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**Condensed Interim Consolidated Financial Statements**

**Kilo Goldmines Ltd.**

**For the Six Month Periods Ended March 31, 2012 and 2011**

**Unaudited**

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**NOTICE TO READER**

The accompanying unaudited condensed 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 condensed interim consolidated financial statements.

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# Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Financial Position  
Unaudited - See Notice to Reader

	March 31, 2012	September 30, 2011	October 1, 2010
		<b>(note 15)</b>	<b>(note 15)</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 9,866,908	\$ 3,973,264	\$ 152,129
Receivables	23,731	233,054	401,791
Prepaid expenses	801,967	336,413	140,236
	<u>10,692,606</u>	<u>4,542,731</u>	<u>694,156</u>
<b>Non-Current Assets</b>			
Resource Properties (note 5)	25,198,924	24,080,176	14,493,752
Property, Plant and Equipment (note 4)	925,724	1,085,781	1,296,523
Reclamation Bonds	123,160	129,420	126,000
	<u>\$ 36,940,414</u>	<u>\$ 29,838,108</u>	<u>\$ 16,610,431</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 980,061	\$ 1,880,001	\$ 3,721,605
<b>Non-current Liabilities</b>			
Deferred Lease Inducement (note 6)	22,117	23,767	-
	<u>1,002,178</u>	<u>1,903,768</u>	<u>3,721,605</u>
<b>Shareholders' Equity</b>			
<b>Share Capital</b> (note 6)	46,461,706	36,036,143	22,851,681
<b>Warrants</b> (note 7)	3,472,402	3,627,402	3,361,653
<b>Stock Options</b> (note 9)	2,375,509	2,787,669	2,984,078
<b>Contributed Surplus</b> (note 10)	7,609,639	6,617,767	1,734,673
<b>Cumulative Translation Reserve</b> (note 3(a))	(374,653)	830,568	-
<b>Deficit</b>	<u>(23,606,367)</u>	<u>(21,965,209)</u>	<u>(18,043,259)</u>
	<u>35,938,236</u>	<u>27,934,340</u>	<u>12,888,826</u>
	<u>\$ 36,940,414</u>	<u>\$ 29,838,108</u>	<u>\$ 16,610,431</u>

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

Approved on behalf of the Board

Signed "Alex van Hoeken", Director

Signed "David Netherway", Director

# Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the Periods Ended March 31, 2012 and 2011

Unaudited - see Notice to Reader

	Six Months Ended		Three Months Ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
		(note 15)		(note 15)
<b>Expenses</b>				
Corporate and administrative expenses	\$ 1,122,649	\$ 1,000,014	\$ 538,604	\$ 473,801
Share-based compensation (note 9)	424,712	598,826	300,931	950
Amortization	118,437	121,779	58,869	60,890
Less:				
Interest Income	(24,640)	(599)	(16,869)	(17)
<b>Loss for the Period</b>	(1,641,158)	(1,720,020)	(881,535)	(535,624)
<b>Other Comprehensive Income (Loss) for the Period</b>				
Currency Translation Adjustment	(1,205,221)	(968,158)	(504,659)	(490,135)
<b>Total Comprehensive Loss for the Period</b>	<u>\$ (2,846,379)</u>	<u>\$ (2,688,178)</u>	<u>\$ (1,386,194)</u>	<u>\$ (1,025,759)</u>
<b>Income (Loss) per Share - basic and diluted</b>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
<b>Weighted Average Number of Common Shares Outstanding - basic and diluted</b>	<u>206,181,955</u>	<u>108,111,027</u>	<u>218,340,191</u>	<u>113,906,762</u>

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

# Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

For the Periods Ended March 31, 2012 and 2011

Unaudited - See Notice to Reader

	Common Stock		Warrants	Stock Options	Contributed Surplus	Cumulative Translation Reserve	Accumulated Deficit	Total
	Shares	Amount						
Balance - October 1, 2011	164,228,984	\$ 36,036,143	\$ 3,627,402	\$ 2,787,669	\$ 6,617,767	\$ 830,568	\$ (21,965,209)	\$ 27,934,340
Common shares and warrants issued for cash	51,950,000	10,390,000	-	-	-	-	-	10,390,000
Issuance costs	-	(478,000)	-	-	-	-	-	(478,000)
Common shares issued related to resource properties	2,670,994	513,563	-	-	-	-	-	513,563
Expired warrants	-	-	(155,000)	-	155,000	-	-	-
Stock options granted	-	-	-	424,712	-	-	-	424,712
Stock options expired	-	-	-	(836,872)	836,872	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	(1,205,221)	-	(1,205,221)
Net loss	-	-	-	-	-	-	(1,641,158)	(1,641,158)
Balance - March 31, 2012	218,849,978	\$ 46,461,706	\$ 3,472,402	\$ 2,375,509	\$ 7,609,639	\$ (374,653)	\$ (23,606,367)	\$ 35,938,236

