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**Consolidated Financial Statements**

# **Kilo Goldmines Ltd.**

**For the years ended September 30, 2010 and 2009**

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## AUDITORS' REPORT

To the Shareholders of

Kilo Goldmines Ltd.

We have audited the consolidated balance sheets of Kilo Goldmines Ltd. as at September 30, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Accountants

December 14, 2010  
Toronto, Ontario

# Kilo Goldmines Ltd.

Consolidated Balance Sheets

As at September 30

	2010	2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 152,129	\$ 9,242,200
Subscriptions receivable	20,000	20,000
Receivables	381,791	230,955
Prepaid expenses and deposits	140,236	50,043
	<u>694,156</u>	<u>9,543,198</u>
<b>Resource Properties</b> (note 4)	14,493,752	11,825,405
<b>Capital Assets</b> (note 5)	1,296,523	686,974
<b>Reclamation Bonds</b> (note 11)	<u>126,000</u>	<u>126,000</u>
	<u>\$ 16,610,431</u>	<u>\$ 22,181,577</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<u>\$ 3,721,605</u>	<u>\$ 1,586,104</u>
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (note 6)	22,851,681	20,774,735
<b>Warrants</b> (note 7)	3,361,653	3,976,519
<b>Stock Options</b> (note 8)	2,984,078	1,875,012
<b>Contributed Surplus</b> (note 9)	1,734,673	340,715
<b>Deficit</b>	<u>(18,043,259)</u>	<u>(6,371,508)</u>
	<u>12,888,826</u>	<u>20,595,473</u>
	<u>\$ 16,610,431</u>	<u>\$ 22,181,577</u>
<b>Nature of Operations</b> (note 1)		
<b>Commitments</b> (note 14)		
<b>Subsequent Events</b> (note 15)		

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

Approved on behalf of the Board of Directors:

Signed "Peter Hooper", Director

Signed "Klaus Eckhof", Director

# Kilo Goldmines Ltd.

Consolidated Statements of Operations and Deficit  
For the years ended September 30

	2010	2009
<b>Expenses</b>		
Administrative and general	\$ 254,588	\$ 259,768
Amortization	215,342	89,776
Directors' fees	31,318	38,423
Financial services	40,900	87,368
Foreign exchange loss	37,194	62,345
Interest and financing costs	15,786	4,942
Occupancy	73,340	62,258
Professional and consulting fees (note 10)	894,850	993,044
Public and investor relations (note 10)	257,135	240,807
Salaries and wages	-	7,003
Stock-based compensation (note 8)	1,417,270	35,396
Travel	241,284	145,792
Less:		
Interest income	(18,207)	(4,595)
<b>Net Loss Before the Undernoted</b>	<b>(3,460,800)</b>	<b>(2,022,327)</b>
<b>Write-down of Resource Properties</b> (note 4)	<b>(8,210,951)</b>	<b>-</b>
<b>Net Loss for the Period</b>	<b>(11,671,751)</b>	<b>(2,022,327)</b>
<b>Deficit - Beginning of Period</b>	<b>(6,371,508)</b>	<b>(4,349,181)</b>
<b>Deficit - End of Period</b>	<b>\$(18,043,259)</b>	<b>\$ (6,371,508)</b>
<b>Loss per Share - basic and diluted</b>	<b>\$ (0.18)</b>	<b>\$ (0.06)</b>
<b>Weighted Average Number of Common Shares</b>		
<b>Outstanding - basic and diluted</b>	<b>64,743,476</b>	<b>32,371,533</b>

