



KALIMANTAN GOLD CORPORATION LIMITED

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## Annual Report

### Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

and Auditors' Report to the Shareholders

**Kalimantan Gold Corporation Limited**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2008**

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## **Date**

The following discussion is management's assessment and analysis of the results of operations and financial conditions ("MD&A") of Kalimantan Gold Corporation Limited (the "Company" or "Kalimantan Gold") and should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2008 and related notes thereto.

The financial information in this MD&A is derived from the Company's financial statements prepared in accordance with Canadian generally accepted accounting principles and all dollar amounts are expressed in US dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The effective date of this report is April 24, 2009.

## **Overview**

### **Description of the Business**

Kalimantan Gold is incorporated in Bermuda and is an exploration stage company engaged in the business of acquiring and exploring mineral properties in Kalimantan, Indonesia. The Company is a reporting issuer in British Columbia, Alberta and Ontario and trades in Canadian dollars on the TSX Venture Exchange in Canada and in British pence on the AIM Market in London under the symbol KLG.

The Company has exploration rights over two distinct areas: the Jelai Gold Project in East Kalimantan and the KSK Contract of Work ("KSK COW") copper-gold prospects in Central Kalimantan. The Company has an option agreement with PT Indobara Pratama ("IBP") to bring its coal deposit into production and acquire up to an 80% interest in IBP a move designed to establish a presence for the Company in Indonesia's rapidly growing coal industry.

### **Jelai project**

Kalimantan Gold continues to achieve success in its drilling at its 100%-owned Jelai Gold Project in East Kalimantan, Indonesia. In April 2009 the Company filed a Technical Report called "Geology and Mineralization of the Mewet Vein, Jelai gold Project" authored by Brett Dennis Gunter (MAusIMM).

The current database for the Jelai Gold Project contains 115 drill holes in different areas of the vein system. From these holes, 26 drill holes were completed by previous explorers for an advance of 3,902 metres with a further 89 drill holes completed in the second phase of drilling by Kalimantan Gold for an advance of 8,273 metres.

The Mewet Vein crops out on the side of a small, north-south trending, ridge. The vein consists of small discontinuous outcrops of colloform banded chalcedony with adularia in the drilled area. The mineralisation in the Mewet Vein comprises a discrete lode structure containing mixed hydrothermal vein breccia, massive quartz veins and colloform-crustiform quartz veins in a zone trending generally north-south and dipping at approximately 60° to the west. Over the strike length of the vein a pinch and swell effect is observed with the width being variable at a similar RL along the strike of the vein. High gold values from the drilling were returned from finely banded, colloform-crustiform, quartz-adularia veins with the highest gold values occurring in zones of multiphase brecciation of the colloform banded quartz which are healed by chalcedonic quartz and adularia. Silver grades are sporadic with the most elevated values occurring with the high grade gold in finely banded, sulphidic, quartz veins. The assessment of data has outlined an exploration target of between 850,000-950,000 tonnes of mineralisation with a gold grade of approximately 2-3 g/t and an accompanying silver grade of approximately 2-3 g/t. The Mewet vein target remains open along strike in both directions.

*The potential quantity and grade is conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource.*

The program of exploration conducted by Kalimantan Gold has successfully outlined a number of areas of coherent mineralization in the Jelai Gold Project area, of which one example is the Mewet Vein. The initial aims of the program have been met, that is, to define the vein structures in the near surface environment and prepare targets for deeper drilling. Further work is recommended, with a budget of approximately USD 3.45 million to advance the project to a scoping study completion.

The Mewet Vein is one of five main veins identified to date at the Jelai Gold Project. The Mewet Vein exploration target is contained within a 250 metre long section within a known vein structure of more than 2,000 metres in strike length with mineralization beginning at the surface and extending down to 225 metres below the surface.

The Mewet Vein Technical Report is an important milestone, as it starts to quantify the Company's view that Jelai has the potential to yield a significant gold resource. The emphasis will now be directed towards growing the mineralization in quantity and quality. The geological model generated will greatly assist in drill targeting in the Mewet Vein area, where extensions of the higher grade areas have not been closed off, particularly down plunge to the north.

#### **Qualified Person**

All data for the Jelai Gold Project, as disclosed in this MD&A, has been verified by Brett Dennis Gunter, the Company's Qualified Person for the Jelai Gold Project and a principal of PT GMT. Mr Gunter, who acts as a technical consultant to the Company, is a geologist with over 18 years experience in exploration and mining and has more than 12 years experience in Indonesia in various commodities, including epithermal gold systems and coal. He is a member of the Australasian Institute of Mining and Metallurgy.

#### **Coal areas being assessed for acquisition**

On November 13, 2008 Kalimantan Gold signed an option agreement with IBP to bring the coal deposit on IBP's 100%-owned coal KP (the "IBP KP") into production and acquire up to an 80% interest in IBP.

The IBP KP is permitted for production and has the potential to be an open-cut coal mine. Work completed on the concession to date indicates a potential deposit of between 100 and 120 million tonnes of between 4,800 and 5,000 kcal/kg coal (air dried basis). The coal has a low ash and low sulfur content. The potential quantity and grade is conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource. The basis for the potential quantity and grade is discussed in a summary of the IBP program set out below.

Kalimantan Gold conducted a 58 hole drilling program that covered over 4,610 meters and identified two seams, one of between 1 to 6 meters and the other between 8 to 13 meters in thickness. The flat lying to shallow dipping nature of the seams results in a low overburden ratio of around 2:1 (2 meters of overburden per 1 meter of coal) for the conceptual tonnages indicated above.

The drill program confirms the validity of data provided to us by the owners. It also indicates that the area has substantial unexplored potential, given that the focus of our program was on just 418 ha of the concession's 2,700 ha. The thick seams and low overburden ratio also suggest the potential for relatively low mining costs.

The Company is in active discussions with several power station operators regarding coal off-take and project equity participation, given that the specifications of IBP coal closely matches the requirements of new power stations in India and Indonesia. There is an excellent 20 km road from mine-site to jetty, for which land has recently been acquired by IBP. The distance by barge from jetty site to the Balikpapan Coal Terminal is 304 km.

#### **Summary of the IBP Program**

- A total of 58 drill holes successfully completed

- 50 holes were drilled on 250 meter spacing's within an area of 418 ha
- 8 holes were drilled on 1,000 meter spacing's within an area of 949 ha
- Most holes were drilled to 60 meters, with a range of 12 to 81 meters
- 32 holes were redrilled to ensure high core recovery
- A total of 4,610 meters drilled including 390 meters of coring
- Geophysical logging of all holes
- The majority of coal seams intersected at 20 to 30 meters depth and possess a constant dip of 2 to 3 degrees, producing a strip ratio of 1:1 up to 3:1
- Seam A thickness between 1 to 6 meters occupies the eastern part of the drill area
- Seam B thickness between 8 to 13 meters occupies the western part of the drill area and remains open and increasing in thickness to the west
- Potential exists to substantially increase the mineralized area within the remaining 1333ha the exploitation area and an adjoining 2285 ha exploration area

Core samples were placed in trays on site, geologically logged, photographed and placed in heavy duty plastic bags. Coal analysis was carried out at the Intertek and Geoservices Laboratories in East Kalimantan.