	Common Stock		Warrants	Stock Options	Contributed Surplus	Cumulative Translation Reserve	Accumulated Deficit	Total
	Shares	Amount						
Balance - October 1, 2010	71,254,284	\$ 22,851,681	\$ 3,361,653	\$ 2,984,078	\$ 1,734,673	\$ -	\$ (18,043,259)	\$ 12,888,826
Common shares and warrants issued for cash	42,054,700	6,518,478	1,892,462	-	-	-	-	8,410,940
Issuance costs	-	(517,464)	(148,993)	-	-	-	-	(666,457)
Agent's options granted	-	(211,521)	(60,707)	272,228	-	-	-	-
Common shares and warrants issued pursuant to exercise of stock options	420,000	83,700	24,300	(24,000)	-	-	-	84,000
Common shares issued pursuant to exercise of warrants	250,000	104,009	(29,009)	-	-	-	-	75,000
Warrants expired	-	-	(1,150,056)	-	1,150,056	-	-	-
Stock options granted	-	-	-	598,826	-	-	-	598,826
Stock options expired	-	-	-	(57,456)	57,456	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	(968,158)	-	(968,158)
Net loss	-	-	-	-	-	-	(1,720,020)	(1,720,020)
Balance - March 31, 2011	113,978,984	\$ 28,828,883	\$ 3,889,650	\$ 3,773,676	\$ 2,942,185	\$ (968,158)	\$ (19,763,279)	\$ 18,702,957

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

# Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Cash Flow

For the Periods Ended March 31, 2012 and 2011

Unaudited - see Notice to Reader

	Six Months Ended		Three Months Ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
<b>Cash Flows from Operating Activities</b>				
Net loss	\$ (1,641,158)	\$ (1,720,020)	\$ (881,535)	\$ (535,624)
Items not affecting cash:				
Amortization	118,437	121,779	58,869	60,890
Stock-based compensation	424,712	598,826	300,931	950
Deferred lease inducement	(1,650)	-	(825)	-
	(1,099,659)	(999,415)	(522,560)	(473,784)
Net changes in non-cash working capital:				
Receivables	209,323	294,954	247,606	(38,229)
Prepaid expenses	(53,863)	(15,249)	(42,426)	29,908
Accounts payable and accrued liabilities	(66,940)	(407,727)	(110,798)	16,598
	(1,011,139)	(1,127,437)	(428,178)	(465,507)
<b>Cash Flows from Financing Activities</b>				
Share capital - private placements	10,390,000	6,518,478	-	-
Warrants - private placements	-	1,892,462	-	-
Exercise of warrants	-	75,000	-	75,000
Exercise of options	-	84,000	-	-
Private placement costs	(478,000)	(666,457)	-	-
	9,912,000	7,903,483	-	75,000
<b>Cash Flows from Investing Activities</b>				
Mineral properties and deferred exploration costs	(3,007,217)	(6,641,497)	(2,487,493)	(1,592,130)
Purchase of property, plant and equipment	-	(15,110)	-	-
	(3,007,217)	(6,656,607)	(2,487,493)	(1,592,130)
<b>Change in Cash and Cash Equivalents</b>	5,893,644	119,439	(2,915,671)	(1,982,637)
<b>Cash and Cash Equivalents - Beginning of Period</b>	3,973,264	152,129	12,782,579	2,254,205
<b>Cash and Cash Equivalents - End of Period</b>	\$ 9,866,908	\$ 271,568	\$ 9,866,908	\$ 271,568

## Supplemental Cash Flow Information

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

# Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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## 1. Nature of Operations

Kilo Goldmines Ltd. (the "Company") is a publicly listed company incorporated pursuant to the provisions of the Business Corporations Act (Ontario). The Company's common shares are listed on the Toronto Stock Exchange (TSX: KGL).

The registered address, principal address and records office of the Company is located at 141 Adelaide Street West, Suite 1200, Toronto, Ontario.

The Company is in the process of exploring its mineral resource properties located principally in the Democratic Republic of Congo (the "DRC"). To date, the Company has not earned significant revenues and is considered to be in the exploration 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.

## 2. Basis of Presentation

In 2010 the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effectively for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements. In these interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These interim financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended September 30, 2011.

These condensed interim consolidated financial statements include the accounts of the Company its subsidiary Kilo Goldmines Inc. ("Kilo Inc.") and the partnership interests described in note 5. All intercompany accounts and transactions have been eliminated.

### a) Statement of Compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). These are the Company's second IFRS condensed interim consolidated financial statements in which IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied (note 15). The IAS 34 condensed interim consolidated financial statements do not include all of the information required for annual financial statements.

The significant accounting policies (note 3) have been applied consistently to all periods presented in preparing the opening statement of financial position at October 1, 2010 (note 15) for the purposes of transitioning to IFRS.

The policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of May 23, 2012, the date the Audit Committee approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS (note 15).

### b) Basis of Measurement

The Company's condensed interim consolidated financial statements have been prepared on the historical cost basis.

### c) Functional and Presentation Currency

These condensed interim consolidated financial statements are presented in Canadian Dollars. The functional currency of the Company and Kilo Inc. is the Canadian Dollar. The functional currency of the Company's partnership interests is the United States Dollar.

# Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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## 2. Basis of Presentation (continued)

### d) Use of Estimates

The preparation of the financial statements in conformity with IFRS 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, the estimated useful lives of property, plant and equipment, the valuation of options and warrants and the ability to continue as a going concern. While management believes that the estimates and assumptions are reasonable, actual results could differ from those estimates.

### e) Going Concern

The Company has not generated revenue from operations. The Company incurred a net loss of \$1,641,158 during the six months ended March 31, 2012 and, as of that date the Company's deficit was \$23,606,367. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements and in preparing the opening IFRS statements of financial position at October 1, 2010 for the purpose of transitioning to IFRS, unless otherwise indicated.

### a) Foreign Currency Transactions

Items included in the financial statements of the Company and its subsidiary (the "Group") are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's interim condensed consolidated financial statements are presented in Canadian dollars. Costs of the Company and Kilo Inc. are primarily incurred in Canadian dollars. Costs of the Company's partnership interests are primarily incurred in United States Dollars.

The Company translates monetary assets and liabilities at the rate of exchange in effect at the balance sheet date and non monetary assets and liabilities at historical exchange rates. Income and expenses are translated at average rates in the month they occur. Gains and losses on translation are recorded in the statement of operations.

The Company translates the assets and liabilities of its partnership interests at the rate of exchange in effect at the balance sheet date. Income and expenses are translated at the rate of exchange prevailing at the date of the transaction. All resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of shareholders' equity called Cumulative Translation Reserve.

### b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid short-term money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates with maturities of 90 days or less.

### c) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Any excess of the purchase price over fair value is recorded as goodwill. Acquisition-related costs are recognized in profit or loss as incurred.

# Kilo Goldmines Ltd.

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## 3. Significant Accounting Policies (continued)

### d) Resource Properties

#### Pre-exploration Costs

Pre-exploration costs are expensed in the period in which they are incurred.

#### Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

### e) Reclamation Bonds

Cash which is subject to contractual restrictions on use is classified separately as reclamation bonds. Reclamation bonds are classified as loans and receivables.



# Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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## 3. Significant Accounting Policies (continued)

### f) Property, Plant and Equipment

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is provided over the estimated useful lives of the 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

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

An item of property, plant and equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income or loss for the period.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

### g) Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

# Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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## 3. Significant Accounting Policies (continued)

### h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity.

### i) Share-based Payments

Equity-settled share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, and the expected life of the options.

The fair value of the equity-settled share based payments is expensed over the period in which the performance and/or service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Vesting assumptions are reviewed at each reporting date to ensure they reflect current expectations.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

### j) Decommissioning Liabilities

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

Accrued site closure costs are recorded at the time an environmental disturbance occurs, and are measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured on an annual basis or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

Upon initial recognition of site closure costs, there is a corresponding increase to the carrying amounts of related assets and the cost is amortized as an expense on a unit-of-production basis over the life of the related assets. The value of the provision is progressively increased over the life of the operation as the effect of discounting unwinds, such increase is recognized as interest expense.

As at March 31, 2012 the company has not incurred and is not committed to any decommissioning obligations in respect of its mineral exploration properties.

# Kilo Goldmines Ltd.

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## 3. Significant Accounting Policies (continued)

### k) Other Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognized as a finance lease obligation within long-term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### m) Other Comprehensive Income (Loss)

Other Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit or loss such as foreign currency gains or losses related to translation of the financial statements of foreign operations. The Company's comprehensive income (loss), components of other comprehensive income, and cumulative translation adjustments are presented in the consolidated statements of comprehensive income (loss) and the consolidated statements of changes in equity

### n) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. During the six months ended March 31, 2012 and 2011, all the outstanding stock options, warrants and brokers' compensation warrants were anti-dilutive.

### o) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at fair value.

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## 3. Significant Accounting Policies (continued)

### p) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the Statement of Operations and Comprehensive Income.

#### Financial Assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

#### Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

#### Financial Liabilities and Equity Instruments

##### Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the Statement of Comprehensive Income (Loss) on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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## 3. Significant Accounting Policies (continued)

### p) Financial Instruments (continued)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

Asset/Liability	Classification	Subsequent Measurement
Cash and cash equivalents	FVTPL	Fair value to profit or loss
Reclamation bonds	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

### q) Critical Accounting Judgments and Estimation Uncertainties

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the condensed consolidated interim financial statements and related notes to the condensed consolidated interim financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Recoverability of Resource Properties costs

The Company assesses all exploration and evaluation assets, mine development assets and property, plant and equipment at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long term commodity prices, discount rates, foreign exchange rates, future capital requirements, exploration potential and operating performance.

Title to Resource Property Interests

Although the Company has taken steps to verify title to resource properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

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## 3. Significant Accounting Policies (continued)

### q) Critical Accounting Judgments and Estimation Uncertainties (continued)

#### Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Notes and .

### r) Future Accounting Changes

IFRS 9 (Financial Instruments: Classification and Measurement), effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet determined the potential impact on the Company's financial statements.

IFRS 10 Consolidated Financial Statements ("IFRS 10") replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet determined the potential impact on the Company's financial statements.

IFRS 13 Fair Value Measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet determined the potential impact on the Company's financial statements.

