
Consolidated Financial Statements

Kilo Goldmines Ltd.

For the years ended September 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kilo Goldmines Ltd.

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We have audited the accompanying consolidated financial statements of Kilo Goldmines Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kilo Goldmines Ltd. and its subsidiaries as at September 30, 2011 and 2010, and its financial performance 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
January 26, 2012
Toronto, Ontario

Kilo Goldmines Ltd.

Consolidated Balance Sheets
As at September 30

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,973,264	\$ 152,129
Receivables	233,054	401,791
Prepaid expenses and deposits	336,413	140,236
	<u>4,542,731</u>	<u>694,156</u>
Resource Properties (note 3)	23,269,882	14,493,752
Capital Assets (note 4)	1,068,927	1,296,523
Reclamation Bonds (note 12)	126,000	126,000
	<u>\$ 29,007,540</u>	<u>\$ 16,610,431</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,880,001	\$ 3,721,605
Deferred Lease Inducement (note 5)	23,767	-
	<u>1,903,768</u>	<u>3,721,605</u>
Shareholders' Equity		
Share Capital (note 6)	36,036,143	22,851,681
Warrants (note 7)	3,627,402	3,361,653
Stock Options (note 8)	2,922,867	2,984,078
Contributed Surplus (note 9)	6,617,767	1,734,673
Deficit	<u>(22,100,407)</u>	<u>(18,043,259)</u>
	<u>27,103,772</u>	<u>12,888,826</u>
	<u>\$ 29,007,540</u>	<u>\$ 16,610,431</u>

Nature of Operations (note 1)

Commitments (note 15)

Subsequent Events (notes 3(c), 3(d) and 16)

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

Approved on behalf of the Board of Directors:

Signed "Alex van Hoeken", Director

Signed "David Netherway", Director

Kilo Goldmines Ltd.

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

	2011	2010
Expenses		
Administrative and general	\$ 189,990	\$ 254,588
Amortization	242,707	215,342
Directors' fees	67,334	31,318
Exploration expenses	69,318	-
Financial services	99,641	40,900
Foreign exchange loss (gain)	(96,812)	37,194
Interest and financing costs	19,540	15,786
Occupancy	68,294	73,340
Professional and consulting fees (note 11)	1,501,353	894,850
Public and investor relations (note 10)	286,540	257,135
Stock-based compensation (note 8)	1,202,270	1,417,270
Travel	415,921	241,284
Less:		
Interest income	(8,948)	(18,207)
Net Loss Before the Undernoted	(4,057,148)	(3,460,800)
Write-down of Resource Properties (note 3)	-	(8,210,951)
Net Loss for the Period	(4,057,148)	(11,671,751)
Deficit - Beginning of Period	(18,043,259)	(6,371,508)
Deficit - End of Period	\$ (22,100,407)	\$ (18,043,259)
Loss per Share - basic and diluted	\$ (0.03)	\$ (0.18)
Weighted Average Number of Common Shares Outstanding - basic and diluted	130,607,153	64,743,476

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

Kilo Goldmines Ltd.

Consolidated Cash Flow Statements
For the years ended September 30

	2011	2010
Cash Provided By (Used In):		
Operating Activities		
Net loss	\$ (4,057,148)	\$ (11,671,751)
Items not affecting cash:		
Amortization	242,707	215,342
Stock-based compensation	1,202,270	1,417,270
Write-down of resource properties	-	8,210,951
Deferred lease inducement	23,767	-
	<u>(2,588,404)</u>	<u>(1,828,188)</u>
Net changes in non-cash working capital:		
Receivables	168,737	(83,376)
Prepaid expenses and deposits	(40,086)	(90,193)
Accounts payable and accrued liabilities	114,980	256,742
	<u>(2,344,773)</u>	<u>(1,745,015)</u>
Financing Activities		
Share capital - private placements	14,768,478	1,036,221
Warrants - private placements	3,642,462	300,839
Private placement costs	(1,675,116)	(128,894)
Exercise of stock options	84,000	-
Exercise of warrants	150,000	-
	<u>16,969,824</u>	<u>1,208,166</u>
Investing Activities		
Resource property expenditures	(10,788,805)	(7,728,331)
Purchase of capital assets	(15,111)	(824,891)
	<u>(10,803,916)</u>	<u>(8,553,222)</u>
Change in Cash and Cash Equivalents	3,821,135	(9,090,071)
Cash and Cash Equivalents		
- Beginning of Period	<u>152,129</u>	<u>9,242,200</u>
Cash and Cash Equivalents		
- End of Period	<u>\$ 3,973,264</u>	<u>\$ 152,129</u>
Supplemental Cash Flow Information		
Interest received	<u>\$ -</u>	<u>\$ 2,749</u>
Significant Non-Cash Transactions Not Disclosed Above		
Shares issued for acquisition of resource properties	<u>\$ -</u>	<u>\$ 797,081</u>
Warrants issued for acquisition resource properties	<u>\$ -</u>	<u>\$ 155,000</u>
Stock options issued for private placement commissions	<u>\$ 645,678</u>	<u>\$ 58,046</u>
Shares issued for settlement of debt	<u>\$ -</u>	<u>\$ 387,587</u>

