
Condensed Interim Consolidated Financial Statements

Kilo Goldmines Ltd.

**For the Three Month Periods Ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)**

Unaudited

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Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Financial Position
Unaudited
(Expressed in Canadian Dollars)

| | December 31, 2012 | September 30, 2012 |
|--|----------------------|----------------------|
| | | (Audited) |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,859,021 | \$ 5,172,059 |
| Receivables | 86,269 | 62,679 |
| Prepaid expenses | 290,491 | 298,466 |
| | <u>3,235,781</u> | <u>5,533,204</u> |
| Non-Current Assets | | |
| Resource Properties (note 5) | 31,721,483 | 29,933,662 |
| Property, Plant and Equipment (note 4) | 675,769 | 724,097 |
| Reclamation Bonds (note 6) | 65,933 | 65,603 |
| | <u>\$ 35,698,966</u> | <u>\$ 36,256,566</u> |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 901,188 | \$ 1,326,552 |
| Non-current Liabilities | | |
| Deferred Lease Inducement (note 7) | 19,642 | 20,467 |
| | <u>920,830</u> | <u>1,347,019</u> |
| Shareholders' Equity | | |
| Share Capital (note 8) | 46,461,706 | 46,461,706 |
| Warrants (note 9) | 1,528,806 | 3,221,248 |
| Stock Options (note 10) | 2,357,387 | 2,533,547 |
| Contributed Surplus (note 11) | 9,926,949 | 7,986,279 |
| Cumulative Translation Reserve | (237,481) | (603,149) |
| Deficit | <u>(25,259,231)</u> | <u>(24,690,084)</u> |
| | <u>34,778,136</u> | <u>34,909,547</u> |
| | <u>\$ 35,698,966</u> | <u>\$ 36,256,566</u> |

Subsequent Events (note 16)

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

Approved on behalf of the Board

Signed "Alex van Hoeken" , Director

Signed "James Mustard" , Director

Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the Three Months Ended December 31, 2012 and 2011

Unaudited

(Expressed in Canadian Dollars)

| | 2012 | 2011 |
|---|--------------------|--------------------|
| Expenses | | |
| Corporate and administrative expenses | \$ 454,603 | \$ 584,045 |
| Share-based compensation (note 10) | 61,254 | 123,781 |
| Amortization | 55,842 | 59,568 |
| Less | | |
| Interest Income | (2,552) | (7,771) |
| Loss for the Period | (569,147) | (759,623) |
| Other Comprehensive Income (Loss) for the Period | | |
| Currency Translation Adjustment (note 3(a)) | 365,668 | (700,562) |
| Total Comprehensive Loss for the Period | (203,479) | (1,460,185) |
| Income (Loss) per Share - basic and diluted | \$ - | \$ (0.01) |
| Weighted Average Number of Common Shares | | |
| Outstanding - basic and diluted | 218,849,978 | 194,155,874 |

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

Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

For the Three Months Ended December 31, 2012 and 2011

Unaudited

(Expressed in Canadian Dollars)

| | Common Stock | | Warrants | Stock Options | Contributed Surplus | Cumulative Translation Reserve | Accumulated Deficit | Total |
|---|--------------|---------------|--------------|---------------|---------------------|--------------------------------|---------------------|---------------|
| | Shares | Amount | | | | | | |
| Balance - October 1, 2012 | 218,849,978 | \$ 46,461,706 | \$ 3,221,248 | \$ 2,533,547 | \$ 7,986,279 | \$ (603,149) | \$ (24,690,084) | \$ 34,909,547 |
| Common shares and warrants issued for | | | | | | | | |
| Common shares issued related to | | | | | | | | |
| Expired warrants | - | - | (1,692,442) | - | 1,692,442 | - | - | - |
| Stock options granted | - | - | - | 72,068 | - | - | - | 72,068 |
| Stock options expired | - | - | - | (248,228) | 248,228 | - | - | - |
| Foreign Currency Translation Adjustment | - | - | - | - | - | 365,668 | - | 365,668 |
| Net loss | - | - | - | - | - | - | (569,147) | (569,147) |
| Balance - December 31, 2012 | 218,849,978 | \$ 46,461,706 | \$ 1,528,806 | \$ 2,357,387 | \$ 9,926,949 | \$ (237,481) | \$ (25,259,231) | \$ 34,778,136 |