## 4. Property, Plant and Equipment

As at March 31, 2012	Land	Buildings	Vehicles	Furniture and Fixtures	Equipment	Computer Equipment	Total
Cost							
Balance, October 1, 2011	\$ 213,799	\$ 305,072	\$ 828,472	\$ 23,746	\$ 301,987	\$ 24,260	\$ 1,697,336
Additions	-	-	-	-	-	-	-
Effects of Movements in							
Exchange Rates	(6,713)	(14,756)	(33,178)	-	(12,611)	-	(67,258)
Balance, March 31, 2012	207,086	290,316	795,294	23,746	289,376	24,260	1,630,078
Accumulated depreciation							
Balance, October 1, 2011	-	(38,000)	(429,835)	(14,647)	(105,513)	(23,560)	(611,555)
Depreciation	-	(5,668)	(81,035)	(2,374)	(28,658)	(700)	(118,435)
Effects of Movements in							
Exchange Rates	-	1,920	19,015	-	4,701	-	25,636
Balance, March 31, 2012	-	(41,748)	(491,855)	(17,021)	(129,470)	(24,260)	(704,354)
Net carrying amount as at March 31, 2012	\$ 207,086	\$ 248,568	\$ 303,439	\$ 6,725	\$ 159,906	\$ -	\$ 925,724

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## 4. Property, Plant and Equipment (continued)

As at September 30, 2011	Land	Buildings	Vehicles	Furniture and Fixtures	Equipment	Computer Equipment	Total
Cost							
Balance, October 1, 2010	\$ 210,132	\$ 281,795	\$ 810,345	\$ 23,746	\$ 295,097	\$ 24,260	\$ 1,645,375
Additions	-	15,110	-	-	-	-	15,110
Effects of Movements in Exchange Rates	3,667	8,167	18,127	-	6,890	-	36,851
Balance, September 30, 2011	213,799	305,072	828,472	23,746	301,987	24,260	1,697,336
Accumulated depreciation							
Balance, October 1, 2010	-	(25,269)	(253,299)	(9,898)	(42,361)	(18,024)	(348,851)
Depreciation	-	(11,334)	(162,069)	(4,749)	(59,019)	(5,536)	(242,707)
Effects of Movements in Exchange Rates	-	(1,397)	(14,467)	-	(4,133)	-	(19,997)
Balance, September 30, 2011	-	(38,000)	(429,835)	(14,647)	(105,513)	(23,560)	(611,555)
Net carrying amount as at September 30, 2011	\$ 213,799	\$ 267,072	\$ 398,637	\$ 9,099	\$ 196,474	\$ 700	\$ 1,085,781

## 5. Resource Properties

	October 1, 2011	Net Additions (Recoveries)	Write-Offs	Currency Translation Adjustments	March 31, 2012
KGL-Masters (a)	\$ -	\$ -	\$ -	\$ -	\$ -
KGL-Somituri (b)	20,626,100	3,417,259	-	(992,536)	23,050,823
KGL-Sihu (c)	1,603,388	249,257	-	(78,178)	1,774,467
KGL-ERW (d)	1,850,688	(1,390,428)	-	(86,626)	373,634
KGL-Poko (e)	-	-	-	-	-
	\$ 24,080,176	\$ 2,276,088	\$ -	\$ (1,157,340)	\$ 25,198,924
	October 1, 2010	Net Additions (Recoveries)	Write-Offs	Currency Translation Adjustments	September 30, 2011
KGL-Masters (a)	\$ -	\$ -	\$ -	\$ -	\$ -
KGL-Somituri (b)	11,258,231	8,651,412	-	716,457	20,626,100
KGL-Sihu (c)	1,491,093	68,517	-	43,778	1,603,388
KGL-ERW (d)	1,744,428	56,201	-	50,059	1,850,688
KGL-Poko (e)	-	-	-	-	-
	\$ 14,493,752	\$ 8,776,130	\$ -	\$ 810,294	\$ 24,080,176

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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.

### 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 expired on various dates up to October 9, 2011 and have not been renewed.

### 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 were subsequently 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.

On April 29, 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. The DRC government is entitled to a 5% equity interest in KGL-Somituri. The Company 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. During the year ended September 30, 2010, the Company issued 520,915 common shares at a fair value of \$0.482 per share to satisfy the Company's obligation to pay 200,000 Euros three days following the Effective Date as described above.

During the period ended March 31, 2012, registration of title to the licences in the name KGL-Somituri was completed, and the Company satisfied its commitment to pay 250,000 Euros by paying 30,000 Euros and issuing 1,405,777 common shares of the Company.

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 cancelled and replaced earlier agreements.



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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 have been renewed until April 6, 2013. One Research Permit overlaps with a Research Permit held by another entity and the Company did not pursue renewal of the permit upon expiry in 2008. 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.

Registration of the Research Permits in the name of KGL-Sihu SPRL was concluded in the year ended September 30, 2011, and the Company committed to paying 400,000 United States Dollars and issuing 1,265,217 common shares of the Company in full satisfaction of the outstanding payment commitments. Payment of the cash consideration was effected during the year ended September 30, 2011, and the common shares of the Company were issued during the period ended March 31, 2012 (see note 7).

