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**Consolidated Financial Statements**

**Kilo Goldmines Ltd.**

**For the Years Ended September 30, 2017 and 2016  
(Expressed in Canadian Dollars)**

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## INDEPENDENT AUDITORS' REPORT

RSM Canada LLP

### To the Shareholders of Kilo Goldmines Ltd.

We have audited the accompanying consolidated financial statements of Kilo Goldmines Ltd. and its subsidiaries, which comprise the consolidated statements of financial position at September 30, 2017 and September 30, 2016 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended September 30, 2017 and September 30, 2016 and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Kilo Goldmines Ltd., and its subsidiaries as at September 30, 2017 and September 30, 2016 and its financial performance and its cash flows for the years ended September 30, 2017 and September 30, 2016 in accordance with International Financial Reporting Standards.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes material uncertainties that cast significant doubt about Kilo Goldmines Ltd.'s ability to continue as a going concern.

*RSM Canada LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
January 24, 2018  
Toronto, Ontario

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# Kilo Goldmines Ltd.

## Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September 30, 2017 \$	September 30, 2016 \$
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2,002,255	8,718,573
Receivables	113,224	66,644
Prepaid expenses	30,721	46,786
	<u>2,146,200</u>	<u>8,832,003</u>
<b>Non-Current Assets</b>		
Bid Bond (note 7)	629,379	660,748
Property, Plant and Equipment (note 4)	433,364	466,537
Reclamation Bonds (note 6)	248,377	92,818
	<u>3,457,320</u>	<u>10,052,106</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	152,231	157,980
<b>Non-current Liabilities</b>		
Bid bond (note 7)	629,379	660,748
Deferred Lease Inducement	3,967	7,267
	<u>785,577</u>	<u>825,995</u>
<b>Shareholders' Equity</b>		
Share Capital (note 8)	64,797,488	64,797,488
Warrants (note 9)	5,680,887	5,680,887
Stock Options (note 10)	1,062,836	256,156
Contributed Surplus	15,373,503	15,373,503
Cumulative Translation Reserve	68,387	91,808
Deficit	(84,311,358)	(76,973,731)
	<u>2,671,743</u>	<u>9,226,111</u>
	<u>3,457,320</u>	<u>10,052,106</u>

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

Commitments (Note 15)

Subsequent Events (Note 17)

Signed DG Netherway, Director

Signed J Mustard, Director

# Kilo Goldmines Ltd.

## Consolidated Statements of Comprehensive Loss

For the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

	Year Ended	
	September 30 2017	September 30 2016
<b>Expenses</b>		
Corporate and administrative expenses	\$ 798,840	\$ 856,759
Share-based compensation (note 10 and 12)	806,680	182,395
Exploration and evaluation (note 5)	5,502,732	1,864,771
Amortization (note 4)	29,579	26,773
Loss on foreign exchange	201,885	37,568
Less:		
Interest Income	(2,089)	(662)
<b>Loss for the year</b>	<b>(7,337,627)</b>	<b>(2,967,604)</b>
<b>Other Comprehensive Loss for the year</b>		
Item that may be reclassified to profit or loss:		
Currency Translation Adjustment	(23,421)	(22,417)
<b>Total Comprehensive Loss for the year</b>	<b>\$ (7,361,048)</b>	<b>\$ (2,990,021)</b>
<b>Loss per Share - basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>
<b>Weighted Average Number of Common Shares Outstanding - basic and diluted</b>	<b>169,699,855</b>	<b>72,240,499</b>

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

**Kilo Goldmines Ltd.**  
**Consolidated Statements of Changes in Equity**

For the Years Ended September 30, 2017 and 2016  
(expressed in Canadian dollars)

