Kalimantan GOLD Corporation Limited

Annual Report

Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

and Auditors’ Report to the Shareholders

Kalimantan
GOLD
Corporation Limited

Management Discussion and Analysis

For the year ended December 31, 2013

(In United States dollars, unless otherwise noted)

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 consolidated financial statements and related notes thereto for the year ended December 31, 2013, (the "Financial Report") which are available on the SEDAR website at www.sedar.com.

All financial information in this MD&A related to 2013 and 2012 has been prepared in accordance with International Financial Reporting Standards ("IFRS") 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.

The effective date of this MD&A is April 24, 2014.

Overview

Description of the Business

Kalimantan Gold Corporation Limited 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 Pounds Sterling on the AIM Market in London under the symbol KLG.

The Company has two principal areas of interest: the KSK Contract of Work (the "KSK CoW") in Central Kalimantan with multiple porphyry copper and gold prospects and the Jelai Izin Usaha Pertambangan (the "Jelai IUP") epithermal gold prospect in North Eastern Kalimantan.

The holder of the KSK CoW is PT Kalimantan Surya Kencana ("KSK"). Kalimantan Gold holds 100% of the shares of Indokal Limited ("Indokal"). KSK is owned 75% by Indokal and 25% by PT Pancaran Cahaya Kahayan ("PCK"). Indokal owns 100% of PCK.

The KSK CoW was granted April 28, 1997 between the Republic of Indonesia and KSK as a 6th generation CoW. The terms of the KSK CoW defines several periods under which work done on the KSK CoW will fall. The KSK CoW is now confirmed as being in the 5th year of the Exploration Period until April 28, 2014. The Company has applied under Article 23 of the KSK CoW for a 6th year extension of the exploration period. This request has been accepted by the Ministry of Mines and the formal extension letter is in process. The period following Exploration is the Feasibility Study Period which runs for not less than two years, is extendable, and provides time to complete studies and identify the mining area.

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 on Forestry which prohibits open pit mining in Hutan Lindung areas. A subsequent Presidential Decree has confirmed that when the Company's property meets 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, either by underground mining or by applying to change the forestry permit. On March 12, 2012 (as amended April 8, 2013), KSK received a 2-year forestry permit granting permission to explore certain areas of the KSK COW. On December 2, 2013, the Company applied for a 2-year renewal of the forestry permit for a total area of 7,688ha of which 170.25ha falls within the Hutan Lindung. This 7,688ha area covers all of the main prospect areas within the KSK CoW. This renewal has been processed and is expected to be issued shortly.

On April 18, 2011, as amended on May 31, 2012, the Company entered into a joint venture agreement (the "KSK Agreement") with Surya Kencana LLC ("SK LLC"), a wholly-owned subsidiary of Freeport-McMoRan Exploration Corporation ("Freeport") in relation to the KSK CoW. Notice was received from SK LLC on December 30, 2013, of their withdrawal from the KSK Agreement effective January 31, 2014. SK LLC has therefore forfeited its right to the shares of Indokal. However, SK LLC will retain the right to a royalty of 1%

over the property, capped to a maximum of the total expenditures of approximately US$35 million made by SK LLC on the project.

The holder of the Jelai IUP is PT Jelai Cahaya Minerals ("JCM"). A wholly-owned subsidiary of the Company, KLG Singapore Private Limited, holds 99.3% of the shares of JCM. The remaining 0.7% continues to be held for the benefit of Kalimantan Gold by the same two nominee shareholders who previously held 100% of JCM.

The overview and highlights for the year ended December 31, 2013 and up to the date of this report include:

Beruang Kanan ("BK") Copper Project

The BK Copper Project contains VHMS - style mineralization. Geochmical sampling and drill data has defined a mineralized zone of approximately 1.1 km long, up to 450m wide, 50m thick and open in all directions.

High grade mineralization is hosted in three discrete sulphide-rich breccia and replacement zones, characterized by cavity fill and replacement chalcopyrite (and covellite after chalcopyrite) hosted in re-opened, anastomosing quartz veins. Covellite and chalcocite predominate in the near-surface environment while chalcopyrite predominates in deeper mineralization.

Figure 1: BK Drill Core - BK058

Figure 1 shows drill core from BK058 with high grade bornite, covelite and chalcopyrite mineralization.

An extensive exploration program has been undertaken on the Project including:

a) existing drilling (approximately 26.1km);
b) rock chip and soil sampling;
c) geophysics; and
d) geochemistry.

During the last 12 months, an extensive soil sampling program has been completed on the BK deposit, as shown in Figure 2. This shows anomalous copper in soils similar to the levels observed over the BK Main Zone. In addition, some of the copper in soil anomalies correlate with IP chargeability highs, a characteristic also present over the BK Main Zone.

Figure 2: BK Deposit - Soil Sampling

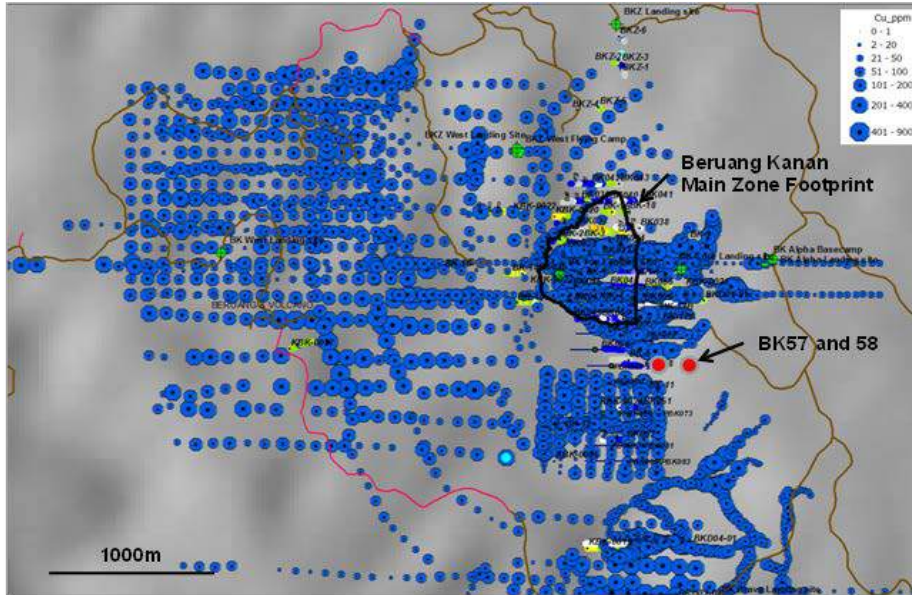


Figure 3 shows the relationship between rock chip samples and IP Chargeability (100m below surface). The black dots are proposed drill holes. The BK West area shows several chargeability highs that are partially correlated with copper in surface rock chip samples, similar to the pattern observed in the BK Main Zone. Rock chip samples from BK West returned values of up to 0.8% copper.

