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RESEARCH

Kilo Goldmines

3rd July 2018

Potential 2.5Moz gold resource in renowned greenstone belts in the DRC now valued at a fraction of true underlying asset value.

Kilo Goldmines has been in the DRC since 2009. Its licences cover 2,417km², including greenstone belts where gold mines have recently begun operating. The lacklustre stock performance results from drilling at the flagship Somituri Project which didn't quite match expectations. Further drilling, new joint venture deals and the acquisition of additional projects could re-energise the company.

Multi-pit gold mine potential at the partially-explored Imbo licence

A 1.675Moz resource has been delineated at the Adumbi Prospect in the Imbo licence area. **Infill drilling of known extensions at depth could boost the resource significantly.** There is vast potential here as the Imbo licence area contains at least 4 more prospects. Imbo is just one out of 6 licence areas at Somituri. Possible JV deals are under consideration to explore the additional potential.

Exploration on Isiro Project by JV partner Randgold set to recommence

Gold major Randgold can recommence exploration on the Isiro JV after KGL successfully defeated a licence challenge which halted work here. **Randgold's exploration at Isiro has uncovered important characteristics in greenstone belts, similar to those seen at its own major discoveries.**

Resolute Mining has a 27% stake & is fast expanding its DRC footprint

To us it looks like corporate action could be on the cards. In April 2018, Resolute took a similar stake in Loncor, whose licences surround Somituri.

Highly conservative peer group analysis suggests an upside of 492%

Our conservative valuation shows the upside. We initiate coverage of Kilo Goldmines with an initial target price of CAD14.81 cents and a **Conviction buy** stance.

Table: Financial overview

Year to end Sept	2016A	2017A	2018E	2019E
Revenue (C\$'000)	-	-	-	-
PTP (C\$'000)	(2,968)	(7,338)	(2,300)	(5,600)
EPS (C\$)	(0.04)	(0.04)	(0.01)	(0.03)

Source: Company accounts & Align Research

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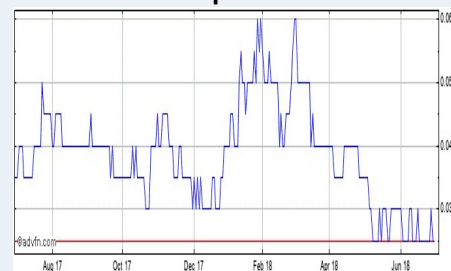
CONVICTION BUY – Price Target 14.81c



Key data

EPIC	KGL, 02K
Share price	C\$0.025
52 week high/low	C\$0.07 – 0.02
Listing	TSX:V, Frankfurt
Shares in issue	169.70m
Market Cap	C\$4.24m
Sector	Mining

12 month share price chart



Analyst details

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IMPORTANT: Kilo Goldmines (KGL) is a research client of Align Research. Align Research holds an interest in the shares of KGL. For full disclaimer information please refer to the last page of this document.

Business overview

Kilo Goldmines Operations

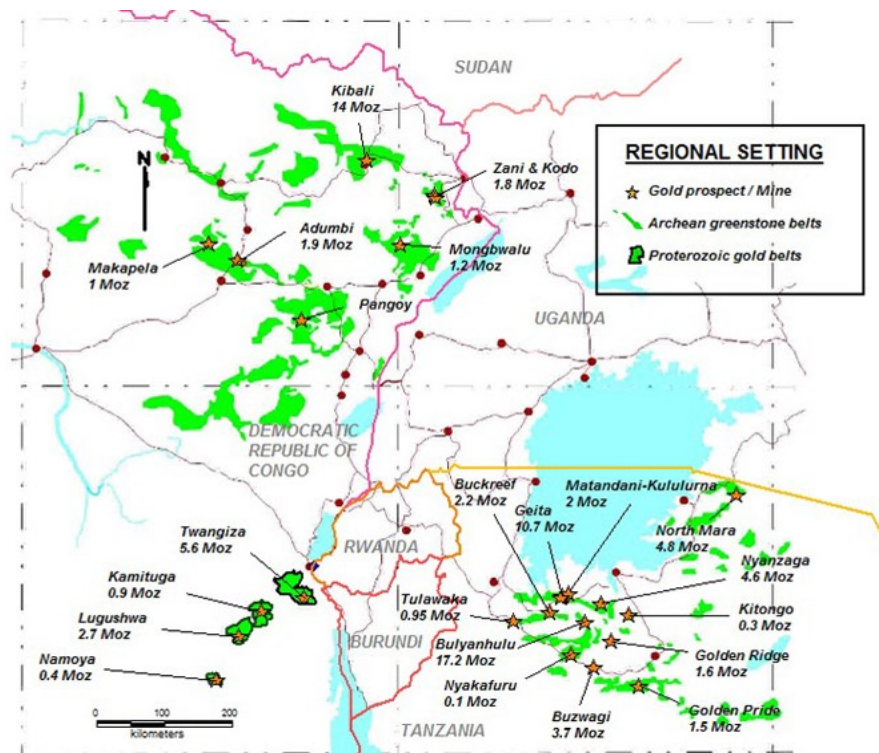
Kilo Goldmines (KGL) is an exploration and resource development company with gold and iron ore prospects and resources in the North East of the Democratic Republic of Congo (DRC). **The company holds exploitation and exploration licences covering around 2,417km² of prospective Archaean Kibalian Greenstone in the Kilo-Moto area, which was an historic gold mining area.** Within these licences, KGL has the following interests:

- **Somituri Project (71.25%)** - Six non-contiguous licences covering an area of 361km² which is held by KGL Somituri SARL. The company has delineated a 1.675 million ounce @ 2.5g/t NI 43-101 Inferred gold resource at the Imbo Licence. The company is delineating a number of other highly prospective targets within a 5-kilometre radius of this resource. **The goal is to significantly grow the gold resource base on the Imbo licence and create a multi-pit operating mine.**
- **KGL Isiro SARL Joint Venture Project** – Here Kilo has 12 licences extending over an area of 2,056km² and has a joint venture with Randgold Resources which covers gold and associated minerals only. **Randgold is managing and financing the project through to a Pre-Feasibility Study (PFS) for a 51% participation interest. KGL has retained the rights to explore for and develop iron ore resources and other minerals associated with these licences.**

Gold Mining in the Democratic Republic of Congo

The DRC is a country rich in minerals and is an important gold producer in Africa. The greenstone belts of NE DRC and Tanzania have been mined commercially for gold since the early 1900s. Gold was first discovered in the Kilo-Moto region in north eastern DRC in 1903, with the Kilo and Moto mines opening in 1905 and 1911 respectively. Before the country's independence in 1960, it is thought that more than 11 million ounces (Moz) of gold were mined in this region, of which 3Moz was mined by Belgian Charter companies in the 1950s.

Archaean gneisses and granite-greenstone terrains cover most of north east DRC extending into the Central African Republic, western Uganda and southern Sudan. Greenstone belts have been described as being “*exposed packages of ancient volcanic and sedimentary rocks that have been metamorphised by heat and/or pressure over millions of years*”. Usually, these zones of metamorphosed mafic and ultramafic volcanic sequences are associated with sedimentary rocks that occur within the Archaean and Proterozoic cratons and are found lying between granite and gneiss bodies.



Gold exploration and development activities within this region. Source: Company filings

Greenstone belts are so named due to their distinctive colour, which results from the presence of green minerals like chlorite, actinolite and amphiboles minerals. Greenstone belts that were formed during the Archaean Age are thought to be the most prolific gold resources. These belts can range in size and can be as long as several thousand kilometres in length. **Gold has been found to occur in many Archaean greenstone belts around the world and they are well known sources of gold in Canada, South Africa and Australia.**

Following the end of colonial rule in the 1960s, gold production in both the DRC and Tanzania dropped dramatically. The relaxation of the mining laws in Tanzania in the 1980s and 1990s allowed for the private ownership of mining properties and helped encourage foreign mining companies to invest in the exploration and development of gold resources in that country. This led to a number of world class gold mines being opened in Tanzania including: Golden Pride (1999), Geita (2000), Bulyanhulu (2001), North Mara (2002) and Byzwagi (2009).

The north east of the DRC has seen a resurgence of gold and iron ore exploration following an improvement in the political and economic situation in the country over the last decade or so. By 2011, there were at least 25 international mining companies reported to be operating in the DRC. There has been successful gold exploration in the country, led by Banro Corporation, Randgold Resources and AngloGold, which has resulted in the development and opening of new gold mines.