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

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

1. Nature of Operations

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 (see note 3) and intends to devote the majority of its efforts to these properties. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") accounting Guideline ("AcG") 11, Enterprises in the Development Stage, and has not yet determined whether any of these properties contain any reserves that are economically recoverable and has not earned significant revenues.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of interests in mineral properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interest on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company's mining assets that are located outside of North America are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, expropriation and currency exchange fluctuations and restrictions.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and noncompliance with regulatory and environmental requirements.

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.

2. Summary of Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), 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, and loans and receivables and other liabilities are recorded at amortized cost.

The Company has classified its financial instruments as follows:

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

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

b) Fair Value Hierarchy and Liquidity Risk Disclosure

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 and cash equivalents is level one per the fair value hierarchy.

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, 2011 and 2010, the Company did not have any cash equivalents.

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.

Impairment may occur in the carrying value of mineral interests when one of the following conditions exists:

- i) the Company's work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued
- ii) exploration results are not promising and no more work is being planned in the foreseeable future; or
- iii) the remaining lease terms are insufficient to conduct necessary studies or exploration work.

Once impairment has been determined, a portion of the carrying value will be written-down to net realizable value. Amounts shown for mineral properties reflect costs incurred to date, less write-down, and are not intended to reflect present or future values.

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.

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

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.

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 3. 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 3. 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

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, 2011 and 2010, 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

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, 2011.

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

o) 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 included 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.

The Company has completed the first phase of its IFRS conversion plan and is in the process of completing the second and third phases. The Company has identified the following areas which could potentially have a significant impact on the Company's financial reporting: mineral properties and deferred exploration costs, 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.

3. Resource Properties

	September 30, 2010	Additions	Sales	Write-Offs	September 30, 2011
KGL-Masters (a)	\$ -	\$ -	\$ -	\$ -	\$ -
KGL-Somituri (b)	11,258,231	8,651,412	-	-	19,909,643
KGL-Sihu (c)	1,491,093	68,517	-	-	1,559,610
KGL-ERW (d)	1,744,428	56,201	-	-	1,800,629
KGL-Poko (e)	-	-	-	-	-
	<u>\$ 14,493,752</u>	<u>\$ 8,776,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,269,882</u>

	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>

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

3. Resource Properties (continued)

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

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

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

a) KGL-Masters

On November 15, 2006, the Company acquired an option to acquire a 90% interest in eight Research Permits for mineral properties in the DRC, comprising approximately 3,170 square kilometres. The Research Permits 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. 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, 2011, 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. Registration of the properties occurred subsequent to the year ended September 30, 2011.

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

3. 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, 2011, interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

During the year ended September 30, 2010, the 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.

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 this Research Permit. 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.

During the year ended September 30, 2011, the Company entered into an agreement to settle the outstanding payment commitments as set forth in the Memorandum of Agreement discussed above. The Company paid 40,000 United States Dollars and issue 1,265,217 common shares of the Company in full satisfaction of the outstanding payment commitments. Payment of the cash consideration was effected on August 16, 2011, and the common shares were issued on November 21, 2011 (see Note 16 (d)).

The rights to the three above-noted properties (collectively the "West Kilo Project") were acquired from Moto Goldmines Limited ("Moto") pursuant to an agreement dated November 15, 2006. Moto has the right, at its option, exercisable when a banking feasibility study is concluded (if at that stage the measured resources exceed two million ounces) to acquire a 10% equity interest in the West Kilo Project for consideration of 5,000,000 United States Dollars.