The average results of the 58 samples analyses are as follows:

Summary assay (average) :

Weight (kg)	: 3.26 Kg
Total Moisture (%)	: 37.69 %
Inherent Moisture (%)	: 20.82 %
Ash Content (%)	: 4.43 %
Volatile Matter (%)	: 40.46 %
Fixed Carbon (%)	: 34.26 %
Sulfur (%)	: 0.16 %
Gross Caloric Value (cal/g) (adb)	: 4915
Caloric Value (cal/g) (db)	: 6213
Caloric Value (cal/g) (daf)	: 6577
Caloric Value (cal/g) (ar)	: 3815
Hardgrove Index	: 39 - 53
Relative Density	: 1.35

Note: Due to the porous nature of IBP coal, 1 day air drying tests of samples showed that the total moisture (ar) content can be reduced from 40-45% to between 20-35%.

#### Qualified Person

All data related to the IBP coal project, as disclosed in this MD&A, has been verified by Arif Hadian, the Company's Qualified Person for the coal prospects. Mr Hadian, who is the Company's Coal Manager, is a geologist with over 13 years experience in all aspects of the coal industry in East Kalimantan. He is a member of the Indonesian Geologists Association.

#### **Kalimantan Gold completes acquisition of 100% of KSK COW**

On October 10, 2008 the Company announced the completion of the acquisition of the remaining 25% interest in its KSK Contract of Work ("KSK COW") that it did not already hold. This follows the recent receipt of approvals from the Indonesian regulatory authorities for the transaction that was initially announced on October 16, 2007.

Owning 100% of the KSK COW greatly simplifies what was a complex corporate structure of this valuable mineral asset. The structure acted as a barrier in attracting a major mining company to assist in moving this project forward.

As consideration for the acquisition of the remaining 25% interest in the KSK COW, Kalimantan Gold issued 20 million of its common shares to Kalimantan Investment Corporation ("KIC") so that KIC now holds a total of 31,802,329 common shares representing 32% of Kalimantan Gold's issued and outstanding shares. KIC is a private British Virgin Islands company with about 400 shareholders many of whom hold shares of both Kalimantan Gold and KIC. It is the understanding of Kalimantan Gold that KIC will dissolve itself and distribute its only asset, being the shares it owns of KLG to its shareholders.

The KSK COW is a 941 sq km 6th generation Contract of Work comprising a total of 38 mineral prospects located in Central Kalimantan, Indonesia. Of the 38, Kalimantan Gold has identified several of which it considers to have the potential to host world class copper-gold porphyry deposits.

Dr Peter Pollard was asked to produce an independent report on the KSK COW following the completion of a drill programme by previous joint venture partner Oxiana Ltd in December 2007. Dr Pollard's report highlighted the "untested potential" in several areas which is currently attracting interest from a number of potential joint venture partners. Dr Pollard's report states that there are a number of untested targets at the Beruang prospect where previous drilling results include 167 meters @ 0.59% copper and at Baroi where previous results include 83 meters @ 2.64% copper. As a result Kalimantan Gold believes that promising targets remain to be tested within the KSK COW prospect area and is seeking a partner that will commit to a work program that will enable this potential to be thoroughly tested.

### **Management Changes**

On October 22, 2008 the Company announced the appointment of Arif Hadian as Manager of its Coal Division. Mr. Hadian is a geologist who has worked in the East Kalimantan region for a number of years and has extensive experience in the coal sector working for large international companies such as BHP Billiton, Essar and Sumitomo Corporation. His experience ranges from sourcing new coal areas through to permitting, exploration, feasibility, production and marketing.

At a time when quality coal assets in East Kalimantan are becoming available on more favourable terms than in the past the Company intends to pursue coal acquisitions with the help of Mr. Hadian.

Macquarie Bank has agreed to work with the Kalimantan Gold to devise strategies to evaluate debt financing alternatives for coal projects.

### **Aim Rule 26**

We confirm that we have updated our website ([www.kalimantan.com](http://www.kalimantan.com)) so that it includes the information required by AIM Rule 26.

### **Results of operations**

#### *Results of operations for the year ended December 31, 2008 and 2007*

The Company incurred a loss for the year ended December 31, 2008 of \$6,676,488 (2007 - \$1,527,156).

The more significant changes between the current period and the comparative period are discussed below.

Consulting fees were \$437,925 compared to \$282,673 in 2007. The Company has increased its use of consultants by retaining the London based Gerald Cheyne as the Company's Director Corporate Development and Dr. Peter Pollard as the Company's Technical Advisor. The Company also used Vancouver based Proactive Communications to help keep our North American investors informed about the Company's activities for six months of the year.

Investor relations and travel and accommodation included the cost of our technical director's travel to tour the Company's properties and make presentations on them to potential investors in Europe.

Transfer agent, filing and exchange fees were \$92,212 compared to \$79,843. The annual listing fees for the AIM and TSX listings have increased and the annual filing fees in Bermuda also increased. The Company disseminated more press releases in the period which also contributed to the increase.

Exploration costs in the year ended December 31, 2008 totaled \$5,650,880 which included the write down of acquisition costs of \$3,496,809 fair value of the 20,000,000 common shares issued to acquire the remaining balance of 25% of the KSK COW (2007 - \$724,613) in accordance with EIC 174 as there has been a significant adverse change in the business climate to raise financing necessary to continue exploration of the property. Note 6 of the annual consolidated financial statements provide details of the expenses. At this time last year Oxiana was covering the majority of the exploration programs the Company was active on at that time.