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

# Kilo Goldmines Ltd.

Consolidated Cash Flow Statements  
For the years ended September 30

	2010	2009
<b>Cash Provided By (Used In):</b>		
<b>Operating Activities</b>		
Net loss	\$(11,671,751)	\$ (2,022,327)
Items not affecting cash:		
Amortization	215,342	89,776
Stock-based compensation	1,417,270	35,396
Write-down of resource properties	8,210,951	-
	<u>(1,828,188)</u>	<u>(1,897,155)</u>
Net changes in non-cash working capital:		
Receivables	(83,376)	(76,511)
Prepaid expenses and deposits	(90,193)	(23,864)
Accounts payable and accrued liabilities	256,742	40,220
	<u>(1,745,015)</u>	<u>(1,957,310)</u>
<b>Financing Activities</b>		
Share capital - private placements	1,036,221	11,324,694
Warrants - private placements	300,839	2,781,691
Private placement costs	(128,894)	-
Long-term debt	-	(773,422)
Cash acquired on amalgamation	-	648,954
	<u>1,208,166</u>	<u>13,981,917</u>
<b>Investing Activities</b>		
Resource property expenditures	(7,728,331)	(2,926,403)
Purchase of capital assets	(824,891)	(26,066)
	<u>(8,553,222)</u>	<u>(2,952,469)</u>
<b>Change in Cash and Cash Equivalents</b>	(9,090,071)	9,072,138
<b>Cash and Cash Equivalents</b>		
- Beginning of Period	<u>9,242,200</u>	<u>170,062</u>
<b>Cash and Cash Equivalents</b>		
- End of Period	<u>\$ 152,129</u>	<u>\$ 9,242,200</u>
<b>Supplemental Cash Flow Information</b>		
Interest received	<u>\$ 2,749</u>	<u>\$ 4,595</u>
<b>Significant Non-Cash Transactions Not Disclosed Above</b>		
Shares issued for acquisition of resource properties	<u>\$ 797,081</u>	<u>\$ 1,156,006</u>
Warrants issued for acquisition resource properties	<u>\$ 155,000</u>	<u>\$ 233,532</u>
Stock options issued for private placement commissions	<u>\$ 58,046</u>	<u>\$ 337,806</u>
Shares issued for settlement of debt	<u>\$ 387,587</u>	<u>\$ -</u>

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

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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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 4) 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 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 (see note 15).

These 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 consolidated financial statements, then adjustments may be necessary in the carrying value of assets and liabilities and the balance sheet classifications used. As at September 30, 2010, the Company has an accumulated deficit of \$18,043,259 (2009 - \$6,371,508), and has incurred a loss of \$11,671,751 during the year ended September 30, 2010 (2009 - \$2,022,327).

## 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 years ended September 30, 2010 and 2009

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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. Summary of Significant Accounting Policies

These 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.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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### 3. Summary of Significant Accounting Policies (continued)

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
Reclamation bonds	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

#### b) Fair Value Hierarchy and Liquidity Risk Disclosure

In 2009, the Canadian Institute of Chartered Accountants ("CICA") issued an amendment to CICA Handbook Section 3862, Financial Instruments - Disclosures, to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending September 30, 2010.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of financial instruments approximates their carrying amounts due to the relatively short period to maturity. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data, inputs such as discounted cash flow methodologies based on internal cash flow forecasts. All of the Company's cash is level one per the fair value hierarchy.

The adoption of these accounting standards did not have any significant effect of the Company's financial statements.

#### c) 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, the estimated useful lives of capital assets, 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.

#### d) 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. As at September 30, 2010, the Company did not have any cash equivalents.



# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 3. Summary of Significant Accounting Policies (continued)

### e) 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.

### f) 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

The Company tests capital assets for impairment when conditions indicating a potential impairment arise. An impairment loss is measured as the amount by which the carrying value of the capital assets exceeds its fair value.

### g) 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.

### h) 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.

### i) 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.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 3. Summary of Significant Accounting Policies (continued)

### j) Related Party Transactions

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

### k) 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.

### l) Basis of Consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Kilo Goldmines Inc., and the partnership interests described in note 4. 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 4. 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.

### m) Comprehensive Income

CICA Handbook Section 1530, Comprehensive Income, establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as "Accumulated Other Comprehensive Income (Loss)".

During the years ended September 30, 2010 and 2009, the Company did not have any items that gave rise to any other comprehensive income or loss and accordingly, a statement of comprehensive income and loss has not been presented.

### n) Capital Disclosures

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 September 30, 2010.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 3. Summary of Significant Accounting Policies (continued)

### o) Recent Accounting Pronouncements Not Yet Applied

#### Business Combinations

The CICA has published CICA Handbook Section 1582, Business Combinations to replace the existing CICA Handbook Section 1581. This new section requires the acquirer identified in a business combination transaction to recognize the identifiable assets acquired and liabilities assumed, including contingent liabilities, at their acquisition-date fair values. In addition, the section requires the acquirer to recognize and measure goodwill or a gain from a bargain purchase, and requires the expensing of costs related to the acquisition in the period in which they are incurred. The effective date of this section is January 1, 2011, however earlier adoption is permitted. The Company expects that this new standard will only impact future acquisitions in periods subsequent to the date of adoption.