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

3. Resource Properties (continued)

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

d) KGL-ERW

On November 17, 2006, the Company acquired an option to acquire a 75% interest in twenty Research Permits for mineral properties in the DRC, comprising approximately 7,000 square kilometres. The Research Permits expire on February 4, 2012. The KGL-ERW SPRL partnership was created on July 4, 2007 and is 75% owned by the Company. The Partnership Agreement requires the Company to finance all activities of KGL-ERW by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-ERW from revenues it generates to the extent of 75% of available funds, with the remaining 25% to be distributed to the equity holders. As of September 30, 2011, interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

During the year ended September 30, 2010, the Partnership Agreement was amended by way of a Partnership Amending Agreement, pursuant to which the Company became obligated to the payment of 200,000 United States Dollars upon signing of the Partnership Amending Agreement, and the issuance of 1,050,000 common shares of the Company. These obligations were fulfilled in 2010. Also pursuant to the Partnership Amending Agreement, the Company is further obligated to the issuance of warrants to purchase 500,000 common shares of the Company upon signing of the Partnership Amending Agreement, and warrants to purchase 250,000 common shares of the Company on the second anniversary of the Effective Date of the Partnership Amending Agreement, provided the agreement with Rio Tinto Mining and Exploration Limited, as discussed below, has not previously been terminated. The 500,000 warrants were issued in 2010 (see note 7) pursuant to the Partnership Amending Agreement, and expired unexercised on December 13, 2011. The remaining 250,000 warrants became due for issuance on December 9, 2011 and have still to be issued.

The Company also issued 36,000 stock options pursuant to a consulting agreement related to these properties during the year ended September 30, 2010 (see note 8 (b)(vii)).

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

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

Pursuant to the Partnership Amending Agreement as described above, the Company is obligated to pay, to the minority partner of KGL-ERW, 40% of the cash payments received from Rio less all reasonable costs and expenses associated with the Rio agreement. The Company's share of the cash payment due by Rio by or before December 2012 amounted to 1,500,000 United States Dollars. Subsequent to the year ended September 30, 2011, in consideration for an accelerated payment, the Company received a discounted amount of 1,428,125 United States Dollars net of the portion due to the minority shareholder, in full satisfaction of this obligation. (Note 16 c)).

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

3. Resource Properties (continued)

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, 2011, twelve of the Research Permits were identified as being held under force majeure by the DRC's Ministry of Mines.

The Partnership Agreement requires the Company to finance all activities of KGL-Poko by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-Poko from revenues it generates. As of September 30, 2011, 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.

4. Capital Assets

	2011			2010		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 210,132	\$ -	\$ 210,132	\$ 210,132	\$ -	\$ 210,132
Buildings	296,905	36,603	260,302	281,794	25,269	256,525
Vehicles	810,345	415,369	394,976	810,345	253,299	557,046
Furniture and fixtures	23,746	14,647	9,099	23,746	9,898	13,848
Equipment	295,097	101,380	193,717	295,097	42,361	252,736
Computer equipment	24,260	23,559	701	24,260	18,024	6,236
	<u>\$ 1,660,485</u>	<u>\$ 591,558</u>	<u>\$ 1,068,927</u>	<u>\$ 1,645,374</u>	<u>\$ 348,851</u>	<u>\$ 1,296,523</u>

5. Deferred Lease Inducement

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

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

6. Share Capital

a) Authorized:

Unlimited common shares

b) Common Shares Issued and Outstanding:

	<u>Number</u>		<u>Amount</u>
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
Issued for cash	92,054,700		14,768,478
Issued pursuant to exercise of stock options	420,000		83,700
Issued pursuant to exercise of warrants	500,000		201,509
Issuance costs	-		(1,869,225)
Balance - September 30, 2011	<u>164,228,984</u>	<u>\$</u>	<u>36,036,143</u>

During the year ended September 30, 2011, the Company:

- i) Issued 18,314,700 units (pursuant to private placements) for proceeds of \$3,662,940, of which \$824,162 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 October 7, 2012.