	Note B		Note 9		Note 10		Cumulative Translation Reserve	Accumulated Deficit	Total
	Common Stock	Amount	Warrants	Stock Options	Contributed Surplus	Reserve			
<b>Balance - October 1, 2016</b>	169,699,855	\$ 64,797,488	\$ 5,680,887	\$ 256,156	\$ 15,373,503	\$ 91,808	\$ (76,973,731)	\$ 9,226,111	
Stock options granted and vesting	-	-	-	806,680	-	-	-	806,680	
Foreign currency translation adjustment	-	-	-	-	-	(23,421)	-	(23,421)	
Net loss	-	-	-	-	-	-	(7,337,627)	(7,337,627)	
<b>Balance - September 30, 2017</b>	169,699,855	\$ 64,797,488	\$ 5,680,887	\$ 1,062,836	\$ 15,373,503	\$ 68,387	\$ (84,311,358)	\$ 2,671,743	
	Common Stock	Amount	Warrants	Stock Options	Contributed Surplus	Cumulative Translation Reserve	Accumulated Deficit	Total	
<b>Balance - October 1, 2015</b>	56,680,869	\$ 58,918,266	\$ 2,294,658	\$ 241,979	\$ 14,223,945	\$ 114,225	\$ (74,006,127)	\$ 1,786,946	
Common shares and warrants issued	112,993,386	6,258,347	4,651,190	-	-	-	-	10,909,537	
Broker compensation warrants	-	-	20,721	-	-	-	-	20,721	
Common shares issued related to resource properties	10,600	901	-	-	-	-	-	901	
Warrants exercised	15,000	1,050	-	-	-	-	-	1,050	
Stock options granted and vesting	-	-	-	182,395	-	-	-	182,395	
Warrants expired	-	-	-	(168,218)	-	-	-	-	
Issuance costs	-	(381,076)	(981,340)	-	168,218	-	-	(685,418)	
Foreign currency translation adjustment	-	-	(304,342)	-	981,340	(22,417)	-	(22,417)	
Net loss	-	-	-	-	-	-	(2,967,604)	(2,967,604)	
<b>Balance - September 30, 2016</b>	169,699,855	\$ 64,797,488	\$ 5,680,887	\$ 256,156	\$ 15,373,503	\$ 91,808	\$ (76,973,731)	\$ 9,226,111	

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

**Kilo Goldmines Ltd.**  
**Consolidated Statements of Cash Flows**

For the years Ended September 30, 2017 and 2016  
(Expressed in Canadian Dollars)

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net loss for the year	\$ (7,337,627)	\$ (2,967,604)
Items not affecting cash:		
Amortization	29,579	26,773
Stock-based compensation	806,680	182,395
Deferred lease inducement	(3,300)	(3,300)
Shares issued for resource property acquisitions	-	901
	<u>(6,504,668)</u>	<u>(2,760,835)</u>
 Net Changes in non-cash working capital:		
Receivables	(46,580)	2,613
Prepaid expenses	16,065	11,924
Accounts payable and accrued liabilities	(5,749)	(43,910)
	<u>(6,540,932)</u>	<u>(2,790,208)</u>
 <b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of common shares and warrants	-	10,809,537
Proceeds from warrants exercised	-	1,050
Share and warrant issuance costs	-	(564,697)
	<u>-</u>	<u>10,245,890</u>
 <b>Cash Flows from Investing Activities</b>		
Equipment	(19,827)	-
Reclamation bonds	(155,559)	(8,436)
	<u>(175,386)</u>	<u>(8,436)</u>
 <b>Change in Cash and Cash Equivalents</b>	(6,716,318)	7,447,246
<b>Effect of exchange rate changes on cash</b>	-	(618)
<b>Cash and Cash Equivalents - Beginning of year</b>	8,718,573	1,271,945
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 2,002,255</u>	<u>\$ 8,718,573</u>

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

## 1. Nature of Operations

Kilo Goldmines Ltd. (the "Company" or "KGL" or "Kilo") 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 business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. The Company's resource properties which are located outside of North America are subject to the risk of foreign investment, foreign political influence, including increases in taxes and royalties, renegotiation of contracts, expropriation and currency exchange fluctuations and restrictions.

## 2. Basis of Presentation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries Kilo Goldmines Inc. ("Kilo Inc.") and Kilo Isiro Atlantic Ltd., and the 71.25% owned subsidiary KGL Somituri SARL, and its 49% equity interest in Isiro (Jersey) Limited and KGL Isiro SARL. All intercompany accounts and transactions have been eliminated.

### a) Statement of Compliance

The Company's consolidated 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. These policies are based on IFRS effective as of September 30, 2017. The Board of Directors approved the statements on January 24, 2018.