#### Consolidated Financial Statements and Non-Controlling Interests

The CICA has published CICA Handbook Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, to replace the existing CICA Handbook Section 1600, Consolidated Financial Statements. Section 1601 carries forward the guidance provided by Section 1600 with the exception of non-controlling interests which is addressed by Section 1602. Section 1602 requires the Company to present non-controlling interests on the consolidated balance sheet within equity, separately from the equity of the owners of the parent. This section also requires changes in a parent's ownership interest in a subsidiary to be accounted for as an equity transaction. The effective date of this section is January 1, 2011, however earlier adoption is permitted. The Company expects that this new standard will only impact transactions involving the Company's interest in its subsidiary which occur subsequent to the date of adoption.

#### International Financial Reporting Standards

The CICA plans to converge Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) over a period expected to end in 2011. The Company's transition date of October 1, 2010 will require restatement of the amounts reported by the Company for the year ended September 30, 2011 for comparative purposes. In conjunction with the transition to IFRS, the Company will need to prepare an opening balance sheet as at October 1, 2010 in accordance with IFRS.

The first phase of the Company's IFRS conversion plan includes an analysis of IFRS for the purpose of identifying the significant differences between IFRS and the Company's current accounting policies. The second phase of the conversion plan involves an identification and in-depth analysis of the accounting policies related to the differences identified in the first phase. This analysis will lead to the selection of the Company's ongoing IFRS policies and transitional exemptions. Furthermore, this phase will include an analysis of potential changes to the Company's internal systems and procedures that will facilitate the adoption and implementation of new IFRS policies, as well as the development of a new IFRS-compliant financial statement format. The third and final phase of the Company's IFRS conversion plan is to implement the accounting policy changes as well as any required changes to the company's internal systems and procedures.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

## 3. Summary of Significant Accounting Policies (continued)

As at September 30, 2010, the Company has completed the first phase of its IFRS conversion plan. This phase has identified the following areas which could potentially have a significant impact on the Company's financial reporting: resource properties, stock-based compensation, income taxes and business combinations. In addition to the potential financial impacts of the transition to IFRS, the Company expects a significant increase in the required financial statement disclosures under IFRS. The Company is reviewing these requirements to determine the necessary changes to the Company's internal systems to ensure the expected disclosure requirements are met. As of the date of these consolidated financial statements, the Company has not determined the financial impact of the transition to IFRS. However, the Company does not anticipate any significant changes to their systems of internal controls governing business processes, financial reporting, and financial disclosures as a result of the transition to IFRS. The second phase of the Company's IFRS conversion plan commenced in the first quarter of fiscal 2011.

## 4. Resource Properties

	September 30, 2009	Additions	Sales	Write-Offs	September 30, 2010
KGL-Masters (a)	\$ 6,814,534	\$ 1,160,372	\$ -	\$ (7,974,906)	\$ -
KGL-Somituri (b)	2,336,579	8,921,652	-	-	11,258,231
KGL-Sihu (c)	1,422,876	68,217	-	-	1,491,093
KGL-ERW (d)	1,058,570	685,858	-	-	1,744,428
KGL-Poko (e)	192,846	43,199	-	(236,045)	-
	<u>\$ 11,825,405</u>	<u>\$ 10,879,298</u>	<u>\$ -</u>	<u>\$ (8,210,951)</u>	<u>\$ 14,493,752</u>

	September 30, 2008	Additions	Sales	Write-Offs	September 30, 2009
KGL-Masters (a)	\$ 3,491,083	\$ 3,323,451	\$ -	\$ -	\$ 6,814,534
KGL-Somituri (b)	1,178,545	1,158,034	-	-	2,336,579
KGL-Sihu (c)	879,662	543,214	-	-	1,422,876
KGL-ERW (d)	615,644	442,926	-	-	1,058,570
KGL-Poko (e)	146,297	46,549	-	-	192,846
	<u>\$ 6,311,231</u>	<u>\$ 5,514,174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,825,405</u>

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 4. Resource Properties (continued)

### 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 September 30, 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 September 30, 2010, interest income related to these loans has not been recorded.

During the year ended September 30, 2008, KGL-Masters SPRL acquired an interest in three additional Research Permits.