| | Common Stock | | Warrants | Stock Options | Contributed Surplus | Cumulative Translation Reserve | Accumulated Deficit | Total |
|---|--------------|---------------|--------------|---------------|---------------------|--------------------------------|---------------------|---------------|
| | Shares | Amount | | | | | | |
| Balance - October 1, 2011 | 164,228,984 | \$ 36,036,143 | \$ 3,627,402 | \$ 2,787,669 | \$ 6,617,767 | \$ 830,568 | \$ (21,965,209) | \$ 27,934,340 |
| Common shares and warrants issued for | | | | | | | | |
| cash | 51,950,000 | 10,390,000 | - | - | - | - | - | 10,390,000 |
| Issuance costs | - | (478,000) | - | - | - | - | - | (478,000) |
| Common shares issued related to | | | | | | | | |
| resource properties | 1,265,217 | 227,739 | - | - | - | - | - | 227,739 |
| Expired warrants | - | - | (155,000) | - | 155,000 | - | - | - |
| Stock options granted | - | - | - | 123,781 | - | - | - | 123,781 |
| Foreign Currency Translation Adjustment | - | - | - | - | - | (700,562) | - | (700,562) |
| Net loss | - | - | - | - | - | - | (759,623) | (759,623) |
| Balance - December 31, 2011 | 217,444,201 | \$ 46,175,882 | \$ 3,472,402 | \$ 2,911,450 | \$ 6,772,767 | \$ 130,006 | \$ (22,724,832) | \$ 36,737,675 |

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

Kilo Goldmines Ltd.

Condensed Interim Consolidated Statements of Cash Flow
For the Three Months Ended December 31, 2012 and 2011
Unaudited
(Expressed in Canadian Dollars)

| | 2012 | 2011 |
|---|---------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Net loss for the period | \$ (569,147) | \$ (759,623) |
| Items not involving cash | | |
| Amortization | 55,842 | 59,568 |
| Stock-based compensation | 61,254 | 123,781 |
| Deferred lease inducement | (825) | (825) |
| | <u>(452,876)</u> | <u>(577,099)</u> |
| Changes in non-cash working capital | | |
| Receivables | (23,590) | (38,283) |
| Prepaid expenses and deposits | (18,925) | (11,437) |
| Accounts payable and accrued liabilities | (21,915) | 43,858 |
| | <u>(517,306)</u> | <u>(582,961)</u> |
| Cash Flows from Financing Activities | | |
| Share capital - private placements | - | 10,390,000 |
| Private placement costs | - | (478,000) |
| | <u>-</u> | <u>9,912,000</u> |
| Cash Flows from Investing Activities | | |
| Resource property expenditures | (1,584,394) | (379,939) |
| Effect of translation to presentation currency | (211,338) | (139,785) |
| | <u>(1,795,732)</u> | <u>(519,724)</u> |
| Change in cash | <u>(2,313,038)</u> | <u>8,809,315</u> |
| Cash - beginning of period | <u>5,172,059</u> | <u>3,973,264</u> |
| Cash - end of period | <u>\$ 2,859,021</u> | <u>\$ 12,782,579</u> |
| Non-cash financing and investing activities | | |
| Common shares issued pursuant to property acquisition | <u>\$ -</u> | <u>\$ 227,139</u> |

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
Unaudited
(Expressed in Canadian Dollars)

1. Nature of Operations

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

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

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

The realization of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to develop these properties, and future profitable production or proceeds of disposition from these properties.