### b) Basis of Measurement

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

### c) Going concern of operations

These consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its resource properties and upon future profitable production or proceeds from the disposition of the resource properties. The Company will periodically have to raise funds to continue operations and, although it has been successful thus far in doing so, there is no assurance it will be able to do so in the future. These factors create material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

The Company has not generated revenue from operations, and incurred a comprehensive loss of \$7,361,048 during the year ended September 30, 2017 (2016:\$2,990,021) and as of that date the Company's accumulated deficit was \$84,311,358 (2016: \$76,973,731). The Company intends to raise further financing through private placements, joint ventures and project financing.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

## 2. Basis of presentation (continued)

### d) Functional and presentation currency

These 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 KGL Somituri SARL and Kilo Isiro Atlantic Ltd. is the United States Dollar.

## 3. Significant Accounting Policies

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

### a) Foreign Currency Transactions

Items included in the financial statements of the Company and its subsidiaries and equity interest are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's consolidated financial statements are presented in Canadian Dollars. Costs of the Company and Kilo Inc. are primarily incurred in Canadian dollars. Costs of KGL Somituri SARL, Isiro (Jersey) Limited, KGL Isiro SARL and Kilo Isiro Atlantic Ltd are primarily incurred in United States Dollars.

At each reporting date 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 profit and loss.

The Company translates the assets and liabilities of its subsidiaries and equity interest 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) 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 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.



### 3. Significant Accounting Policies (continued)

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.

#### d) Exploration and Evaluation of Mineral Resources

Exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Once technical feasibility and commercial viability has been established, related development expenditures are capitalized. These include costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

#### e) 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 of disposal 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.

#### f) 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 statement of financial position 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.

#### g) 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.

### 3. Significant Accounting Policies (continued)

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.

Upon expiry or cancellation of unexercised options, the recorded fair value of the options is transferred to contributed surplus, or when exercised, to share capital.

#### h) 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 September 30, 2017 and 2016, the Company is not committed to any decommissioning obligations in respect of its mineral resource properties.

#### i) 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.

#### j) 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.

### 3. Significant Accounting Policies (continued)

#### k) 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.

#### l) 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 years ended September 30, 2017 and 2016, all the outstanding stock options and warrants were anti-dilutive.

#### m) 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.

#### n) 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 profit or 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 year. 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

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

### 3. Significant Accounting Policies (continued)

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 amounts 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.

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
Bid Bond	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
Reclamation bonds	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Bid Bond payable	Other financial liabilities	Amortized cost

#### o) 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 profit and loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### p) Valuation of Equity Instruments in Private Placements

The Company adopted a relative fair value method with respect to the measurement of common shares and warrants issued as private placement units. Warrants attached to units are valued using the Black-Scholes option pricing model and the share price at the time of financing. The shares are valued based on quoted market price. The proceeds from the issue of units are allocated between share capital and reserve for warrants, as well as the associating issuance costs. If and when the warrants are exercised, the applicable amounts of reserve for warrants are transferred to share capital. Any consideration paid on the exercise of the warrants is credited to capital stock. For those warrants that expire unexercised on maturity, the recorded value is transferred to contributed surplus.

#### q) Critical Accounting Judgments and Estimation Uncertainties

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

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

### 3. Significant Accounting Policies (continued)

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

#### Recoverability of Property, Plant and Equipment

The Company assesses 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 of disposal 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.

#### 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 10.

#### Warrants

Management uses judgement to determine the inputs to the Black-Scholes option pricing model including the expected life of the warrant, volatility, and dividend yield and making assumptions about them. The assumptions used for estimating the fair value of warrants are disclosed in Note 9.

#### Determination of control of subsidiaries and joint arrangements

Judgement is required to determine when the Company has control of subsidiaries or joint control of joint arrangements. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making, financing of the investee, and the appointment, remuneration and termination of key management personnel; and when the decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Judgement is also required when determining the classification of a joint arrangement as a joint venture or a joint operation through an evaluation of the rights and obligations arising from the arrangement. Changes to the Company's access to those rights and obligations may change the classification of that joint arrangement.

Management has determined that it controls KGL Somituri SARL as the Company directs the business of the partnership and no one investee can effect a change in this control, and have consolidated the operations of KGL Somituri SARL in these financial statements. Management has determined that the Company has significant influence in Isiro (Jersey) Limited and KGL Isiro SARL based on their current ownership interest in these entities and their ability to affect the operating and capital decision-making and have accounted for the operations of these entities using the equity method of accounting. Management has determined that the Company does not have joint control due to the terms of the Joint Venture Agreement with Randgold Resources Limited, relating to Isiro (Jersey) Limited and KGL Isiro SARL.