During the year ended September 30, 2010, the Company determined that it does not have any further plans to explore or develop the KGL-Masters properties. As such, the Company has written off all acquisition and exploration costs associated with the properties in the amount of \$7,974,906.

### 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 on the property assignment Registration Date, and 75,000 Euros, 150,000 Euros, and 300,000 Euros on 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.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 4. Resource Properties (continued)

### b) KGL-Somituri (continued)

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 September 30, 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, 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 DRC government 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. 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.

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.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 4. 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.

Notes to the Consolidated Financial Statements  
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## 4. 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 September 30, 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, 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. During the year ended September 30, 2010, the Company issued 1,050,000 common shares (see note 6(b)(ii)) and 500,000 warrants (see note 7) pursuant to the Partnership Amending Agreement. The Company also issued 36,000 stock options pursuant to a consulting agreement related to these properties during the year ended September 30, 2010 (see note 8 (b)(i)).



# Kilo Goldmines Ltd.

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

### d) KGL-ERW (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 September 30, 2010, twelve of the Research Permits were identified as being held under force majeure by the DRC's Ministry of Mines.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 4. Resource Properties (continued)

### e) KGL-Poko (continued)

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 September 30, 2010, interest income related to these loans has not been recorded.

During the year ended September 30, 2010, the Company determined that it does not have any further plans to explore or develop the KGL-Poko properties. As such, the Company has written off all acquisition and exploration costs associated with the properties in the amount of \$236,045.

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.

## 5. Capital Assets

	2010			2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 210,132	\$ -	\$ 210,132	\$ 210,132	\$ -	\$ 210,132
Building	281,794	25,269	256,525	203,962	16,316	187,646
Vehicles	810,345	253,299	557,046	351,561	101,807	249,754
Furniture and fixtures	23,746	9,898	13,848	22,821	5,241	17,580
Equipment	295,097	42,361	252,736	9,343	38	9,305
Computer equipment	24,260	18,024	6,236	22,662	10,105	12,557
	<u>\$1,645,374</u>	<u>\$ 348,851</u>	<u>\$1,296,523</u>	<u>\$ 820,481</u>	<u>\$ 133,507</u>	<u>\$ 686,974</u>

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 6. Share Capital

### a) Authorized:

Unlimited common shares

### b) Common Shares Issued and Outstanding:

	<u>Number</u>	<u>Amount</u>
<b>Kilo Goldmines Inc.</b>		
Balance - September 30, 2008, and March 19, 2009	22,933,413	\$ 8,018,615
<b>Kilo Goldmines Ltd.</b> (formerly Blue Ribbon Capital Corporation)		
Balance - September 30, 2008 and March 19, 2009	6,050,000	\$ 885,948
Consolidation of outstanding shares	(4,537,500)	-
Issued to shareholders of Blue Ribbon	907,500	-
Elimination of Deficit in Blue Ribbon	-	(375,242)
Elimination of Contributed Surplus in Blue Ribbon	-	149,965
Issued for cash	32,930,000	12,382,600
Issued to shareholders of Kilo Goldmines Inc.	22,933,413	8,018,615
Issued to Moto Goldmines Limited (note 4)	3,853,353	1,156,006
Issuance costs	-	(1,046,751)
Costs of Going Public Transaction (note 2)	-	(396,406)
Balance - September 30, 2009	62,136,766	20,774,735
Issued for cash	6,685,300	1,036,221
Issued pursuant to the settlement of debt	861,303	387,587
Issued pursuant to property acquisition	1,570,915	797,081
Issuance costs	-	(143,943)
Balance - September 30, 2010	71,254,284	\$ 22,851,681

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 6. Share Capital (continued)

During the year ended September 30, 2010, the Company:

- i) Issued 861,303 common shares at \$0.45 per share pursuant to a debt settlement agreement.
- ii) Issued 1,050,000 common shares at \$0.52 per share pursuant to a Partnership Amending Agreement (see note 4(d)).
- iii) Issued 520,915 common shares at \$0.482 per share pursuant to a Partnership Amending Agreement (see note 4(b)).
- iv) Issued 5,185,300 units (pursuant to private placements) for proceeds of \$1,037,060, of which \$233,339 was allocated to common share purchase warrants (“warrants”) (see note 7).

Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before August 5, 2012.

