

Management Discussion and Analysis of the unaudited Interim Consolidated Financial Statements  
For the three and six month periods ended March 31, 2013

**Kilo Goldmines Ltd.**

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**KILO GOLDMINES LTD.  
MANAGEMENT DISCUSSION & ANALYSIS  
For the three and six month periods ended March 31, 2013**

*This Management Discussion and Analysis (“MD&A”) of Kilo Goldmines Ltd. (“Kilo” or the “Company”) is prepared as at May 29, 2013 and provides an analysis of the Company’s performance and financial condition for the six months ended March 31, 2013. 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 annual consolidated financial statements for the period ended September 30, 2012, including the related note disclosure. The Company’s interim unaudited 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 International Financial Reporting Standards (“IFRS”). All dollar figures included therein and in the following discussion and analysis are quoted in the functional currency of Canadian dollars unless otherwise specified. Additional information relevant to the Company’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company’s website at [www.kilogold.net](http://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.*

**Executive Summary**

Kilo Goldmines Ltd. is a junior resource company with gold exploration properties in the Democratic Republic of the Congo. The Company is currently engaged in exploration and evaluation of its properties and has no producing asset as yet. The Company delivered its maiden NI 43-101 report in 2011, and is continuing with ongoing exploration to increase the extent of the Mineral Resources. The Company has entered into a joint venture with Randgold Resources Ltd. for gold exploration on certain of the Company’s properties.

**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 under the symbol "KGL".

### **Corporate Developments**

On December 6, 2012 the company announced the signing of a definitive agreement with Randgold Resources plc ("RRL") for a Joint Venture ("JV") on Kilo's KWR Iron Sprl Exploration licences in the Democratic Republic of Congo ("DRC").

Randgold has undertaken to finance all exploration on Kilo's KWR licences for which they will obtain incremental ownership based on milestone events. Randgold has up to five years to establish a pre-feasibility study and a joint venture committee will manage the exploration programmes which will rely on knowledge and expertise from both companies.

The terms of the agreement are:

- RRL to earn 51% for the completion of a pre-feasibility study ("PFS")
- KGL to retain the right to maintain 49% post PFS
- RRL to earn 65% for the completion of a bankable feasibility study ("BFS") should KGL not contribute post PFS
- KGL equity to convert to 1.5% royalty if diluted to 10% or less
- KGL keeps the exploration rights to all minerals not associated with gold
- PFS to be established within 5 years
- BFS to be established within 1 year after PFS, or such longer time to be agreed by the parties

Kilo has also reached an agreement to buy out its 25% minority partner, Suez Holdings Ltd, which has a free carried interest through production for non-iron commodities in the KWR licences under the current Kilo – Suez JV agreement. The transaction involves an aggregate of 635 000 USD in cash and 356 000 shares over a 6 year period with no initial cash down, and has received TSXV approval. The buyout is simultaneous for Suez' gold interest in the KWR licences, as well as Suez' interest in a Kilo DRC subsidiary, KGL-ERW Sprl, which holds permit PR 2274, and allows KGL, once the consideration has been paid, to retain Randgold as its sole partner in this joint venture.

Rio Tinto has withdrawn from the joint venture for iron ore on the KWR Licences, and Kilo has acquired the fixed assets used in the joint venture.

### **Overall Performance**

The Company's activities focused on continuing its exploration and evaluation programs on its existing properties in the Democratic Republic of the Congo, investing approximately net \$1.8 million in the three month period ended March 31, 2013, and a total of \$3.2 million in the six month period ended at that date. The Exploration section below sets out in greater detail the activities on the various properties during the period. The comprehensive loss for the six month period ended March 31, 2013 was \$1,931,299 which included a \$1,799,853 write-down of expenditures incurred to date on the KGL-Sihu properties. The comprehensive loss in the comparable six months ended March 31, 2012 was \$2,846,379.

## Capital Stock and Financing

On January 30, 2013 the company issued 200,000 shares in part settlement of obligations relating to the acquisition of the remaining outside interest in KGL-ERW.