2. Basis of Presentation

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

a) Statement of Compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 condensed interim consolidated financial statements do not include all of the information required for annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2012, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of February 22, 2013, the date the Audit Committee approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2013 could result in restatement of these interim consolidated financial statements.

b) Basis of Measurement

The Company's condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value.

c) Functional and Presentation Currency

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
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3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements unless otherwise indicated.

a) Foreign Currency Transactions

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

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

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

b) Cash and Cash Equivalents

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

c) Business Combinations

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
Unaudited
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

d) Resource Properties

Pre-exploration Costs

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

Exploration and Evaluation Expenditures

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

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

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

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

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

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

Resource properties are classified as intangible assets.

e) Reclamation Bonds

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
Unaudited
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3. Significant Accounting Policies (continued)

f) Property, Plant and Equipment

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

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is provided over the estimated useful lives of the assets on the following basis and rates per annum:

| | |
|------------------------|-----------------------------------|
| Building | 25 years on a straight line basis |
| Vehicles | 5 years on a straight line basis |
| Furniture and fixtures | 5 years on a straight line basis |
| Equipment | 5 years on a straight line basis |
| Computer equipment | 3 years on a straight line basis |

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

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

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

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

g) Impairment of Non-Financial Assets

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

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

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

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
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(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

h) Income Taxes

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

i) Share-based Payments

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

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

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

j) Decommissioning Liabilities

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

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

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

As at December 31, 2012 and 2011, the Company is not committed to any decommissioning obligations in respect of its mineral exploration properties.

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
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(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

k) Other Provisions

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

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

l) Leases

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

m) Other Comprehensive Income (Loss)

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

n) Loss Per Share

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

o) Related Party Transactions

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
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Unaudited
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

p) Financial Instruments

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

Financial Assets

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

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

Impairment of Financial Assets

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

Financial Liabilities and Equity Instruments

Financial liabilities

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

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

Offsetting financial instruments

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

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
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Unaudited
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

p) Financial Instruments (continued)

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

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

q) Equity instruments

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

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

q) Critical Accounting Judgments and Estimation Uncertainties

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

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

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

Recoverability of Resource Properties costs and Property, Plant and Equipment

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

Title to Resource Property Interests

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

Property, Plant and Equipment - Estimated Useful Lives

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

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3. Significant Accounting Policies (continued)

q) Critical Accounting Judgments and Estimation Uncertainties (continued)

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate 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 Note 9.

r) 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 financial statements.

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

IFRS 11 Joint Arrangements ("IFRS 11"), effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, 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. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet determined the potential impact on the Company's financial statements.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12"), effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, 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. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet determined the potential impact on the Company's financial statements.

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

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4. Property, Plant and Equipment

| As at December 31, 2012 | Land | Buildings | Vehicles | Furniture and Fixtures | Equipment | Computer Equipment | Total |
|--|------------|------------|------------|------------------------------|------------|-----------------------|--------------|
| Cost | | | | | | | |
| Balance, October 1, 2012 | \$ 130,192 | \$ 286,154 | \$ 785,936 | \$ 23,746 | \$ 285,819 | \$ 24,260 | \$ 1,536,107 |
| Additions | - | - | - | - | - | - | - |
| Effects of Movements in Exchange Rates | 1,550 | 3,406 | 7,657 | - | 2,910 | - | 15,523 |
| Balance, December 31, 2012 | 131,742 | 289,560 | 793,593 | 23,746 | 288,729 | 24,260 | 1,551,630 |
| Accumulated depreciation | | | | | | | |
| Balance, October 1, 2012 | - | (46,709) | (565,565) | (19,395) | (156,081) | (24,260) | (812,010) |
| Depreciation | - | (2,834) | (35,792) | (1,187) | (16,029) | - | (55,842) |
| Effects of Movements in Exchange Rates | - | (566) | (5,820) | - | (1,623) | - | (8,009) |
| Balance, December 31, 2012 | - | (50,109) | (607,177) | (20,582) | (173,733) | (24,260) | (875,861) |
| Net carrying amount as at December 31, 2012 | \$ 131,742 | \$ 239,451 | \$ 186,416 | \$ 3,164 | \$ 114,996 | \$ - | \$ 675,769 |