Figure 3: BK Deposit - Rock Chip Samples and IP Chargeability (100m below surface)

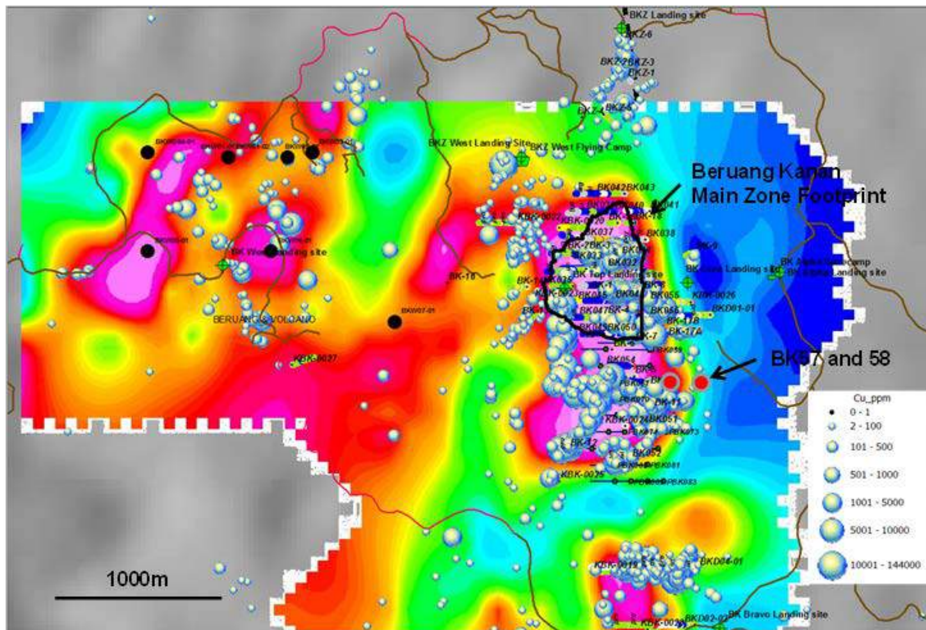


Figure 4: BK Main Zone - Drill Program

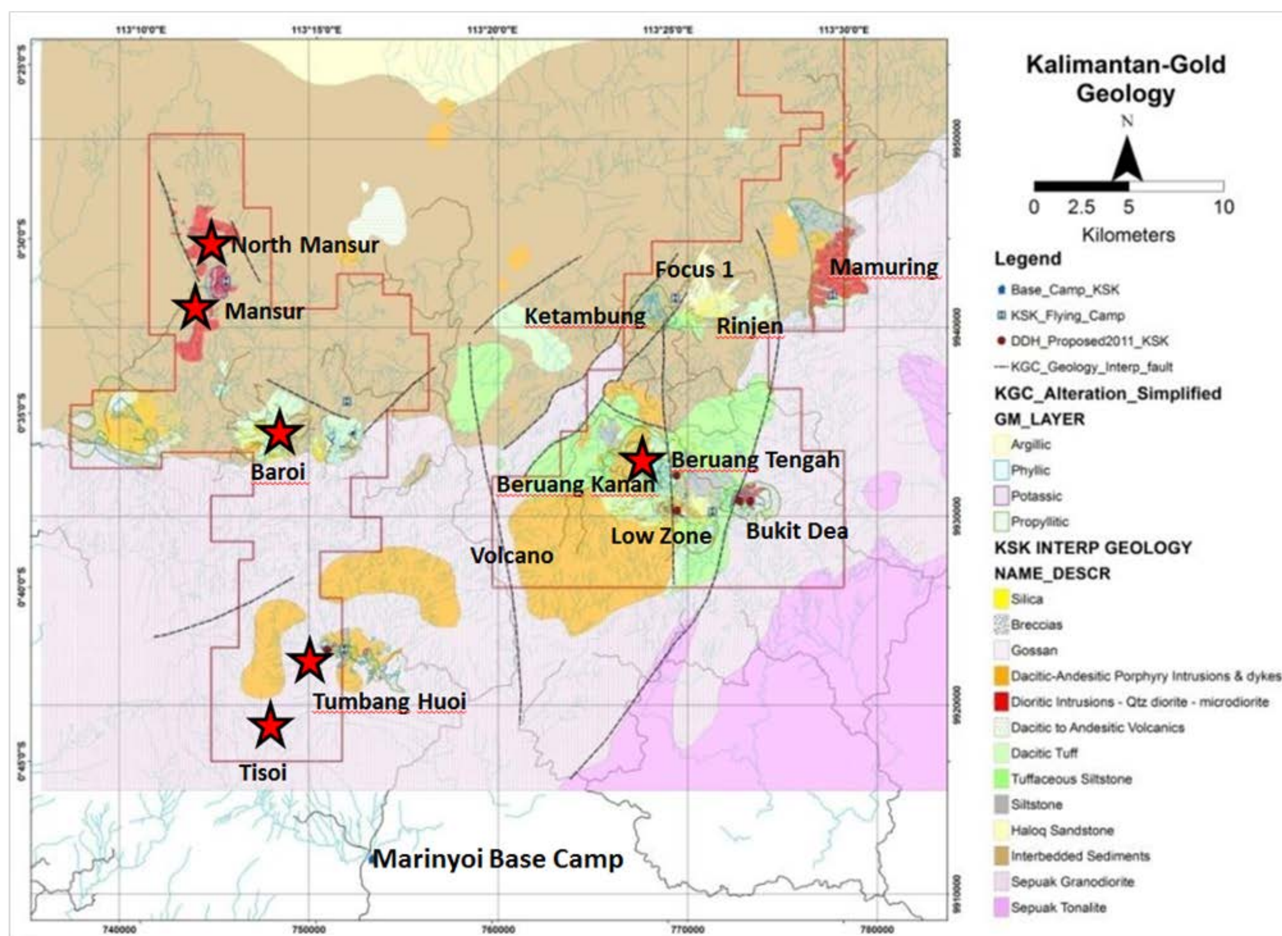
Figure 4 shows the previous and proposed drill hole locations, along with the completed delineation holes in the BK Main Zone.

Other Projects

Kalimantan holds a suite of other highly prospective projects within the KSK CoW (outside the BK Copper Project), including:

(a) Mansur & North Mansur Prospects;
(b) Tumbang Huoi and Tisoi Prospects; and
(c) Baroi Prospect.

Figure 5: KSK CoW Portfolio of Prospects



Mansur & North Mansur Prospects

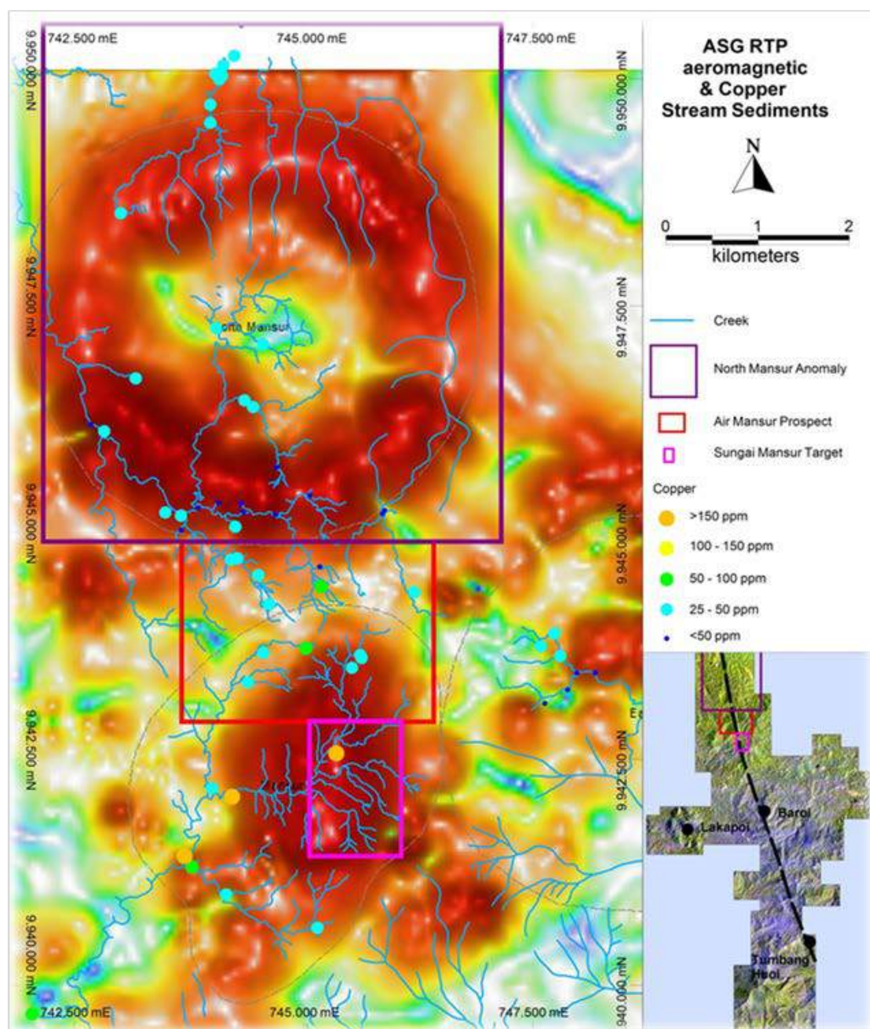
The North Mansur Prospect is located within a large circular feature which has an associated strong magnetic anomaly approximately 800m in diameter and over 1,000m in vertical extent. This is coincident with a greater than 1,000m diameter ‘doughnut shaped’ copper and gold geochemical anomaly (50-100ppm copper). The majority of previous shallow drill holes (< 100m) are located directly above the magnetic anomaly. Chalcopyrite-bearing quartz stock-work zones were intersected in each of the shallow holes, with intercepts up to 40m @ 0.24% Cu and 0.24g/t Au at the margins of the copper anomaly.