### 3. Significant Accounting Policies (continued)

The Joint Venture Agreement sets out that the decision-making rights are based on voting interest; as a result no joint arrangement exists. Refer to note 5 for further information.

#### Determination of tax assets

Management applies judgement in the determination of tax assets relating to resource properties and tax losses in the DRC.

#### r) Significant new standards and interpretations not yet adopted

The effective date of the following standard is January 1, 2018.

##### IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments: recognition and measurement, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied.

IFRIC 22 Foreign Currency Transactions and Advanced Consideration was issued in December 2016 and clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. For purposes of determining the exchange rate to use on initial recognition, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company has not determined the extent of the impact of the above standards and does not plan to early adopt these new standards.

Kilo Goldmines Ltd  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2017 and 2016

4. Property, Plant and Equipment

As at September 30, 2017	Land	Buildings	Vehicles	Furniture and Fixtures	Equipment	Computer Equipment	Total
Cost							
Balance, October 1, 2016	\$ 174,022	\$ 382,489	\$ 1,002,545	\$ 23,746	\$ 454,692	\$ 27,151	\$ 2,064,645
Additions	-	-	-	-	19,827	-	19,827
Effects of Movements in Exchange Rates	(8,959)	(19,692)	(44,216)	-	(22,414)	-	(95,281)
Balance, September 30, 2017	165,063	362,797	958,329	23,746	452,105	27,151	1,989,191
Accumulated amortization							
Balance, October 1, 2016	-	(114,746)	(1,010,175)	(23,746)	(423,021)	(26,420)	(1,598,108)
Amortization	-	(11,938)	-	-	(16,910)	(731)	(29,579)
Effects of Movements in Exchange Rates	-	6,516	44,608	-	20,736	-	71,860
Balance, September 30, 2017	-	(120,168)	(965,567)	(23,746)	(419,195)	(27,151)	(1,555,827)
Net carrying amount as at September 30, 2017	\$ 165,063	\$ 242,629	\$ (7,238)	\$ -	\$ 32,910	\$ -	\$ 433,364

As at September 30, 2016	Land	Buildings	Vehicles	Furniture and Fixtures	Equipment	Computer Equipment	Total
Cost							
Balance, October 1, 2015	\$ 177,358	\$ 389,823	\$ 1,019,035	\$ 23,746	\$ 462,620	\$ 27,151	\$ 2,099,733
Additions	-	-	-	-	-	-	-
Effects of Movements in Exchange Rates	(3,336)	(7,334)	(16,490)	-	(7,928)	-	(35,088)
Balance, September 30, 2016	174,022	382,489	1,002,545	23,746	454,692	27,151	2,064,645
Accumulated amortization							
Balance, October 1, 2015	-	(91,632)	(1,026,812)	(23,746)	(415,989)	(25,460)	(1,583,639)
Amortization	-	(11,938)	-	-	(14,303)	(960)	(27,201)
Effects of Movements in Exchange Rates	-	(11,176)	16,637	-	7,271	-	12,732
Balance, September 30, 2016	-	(114,746)	(1,010,175)	(23,746)	(423,021)	(26,420)	(1,598,108)
Net carrying amount as at September 30, 2016	\$ 174,022	\$ 267,743	\$ (7,630)	\$ -	\$ 31,671	\$ 731	\$ 466,537

## 5. Resource Properties

Cumulative spending to date:

	October 1, 2016	Net Additions	September 30, 2017
KGL-Somituri (a)	\$ 43,206,709	\$ 5,462,375	\$ 48,669,084
KGL-Isiro (b)	556,135	40,357	596,492
	<u>\$ 43,762,844</u>	<u>\$ 5,502,732</u>	<u>\$ 49,265,576</u>

	October 1, 2015	Net Additions	September 30, 2016
KGL-Somituri (a)	\$ 41,449,148	\$ 1,757,561	\$ 43,206,709
KGL-Isiro (b)	448,925	107,210	556,135
	<u>\$ 41,898,073</u>	<u>\$ 1,864,771</u>	<u>\$ 43,762,844</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 SARL 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 SARL, an entity in the DRC 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 "Partnership Agreement"), as well as an Assignment Agreement providing for the transfer of the eight Exploitation Permits to KGL-Somituri SARL.

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.