Banro developed the Twangiza Mine, which became operational in 2013, and along with other regional targets had delineated more than 11Moz of gold resources. **Randgold Resource's Kibali Gold Mine commenced production in 2013 from gold reserves that total more than 10Moz.** Along with KGL, other companies that have delineated gold resources in this area are: AngloGold Ashanti (Mongbwalu Project 1.9Moz), Loncor Resources (DRC exploration 1Moz) and Mwana Africa (Zani-Kodo 1.2Moz).

Background

Kilo Goldmines Ltd (KGL) is dual-listed on the TSX Venture Exchange and the Frankfurt stock market. The company was incorporated in 2006 under the name of Blue Ribbon Capital Corporation as a Capital Pool Company as defined by the TSX Venture Exchange. In March 2009, in a reverse takeover transaction, Kilo Goldmines Inc. was acquired by the company. In April 2009, shares in the company commenced trading under the name of Kilo Goldmines Ltd.

KGL began operating in the DRC in 2009 and since then has invested around C\$50 million in exploration. To fund this kind of spend, the company has raised substantial funds in the equity markets at a share price of C\$0.10 or higher. Over these years, the stock seems to have enjoyed a good following and at its peak the company commanded a market capitalisation of around C\$35 million.

One of the key milestones came in 2011 with KGL delivering a maiden NI 43-101 report for the Adumbi Prospect, at the Imbo licence at the Somitui Project. At a 0.5g/t gold cut-off grade this prospect was estimated to contain an Inferred Mineral Resource of 46.3 million tonnes at a grade of 1.37g/t gold containing 2.03Moz of gold. Following further exploration work in March 2012, KGL was able to announce an updated NI 43-101 Mineral Resource estimate for the Adumbi Project. This was an Inferred Mineral Resource of 35.6 M tonnes containing 1.87Moz of gold at an average grade of 1.63 g/t gold (at a cut-off grade of 0.5 g/t gold).

December 2012 saw the company announce a joint venture with Randgold Resources on the KWR Iron Sprl exploration licences in the DRC, which now is referred to as the Isiro JV Project. **Under the terms of the deal, Randgold would finance all exploration and gain additional ownership based on achieving certain milestones.** This move not only allowed KGL to benefit from Randgold's expertise, but also allowed for some shared costs which would also indirectly help to advance the company's flagship Somituri Project. **KGL retained all exploration rights for minerals not associated with gold.** At the same time, it was announced that Rio Tinto was withdrawing from an existing joint venture for iron ore on the KWR Licences.

Following a successful drilling programme in 2013, an updated 2013 Mineral Resource estimate for Adumbi (open pit) of 19.11 Mt @ 2.2 g/t gold for a total of 1.362 Moz of gold, was announced in January 2014. In addition, there was also maiden Inferred Mineral Resource estimates for the Kitenge and Manzako (underground scenario) prospects which were 0.191Moz and 0.122Moz respectively. The shares were consolidated on a 1-for-10 basis in May 2014.

In 2015, stream sediment sampling work resulted in the delineation of a south-eastward extension of the Adumbi-Kitenge-Manzako mineralised trend over a strike of 7 kilometres, with the presence of gold mineralisation supported by rock chip sampling resulting in values as high as 15.1 g/t gold.

In July 2016, the DRC Court of Commerce dismissed an action initiated in 2014 by La Societe Miniere De L'ituri SPRL which had been claiming title to KGL's Isiro properties located in north-eastern DRC. The Isiro properties had been the subject of the Randgold joint venture since December 2012, but work on the project came to a halt in 2014 due to this legal action. There were to be further legal processes culminating in the Court of Appeal's ruling in 2017 which confirmed the judgement of the Court of Commerce in favour of KGL. This then paved the way for Randgold to resume exploration.

In January 2016, the company announced a joint venture agreement with Randgold on KGL's Somituri licences, but this move was not subsequently approved by shareholders. This resulted in the company seeking funding for its own exploration programme on the project. In August 2016, the company raised C\$10 million at C\$0.10 per share to fund a drilling programme which marked the beginning of the drilling of a number of untested targets which lay in close proximity to the Adumbi prospect.

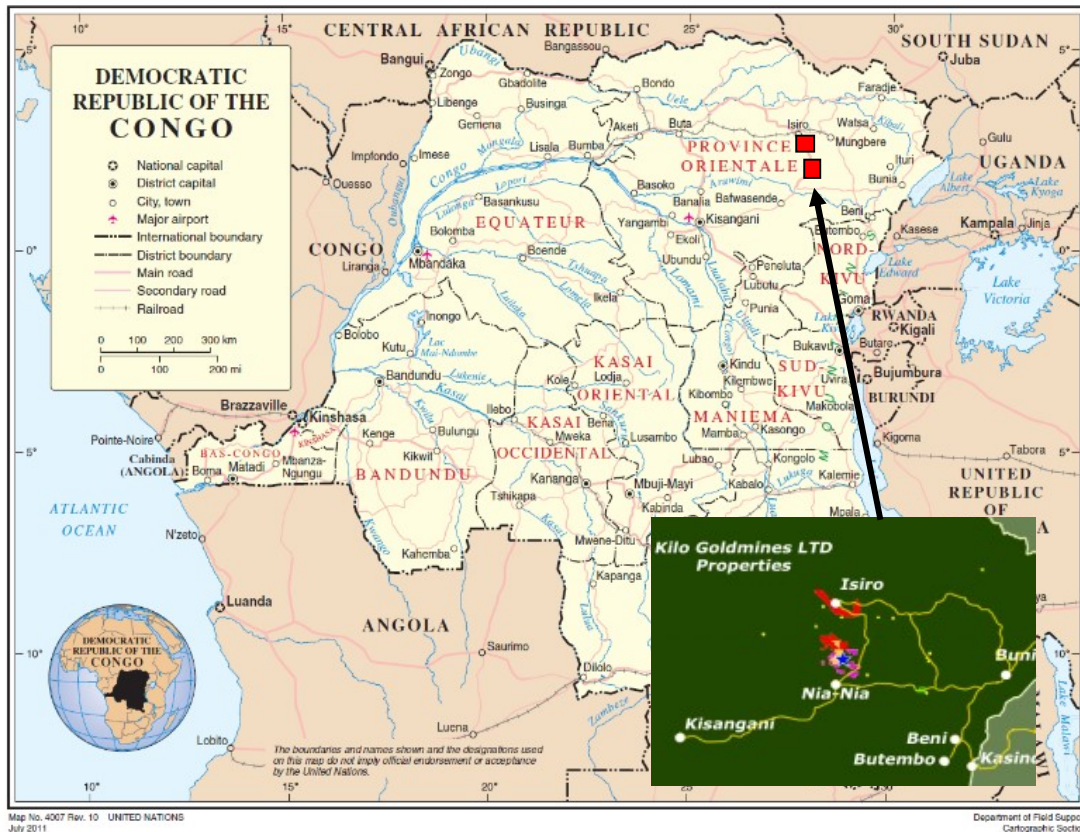
Australian gold mining company Resolute Mining (ASX:RSG) acquired a large proportion of this new equity and ended up with a then 14.6% stake in KGL. Subsequently, Resolute went on to acquire a further 12.9% interest via a share swap with Osisko Mining, thereby increasing its stake to a then 27.4% interest in KGL.

Resolute's stake building came ahead of a planned 63 hole diamond drilling program totalling 8,900 metres which was announced in November 2016. This drilling focused on the following targets: Adumbi South, Adumbi West and Kitenge. Drilling results announced in July 2017 were not as good as hoped, however four holes that had been drilled to test depth extensions of the Replaced Rock (RP) Zone confirmed that the Adumbi mineralisation extended down dip to at least 370 metres below the surface. The assay results served to demonstrate the potential of an extension of the minerals 100 metres deeper than had been defined by previous drilling.

In September 2017, there was news that a Bulk Leach Extractable Gold (BLEG) sampling program carried out on five of the company's exploration licences in the Ngayu greenstone belt (PE137, PE138, PE140, PE9692 and PE9695) had resulted in defining three well-defined BLEG anomalies, providing further potential.

