

Management Discussion and Analysis of the Audited Consolidated Financial Statements
For the twelve month period ended September 30, 2010

Kilo Goldmines Ltd.

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KILO GOLDMINES LTD.
MANAGEMENT DISCUSSION & ANALYSIS
For the twelve month period ended September 30, 2010

This Management Discussion and Analysis ("MD&A") of Kilo Goldmines Ltd. ("Kilo" or the "Company") is dated January 25, 2011 and provides an analysis of the Company's performance and financial condition for the twelve month period ended September 30, 2010, as well as an analysis of future prospects. The Board of Directors carries out its responsibility for review of this disclosure principally through its audit committee.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the period year September 30, 2010, including the related note disclosure. The Company's audited financial statements are presented on a consolidated basis with its wholly-owned subsidiary Kilo Goldmines Inc. and the partnership interests described in the notes to the financial statements, and are prepared in accordance with Canadian generally accepted accounting principles. All dollar figures included therein and in the following discussion and analysis are quoted in Canadian dollars unless otherwise specified. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or the Company's website at www.kilogold.net.

This MD&A may contain forward-looking statements that are based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. These statements speak only as of the date on which they are made, are not guarantees of future performance, and involve risks and uncertainties that are difficult to control or predict. Examples of some of the specific risks associated with the operations of the Company are set out below. Actual outcomes and results may differ materially from those expressed in these forward-looking statements and readers should not place undue reliance on such statements.

OVERALL PERFORMANCE

Principal Business and Corporate History

Kilo Goldmines Ltd. (the "Company") is an Ontario corporation which commenced operations on March 20, 2009. 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 and intends to devote the majority of its efforts to these properties. To date, the Company has not generated revenues and is considered to be in the development stage.

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 Old Kilo (the "Going Public Transaction").

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.

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

DEVELOPMENTS DURING THE TWELVE MONTHS ENDED SEPTEMBER 30, 2010

Exploration Activities

KGL-MASTERS

During the twelve month period ended September 30, 2010, the remainder of the geochemical data for the soil samples collected from PR 2634 was received and interpreted. Anomalous gold-in-soil values trending northwest as well as east-west were delineated. The copper, zinc, lead, nickel, iron, magnesium, cobalt and calcium values indicate that the lithologies most likely strike northwest-southeast, however, local variations are apparent.

Infill soil sampling at 50 metre intervals on north-south lines halfway between the lines spaced at 400 metre intervals was recommended in 58 areas to further evaluate anomalous gold-in-soil values in order to delineate additional drill targets.

A total of 17 diamond drill holes for 3,162.5 metres were completed on PR2634. These holes evaluated the M1 Target, 8 holes for 1,802.9 metres; the M3 Target, 7 holes for 1,472 metres; the M4 Target, 1 hole for 138.71 metres; and the M6 Target, 1 hole for 119.1 metres.

The M1 Target consists of a foliated quartz vein that varies from 1 metre to 2 metres thick, trends east-west direction and dips steeply to the north. This auriferous quartz vein, the subject of extensive artisanal exploitation, is hosted in Precambrian Upper Kibalian schistose rocks. A significant gold-in-soil anomaly in the vicinity of the M1 target was not delineated. The 8 diamond drill holes that tested this target intersected predominantly clastic metasedimentary rock, volcanic intrusives, quartz veins, and tuffaceous rocks. Mineralization consisting mainly of pyrite and minor pyrrhotite occurs in a wide zone of silica alteration. Logging and sampling of these holes was completed. The only significant gold value obtained is 21.3 g/t from a one metre interval (148 - 149) in drill hole M1DD0006

The M3 Target is characterized by a 1,200 metre long east-west oriented gold-in-soil anomaly with widths up to 250 metres. In addition, the M3 Target is the subject of active artisanal mining over a strike length of 500 metres that commenced subsequent to the soil geochemical sampling program. The diamond drill holes collared to evaluate the M3 Target gold-in-soil anomaly and the active artisanal workings intersected quartz veins hosted predominantly in intermediate metavolcanic flows and tuffs. Sections mineralized with disseminated polymetallic sulphides, pyrite, pyrrhotite, and traces of chalcopyrite and sphalerite, associated with silica alteration, were intersected. The occasional speck of visible gold was observed in quartz. During the twelve month period ended September 30, 2010, logging and sampling of these holes was completed.