The Air Mansur Prospect is located within the central part of the Mansur region. The Prospect contains coincident copper (50-100ppm) and gold (>1g/t) geochemical anomalies in stream sediment samples.

The Sungai Mansur Target is located in the southern part of the Mansur region and contains anomalous copper in stream sediment samples (up to 150 ppm copper).

The North Mansur, Air Mansur and Sungai Mansur Prospects are shown in Figure 6.

Figure 6: Mansur Prospect - Aeromagnetic and Copper Stream Sediments



Tumbang Huoi and Tisoi Prospects

Tumbang Houi Prospect is located in the southwest of the KSK Copper Project within a large circular structure, transected by major north and north-west trending faults. The geology at Tumbang Houi is characteristic of a caldera setting. A 100m diameter highly silicified milled breccia, containing clasts up to several metres in size, is located at the western end of the survey grid.

Copper, gold and molybdenum mineralization is contained within porphyry style quartz veins. Pyrite is ubiquitous throughout the area. Early stage mapping, soil sampling and drilling was undertaken during the early 1990's. The primary focus being gold mineralization, as locals had panned the rivers draining the area for many years.

Figure 7: Course Gold Panned from Tumbang Huoi Prospect

Figure 7 shows coarse gold panned from Sungai Putih (white stream) which is located in the western portion of the Tumbang Huoi survey grid.

Drill holes DDH4, DDH6, DDH8 and DDH10 were drilled above the eastern margin of a 3D magnetic anomaly. These holes contain a variety of silicified volcaniclastics and diorite porphyries displaying strong clay alteration and pyrite mineralization. Magnetite and chalcopyrite were observed in quartz veins associated with potassic alteration within a diorite in DDH8.

Figure 8: Tumbang Huoi - Drill Core from DDH8

Source: Kalimantan

Figure 8 shows drill core from DDH8 on the eastern margin of the magnetic anomaly showing potassic altered diorite porphyry containing chalcopyrite and magnetite veins.

Figure 9: Tumbang Huoi - Drill Holes and Cu Assay Distribution from Stream Sediments (SS), Rock Chip (RC), and Soil (SO) Samples

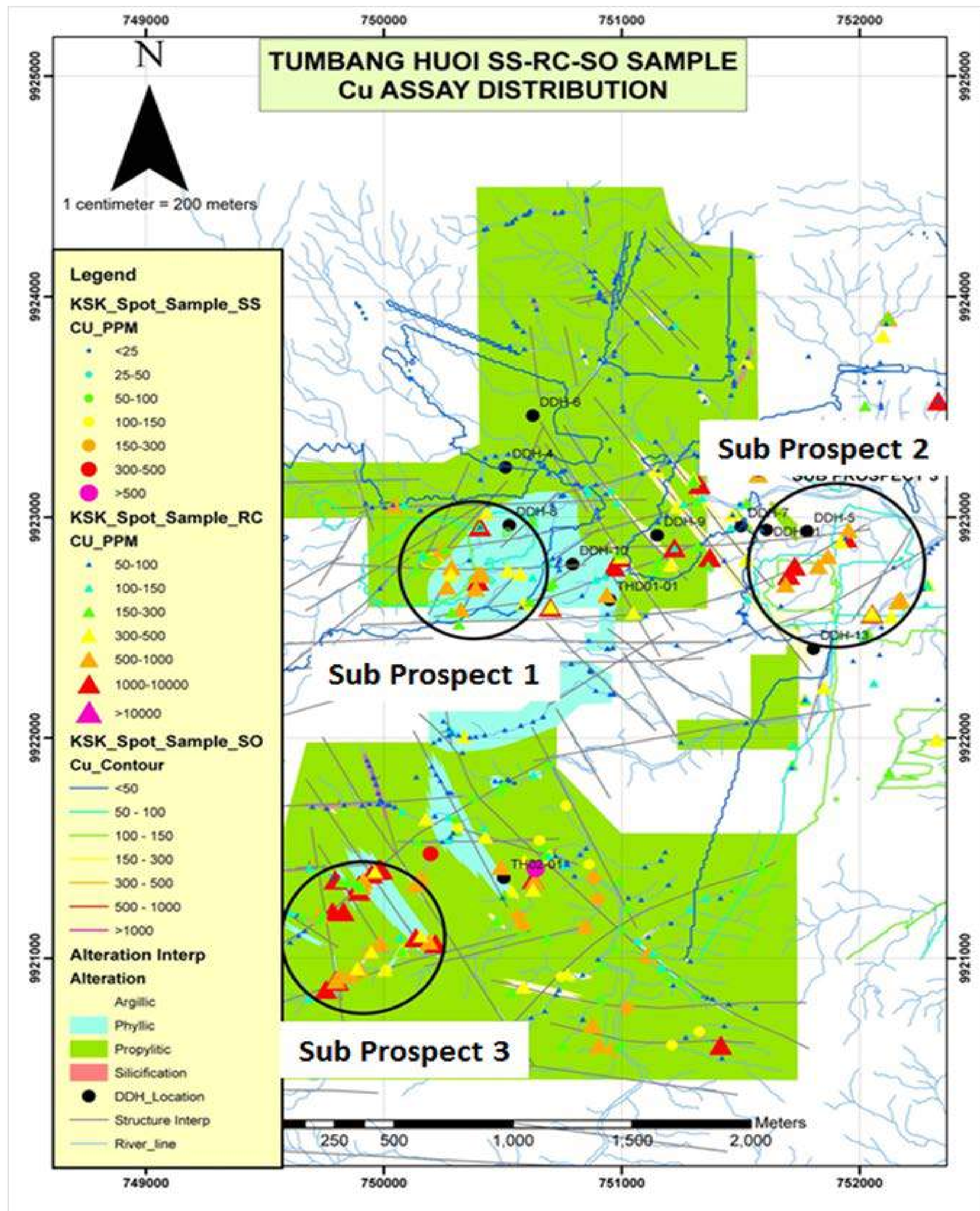


Figure 9 shows the distribution of samples for Tambang Huoi and three target areas including:

a) Sub Prospect 1 – the area contains rock chip samples (100-1300ppm Cu) and soil samples with anomalous copper. The copper anomaly is situated on top of a magnetic anomaly and drilling

intersected a medium-coarse grained plagioclase-hornblende-biotite+/-quartz diorite porphyry which has anomalous molybdenum values, but very low copper assays.

