
Condensed Interim Financial Statements

Kilo Goldmines Ltd.

**For the Three Months Ended December 31, 2013 and 2012
(Expressed in Canadian Dollars)**

Unaudited

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NOTICE TO READER

The accompanying unaudited condensed interim condensed interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these condensed interim condensed interim financial statements.

Kilo Goldmines Ltd.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	December 31, 2013 \$ (Unaudited)	September 30, 2013 \$ (Audited)
Assets		
Current Assets		
Cash and cash equivalents	3,316,787	4,322,879
Receivables	208,680	395,465
Prepaid expenses	64,015	41,416
	<u>3,589,482</u>	<u>4,759,760</u>
Non-Current Assets		
Resource Properties (note 5)	39,182,138	37,186,185
Property, Plant and Equipment (note 4)	516,422	539,512
Reclamation Bonds (note 6)	68,602	66,454
	<u>68,602</u>	<u>66,454</u>
	<u>43,356,644</u>	<u>42,551,911</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	881,405	1,063,487
Non-current Liabilities		
Deferred Lease Inducement (note 7)	16,342	17,167
	<u>16,342</u>	<u>17,167</u>
	<u>897,747</u>	<u>1,080,654</u>
Shareholders' Equity		
Share Capital (note 8)	54,437,426	54,431,426
Warrants (note 9)	1,142,598	1,163,274
Stock Options (note 10)	2,103,215	2,084,405
Contributed Surplus (note 11)	12,002,704	11,946,028
Cumulative Translation Reserve	1,870,475	640,045
Deficit	(29,097,520)	(28,793,921)
	<u>42,458,898</u>	<u>41,471,257</u>
	<u>43,356,644</u>	<u>42,551,911</u>

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

Approved on behalf of the Board

Signed "Alex van Hoeken" , Director

Signed "J Mustard" , Director

Kilo Goldmines Ltd.

Consolidated Statements of Comprehensive Loss

For the Three Months Ended December 31, 2013 and 2012

Unaudited

(Expressed in Canadian Dollars)

	2013	2012
Expenses		
Corporate and administrative expenses	\$ 218,479	\$ 454,603
Share-based compensation (note 10)	44,383	61,254
Amortisation	43,043	55,842
Less:		
Interest Income	(2,307)	(2,552)
Loss for the period	(303,599)	(569,147)
Other Comprehensive Income (Loss) for the period		
Currency Translation Adjustment (note 3(a))	1,230,430	365,668
Total Comprehensive Income (Loss) for the period	926,831	(203,479)
Income (Loss) per Share - basic and diluted	-	-
Weighted Average Number of Common Shares Outstanding - basic and diluted	319,183,674	218,849,978

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

Consolidated Statements of Changes in Equity

For the Three Months Ended December 31, 2013 and 2012
(expressed in Canadian dollars)

	Common Stock		Warrants	Stock Options	Contributed Surplus	Cumulative Translation Reserve	Accumulated Deficit	Total
	Shares	Amount						
Balance - October 1, 2013	319,049,978	\$ 54,431,426	\$ 1,163,274	\$ 2,084,405	\$ 11,946,028	\$ 640,045	\$ (28,793,921)	\$ 41,471,257
Expired warrants	-	-	(20,676)	-	20,676	-	-	-
Common shares issued related to resource properties	300,000	6,000	-	-	-	-	-	6,000
Stock options granted	-	-	-	54,810	-	-	-	54,810
Stock options expired	-	-	-	(36,000)	36,000	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	1,230,430	-	1,230,430
Net loss	-	-	-	-	-	-	(303,599)	(303,599)
Balance - December 31, 2013	319,349,978	\$ 54,437,426	\$ 1,142,598	\$ 2,103,215	\$ 12,002,704	\$ 1,870,475	\$ (29,097,520)	\$ 42,458,898

	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
Expired warrants	-	-	(1,692,442)	-	1,692,442	-	-	-
Stock options granted	-	-	-	104,190	-	-	-	104,190
Stock options expired	-	-	-	(280,350)	248,220	-	-	(32,130)
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	\$ 9,926,941	\$ (237,481)	\$ (25,259,231)	\$ 34,778,128

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

Kilo Goldmines Ltd.