Diamond drill core samples returned gold values confirming the presence of in-situ gold over the entire 700 metres of drill tested strike length. The easternmost drill hole returned gold values that include 7.0 metres at 2.43 g/t, and the westernmost drill hole returned gold values including 5.80 metres at 1.32 g/t. Gold intersections between these two drill holes include 16.05 metres at 1.12 g/t, 0.50 metres at 48.90 g/t, and 5.05 metres at 2.27 g/t. The M3 Target gold values are detailed in the press releases issued during the period.

Granite, with the occasional quartz vein, was intersected in the diamond drill hole that tested the M4 Target, gold-in-soil anomaly. Significant mineralization was not intersected, hence samples were not submitted for analysis.

Intermediate volcanics and minor quartz veining was intersected in the diamond drill hole that tested the M6 Target, an artisanal working. Gold is being exploited from quartz veins in the M6 Target. During the twelve month period ended September 30, 2010 logging and sampling of this hole was completed and no significant gold values were obtained. The Company accordingly has written off all acquisition and exploration costs associated with the properties in the amount of \$7,974,906.

KGL-SOMITURI

During the twelve month period ended September 30, 2010, all pre-requisites pursuant to the Mining Law and Mining Regulations allowing exploration activities to commence on all eight non-contiguous Exploitation Licences were completed. A multifaceted exploration program comprised of geological mapping, adit sampling, trench sampling, soil sampling and diamond drilling commenced on the Somituri Project Exploitation Licence ("PE") 9691.

The Somituri Project covers 606 square kilometres of the Ngayu Archaean Greenstone Belt, characterized by Upper Kibalian quartz veins, schists, metavolcanics, banded iron formation ("BIF") and metasedimentary rocks, situated in the Oriental Province of the DRC. During the 1930s to 1958 the Bagbaie - Adumbi, Kitenge, Manzako and Maipinji gold mines, on PE 9691, produced approximately 300,000 ounces of gold, according to historical records unverified by the Company. The Adumbi gold bearing host rocks have been traced over a strike length of approximately two kilometres by the Company. The Kitenge gold bearing host rocks, oriented parallel to and approximately five hundred metres northeast of the Adumbi trend, have been traced over a strike length of about five kilometres. Fifteen hundred metres to the northeast of the Kitenge mine, is the former underground Manzako gold mine. The gold bearing host rocks of the Manzako mine have been mapped over a strike length exceeding two kilometres.

During the twelve month period ended September 30, 2010, four adits, in the Adumbi mine, totaling 592.5 metres were continuous horizontal channel sampled, 7,589 metres of a planned 10,000 metre diamond drilling program were completed in 18 holes including 2 that were in progress, and 562.2 metres of trenching were completed in nine trenches including 2 that were in progress. Twenty diamond drill holes were collared to evaluate the central portion as well as the strike extension of the Colonial era Adumbi gold mine. These drill holes intersected disseminated to semi-massive pyrrhotite and/or pyrite hosted in quartz veins, and altered highly siliceous locally sheared chemical metasediments characterized by chert, chert banded with magnetite and haematite ("BIF"), chert banded with fine grained clastic metasediments, chert banded with black shale and black shale. The Adumbi gold mine was explored down dip of the workings exposed in the adits. Five drill holes were completed on the Kitenge prospect, a former gold producer, 3 drill holes targeted the past producing Manzako gold deposit and one hole tested the Monde Arabe artisanal workings. Monde Arabe may be the north-west strike continuation of Kitenge. Geological mapping was carried out and 832 soil samples, including quality control, were collected. Samples from the adits, drill core, trenches and soil were shipped to ALS Chemex in Mwanza, Tanzania for sample preparation and furtherance of pulps to ASL Chemex in Johannesburg for gold analysis.

The technical and analytical results are detailed in the Press Releases issued during the twelve month period ended September 30, 2010. Reported gold intersections include 151.0 metres

grading 1.61 g/t gold and 34.80 metres grading 3.04 g/t gold in Adumb Prospect drill holes SADD0004 and SADD0003 respectively. Gold recoveries of 99.98% were reported by cyanide solution.

The Company did not carry out any exploration activities on the KGL-ERW, KGL-SIHU and KGL-POKO properties during the twelve months ended September 30, 2010. The Company has determined that it has no further plans to explore or develop the KGL-Poko properties and has thus written off all associated acquisition and exploration costs in the amount of \$236,045.