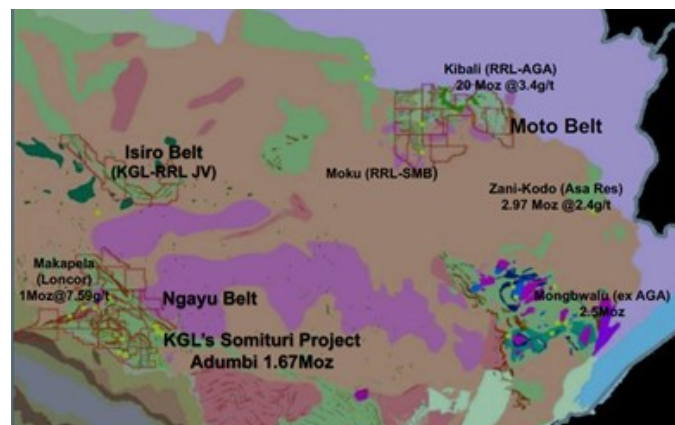
Operations

KGL is an exploration and resource development company with gold and iron ore prospects and resources in the North East of the DRC. The company's regional administrative office is located in Beni, which lies close to the country's border with Uganda. Beni is the regional town which is seen as the logistic gateway to Uganda and thereon to international ports like Mombasa in Kenya.



Location of KGL's projects. Source: Company filings

The company holds exploitation and exploration licences covering around 2,417km² of prospective Archaean Kibalian Greenstone in the Kilo-Moto area, which is an historic gold mining area. Today, this area seems to be receiving increasing attention.

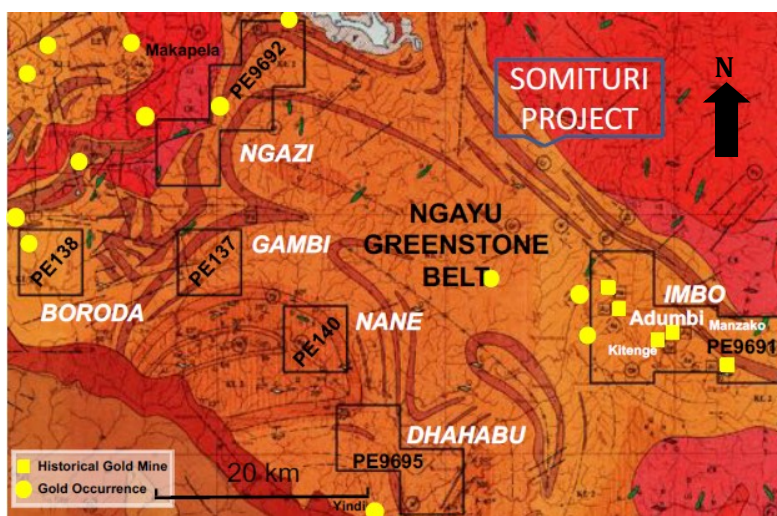


North East DRC regional activity. Source: Company filings

KGL has two gold projects in the Kilo-Moto area - the Somituri Project, and the Isiro Project where there is a joint venture agreement with Randgold Resources (LSE:RRL).

Somituri Project 71.25%

Somituri is the company's flagship project which has six mining licences that are valid until 2039 and cover a total area of 361km² in the Ngayu Archean Greenstone Belt. These permits are owned 100% by KGL Somituri SARL in which KGL has a 71.25% interest. The other shareholders are Somituri SARL (23.75% property vendors free carry through BFS) and the DRC State (5% with free carry, subject to adjustment under newly enacted mining legislation). The company has been seeking to buy out minority interests to increase its stake in Somituri. Acquiring a larger interest in this project would demonstrate KGL's confidence in Somituri and send out a powerful message to investors.



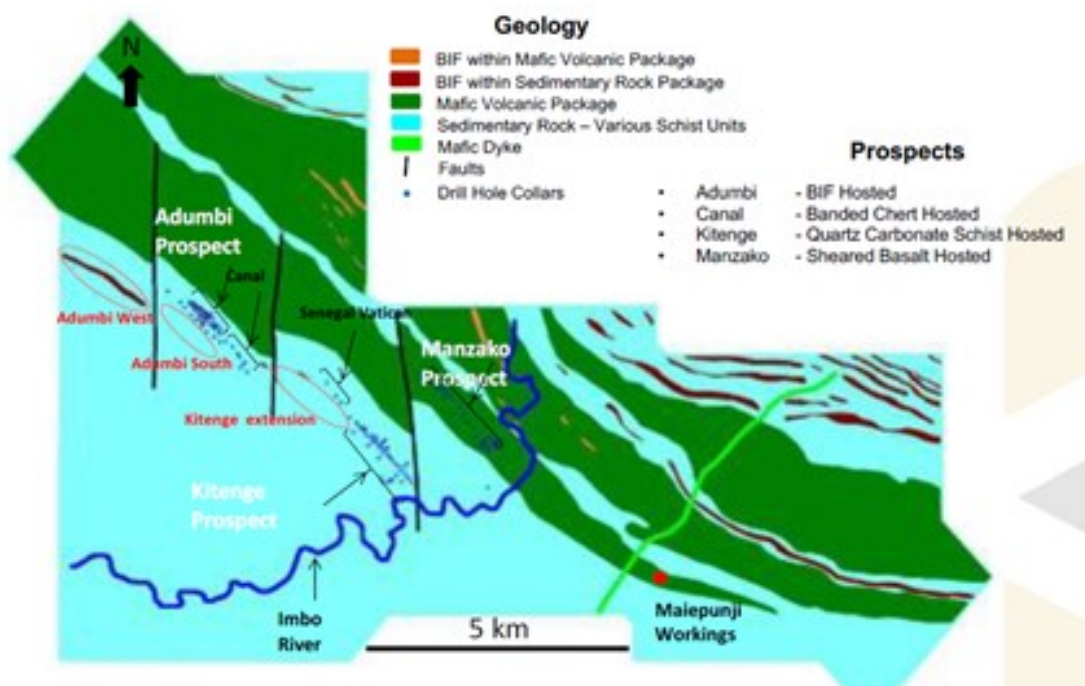
Somituri Project property package. Source: Company filings

The six mining licences are not contiguous, with five licences being satellites within Loncor Resources' (TSX-V:LN) permitted areas. KGL's licences are partially explored and drilling has only been carried out on one prospect (Adumbi) at one licence area (Imbo).

Geology

The Ngayu Greenstone Belt has a similar geology and mineralisation styles to that of the DRC's Kibali Greenstone Belt, which is known to host something like 28Moz of gold at a grade of around 3g/t. The three main lodes within the Kibali Greenstone Belt have been found to account for roughly three-quarters of the mineralised surface expressions were originally swamps, some 250-300 metres in diameter, that were in existence millions of years ago.

Rocks in the licence area largely consist of intercalated quartz carbonate schist, Banded Ironstone Formations (BIF) and carbonaceous shale, along with basalt and minor diorite and dolerite intrusives. These rocks have a predominant NW-SE strike and are seen to be dipping steeply in a NE direction. BIF are a highly distinctive unit of sedimentary rock with stripes of iron and silica. Here, BIF have been subject to complex folding which has resulted in a thickening of mineralisation, which has been seen at the Adumbi Prospect.



Geology, prospects and drill holes at Imbo. Source: Company filings

Geologists believe that the mineralisation is associated with NW-SE shear zones that seem to be steeply dipping to the NE and that the mineralisation is hosted in all the dominant lithologies. However, the mineralisation is best developed in the BIF rocks where intense sulphidation of magnetite has occurred. Mineralisation hosted in quartz carbonate schists and basalts is associated with quartz veining and has been found to have a higher grade but narrower in width compared with the gold mineralisation in the BIF.

Exploration

Substantial funds have been spent on exploration on the Somituri Projects, where over the years 201 holes have been drilled for a total of 41,224 metres. In addition, there has been 45 kilometres of Induced Polarisation (IP) surveys, as well as trenching, along with soil and Bulk Leach Extractable Gold (BLEG) sampling. BLEG is a form of geochemical sampling or analysing tool which is used in gold exploration and was developed to deal with the problems of obtaining an accurate measurement of fine grained gold.

Over the period 2010 – 2013, 163 holes were drilled at Imbo for a total of 34,318 metres, which formed the basis of current Inferred resources.