On March 20, 2013, the company closed a fully marketed short form prospectus offering of units in the capital of the Company ("Common Shares") at a price per unit of \$0.10 comprising one common share and one full share purchase warrant exercisable for three years at an exercise price of \$0.15, for gross proceeds of C\$10,000,000 (the "Offering"). A syndicate of agents co-led by GMP Securities L.P. and Clarus Securities Inc. and including Byron Capital Markets Ltd. (collectively, the "Agents") acted as agents to sell the Common Shares on a best efforts basis.

## Exploration and Operations

### KGL Somituri Sprl

#### Somituri Project - technical summary to March 31, 2013

The Somituri Project consists of eight *Permis d'Exploitation* ("PE") (Exploitation Licence), held 71.25% by KGL Somituri Sprl and valid until 2039, covering 606 square kilometres of the Ngayu Archaean Greenstone Belt in Oriental Province of the Democratic Republic of Congo. The PEs are known as Gambi (PE137), Boroda (PE138), Nane (PE140), Imbo (PE9691), Ngazi (PE9692), Mpaka (PE9693), Embolim (PE9694) and Dhahabau (PE9695). With the exception of the Mpaka and Embolim Licences the properties are underlain by Upper Kibalian, clastic metasedimentary rocks, metavolcanics, schists, chemical metasedimentary rocks including banded iron formation ("BIF"), localized dioritic intrusives and the occasional felsic dyke. The western half of the Embolim Licence is underlain with the Upper Kibalian rocks, and the eastern half is underlain with basement granitic rocks. The Mpaka Licence is entirely underlain by basement granitic rocks.

#### *IMBO*

During the 1930s to 1958 the Bagbaie, Adumbi, Kitenge, Manzako and Maipinji gold mines, on the Imbo licence produced approximately 300,000 ounces of primary gold, according to historical records unverified by the Company.

Shear zones hosting quartz veins occur in all of the lithological units. The dominant shear zone identified to date has a pre-faulting cumulative length of 17 kilometres on the Imbo Licence and trends parallel to sub-parallel to its host clastic metasedimentary rocks and chemical metasedimentary rocks at about 310° - 130°. The shear zone is host to an auriferous quartz vein that dips about 80° to the northeast. North-south trending post gold mineralization faulting has left laterally offset the auriferous quartz vein into discrete prospects. From southeast to northwest these prospects are Mapunji, Lion, Kitenge, Senegal, Canal, Adumbi and Adumbi West. A parallel shear zone within the mafic volcanics hosts the Manzako Prospect. The Vatican Prospect, also in mafic volcanics may be the northwest strike extension of Manzako. The Monde Arabe and Adumbi North Prospects are also hosted within the mafic volcanics.

From February 2010 to September 30<sup>th</sup>, 2012 Kilo carried out 9,928.2 metres of diamond drilling in 49 holes. At a cut-off grade of 0.5 g/t Au, the Adumbi/Canal Prospects comprise 35.6 million tonnes of inferred gold bearing rock containing 1.87 million ounces of gold grading 1.63 g/t Au. At a cut-off grade of 1.0 g/t Au Adumbi/Canal comprises 24.6 million tonnes of inferred gold bearing rock containing 1.61 million ounces of gold grading 2.04 g/t Au as concluded in an NI 43-101 compliant inferred resource estimate report by The Mineral Corporation, Johannesburg (April 2012).

## ***NGAZI***

During 2012 soil sampling delineated a series of parallel gold-in-soil anomalies up to five kilometres in strike length. Some of these anomalies are on strike with Loncor's Itali Prospect drilling situated about 300 metres from the eastern property boundary. Rock grab samples on the Ngazi Licence returned gold values up to 4.76 g/t Au.

Historical records, unverified by Kilo, indicate that 15,240 ounces of alluvial gold was won from streams on the Ngazi Licence during the colonial-era; Kilo gold-in-soil anomalies traverse the exploited streams.