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.

The rights to the three above-noted properties (collectively the "West Kilo Project") were acquired from Moto Goldmines Limited ("Moto") pursuant to an agreement dated November 15, 2006. Moto 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, 2009, the Company issued an additional 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. During the year ended September 30, 2011, these warrants expired.

### 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. 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 December 31, 2011, 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, 2010, the Partnership Agreement was amended by way of a Partnership Amending Agreement, pursuant to which the Company became obligated to 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. These obligations were fulfilled in 2010. Also pursuant to the Partnership Amending Agreement, the Company is further obligated to 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. The 500,000 warrants were issued in 2010 (see note 7) pursuant to the Partnership Amending Agreement, and expired unexercised on December 13, 2011. The remaining 250,000 warrants became due for issuance on December 9, 2011 and have still to be issued.

The Company also issued 36,000 stock options pursuant to a consulting agreement related to these properties during the year ended September 30, 2010.

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## 5. Resource Properties (continued)

### d) KGL-ERW (continued)

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 iron ore mineral rights 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 acquire a net smelter royalty was limited to the non-Rio properties. Similarly, the minimum investment obligations of the Company initially set at 500,000 United States dollars during the first year after registration date, and 1,000,000 United States Dollars during each of the second and third years after registration date were reduced to approximately 40% of the original amounts, and the right of the minority partner to re-acquire the research permits for \$1 in case of the Company's failure to fulfil its payment and minimum investment obligations was limited to the non-Rio properties. The investment obligations of the second year have not been met in full, and the minority partner has not exercised the right to re-acquire the research permits.

Under terms of the Rio agreement and amendments made during the year ended September 30, 2009, Rio has the ability to earn a 51% interest in the mineral rights by making cash payments and exploration expenditures totaling 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 totaling 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 totaling 26,400,000 United States Dollars by December 31, 2020. All other terms and conditions of the original agreement remain unchanged, including the Company's right to exercise one of several funding and net smelter royalty conversion options available.

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. The Company's share of the cash payment due by Rio by or before December 2012 amounted to 1,500,000 United States Dollars. During the period ended March 31, 2012, in consideration for an accelerated payment, the Company received a discounted amount of 1,428,125 United States Dollars net of the portion due to the minority shareholder, in full satisfaction of this obligation.

### 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 expired on October 9, 2011 and have not been renewed. The Company has written off all acquisition and exploration costs associated with the properties in the year ended September 30, 2010.

## 6. Deferred Lease Inducement

During the year ended September 20, 2011, the Company received a lease inducement of \$23,767 which is being amortized to occupancy expense on a straight-line basis over the term of the lease which will expire during the year ended September 30, 2018.

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## 7. Share Capital

The Company is authorized to issue an unlimited number of common shares.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The following is a summary of changes in common share capital from October 1, 2010 to March 31, 2012:

	<u>Number</u>	<u>Amount</u>
Balance - October 01, 2010	71,254,284	\$ 22,851,681
Issued for cash	92,054,700	14,768,478
Issued pursuant to exercise of stock options	420,000	83,700
Issued pursuant to exercise of warrants - cash proceeds	500,000	201,509
Issuance costs		(1,869,225)
		<hr/>
Balance - September 30, 2011	164,228,984	36,036,143
Issued for cash	51,950,000	10,390,000
Issued pursuant to property acquisition	2,670,994	513,563
		-
Issuance costs		(478,000)
		<hr/>
Balance - March 31, 2012	<u>218,849,978</u>	<u>\$ 46,461,706</u>

During the period ended March 31, 2012, the Company:

- a) Issued 51,950,000 common shares of the Company pursuant to private placements for gross proceeds of \$10,390,000. In connection with these private placements, the Company paid fees of \$478,000.
- b) Issued 1,265,217 common shares at \$0.18 per share pursuant to a Memorandum of Agreement as discussed in note 5(c).
- c) Issued 1,405,777 common shares in satisfaction of a property commitment as discussed in note 5(b).

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## 8. Warrants

	Number	Amount	Weighted Average Exercise Price
Balance - October 1, 2010	21,605,050	\$ 3,361,653	\$ 0.55
Issued for cash	46,027,350	3,642,462	0.30
Issued pursuant to exercise of stock options	210,000	24,300	0.30
Exercised	(500,000)	(51,509)	(0.30)
Expired	(17,762,400)	(2,897,935)	(0.60)
Issuance costs		(451,569)	
Balance - September 30, 2011	49,580,000	3,627,402	0.30
Expired	(500,000)	(155,000)	(0.60)
Balance -March 31, 2012	49,080,000	\$ 3,472,402	\$ 0.30

As at March 31, 2012, the following common share purchase warrants ("warrants") were issued and outstanding:

Number	Exercise Price	Expiry
2,342,650	\$ 0.30	August 5, 2012
750,000	\$ 0.30	August 25, 2012
9,288,600	\$ 0.30	October 7, 2012
11,698,750	\$ 0.30	November 5, 2012
25,000,000	\$ 0.30	May 13, 2013
<u>49,080,000</u>		