| As at September 30, 2012 | Land | Buildings | Vehicles | Furniture and Fixtures | Equipment | Computer Equipment | Total |
|---|------------|------------|------------|------------------------------|------------|-----------------------|--------------|
| Cost | | | | | | | |
| Balance, October 1, 2011 | \$ 213,799 | \$ 305,072 | \$ 828,472 | \$ 23,746 | \$ 301,987 | \$ 24,260 | \$ 1,697,336 |
| Additions | - | - | - | - | - | - | - |
| Dispositions | (75,000) | - | - | - | - | - | (75,000) |
| Effects of Movements in Exchange Rates | (8,607) | (18,918) | (42,536) | - | (16,168) | - | (86,229) |
| Balance, September 30, 2012 | 130,192 | 286,154 | 785,936 | 23,746 | 285,819 | 24,260 | 1,536,107 |
| Accumulated depreciation | | | | | | | |
| Balance, October 1, 2011 | - | (38,000) | (429,835) | (14,647) | (105,513) | (23,560) | (611,555) |
| Depreciation | - | (11,336) | (162,072) | (4,748) | (57,317) | (700) | (236,173) |
| Effects of Movements in Exchange Rates | - | 2,627 | 26,342 | - | 6,749 | - | 35,718 |
| Balance, September 30, 2012 | - | (46,709) | (565,565) | (19,395) | (156,081) | (24,260) | (812,010) |
| Net carrying amount as at September 30, 2012 | \$ 130,192 | \$ 239,445 | \$ 220,371 | \$ 4,351 | \$ 129,738 | \$ - | \$ 724,097 |

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5. Resource Properties

| | October 1, 2012 | Net Additions (Recoveries) | Write-Offs | Currency Translation Adjustments | December 31, 2012 |
|------------------|----------------------|----------------------------------|-------------|--|----------------------|
| KGL-Somituri (a) | \$ 27,937,690 | \$ 1,429,666 | \$ - | \$ 334,403 | \$ 29,701,759 |
| KGL-ERW (b) | 241,967 | - | - | 2,879 | 244,846 |
| KGL-Sihu (c) | 1,754,005 | - | - | 20,873 | 1,774,878 |
| KGL-Masters (d) | - | - | - | - | - |
| KGL-Poko (e) | - | - | - | - | - |
| | <u>\$ 29,933,662</u> | <u>\$ 1,429,666</u> | <u>\$ -</u> | <u>\$ 358,155</u> | <u>\$ 31,721,483</u> |

| | October 1, 2011 | Net Additions (Recoveries) | Write-Offs | Currency Translation Adjustments | September 30, 2012 |
|------------------|----------------------|----------------------------------|---------------------|--|-----------------------|
| KGL-Somituri (a) | \$ 20,626,100 | \$ 8,499,799 | \$ - | \$ (1,188,209) | \$ 27,937,690 |
| KGL-ERW (b) | 1,850,688 | (1,354,112) | (166,806) | (87,803) | 241,967 |
| KGL-Sihu (c) | 1,603,388 | 254,392 | - | (103,775) | 1,754,005 |
| KGL-Masters (d) | - | - | - | - | - |
| KGL-Poko (e) | - | - | - | - | - |
| | <u>\$ 24,080,176</u> | <u>\$ 7,400,079</u> | <u>\$ (166,806)</u> | <u>\$ (1,379,787)</u> | <u>\$ 29,933,662</u> |

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 but 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" which 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 licensed areas for a period of thirty years, renewable several times for periods of fifteen years.

a) KGL-Somituri SPRL

The Company's interest in the KGL-Somituri SPRL properties were acquired through an option agreement for twenty Research Permits previously held by Somituri SPRL. The Research Permits were subsequently converted into eight Exploitation Permits and registered in the name of KGL-Somituri SPRL, an entity in which the Company holds a 71.25% interest and the Somituri partners hold 23.75%. In accordance with DRC legislation, the DRC government holds the balance, a 5% free carried interest.