## 5. Resource Properties (continued)

### a) KGL-Somituri (continued)

During the year ended September 30, 2014 the Company determined to relinquish permits PE 9693 and PE9694. As of September 30<sup>th</sup>, 2016 and 2017, the Company holds six mining licenses which expire in 2039.

The rights to Somituri (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 USD\$5,000,000.

### b) KGL-Isiro

The Company owns 100% of the common shares and 88.5% of the preferred shares of Kilo Isiro Atlantic Ltd. Kilo Isiro Atlantic Ltd. owns 49% of the shares of Isiro (Jersey) Limited, which in turn owns 100% of the shares in KGL Isiro SARL (a company based in the DRC).

As of September 30, 2017, KGL Isiro SARL owns twelve (2016 – twelve) mineral exploration permits. Eleven (11) of these permits had expiry dates in February, 2017. One (1) permit is in the process of relinquishment, and ten (10) permits are under force majeure and their expiry is extended by the period of force majeure, pending final resolution of the court action involving these properties which is described below. One (1) permit expires in June, 2018. The operations of these property interests are governed by an agreement with Suez Holdings Ltd. ("Suez")

On December 7, 2014, Kilo Goldmines Inc., Kilo Isiro Atlantic Ltd. and Suez Holdings Ltd. ("Suez") entered into an agreement (the "Agreement") relating to the operations of Kilo Isiro Atlantic Ltd. The Agreement provides that the potential benefit of the iron ore interests relating to the permits is shared proportionate to the holdings of the preferred shares. The Agreement further governs the beneficial interest in gold mineralization and provides for an apportionment of that interest to Suez and also for a phased buy-out of Suez's initial 25% interest by Kilo Goldmines Inc. As of September 30, 2016 and 2017, Kilo Goldmines Inc. has a beneficial interest of 78.5% of the gold operations. In 2016, the Company issued 10,600 shares followed by payments totaling USD\$70,000, leaving a payment of USD\$30,000 due November 24, 2015 which will be settled upon satisfactory conclusion of the Isiro court action and which, when paid, will complete the acquisition of an 82.25% beneficial interest. The Company may make further cash payments of USD\$490,000 over the next 3 years to complete the buy-out of the 25% gold interest initially held by Suez. Should Kilo Goldmines Inc. not acquire the residual gold interests, Suez has the ability to convert their remaining interest into a royalty.

The Agreement requires the Company to finance all activities of KGL Isiro SARL by way of loans which bear interest at the rate of 5%. The loans are repayable by KGL Isiro SARL from revenues it generates to the extent of 75% of available funds, with the remaining 25% to be distributed to the equity holders. As of September 30, 2016 and 2017 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.

Pursuant to a Joint Venture Agreement, amended July 9, 2013, with Randgold Resources Limited ("Randgold"), Randgold agrees to fund a phased exploration program on the permits held in KGL Isiro SARL. 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. In March 2015 the performance timelines were suspended pending resolution of a legal challenge to ownership of the property titles that had been initiated in February 2014. In 2016 the DRC Commercial Court dismissed the plaintiff's claim. The plaintiff has since appealed the Court's ruling, and the Appeal Court upheld the ruling of the Commercial Court. The plaintiff has now approached the Supreme Court, and this action is ongoing. The outcome of the Supreme Court's ruling is not yet determinable, however the Company regards this claim as opportunistic and of a vexatious nature. The Company initiated a counter-appeal for damages. 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 Isiro (Jersey) Limited 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.

As a result of prior agreements, KGL-Isiro SARL is subject to a 0.8% royalty on iron properties for 8 years from the commencement of commercial operations.

## 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. As of September 30, 2017 the Company has an amount of \$206,544 (2016 - \$70,627) United States Dollars in reclamation bonds pertaining to the KGL Somituri properties. Based on the exploration work performed to September 30, 2017 on the resource properties in the DRC, the Company's management estimates that no future obligations for site restoration costs exist as at September 30, 2017.

## 7. Bid Bond

In 2012, the Company received USD\$500,000 which is held in trust for another party as security for a bid bond. Upon completion of certain conditions the funds will be released and returned to the other party. The conditions are not expected to be satisfied within the upcoming fiscal year.