## **Somituri Project – exploration during the three and six month periods ended March 31, 2013**

During the three and six month periods ended March 31st, 2013, the exploration program consisted of diamond drilling, drill core sampling, and surface geological mapping, on the Somituri Project Imbo Exploitation Licence.

## ***IMBO***

During the three month period ended March 31<sup>st</sup> a total of 830.47 metres of diamond drilling was carried out on the Senegal and Manzako Prospects. During the six month period ended March 31<sup>st</sup> 2013, a total of 2,435.17 metres of diamond drilling was carried out on the Canal, Kitenge Senegal and Manzako Prospects.

Six diamond drill holes totalling 1,093.3 metres were completed during the six month period ended March 31<sup>st</sup>, 2013 on the Kitenge Prospect 1.5 kilometre long Main Shear Zone ("KSZ"). KSZ is characterized by a continuous auriferous quartz vein hosted in sheared clastic metasedimentary rocks and minor discontinuous intervals of black shale with silica, sericite and chlorite alteration having a preliminary estimated width in the order of 75 metres.

Three diamond drill holes, collared on two section lines 320 m apart, totalling 527.45 metres were drilled during the three month period ended March 31<sup>st</sup>, 2013. All of these drill holes intersected the targeted auriferous quartz vein hosted within the Senegal Main Shear Zone ("SSZ") interpreted as the northwestern strike extension of the Kitenge Main Shear Zone ("KSZ"). During the six month period ended March 31<sup>st</sup>, 2013 four diamond drill hole totalling 741.70 metres were completed on the Senegal Prospect. Current geological data indicates the SSZ is characterized by an auriferous quartz vein within sericitized and chloritized clastic metasedimentary rocks. Minor black shale and mafic volcanics as well as a felsic dyke/sill were also intersected.

During the six month period ended March 31<sup>st</sup>, 2013 two diamond drill holes totalling 297.15 metres were completed on the Canal Prospect. These drill holes targeted a gap in the drilling between the southeastern most drill hole on the Adumbi/Canal Prospect and the northwestern most drill hole on the Canal Prospect. Both of these drill holes intersected chemical metasedimentary rocks, including banded iron formation, hosted within clastic metasedimentary rocks.

During the three month period ended March 31<sup>st</sup> a total of 303.02 metres of diamond drilling was carried out on the Manzako Prospect as two completed drill holes and one in progress at the end of the period. These drill holes were collared as a follow-up to encouraging gold values obtained in drill holes SMDD0004 and SMDD0023 drilled in 2011 and 2012 respectively.

A total of 1,023 soil sample pulps and 12 trench sample pulps from corporate year 2012 exploration program on the Imbo Licence were dispatched to ALS Minerals in Johannesburg, South Africa for gold and multi-element analysis.

Prior to the recommencement of drilling in late March a total of 610 specific gravity determinations were made during the three month period ended March 31<sup>st</sup> 2013 on drill core from the Adumbi Prospect. Also, a total of 134 infill diamond drill core samples, including quality control samples were collected from the Kitenge Prospect drill holes. In addition, geological mapping was carried out over the northwestern portion of the Imbo Licence.

### ***SEVEN OTHER LICENCES***

During the 3 month and six month periods period ended March 31, 2013, no exploration was carried out on the Gambi, Boroda, Nane, Ngazi, Mpaka, Embolim and Dhahabau Licences.

However a total of 658 soil sample pulps from the Mpaka Licence, and 493 soil sample pulps from the Dhahabu Licence and one soil sample pulp from the Ngazi Licence from soil samples collected during corporate year 2012 exploration program were dispatched to ALS Minerals in Johannesburg, South Africa for gold and multi-element analysis.

In-fill soil sampling over the northern portion of the Ngazi Licence was planned, and a camp site was cleared.

Technical and analytical results obtained during the three and six month periods ended March 31, 2013, are detailed in Press Releases available on the Kilo website as well as on SEDAR.