## 9. Stock Options

- a) The Company has adopted a stock option plan for the Company (the "Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase shares to directors, officers, employees and consultants of the Company, and its subsidiary. Under the Plan, the aggregate number of shares to be issued upon the exercise of outstanding options granted thereunder may not exceed 15% of the number of issued and outstanding shares. Expiry dates and exercise prices shall be determined by the Board of Directors. The exercise price shall not be less than the market price.
- b) Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

### Options Issued to Non-Employees

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

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## 9. Stock Options (continued)

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

	Number	Amount	Weighted Average Exercise Price
Balance - October 01, 2010	9,036,554	\$ 2,984,078	\$ 0.59
Granted	18,337,279	1,812,750	0.21
Exercised	(420,000)	(24,000)	(0.20)
Expired	(6,126,700)	(1,985,159)	(0.35)
Balance - September 30, 2011	20,827,133	2,787,669	0.28
Granted	2,150,000	424,712	0.22
Expired	(1,787,883)	(836,872)	0.82
Balance - March 31, 2012	21,189,250	\$ 2,375,509	\$ 0.23

During the period ended March 31, 2012, the Company:

- i) Granted 300,000 stock options to a director. Each option vests immediately and allows the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of three years from the date of grant.

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	0.98%
Expected life	3.0 years
Expected volatility	121%

- ii) Granted 300,000 stock options to the Vice-President Operations. Each option vests on the date that is six months following the date of grant and allows the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of three years from the date of grant.

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	0.98%
Expected life	3.0 years
Expected volatility	117%

- iii) Granted 300,000 stock options to a director. Each option vests immediately and allows the holder to purchase one common share of the Company at a price of \$0.22 per share for a period of three years from the date of grant.

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	1.08%
Expected life	3.0 years
Expected volatility	117%

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## 9. Stock Options (continued)

- iv) Granted 300,000 stock options to a director. Each option vests immediately and allows the holder to purchase one common share of the Company at a price of \$0.22 per share for a period of three years from the date of grant.

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	1.10%
Expected life	3.0 years
Expected volatility	117%

- v) Granted 950,000 stock options to a consultant and an officer. Each option vests as to one-third immediately, one-third on the first anniversary of the date of grant, and a further one-third on the second anniversary of the date of grant. Each option allows the holder to purchase one common share of the Company at a price of \$0.22 per share for a period of three years from the date of grant.

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	1.08%
Expected life	3.0 years
Expected volatility	117%

Option 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 stock options.

- d) As at March 31, 2012, the following stock options were outstanding:

Exercise Price	Number of Options		Weighted Average Remaining Contractual Life
	Unvested	Vested	
\$ 0.45	-	1,054,000	2.50 years
\$ 0.60	-	300,000	0.25 years
\$ 0.20	-	362,971	0.50 years
\$ 0.20	-	105,000	0.50 years
\$ 0.30	-	1,520,000	3.75 years
\$ 0.20	-	984,529	0.75 years
\$ 0.20	-	1,317,750	0.75 years
\$ 0.20	-	3,395,000	1.25 years
\$ 0.20	2,000,000	3,000,000	4.25 years
\$ 0.20	4,000,000	1,000,000	4.50 years
\$ 0.20	-	300,000	2.75 years
\$ 0.20	300,000	-	2.75 years
\$ 0.22	-	300,000	3.0 years
\$ 0.22	-	300,000	3.0 years
\$ 0.22	633,333	316,667	
	<u>6,933,333</u>	<u>14,255,917</u>	

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## 10. Contributed Surplus

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

Balance - October 1, 2010	\$	1,734,673
Options expired/ cancelled		1,985,159
Warrants expired		<u>2,897,935</u>
Balance - September 30, 2011		6,617,767
Options expired/ cancelled		836,872
Warrants expired		<u>155,000</u>
Balance - March 31, 2012	\$	<u><u>7,609,639</u></u>

## 11. Community- Based Initiatives in the DRC

The Company had 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. During the period ended March 31, 2012, the Company spent \$Nil on such initiatives, and these amounts have been recorded as public and investor relations expenses. As at March 31, 2012, the Company had spent approximately \$254,464 in connection with this commitment.

## 12. Related Party Transactions

During the six months ended March 31, 2012 the Company:

	<u>2012</u>	<u>2011</u>
Directors fees	\$ 83,500	\$ 12,000
Management and consulting fees paid to directors and officers	\$ 182,000	\$ 169,998
Fees paid to a former director and officer and related individuals	\$ 74,000	\$ 186,000
Publicity and advertising fees with companies controlled by an individual related to a former director and officer of the Company	\$ 36,000	\$ 36,000

As at December 31, 2011, prepaid expenses included \$Nil (October 1, 2010 - \$2,000, September 30, 2011 - \$Nil), and accounts payable and accrued liabilities included \$Nil (October 1, 2010 - \$160,058, September 20, 2011 - \$20,000) related to various related parties disclosed above.