## 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, 2015 to September 30, 2017.

	<u>Number of Shares</u>		<u>Amount</u>
<b>Balance - September 30, 2015</b>	56,680,869	\$	58,918,266
Issued related to resource properties a)	10,600		901
Issued for cash - December 2015 b)	12,993,386		550,334
Issued for cash - July, 2016 c)	9,300,000		540,566
Issued for cash - August 2016 c)	90,700,000		5,167,447
Issuance costs b) and c)			(381,076)
Warrants exercised d)	15,000		1,050
<b>Balance - September 30, 2016 and September 30, 2017</b>	<u>169,699,855</u>	<u>\$</u>	<u>64,797,488</u>

No shares were issued during the year ended September 30, 2017

During the year ended September 30, 2016, the Company:

- a) Issued 10,600 shares at \$0.085 per share pursuant to an agreement as discussed in note 5 (b).
- b) Issued 12,993,386 units for proceeds of \$909,537 of which \$359,203 was allocated to warrants.

Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.095 per share at any time until December 24, 2017.

In connection with the offering the Company paid broker fees of \$36,171, legal fees of \$31,577 and issued 369,090 Broker warrants with a fair value of \$20,721. Each warrant entitles the holder to purchase one common share at a price of \$0.07 at any time until December 24, 2017. Issuance costs of \$47,475 were allocated to warrants.

## 8. Share Capital (continued)

The Company was not able to reliably determine the fair value of the broker services received and therefore the fair value of the warrants were valued based on the Black-Scholes model.

- c) Issued 100,000,000 units for gross proceeds of \$10.0 million of which \$4,291,987 was allocated to warrants.

Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.135 for a period of 2 years. 9,300,000 warrants are exercisable until July 25, 2018 and 90,700,000 warrants are exercisable until August 25, 2018.

In connection with the offering the Company paid broker fees of \$450,030 and legal and other fees of \$146,919, of which \$256,867 was allocated to warrants.

- d) Issued 15,000 common shares upon the exercise of 15,000 warrants for proceeds of \$1,050. The share price on the date of exercise was \$0.17.

## 9. Warrants

	Number of Warrants	Amount	Weighted Average Exercise Price
Balance - September 30, 2015	35,748,250	2,294,658	0.67
Issued December 2015 i)	12,993,386	359,203	0.095
Issued to brokers ii)	369,090	20,721	0.07
Issued July 2016 iii)	9,300,000	389,434	0.135
Issued August 2016 iv)	90,700,000	3,902,553	0.135
Issuance costs	-	(304,342)	-
Exercised	(15,000)	-	0.70
Expired	(10,000,000)	(981,340)	1.50
Balance - September 30, 2016 and September 30, 2017	139,095,726	5,680,887	0.197

### During the year ended September 30, 2016 the Company

- i. Issued 12,993,386 warrants in connection with a private placement. Each warrant entitles the holder to purchase one common share at a price of \$0.095 per share at any time until December 24, 2017. The fair value of the warrants was estimated to be \$359,203 using the relative fair value measurement of common shares and warrants issued. Warrants attached to the units were valued using the Black-Scholes option pricing model and the share price at the time of financing.

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

Share price	\$0.08
Expected dividend yield	Nil
Risk-free interest rate	0.5%
Expected life	2 years
Expected volatility, (based on historical volatility)	219%

## 9. Warrants (continued)

- ii. Issued 369,090 broker warrants with a fair value of \$20,721. Each warrant entitles the holder to purchase one common share at a price of \$0.07 at any time until December 24, 2017.

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	\$0.08
Expected dividend yield	Nil
Risk-free interest rate	0.5%
Expected life	2 years
Expected volatility, (based on historical volatility)	219%

- iii. Issued 9,300,000 warrants in connection with a private placement. Each warrant entitles the holder to purchase one common share at a price of \$0.135 per share at any time until July 25, 2018. The fair value of the warrants was estimated to be \$389,434 using the relative fair value measurement of common shares and warrants issued. Warrants attached to the units were valued using the Black-Scholes option pricing model and the share price at the time of financing. The Company has the right to accelerate the expiry of the warrants on 30 days written notice if the volume weighted trading price of the common shares of the Company on the TSX Venture Exchange exceeds \$0.30 per share for any period of 20 consecutive trading days.