On April 29, 2010, the Company signed a new Partnership Agreement (the "2010 Partnership Agreement"), as well as an Assignment Agreement providing for the transfer of the eight Exploitation Permits to KGL-Somituri SPRL. The DRC government is entitled to a 5% equity interest in KGL-Somituri SPRL. The Company committed to paying 75,000 Euros, 200,000 Euros (or an equivalent value in Company common shares) and 250,000 Euros (or an equivalent value in Company common shares), on the Effective Date, three days following the Effective Date, and three days following the property assignment Registration Date, respectively. The Company has also committed to investing 2,000,000 Euros during the three years following the Effective Date with a minimum of 1,000,000 Euros during the first year. During the year ended September 30, 2010, the Company issued 520,915 common shares at a fair value of \$0.482 per share to satisfy the Company's obligation to pay 200,000 Euros three days following the Effective Date as described above.

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5. Resource Properties (continued)

a) KGL-Somituri SPRL (continued)

During the year ended September 30, 2012, the acquisition of the properties was finalised through registration of title to the licences in the name KGL-Somituri SPRL, and the Company satisfied its contractual commitments to the Somituri partners in this respect through settlement of the final payment of 250,000 Euros due upon registration of the title to the licenses in the name of KGL-Somituri SPRL. This was effected by paying 30,000 Euros in cash and issuing 1,405,777 common shares of the Company (see note 8).

Under the Partnership Agreement, the Company 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.

b) KGL-ERW SPRL

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 KGL-ERW SPRL partnership was created on July 4, 2007 to hold these permits, and is 75% owned by the Company. As of November 30, 2012, several permits have been relinquished, title to two permits is held by KGL-ERW SPRL, and ten permits are held in the entity KWR Iron SPRL (see note below). The Research Permits currently have an expiration date of February 2, 2017.

Pursuant to a Partnership Amending Agreement entered into on December 7, 2009 (the "Effective Date"), the Company became obligated to cash payments of 200,000 United States Dollars and the issuance of 1,050,000 common shares of the Company upon signing, the issuance of warrants to purchase 500,000 common shares of the Company upon the first anniversary, and the issuance of warrants to purchase 250,000 common shares of the Company on the second anniversary of the Effective Date of the Partnership Amending Agreement. Obligations in this respect have been met in full.

The Partnership Agreement requires the Company to finance all activities of KGL-ERW SPRL by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL-ERW SPRL from revenues it generates to the extent of 75% of available funds, with the remaining 25% to be distributed to the equity holders. As of December 31, 2012 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.

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.

During the period ended December 31, 2012, KGL-ERW SPRL commenced the process of relinquishing title to ten Research Permits which the Company had determined it had no further interest in, and accordingly, during the year ended September 30, 2012, wrote off \$166,806 relating to costs incurred to acquire and maintain these properties.

During the year ended September 30, 2009, the Company signed an agreement with Rio Tinto Mining and Exploration Limited ("Rio") granting Rio an earn-in with respect to iron ore mineral rights on the KGL-ERW SPRL properties. As a vehicle to facilitate this earn-in transaction, the 11 properties subject to the Rio agreement were transferred into a separate entity, KWR Iron SPRL, ownership of which is held in the same 75%/25% proportion as KGL-ERW SPRL. Under terms of the Rio agreement, Rio had the ability to earn up to a 75% interest in the mineral rights of KWR Iron SPRL by making a combination of cash payments and exploration expenditures.

Pursuant to the KGL-ERW SPRL Agreement, 40% of the cash payments received from Rio, less all reasonable costs and expenses associated with the Rio agreement, are payable to the minority interest. In December 2011, 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 the \$1,500,000 obligation due by Rio on or before December 2012.

In December 2012, the Company announced that Rio intends to withdraw from the agreement for iron ore on the KWR Iron SPRL licences. The Company and Rio are inventorising all data and joint venture assets to be handed over to the Company, and discussions about the withdrawal process are in progress, which will include Rio's interests in the KWR Iron SPRL properties.