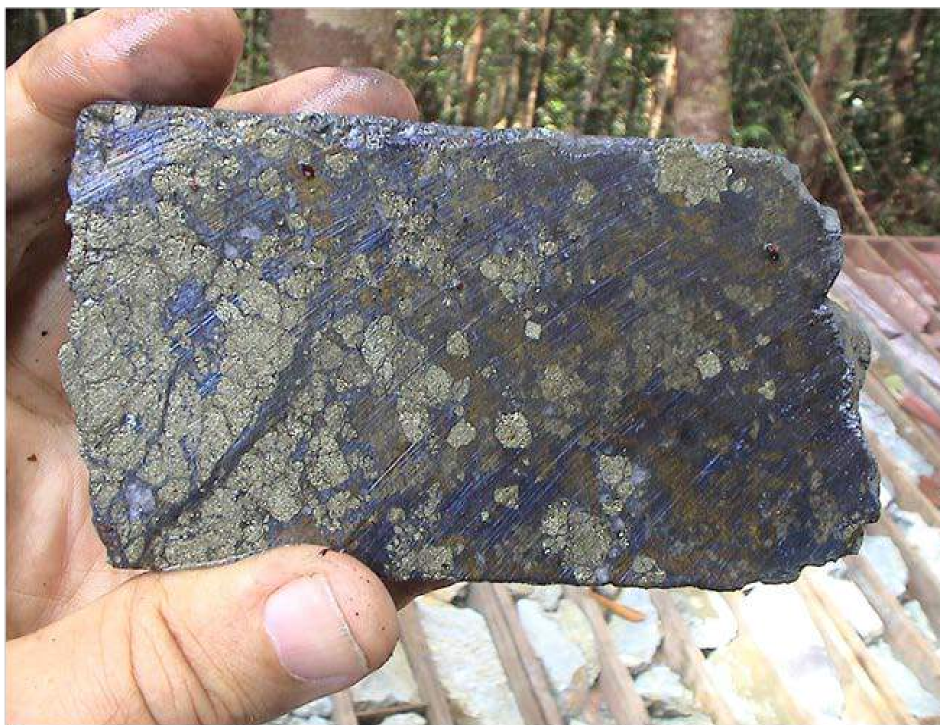
b) Sub Prospect 2 – the area is centered around previous holes DDH-5 and DDH-11. It was recently determined from re-logging that both holes intersected fine-grained plagioclase-hornblende-biotite diorite porphyry intrusives. Both holes contain elevated copper values (DDH 11 from 300-1000ppm Cu and DDH 5 from 500-2000ppm Cu).

c) Sub Prospect 3 – the area is located west of TH02-01 and contains sheeted quartz viens and faults which contain anomalous copper and molybdenum. The veins are hosted by granodiorite and have widths from a few centimetres up to 0.3m.

Baroi Prospect

The Baroi Prospect contains near-surface copper-rich base-metal vein and breccia swarms and a hypothetical deep copper-gold porphyry target. For example, BF030 intersected high grade near surface copper mineralization (covelite and chalcopyrite) with 41.9m at 3.18% Cu and 101g/t Ag (including 11.1m at 11.1% Cu and 296g/t Ag), as shown in Figure 10.

Figure 10: Baroi - BF030 Core



Looking Ahead:

3D inversion modeling of airborne gravity and magnetic data is expected to assist in defining the extent of the Beruang Kanan VHMS-system and, combined with recent drilling results, will help Kalimantan Gold refine and focus future drilling programs.

With the withdrawal of SK LLC effective January 31, 2014, talks have begun with a number of Indonesian groups who had previously expressed interest in the KSK CoW during 2013. The Board continues to make contact with these parties and others to discuss possible partnerships and ways forward.

SK LLC funded over $35 million of exploration expenditures since April 2011 on the KSK CoW, leaving the Company with a wealth of exploration data and multiple drill targets. During their involvement, over 30,000m of drilling was completed, over 28,000 samples were analyzed, 4,762 line kilometers of airborne geophysical surveys were completed, and 24,363 ha of the KSK CoW was covered with a high resolution Lidar imaging survey. A drill plan had been prepared to expand the identified zone of mineralization at Beruang Kanan where the two most recent drill holes, BK57 and BK58, both intersected significant mineralization, as discussed above.

With regard to the Jelai IUP, the Company announced that the Indonesian Ministry of Forestry granted JCM an extension to its Borrow and Use Exploration Forestry Permit (IPPKH). The permit, which is renewable, extends the authorization for the Company to conduct exploration activities until December 16, 2015. It covers all the existing permitted areas, namely the Mewet and ten of the other 12 Jelai IUP prospects, comprising 4,675 hectares of the 5,000 hectare IUP.

The Company has been in discussions with a number of major mineral companies regarding a potential joint venture or similar arrangement in respect of Jelai IUP. These discussions are continuing and some site visits have already been undertaken.

Corporate Social Responsibility (CSR) Program

Yayasan Tambuhak Sinta ("YTS") has been funded by SK LLC, by way of an advance to KSK, until late 2014, to work in many of the Dayak villages located along the Kahayan River, just outside of the KSK CoW area. There are no Dayak villages located within the KSK CoW area. YTS's program is focused on strengthening governance in the area, and is helping communities take greater responsibility for their own development agenda through participatory planning, institution strengthening and economic development.

This initiative enables communities to engage more effectively with local government in order to access improved services and programs in education, health, infrastructure and economic livelihoods.

YTS provides training and technical assistance to improve the capabilities of villagers in growing crops, raising animals, and managing local resources. In 2013, this support concentrated on vegetables, fish, pigs and rubber.

In collaboration with the local credit union, YTS provided training on savings, credit, and small business development. By joining the credit union, people establish savings accounts and can access credit for their household or business.

At district level, YTS has a two-year program to improve the capacity of district staff to improve their annual planning and budgeting mechanism. This will result in delivering better support programs and services to communities.

In 2013, the YTS CSR Program accounted for approximately 4% of the total KSK expenditure ($720,279), and includes:

a. Village Development Planning
b. Village Development Fund & Technical Support for Economic Livelihoods
c. Village Institutional Development
d. Kalimantan Kids Club – a scholarship program
e. Information & Communication Media and Events

Qualified Person

All technical data, as disclosed in this MD&A, unless otherwise noted, has been reviewed and verified by the Company's Qualified Person for the Company's mineral projects, Dr. Peter Pollard. Dr. Pollard is a Member of the Australasian Institute of Mining and Metallurgy (Chartered Professional). Dr. Pollard is a director of Kalimantan Gold and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person under the JORC Code and as a Qualified Person under NI 43-101.

Aim Rule 26

We confirm that our website (www.kalimantan.com) includes the information required by AIM Rule 26.

Results of Operations

Results of operations for the year ended December 31, 2013

The Company incurred a loss for the year ended December 31, 2013, of $325,805 (2012 – profit of $62,715).

The more significant differences between the fiscal years were exploration costs, legal fees, management fees, and share-based compensation.