### Selected Annual Information

	Fiscal Year Ended December 31 2008 audited	Fiscal Year Ended December 31 2007 audited	Fiscal Year Ended December 31 2006 audited
<b>Statement of Operations</b>			
Net revenues	\$ Nil	\$ Nil	\$ Nil
Net loss	(6,676,488)	(1,527,156)	(2,289,296)
Net loss per share	(0.09)	(0.03)	(0.04)
<b>Balance Sheet</b>			
Total assets	\$ 523,077	\$ 1,232,446	\$1,926,929
Long term debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

### Summary of quarterly results

The unaudited financial results for each of the eight most recently completed quarters are summarized below:

	3 months ended Dec. 31, 2008 US\$	3 months ended Sept, 30, 2008 US\$	3 months ended June 30, 2008 US\$	3 months ended March 31, 2008 US\$	3 months ended Dec. 31, 2007 US\$	3 months ended Sept, 30, 2007 US\$	3 months ended June 30, 2007 US\$	3 months ended March 31, 2007 US\$
Total revenues		-	-	-	-	-	-	-
Loss for the quarter	(4,471,439)	(952,231)	(690,863)	(563,305)	(220,544)	(520,201)	(525,667)	(260,744)
Basic and diluted loss per share	(0.06)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)

The Company is an exploration stage enterprise. At this time any issues of seasonality or market fluctuations have no impact. The Company currently expenses all its mineral exploration costs and general and administration costs and these amounts are included in the loss for each quarter. The Company's finances determine the levels of exploration.

## Liquidity

The Company began the current fiscal year with \$872,739 cash and cash equivalents. The Company received proceeds net of issue costs of \$2,122,527 from the issue of common shares pursuant to three non-brokered private placements and an additional \$42,433 from the exercise of common share purchase warrants. The Company used \$2,613,512 to fund operations, and \$43,928 to purchase field equipment and the security deposit on the Jelai Gold Project and \$95,835 was the cash costs of acquiring the 25% interest in the KSK COW. The Company ended the year with \$313,663 cash and cash equivalents.

The Company's working capital deficit at December 31, 2008 is \$31,701.

On April 28, 2009 Kalimantan Gold issued 17,024,268 common shares at a price of C\$0.05 per share to raise approximately \$698,000 (C\$852,213) from a non-brokered private placement financing. Finder's fees of C\$23,472 were paid. The common shares issued are restricted from trading through the TSX Venture Exchange until August 28, 2009.

Kalimantan Gold has regulatory approval to issue up to 5,519,161 common shares at a price of C\$0.05 per share to settle up to C\$275,958 current liabilities with eleven creditors accrued to March 31, 2009. Included in the total is \$85,040 that was owed at December 31, 2008 of which \$47,469 was owed to related parties.

The Company intends to use the proceeds from the private placement to fund its ongoing gold and coal exploration programs in Indonesia, as well as general working capital purposes.

## Capital Resources

At April 24, 2009 the Company has 5,442,000 stock options outstanding. Upon an increase in the Company's share price and volume traded the share purchase warrants and stock options would be expected to be exercised and would contribute additional cash to the treasury.

The Company has met its expenditure requirements pursuant to its KSK COW for the entire exploration phases of the contract due to the ability to carry over excess work expenditures.

## Contingency

During 2008 the Indonesian tax authorities conducted audits of the Company's Indonesian subsidiaries and delivered assessments on several levels of withholding tax, employee income tax and value added tax. The outcome of the tax assessments is not determinable. The Company believes the tax assessments are without basis and the Company has filed notices of objection.

## Fourth quarter

The Company began the fourth quarter with \$601,499 cash and cash equivalents. It expended \$556,854 in operating costs, recovered \$97,485 of investment costs related to costs incurred in 2007 for the PCK acquisition, raised \$231,270 in financing activities and recorded an unrealized loss of \$59,737 on its cash and cash equivalents to end the quarter and the year with \$313,663 cash and cash equivalents.

## Transactions with related parties

The Company pays consulting fees to Golden Oak Corporate Services Ltd., a company owned by Doris Meyer, Chief Financial Officer for financial reporting and corporate compliance services. The fees are C\$8,000 per month plus Canada's goods and services tax which is not recoverable by the Company. During the year ended December 31, 2008, the Company paid Golden Oak \$97,013 (C\$100,800) compared to \$96,148 (C\$101,760) during 2007. Either party may terminate the agreement at any time upon 90 days notice.

The Company paid or accrued \$64,800 consulting fees to Rahman Connelly, Deputy Chairman and Chief Executive Officer (\$39,000 in 2007).

The Company paid or accrued to its two non-management director's fees totalling \$24,000 in the year ended December 31, 2008 (\$24,000 in 2007).

Amounts owed to related parties at December 31, 2008 of \$86,564 (December 31, 2007 \$8,845) were in the normal course of business. The Company has regulatory approval and the related parties have agreed to settle \$47,469 of the amount owed by the issue of common shares at a price of C\$0.05 to settle these amounts.

All of the above noted transactions have been in the normal course of business and undertaken with the same terms and conditions as transactions with unrelated parties.

### **Additional disclosure for Venture Issuers without significant revenue**

The components of exploration costs are described in note 6 to the annual consolidated financial statements for the year ended December 31, 2008.

### **Outstanding share data**

Authorized share capital \$2,000,000 divided into 200,000,000 common shares at a par value of \$0.01 each.

	<b>Common Shares Issued and Outstanding</b>	<b>Common Share Purchase Warrants</b>	<b>Common Share Purchase Options</b>
Balance December 31, 2008	99,389,262	-	6,392,000
Stock options expired	-	-	(950,000)
Private placement	17,024,268	-	-
Balance, April 24, 2009	116,413,530	-	5,442,000

### **Financial Instruments**

All financial instruments are recorded initially at estimated fair value on the balance sheet and classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables and other liabilities

#### *Financial Risk Management*

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents and accounts payable and accrued liabilities.

The Company has classified cash as held-for-trading. Prepaid items and advances are classified as loans and receivables, and accounts payable and accrued liabilities as other liabilities, all of which are measured at amortized cost.

The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

#### *Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

#### *Credit Risk*

The Company's only exposure to credit risk is on its bank accounts. Bank accounts are with a Canadian Schedule 1 bank with a \$20 million counterparty credit limit.

#### *Liquidity Risk*

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The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash and cash equivalents is invested in business accounts which are available on demand.

#### *Market Risk*

The only significant market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its cash equivalents is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

#### *Exchange Risk*

As at December 31, 2008 the majority of the Company's cash and cash equivalents was held in Canada in Canadian dollars. The Company's significant operations are carried out in Indonesia. As a result a portion of the Company's cash and accounts payable and accrued liabilities are denominated in United States Dollars, the Indonesian Rupiah and Australian dollars are therefore subject to fluctuation in exchange rates.

#### *Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

### **Forward looking statements**

This MD&A contains certain forward-looking statements related to, among other things, expected future events, future spending levels and the future financial and operating results of the Company. Forward-looking statements are encouraged to enhance communication but are subject to inherent risks and uncertainties including but not limited to, market and general economic conditions, changes arising as drilling results are received, changes in regulatory environments affecting the Company and the availability and terms of subsequent financings. Other risks and uncertainties are detailed below. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward looking statements for a wide variety of reasons.