In connection with these private placements, the Company paid fees totalling \$106,369, of which \$24,465 was allocated to warrants, and issued 362,971 stock options (see note 8).

- v) Issued 1,500,000 units (pursuant to private placements) for proceeds of \$300,000, of which \$67,500 was allocated to common share purchase warrants (“warrants”) (see note 7).

Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before August 25, 2012.

In connection with these private placements, the Company paid fees totalling \$22,525, of which \$5,181 was allocated to warrants, and issued 105,000 stock options (see note 8).

During the year ended September 30, 2009, the Company:

- i) Issued 22,933,413 common shares in exchange for the 22,933,413 issued and outstanding common shares of Kilo Goldmines Inc. in connection with the acquisition and amalgamation as described in note 2. Upon amalgamation, the shares of Kilo Goldmines Inc. had a recorded value of \$8,018,615, which has been allocated to the common shares issued.
- ii) Issued 10,060,000 units (pursuant to private placements) for proceeds of \$5,030,000, of which \$905,400 was allocated to common share purchase warrants (“warrants”) (see note 7).

Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.60 per share at any time on or before March 20, 2011.

In connection with these private placements, the Company paid fees totalling \$225,190, of which \$40,534 was allocated to warrants, and issued 319,200 stock options (see note 8).

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 6. Share Capital (continued)

- iii) Issued 620,000 units (pursuant to private placements) for proceeds of \$310,000, of which \$62,000 was allocated to warrants (see note 7).

Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.60 per share at any time on or before April 15, 2011.

- iv) Issued 22,250,000 units (pursuant to private placements) for proceeds of \$10,012,500, of which \$2,002,500 was allocated to common share purchase warrants ("warrants") (see note 7).

Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.60 per share at any time on or before September 24, 2011.

In connection with these private placements, the Company paid fees totalling \$738,376, of which \$147,675 was allocated to warrants, and issued 1,557,500 stock options (see note 8).

- v) Issued 3,853,353 common shares to Moto Goldmines Limited in connection with property acquisitions as described in note 4.
- vi) Issued 907,500 common shares to the existing shareholders of Blue Ribbon after consolidating its common shares on a 1:4 basis, pursuant to the Going Public Transaction (note 2).

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

## 7. Warrants

	<u>Number</u>	<u>Amount</u>
<b>Kilo Goldmines Inc.</b>		
Balance - September 30, 2008, and March 19, 2009	2,350,000	\$ 1,027,708
<b>Kilo Goldmines Ltd.</b> (formerly Blue Ribbon Capital Corporation)		
Balance - September 30, 2008 and March 19, 2009	-	\$ -
Issued to shareholders of Kilo Goldmines inc.	2,350,000	1,027,708
Issued for cash	16,465,000	2,969,900
Issued to Moto Goldmines Limited (note 4)	1,297,400	233,532
Issuance costs	-	(254,621)
Balance - September 30, 2009	20,112,400	3,976,519
Issued for cash	3,342,650	300,839
Issued pursuant to property acquisition	500,000	155,000
Issuance costs	-	(42,997)
Expired	(2,350,000)	(1,027,708)
Balance - September 30, 2010	21,605,050	\$ 3,361,653

During the year ended September 30, 2010, the Company:

- i) Issued 500,000 warrants in connection with property acquisitions as described in note 4 (d). 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%

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 7. Warrants (continued)

- ii) Issued 2,592,650 warrants pursuant to private placements (see note 6).

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	1.07%
Expected life	2 years
Expected volatility	146%

- iii) Issued 750,000 warrants pursuant to private placements (see note 6).

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	1.00%
Expected life	2 years
Expected volatility	141%

During the year ended September 30, 2009, the Company:

- i) Issued 5,030,000 warrants pursuant to private placements (see note 6).
- ii) Issued 1,297,400 warrants to Moto Goldmines Limited in connection with property acquisitions. 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 March 20, 2011.

The fair value of the warrants in (i) and (ii) above, 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	1.00%
Expected life	2 years
Expected volatility	100%

- iii) Issued 310,000 warrants pursuant to private placements (see note 6).

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	1.00%
Expected life	2 years
Expected volatility	110%

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 7. Warrants (continued)

iv) Issued 11,125,000 warrants pursuant to private placements (see note 6).

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	0.58%
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.