- Exploration costs: Fiscal 2013 – $89,248; (Fiscal 2011 – ($11,235))
  In the year ended December 31, 2013, the gross exploration costs were $18,062,875 (2012 - $15,906,095) with recoveries from exploration partners of $17,973,627 (2012 - $15,917,330), with net exploration expenditures of $89,248 (2012 – ($11,235)) for the year then ended. The net credit in fiscal 2012 was due to the charge back of equipment to the SK LLC joint venture. Gross exploration expenditures in fiscal 2013 on the KSK CoW were about 27% higher than the 2012 comparative year which is a reflection of the increased exploration work performed. For Jelai, the current 2013 fiscal year saw a significant decrease in exploration spending as Tigers was no longer involved in the project.
- Legal fees: Fiscal 2013 - $38,490 (Fiscal 2012 - $24,704)
  Legal fees have now generally returned to normal levels for 2013, despite being somewhat higher than the 2012 comparative year.
- Management fees: Fiscal 2013 – ($611,980) (Fiscal 2012 – ($703,991))
  Management fees relate to being the operator of the KSK CoW and Jelai IUP joint operations (in 2012, this included being operator of the Jelai IUP pursuant to an agreement with Tigers Realm Metals Pty Ltd. ("Tigers")), and are directly correlated with the magnitude of the gross exploration expenditures funded by our joint venture partners and our continuance as operator. In fiscal 2013, the Company earned $611,980 (2012 - $575,697) for being the operator of the KSK CoW, and during the same period the Company earned management fees of $nil (2012 - $128,294) as operator pursuant to the terminated Tigers agreement.
- Share-based compensation: Fiscal 2013 - $236,633 (Fiscal 2011 - $51,015)
  The 2013 expense of $236,633 relates to the calculated fair value of the options granted on July 1, 2013, while the 2012 expense is related to the continued vesting of options granted to the CEO on April 21, 2011. The fair value of the options granted is calculated using the Black-Scholes option pricing model.

Selected Annual Information

	Fiscal Year Ended December 31 2013 audited	Fiscal Year Ended December 31 2012 audited	Fiscal Year Ended December 31 2011 audited
Statement of Operations			
Net revenues	$ Nil	$ Nil	$ Nil
Net income / (loss)	(325,805)	62,715	(1,422,230)
Net income (loss) per share	(0.00)	0.00	(0.01)
Statement of financial position			
Total assets	$ 1,544,184	$ 5,041,607	$ 1,210,901
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 December 31, 2013 $	3 months ended September 30, 2013 $	3 months ended June 30, 2013 $	3 months ended March 31, 2013 $	3 months ended December 31, 2012 $	3 months ended September 30, 2012 $	3 months ended June 30, 2012 $	3 months ended March 31, 2012 $
Total revenues	-	-	-	-	-	-	-	-
Profit (loss) for the quarter	(194,226)	(245,046)	88,316	25,151	235,674	42,616	(80,834)	(134,741)
Basic and diluted profit (loss) per share	(0.00)	(0.00)	0.00	0.00	0.00	0.00	(0.00)	(0.00)

The Company is an exploration stage enterprise. At this time any issues of seasonality or market fluctuations have no significant 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. Period over period variances will occur from time-to-time for non-cash items including the granting of stock options and the resulting stock-based compensation expense for that period.

Fourth quarter

The Company began the fourth quarter with $1,069,736 cash. Cash of $176,413 was used in operating activities; investing activities provided $77,910 in cash; and the Company recorded an unrealized foreign exchange gain of $2,231 on its cash, to end the quarter and the year with $973,464 cash.

Liquidity

The Company began the current fiscal year with $3,058,382 in cash. Operating activities used $1,793,697 in cash; investing activities used $398,403 to purchase equipment, provided $97,726 as recovery of equipment purchases from a joint venture partner, and provided $2,562 from the sale of equipment; financing activities had no cash effects in the year; and recorded $6,894 of unrealized foreign exchange gain on cash balances, to end the year with $973,464 in cash, of which $363,563 is held exclusively for use pursuant to the KSK Agreement.

The Company is likely to require additional financing, through various means including but not limited to equity financing, for continued operations and for the substantial capital expenditures required to achieve

planned principal operations. The Company plans to raise additional financial resources through equity financings during the next six to twelve months. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Capital Resources

At the date of this MD&A, the Company has 11,225,000 stock options outstanding. Upon an increase in the Company's share price and share volume traded, it would be expected that the stock options would likely be exercised, thereby contributing additional cash to the treasury.

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

Contingency

During 2011, the Indonesian tax authorities conducted an audit of PT Jelai Cahaya Minerals ("JCM") for the 2009 tax year. The majority of the review focused on the deductibility of expenditures in Indonesia and adjusted the tax loss carry forwards. The most material outcome from the audit related to the tax authorities deeming that the intercompany loans made by the Company to JCM should have had interest accrued at the rate of 8% per annum with withholding tax of 20%, therefore becoming payable to the Indonesian government. The Company believes the tax assessment is without basis. To have the appeal heard by the tax court, the Company was required to pay a deposit of Rp 440,139,447, an amount equal to the 2009 tax exposure as calculated by the tax authorities. The outcome of the tax appeal process and any tax assessments due and payable arising from that process is not determinable at this time. The intercompany loans made by the Company to JCM were converted to equity on May 23, 2012.

Transactions with Related Parties

a) The Company's related parties consist of companies owned by executive officers and directors as follows:

Name	Nature of transactions
Golden Oak Corporate Services Limited ("Golden Oak")	Financial reporting and corporate compliance services
Pollard Geological Services PTY Ltd. ("Pollard")	Non-executive Chairman and technical advisor
Romfal Corporate Pty Ltd. ("Romfal")	Chief Executive Officer

The Company incurred the following fees in the normal course of operations in connection with companies owned by key management and directors.

		December 31, 2013		December 31, 2012
Consulting fees – Golden Oak (Doris Meyer's company)	$	101,993	$	117,902
Consulting fees – Romfal (Faldi Ismail's company)		120,000		70,000
Total	$	221,993	$	187,902

b) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel, including amounts disclosed above, during the years ended December 31, 2013, and 2012 were as follows:

		December 31, 2013		December 31, 2012
Consulting fees	$	221,993	$	187,902
Salaries, wages and related costs (exploration and evaluation expenditures)		248,572		248,572
Directors fees to non-management directors (1)		47,000		24,000
Share-based compensation		117,323		51,015
Total	$	634,888	$	511,489

(1) The December 31, 2013 figures Include $8,000 paid to Francis De Sousa for his eight-month tenure as a Director from August 2012 to March 2013.

At December 31, 2013, an amount of $11,456 (December 31, 2012 - $49,944) was owed to key management personnel and directors, and is included in trade and other payables.

Future Canadian Accounting Standards

Effective for annual periods beginning on or after January 1, 2014:

Amendments to IAS 32 *Financial Instruments: Presentation*

The amendments to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosure* require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

The amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014. However, the new offsetting disclosure requirements are effective sooner - for annual periods beginning on or after 1 January 2013, and interim periods within those annual periods. The amendments need to be provided retrospectively to all comparative periods.

Effective for annual periods not yet announced:

New standard IFRS 9 *Financial Instruments*

Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost, and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

Management of Capital

The Company manages common shares and stock options as capital. 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.

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, or acquire or dispose of assets.

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 consists 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 and the fair value approximates the carrying value.

Financial Instruments and Related Risks

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2013	December 31, 2012
Cash	FVTPL	$ 973,464	$ 3,058,382
Government deposit	Loans and Receivables	36,110	48,415
Trade and other receivables	Loans and Receivables	268,460	1,886,595
Trade and other payables	Other liabilities	706,658	4,128,664

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for cash are Level 1 in the fair value categories.