In connection with these private placements, the Company paid fees totalling \$360,907, of which \$79,700 was allocated to warrants, and issued 1,247,029 stock options. The fair value of these stock options was estimated to be \$124,703, of which \$28,058 was allocated to warrants (see note 8).

- ii) Issued 23,740,000 units (pursuant to private placements) for proceeds of \$4,748,000, of which \$1,068,300 was allocated to common share 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 November 5, 2012.

In connection with these private placements, the Company paid fees totalling \$305,550, of which \$68,749 was allocated to warrants, and issued 1,475,250 stock options. The fair value of these stock options was estimated to be \$147,525, of which \$33,193 was allocated to warrants (see note 8).

- iii) Issued 50,000,000 units (pursuant to a prospectus) for proceeds of \$10,000,000, of which \$1,750,000 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 \$0.30 per share at any time on or before May 12, 2013.

In connection with the prospectus, the Company paid fees totalling \$1,008,659 of which \$176,515 was allocated to warrants, and issued 3,395,000 stock options. The fair value of these stock options was estimated to be \$373,450, of which \$65,354 was allocated to warrants (see note 8).

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

6. Share Capital (continued)

- iv) Issued 420,000 common shares pursuant to the exercise of stock options for cash proceeds of \$65,100. The fair value of the stock options was estimated at \$18,600 as of the grant date and this amount has been reallocated from stock options to share capital upon the exercise of the stock options (see note 8).
- v) Issued 500,000 common shares pursuant to the exercise of warrants for cash proceeds of \$150,000. The fair value of the warrants was estimated at \$51,509 as of the issue date and this amount has been reallocated from warrants to share capital upon the exercise of the warrants (see note 7).

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

- vi) Issued 861,303 common shares at \$0.45 per share pursuant to a debt settlement agreement.
- vii) Issued 1,050,000 common shares at \$0.52 per share pursuant to a Partnership Amending Agreement (see note 3(d)).
- viii) Issued 520,915 common shares at \$0.482 per share pursuant to a Partnership Amending Agreement (see note 3(b)).
- ix) 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. The fair value of these stock options was estimated to be \$50,994, of which \$2,505 was allocated to warrants (see note 8).

- x) 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. The fair value of these stock options was estimated to be \$14,402, of which \$725 was allocated to warrants (see note 8).

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

7. Warrants

	<u>Number</u>		<u>Amount</u>
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	<u>(2,350,000)</u>		<u>(1,027,708)</u>
Balance - September 30, 2010	21,605,050		3,361,653
Issued for cash	46,027,350		3,642,462
Issued pursuant to exercise of stock options	210,000		24,300
Exercised	(500,000)		(51,509)
Expired	(17,762,400)		(2,897,935)
Issuance costs	<u>-</u>		<u>(451,569)</u>
Balance - September 30, 2011	<u>49,580,000</u>	\$	<u>3,627,402</u>

During the year ended September 30, 2011, the Company:

- i) Issued 9,157,350 warrants in connection with a private placement as described in note 6. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share at any time on or before October 7, 2012.

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	1.21%
Expected life	2 years
Expected volatility	148%

- ii) Issued 11,870,000 warrants in connection with a private placement as described in note 6. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share at any time on or before November 5, 2012.

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	1.27%
Expected life	2 years
Expected volatility	135%

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

7. Warrants (continued)

- iii) Issued 25,000,000 warrants in connection with a prospectus as described in note 6. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share at any time on or before May 12, 2013.

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	1.37%
Expected life	2 years
Expected volatility	106%

- iv) Issued 131,250 warrants in connection with the exercise of stock options as described in note 8. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share at any time on or before October 7, 2012. The fair value of the stock options was estimated at \$3,375 as of the grant date and this amount has been reallocated from stock options to warrants upon the exercise of the stock options (see note 8).

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	1.21%
Expected life	2 years
Expected volatility	148%

- v) Issued 78,750 warrants in connection with the exercise of stock options as described in note 8. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share at any time on or before November 5, 2012. The fair value of the stock options was estimated at \$2,025 as of the grant date and this amount has been reallocated from stock options to warrants upon the exercise of the stock options (see note 8).