Prospect	Tons (MM)	Gold grade g/t	Contained gold (000's ounces)
Adumbi ¹	19.11	2.2	1,362
Kitenge ²	0.91	6.6	191
Manzako ²	0.77	5.0	122
Total	20.78	2.5	1,675

¹ 0.9g/t gold cut-off grade ² 2.70 g/t gold cut-off grade

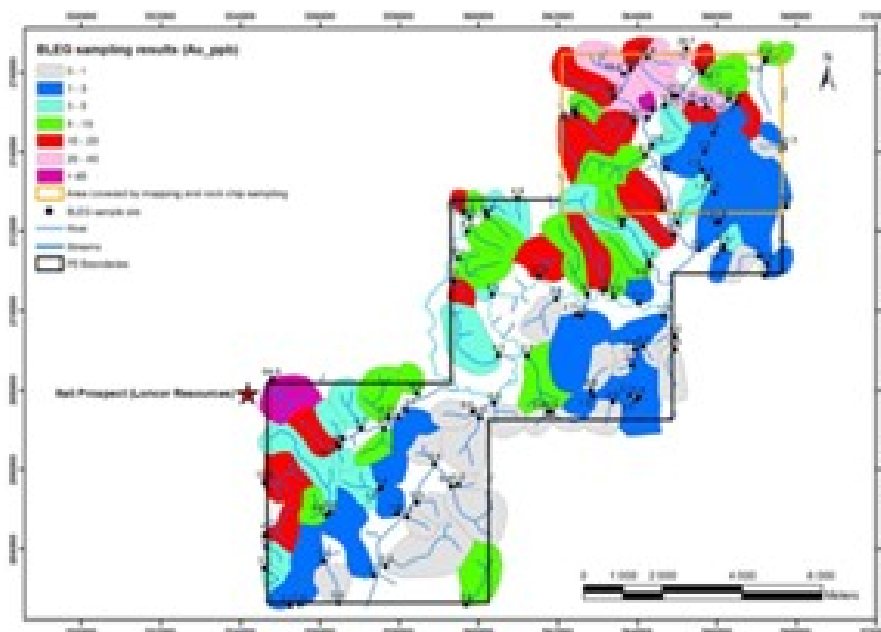
Inferred resource at the Imbo licence – Somituri Project. Source: Company filings

The last drilling programme was in 2016 – 2017 and consisted of 38 holes for 6,906 metres. This included 4 holes (1,776 metres) testing the down-dip extension of the Adumbi Prospect RP Zone. It does look as though there is high grade mineralisation associated with the RP Zone, which serves to highlight the underground potential. Although this last drilling program was not as successful as had been hoped, it did produce some highly significant drilling results and provided an improved understanding of the geology of the Adumbi Prospect.

Drill hole number	Depth (m)	Widths and grades
SADD0050	434.73 – 447.42	12.69m @ 5.52g/t gold (including 5.49m @ 9.67 g/t gold)
SADD0051	393.43 – 402.72	9.29m @ 4.09 g/t gold
SADD0052	389.72 – 401.87 419.15 – 428.75	12.15m @ 3.24g/t gold 9.60m @ 5.04g.t gold
SADD0053	346.36 – 355.63 391.72 – 415.17	9.27m @ 3.71g/t gold 23.45m @ 6.08g/t gold

Significant drilling results from Imbo (2016 – 17) – Somituri Project. Source: Company filings

Subsequent work has consisted of stream sediment sampling on other five exploration licences (PE137, PE138, PE140, PE9692 and PE9695), which was completed in August 2017. This work led to new gold exploration targets within the Ngayu greenstone belt. In fact, three BLEG anomalies were defined. Firstly, in the northern part of Ngazi (PE9692), where anomalous values of 21-41ppb gold (way above the background level of less than 3 ppb) indicated potential for mineralisation over a 2-kilometre strike length. Follow-up mapping and rockchip sampling showed the presence of a mineralised BIF forming an anticlinal fold closure, where grades as high as 5.70g/t gold were recorded

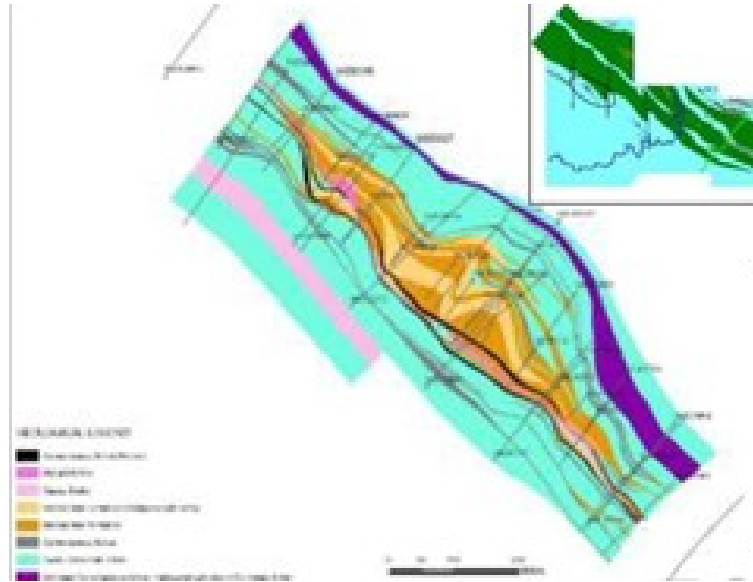


Results of 2017 stream sediment BLEG program on Ngazi (gold ppm).

Source: Company filings

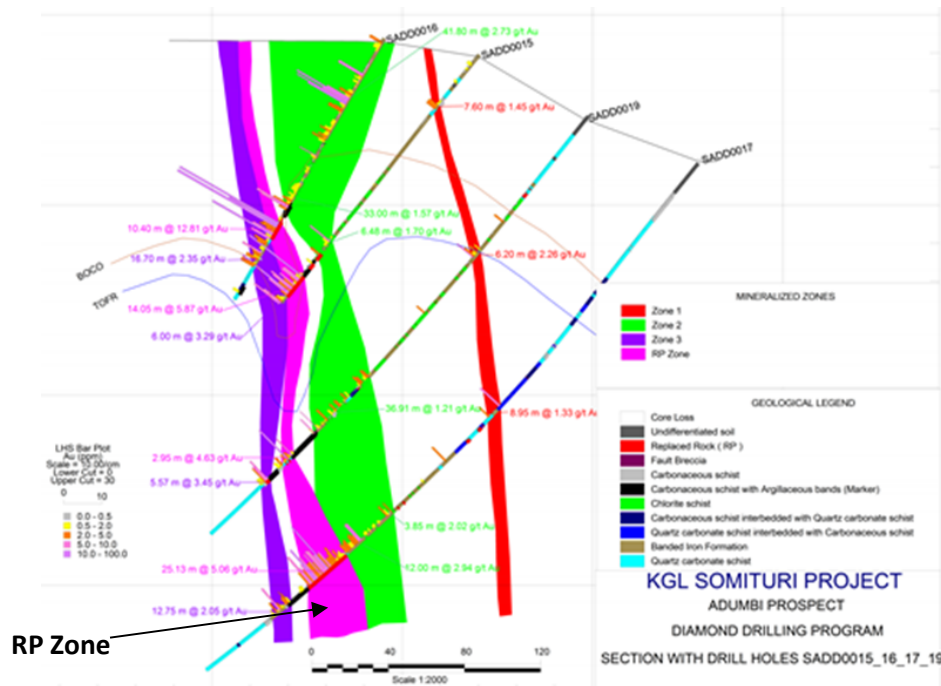
Secondly, in the SW part of Ngazi, a stream catchment with anomalous value of 65ppb gold which apparently indicated a possible extension from Loncor's Itali prospect which lies adjacent. Thirdly, in the southern part of Dhahabu licence (PE9695), a strong anomaly was delineated with values up to 372 ppb gold, which is thought could indicate the presence of mineralisation parallel to Loncor's Yindi prospect, which is to be found 4 kilometres SW.

Adumbi Geology



Lithologies at Adumbi. Source: Company filings

Exploration work at Adumbi has shown that the lithologies strike in a NW direction and are steeply dipping to the NE. The rocks are seen to group together as follows: hanging wall schist, upper BIF Sequence, carbonaceous marker, lower BIF sequence, footwall schist, middling schist, chlorite Schist and canal BIF chert zone. Currently, the team is working on gaining an improved understanding of the structure.