## 13. Commitments

- a) The Company has monthly obligations of 15,000 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 entered into leases for office premises and office equipment. The minimum lease commitments under these leases are as follows:

2012	\$ 76,960
2013	\$ 76,960
2014	\$ 76,960
2015	\$ 83,108
2016	\$ 83,108
2017	\$ 75,313
2018	\$ 69,036

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## 13. Commitments (continued)

- c) 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.
- d) During the year ended September 30, 2011, the Company's Executive Chairman resigned from his position, thereby terminating his existing consulting agreement which included a monthly fee of \$19,000. The Company entered into an agreement with this individual for the provision of consulting services for a period of six months in exchange for a monthly fee of \$10,000, which expired February 29, 2012.
- e) During the year ended September 30, 2011, the Company entered into an employment agreement with the CEO for a period of three years, effective September 1, 2011 at an annual salary of \$240,000 paid in monthly installments. An extension or renewal of the agreement is to be evidenced in writing by both parties. The employment agreement includes the grant of 1,000,000 stock options which vest immediately, 1,333,333 stock options vesting 12 months following the grant date, 1,333,333 stock options vesting 24 months following the grant date and 1,333,333 stock options vesting 36 months following the grant date. Each option allows the holder to purchase one common share of the Company at a price of \$0.20 per share. The agreement can be terminated at any time by either party giving to the other party not less than three months' written notice of termination, or in the case of the Company, payment of three months' salary in lieu of notice.
- f) During the period ended December 31, 2011, the Company entered into an employment agreement with a new Vice-President Operations for a period of three years commencing January 15, 2012, with an annual salary of 240,000 United States Dollars. The agreement can be terminated by either party on 90 days written notice.
- g) Additional commitments are disclosed in note 5.

## 14. Segmental Reporting

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

As at March 31, 2012, the Company's non-current assets relate to the following areas:

	<b>Canada</b>	<b>DRC</b>
Resource Properties	\$ -	\$ 25,198,924
Property, Plant and Equipment	174,308	751,416
Reclamation Bonds	-	123,160
	<hr/>	<hr/>
	\$ 174,308	\$ 26,073,500
	<hr/>	<hr/>



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## 15. Transition to IFRS

### a) First-time Adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS on the first date at which IFRS was applied, which was October 1, 2010 ("Transition Dates"). IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

IFRS 1 does not permit changes to estimates previously made. Accordingly, estimates used in the preparation of the Company's opening IFRS statements of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

On the Transition Date, the Company has elected not to retrospectively apply IFRS 2, Share-based Payments ("IFRS 2") to all share-based transactions at the date of transition. IFRS 2 will only be applied to equity instruments issued on or after, and that have not vested by, the Transition Date.

The Company has elected not to retrospectively apply IFRS 3, Business Combinations ("IFRS 3"). IFRS 3 will only be applied to business combinations occurring on or after the Transition Date.

The Company has elected not to retrospectively apply IAS 21, The Effects of Changes in Foreign Exchange Rates ("IAS 21") for cumulative translation adjustments that existed at the date of transition to IFRS. Thus, the cumulative translation differences resulting from the conversion of Global Gold's financial statements from their functional currency (United States Dollars) to the Company's presentation currency (Canadian Dollars) are deemed to be zero at the date of transition to IFRS.

While adoption of IFRS has not changed the Company's cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of financial position and statement of operations have been reconciled to IFRS with the resulting differences explained.

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## 15. Transition to IFRS (continued)

The October 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	<b>Canadian GAAP</b>	<b>IFRS Adjustments</b>	<b>Ref.</b>	<b>IFRS</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 152,129			\$ 152,129
Receivables	401,791			401,791
Prepaid expenses and deposits	140,236			140,236
	694,156			694,156
<b>Non-Current Assets</b>				
Resource Properties	14,493,752			14,493,752
Capital Assets	1,296,523			1,296,523
Reclamation Bonds	126,000			126,000
	\$ 16,610,431	\$ -		\$ 16,610,431
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	\$ 3,721,605			\$ 3,721,605
<b>SHAREHOLDERS' EQUITY</b>				
Share Capital	22,851,681			22,851,681
Warrants	3,361,653			3,361,653
Stock Options	2,984,078			2,984,078
Contributed Surplus	1,734,673			1,734,673
Deficit	(18,043,259)			(18,043,259)
	12,888,826			12,888,826
	\$ 16,610,431	\$ -		\$ 16,610,431

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## 15. Transition to IFRS (continued)

The March 31, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 271,568			\$ 271,568
Receivables	106,837			106,837
Prepaid expenses and deposits	155,485			155,485
	533,890			533,890
<b>Non-Current Assets</b>				
Resource Properties	18,916,727	\$ (911,541) (a)		18,005,186
Capital Assets	1,189,854	(50,333) (a)		1,139,521
Reclamation Bonds	126,000	(6,284) (a)		119,716
	\$ 20,766,471	\$ (968,158)		\$ 19,798,313
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,095,356			\$ 1,095,356
<b>SHAREHOLDERS' EQUITY</b>				
Share Capital	28,828,883			28,828,883
Warrants	3,889,650			3,889,650
Stock Options	3,773,676			3,773,676
Contributed Surplus	2,942,185			2,942,185
Cumulative Translation Reserve	-	\$ (968,158) (a)		(968,158)
Deficit	(19,763,279)			(19,763,279)
	19,671,115	(968,158)		18,702,957
	\$ 20,766,471	\$ (968,158)		\$ 19,798,313