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	\$0.14
Expected dividend yield	Nil
Risk-free interest rate	0.5%
Expected life	2 years
Expected volatility (based on historical volatility)	151%

- iv. Issued 90,700,000 warrants in connection with a private placement. Each warrant entitles the holder to purchase one common share at a price of \$0.135 per share at any time until August 25, 2018. The fair value of the warrants was estimated to be \$3,902,553 using the relative fair value measurement of common shares and warrants issued. Warrants attached to the units were valued using the Black-Scholes option pricing model and the share price at the time of financing. The Company has the right to accelerate the expiry of the warrants on 30 days written notice if the volume weighted trading price of the common shares of the Company on the TSX Venture Exchange exceeds \$0.30 per share for any period of 20 consecutive trading days.

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	\$0.165
Expected dividend yield	Nil
Risk-free interest rate	0.5%
Expected life	2 years
Expected volatility (based on historical volatility)	155%

## 9. Warrants (continued)

As at September 30, 2017, the following common share purchase warrants ("warrants") were issued and outstanding:

Number of Warrants	Exercise Price	Expiry	Comments
354,090	0.07	December 24, 2017	Expired unexercised
12,993,386	0.095	December 24, 2017	Refer note 17 - expiry extended to December 24, 2018
9,300,000	0.135	July 25, 2018	
90,700,000	0.135	August 25, 2018	
1,007,370	0.25	May 2, 2019	
24,000,000	0.50	May 2, 2019	
740,880	0.50	May 2, 2019	
<u>139,095,726</u>			

## 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 16,900,000. 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. A summary of changes to stock options is as follows:

	Number of Options	Amount	Weighted Average Exercise Price
Balance - September 30, 2015	1,301,625	241,979	0.29
Expired / Cancelled	(131,625)	(168,218)	2.04
Vested		6,175	0.10
Granted (ii)	1,980,000	176,220	0.09
Balance - September 30, 2016	3,150,000	256,156	0.09
Granted (i)	8,600,000	806,680	0.10
Balance - September 30, 2017	11,750,000	1,062,836	0.10

During the year ended September 30, 2017, the Company:

- (i) Issued 8,600,000 stock options to directors, management and consultants. Each option 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 January 30, 2027. The options vested upon grant.

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	\$0.095
Expected dividend yield	Nil
Risk-free interest rate	0.5%
Expected life	10 years
Expected volatility (based on historical volatility)	158.8%

## 10. Stock Options (continued)

During the year ended September 30, 2016, the Company:

- (ii) Issued 1,980,000 stock options to directors, management and consultants. Each option entitles the holder to purchase one common share of the Company at a price of \$0.09 per share at any time on or before March 16, 2026. The options vested upon grant.

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	\$0.09
Expected dividend yield	Nil
Risk-free interest rate	0.5%
Expected life	10 years
Expected volatility (based on historical volatility)	159%

The Company was not able to reliably determine the fair value of the consultant services received and therefore the fair value of the consultants options were valued based on the Black-Scholes model.

As at September 30, 2017, the following stock options were outstanding:

Exercise Price	Number of Options			Total Expiry
	Unvested	Vested	Total	
0.10		770,000	770,000	December 17, 2019
0.08	-	400,000	400,000	June 3, 2020
0.09	-	1,980,000	1,980,000	March 16, 2026
0.10	-	8,600,000	8,600,000	January 30, 2027
	-	11,750,000	11,750,000	

## 11. Income Taxes

- (i) Income tax expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax recovery in the consolidated financial statements:

11. Income Taxes (continued)

	2017	2016
Loss before income taxes	\$ (7,337,627)	\$ (2,967,604)
Statutory tax rate	26.50%	26.50%
Expected income tax recovery	(1,944,471)	(786,415)
Stock-based compensation	213,770	48,335
Non-deductible expenses	110	1,272
Share issuance costs and other	(17,779)	(143,990)
Change in loss carry forwards	120,662	(2,912,761)
Change in rates	(192,596)	(65,267)
	(1,820,304)	(3,858,826)
Change in deferred taxes not recognized	1,820,304	3,858,826
Net expected deferred income tax recovery	\$ -	\$ -

(ii) Deferred Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	2017	2016
<b>Deferred Tax Assets</b>		
Resource Properties	\$ 18,337,958	\$ 16,687,138
Amounts related to tax loss and credit carry forwards	8,224,140	7,963,497
Capital assets	62,240	62,289
Share issuance costs	102,722	193,832
	26,727,060	24,906,756
Deferred taxes not recognized	(26,727,060)	(24,906,756)
Net deferred tax assets	\$ -	\$ -
Net deferred tax liabilities	\$ -	\$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