SELECTED ANNUAL INFORMATION

The following selected financial data for the Company's two most recently completed financial periods are derived from the audited financial statements of the Company which were prepared in accordance with Canadian generally accepted accounting principles.

| For the fiscal periods ended September 30, | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Net revenues | 18,207 | 4,595 |
| Loss before discontinued operations and extraordinary items | 3,460,800 | 2,022,327 |
| Loss before discontinued operations and extraordinary items, per share basic and diluted | 0.05 | 0.06 |
| Net loss | 11,671,751 | 2,022,327 |
| Net loss, per share basic and diluted | 0.18 | 0.06 |
| Total assets | 16,610,431 | 22,181,577 |
| Total long term liabilities | Nil | Nil |
| Cash dividends | Nil | Nil |

Project Expenditures

During the twelve months ended September 30, 2010, the Company incurred expenditures of \$10,879,298 related to resource properties. This represents an increase of \$5,365,124 from the \$5,514,174 of project expenditures incurred during the twelve months ended September 30, 2009. During the year ended September 30, 2010, the Company intensified its drilling program on the KGL-SOMITURI group of properties, as well as incurring significant costs for tax payments related to all properties. 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 and KGL-POKO groups of properties. As such, the Company has written off all acquisition and exploration costs associated with the KGL-MASTERS and KGL-POKO groups of properties in the amounts of \$7,974,906 and \$236,045 respectively.

Project expenditures for the year ended September 30, 2010, were incurred as follows:

| Fiscal Year | 2010 | | | | | |
|-----------------------------------|-------------|--------------|-----------|-----------|-----------|-------------|
| | KGL-Masters | KGL-Somituri | KGL-Sihu | KGL-ERW | KGL-Poko | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Acquisition costs | 149,981 | 625,225 | 39,865 | 635,179 | 26,599 | 1,476,849 |
| Drilling | 579,983 | 6,800,089 | NIL | NIL | NIL | 7,380,072 |
| Sampling | 24,078 | 151,563 | NIL | 1,415 | NIL | 177,056 |
| Professional fees | 164,508 | 353,660 | 28,352 | 39,713 | 16,600 | 602,833 |
| Project management/administration | 218,886 | 747,266 | NIL | 9,551 | NIL | 975,703 |
| Geological | NIL | 184,097 | NIL | NIL | NIL | 184,097 |
| Travel | 22,936 | 1,553 | NIL | NIL | NIL | 24,489 |
| Trenching | NIL | 47,664 | NIL | NIL | NIL | 47,664 |
| Other | NIL | 10,535 | NIL | NIL | NIL | 10,535 |
| Current expenditures | 1,160,372 | 8,921,652 | 68,217 | 685,858 | 43,199 | 10,879,298 |
| Write-off of mineral properties | (7,974,906) | NIL | NIL | NIL | (236,045) | (8,210,951) |
| Balance-beginning of year | 6,814,534 | 2,336,579 | 1,422,876 | 1,058,570 | 192,846 | 11,825,405 |
| Balance-end of year | NIL | 11,258,231 | 1,491,093 | 1,744,428 | NIL | 14,493,752 |

Project expenditures for the year ended September 30, 2009, were incurred as follows:

| Fiscal Year | 2009 | | | | | |
|-----------------------------------|-------------|--------------|-----------|-----------|----------|------------|
| | KGL-Masters | KGL-Somituri | KGL-Sihu | KGL-ERW | KGL-Poko | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Acquisition costs | 579,355 | 853,507 | 514,486 | 122,093 | 40,218 | 2,109,659 |
| Drilling | 1,665,352 | NIL | NIL | NIL | NIL | 1,665,352 |
| Sampling | 147,233 | NIL | NIL | NIL | NIL | 147,233 |
| Professional fees | 273,824 | 135,915 | 28,728 | 206,598 | 6,331 | 651,396 |
| Project management/administration | 614,646 | 168,612 | NIL | 114,235 | NIL | 897,493 |
| Geological | NIL | NIL | NIL | NIL | NIL | NIL |
| Travel | 38,039 | NIL | NIL | NIL | NIL | 38,039 |
| Other | 5,002 | NIL | NIL | NIL | NIL | 5,002 |
| Current expenditures | 3,323,451 | 1,158,034 | 543,214 | 442,926 | 46,549 | 5,514,174 |
| Write-off of mineral properties | NIL | NIL | NIL | NIL | NIL | NIL |
| Balance-beginning of year | 3,491,083 | 1,178,545 | 879,662 | 615,644 | 146,297 | 6,311,231 |
| Balance-end of year | 6,814,534 | 2,336,579 | 1,422,876 | 1,058,570 | 192,846 | 11,825,405 |

General and Administrative Operating Activities

The Company has no revenue or inbound operating cash flows other than interest income. As a result of its activities, the Company continues to incur net losses.