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## 15. Transition to IFRS (continued)

The September 30, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,973,264			\$ 3,973,264
Receivables	233,054			233,054
Prepaid expenses and deposits	336,413			336,413
	4,542,731			4,542,731
<b>Non-Current Assets</b>				
Resource Properties	23,269,882	\$ 810,294 (a)		24,080,176
Capital Assets	1,068,927	16,854 (a)		1,085,781
Reclamation Bonds	126,000	3,420 (a)		129,420
	\$ 29,007,540	\$ 830,568		\$ 29,838,108
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,880,001			\$ 1,880,001
<b>Non-Current Liabilities</b>				
Deferred Lease Inducement	23,767			23,767
	1,903,768			1,903,768
<b>SHAREHOLDERS' EQUITY</b>				
Share Capital	36,036,143			36,036,143
Warrants	3,627,402			3,627,402
Stock Options	2,922,867	\$ (135,198) (b)		2,787,669
Contributed Surplus	6,617,767			6,617,767
Cumulative Translation Reserve	-	830,568 (a)		830,568
Deficit	(22,100,407)	135,198 (b)		(21,965,209)
	27,103,772	830,568		27,934,340
	\$ 29,007,540	\$ 830,568		\$ 29,838,108

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## 15. Transition to IFRS (continued)

The Canadian GAAP statement of operation and deficit for the six month period ended March 31, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
<b>Expenses</b>				
Corporate and administrative expenses	\$ 1,000,014			\$ 1,000,014
Share-based compensation	598,826			598,826
Amortization	121,779			121,779
Less:				
Interest income	(599)			(599)
<b>Loss for the Period</b>	<b>(1,720,020)</b>			<b>(1,720,020)</b>
<b>Other Comprehensive Income (Loss)</b>				
Currency Translation Adjustment	-	\$ (968,158) (a)		(968,158)
<b>Total Comprehensive Loss for the Period</b>	<b>\$ (1,720,020)</b>	<b>\$ (968,158)</b>		<b>\$ (2,688,178)</b>
<b>Income per share - basic and diluted</b>	<b>\$ (0.01)</b>			<b>\$ (0.02)</b>

The Canadian GAAP statement of operation and deficit for the three month period ended March 31, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
<b>Expenses</b>				
Corporate and administrative expenses	\$ 473,801			\$ 473,801
Share-based compensation	950			950
Amortization	60,890			60,890
Less:				
Interest income	(17)			(17)
<b>Loss for the Period</b>	<b>(535,624)</b>			<b>(535,624)</b>
<b>Other Comprehensive Income (Loss)</b>				
Currency Translation Adjustment	-	\$ (490,135) (a)		(490,135)
<b>Total Comprehensive Loss for the Period</b>	<b>\$ (535,624)</b>	<b>\$ (490,135)</b>		<b>\$ (1,025,759)</b>
<b>Income per share - basic and diluted</b>	<b>\$ (0.01)</b>			<b>\$ (0.02)</b>

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## 15. Transition to IFRS (continued)

The Canadian GAAP statement of operation and deficit for the year ended September 30, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP	IFRS Adjustments	Ref.	IFRS
<b>Expenses</b>				
Corporate and administrative expenses	\$ 2,621,118			\$ 2,621,118
Share-based compensation	1,202,271	\$ (135,198)	(b)	1,067,073
Amortization	242,707			242,707
Less:				
Interest income	(8,948)			(8,948)
<b>Loss for the Period</b>	<b>(4,057,148)</b>	<b>(135,198)</b>		<b>(3,921,950)</b>
<b>Other Comprehensive Income (Loss)</b>				
Currency Translation Adjustment	-	830,568	(a)	830,568
<b>Total Comprehensive Loss for the Period</b>	<b>\$ (4,057,148)</b>	<b>\$ 695,370</b>		<b>\$ (3,091,382)</b>
<b>Income per share - basic and diluted</b>	<b>\$ (0.03)</b>			<b>\$ (0.03)</b>

The following summarizes the significant changes to the Company's accounting policies upon adoption of IFRS:

a) Translation to the presentation currency

IFRS requires the results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy to be translated into the presentation currency using the following procedures:

- i) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
- ii) income and expenses for each statement of comprehensive income or separate income statement presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- iii) all resulting exchange differences shall be recognized in other comprehensive income.

The translation of the Company's partnership interests from their functional currency of the United States States Dollar to the Company's presentation currency of the Canadian Dollar has resulted in exchange differences which have been recognized in other comprehensive income in the period in which they arise and the cumulative differences have been accumulated in a separate component of shareholders' equity called Cumulative Translation Reserve.

b) Share-based payments

Under IFRS 2, share based payment transactions which are subject to graded vesting should have the separate tranches valued and amortized over the respective vesting periods separately as if each tranche was a separate award. Forfeiture estimates are recognized on the grant date and revised for actual forfeitures in subsequent periods. Pre transition Canadian GAAP allowed the entire award to be valued together and to be amortized on a straight-line basis over the vesting period of the entire award. Forfeitures of awards were recognized as they occurred.