(iii) Loss Carry Forwards

The Company has non-capital losses of approximately \$30,874,247 available for carry forward. Potential income tax benefits of the losses have not been recorded in the financial statements. These losses expire as follows:

## 11. Income Taxes (continued)

2026	\$	148,018
2027		1,107,426
2028		1,780,349
2029		1,714,985
2030		10,623,453
2031		3,375,593
2032		2,339,839
2033		4,742,342
2034		1,498,062
2035		1,280,776
2036		889,146
2037		1,374,258
	\$	<u>30,874,247</u>

## 12. Related Party Transactions

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

During the year ended September 30, 2017 the Company entered into the following related party transactions:

	2017	2016
Directors fees	\$ 175,000	\$ 160,000
Management and consulting fees paid to CEO and CFO	\$ 144,000	\$ 144,000
	<u>\$ 319,000</u>	<u>304,000</u>

During the year ended September 30, 2017 the Company granted 6,000,000 (2016 – 1,600,000) stock options to management and directors.

Included in share-based compensation for the year ended September 30, 2017 is \$562,800 (2016 - \$147,105) related to stock options granted and vesting to management and directors.

As at September 30, 2017, accounts payable and accrued liabilities included \$15,000 (September 30, 2016 - \$Nil) due to various related parties disclosed above.

## 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 September 30, 2017, the Company's cash and cash equivalents are categorized as Level 1 measurement.



### 13. Financial Instruments and Other Risks (continued)

#### 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 amortized cost which approximates their fair value.

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

#### Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company is not exposed to any significant credit risk as at September 30, 2017. The Company's cash and cash equivalents and bid bonds are on deposit with highly rated banking groups.

#### 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 September 30, 2017, the Company has current assets of \$2,146,199 (2016 - \$8,832,003) and current liabilities of \$152,231 (2016 - \$157,980). 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 \$1,993,968 as at September 30, 2017 (2016 - \$8,674,023).

#### Market risk

#### 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 banker's acceptance notes, treasury bills and guaranteed investment certificates. These short term money market investments are subject to interest rate fluctuations.

#### 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 exploration and evaluation expenses are transacted in United States Dollars. As at September 30, 2017, the Company had cash of \$1,461,221 (2016 - \$186,431), reclamation bonds of \$206,544, accounts receivable of \$50,752 (2016 - \$10,557) and accounts payable and accrued liabilities of \$10,212 (2016 - \$7,114) denominated in United States Dollars. As at September 30, 2017, the Company also had accounts payable of 35,786 (2016 - 46,801) United Kingdom Pounds Sterling.

#### 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 September 30, 2017, approximately 2.8% 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 \$1,400 over a three month period.

As at September 30, 2017, cash and cash equivalents include \$1,461,221 (2016 - \$186,431) United States Dollars, accounts receivable include \$50,752 (2016 - \$10,557) United States dollars, and accounts payable and accrued liabilities include \$10,212 (2016 - \$7,114) United States Dollars, and 35,786 (2016 - 46,801) United Kingdom Pounds Sterling.

### 13. Financial Instruments and Other Risks (continued)

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 \$175,752 (2016 - \$18,987).

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 \$5,974 (2016 - \$7,976).

### 14. Capital Disclosures

The company's objective when managing capital is to raise sufficient funds to execute its exploration plan. At September 30, 2017, the company's capital consists of shareholder's equity in the amount of \$2,671,743.

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 year ended September 30, 2017.

### 15. Commitments

- a) 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.
- b) The Company has monthly commitments of \$12,000 pursuant to a consulting agreement with the Interim CEO and CFO. The agreement is subject to automatic annual renewal unless terminated. The minimum commitment under this agreement as at September 30, 2017 is \$60,000.
- c) The Company has entered into leases for office premises. The minimum lease commitments under these leases are as follows:

2018	\$69,036
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- d) Additional commitments are disclosed in note 5.

### 16. Segmental Reporting

The Company is organized into business units based on mineral resource 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
Property, Plant and Equipment	\$	-	\$	433,364
Reclamation Bonds		-		248,377
September 30, 2017	\$	-	\$	<u>681,741</u>
Property, Plant and Equipment	\$	731	\$	465,806
Reclamation Bonds		-		92,818
September 30, 2016	\$	731	\$	<u>558,624</u>

**17. Subsequent Events**

On October 10, 2017, the Company extended the exercise period of 12,993,386 warrants due to expire on December 24, 2017 by one year.