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

Credit Risk
Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash, receivables, and balances receivable from the government. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs.

Liquidity Risk
Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's current financial liabilities are anticipated to fall due within the next sixty days.

Market Risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and short-term investments and on the Company's obligations are not considered significant.

b) Foreign Currency risk: The Company is exposed to the financial risk related to the fluctuation of foreign currency exchange rates. A portion of the Company's cash is held in Canadian (CDN") dollars and the Company expects to continue to raise funds in Europe, Canada, and Australasia. The Company conducts its business in Indonesia in Indonesian Rupiah ("Rp") with a significant portion of expenditures in that country denominated in US dollars and in addition, a portion of the Company's business is conducted in Canadian dollars ("CAD"), Pounds Sterling ("GBP") and the Australian ("AUS") dollar. As such, it is subject to risk due to fluctuations in the exchange rates between the US dollar and each of the Rp, GBP and CAD and AUS dollars. A significant change in the currency exchange rates between the US dollars relative to foreign currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

The Company's exposure to the foreign currency amount in US dollars on financial instruments is as follows:

	As at December 31, 2013			As at December 31, 2012		
	Currency	Foreign currency amount	Amount in US dollars	*Currency*	Foreign currency amount	Amount in US dollars
Cash	*CAD*	48,535	45,633	*CAD*	74,400	74,779
	Rp	192,452,121	15,789	-	791,444,654	82,049
Government deposits	*Rp*	440,139,447	36,110	*Rp*	440,139,447	48,415
Trade and other payables	*CAD*	(966)	(908)	*CAD*	(363)	(365)
	GBP	(4,313)	(7,375)	*GBP*	(4,407)	(7,109)
	AUD	(-)	(-)	*AUD*	(2,888)	(3,000)
	Rp	(668,310,681)	(54,829)	*Rp*	(1,776,262,670)	(184,145)
			34,420			10,624

Based upon the above net exposures and assuming that all other variables remain constant, a 10% depreciation of the US dollar against the GBP and CAD and AUS dollars would result in a increase in the loss of approximately $3,440 in the year ended December 31, 2013, ($1,060 in the year ended December 31, 2012). This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

c) Commodity price risk - While the value of the Company's core mineral resource properties, the KSK CoW and the Jelai IUP, are related to the price of copper and gold and the outlook for these minerals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect of its operational activities.

   Historically, gold and copper prices have fluctuated significantly, and are affected by numerous factors outside of the Company's control, including but not limited to: industrial and retail demand; central bank lending; forward sales by producers and speculators; levels of worldwide production; short-term changes in supply and demand because of speculative hedging activities; and other factors related specifically to gold.

Political Uncertainty
In conducting operations in Indonesia, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions in Indonesia, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

Forward Looking Statements

This MD&A contains forward-looking statements that are based on the Company's current expectations and estimates. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "suggest", "indicate" and other similar words or statements that certain events or conditions "may" or "will" occur. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from estimated or anticipated events or results implied or expressed in such forward-looking statements. Such factors include, among others: the actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans to continue to be refined; possible variations in ore grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing; and fluctuations in metal prices. There may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

Additional Disclosure for Venture Issuers without Significant Revenue

The components of exploration costs are described in Note 8 to the Financial Report.

Outstanding Share Data

At December 31, 2013, the authorized share capital comprised $5,000,000 divided into 500,000,000 common shares at a par value of $0.01 each. All issued shares are fully paid.

	Common Shares Issued and Outstanding	Stock Options
Balance at December 31, 2013 and at the date of this MD&A	171,407,156	11,225,000

Risks

The Company is subject to risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, continuing losses, dependence on key individuals, and the ability to secure adequate financing to meet minimum capital required to successfully complete its projects and continue as a going concern. These factors should be reviewed carefully.

The following risk factors, in addition to the risks noted above in the "Financial instruments and Related Risks" section, should be given special consideration when evaluating trends, risks and uncertainties relating to the Company's business.

Exploration, Development and Production Risks

The exploration for and development of minerals involves significant risks, which even a combination of careful evaluation, experience and knowledge of management and key employees and contractors of the Company may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of minerals disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any minerals discovered will result in the definition of a mineral resource. The Company's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing gold, copper and other mineral properties is affected by many factors, including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. The remoteness and restrictions on access of the Company's mineral properties may have an adverse effect on profitability as a result of higher infrastructure costs. There are also physical risks to the exploration personnel working in the terrain in which the Company's mineral properties are located, which is subject to poor climate conditions. The long-term commercial success of the Company depends on its ability to explore, develop and commercially produce minerals from its mineral property and to locate and acquire additional properties worthy of exploration and development for minerals. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participation uneconomic.

Substantial Capital Requirements

The management of the Company anticipates that it may make substantial future capital expenditures for the acquisition, exploration, development and production its mineral properties. As the Company will be at the exploration stage with no revenue being generated from the exploration activities on its mineral properties, the Company may have limited ability to raise the capital necessary to undertake or complete future exploration work, including drilling programs. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial

condition, results of operations or prospects. In particular, failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in its mineral property, miss certain acquisition opportunities and reduce or terminate its operations.

Competition

The mining industry is highly competitive. Many of the Company's competitors for the acquisition, exploration, production and development of mineral properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

Volatility of Mineral Prices

The market price of any mineral is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in mineral market prices could render less economic, or uneconomic, some or all of the mineral extraction and/or exploration activities to be undertaken by the Company.

Mineral Reserves / Mineral Resources

The Company's mineral properties are considered to be in the early exploration stage and do not contain a known body of commercial minerals.

Recent Global Financial Conditions

Recent global financial conditions have been subject to increased volatility. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the shares of the Company could be adversely affected.

Environmental Risks

All phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at any future producing properties or require abandonment or delays in the development of new mining properties.

Reliance on Key Personnel

The success of the Company will be largely dependent upon the performance of its management and key employees and contractors. In assessing the risk of an investment in the shares of the Company, potential investors should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the proposed management of the Company.

Conflicts of Interest

Certain of the directors and officers of the Company will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. In the event that a director or senior officer has a material interest in a contract or proposed contract or agreement that is material to the Company, the director or senior officer must disclose his or her interest in such contract or agreement and a director must refrain from voting on any matter in respect of such contract or agreement. To the knowledge of the management of the Company, as at the date hereof, there are no existing or potential material conflicts of interest between the Company and a director or officer of the Company.

Dividends

To date, the Company has not paid any dividends on its outstanding common shares. Any decision to pay dividends on the shares of the Company will be made by the Board on the basis of the Company's earnings, financial requirements and other conditions.

Substantial number of authorized but unissued shares

The Company has a substantial number of common shares which may be issued by the Board without further action or approval of the Company's shareholders, except in limited circumstances. While the Board is required to fulfill its fiduciary obligations in connection with the issuance of such shares, the shares may be issued in transactions with which not all shareholders agree, and the issuance of such shares will cause dilution to the ownership interests of the Company's shareholders.

Permits and Licenses

The activities of the Company are subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local native populations. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its mineral property may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's mineral properties may decline.

Limited Operating History

The Company is a company with limited successful operating history and has yet to generate a profit from its operating activities. The Company will be subject to all of the business risks and uncertainties associated with any business enterprise, including the risk that it will not achieve its growth objective. The Company anticipates that it may take several years to achieve positive cash flow from operations. Even if the Company does undertake exploration activity on its mineral properties, there is no certainty that the Company will produce revenue, operate profitably or provide a return on investment in the future.