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5. Resource Properties (continued)

b) KGL-ERW SPRL (continued)

During the period ended December 31, 2012, the Company entered into a Letter Agreement to acquire an additional 25% ownership interest in KWR-ERW SPRL, as well as the outstanding 25% gold interest in the properties owned by KWR Iron SPRL. In exchange for the above interest, the Company has agreed to make cash payments totalling 635,000 United States Dollars and issue a total of 356,000 common shares of the Company in various increments within six years of the date of the Letter Agreement. The Company may, at any time but with good reason, discontinue the payments and issuance of shares as set forth in the Letter Agreement. Subsequent to the period ended December 31, 2012, the Company issued 200,000 common shares in connection with the Letter Agreement.

During the period ended December 31, 2012, the Company and KWR Iron SPRL entered into a Joint Venture Agreement with Randgold Resources Limited ("Randgold") with respect to certain properties owned by KWR Iron SPRL. Pursuant to the Joint Venture Agreement, Randgold agrees to fund, through its wholly-owned subsidiary Randgold Resources (DRC) Limited ("Randgold DRC"), a Phase One Exploration Program within 36 months of the effective date of the Joint Venture Agreement and a Phase Two Exploration Agreement within 60 months of the effective date of the Joint Venture Agreement leading to a pre-feasibility study. The Joint Venture Agreement allows for withdrawal of Randgold subject to various termination criteria.

Delivery of a pre-feasibility study entitles Randgold to a 51% interest in the properties which can be increased to 65% upon delivery of a bankable feasibility study should Kilo not contribute proportionately to the Exploration Program post pre-feasibility study.

c) KGL-Sihu SPRL

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. 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.

The Research Permits have been renewed until April 6, 2013.

Registration of the Research Permits in the name of KGL-Sihu SPRL was concluded in the year ended September 30, 2011. The Company's obligations with respect to the acquisition of the properties were concluded with payment of 40,000 United States Dollars during the year ended September 30, 2011, and the issuance of 1,265,217 common shares of the Company during the year ended September 30, 2012 (see note 8).

d) KGL-Masters SPRL

On November 15, 2006, the Company acquired an option to acquire a 90% interest in eight Research Permits for mineral properties in the DRC, comprising approximately 3,170 square kilometres. The Research Permits expired on various dates up to October 9, 2011 and have not been renewed. The Company has written off all acquisition and exploration costs associated with the properties in the year ended September 30, 2010, as the Company does not have any further plans to explore the properties.

e) KGL-Poko SPRL

On July 9, 2007, the Company acquired an 82.5% interest in fourteen Research Permits for mineral properties in the DRC, comprising approximately 4,100 square kilometres, for consideration of 91,400 United States Dollars. The Research Permits expired on October 9, 2011 and have not been renewed. The Company has written off all acquisition and exploration costs associated with the properties in the year ended September 30, 2010, as the Company does not have any further plans to explore the properties.

The rights to the Somituri, Masters and Sihu 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, exercisable at its option when a bankable 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.

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6. Reclamation Bonds

Amounts recorded as reclamation bonds represent deposits on restoration costs to be incurred in the future to restore the resource properties to a specified state. During the year ended September 30, 2008, the Company paid \$126,000 in reclamation bonds as required by the DRC's Ministry of Mines. During the year ended September 30, 2012, this amount was refunded to the Company. Also during the year ended September 30, 2012, the Company paid 64,500 United States Dollars in new reclamation bonds. Based on the exploration work performed to December 31, 2012 on the resource properties in the DRC, the Company's management estimates that no future obligations for site restoration costs exist as at December 31, 2012.