For the twelve month periods ended September 30, 2010, the Company's net loss before discontinued operations was \$3,460,800 compared to a net loss before discontinued operations of \$2,022,327 for the twelve month periods ended September 30, 2009. Extraordinary items for the year consisted of a write-down of resource properties amounting to \$8,210,951. (Prior year - Nil)

During the year ended September 30, 2010, total expenses increased by \$1,452,085 to \$3,479,007 when compared to the year ended September 30, 2009.

During the twelve months ended September 30, 2010, administrative and general expenses decreased by \$5,180 to \$254,588. Reductions in accounting fees were largely offset by increases in communications and telecommunications charges.

Professional fees for the twelve month period ended September 30, 2010 amounted to \$894,850, a decrease from the prior year's costs of \$993,044. The decrease was due to reduced legal fees in the current year.

The Company incurred losses on foreign exchange during the twelve month period ended September 30, 2010, as the Canadian Dollar fluctuated against the United States Dollar and United Kingdom Pound Sterling. Foreign exchange losses for the twelve month period ended September 30, 2010 amounted to \$37,194, a decrease of \$25,151 over the foreign exchange losses of \$62,345 incurred during the twelve months ended September 30, 2009.

During the twelve months ended September 30, 2010, travel expenses of \$241,284 were incurred, an increase of \$95,492 compared to \$145,792 of travel expenses for the twelve month period ended September 30, 2009. The increase in travel during the period was due to travel to the DRC in connection with the Company's properties, increased senior management travel related to the Company's ongoing operations, and travel related to mining shows and exhibitions.

Stock-based compensation for the twelve month period ended September 30, 2010 was \$1,417,270 reflecting options granted to directors, officers, consultants, and an agent during the twelve months ended September 30, 2010, as well as the continued vesting of stock options granted during the year ended September 30, 2009. Stock-based compensation for the twelve month period ended September 30, 2009 was \$35,396.

SELECTED QUARTERLY INFORMATION

The following table shows selected financial information related to the results of the Company's eight most recent fiscal quarters. The information contained in this table should be read in conjunction with the Company's financial statements.

| Fiscal Year For the quarters ended | 2010 | | | | 2009 | | | |
|--|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Sep 2010 | June 2010 | Mar 2010 | Dec 2009 | Sep 2009 | Jun 2009 | Mar 2009 | Dec 2008 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Net revenues | Nil | 2,749 | 7,473 | 7,985 | 184 | 510 | 10 | 3,891 |
| Loss before discontinued operations and extraordinary items | 424,929 | 1,587,811 | 721,900 | 726,160 | 632,464 | 778,304 | 328,110 | 283,449 |
| Loss before discontinued operations and extraordinary items, per share basic and diluted | 0.01 | 0.02 | 0.01 | 0.01 | 0.02 | 0.02 | 0.01 | 0.01 |
| Net loss | 8,635,880 | 1,587,811 | 721,900 | 726,160 | 632,464 | 778,304 | 328,110 | 283,449 |
| Net loss, per share basic and diluted | 0.14 | 0.02 | 0.01 | 0.01 | 0.02 | 0.02 | 0.01 | 0.01 |

Factors Affecting Quarterly Results

Fluctuations in quarterly results are caused by issuance of stock option compensation, administrative costs and fees related to new property acquisitions, and levels of exploration activities, and in the final quarter by the write down of resource properties.

LIQUIDITY AND CAPITAL RESOURCES

The Company had negative working capital of \$3,027,449 as at September 30, 2010, compared to working capital of \$7,957,094 at September 30, 2009. As at September 30, 2010, the Company held cash and cash equivalents of \$152,129 versus \$9,242,200 as at September 30, 2009. The changes in cash and cash equivalents, as well as in the Company's working capital position, reflect equity financing raised in the fiscal quarter ended September 30, 2009 quarter, offset by the increased level of exploration activity recorded in the current period.

The Company is dependent on obtaining future financing for the exploration and development of its resource properties and for any new projects. Subsequent to the period ended September 30, 2010, the Company completed further equity financing through Private Placements. Further information is provided in the Share Capital section below.