As at September 30, 2010, the following warrants were issued and outstanding:

- a) 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.
- b) 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.
- c) 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.
- d) 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.
- e) 2,592,650 warrants entitling the holder to purchase one common share of the Company at \$0.30 per share at any time on or before August 5, 2012.
- f) 750,000 warrants entitling the holder to purchase one common share of the Company at \$0.30 per share at any time on or before August 25, 2012.



# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 8. 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.

During the year ended September 30, 2010, the Option Plan was amended to increase the maximum number of common shares issuable thereunder by 3,270,981 from 6,044,019 common shares to 9,315,000 common shares.

- b) During the year ended September 30, 2010, the Company:
- i) Granted 4,104,000 stock options to directors, officers and consultants of the Company, 1,367,999 of which vest immediately, with a further 1,367,999 and 1,368,002 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	1.00%
Expected life	5.0 years
Expected volatility	100%

- 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%

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 8. Stock Options (continued)

- iii) Granted 300,000 stock options to a consultant of the Company, one quarter of which vest immediately, with a further one quarter vesting on each of the three, six, and nine month anniversaries of the grant date. Each option entitles the holder to purchase one common share at a price of \$0.60 at any time on or before April 14, 2012. The consultant is a company controlled by an individual related to a director and officer of the Company.

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	0.58%
Expected life	2.0 years
Expected volatility	120%

- iv) Granted 362,971 fully vested stock options to agents of the Company pursuant to private placements as described in note 6(b)(iv). Each option entitles the holder to purchase one unit at a price of \$0.20 at any time on or before August 5, 2012. Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before August 5, 2012.

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	1.07%
Expected life	2.0 years
Expected volatility	146%

- v) Granted 105,000 fully vested stock options to agents of the Company pursuant to private placements as described in note 6(b)(v). Each option entitles the holder to purchase one unit at a price of \$0.20 at any time on or before August 25, 2012. Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before August 25, 2012.

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	1.00%
Expected life	2.0 years
Expected volatility	141%

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 8. Stock Options (continued)

During the year ended September 30, 2009, the Company:

- i) Granted 319,200 stock options to an agent. Each option entitles the holder to purchase one unit at a price of \$0.50 at any time on or before March 20, 2011. Each unit consists of one common share and one-half of one warrant. 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 March 20, 2011. The stock options were issued pursuant to the Going Public Transaction described in note 2, and therefore, the value of \$57,456 has been allocated as to \$47,114 to share issuance costs and and \$10,342 to warrant issuance costs.

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	1.00%
Expected life	2.0 years
Expected volatility	100%

- ii) Granted 300,000 stock options to a consultant pursuant to a consulting agreement, 100,000 of which vest three months after the start of the agreement, with a further 66,667, 66,667 and 66,666 vesting six, nine, and twelve months after the start of the agreement respectively. Each option entitles the holder to purchase one common share at a price of \$0.50 at any time on or before April 1, 2011. The estimated fair value of these options is \$60,000.

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	1.00%
Expected life	2.0 years
Expected volatility	100%

- iii) Granted 1,557,500 stock options to an agent. Each option entitles the holder to purchase one unit at a price of \$0.60 at any time on or before September 24, 2011. Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.60 per share at any time on or before September 24, 2011. The stock options were issued pursuant to private placements and therefore the value of \$280,350 has been allocated as to \$224,280 to share issuance costs and \$56,070 to warrant issuance costs.

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	0.58%
Expected life	2.0 years
Expected volatility	120%

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.

# Kilo Goldmines Ltd.

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## 8. Stock Options (continued)

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

	<u>Number</u>	<u>Amount</u>
<b>Kilo Goldmines Inc.</b>		
Balance - September 30, 2008, and March 19, 2009	3,787,883	\$ 1,842,525
<b>Kilo Goldmines Ltd.</b> (formerly Blue Ribbon Capital Corporation)		
Balance - September 30, 2008 and March 19, 2009	1,055,000	\$ 149,965
Consolidation of outstanding options and elimination of contributed surplus	(791,250)	(149,965)
Granted to shareholders of Kilo Goldmines Inc.	3,787,883	1,842,525
Granted	2,176,700	337,806
Cancelled	(650,000)	(340,715)
Stock based compensation expensed	-	35,396
Balance - September 30, 2009	5,578,333	1,875,012
Granted	4,994,471	547,916
Cancelled	(1,536,250)	(366,250)
Stock based compensation expensed	-	927,400
Balance - September 30, 2010	9,036,554	\$ 2,984,078