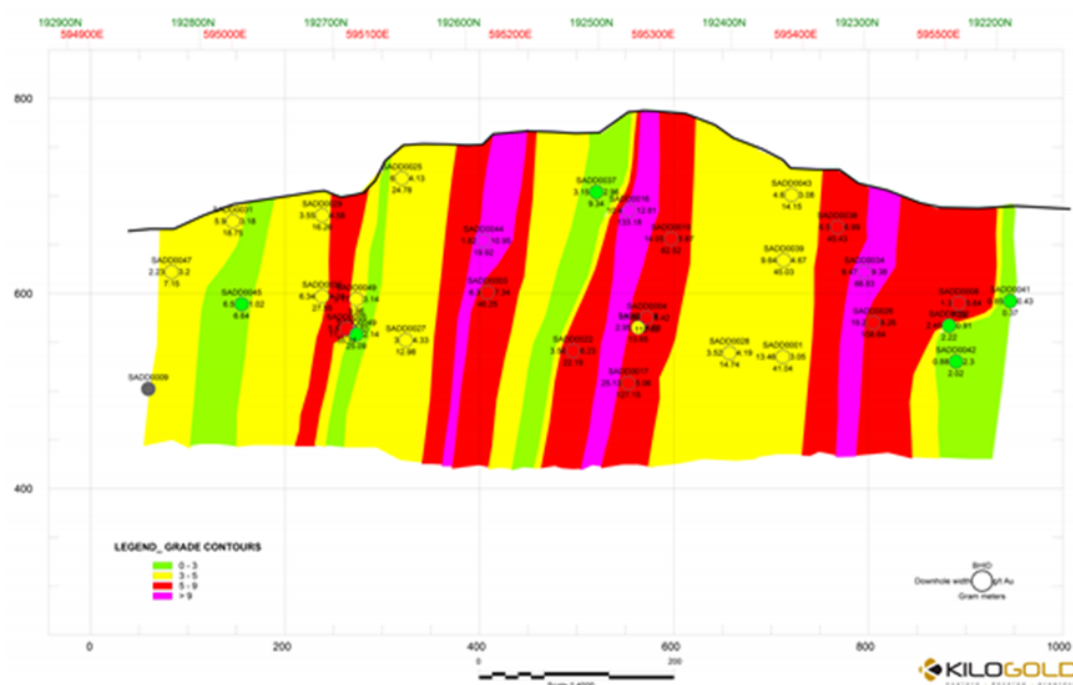
Mineralised cross-section of Adumbi with drill holes SADD0015, SADD0016, SADD0017 and SADD0018). Source: Company filings

The Replacement Rock (RP) zone shows strong silification, sulphidisation and structural deformation of the host rock which has led to the destruction of this rock's main characteristics. The RP zone has a strike length of 840 metres and can be traced down to a depth of 275 metres. Plus, there are cross cuts lithologies which appear to be the structural conduit for mineralised hydrothermal fluids.

	RP Zone	Central RP Zone
Strike	840m	480m
Depth	275m	c150m
Average true width	4.91m	6.25m
Weighted average grade	5.55g/t gold	6.25g/t gold

Dimensions and grade of the RP Zone. Source: Company filings

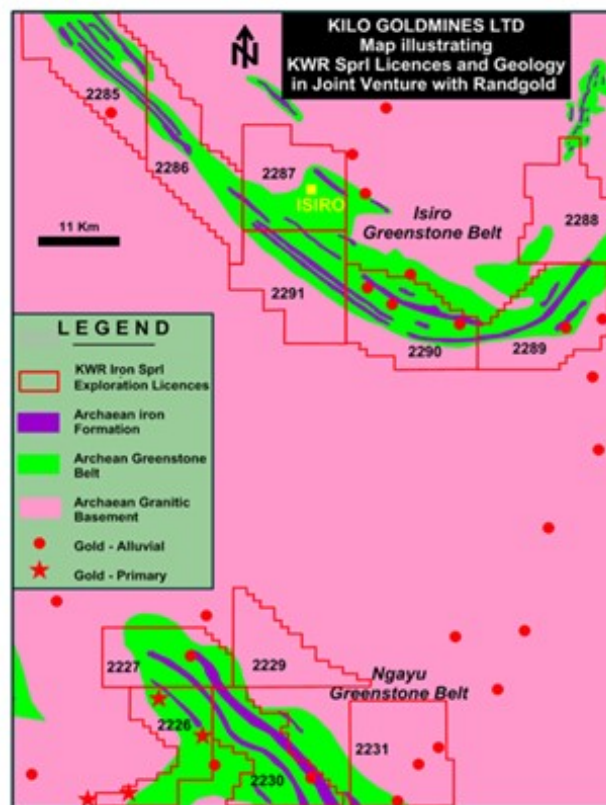
The longitudinal section through the RP Zone shows a well-defined steep plunge of 80° - 90° NW which is similar to the fold axes attitude that was noted in the underground mapping.



RP zone – longitudinal section looking NE. Source: Company filings

Isiro JV project – 78.5%

Also, in NE DRC, KGL has 12 licences for a total 2,056km² which are held by KGL Isiro SARM. KGL has entered into a joint venture with Randgold Resources whereby Randgold can earn a majority interest in any gold project identified on KGL's Isiro licences. When this deal was agreed in December 2012, Randgold had up to five years to develop a PFS, with a joint venture committee comprising of members of both companies managing the exploration and study development programmes. Early exploration phase activities commenced in the first quarter of 2013.



KWR licences optioned to Randgold, geology and gold occurrences.

Source: Company filings

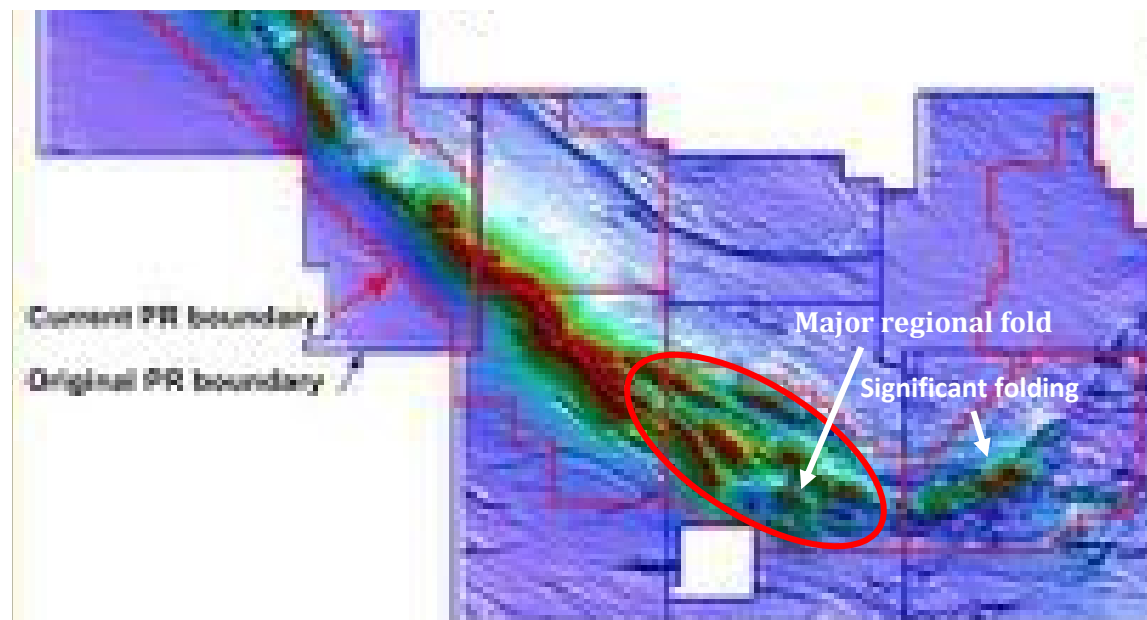
Under the terms of the joint venture, RRL can earn 51% for the completion of a PFS, with KGL retaining the right to maintain 49% post PFS. In addition, RRL can earn a 65% interest by completing a bankable feasibility study (BFS) with KGL's equity converting to a 1.5% royalty if the company's shareholding in the joint venture gets diluted to 10% or less. RRL had five years to develop a PFS, with a requirement that the BFS was to be established within a year of completing the PFS. KGL retained the exploration rights for iron ore.

In July 2013, the company was able to announce that primary targets had been defined on the joint venture project. By that time, Randgold's geologists had completed their initial reconnaissance and review of existing data. Their conclusions were that the joint venture area hosted various structurally complex features, formed from tectonic forces, which Randgold saw as being similar to those at the Kibali mine, especially the presence of cylindrical folds. Kibali is a Randgold's 20Moz gold mine in the northeast of DRC where gold production began in 2013.

Based on the available information, Randgold identified a total of 14 primary exploration targets with 8 targets located in Isiro greenstone belt and 6 targets in the Ngayu greenstone belts. The plan was to initially undertake soil sampling at these targets to determine which would be advanced.

Results of soil sampling over 210km² were announced in February 2014. This regional soil sampling programme over priority conceptual targets of the Ngayu belt followed the collection of 2,414 samples on a 400m by 200m grid. Three gold in soil anomalies worthy of follow up surface exploration work were: Yambenda (9.5km x 1.5km at 50ppb gold), Bonzuzu and Mbese. At that stage sampling had commenced on the Isiro greenstone belt.