### **Risks**

Mineral exploration is subject to a high degree of risk, which a combination of experience, knowledge, and careful evaluation may fail to overcome. Exploration activities seldom result in the discovery of a commercially viable mineral resource. Exploration activities are also expensive. The Company will therefore require additional financing to carry on its business and such financing may not be available when it is needed.

### **Changes in Accounting Policy and Presentation**

On January 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

- (a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (see Note 3 to the annual consolidated financial statements).
- (b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (see Note 3 to the annual consolidated financial statements).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 11 to the annual consolidated financial statements). Under this standard, the Company will be required to disclose the following:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

(d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern (see Note 1 to the annual consolidated financial statements).

(e) EIC 174 – Mining Exploration Costs – On March 27, 2009 the Emerging Issues Committee of the CICA issued EIC-174 “Mining Exploration Costs”, which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company has applied this new abstract for the year ended December 31, 2008. As a result of the adoption of EIC-174 the Company wrote down capitalized acquisition costs (see Note 6 to the annual consolidated financial statements).

### **Other information**

Additional information relating to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company’s web site [www.kalimantan.com](http://www.kalimantan.com).



**KALIMANTAN GOLD CORPORATION LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

(a development stage company)

For the years ended December 31, 2008 and 2007

and Auditors' Report to the Shareholders

## AUDITORS' REPORT

To the Shareholders of  
**Kalimantan Gold Corporation Limited**

We have audited the consolidated balance sheets of **Kalimantan Gold Corporation Limited** ["the Company"] as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,  
April 24, 2009.

*Ernst & Young LLP*

Chartered Accountants

KALIMANTAN GOLD CORPORATION LIMITED  
See Nature of Operations – Note 1  
**CONSOLIDATED BALANCE SHEETS**  
*(In United States Dollars)*

As at	December 31, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 313,663	\$ 872,739
Prepaid items and advances	<u>62,092</u>	<u>101,562</u>
	375,755	974,301
Security deposit - mineral property (note 6)	22,452	24,517
Deferred mineral property acquisition (note 6)	-	95,835
Equipment (note 5)	<u>124,870</u>	<u>137,793</u>
	<u>\$ 523,077</u>	<u>\$ 1,232,446</u>
 <b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ <u>407,456</u>	\$ <u>188,504</u>
Provision for employee service entitlements (note 4)	<u>31,424</u>	<u>41,276</u>
	<u>438,880</u>	<u>229,780</u>
 <b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 7)	964,385	606,716
Contributed surplus (note 7)	21,444,541	16,042,841
Deficit	<u>(22,324,729)</u>	<u>(15,646,891)</u>
	<u>84,197</u>	<u>1,002,666</u>
	<u>\$ 523,077</u>	<u>\$ 1,232,446</u>
Commitments (note 9)		
Contingency (note 10)		
Subsequent events (note 13)		

Approved by the Board of Directors

*/s/ Murray Clapham*  
Murray Clapham

*/s/ Rahman Connelly*  
Rahman Connelly

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

KALIMANTAN GOLD CORPORATION LIMITED  
See Nature of Operations – Note 1  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
*(In United States Dollars)*

<i>For the year ended:</i>	<b>December 31, 2008</b>	December 31, 2007
<b>Expenses:</b>		
Accounting and audit	\$ 30,965	\$ 36,129
Amortization	942	1,178
Consultants (note 8)	437,925	282,673
Directors fees (note 8)	24,000	24,000
Exploration and write down of acquisition cost (note 6)	5,650,880	724,613
Investor relations	56,170	58,338
Legal	34,283	21,218
Office and administrative services	16,612	24,108
Stock-based compensation (note 7)	140,033	355,370
Telephone and facsimile	7,195	5,829
Transfer agent, filing and exchange fees	92,212	79,843
Travel and accommodation	74,520	103,867
	<u>6,565,737</u>	<u>1,717,166</u>
<b>Other items:</b>		
Foreign exchange (gain) loss	119,938	(161,219)
Interest income	(7,837)	(28,791)
	<u>112,101</u>	<u>(190,010)</u>
Loss and comprehensive loss for the year	6,677,838	1,527,156
Deficit - beginning of year	<u>15,646,891</u>	<u>14,119,735</u>
Deficit - end of year	\$ <u>22,324,729</u>	\$ <u>15,646,891</u>
Basic and diluted loss per share	\$ <u>(0.09)</u>	\$ <u>(0.03)</u>
Weighted average number of shares outstanding	<u>74,635,356</u>	<u>59,204,381</u>

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

KALIMANTAN GOLD CORPORATION LIMITED  
See Nature of Operations – Note 1  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In United States Dollars)

<i>For the year ended:</i>	December 31, 2008	December 31, 2007
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Loss for the year	\$ (6,677,838)	\$ (1,527,156)
Add charges to operations not involving cash:		
Write down of acquisition costs	3,496,809	-
Amortization - expenses	942	1,178
Amortization - exploration	58,375	38,062
Unrealized foreign exchange (gain) loss	119,938	(161,219)
Stock-based compensation	140,033	355,370
Changes in non-cash working capital balances:		
Prepaid items and advances	39,069	(3,738)
Accounts payable and accrued liabilities	218,952	(230,555)
Provision for employee service entitlements	(9,852)	19,947
	<u>(2,613,572)</u>	<u>(1,508,111)</u>
<b>Investing activities</b>		
Security deposit mineral property	2,065	(9,518)
Deferred acquisition of mineral property	95,835	(45,087)
Equipment	(45,993)	(97,871)
	<u>51,907</u>	<u>(152,476)</u>
<b>Financing activities</b>		
Shares issued	2,247,607	637,163
Share issue costs	(125,080)	-
	<u>2,122,527</u>	<u>637,163</u>
Unrealized foreign exchange (loss) gain on cash and cash equivalents	<u>(119,938)</u>	<u>161,219</u>
<b>Net change in cash and cash equivalents</b>	<b>(559,076)</b>	<b>(862,205)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>872,739</b>	<b>1,734,944</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ <u>313,663</u></b>	<b>\$ <u>872,739</u></b>
Supplemental information:		
Cash	\$ 313,663	\$ 301,526
Cash equivalents	-	571,213
	<u>\$ 313,663</u>	<u>\$ 872,739</u>
Accounts payable included in deferred acquisition of mineral property	\$ -	\$ 50,748
Shares issued to settle accrued liability	-	72,936
Shares issued to acquire mineral property	3,496,809	-

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

## **1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

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### **Nature of operations**

Kalimantan Gold Corporation Limited (the “Company” or “Kalimantan Gold”) is in the business of acquiring and exploring mineral properties in Indonesia and has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts spent for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company will periodically have to raise additional funds to continue operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. The operations of the Company will require various licenses and permits from various governmental authorities which are or may be granted subject to various conditions and may be subject to renewal from time to time. There can be no assurance that the Company will be able to comply with such conditions and obtain or retain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects. Failure to comply with these conditions may render the licences liable to forfeiture.