7. Deferred Lease Inducement

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

8. Share Capital

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

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

The following is a summary of changes in common share capital from October 1, 2011 to December 31, 2012:

| | <u>Number</u> | <u>Amount</u> |
|---|--------------------|----------------------|
| Balance - October 01, 2011 | 164,228,984 | \$ 36,036,143 |
| Issued for cash | 51,950,000 | 10,390,000 |
| Issued pursuant to property acquisition | 2,670,994 | 513,563 |
| Issued pursuant to exercise of warrants - cash proceeds | - | - |
| Issuance costs | | <u>(478,000)</u> |
| Balance - September 30, 2012 and December 31, 2012 | <u>218,849,978</u> | <u>\$ 46,461,706</u> |

9. Warrants

| | <u>Number</u> | <u>Amount</u> | <u>Weighted Average Exercise Price</u> |
|------------------------------|---------------------|---------------------|--|
| Balance - October 1, 2011 | 49,580,000 | \$ 3,627,402 | \$ 0.30 |
| Issued for cash | 250,000 | 20,676 | 0.18 |
| Expired | <u>(3,592,650)</u> | <u>(426,830)</u> | <u>(0.47)</u> |
| Balance - September 30, 2012 | 46,237,350 | 3,221,248 | 0.30 |
| Expired | <u>(20,987,350)</u> | <u>(1,692,442)</u> | <u>(0.30)</u> |
| Balance -December 31, 2012 | <u>25,250,000</u> | <u>\$ 1,528,806</u> | <u>\$ 0.30</u> |

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9. Warrants (continued)

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

| Number | Exercise Price | Expiry |
|------------|----------------|------------------|
| 25,000,000 | \$ 0.30 | May 12, 2013 |
| 250,000 | \$ 0.60 | December 7, 2013 |
| 25,250,000 | | |

10. Stock Options

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

- b) Options Issued to Employees

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

Options Issued to Non-Employees

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

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

| | Number | Amount | Weighted Average Exercise Price |
|------------------------------|-------------|--------------|------------------------------------|
| Balance - October 01, 2011 | 20,827,133 | \$ 2,787,669 | \$ 0.28 |
| Granted | 2,150,000 | 687,560 | 0.22 |
| Expired | (2,605,854) | (941,682) | (0.40) |
| Balance - September 30, 2012 | 20,371,279 | 2,533,547 | 0.28 |
| Granted | - | 72,068 | 0.20 |
| Expired | (2,302,279) | (248,228) | (0.20) |
| Balance - December 31, 2012 | 18,069,000 | \$ 2,357,387 | \$ 0.28 |

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10. Stock Options (continued)

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

| Exercise Price | Number of Options | | Weighted Average Remaining Contractual Life |
|----------------|-------------------|-------------------|---|
| | Unvested | Vested | |
| \$ 0.45 | - | 250,000 | 0.25 years |
| \$ 0.45 | - | 804,000 | 1.75 years |
| \$ 0.30 | - | 210,000 | 0.25 years |
| \$ 0.30 | - | 1,260,000 | 3.00 years |
| \$ 0.20 | - | 3,395,000 | 0.50 years |
| \$ 0.20 | 1,333,333 | 3,666,667 | 3.50 years |
| \$ 0.20 | 2,666,666 | 2,333,334 | 3.75 years |
| \$ 0.20 | - | 300,000 | 2.00 years |
| \$ 0.20 | - | 300,000 | 2.00 years |
| \$ 0.22 | - | 300,000 | 2.25 years |
| \$ 0.22 | - | 300,000 | 2.25 years |
| \$ 0.22 | 633,333 | 316,667 | 2.25 years |
| | <u>4,633,332</u> | <u>13,435,668</u> | |

During the period ended December 31, 2012, share based payments of \$10,814 (2011 - \$Nil) were capitalized to resource properties.

11. Contributed Surplus

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

| | |
|------------------------------|---------------------|
| Balance - October 1, 2011 | \$ 6,617,767 |
| Options expired | 941,682 |
| Warrants expired | <u>426,830</u> |
| Balance - September 30, 2012 | 7,986,279 |
| Options expired | 248,228 |
| Warrants expired | <u>1,692,442</u> |
| Balance - December 31, 2012 | <u>\$ 9,926,949</u> |

12. 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. Including the value of land donated during the year ended September 30, 2012, as at December 31, 2012, the Company had spent approximately \$329,464 in connection with this commitment.