However, work on the project came to a halt in 2014 due to legal action being initiated by La Societe Miniere De L'Ituri SPRL, claiming title to KGL's Isiro properties. The recent ruling of the Court of Appeal paves the way for the recommencement of exploration work at the project. Under the terms of the joint venture, RRL had five years to complete a PFS. However, in 2014 with the pending legal action, all work on the project was halted, which served to temporarily stop that timeclock.



Aeromagnetic image of Isiro greenstone belt. Source: Company filings

RRL seems to be more focused on the potential of the Isiro greenstone belt. The area circled in red on the aeromagnetic map (shown above) highlights an area of considerable interest with: thrust duplication, major belt orientation change and intersecting structures together with the disruption of lithological units. In addition, there is a major regional fold and other significant folding. In the Ngayu greenstone belt in the south of this licence area there has also been significant folding, structural displacement and a fold hinge. Such features in the greenstone gold belts seen within the licence area represent highly favourable geology for gold mineralisation. Similar sorts of characteristics have also been witnessed at a number of major discoveries that have been made by RRL.

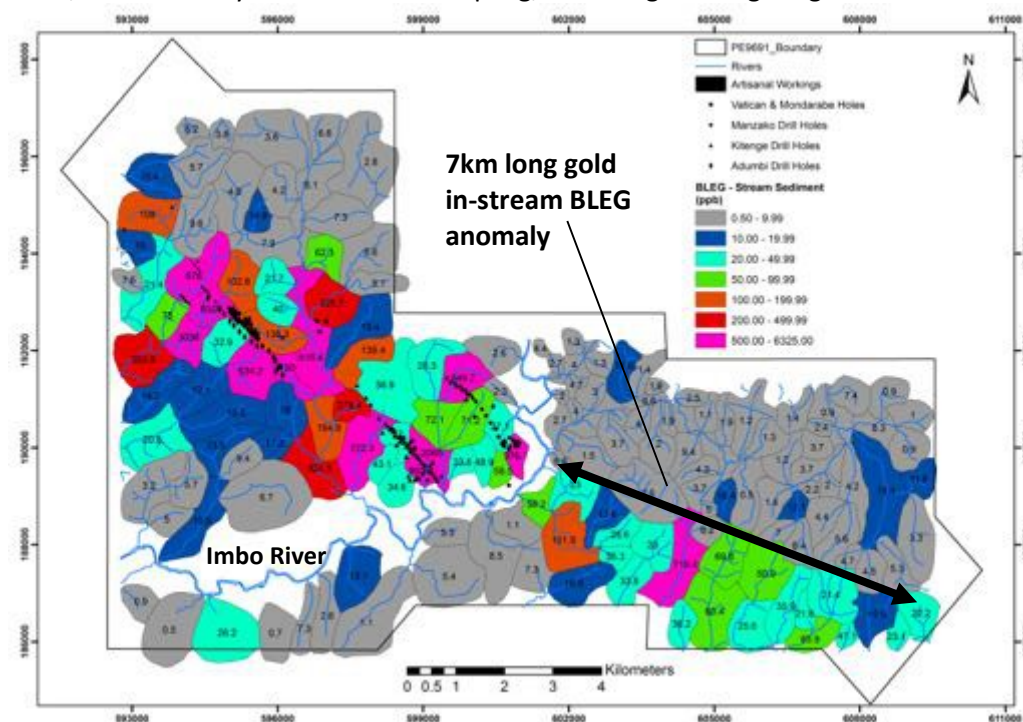
Strategy for growth

KGL has reached an important stage in its development of its highly compelling gold projects in the DRC. There seems to have been a bit of a hiatus over recent years as the future corporate strategy had not been fully determined, and which seems to have provoked uncertainty and led to a decline in the share price. **The truth is that both of KGL's gold projects are potentially vast in scale and thus there are multitude exploration and development options to be considered.** In all, more than C\$50 million has been invested into exploration and evaluation, with KGL raising substantial funds in the equity markets over the years. This compares to a current market cap of circa C\$5m.

Exploration work continues to generate further opportunities and serves to enhance the potential of the existing prospects. Given the scale of these opportunities, a couple of years ago the board sought to develop both the projects via joint ventures with Randgold Resources. Such deals would fund the advancement of the projects from exploration to PFS and onwards at no cost to KGL. The Isiro joint venture with RRL was signed in 2012 and work commenced in 2013 until a temporary halt in 2014 due to the legal case. Whilst, the Somituri joint venture with RRL was proposed in 2016 but was turned down by shareholders in the March 2016 AGM.

Now, it looks as though KGL is on the cusp of real developments. Material progress is likely to be made which is expected to rekindle the attention of investors. **The fall in the share price seems to have ignored the fundamental attractiveness of these gold projects and the impressive progress that has been made to date and so providing an interesting investment opportunity.**

Moving ahead, advanced exploration looks set to shift up a gear at both projects, funded by the company and joint venture partners. There seem to be three clear initiatives. Firstly, proposed work on the flagship Somituri Project includes target generation east of the Imbo River, which is likely to involve soil sampling, trenching and augering.

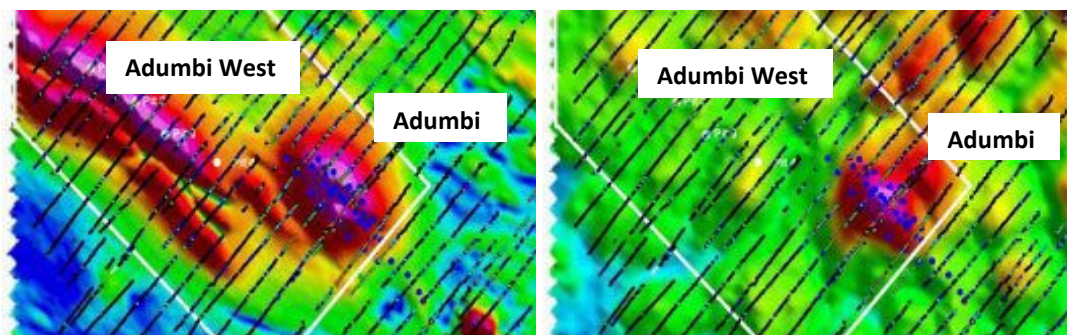


Stream sediment BLEG sampling program on the Imbo licence. Source: Company filings

Importantly, mapping and soil geochemical sampling programs are also planned in the unexplored licence areas, where the team will be exploring the drainage basins to identify gold-in-stream BLEG anomalies. This is a continuation of earlier work which revealed a 7km long in-stream BLEG anomaly and served to illustrate the scale of the potential within the Imbo Prospect.

Secondly, also proposed is mineralogical and metallurgical test work on the RP Zone which has been drilled at the Adumbi Prospect. Plus, in-fill drilling at Adumbi is proposed to update the NI-43-101 resource report, including results from drilling at depth. The results from the last drilling programme were not as strong as had been hoped, however this drilling did include four holes being drilled to 400 metres deep (compared to the original drilling to 100 metres) which produced some impressive results. Align Research believes that such infill drilling could expand the current NI 43-101 Inferred Mineral Resource by possibly as much as 800,000 ounces with a depth extension to 2.5Moz. This additional resource would be accessed by an underground development, most probably from the bottom of an open pit.

Based on exploration work undertaken on the Adumbi Prospect, KGL's geologists have developed a model which is starting to be applied to other prospects. This analysis is beginning to provide a glimpse of the true potential scale of the opportunity at the Somituri Project. There are clear opportunities to apply the Adumbi model elsewhere within the Imbo licence area. The Adumbi Prospect has shown strong soil anomaly (+100 ppb gold), strong airborne magnetic feature, topographical high and BIF hosted mineralisation. So far it has been shown that the Adumbi West Prospect has weak to moderate spiky soil anomaly, strong airborne magnetic feature and localised transported overburden.



Analytical signal and soil geochemistry (left) and DTM and soil geochemistry (right) at the Adumbi and Adumbi West Prospects. Source: Company filings

The company has so much potential at its flagship Somituri Project as the leading Adumbi Prospect represents one of more than 10 prospects which includes: Canal, Kitenge, Manzako, Adumi North, Vatican, Senegal, Monde Arabe, Adumbi West, Lion and Maipunji. For a number of years now this project has been showing multi-pit potential. The latest programmes of work look set to further highlight the sheer scale of the potential by the possible determination of as much as a 2.5Moz gold resource, at just one of these many prospects. There seems to be scope to joint venture a number of the licence areas at Somituri to a major like Randgold, whilst the company continues advanced exploration at the Imbo licence where Inferred Mineral Resources have been determined.