### **Exploration Expenditures**

The table below sets out the expenditures for the three months ended March 31, 2013:

	<b>KGL-Somituri</b>	<b>KGL-Sihu</b>	<b>KGL-ERW</b>	<b>Total</b>
Acquisition and sustaining costs	445,975	-	23,000	468,975
Drilling	414,706	-	-	414,706
Helicopter support	225,782	-	-	225,782
Project Camp	133,574	-	-	133,574
Sampling	51,336	-	-	51,336
Professional fees	139,751	-	-	139,751
Project management/ Administration	190,129	-	-	190,129
Geological and Geochemical	37,989	-	-	37,989
Travel	98,174	-	-	98,174
Trenching	-	-	-	-
Write-off of mineral properties	-	(1,799,853)	-	(1,799,853)
Other	10,148	-	-	10,148
<b>Current YTD spend</b>	<b>1,747,563</b>	<b>(1,799,853)</b>	<b>23,000</b>	<b>(29,290)</b>
Currency Translation Adjustments	628,722	24,975	5,453	659,150
Balance beginning of period: January 1, 2013	29,701,759	1,774,878	244,846	31,721,483
<b>Balance end of period: March 31, 2013</b>	<b>32,078,044</b>	<b>-</b>	<b>273,299</b>	<b>32,351,343</b>

For the six months ended March 31, 2013, expenditure on the KGL-Somituri properties was \$3,183,680 compared with a spend of \$3,417,259 during the comparable period in 2012. Activities included drilling, core sampling, and surface mapping.

The currency translation adjustment reflects movements in the CAD\$/US\$ exchange rate on translating values from the partnership accounts, expressed in the functional currency of United States dollars, into the presentation currency of these interim consolidated financial statements which is Canadian Dollars.

### Other Properties

In December 2012 the Company announced the withdrawal of Rio Tinto from the joint venture. The company decided to relinquish certain of the KGL-ERW properties and an amount of \$166,806 was written off accordingly in the quarter ending September 30, 2012.

As noted in the section 'Corporate Developments', the Company announced the signing of a new joint venture with Randgold Resources Limited covering the potential gold assets of the properties now held in KWR Iron Sprl.

The Company elected not to renew the exploration licences on the KGL-Sihu properties expiring in April 2013, and accordingly has written off \$1,799,853 costs to date associated with the properties in the quarter ended March 31, 2013.

### Results of Operations

The Company is currently engaged in mineral exploration and evaluation, and does not generate revenues from operations. Costs related to the acquisition and exploration of mineral properties are capitalized by property, whilst regulatory and other expenditures incurred to maintain the administrative infrastructure required to operate in Canada are expensed.

### Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the current quarter ending March 31, 2013 and historically for the preceding eight quarters.

Fiscal Year	2013		2012		2011		2011		2011
	Mar	Dec	Sept	June	Mar	Dec	Sep	June	Mar
	2013	2012	2012	2012	2012	2011	2011	2011	2011
Net revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gain/(Loss) before other items	(2,393)	(569)	(779)	(305)	(881)	(760)	(1,381)	(813)	(536)
Currency translation adjustment	665	366	(822)	594	(505)	(700)	(8)	-	(490)
Comprehensive loss	(1728)	(203)	(1,601)	289	(1,386)	(1,460)	(1,389)	(813)	(1026)
Net loss, per share basic and diluted	0.01	Nil	0.01	Nil	0.01	0.01	0.01	0.01	Nil

### Factors Affecting Quarterly Results

March quarter 2013 reflects a write-off of exploration expenses of \$1,799,853 against the KGL-Sihu properties. Other fluctuations in quarterly results arise mainly from timing of expensing costs related to the issuance of stock option compensation, and to a lesser degree to administrative costs variations.