Consolidated Statements of Cash Flows

For the three months ended December 31, 2013 and 2012

Unaudited

(Expressed in Canadian Dollars)

	2013		2012
Cash Flows from Operating Activities			
Net loss for the period	(303,599)	\$	(569,147)
Items not affecting cash:			
Amortisation	43,043		55,842
Stock-based compensation	44,383		61,254
Deferred lease inducement	(825)		(825)
	<u>(216,997)</u>		<u>(452,876)</u>
Net Changes in non-cash working capital:			
Receivables	186,785		(23,590)
Prepaid expenses	(22,599)		(18,925)
Accounts payable and accrued liabilities	(182,081)		(21,915)
	<u>(234,892)</u>		<u>(517,306)</u>
Cash Flows from Financing Activities			
	<u>-</u>		<u>-</u>
Cash Flows from Investing Activities			
Mineral properties and deferred exploration costs	(769,033)		(1,584,394)
Effect of translation to presentation currency	(2,167)		(211,338)
	<u>(771,200)</u>		<u>(1,795,732)</u>
Change in Cash	(1,006,092)		(2,313,038)
Cash and Cash Equivalents - Beginning of period	4,322,879		5,172,059
Cash and Cash Equivalents - End of period	<u>3,316,787</u>	<u>\$</u>	<u>2,859,021</u>

Supplemental Cash Flow Information

Non- cash financing and investing activities

Common shares issued pursuant to resource property acquisition	\$	6,000	\$	-
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The accompanying notes form an integral part of these consolidated financial statements

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 operational 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 financial statements include the accounts of the Company, its subsidiaries Kilo Goldmines Inc. ("Kilo Inc."), KGL Somituri SPRL, 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, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2013, 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 12, 2014, 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, 2014 could result in restatement of these interim consolidated financial statements. The Company's condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Standards Interpretations Committee.

The significant accounting policies (note 3) have been applied consistently to all periods. The Board of Directors approved the statements on February 25, 2014.

b) Basis of Measurement

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

3. Significant Accounting Policies

These condensed interim financial statements follow the same accounting policies and methods of their application as the September 30, 2013 audited annual consolidated financial statements and have been applied consistently in all periods except for the adoption of the following standards with effect from October 1, 2013, and which have had no impact on the Company's financial statements:

- a) IFRS 10 Condensed interim 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 Condensed interim 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.

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.

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 condensed interim entities and uncondensed interim 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 condensed interim assets and liabilities, risk exposures arising from involvements with uncondensed interim structured entities and non-controlling interest holders' involvement in the activities of condensed interim entities.

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

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-condensed interim financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13.

These standards have been adopted in the Company's financial statements for the period beginning October 1, 2013, and have had no impact on the Company's financial statements.

- b) 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.

Kilo Goldmines Ltd
Notes to the Condensed Interim Financial Statements
For the three months ended December 31, 2013 and 2012
Unaudited

4. Property, Plant and Equipment

As at December 31, 2013	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
Cost							
Balance, October 1, 2013	\$ 136,429	\$ 299,863	\$ 816,759	\$ 23,746	\$ 297,535	\$ 24,260	\$ 1,598,592
Additions	-	-	-	-	-	-	-
Effects of Movements in Exchange Rates	4,410	9,690	21,791	-	8,282	-	44,173
Balance, December 31, 2013	140,839	309,553	838,550	23,746	305,817	24,260	1,642,765
Accumulated depreciation							
Balance, October 1, 2013	-	(60,705)	(722,676)	(22,834)	(228,605)	(24,260)	(1,059,080)
Depreciation	-	(2,833)	(22,993)	(1,187)	(16,029)	-	(43,042)
Effects of Movements in Exchange Rates	-	(2,279)	(21,438)	-	(504)	-	(24,221)
Balance, December 31, 2013	-	(65,817)	(767,107)	(24,021)	(245,138)	(24,260)	(1,126,343)
Net carrying amount as at December 31, 2013	\$ 140,839	\$ 243,736	\$ 71,443	\$ (275)	\$ 60,679	\$ -	\$ 516,422

As at September 30, 2013	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Equipment</u>	<u>Computer Equipment</u>	<u>Total</u>
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	6,237	13,709	30,823	-	11,716	-	62,485
Balance, September 30, 2013	136,429	299,863	816,759	23,746	297,535	24,260	1,598,592
Accumulated depreciation							
Balance, October 1, 2012	-	(46,709)	(565,565)	(19,395)	(156,081)	(24,260)	(812,010)
Depreciation	-	(12,996)	(130,357)	(3,439)	(64,116)	-	(210,908)
Effects of Movements in Exchange Rates	-	(1,000)	(26,754)	-	(8,408)	-	(36,162)
Balance, September 30, 2013	-	(60,705)	(722,676)	(22,834)	(228,605)	(24,260)	(1,059,080)
Net carrying amount as at September 30, 2013	\$ 136,429	\$ 239,158	\$ 94,083	\$ 912	\$ 68,930	\$ -	\$ 539,512