The Company has entered into leases for office premises and office equipment. The minimum lease obligations under these leases are as follows:

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

The Company also expects to incur operating costs associated with this lease of approximately \$72,000 per year.

Share Capital

As at January 25, 2011, the Company's share position consisted of:

| | |
|----------------------------|-------------|
| Shares outstanding (i) | 113,308,984 |
| Options outstanding (ii) | 13,978,833 |
| Warrants outstanding (iii) | 42,632,400 |

(i) Shares outstanding

- a) During the twelve months 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 related to the acquisition of the Company's resource properties.

iii) Issued 520,915 common shares at \$0.482 per share pursuant to a Partnership Amending Agreement related to the acquisition of the Company's resource properties.

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.

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.

v) Issued 1,500,000 units (pursuant to private placements) for proceeds of \$300,000, of which \$67,500 was allocated to warrants.

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.

b) Subsequent to the twelve months ended September 30, 2010, the Company:

i) 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.

ii) 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.

(ii) Options outstanding

a) During the twelve months 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 the options 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 | 5 years |
| Expected volatility | 100% |

- ii) Granted 122,500 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 the options 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 | 0.3 years |
| Expected volatility | 105% |

- 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 twelve 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 an officer and director of the Company.

The fair value of the options 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 | 2.0 years |
| Expected volatility | 120% |

- iv) Granted 362,971 fully vested stock options to agents of the Company pursuant to private placements as described above. 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% |

- iv) 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% |

- b) Subsequent to the twelve months ended September 30, 2010, the Company:
- i) 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.
 - ii) Granted 1,247,029 compensation options pursuant to private placements. Each compensation option entitles the holder to acquire one unit consisting of one common share and one-half of one warrant, at a price of \$0.20 per unit at any time on or before October 7, 2012.
 - iii) Granted 1,475,250 compensation options pursuant to private placements. Each compensation option entitles the holder to acquire one unit consisting of one common share and one-half of one warrant, at a price of \$0.20 per unit at any time on or before November 5, 2012.

Stock 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.

- c) As at January 25, 2011, the following options were outstanding:

| Option Price | Number of Options | Weighted Average Remaining Contractual Life |
|--------------|-------------------|---|
| \$0.60 | 637,883 | 1.25 years |
| \$0.30 | 400,000 | 1.25 years |
| \$1.00 | 500,000 | 1.25 years |
| \$1.50 | 750,000 | 1.25 years |
| \$0.50 | 319,200 | 0.25 years |
| \$0.60 | 1,557,500 | 1.25 years |
| \$0.45 | 4,104,000 | 3.75 years |
| \$0.60 | 300,000 | 1.25 years |
| \$0.20 | 362,971 | 1.75 years |
| \$0.20 | 105,000 | 1.75 years |
| \$0.30 | 1,247,029 | 2.0 years |
| \$0.30 | 1,475,250 | 2.0 years |
| \$0.30 | 2,220,000 | 5.0 years |

During the twelve months ended September 30, 2010, 1,536,250 stock options expired un-exercised.

(iii) Warrants outstanding

- a) During the twelve months ended September 30, 2010, the Company:

- i) Issued 500,000 warrants in connection with property acquisitions. Each warrant entitles the holder to acquire 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% |

- ii) Issued 2,592,650 warrants pursuant to private placements. 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.

| | |
|-------------------------|---------|
| 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. 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.

| | |
|-------------------------|---------|
| Expected dividend yield | Nil |
| Risk-free interest rate | 1.00% |
| Expected life | 2 years |
| Expected volatility | 141% |

- b) Subsequent to the twelve months ended September 30, 2010, the Company:
- i) Issued 9,157,350 warrants pursuant to private placements. 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.
 - ii) Issued 11,870,000 warrants pursuant to private placements. 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.

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.

- c) As at September 30, 2010, the following warrants were issued and outstanding:
- i) 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.
 - ii) 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.
 - iii) 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.
 - iv) 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.
 - v) 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.
 - vi) 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.
 - vii) 9,157,350 warrants entitling the holder to purchase one common share of the Company at \$0.30 per share at any time on or before October 7, 2012.
 - viii) 11,870,000 warrants entitling the holder to purchase one common share of the Company at \$0.30 per share at any time on or before November 5, 2012.