Uninsured Risks

The Company, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Unforeseen Expenses

While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.

Other information

Additional information relating to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's web site www.kalimantan.com.

Kalimantan
GOLD
Corporation Limited

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

(In United States dollars, unless otherwise noted)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kalimantan Gold Corporation Limited

We have audited the accompanying consolidated financial statements of **Kalimantan Gold Corporation Limited**, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive profit (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Kalimantan Gold Corporation Limited** as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that **Kalimantan Gold Corporation Limited** incurred a loss of $325,805 during the year ended December 31, 2013, and as of that date, **Kalimantan Gold Corporation Limited** had an accumulated deficit of $26,690,620. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt on **Kalimantan Gold Corporation Limited's** ability to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada,
April 24, 2014.

Chartered Accountants

KALIMANTAN GOLD CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(expressed in United States dollars, unless otherwise noted)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash	*5*	$ 973,464	$ 3,058,382
Government deposit	*6 & 15*	36,110	48,415
Trade and other receivables	*7*	268,460	1,886,595
		1,278,034	4,993,392
Non-current assets			
Security deposit		21,186	24,100
Equipment	*8*	244,964	24,115
		$ 1,544,184	$ 5,041,607
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	*10*	$ 706,658	$ 4,128,664
Provision for employee service entitlements	*11*	178,059	-
		884,717	4,128,664
Non-current liabilities			
Provision for employee service entitlements	*11*	-	164,304
		884,717	4,292,968
Shareholders' equity			
Share capital	*12*	1,674,842	1,674,842
Equity reserves	*12*	25,675,245	25,438,612
Deficit		(26,690,620)	(26,364,815)
		659,467	748,639
		$ 1,544,184	$ 5,041,607

	Note
Nature of operations	*1*
Commitments	*14*
Contingency	*15*
Subsequent event	*19*

These consolidated financial statements were authorized for issue by the Board of Directors on April 24, 2014.

They are signed on the Company's behalf by:

/s/ Peter Pollard
Peter Pollard
Director

/s/ Faldi Ismail
Faldi Ismail
Director

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

KALIMANTAN GOLD CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE PROFIT (LOSS)
(expressed in United States dollars, unless otherwise noted)

	Note	For the year ended December 31, 2013	December 31, 2012
Expenses			
Accounting and audit		$ 59,724	$ 72,303
Consultants	*13*	353,427	342,394
Directors fees		47,000	24,000
Exploration and evaluation expenditures, net	*9*	89,248	(11,235)
Investor relations		10,796	5,582
Legal		38,490	24,704
Management fees	*9*	(611,980)	(703,991)
Office and administrative services		8,562	8,934
Share-based compensation	*12(d)*	236,633	51,015
Telephone and facsimile		4,019	2,461
Transfer agent, filing and exchange fees		77,724	89,226
Travel and accommodation		37,744	65,197
		351,387	(29,410)
Other items			
Foreign exchange gain		25,236	4,326
Interest income		346	28,979
		25,582	33,305
Profit (loss) and comprehensive profit (loss) for the year		$ (325,805)	$ 62,715
Basic and diluted profit (loss) per common share		$ (0.00)	$ 0.00
Weighted average number of shares outstanding		171,407,156	169,303,046

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

KALIMANTAN GOLD CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in United States dollars, unless otherwise noted)

	For the year ended	
	December 31, 2013	December 31, 2012
Cash provided from (used for):		
Operating activities		
Profit (loss) for the year	$ (325,805)	$ 62,715
Adjustment for non-cash items:		
Depreciation	77,266	9,330
Share-based compensation	236,633	51,015
Unrealized foreign exchange gain	(25,694)	2,962
Changes in non-cash working capital:		
Government deposit	-	12,895
Trade and other receivables	1,618,135	(1,774,923)
Trade and other payables	(3,422,006)	3,178,640
Provision for employee service entitlements	47,774	59,407
	(1,793,697)	1,602,041
Investing activities		
Purchase of equipment	(398,403)	(166,763)
Recovery of equipment	97,726	145,504
Proceeds on sale of equipment	2,562	-
Restricted cash	-	209,167
	(298,115)	187,908
Financing activities		
Share issues	-	480,000
Share issue costs	-	(6,770)
	-	473,230
Unrealized foreign exchange loss on cash	6,894	3,692
Increase / (decrease) in cash	(2,084,918)	2,266,871
Cash, beginning of the year	3,058,382	791,511
Cash, end of the year	$ 973,464	$ 3,058,382
Supplementary information:		
Interest paid	$ -	$ -
Income taxes paid	-	-

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

KALIMANTAN GOLD CORPORATION LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(expressed in United States dollars, unless otherwise noted)

	Number of shares		Amount		Equity reserves		Deficit		Total
Balance, January 1, 2012	165,407,156	$	1,621,612	$	24,967,597	$	(26,427,530)	$	161,679
Share issues	6,000,000		60,000		420,000		-		480,000
Share issue costs	-		(6,770)		-		-		(6,770)
Share-based compensation	-		-		51,015		-		51,015
Loss and comprehensive loss for the year	-		-		-		62,715		62,715
Balance, December 31, 2012	171,407,156	$	1,674,842	$	25,438,612	$	(26,364,815)	$	748,639
Share issues	-		-		-		-		-
Share issue costs	-		-		-		-		-
Share-based compensation	-		-		236,633		-		236,633
Loss and comprehensive loss for the year	-		-		-		(325,805)		(325,805)
Balance, December 31, 2013	171,407,156	$	1,674,842	$	25,675,245	$	(26,690,620)	$	659,467

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

1. NATURE OF OPERATIONS and GOING CONCERN

Kalimantan Gold Corporation Limited (the "Company" or "Kalimantan Gold") is a publicly listed company incorporated under the laws of Bermuda. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") and the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company's principal business activities include the acquisition, exploration and development of mineral properties. The address of the Company in Canada is Unit 1 – 15782 Marine Drive, White Rock, British Columbia, Canada V4B 1E6. The consolidated financial statements of the Company as at and for the year ended December 31, 2013, comprise the Company and its subsidiaries. The Company is the ultimate parent. The Company's principal mineral property interests are located in Kalimantan, Indonesia.

The Company is in the process of exploring its mineral property interests and has not yet determined whether any of its properties contain mineral 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 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.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The Company incurred a loss of $325,805 during the year ended December 31, 2013, and as of that date, the Company had an accumulated deficit of $26,690,620 and net working capital of $393,317, including $973,464 in cash.

The Company is likely to require additional financing, through various means including but not limited to equity financing, for continued operations and for the substantial capital expenditures required to achieve planned principal operations. The Company plans to raise additional financial resources through equity financings during the next six to twelve months. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The policies applied in these financial statements are based on the IFRS issued and outstanding as at the date the Board of Directors approved these financial statements for issue.

2. BASIS OF PREPARATION *(continued)*

b) Functional and presentation currency

The presentation currency of the Company is the United States dollar.

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”) and has been determined for each entity within the Company. The functional currency of Kalimantan Gold Corporation Limited and all of its subsidiaries is the United States dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are the following:

Estimated useful life of equipment

The estimated useful life of equipment which is included in the consolidated statements of financial position will impact the amount and timing of the related depreciation included in profit or loss.