Expenditures for the three and six month periods ended March 31, 2013 and 2012 were as follows:

	Six months ended		Three months ended	
	31-Mar-13	31-Mar-12	31-Mar-13	31-Mar-12
Amortization	114,046	118,437	58,204	58,869
Foreign exchange	73,869	127,748	18,258	53,364
Office and miscellaneous	152,706	139,742	84,674	69,000
Management and consulting fees	192,000	256,000	96,000	112,000
Professional fees	141,395	162,894	69,540	73,032
Directors' fees	95,000	83,500	47,500	36,000
Shareholder communication	116,207	116,425	44,002	86,793
Share-based payments	120,779	424,712	59,525	300,931
Transfer agent and regulatory fees	34,046	63,164	28,517	24,639
Travel and promotion	119,120	157,784	85,136	78,940
Exploration expenses written off	1,799,853	-	1,799,853	-
Banking fees	6,642	15,392	2,755	4,836
Interest income	(3,652)	(24,640)	(1,100)	(16,869)
<b>Loss for the period</b>	<b>2,962,011</b>	<b>1,641,158</b>	<b>2,392,864</b>	<b>881,535</b>
<b>Currency translation adjustment</b>	<b>(1,030,712)</b>	<b>1,205,221</b>	<b>(665,044)</b>	<b>504,659</b>
<b>Total Comprehensive Loss for the Period</b>	<b>1,931,299</b>	<b>2,846,379</b>	<b>1,727,820</b>	<b>1,386,194</b>

The comprehensive loss for the six month period ended March 31, 2013 was \$1,931,299 as compared to a loss of \$2,846,379 for the six month period ended March 31, 2012, a decrease of \$915,080, mainly arising from the favourable movement in the currency translation adjustment of \$2,235,933 offset by the once-off write down on KGL-Sihu properties, and a decrease of \$303,933 in stock-based compensation charges. Management and consulting fees decreased by \$64,000 due to prior year costs which did not recur in the current year, and travel and promotion expenditure decreased by \$38,664.

### Liquidity and Capital Resources

As at March 31, 2013, the Company had cash resources of \$10,107,401 compared to \$5,172,059 at September 30, 2012. The Company had working capital of \$9,205,035 compared to working capital amounting to \$4,206,652 as at September 30, 2012.

In March 2013 the Company completed a short form prospectus financing which raised gross proceeds \$10 million. Management believes the Company's cash position will be sufficient to meet current planned exploration and operating expenditures and anticipates raising further funds to meet the next phase of exploration and development.

As a mineral exploration and development company with no current production or revenue from mining operations, the Company's cash flows consist of cash outflows for exploration and evaluation, administrative expenses, salaries, property acquisition, and expenditures for depreciable equipment. Financing activities, such as share issuances and shareholder loans, result in cash inflows to the Company. Since its inception, the Company has relied on capital markets (and in particular, equity markets) to fund its exploration and evaluation activities as well as its investments in machinery and



equipment. The Company is dependent on obtaining future financing for exploration and evaluation of its resource properties and for any new projects

The longer term continuation of the Company as a going concern necessitates the creation of a revenue stream from its mineral assets.

## CAPITAL DISCLOSURES

Canadian Institute of Chartered Accountants (“CICA”) Handbook, 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. 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 six months ended March 31, 2013.

### Treasury Summary

The Company had the following outstanding as at March 31, 2013:

Shares	319,049,978
Options	17,069,000
Warrants	128,176,650

Full details of share issuances as well as warrant and option transactions are provided in notes 8, 9 and 10 to the condensed interim financial statements for the six months ended March 31, 2013.

## COURSE OF BUSINESS TRANSACTIONS

### Transactions with Related Parties

During the six months ended March 31, 2013, transactions with related parties were:

	<b>2013</b>	<b>2012</b>
Directors fees	95,000	83,500
Management and consulting fees paid to directors and officers	192,000	182,000
Consulting fees paid to a former director/officer and related individuals	-	74,000
Investor relations fees with a company controlled by an individual related to a former director/officer	-	36,000

Included in share-based compensation for the period ended March 31, 2013 is \$120,799 (2012 - \$424,712) related to stock options granted to management and directors. Included in the additions to resource properties during the period ended March 31, 2013 is \$20,530 (2012 - \$Nil) related to stock options granted to management.