5. Resource Properties

	October 1, 2013	Net Additions (Recoveries)	Write-Off's	Transfer of Licences	Currency Translation Adjustments	December 2013
KGL-Somituri (a)	\$ 36,908,069	\$ 760,475	\$ -	\$ -	\$ 1,199,899	\$ 38,868,443
KGL-Isiro (c)	278,116	25,000	-	-	10,579	313,695
	<u>\$ 37,186,185</u>	<u>\$ 785,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,210,478</u>	<u>\$ 39,182,138</u>

	October 1, 2012	Net Additions (Recoveries)	Write-Off's	Transfer of Licences	Currency Translation Adjustments	September 30, 2013
KGL-Somituri	\$ 27,937,690	\$ 7,841,292	\$ -	\$ -	1,129,087	\$ 36,908,069
KGL-ERW	241,967	23,000	(73,194)	(229,517)	37,744	-
KGL-Isiro	-	58,555	-	229,517	(9,956)	278,116
KGL-Sihu	1,754,005	-	(1,814,002)	-	59,997	-
	<u>\$ 29,933,662</u>	<u>\$ 7,922,847</u>	<u>\$ (1,887,196)</u>	<u>\$ -</u>	<u>1,216,872</u>	<u>\$ 37,186,185</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

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 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 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.

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 kilometers. The KGL-ERW SPRL partnership was created on July 4, 2007 to hold these permits, and at inception was 75% owned by the Company. As of November 30, 2013, several permits have been relinquished, title to one permit (PR 2274) is held by KGL-ERW SPRL, and twelve permits are held in the entity KGL Isiro SARL (see note below). The single permit held in KGL-ERW SPRL will be relinquished. Permits held in KGL Isiro SARL have an expiry date of February 4, 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. To date interest income related to these loans has not been recorded as the properties' ability to generate revenue in the future is still being evaluated by the Company.

During the year ended September 30, 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. In December 2012, the Company announced the withdrawal of Rio from the agreement for iron ore and upon withdrawal, data and joint venture assets were handed over to the Company. Property permits have been transferred into a new entity, KGL Isiro SARL during the year ended September 30, 2013, for purposes of a joint venture with Randgold Resource Ltd. relating to gold interests.

During November 2012, the Company entered into a Letter Agreement to acquire, on a phased basis, up to the full additional 25% ownership interest in KWR-ERW SPRL, as well as the outstanding 25% gold interest in the properties now residing in KWR Isiro SARL. In exchange for the above interest, the Company agreed to make cash payments totaling 635,000 United States Dollars and to 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. In January 2013, the Company issued 200,000 common shares in connection with the Letter Agreement to acquire an additional 2% interest in the properties, thereby increasing the Company's total current interest to 77%. In December 2013 the Company commenced the process of acquiring a further 4% interest by effecting a cash payment of \$25,000. In addition, 50,000 shares in the Company will be issued.

During the year ended September 30, 2012, due to the relinquishment of certain properties, the Company wrote off \$166,806 relating to costs incurred to acquire and maintain these properties. As of September 30, 2013, title to one permit is held by KGL-ERW SPRL. This permit will also be relinquished, and the Company wrote off \$73,194 relating to this permit during the year ended September 30, 2013.

c) KGL Isiro SARL

On December 6, 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. To facilitate the Joint Venture, twelve properties have been transferred into a new entity, **KGL Isiro SARL**. Pursuant to the Joint Venture Agreement, Randgold agrees to fund, through its wholly-owned subsidiary Randgold Resources (DRC) Limited ("Randgold DRC") or any wholly owned subsidiary of Randgold DRC, a phased exploration program. The Phase One Exploration Program shall be completed within 36 months of the effective date of the Joint Venture Agreement and the 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

d) 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 held by a former director of the Company.

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).

The Research Permits had an April 6, 2013 expiry, at which time the permits were not renewed as the Company determined that it did not have any further plans to explore or develop the KGL-SIHU properties. The Company accordingly has written off all acquisition and exploration costs associated with the properties in the amount of \$1,814,002.

The rights to the Somituri 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.

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 September 30, 2013 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, 2013.

