual related to a director. This director is also an officer. The options are exercisable at a price of \$0.60 at any time up to and including April 14, 2012 and vest as to one-quarter immediately and a further one-quarter on each of the three, six and twelve month anniversaries of the date of grant. The agreement has a term of six months and shall automatically renew for further six month periods unless terminated by either party on one month's written notice prior to the end of the initial or any renewal term.

Additional subsequent events are disclosed in note 5.