### **Going concern uncertainty**

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The ability of the Company to continue as a going concern is uncertain and dependent upon obtaining the financing necessary to meet its financial commitments and to complete the development of its properties and/or realizing proceeds from the sale of one or more of the properties. These consolidated financial statements do not reflect any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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### **Basis of preparation of financial statements**

The Company's financial statements are presented in United States dollars in accordance with Canadian generally accepted accounting principles (“GAAP”). The Company's functional currency is the United States dollar as the majority of the Company's transactions are denominated in this currency.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and investments in highly liquid instruments. Cash equivalents include term deposits with a maturity of three months or less at the time of issuance. The fair value of the term deposits approximates their carrying value.

### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiary companies, which are as follows:

Indokal Ltd. (“Indokal”)	100%	incorporated in Hong Kong
PT Jelai Cahaya Minerals (“JCM”)	100%	incorporated in Indonesia
PT Kalimantan Surya Kencana (“KSK”)	100%	incorporated in Indonesia

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### **Equipment and amortization**

Equipment, consisting of office and field equipment is stated at cost less accumulated amortization. Amortization is calculated based on the estimated useful life of the assets using the straight line method over four years commencing from the year the assets are put into service.

### **Exploration and development of mineral property interests**

Exploration costs are expensed as incurred. Development costs will be expensed until it has been established that a mineral deposit is commercially mineable and a production decision has been made by the Company to implement a mining plan and develop a mine, at which point the costs subsequently incurred to develop the mine on the property prior to the start of mining operations are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

The Company reviews the carrying values of its mineral properties on a regular basis by reference to the project economics including any independent feasibility studies on a property, the timing of the exploration and/or development work, the work programs and the exploration results experienced by the Company. The review of the carrying value of any producing property will be made by reference to the estimated future operating results and net cash flows. When the carrying value of a property or equipment exceeds its estimated net recoverable amount, provision is made for the decline in value.

### **Asset retirement obligations**

A liability is recognized for legal obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset where one is identifiable is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations, the extent of environmental remediation required or completed, the means of reclamation, or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

As at December 31, 2008, the Company has not incurred any asset retirement obligation related to the exploration and development of its mineral properties.

### **Provision for employee service entitlements**

In 2003, the Company started to recognize a provision for Indonesian employee service entitlements in accordance with Indonesia's Labor Law No. 13/2003 dated March 25, 2003 (the "Law") under an assumption that all employees resigned at balance sheet date.

The cost of providing employee benefits under the Law is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefit obligation at that date. The provision for employee service entitlements is included in the salary portion of mineral expense.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### **Share capital**

The Company records proceeds from share issuances net of issue costs. Common shares issued for consideration other than cash are valued at the quoted market price over a reasonable period before and after the date the agreement to issue the shares was reached and announced.

### **Foreign currency translation**

Transactions in currencies other than United States dollars are translated into United States dollars at rates of exchange prevailing at the date of the transaction. Balances of monetary assets and monetary liabilities in currencies other than United States dollars are translated into United States dollars at rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the date of the transaction. Exchange gains or losses on translations are included in income or loss for the year.

### **Stock-based compensation**

The Company applies the fair value method of accounting for all stock option awards. Under this method the Company recognizes a compensation expense for stock options awarded, based on the fair value of the stock options on the date of grant which is determined by using the Black-Scholes option pricing model. The fair value of the stock options is expensed over the vesting period of the options. The par value of the consideration paid by an option holder on exercise of stock options is credited to common shares with the surplus an additional credit to contributed surplus.

### **Income taxes**

The liability method of accounting for income taxes is used, and future income tax assets and liabilities are recorded based on temporary differences between the carrying amounts of balance sheet items and their corresponding tax bases. Future income tax assets also include unused tax losses, subject to a valuation allowance, to the extent that it is more likely than not those losses will ultimately be utilized. This standard also requires that future income tax assets and liabilities be measured using the enacted tax rates and laws expected to apply at the time when these assets or liabilities are to be realized or settled.

### **Loss per share**

Basic loss per share is computed using the weighted average number of common shares outstanding during the periods. The treasury stock method is used for the calculation of diluted loss per share. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants outstanding.

As the Company has recorded a loss in each of the periods presented, basic and diluted loss per share are the same since the exercise of warrants or options would reduce the loss per share.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### **Use of estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses for the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. The more significant areas requiring the use of management estimates relate to the determination of impairment for mineral properties as well as the assumptions in determining the fair value of stock-based compensation. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. Actual results could differ from these estimates.

### **Newly adopted accounting policies:**

On January 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

(a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (see Note 3).

(b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (see Note 3).

(c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 11). Under this standard, the Company will be required to disclose the following:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

(d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity's ability to continue as a going concern (see Note 1).

(e) EIC 174 – Mining Exploration Costs – On March 27, 2009 the Emerging Issues Committee of the CICA issued EIC-174 "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular, and on impairment of long-lived assets in general. The Company has applied this new abstract for the year ended December 31, 2008. As a result of the adoption of EIC-174 the Company wrote down capitalized acquisition costs (see Note 6).

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### **New accounting pronouncements not yet adopted:**

#### **International financial reporting standards (“IFRS”)**

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company’s transition date of January 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **3. FINANCIAL INSTRUMENTS**

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All financial instruments are recorded initially at estimated fair value on the balance sheet and classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables and other liabilities

### *Financial Risk Management*

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Company’s financial instruments consist of cash and cash equivalents and accounts payable and accrued liabilities.

The Company has classified cash and cash equivalents as held-for-trading. Prepaid items and advances are classified as loans and receivables, and accounts payable and accrued liabilities as other liabilities, all of which are measured at amortized cost.

The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

### *Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

### *Credit Risk*

The Company’s only exposure to credit risk is on its bank accounts. Bank accounts are with a Canadian Schedule 1 bank with a \$20 million counterparty credit limit.

### *Liquidity Risk*

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company’s holdings of cash. The Company’s cash and cash equivalents is invested in business accounts which are available on demand.

### *Market Risk*

The only significant market risk exposure to which the Company is exposed is interest rate risk. The Company’s bank account earns interest income at variable rates. The fair value of its cash equivalents is relatively unaffected by changes in short-term interest rates. The Company’s future interest income is exposed to short-term rates.

### 3. FINANCIAL INSTRUMENTS (continued)

#### Exchange Risk

As at December 31, 2008 the majority of the Company's cash and cash equivalents was held in Canada in Canadian dollars. The Company's significant operations are carried out in Indonesia. As a result a portion of the Company's cash and accounts payable and accrued liabilities are denominated in United States Dollars, the Indonesian Rupiah and Australian dollars are therefore subject to fluctuation in exchange rates.

#### Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

### 4. PROVISION FOR EMPLOYEE SERVICE ENTITLEMENTS

Movements of provision for employee service entitlements:

Balance December 31, 2006	\$	21,329
Add: provision during the year		19,947
Balance, December 31, 2007		41,276
Less: utilization during the year		(5,380)
Add: provision during the year		1,397
Less: foreign exchange adjustment to estimated provision		(5,869)
Balance, December 31, 2008	\$	31,424

### 5. EQUIPMENT

December 31, 2008			
	Cost	Accumulated amortization	Net book value
Office and field equipment	\$ 437,729	\$ 312,859	\$ 124,870

  

December 31, 2007			
	Cost	Accumulated amortization	Net book value
Office and field equipment	\$ 399,067	\$ 261,274	\$ 137,793

## 6. MINERAL PROPERTIES

	For the year 2008 \$	For the year 2007 \$	Cumulative exploration since inception \$
<b>KSK COW</b>			
Exploration costs assumed from a predecessor			2,038,322
Exploration costs during the year:			
Community development	66,000	74,401	323,011
Consultants and contractors	-	-	815,147
Contracted drilling	996	735,726	1,741,242
Field support	63,588	335,356	1,556,946
Land tax and dead rent	143,876	12,242	357,174
Salaries, wages and related costs	202,332	560,472	3,872,280
Sample preparation and analysis	-	90,670	550,818
Supplies and equipment	8,088	78,699	1,276,238
Transport (including helicopters)	26,850	690,516	1,702,686
Travel and accommodation	-	63,960	528,836
	511,730	2,642,042	12,724,378
Amortization	15,041	14,783	276,976
Current year exploration	526,771	2,656,825	13,001,354
Write down of acquisition costs	3,496,809	-	3,496,809
Oxiana cost recoveries during the year	-	(2,330,360)	(2,330,360)
	4,023,580	326,465	14,167,803
<b>Jelai Mewet KP</b>			
Exploration costs during the year:			
Community development	61,838	26,229	88,067
Consultants and contractors	55,964	23,084	123,158
Drilling	82,497	37,082	119,579
Field support	353,755	78,776	432,544
Land tax and dead rent	1,431	4,477	7,544
Road and bridge repairs	3,790	5,132	8,922
Salaries, wages and related costs	477,749	105,092	584,618
Sample preparation and analysis	48,859	4,008	52,867
Supplies and equipment	8,257	2,228	15,290
Transport (including helicopters)	94,844	46,842	152,309
Travel and accommodation	80,313	33,650	125,630
	1,269,297	366,600	1,710,528
Amortization	41,804	23,279	65,324
Current year exploration	1,311,101	389,879	1,775,852
<b>Coal</b>			
Project investigations	314,669	8,269	322,938
Amortization	1,530	-	1,530
	316,199	8,269	324,468
Total current year exploration	5,650,880	724,613	16,268,123
Expensed during year	(5,650,880)	(724,613)	(16,268,123)
Mineral properties, end of year	\$ -	\$ -	\$ -

## **6. MINERAL PROPERTIES (continued)**

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### KSK Contract of Work (“KSK COW”) – Central Kalimantan

The holder of the KSK COW is PT Kalimantan Surya Kencana (“KSK”) as to 75% and PT Pancaran Cahaya Kahaya (“PCK”) as to 25% both of which are now owned by Indokal Limited, a wholly owned subsidiary of Kalimantan Gold. On October 6, 2008 Kalimantan Gold completed the purchase of all of the issued and outstanding shares of PCK from Kalimantan Investment Corporation (“KIC”).

The acquisition of PCK was approved by the Canadian regulatory authorities and the shareholders of the Company and KIC in December 2007. The transfer of the shares of PCK to Indokal was approved by the Indonesian regulatory authorities and completed on October 6, 2008. As consideration for the acquisition the Company issued 20,000,000 of its common shares to KIC so that KIC now holds a total of 31,802,329 common shares representing 32% of the Company’s issued and outstanding shares. KIC is a private British Virgin Islands company with about 400 shareholders many of whom hold shares of both the Company and KIC. It is the understanding of the Company that KIC will dissolve itself and distribute its only asset, being the shares it owns of the Company to its shareholders.

Prior to completing the acquisition of PCK the Company reported 100% of the assets and liabilities of KSK within its consolidated accounts as PCK had a carried interest in KSK with no responsibility for losses. The Company wrote off the \$3,496,809 fair value of the 20,000,000 common shares issued in accordance with EIC 174 as there has been a significant adverse change in the business climate to raise financing necessary to continue exploration of the KSK COW.

The KSK COW was initially entered into in April 1997 and it is currently within what is designated as the “Exploration” period. Following the Exploration period there is a two year feasibility period, then a three year construction period, then operations for thirty years.

The KSK COW was divided into Block A and Block B. The Exploration stages for both Block A and Block B are operating on different “clocks”. On April 28, 2008 both blocks were merged into one and the second one year Extension of Exploration Period began on April 28, 2008.

A portion of the KSK COW is within a Hutan Lindung (protected/reserved forest) area. The KSK COW was granted prior to the enactment of the 1999 Government of Indonesia Law No. 41 (“Law No. 41”) on Forestry which prohibits open pit mining in Hutan Lindung (protected/reserved forest) areas. A subsequent Presidential Decree has confirmed that when the Company’s property fits the necessary criteria it may apply for a permit to exploit that portion of the properties within the KSK COW that fall within the Hutan Lindung. On April 3, 2007 KSK received a two year permit from the Minister of Forests to explore the entire KSK COW including the Hutan Lindung areas.

### KPs – East Kalimantan

On March 23, 2006 the Company organized the incorporation of a 100% beneficially owned domestic Indonesian subsidiary, PT Jelai Cahaya Minerals (“JCM”). The Company has entered into certain contractual arrangements with JCM and its shareholders, pursuant to which the Company (either by itself or through a wholly owned mining services company) has agreed to provide all necessary financial, technical and managerial requirements for the development and operation of a mine within the JCM KP area, and in return JCM has agreed to pay to the Company (or its subsidiary) the net proceeds of the sale of minerals from the JCM KP area.

JCM paid a refundable security deposit of \$22,452 for the JCM KP that gives JCM the right to conduct exploration over an approximate 5,000 hectare area including drilling. The Exploration KP which is granted for a maximum of three years and is capable of being extended twice, each for a period one year. An Exploitation KP can subsequently be applied for and is granted for up to 30 years, and may be extended for further 10 year terms.