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, 2012 to December 31, 2013:

	Number	Amount
Balance - September 30, 2012	218,849,978	46,461,706
Issued for cash	100,000,000	8,900,000
Issued related to resource properties	200,000	23,000
Issuance costs		(953,280)
Balance - September 30, 2013	319,049,978	\$ 54,431,426
Issued related to resource properties	300,000	6,000
Balance - December 31, 2013	319,349,978	54,437,426

During the three months ended December 31, 2013, the Company:

- a) Issued 300,000 shares at \$0.02 in final settlement of properties acquired from Masters SPRL in 2006

During the year ended September 30, 2013, the Company:

- a) Issued 100,000,000 units (pursuant to a prospectus) for proceeds of \$10,000,000, of which \$1,100,000 was allocated to warrants (see note 9).

Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.15 per share at any time on or before March 20, 2016.

In connection with the prospectus, the Company paid fees totaling \$1,071,940 of which \$118,660 was allocated to warrants, and issued 2,926,650 warrants to agents. The fair value of these warrants was estimated to be \$161,258, of which \$161,258 was allocated to issuance costs of warrants (see note 9).

- b) Issued 200,000 common share at 0.115 per share pursuant to a Letter Agreement as discussed in note 5 (b).

9. Warrants

	Number	Amount	Weighted Average Exercise Price
Balance - September 30, 2012	46,237,350	3,221,248	0.30
Expired	(45,987,350)	(3,200,572)	(0.30)
Issued March 2013	100,000,000	1,100,000	0.15
Issued to Agents	2,926,650	161,258	0.10
Issuance costs		(118,660)	
Balance - September 30, 2013	103,176,650	\$ 1,163,274	\$ 0.149
Expired	(250,000)	(20,676)	(0.30)
Balance December 31, 2013	102,926,650	1,142,598	0.149

During the year ended September 30, 2013, the Company:

- i) Issued 100,000,000 warrants in connection with a prospectus as described in note 8(a). Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 per share at any time on or before March 20, 2016.

The fair value of the warrants was estimated to be \$1,100,000 based on the examination of the prevailing market price of common share of the Company and discussion with various agents.

- ii) Issued 2,926,650 warrants to agents in connection with a prospectus as described in note 8(a). Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.10 per share at any time on or before March 20, 2015.

The fair value of the warrant was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Share price	\$0.09
Expected dividend yield	Nil
Risk-free interest rate	1.25%
Expected life	2 years
Expected volatility	126%

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's warrants.

Volatility is calculated based on the Company's historical share price.

As at December 31, 2013, the following common share purchase warrants ("warrants") were issued and outstanding:

Number	Exercise Price	Expiry
100,000,000	\$ 0.15	March 20, 2016
2,926,650	\$ 0.10	March 20, 2015
<u>102,926,650</u>		

10. Stock Options and Agent 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.

- c) 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.

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

	Number	Amount	Weighted Average Exercise Price
Balance - September 30, 2012	20,371,279	2,533,547	0.28
Granted	7,050,000	310,035	0.12
Expired	(6,157,279)	(759,177)	(0.21)
Balance - September 30, 2013	21,264,000	\$ 2,084,405	\$ 0.19
Expired	(300,000)	(36,000)	0.22
Granted		54,810	
Balance - December 31, 2013	20,964,000	2,103,215	\$ 0.19

During the year ended September 30, 2013, the Company:

- i) Issued 7,050,000 stock options to directors, employees and consultants. Each option entitles the holder to purchase one common share of the Company at a price of \$0.12 per share at any time on or before June 19, 2018.

The fair value of the options was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Share price	\$0.04
Expected dividend yield	Nil
Risk-free interest rate	1.03%
Expected life	5 years
Expected volatility	116%

Volatility is calculated based on the Company's historical share price.

e) As at December 31, 2013, the following stock options were outstanding:

Exercise Price	Number of Options			Expiry
	Unvested	Vested	Total	
\$ 0.45	-	804,000	804,000	October 21, 2014
\$ 0.30	-	1,260,000	1,260,000	November 19, 2015
\$ 0.20	666,666	4,333,334	5,000,000	July 7, 2016
\$ 0.20	1,333,333	3,666,667	5,000,000	September 1, 2016
\$ 0.20	-	300,000	300,000	January 15, 2015
\$ 0.22	-	300,000	300,000	March 9, 2015
\$ 0.22	-	300,000	300,000	March 21, 2015
\$ 0.22	316,667	633,333	950,000	March 21, 2015
\$ 0.12	5,650,000	1,400,000	7,050,000	June 19, 2018
	7,966,666	12,997,334	20,964,000	

During the three months ended December 31, 2013, share based payments of \$10.427 (2012 - \$42,936) were capitalized to resource properties.