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13. Related Party Transactions

The Company considers key management to be its directors, officers and Exploration Manager.

During the three months ended December 31, 2012 the Company entered into the following related party transactions:

| | 2012 | 2011 |
|---|-----------|-----------|
| Directors fees | \$ 47,500 | \$ 47,500 |
| Management and consulting fees paid to key management | \$ 96,000 | \$ 90,000 |
| Fees paid to a former director and officer and related individuals | \$ - | \$ 54,000 |
| Publicity and advertising fees with companies controlled by an individual related to a former director and officer of the Company | \$ - | \$ 18,000 |

Included in share-based compensation for the period ended December 31, 2012 is \$61,254 (2011 - \$123,781) related to stock options granted to management and directors. Included in the additions to resource properties during the year ended December 31, 2012 is \$10,813 (2011- \$Nil) related to stock options granted to management.

As at December 31, 2012, accounts payable and accrued liabilities included \$Nil (September 30, 2012 - \$47,500) related to various related parties disclosed above.

14. Commitments

- a) The Company has monthly obligations of 5,000 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:

| | |
|------|-----------|
| 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 an agreement for the provision of public and investor relations services for a period of six months commencing May 1, 2009 in exchange for a fee of 3,000 Euros payable upon the signing of the agreement and 3,000 Euros payable August 1, 2009. This agreement automatically renews for an additional six month period unless terminated by either party by way of written notice received no later than 30 days prior to the expiry of the original six month period of the agreement.
- d) During the year ended September 30, 2011, the Company entered into an employment agreement with the CEO for a period of three years, effective September 1, 2011 at an annual salary of \$240,000 paid in monthly installments. An extension or renewal of the agreement is to be evidenced in writing by both parties. The employment agreement includes the grant of 1,000,000 stock options which vest immediately, 1,333,333 stock options vesting 12 months following the grant date, 1,333,333 stock options vesting 24 months following the grant date and 1,333,333 stock options vesting 36 months following the grant date. Each option allows the holder to purchase one common share of the Company at a price of \$0.20 per share. The agreement can be terminated at any time by either party giving to the other party not less than three months' written notice of termination, or in the case of the Company, payment of three months' salary in lieu of notice.
- e) During the period ended December 31, 2011, the Company entered into an employment agreement with a new Vice-President Operations for a period of three years commencing January 15, 2012, with an annual salary of 200,000 United States Dollars. The agreement can be terminated by either party on 90 days written notice.
- f) Additional commitments are disclosed in note 5.

Kilo Goldmines Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended December 31, 2012 and 2011
Unaudited
(Expressed in Canadian Dollars)

15. Segmental Reporting

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

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

| | Canada | DRC |
|-------------------------------|---------------|---------------|
| Resource Properties | \$ - | \$ 31,721,483 |
| Property, Plant and Equipment | 68,178 | 607,591 |
| Reclamation Bonds | - | 65,933 |
| | <hr/> | <hr/> |
| | \$ 68,178 | \$ 32,395,007 |
| | <hr/> | <hr/> |

16. Subsequent Events

Subsequent to December 31, 2012:

- a) 460,000 options expired unexercised.
- b) The Company announced the filing of a preliminary short-form prospectus in connection with a fully marketed offering of common shares in the capital of the Company (the "Common Shares") at a price per Common Share to be determined in the context of the market, for aggregate minimum proceeds of \$10,000,000 (the "Offering"). A syndicate of agents has been engaged to act as agents to sell the Common Shares on a best efforts basis.

The agents shall also have the option to purchase from the Company up to that number of additional common shares in the capital of the Company equal to 15% of the number of Common Shares issued under the Offering, exercisable in whole, or in part, any time from and including the closing date of the Offering for a period of 30 days.

An additional subsequent event is disclosed in note 5.