## 6. MINERAL PROPERTIES (continued)

### KPs - Coal

On November 13, 2008 the Company signed an option agreement with PT Indobara Pratama ("IBP") to acquire up to an 80% interest in the equity of IBP and to bring the coal deposit on IBP's 100%-owned coal KP (the "Concession") into production. The Concession located in East Kalimantan, Indonesia is 130 kilometres northwest of Samarinda and is accessible by road and river. The Company's exclusive option has been extended to late April 2009. In completing due diligence the Company conducted a 58 hole drill program covering over 4,610 metres. The Company may provide notice it wishes to proceed to acquire shares of IBP based on the value of \$1 per tonne of proven recoverable coal reserves ("PRCR") estimated in accordance with JORC (the "Purchase Price"). A share purchase agreement ("SPA") will be executed and payment of the Purchase Price is expected to be made in stages. All IBP costs from the time the SPA is executed until the first shipment of coal shall be borne 80% by the Company and 20% by the selling shareholders of IBP. The Company is attempting to negotiate improved terms during this extended option period. No option payments have been made to April 24, 2009.

## 7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital \$2,000,000 divided into 200,000,000 common shares at a par value of \$0.01 each.

(7a) Common shares issued and outstanding:

	Common Shares Issued and Outstanding	Share Capital Par Value \$0.01	Contributed Surplus \$		Total Share Capital and Contributed Surplus \$
Balance December 31, 2006	57,925,784	579,256	15,004,832		15,584,088
Warrants exercised	2,200,000	22,000	601,853		623,853
Options exercised	121,000	1,210	12,100		13,310
Stock based compensation	-	-	355,370		355,370
Shares for services	425,000	4,250	68,686	(1)	72,936
Balance December 31, 2007	60,671,784	606,716	16,042,841		16,649,557
Private placements	18,567,478	156,169	2,049,005	(2)	2,205,174
Shares issued for mineral property	20,000,000	200,000	3,296,809	(3)	3,496,809
Warrants exercised	150,000	1,500	40,933		42,433
Share issue costs	-	-	(125,080)		(125,080)
Stock based compensation	-	-	138,683		138,683
Balance December 31, 2008	99,389,262	964,385	21,443,191		22,407,576

(1) In January 2007 the Company issued 425,000 common shares to RFC Corporate Finance Ltd. at a value of C \$0.20 per share as payment of \$72,936 accrued as a liability at December 31, 2006.

(2) On January 2, 2008, pursuant to a non-brokered private placement, the Company issued 3,283,333 common shares of the Company at a price of 12 pence per common share for gross proceeds of £394,000 the equivalent of \$777,720.

On June 13, 2008, pursuant to a non-brokered private placement, the Company issued 11,000,000 common shares of the Company at a price of C\$0.10 per common share for gross proceeds of C\$1,100,000 the equivalent of \$1,078,064.

## 7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On December 30, 2008, pursuant to a non-brokered private placement, the Company issued 4,284,145 common shares of the Company at a price of C\$0.10 per common share for gross proceeds of C\$428,414 the equivalent of \$349,390. At December 31, 2008, \$9,031 of the proceeds were included in prepaid items and advances as the funds were in transit and were received shortly after year end.

- (3) As discussed in Note 6, on October 9, 2008 the Company issued 20,000,000 common shares at a value of \$3,496,809 to KIC as consideration of the purchase price for all of the issued shares of PCK.

The Company incurred share issue costs of \$125,080 in connection with these non-brokered private placements and the issue of shares to KIC.

- (7b) The continuity schedule for share purchase warrants is as follows:

Expiry date	Exercise price Cdn \$	Exercise price US \$ <sup>(1)</sup>	Balance, December 31, 2007	Exercised	Expired	Balance, December 31, 2008
August 16, 2008	\$ 0.30	\$ 0.25	11,070,890	(150,000)	(10,920,890)	-
August 16, 2008	\$ 0.23	\$ 0.19	398,127	-	(398,127)	-
December 12, 2008	\$ 0.27	\$ 0.22	650,000	-	(650,000)	-
			12,119,017	(150,000)	(11,969,017)	-
Weighted average exercise price - US \$						
			\$ 0.30	\$ 0.25	\$ 0.24	\$ -

(1) The US to Canadian dollar exchange rate at December 31, 2008 was \$1.2180

Expiry date	Exercise price Cdn \$	Exercise price US \$ <sup>(1)</sup>	Balance, December 31, 2006	Exercised	Expired	Balance, December 31, 2007
August 16, 2008	\$ 0.30	\$ 0.30	13,270,890	(2,200,000)	-	11,070,890
August 16, 2008	\$ 0.23	\$ 0.23	398,127	-	-	398,127
December 12, 2008	\$ 0.27	\$ 0.27	650,000	-	-	650,000
			14,319,017	(2,200,000)	-	12,119,017
Weighted average exercise price - US \$						
			\$ 0.26	\$ 0.28	\$ -	\$ 0.30

(1) The US to Canadian dollar exchange rate at December 31, 2007 was \$0.9913

- (7c) The Company has a shareholder approved "rolling" stock option plan (the "Plan") in compliance with the TSX Venture Exchange's policies. Under the Plan the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares at the time of granting. The exercise price of each stock option shall not be less than the market price of the Company's stock at the date of grant.

## 7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

The continuity for stock options, all of which are exercisable, is as follows:

Expiry date	Exercise price Cdn \$	Exercise price US \$ <sup>(1)</sup>	Balance, December 31, 2007	Granted	Exercised	Expired	Cancelled	Balance, December 31, 2008
November 28, 2008	\$ 0.33	\$ 0.27	395,000	-	-	(395,000)	-	-
November 28, 2008	\$ 0.43	\$ 0.35	65,000	-	-	(65,000)	-	-
March 29, 2009	\$ 0.55	\$ 0.45	950,000	-	-	-	-	950,000
September 15, 2009	\$ 0.20	\$ 0.16	1,020,000	-	-	-	-	1,020,000
June 1, 2011	\$ 0.25	\$ 0.21	27,000	-	-	-	-	27,000
August 8, 2011	\$ 0.20	\$ 0.16	1,395,000	-	-	-	-	1,395,000
April 25, 2012	\$ 0.35	\$ 0.29	1,410,000	-	-	-	-	1,410,000
July 15, 2012	\$ 0.30	\$ 0.25	20,000	-	-	-	-	20,000
January 23, 2013	\$ 0.20	\$ 0.16	-	50,000	-	-	-	50,000
April 1, 2013	\$ 0.20	\$ 0.16	-	50,000	-	-	-	50,000
July 25, 2013	\$ 0.11	\$ 0.09	-	1,470,000	-	-	-	1,470,000
			5,282,000	1,570,000	-	(460,000)	-	6,392,000
Weighted average exercise price			\$ 0.22	\$ 0.10	\$ -	\$ 0.28	\$ -	\$ 0.22