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	1.27%
Expected life	2 years
Expected volatility	135%

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

- vi) Issued 500,000 warrants in connection with property acquisitions as described in note 3 (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, 2011 and 2010

7. Warrants (continued)

- vii) 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%

- viii) 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%

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, 2011, the following warrants were issued and outstanding:

- a) 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.
- b) 2,342,650 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.
- c) 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.
- d) 9,288,600 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.
- e) 11,698,750 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.
- f) 25,000,000 warrants entitling the holder to purchase one common share of the Company at \$0.30 per share at any time on or before May 12, 2013.

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.

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

8. Stock Options (continued)

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. During the year ended September 30, 2011, the Option Plan was amended to increase the maximum number of common shares issuable thereunder by 15,185,000 from 9,315,000 common shares to 24,500,000 common shares.

b) During the year ended September 30, 2011, the Company:

- i) Granted 2,220,000 stock options to directors, officers, employees and consultants of the Company, all of which vest immediately. Each option entitles the holder to purchase one common share at a price of \$0.30 per share at any time on or before November 19, 2015.

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	1.39%
Expected life	5.0 years
Expected volatility	120%

- ii) Granted 1,247,029 fully vested stock options to an agent in connection with private placements as described in note 6. Each option entitles the holder to purchase one unit at a price of \$0.20 per unit at any time on or before October 7, 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 October 7, 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	1.21%
Expected life	2.0 years
Expected volatility	148%

- iii) Granted 1,475,250 fully vested stock options to an agent in connection with private placements as described in note 6. Each option entitles the holder to purchase one unit at a price of \$0.20 per unit at any time on or before November 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 November 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	1.27%
Expected life	2.0 years
Expected volatility	135%

- iv) Granted 3,395,000 fully vested stock options to an agent in connection with private placements as described in note 6. Each option entitles the holder to purchase one unit at a price of \$0.20 per unit at any time on or before May 12, 2013. 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 May 12, 2013.

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	1.37%
Expected life	2.0 years
Expected volatility	106%

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

8. Stock Options (continued)

- v) Granted 5,000,000 stock options to a director, 3,000,000 of which vest immediately, with a further 666,667, 666,667 and 666,666 options vesting on each of the twelve, twenty-four and thirty-six month anniversaries of the grant date respectively. Each option entitles the holder to purchase one common share at a price of \$0.20 per share at any time on or before July 7, 2016.

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	1.25%
Expected life	5.0 years
Expected volatility	132%

- vi) Granted 5,000,000 stock options to an officer, 1,000,000 of which vest immediately, with a further 1,333,334, 1,333,333 and 1,333,333 options vesting on each of the twelve, twenty-four and thirty-six month anniversaries of the grant date respectively. Each option entitles the holder to purchase one common share at a price of \$0.20 per share at any time on or before September 1, 2016.

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	0.90%
Expected life	5.0 years
Expected volatility	119%

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

- vii) 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%

- viii) 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
For the years ended September 30, 2011 and 2010

8. Stock Options (continued)

- ix) 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%

- x) Granted 362,971 fully vested stock options to agents of the Company pursuant to private placements as described in note 6. 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%

- xi) Granted 105,000 fully vested stock options to agents of the Company pursuant to private placements as described in note 6. 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%

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.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

8. Stock Options (continued)

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

	Number	Amount
Balance - September 30, 2009	5,578,333	\$ 1,875,012
Granted	4,994,471	547,916
Expired/ cancelled	(1,536,250)	(366,250)
Stock based compensation expensed	-	927,400
Balance - September 30, 2010	9,036,554	2,984,078
Granted	18,337,279	1,831,660
Exercised	(420,000)	(24,000)
Expired/ cancelled	(6,126,700)	(1,985,159)
Stock-based compensation expensed	-	116,288
Balance - September 30, 2011	<u>20,827,133</u>	<u>\$ 2,922,867</u>

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

	Number	Weighted Average Exercise Price
Balance - September 30, 2009	5,578,333	\$ 0.71
Granted	4,994,471	0.46
Expired/ cancelled	(1,536,250)	0.71
Balance - September 30, 2010	9,036,554	0.59
Granted	18,337,279	0.21
Exercised	(420,000)	(0.20)
Expired/ cancelled	(6,126,700)	(0.55)
Balance - September 30, 2011	<u>20,827,133</u>	<u>\$ 0.28</u>

Kilo Goldmines Ltd.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2011 and 2010

8. Stock Options (continued)

e) As at September 30, 2011, the following stock options were outstanding:

Option Price	Number of Options		Weighted Average Remaining Contractual Life
	Unvested	Vested	
\$ 0.60	-	437,883	0.5 years
\$ 0.30	-	200,000	0.5 years
\$ 1.00	-	250,000	0.5 years
\$ 1.50	-	500,000	0.5 years
\$ 0.45	-	1,254,000	3.0 years
\$ 0.60	-	300,000	0.5 years
\$ 0.20	-	362,971	1.0 years
\$ 0.20	-	105,000	1.0 years
\$ 0.30	-	1,720,000	4.25 years
\$ 0.20	-	984,529	1.25 years
\$ 0.20	-	1,317,750	1.25 years
\$ 0.20	-	3,395,000	1.75 years
\$ 0.20	2,000,000	3,000,000	4.75 years
\$ 0.20	4,000,000	1,000,000	5.0 years
	<u>6,000,000</u>	<u>14,827,133</u>	

As at September 30, 2011, the weighted average exercise price of vested stock options is \$0.31 (2010 - \$0.59).

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, 2009	\$ 340,715
Options expired/ cancelled	366,250
Warrants expired	<u>1,027,708</u>
Balance - September 30, 2010	1,734,673
Options expired/ cancelled	1,985,159
Warrants expired	<u>2,897,935</u>
Balance - September 30, 2011	<u>\$ 6,617,767</u>

10. Community- Based Initiatives in the DRC

The Company had committed to spending \$230,000 on community-based initiatives in the DRC to improve the lives of the inhabitants of the areas in which the Company is focusing its exploration efforts. During the year ended September 30, 2011, the Company spent \$101,464 on such initiatives, and these amounts have been recorded as public and investor relations expenses. As at September 30, 2011, the Company had spent approximately \$254,464 in connection with this commitment.

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11. Related Party Transactions

During the year ended September 30, 2011, the Company carried out the following transactions with related parties:

	2011	2010
Management fees paid to directors and officers	\$ 786,500	\$ 495,538
Consulting fees paid to an officer and individuals related to a director and officer	\$ 367,498	\$ 196,500
Legal fees paid to a legal firm in which a director and a former director are partners	\$ 1,244	\$ 130,625
Accounting fees paid to an accounting firm in which a former officer is a partner	\$ 39,000	\$ 128,305
Publicity and advertising fees with companies controlled by an individual related to a director and officer of the Company	\$ 72,976	\$ 69,200

As at September 30, 2011, prepaid expenses included \$Nil (2010 - \$2,000), and accounts payable and accrued liabilities included \$59,000 (2010 - \$302,304) related to various related parties disclosed above.

12. Reclamation Bonds

During the year ended September 30, 2008, the Company paid \$126,000 in reclamation bonds as required by the DRC's Ministry of Mines. These amounts represent deposits on restoration costs to be incurred in the future to restore the resource properties to a specified state. Based on the exploration work performed to September 30, 2011 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, 2011.

13. Income Taxes

a) Income Taxes

	2011	2010
Loss before income taxes	\$ (4,057,148)	\$ (11,671,751)
Statutory rate	28.76%	31.75%
Expected income tax recovery	(1,166,836)	(3,705,781)
Non-deductible expenses	360,986	451,230
Share issuance costs	(418,800)	(32,200)
Change in effective tax rates	105,400	963,600
Other	(5,950)	41,701
	(1,125,200)	(2,281,450)
Change in valuation allowance	1,125,200	2,281,450
Net expected future income tax recovery	\$ -	\$ -

b) Future Income Tax Assets

The tax effects of temporary differences that give rise to the future income tax assets at September 30, 2011 and 2010 are as follows:

	2011	2010
Resource properties	\$ 2,052,700	\$ 2,052,700
Non-capital loss carry forwards	2,765,900	1,882,600
Share issuance costs	526,200	299,800
Capital assets	31,500	16,000
	5,376,300	4,251,100
Less: valuation allowance	(5,376,300)	(4,251,100)
Net expected future income tax recovery	\$ -	\$ -

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

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13. Income Taxes (continued)

c) Non-Capital Losses

The Company has non-capital losses carried forward of approximately \$11,063,721 (2010 -\$7,530,500) available to reduce future years' taxable income. These losses will expire as follows:

2026	\$ 148,000
2027	\$ 1,107,400
2028	\$ 1,780,300
2029	\$ 2,268,800
2030	\$ 2,423,700
2031	\$ 3,335,521

14. Financial Instruments

Fair Values

Except for the reclamation bond, the fair value of which is not determinable as at September 30, 2011, 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, European Euros and South African Rand and is therefore subject to foreign exchange risk on these payment streams.