At the same time, the resolution of the title challenge at the Isiro JV project will allow Randgold to resume exploration on the project, with the project clock started again with a PFS required within the original five-year time scale. Randgold had already undertaken 18 months to two years of work before the project went into force majeure and the time clock was stopped. In a Kilo press release of 06 December 2012, the then CEO of RRL Mark Bristow commented that *“KGL’s portfolio is highly prospective and constitutes an excellent target for continued growth for RRL. The geology is akin to the large world class deposits in Tanzania and recently at Kibali and we are committed to search for similar discoveries....”*. Developments here along with those at Somituri are likely to generate a healthy news flow.

Thirdly, it looks likely that management will be seeking to evaluate and acquire additional prospective properties to enhance KGL’s land package.

On top of all these developments, there looks to be corporate moves afoot. Notably, Australian gold miner Resolute Mining (ASX:RSG) has been starting to build a presence in the DRC and seems to have ambitions to participate in the development of a major new gold mining district. Resolute is capitalised at over £500 million and has gold mines in Australia (Ravenswood), Mali (Syama) and Ghana (Bibiani). **KGL’s last placing saw Resolute take a stake which it upped following a share swap and now holds in excess of 27%. This is a useful platform for a potential outright takeover or catalyst to further corporate activity.**

Resolute Mining has recently increased its footprint in the area. In April 2018, the company acquired a 27% interest in Loncor Resources whose licences areas enclose some of KGL’s licences. **In the future, a substantial DRC-focused gold vehicle could be created by combining Loncor’s assets with the company’s assets. The result would be a quite nice-looking business with contiguous licence areas covering a considerable area in a highly prospective region in NE DRC.**

Financials & current trading

The losses that have been recorded over the last five years are largely due to expenditure incurred in exploration and evaluation on the company's gold exploration properties in the DRC along with administration expenses and share-based compensation.

Y/E 31 September C\$'000s	2013A	2014A	2015A	2016A	2017A
Revenue	-	-	-	-	-
Pre-tax profit/loss	-4,104	-4,407	-4,267	- 2,968	-7,338
Net profit/loss	-2,861	-4,368	-4,184	-2,990	-7,361

Kilo Goldmines five-year trading history. Source: Company accounts

2017 results

Financial results for the twelve months ended 31st September 2017 covered a period of increased exploration activity which saw drilling on the Imbo licence between October 2016 and March 2017 designed to test coincident soil geochemical and geophysical anomalies on other targets within a close proximity of the Adumbi Prospect. During this 12-month period, total expenditure on exploration on the properties was C\$5.502 million, with 99% of this expenditure incurred resulting from work carried out on the Somituri project.

Over the last few years, work on the Isiro licences was temporarily halted pending the outcome of litigation as the company had received a legal challenge over their ownership. This claim was dismissed by the court in July 2016 and in June 2017 the ruling was upheld by the Court of Appeal. The loss for the year came out at C\$7.338 million with a loss per share of C\$0.04.

Recent developments

Since the company reported its 2017 financial results in January 2018 there have no further announcements.

Risks

Geological risks

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation style being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Political risk

There are political risks involved in companies operating in the DRC. The mining industry is arguably the most susceptible sector of the market to political risk largely due to its importance to the host country's economy.

Metal price risks

Metal prices are highly cyclical and changes in the prices of gold and could have a negative or positive impact on the valuation of the company's projects and revenue from the sales of metals. Over the ten years, the price of gold has been highly volatile, trading in the range of US\$1,899 - \$712 per ounce, and currently trades around the US\$1,270 level.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from US dollars and Congolese francs into Canadian dollars. Fluctuations in the value of the US dollar and Congolese francs against the Canadian dollar may well have an effect on the valuation KGL is awarded by the market.

Future funds

The market for raising funds for small cap companies may have improved from the worse conditions two years ago, however the equity market does continue to be difficult, especially for businesses such as mineral exploration where scope for early cash flow can be elusive. Some recent fundraisings in the resources sector have seen share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Board of Directors

David Netherway – Non-Executive Chairman

David is a mining engineer with over 40 years of experience in the mining industry. He was involved in the construction and development of the New Liberty, Iduapriem, Siguri, Samira Hill and Kiniero mines in West Africa and has mining experience in Africa, Australia, China, Canada, India, and the Former Soviet Union. David served as the CEO of Shield Mining Ltd until its takeover by Gryphon Minerals; prior to that David was the CEO of Toronto listed Afcan Mining Corporation, a China focused gold mining company that was sold to Eldorado Gold in 2005. He was the Chairman of Aureus Mining Inc. (now known as Avesoro Mining Inc., AIM/TSE: ASO) and also Afferro Mining Inc.

David has held senior management positions in a number of mining companies including Golden Shamrock Mines, Ashanti Goldfields, Crusader Resources and Semafo Inc. He is a former Director of Altus Resource Capital and Altus Global Gold. He is currently the Non-Executive Chairman of Canyon Resources Limited (ASX: CAY) and Altus Strategies Ltd and is a Non-Executive Director of Avesoro Mining Inc (LSE: AVO) and Kore Potash Plc (ASX: KP2).

John Wellborn – Director

John has extensive experience in mining, finance and investment banking. Since July 2015, he has been the Managing Director and Chief Executive Officer of Resolute Mining Limited, a leading Australian gold producer and explorer with mines in West Africa and Australia. Previously, he served in the same capacity at Equatorial Resources Ltd. Prior to this, John was Investec Bank (Australia) Ltd.'s Head of Specialised Lending in Western Australia. He has more than 20 years of commercial experience in Australian national and international leadership roles and is a Fellow of the Institute of Chartered Accountants of Australia, a Fellow of the Institute of Management, and is a member of the Australian Institute of Mining and Metallurgy.

Jim Mustard – Director

Jim was formerly Senior Mining Analyst and Vice President at Haywood Securities Inc. and is a professional geologist and registered professional engineer. He has over 25 years of industry experience with major Canadian international mining companies and the Government of Canada. Jim's interests and focus is on the junior exploration sector, with the aim of identifying early stage business opportunities, particularly within the gold, silver, copper, lead, zinc, nickel, PGMs and diamonds sectors.

Loudon Owen - Director

Loudon is a lawyer by training, co-founding and currently managing McLean Watson Capital, a private Toronto-based venture capital firm funding high-growth entrepreneurial ventures in the technology sector. He currently serves on the board of Directors/Trustees of a number of public, private and non-profit corporations and organisations including Hanfeng Evergreen Inc. (Chairman-TSX), Ntegrator International Ltd. (Singapore Stock Exchange) and Posera-HDX Limited (TSX).

Management Team

Philip Gibbs – Interim CEO & Chief Financial Officer

Philip is a Chartered Management Accountant with extensive financial management experience in large corporate environments, both in the manufacturing and retail sectors in North America and in Africa. His multi-disciplinary exposure includes market research, logistics and IT system implementations, making him well suited to a growing business.

Forecasts

We initiate coverage of KGL with forecasts for the years ending 30th September 2018 and 2019. The 2018 financial year represents a period of lower exploration effort at Somituri, with the sustaining costs of maintaining the camp and licences fees. For this twelve-month period, the pre-tax loss has been estimated to be C\$4.80 million. In the current year, there is expected to be a significant change in the number of shares on a fully diluted basis due the expiry of a total of 100,000,000 options, exercisable at C\$0.135, in July and August 2018, which we have assumed will expire without being exercised. In addition, we have anticipated that there will be additional shares issued resulting from a placing to finance the costs of the in-fill drilling programme. The loss per share is estimated to be C\$0.01.

For 2019 it is anticipated that exploration and evaluation costs will be slightly higher as there might be new licences gained which will require their own exploration budgets, in addition to the cost of further exploration at Somituri. The estimated pre-tax loss comes out at C\$5.60 million. This period is expected to see the expiry of 24.74 million warrants at C\$0.50, which again we have assumed will not be exercised. We estimate that the loss per share for the year will come out at C\$0.03.