(1) The US to Canadian dollar exchange rate at December 31, 2008 was \$1.2180

Expiry date	Exercise price Cdn \$	Exercise price US \$ <sup>(1)</sup>	Balance, December 31, 2006	Granted	Exercised	Expired	Cancelled	Balance, December 31, 2007
August 21, 2007		\$ 0.11	281,000	-	(121,000)	(160,000)	-	-
November 28, 2008	\$ 0.33	\$ 0.33	415,000	-	-	-	(20,000)	395,000
November 28, 2008	\$ 0.43	\$ 0.43	65,000	-	-	-	-	65,000
March 29, 2009	\$ 0.55	\$ 0.55	1,000,000	-	-	-	(50,000)	950,000
September 15, 2009	\$ 0.20	\$ 0.20	1,070,000	-	-	-	(50,000)	1,020,000
June 1, 2011	\$ 0.25	\$ 0.25	27,000	-	-	-	-	27,000
August 8, 2011	\$ 0.20	\$ 0.20	1,455,000	-	-	-	(60,000)	1,395,000
April 25, 2012	\$ 0.35	\$ 0.35	-	1,450,000	-	-	(40,000)	1,410,000
July 15, 2012	\$ 0.30	\$ 0.30	-	20,000	-	-	-	20,000
			4,313,000	1,470,000	(121,000)	(160,000)	(220,000)	5,282,000
Weighted average exercise price			\$ 0.26	\$ 0.35	\$ 0.11	\$ 0.11	0.32	\$ 0.32

(1) The US to Canadian dollar exchange rate at December 31, 2007 was \$0.9913

A non-cash stock compensation expense was \$140,033 (2007 - \$355,370) or a weighted average fair value of \$0.09 per share (2007 - \$0.24), for the grant of 1,570,000 stock options that vested in 2008. Contributed surplus was increased by the same amount. The Black-Scholes model was used to fair value these options based on the following weighted average assumptions:

	2008	2007
risk-free interest rate	3.42%	4.15%
expected dividend yield	zero	zero
expected stock price volatility	116%	102%
expected life of the option	5 years	5 years

## **8. RELATED PARTY TRANSACTIONS**

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The Company pays consulting fees to Golden Oak Corporate Services Ltd., a company owned by Doris Meyer, Chief Financial Officer for financial reporting and corporate compliance services. The fees are C\$8,000 per month plus Canada's goods and services tax which is not recoverable by the Company. In 2008, the Company paid Golden Oak \$97,013 (C\$100,800) (\$96,148 (C\$101,760) in 2007). Either party may terminate the agreement at any time upon 90 days notice.

The Company paid or accrued \$64,800 consulting fees to Rahman Connelly, Deputy Chairman and Chief Executive Officer (\$39,000 in 2007).

The Company paid or accrued to its two non-management director's fees totalling \$24,000 in 2008 (\$24,000 in 2007).

Amounts owed to related parties at December 31, 2008 of \$86,564 (December 31, 2007 - \$8,845) were in the normal course of business. The Company has regulatory approval and the related parties have agreed to settle \$47,469 of the amount owed by the issue of common shares at a price of C\$0.05.

All of the above noted transactions have been in the normal course of business and undertaken with the same terms and conditions as transactions with unrelated parties.

## **9. COMMITMENTS**

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On December 13, 2006 the Company's shares were admitted for trading on the AIM Market of the London Stock Exchange under the ticker code "KLG", the same symbol used for the Company's share listing by the TSX Venture Exchange.

The AIM Rules require the Company to have a Nominated Adviser ("Nomad") and Broker at all times.

RFC Corporate Finance Limited ("RFC") is the Company's Nomad for the purpose of the AIM Rules. In 2008, the Company paid or accrued \$54,894 (AUD\$60,000) in consulting fees to RFC (\$54,079 (AUD\$60,000) in 2007).

Keith, Bayley, Rogers & Co. Limited ("KBR") is the Company's Broker for the purpose of the AIM Rules. The Company paid or accrued \$37,348 (£20,000) consulting fees to KBR in 2008 (\$45,110 (£20,000) in 2007).

## **10. CONTINGENCIES**

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During 2008 the Indonesian tax authorities conducted audits of the Company's Indonesian subsidiaries and delivered assessments on several levels of withholding tax, employee income tax and value added tax. The outcome of the tax assessments is not determinable. The Company believes the tax assessments are without basis and the Company has filed notices of objection.

## **11. MANAGEMENT OF CAPITAL**

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The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (see Note 7). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

## 11. MANAGEMENT OF CAPITAL (continued)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash and cash equivalents consist of cash on hand, balances with banks and investments in highly liquid instruments. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents and the fair value approximates carrying value.

The Company does not expect its current capital resources will be sufficient to carry its exploration plans and operations through its current operating period and will attempt to raise additional capital through an equity transaction.

## 12. INCOME TAXES

The Company is a tax exempt Bermuda corporation with no connection to Canada other than it is a reporting issuer to certain Canadian securities commissions and its shares are listed for trading on the TSX Venture Exchange.

The Company's KSK COW in Indonesia determines the level of income tax that will eventually become payable if and when the Company incurs a profit from mining operations in that country.

Profits generated by mining under the Company's sixth generation KSK COW are taxed at the maximum corporate rate of 30%.

Under the KSK COW, tax losses may be carried forward for a period of eight years. The Company defers its mineral exploration costs in Indonesia for tax purposes and has thus far not created any significant tax losses.

	2008	2007
Rate	0%	0%
Income tax recovery	\$ -	\$ -
Effect of difference in tax rates between parent company and subsidiary	<u>646,221</u>	<u>217,384</u>
	646,221	217,384
Valuation allowance	<u>(646,221)</u>	<u>(217,384)</u>
Tax provision	<u>\$ -</u>	<u>\$ -</u>
	2008	2007
Future tax assets:		
Mineral properties	3,831,394	4,880,437
Equipment	<u>37,461</u>	<u>41,055</u>
	3,868,855	4,921,492
Valuation allowance	<u>(3,868,855)</u>	<u>(4,921,492)</u>
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

### **13. SUBSEQUENT EVENTS**

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Subsequent to December 31, 2008:

- a) 950,000 stock options expired unexercised on March 29, 2009;
- b) the Company issued a total of 17,024,268 common shares at a price of C\$0.05 per share raising gross proceeds of approximately \$698,000 (C\$851,213) and the Company paid a finder's fee of approximately \$19,250 (C\$23,472);
- c) the Company has regulatory approval to issue up to 5,519,161 common shares at a price of C\$0.05 per share to settle up to C\$275,958 current liabilities with eleven creditors accrued to March 31, 2009. Included in the total is US\$85,040 of accounts payable owing at December 31, 2008 of which \$47,469 was owed to related parties.