COURSE OF BUSINESS TRANSACTIONS

Transactions with Related Parties

During the twelve months ended September 30, 2010, the Company:

- a) Incurred management fees of \$245,538 with a company controlled by a director. The Company also incurred consulting fees of \$144,000 with two individuals related to this director. This director is also an officer. As at September 30, 2010, accounts payable and accrued liabilities included \$46,228 related to this company and \$16,680 related to the two individuals related to this director.
- b) Incurred legal fees of \$130,625 with a firm in which a director and a former director are partners, all of which was capitalized as property acquisition costs. As at September 30, 2010, accounts payable and accrued liabilities included \$53,857 related to this law firm.
- c) Incurred accounting fees of \$128,305 with an accounting firm in which a former officer is a partner. As at September 30, 2010, accounts payable and accrued liabilities included \$71,709 related to this accounting firm.
- d) Incurred publicity and advertising fees of \$69,200 with three companies controlled by a person related to a director. As at September 30, 2010, prepaid expenses included \$2,000 and accounts payable and accrued liabilities included \$6,780 related to these companies. The director is also an officer.
- e) Incurred management fees of \$250,000 with a director. As at September 30, 2010, accounts payable and accrued liabilities included \$98,575 related to this director. The director is also an officer.
- f) Incurred consulting fees of \$52,500 with a company controlled by an officer. As at September 30, 2010, accounts payable and accrued liabilities included \$8,475 related to this officer.

Off-Balance Sheet Transactions

The Company has not entered into any off-balance sheet arrangements.

Proposed Transactions

The Company continues to review property and industry information in search of future opportunities in terms of new property acquisitions and business partnerships. Although no transactions are in progress currently, the Company continues to research potential opportunities.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in Canada. The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Critical accounting estimates used in the

preparation of the financial statements are related to the recoverable value of the Company's resource properties, as well as the valuation of stock options and warrants. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The Company records all of its property acquisition costs and direct exploration costs as an asset until the properties are placed into production, sold or abandoned, at which time the costs will either be amortized on a units-of-production basis or fully charged to operations. Management reviews the carrying value of the resource properties for impairment or permanent declines in the value of the property, such as abandonment, and the related project balances are then written off.

Estimates related to stock options and warrants include the volatility of the Company's stock price, as well as when stock options and warrants may be exercised. The timing of exercise of stock options and warrants is out of the Company's control and depends on a various factors including the market value of the Company's shares and the financial objectives of the holders of stock options and warrants.

The Company lists its significant accounting policies in note 3 of its audited consolidated financial statements for the year ended September 30, 2010.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Kilo Goldmines Inc., and the partnership interests described in the notes to the financial statements. 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 the notes to the financial statements. 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.

CAPITAL DISCLOSURES

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and, if it has not complied, the consequences of such non-compliance. Section 1535 was effective for the Company as of October 1, 2007. The Company's capital is composed of shareholders' equity. The Company's objective is to raise sufficient capital to execute its exploration plan. The Company does not use any capital-based metrics. The Company does not have any externally imposed capital requirements. There have not been any changes to the overall capital risk management strategy during the period ended September 30, 2010.

FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

| <u>Financial Instrument</u> | <u>Classification</u> |
|--|-----------------------|
| Cash and cash equivalents | Held for trading |
| Receivables and subscriptions receivable | Loans and receivables |
| Reclamation bonds | Held for trading |
| Accounts payable and accrued liabilities | Other liabilities |

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.

The Company's exposure to various risks and the impact upon the Company's financial statements are as follows:

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.

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. The Company also pays suppliers in United Kingdom Pounds Sterling and European Euros and is therefore subject to foreign exchange risk on these payment streams.

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.

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 twelve 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.

Sensitivity Analysis

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).

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET APPLIED

International Financial Reporting Standards

The CICA plans to converge Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) over a 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.

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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures, and internal controls over financial reporting. The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures, and the design of internal controls over financial reporting at December 31, 2009, have concluded the Company's disclosure controls and procedures and design of internal controls over financial reporting are adequate and effective as per Multilateral Instrument 52-109 - Certification of Disclosure in Companies' Annual and Interim Filings.

There has been no change in the Company's internal control over financial reporting, or in any other factors that could significantly affect internal controls, during the twelve months ended September 30, 2010.

QUALIFIED PERSON

The scientific and technical data included in this MD&A has been reviewed by Stanley Robinson, M.Sc., F.GAC., P.Geo., a consultant to the Company, and a Qualified Person pursuant to National Instrument 43-101.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com.