11. Community- Based Initiatives in the DRC

The Company 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. The Company had spent approximately \$329,464 in connection with this commitment.

12. Related Party Transactions

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

During the three months ended December 31, 2013 the Company entered into the following related party transactions:

	2013	2012
Directors fees	\$ 32,000	\$ 47,500
Management and consulting fees paid to CEO and CFO	\$ 76,800	\$ 96,000

Included in share-based compensation for the three months ended December 31, 2013 is \$44,383 (2012 - \$61,254) related to stock options granted to management and directors. Included in the additions to resource properties during the three months ended December 31, 2013 is \$10,426 (2012- \$10,813) related to stock options granted to management.

13. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices) and;
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at December 31, 2013, the Company's cash and cash equivalents are categorized as Level 1 measurement.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items. Reclamation bonds, which are long term, are valued at amortised cost.

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 December 31, 2013. The Company's cash and cash equivalents are on deposit with highly rated banking groups in Canada and 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 December 31, 2013, the Company has current assets of \$3,589,482 (September 30, 2013- \$4,759,760) and current liabilities of \$881,405 (September 30, 2013 - \$1,063,487). 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 \$2,708,077 as at December 31, 2013 (September 30, 2013 - \$3,696,273).

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 bankers acceptance notes, treasury bills 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 December 31, 2013, the Company had cash of \$2,182,740, accounts receivable of \$173,734 and accounts payable and accrued liabilities of \$70,232 denominated in United States Dollars. As at December 31, 2013, the Company had accounts payable of 55,159 United Kingdom Pounds Sterling and accounts payable of 172,322 South African Rand.

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.

Sensitivity analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at December 31, 2013, approximately 1% of the Company's cash and cash equivalents is at fixed interest rates beyond the next three months and is not subject to interest rate fluctuations within the next three months. The balance of the Company's cash and cash equivalents is subject to interest rate fluctuations. Sensitivity to a plus or minus 25 basis points change in rates would increase (or decrease) the Company's net loss by approximately \$2,094 over a three month period.

As at December 31, 2013, cash and cash equivalents include \$2,533,843 United States Dollars, accounts receivable include \$173,734 United States dollars, and accounts payable and accrued liabilities include \$70,232 United States Dollars, 55,159 United Kingdom Pounds Sterling, and 172,322 South African Rand.

If the Canadian Dollar weakens (or strengthens) 10% against the United States Dollar with other variables held constant, the Company's expenses would decrease (or increase) by approximately \$263,734.

If the Canadian Dollar weakens (or strengthens) 10% against the United Kingdom Pound Sterling with other variables held constant, the Company's expenses would increase (or decrease) by approximately \$10,204.

If the Canadian Dollar weakens (or strengthens) 10% against the South African Rand with other variables held constant, the Company's expenses would increase (or decrease) by approximately \$1,733.

14 Capital Disclosures

The company's objective when managing capital is to raise sufficient funds to execute its exploration plan. At December 31, 2013, the company's capital consists of shareholder's equity in the amount of \$42,458,898.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain future development of the business. The Company does not have any externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the three months ended December 31, 2013.

15 Commitments

- (i) The Company has monthly obligations of \$4,000 United States Dollars pursuant to a consulting agreement. The agreement does not have a fixed term and can be cancelled by either party.
- (ii) The Company has entered into leases for office premises and office equipment. The minimum lease commitments under these leases are as follows:

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

- (iii) 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 vested 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. Effective October 1, 2013 a 20% reduction was effected on senior management and director fees.
- (iv) 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. Effective October 1, 2013 senior management salaries and director fees were reduced by 20%.
- (v) Additional commitments are disclosed in note 5.

16 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.

The Company's non-current assets relate to the following areas:

	Canada	DRC
Resource Properties	\$ -	\$ 39,182,138
Property, Plant and Equipment	704	515,718
Reclamation Bonds	-	68,602
December 31, 2013	<u>\$ 704</u>	<u>\$ 39,766,458</u>
Resource Properties	\$ -	\$ 37,186,185
Property, Plant and Equipment	913	539,512
Reclamation Bonds	-	66,454
September 30, 2013	<u>\$ 913</u>	<u>\$ 37,792,151</u>