Year End 30 September (000s 'C\$)	FY2016a	FY 2017a	FY 2018e	FY 2019e
Expenses				
Corporate and administrative expenses	857	799	800	850
Share-based compensation	182	807	500	750
Exploration and evaluation	1,865	5,503	1,000	4,000
Amortization	27	29	-	-
Loss on foreign exchange	38	201	-	-
Less:				
Interest Income	(1)	(2)	-	-
Loss for the years	(2,968)	(7,338)	(2,300)	(5,600)
Other Comprehensive Loss for the year				
Item that may be reclassified to profit or loss				
Currency Translation Adjustment	(22)	(23)	-	-
Total Comprehensive Loss for the year	(2,990)	(7,361)	(2,300)	(5,600)
Loss per share – basic and diluted (C\$)	(0.04)	(0.04)	(0.01)	(0.03)
Weighted average number of shares	72,240,499	169,699,855	169,699,855	194,959,712
Total shares plus warrants and options	311,945,579	320,545,581	219,184,121	217,776,574

Source: Company/Align Research

Valuation

Kilo management is currently seeking to re-energise the company, whose share price has been continuing to dwindle over the past eighteen months. It might be that the movements in 2016/17, which saw the share jump from 10 to 25 cents, might have represented over exuberance by investors. However, now with the share price languishing at just CAD 3 cents level, this stock does, to us, now warrant investors' attention.

In order to place a valuation on KGL we have chosen to use peer group analysis. A peer group of gold exploration companies active in Africa were selected (see table overleaf). For these companies we have determined the in-situ resource valuations using the Enterprise Value per attributable resource ounce. The results have been set out in descending order of EV/oz. The average EV/oz was calculated to be C\$24.28.

This tables does show the sort of valuation currently being awarded by the market to such stocks and also serves to highlight the sort of value that might be added as the company moves its projects further up the value curve. **We must point out that this valuation is highly conservative as it has been solely based on the N1 43-101 resource at the Somituri project.** This has an Inferred resource totalling 1.675Moz. **KGL has a 71.25% interest in this project and so has net attributable ounces of 1.193Moz. Using the average figure of EV/oz of C\$20.72, gives a valuation of C\$24.77 million.**

Based on our model, our sum-of-the-parts valuation came out at C\$25.14 million. Using the current number of shares in issue (169,699,855) suggests a per share valuation of CAD14.81 cents. For calculating the valuation per share on a fully diluted basis we used the figure as estimated at the company's year-end as there are 100,000,000 options exercisable at C\$0.135 before 30th September 2018, but which we expect to expire unexercised. So, on a fully diluted basis (219,184,121), this valuation equates to CAD11.47 cents per share.

Sum-of-the-parts valuation

Assets	Valuation C\$ million	
Resource at Somituri	1.675Moz	2.5Moz
Somituri	24.77	36.92
Cash	0.37	0.37
Debt	nil	nil
Total	25.14	37.29
Per share (169,699,855)	CAD14.81 cents	CAD21.97cents
On a fully diluted basis at 30 September 2018 (219,184,121)	CAD11.47 cents	CAD17.01cents

Source: Align Research

However, KGL is looking to start drilling again at Sumituri and it is the view of Align Research that 800,000 ounces of additional resources could be defined following a new in-fill drilling programme. **Such a move could take the resources at Sumituri to 2.5Moz and represent net attributable ounces of 1.782Moz to KGL.**

Selected African exploration, development and early-stage gold mining companies

Company	Share price	EV C\$M	Resource 000's oz gold	EV/oz C\$	Comments
Hummingbird Resources (AIM:HUM)	30.48p	238.6	4,921	48.49	Mali & Liberia Yanfolila Gold Mine (Mali) – working through ramp-up. 18,750oz produced (Q1 2018). Net attributable to Hummingbird (80%) 1.540Moz. Dugbe Gold Project (Liberia) DFS currently being optimized. 4.23Moz (Dugbe F 1.76Moz + Sackor 2.47Moz). Net attributable to Hummingbird (80%) 3.383Moz.
West African Resources (ASX:WAF)	A\$0.33	173.0	4,104	42.15	Burkina Faso Sanbardo Gold Project – DFS for project with expected 150,000oz pa production with commercial production in 2020. Project resource: 2.733Moz (2.077Moz Indicated and 0.656 Moz Inferred)
Orezone Gold Corp (TSX:ORE)	C\$0.79	161.6	4,770	33.87	Burkina Faso Bombore Project – Fully permitted having received all environmental approvals. Company is updating the 2015 feasibility study following changes in the resource statement to 4.77Moz.
Cardinal Resources (ASX:CDV)	A\$0.415	137.3	7,000	19.61	Ghana Namdini Project 7Moz (Indicated 6.6Moz + Inferred 0.5Moz). Exploration activity also underway at Bolgatanga and Subranum Projects
Loncor Resources (TSX-V:LN)	C\$0.075	12.1	1,000	12.14	DRC Ngayu Project (Ngayu Archaean greenstone belt) where the Mineral Resource estimate at Makapela is 1,000,100 oz Inferred.
Kefi Minerals (AIM:KEFI)	2.46p	16.3	1,890	8.60	Ethiopia Tulu Kapa Project (95%) – Development ready project, currently seeking finance for production to start in 2020. 1.7Moz resource (1.6Moz Indicated + 1.4Moz Inferred). Net attributable 1.61Moz. Qutman (40%) – Saudi Arabia – Completing PFS 0.7Moz resource. Net attributable 0.28Moz.
Amani Gold (ASX:ANL)	A\$0.008	9.7	1,180	8.22	DRC Giro Gold Project (Moto greenstone belt) (55.25%) maiden resource announced in 2017 2.14Moz. Net attributable 1.18Moz.
Azumah Resources (ASX:AZM)	A\$0.025	16.1	2,063	7.82	Ghana Wa Gold Project – Largely derisked for rapid development, with next 2 years of exploration and development studies being funded by Ibaera Capital that can earn up to a 47.5% interest. Across 7 deposits totals 2,063Moz (637,000 Measured, 744,000 Indicated + 681,000 Inferred).
African Gold Group (TSX-V:AGG)	C\$0.04	12.50	2,239	5.58	Mali & Burkina Faso Kobada Gold Project (Mali) – 2.2Moz resource (380,000oz Measured, 836,000oz Indicated + 1.024Moz Inferred) advanced stage of permitting with near-term production expected (8-year mine life at 50,000oz pa) Madougou Project (Burkina Faso) – exploration stage.
Average				20.72	

Source: Align Research

It is worth examining how this could affect the valuation moving ahead. To continue to be conservative we have used the average valuation of C\$20.72 per ounce based on our peer group analysis, which would give a total of C\$36.92 million. **Based on our model, the sum-of-the-parts valuation is C\$37.29 million and current shares in issue (169,699,855) suggests a per share valuation of CAD21.97 cents. On a fully diluted basis (219,184,121), this valuation equates to CAD17.01 cents per share**

Over the next twelve months, a decent flow of news looks as though it will become established. This would represent a marked change to the lack of news from the company as apart from the final results in January 2018, the last meaningful announcement was sampling results in September 2017. So, it is little surprise that the share price has been under pressure.

Moving ahead, it looks likely further drilling, joint venture deals and the acquisition of additional projects could re-energise the company. **At the same time, investors might begin to see how Resolute intends turn its concept of a DRC gold play gold into reality. Such developments should provide plenty of catalysts to get the share price of KGL starting to perform once more.**

Given all these expected developments, we hope to be given the chance to update our target price as progress is made on these important developments. **Our coverage of Kilo Goldmines is initiated with a target price of CAD14.81 cents and a Conviction Buy stance.**

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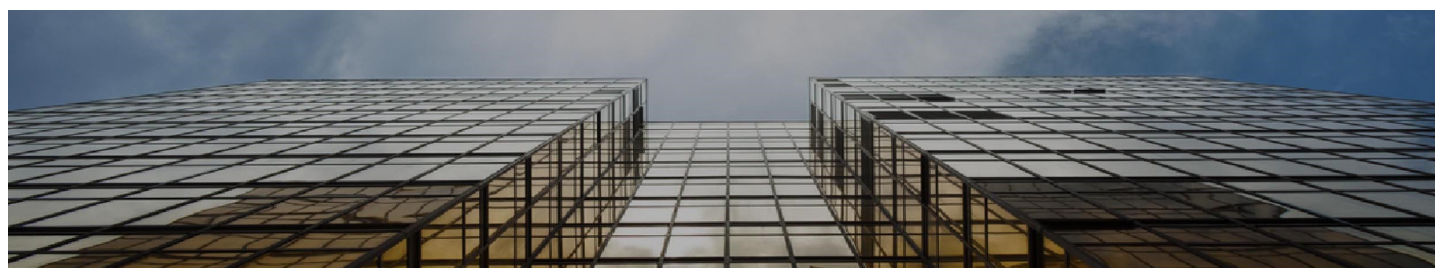
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