As at September 30, 2011, cash and cash equivalents include 2,644,831 United States Dollars and accounts payable and accrued liabilities include 855,290 United States Dollars, 120,682 United Kingdom Pounds Sterling, 5,923 European Euros and 357,019 South African Rand.

At September 30, 2011, 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 \$187,275 lower (higher).

At September 30, 2011, 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 \$19,471 higher (lower).

At September 30, 2011, 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 \$832 higher (lower).

At September 30, 2011, if the Canadian Dollar had weakened (strengthened) 10 percent against the South African Rand with all other variables held constant, the net loss for the period would have been \$4,656 higher (lower).

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, 2011, the Company has accounts payable and accrued liabilities of \$1,880,001 due within 12 months and has cash of \$3,973,264 to meet its current obligations. The Company has working capital of \$2,662,730, and accordingly, is subject to liquidity risk.

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14. Financial Instruments (continued)

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.

15. Commitments

- a) The Company has monthly obligations of 15,000 United States Dollars pursuant to consulting agreements. The agreements do not have a fixed term and can be cancelled by either party.
- b) The Company has entered into leases for office premises and office equipment. The minimum lease commitments under these leases are as follows:

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

- c) During the year ended September 30, 2009, the Company entered into drilling agreement for 6,000 metres of diamond drilling in the DRC. During the year ended September 30, 2011, this agreement was amended to include an additional 10,000 metres of diamond drilling. Subsequent to the year ended September 30, 2011, this agreement was terminated by the Company.
- d) During the year ended September 30, 2009, the Company entered into an agreement for the provision of public and investor relations services for a period of six months commencing May 1, 2009 in exchange for a fee of 3,000 Euros payable upon the signing of the agreement and 3,000 Euros payable August 1, 2009. This agreement automatically renews for an additional six month period unless terminated by either party by way of written notice received no later than 30 days prior to the expiry of the original six month period of the agreement.
- e) 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 8(b)(ix)) with a company controlled by an individual related to a director of the Company. This director is also an officer. During the year ended September 30, 2011, the director ceased to be an officer and director of the Company.
- f) During the year ended September 30, 2011, the Company's Executive Chairman resigned from his position, thereby terminating his existing consulting agreement which included a monthly fee of \$19,000. The Company has entered into an agreement with this individual for the provision of consulting services for a period of six months in exchange for a monthly fee of \$10,000. The agreement can be terminated at any time by the Company, or by the consultant upon a minimum of thirty days written notice to the Company.
- g) During the year ended September 30, 2011, the Company entered into an employment agreement with a new CEO for a period of three years, effective September 1, 2011. The annual salary of \$240,000 is to be paid in monthly installments. An extension or renewal of the agreement is to be evidenced in writing by both parties. The employment agreement includes the grant of 1,000,000 stock options vesting as at the date of the Annual General Meeting of the Company ("AGM"), 1,333,333 stock options vesting 12 months following the AGM, 1,333,333 stock options vesting 24 months following the AGM and 1,333,333 stock options vesting 36 months following the AGM. The exercise price of the options will be at the original AGM strike price. The agreement can be terminated at any time by either party giving to the other party not less than three months' written notice of termination, or in the case of the Company, payment of three months' salary in lieu of notice.
- h) Additional commitments are disclosed in note 3.

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16. Subsequent Events

Subsequent to September 30, 2011:

- a) The Company issued 51,950,000 common shares (pursuant to private placements) for total proceeds of \$10,390,000. In connection with the private placements, the Company paid fees totalling \$448,000.
- b) 500,000 warrants expired unexercised.
- c) As disclosed in note 3(d), the Company received an accelerated discounted cash payment of 1,428,125 United States Dollars on December 30, 2011 in respect of the agreement with Rio.
- d) As disclosed in note 3(c), the Company issued 1,265,217 common shares in full satisfaction of its payment commitments related to the KGL-Sihu properties.