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

## 8. Stock Options (continued)

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

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
<b>Kilo Goldmines Inc.</b>		
Balance - September 30, 2009, and March 19, 2009	3,787,883	\$ 0.85
<b>Kilo Goldmines Ltd.</b> (formerly Blue Ribbon Capital Corporation)		
Balance - September 30, 2008 and March 19, 2009	1,055,000	\$ 0.20
Consolidation of outstanding options	(791,250)	-
Granted to shareholders of Kilo Goldmines Inc.	3,787,883	0.85
Granted	2,176,700	0.57
Cancelled	(650,000)	(0.86)
Balance - September 30, 2009	5,578,333	0.71
Granted	4,994,471	0.46
Cancelled	(1,536,250)	0.71
Balance - September 30, 2010	9,036,554	\$ 0.59

e) As at September 30, 2010, the following stock options were outstanding:

<u>Option Price</u>	<u>Number of Options</u>		<u>Weighted Average Remaining Contractual Life</u>
	<u>Unvested</u>	<u>Vested</u>	
\$ 0.60	-	637,883	1.5 years
\$ 0.30	-	400,000	1.5 years
\$ 1.00	-	500,000	1.5 years
\$ 1.50	-	750,000	1.5 years
\$ 0.50	-	319,200	0.5 years
\$ 0.60	-	1,557,500	1.0 year
\$ 0.45	1,368,002	2,735,998	4.0 years
\$ 0.60	150,000	150,000	1.5 years
\$ 0.20	-	362,971	2.0 years
\$ 0.20	-	105,000	2.0 years
	<u>1,518,002</u>	<u>7,518,552</u>	

As at September 30, 2010, the weighted average exercise price of vested stock options is \$0.59.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 9. Contributed Surplus

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

Balance - September 30, 2008	\$ -
Options cancelled	<u>340,715</u>
Balance - September 30, 2009	340,715
Options cancelled	366,250
Warrants expired	<u>1,027,708</u>
Balance - September 30, 2010	<u><u>\$ 1,734,673</u></u>

## 10. Related Party Transactions

During the period ended September 30, 2010, the Company:

- a) Incurred management fees of \$245,538 (2009 - \$348,000) with a company controlled by a director. The Company also incurred consulting fees of \$144,000 (2009 - \$132,000) with two individuals related to this director. As at September 30, 2010, accounts payable and accrued liabilities included \$46,228 (2009 - \$3,915) related to this company and \$16,680 (2009 - \$Nil) related to the two individuals related to this director. The director is also an officer.
- b) Incurred legal fees of \$130,625 (2009 - \$535,729) with a firm in which a director and a former director are partners, all of which was capitalized as property acquisition costs. During the year ended September 30, 2009, \$305,911 was capitalized as property acquisition costs, \$161,372 was charged in connection with the Going Public Transaction and the remainder of the fees paid to this firm was included in professional fees. As at September 30, 2010, accounts payable and accrued liabilities included \$53,857 (2009 - \$24,146) related to this law firm.
- c) Incurred accounting fees of \$128,305 (2009 - \$248,265) with an accounting firm in which a former officer is a partner, of which \$128,305 (2009 - \$185,853) was included in professional fees and \$Nil (2009 - \$62,412) was charged in connection with the Going Public Transaction. As at September 30, 2010, accounts payable and accrued liabilities included \$71,709 (2009 - \$15,000) related to this accounting firm.
- d) Incurred publicity and advertising fees of \$69,200 (2009 - \$39,600) with three companies controlled by a person related to a director. As at September 30, 2010, prepaid expenses included \$2,000 (2009 - \$3,300), and accounts payable and accrued liabilities included \$6,780 (2009 - \$Nil) related to these companies. The director is also an officer.
- e) Incurred management fees of \$250,000 (2009 - \$134,722) with a director. As at September 30, 2010 accounts payable and accrued liabilities included \$98,575 (2009 - \$48,350) related to this director. The director is also an officer.
- f) Incurred consulting fees of \$52,500 (2009 - \$Nil) with a company controlled by an officer. As at September 30, 2010 accounts payable and accrued liabilities included \$8,475 related to this company.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 11. 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 September 30, 2010 on the resource properties in the DRC, the Company's management estimates that no future obligations for site restoration costs exist as at September 30, 2010.