### **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.

### **CRITICAL ACCOUNTING ESTIMATES**

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

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

#### **Recoverability of Mineral Properties and Deferred Exploration Costs**

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

#### **Title to Mineral Properties**

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

#### **Property, Plant and Equipment - Estimated Useful Lives**

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

## **Share-based Payment Transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in notes 3(i), 9 and 10.

## **International Financial Reporting Standards ("IFRS")**

In previous years, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company adopted IFRS effective October 1, 2011 and the Company's consolidated financial statements have been prepared in accordance with IFRS.

Note 3 to the audited consolidated financial statements for the year ended September 30, 2012 sets out significant accounting policies in accordance with IFRS.

## **BASIS OF PRESENTATION**

These consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), and in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements were authorized for issue by the Board of Directors on May 29, 2013.

The accounting policies applied in these interim condensed consolidated financial statements are consistent with the policies and methods of computation applied in the most recent annual consolidated financial statements for the year ending September 30, 2012. These interim condensed consolidated financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2012 together with the notes thereto.

Accounting policies have been applied consistently to all periods presented, unless otherwise stated.

The policies applied in the Company's unaudited consolidated financial statements for the six months ended March 31, 2013, are based on IFRS effective as of March 31, 2013.

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

The unaudited consolidated financial statements for the six months ended March 31, 2013, are presented in Canadian Dollars. The functional currency of the Company is the Canadian Dollar.

The condensed interim consolidated financial statements for the six months ended March 31, 2013, have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not generated revenue from operations. During the six months ended March 31, 2013,

the Company incurred a comprehensive loss of \$1,931,299 (2012 - \$2,846,379), and as of that date, the Company's deficit was \$27,652,095 (September 30, 2012 - \$24,690,084). The Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period, but intends to raise financing to fund further exploration. Whilst the Company has been successful in the past in raising funds, there is no assurance it will be able to do so in the future.

As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures.

## FINANCIAL INSTRUMENTS

The Company has classified its financial instruments as follows:

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

### Fair Values

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

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### Credit risk

The Company is not exposed to any significant credit risk as at March 31, 2013. The Company's cash and cash equivalents are on deposit with a highly rated banking group in Canada and holds limited funds in a reputable financial institution in the DRC.

### Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2013, the Company has current assets of \$10,416,091 and current liabilities of \$1,211,056. All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. Current working capital of the Company is \$9,205,035 as at March 31, 2013.

### Market risk

#### (i) Interest rate risk

The Company has significant cash and cash equivalents balances and it has no interest-bearing debt. The Company's current policy is to invest its excess cash in highly liquid money market investments such as interest bearing deposit accounts and guaranteed investment certificates. These short term money market investments are subject to interest rate fluctuations.

(ii) Foreign currency risk

The Company's functional currency is primarily the Canadian dollar. The majority of the Company's operating expenses are transacted in Canadian dollars, and the majority of the Company's resource property costs are transacted in United States dollars. As at March 31, 2013, the Company had cash of 834,532 United States Dollars and accounts payable and accrued liabilities of 265,141 United States Dollars. As at March 31, 2013, the Company had accounts payable of 83,726 United Kingdom Pounds Sterling; accounts payable of 14,726 South African Rand.

(iii) Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

### **Future Accounting Changes**

IFRS 9 (Financial Instruments: Classification and Measurement), effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2015, and has not yet determined the potential impact on the Company's consolidated financial statements.

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

IFRS 11 Joint Arrangements ("IFRS 11") introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

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

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance that all information prepared by the Company for external purposes is reliable and timely. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's Financial Statements. Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements.

The CEO and CFO have evaluated whether there were changes to the ICFR during the six months ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, the ICFR. As a result, no such significant changes were identified through their evaluation.

There have been no material changes in the Company's internal control over financial reporting during the six months ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **OTHER MD&A REQUIREMENTS**

As at May 28, 2013, Company had 319,049,978 common shares outstanding. If the Company were to issue 103,176,650 common shares upon conversion of all its outstanding warrants and 17,609,000 common shares upon conversion of all its outstanding options it would raise \$19,197,845.

## **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](http://www.sedar.com).