## 12. Income Taxes

### a) Income Taxes

	<u>2010</u>	<u>2009</u>
Loss before income taxes	\$ (11,671,751)	\$ (2,022,327)
Statutory rate	31.75%	33.50%
Expected income tax recovery	(3,705,781)	(677,480)
Non-deductible expenses	451,230	12,063
Share issuance costs	(32,200)	(394,400)
Future tax assets acquired on RTO	-	(128,400)
Change in effective tax rates	963,600	99,400
Other	41,701	24,334
	<u>(2,281,450)</u>	<u>(1,064,483)</u>
Change in valuation allowance	2,281,450	1,064,483
Net expected future income tax recovery	<u>\$ -</u>	<u>\$ -</u>

### b) Future Income Tax Assets

The tax effects of temporary differences that give rise to the future income tax assets at September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Resource properties	\$ 2,052,700	\$ -
Non-capital loss carry forwards	1,882,600	1,526,800
Share issuance costs	299,800	438,400
Capital assets	16,000	4,450
	<u>4,251,100</u>	<u>1,969,650</u>
Less: valuation allowance	<u>(4,251,100)</u>	<u>(1,969,650)</u>
Net expected future income tax recovery	<u>\$ -</u>	<u>\$ -</u>

A valuation allowance has been applied against all of the above future income tax assets.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 12. Income Taxes (continued)

### c) Non-Capital Losses

The Company has non-capital losses carried forward of approximately \$7,530,500 (2009 - \$5,265,000) available to reduce future years' taxable income. These losses will expire as follows:

2026	\$ 274,400
2027	\$ 1,167,300
2028	\$ 1,596,100
2029	\$ 2,227,200
2030	\$ 2,265,500

## 13. Financial Instruments

### Fair Values

Except for the reclamation bond, the fair value of which is not determinable as at September 30, 2010, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

### 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 September 30, 2010, cash and cash equivalents include 122,072 United States Dollars, receivables include 63,605 United States Dollars, and accounts payable and accrued liabilities include 2,870,254 United States Dollars, 148,477 United Kingdom Pounds Sterling and 7,840 European Euros.

At September 30, 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 \$276,243 higher (lower).

At September 30, 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 \$24,050 higher (lower).

At September 30, 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 \$1,098 higher (lower).



# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
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## 13. Financial Instruments (continued)

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at September 30, 2010, the Company has accounts payable and accrued liabilities of \$3,721,605 due within 12 months and has cash of \$152,129 to meet its current obligations. The Company has a working capital deficit of \$3,027,449, and accordingly, is subject to liquidity risk.

### 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.

## 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 September 30, 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:

2011	\$ 71,751
2012	\$ 76,355
2013	\$ 76,355
2014	\$ 57,645

- d) During the year ended 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.
- e) During the year ended 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.

# Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009

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## 14. Commitments (continued)

- f) During the year ended 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.
- g) During the year ended 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 September 30, 2010, the term of this agreement was extended to March 11, 2011.
- h) During the period ended September 30, 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.
- i) During the period ended September 30, 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 (see note 9(b)(iii)) with a company controlled by an individual related to a director of the Company. This director is also an officer.
- j) Additional commitments are disclosed in note 4.

## 15. Subsequent Events

Subsequent to September 30, 2010, the Company:

- a) Issued 18,314,700 units (pursuant to private placements) for gross proceeds of \$3,662,940. Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before October 7, 2012. In connection with these private placements, the Company paid fees totalling \$299,406 and issued 1,247,029 compensation options. Each compensation option entitles the holder to acquire one unit as described above, at a price of \$0.20 per unit at any time on or before October 7, 2012.
- b) Issued 23,740,000 units (pursuant to private placements) for gross proceeds of \$4,748,000. Each unit consists of one common share and one-half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before November 5, 2012. In connection with these private placements, the Company paid fees totalling \$295,050 and issued 1,475,250 compensation options. Each compensation option entitles the holder to acquire one unit as described above, at a price of \$0.20 per unit at any time on or before November 5, 2012.
- c) Granted 2,220,000 stock options to directors, officers, employees and consultants of the Company and its subsidiaries. Each option vests immediately and entitles the holder to acquire one common share at a price of \$0.30 per share at any time during a five year period.