Share-based compensation

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

2. BASIS OF PREPARATION *(continued)*

c) Use of estimates and judgments *(continued)*

Provision for employee service entitlements

The provision for employee service entitlements estimation is based upon several actuarial inputs, assumptions, calculations, and estimates using the projected unit credit actuarial valuation method. Because the actuarial model requires the input of highly subjective assumptions, including interest rates, retirement dates, and mortality rates, changes in subjective input assumptions can materially affect the provision estimate. The provision was based on the actual termination liability and expense known, as all of the Indonesian employees were terminated in January 2014, and the actual liability was known.

(ii) Critical accounting judgments

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are the following:

Determination of functional currency

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company and its subsidiaries is the United States dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"). Significant changes to those underlying factors could cause a change to the functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Name of subsidiary	Place of incorporation	Proportion of ownership interest	Principal activity
Indokal Limited	Hong Kong	100%	Holding company
PT Pancaran Cahaya Kahaya ("PCK")	Indonesia	100%	Holding company
PT Kalimantan Surya Kencana ("KSK")	Indonesia	100%	Owner of KSK CoW
PT Kalimantan Management Consultants di Palangkaraya ("KMC")	Indonesia	100%	Holding company
KLG Singapore Private Limited ("KLG SING")	Singapore	100%	Holding company
PT Jelai Cahaya Minerals ("JCM")	Indonesia	100%	Owner of Jelai IUP

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation

Transactions in foreign currencies are initially translated to United States dollars, the functional currency of the Company, at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on re-translation is recognized in operations.

Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the items and restoring the site on which it is located.

Depreciation is provided at rates calculated to amortize the costs of equipment less its estimated residual value, using the straight-line method over five years commencing from the year the assets are put into service.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

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

Exploration and evaluation assets and expenditures

Upon acquiring the legal right to explore a property, all direct costs related to the acquisition of exploration and evaluation assets are capitalized. All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The Company has no capitalized exploration and evaluation assets at this time.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Restoration, rehabilitation and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the decommissioning of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a decommissioning liability is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with decommissioning as a liability when the liability is incurred and increases the carrying value of the related assets for that amount.

Subsequently, these capitalized decommissioning liabilities are amortized over the life of the related assets. As the end of each period, the liability is increased to reflect the passage of time and changes in the estimated future cash flows underlying any initial estimates.

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the profit or loss statements. The Company had no decommissioning liabilities for the years presented.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension and other post-employment benefits

In 2003, the Company began recognizing 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 the reporting date.

For defined benefit pension plans, termination benefits, and other post-retirement benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations the projected age of employees upon retirement, and the expected rate of future compensation. For the purposes of calculating the expected return on plan assets, if any, the plan assets are valued at fair value. Actual results will differ from results that are estimated based on assumptions. All past service costs arising from plan amendments are recognized immediately in income or expense when the amendment occurs or when the related restructuring costs are recognized, if earlier.

The asset or liability recognized in the statement of financial position is the present value of the benefit obligation at the statement of financial position date less the fair value of the plan assets, if any, together with adjustments for asset ceiling impairment or additional liabilities due to onerous minimum funding requirement under IFRIC 19, *The Limit on a Defined Benefit Asset*. The present value of the benefit obligation is determined by discounting the estimated future cash outflows using rates and outflow patterns as determined by the actuary based on the Indonesian Labour Law parameters.

Actuarial gains and losses are recognized through other comprehensive income and are not re-classified to the income statement. The movement in the provision for employee service entitlements is included in the salary portion of exploration costs.

Financial instruments – classification and fair value

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designed as effective hedges.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred. Assets in this category include cash and restricted cash.

(ii) Loans and receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include government deposits and trade and other receivables.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – classification and fair value *(continued)*

(iii) Impairment of financial assets

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

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade and other receivables, is directly reduced by the impairment loss. The carrying amount of a trade or other receivable is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(iv) De-recognition of financial assets

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all of the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities and equity – classification and fair value

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity – classification and fair value *(continued)*

Financial liabilities may be classified as FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as a FVTPL.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in operations in the period in which they arise. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company has classified trade and other payables as other financial liabilities.

Employee future benefits

The cost of defined benefit pension plans and employee termination benefits under the Law and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future (Note 11). Actuarial gains and losses are recognized through other comprehensive income and not re-classified to the income statement. The provision for employee service entitlements is included in the salary portion of exploration expense.

The Company has classified provision for employee service entitlements as other financial liabilities.

Share capital

Common shares are classified as share capital. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Loss per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

In the Company's case, diluted earnings per share is the same as basic loss per share, as the effect of outstanding share options and share purchase warrants on loss per share would be anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

The stock option plan allows Company employees to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

Accumulated other comprehensive income

Accumulated other comprehensive income consists of net income and other comprehensive income (“OCI”). The Company’s financial statements include a Statement of Profit and Loss and Comprehensive Profit and Loss, which includes the components of comprehensive income.

For the Company, OCI is comprised of unrealized gains or losses on available for sale financial assets, and foreign currency translation differences for foreign operations, if any, both of which are presented within the shareholders’ equity section of the statement of financial position.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in operations except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable operations, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

New standards, interpretations and amendments adopted effective January 1, 2013

A number of new standards, amendments to standards and interpretations were adopted effective January 1, 2013. The adoption of these revised standards, either prospectively or retrospectively, as the case may be, did not result in any changes to the financial statements of the Company as at January 1, 2012, or December 31, 2012.

Amendments to IAS 1 *Presentation of Financial Statements*

This amendment requires that companies preparing financial statements under IFRS need to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirmed existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

Amendments to IAS 27 and IAS 28 *Separate Financial Statements and Investments in Associates and Joint Ventures*

These amendments address the accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

Amendments to IAS 19 *Employee Benefits*

This amended standard introduced various changes in accounting and disclosure requirements for defined benefit plans. The amended standard also finalizes proposals on accounting for termination benefits; under the amended standard the termination benefits are recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", that includes the payment of a termination benefit, and when the entity can no longer withdraw the offer of the termination benefit.

New standard IFRS 10 *Consolidated Financial Statements*

This standard provides for a new single consolidation model that identifies control as the basis for consolidation for all types of entities, and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

New standard IFRS 11 *Joint Arrangements*

This standard improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. Such a principle-based approach provides users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*.

New standard IFRS 12 *Disclosure of Interests in Other Entities*

This standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

New standards, interpretations and amendments adopted effective January 1, 2013 *(continued)*

New standard IFRS 13 *Fair Value Measurement*

This standard defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. It applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value.

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2013, and have not been applied in preparing these consolidated financial statements.

a) Effective for annual periods beginning on or after January 1, 2014

Amendments to IAS 32 *Financial Instruments: Presentation*

The amendments to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosure* require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

The amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014. However, the new offsetting disclosure requirements are effective sooner - for annual periods beginning on or after 1 January 2013, and interim periods within those annual periods. The amendments need to be provided retrospectively to all comparative periods.

b) Effective for annual periods not yet announced

New standard IFRS 9 *Financial Instruments*

Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost, and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements, although none of these are expected to have a material effect on the financial statements of the Company.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2013	December 31, 2012
Cash	FVTPL	$ 973,464	$ 3,058,382
Government deposit	Loans and Receivables	36,110	48,415
Trade and other receivables	Loans and Receivables	268,460	1,886,595
Trade and other payables	Other liabilities	706,658	4,128,664

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for cash are Level 1 in the fair value categories.

Risk management

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

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash, receivables, and balances receivable from the government. The Company limits the exposure to credit risk in its cash by only investing its cash with high-credit quality financial institutions in business and savings accounts, guaranteed investment certificates and in government treasury bills which are available on demand by the Company for its programs.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's current financial liabilities are anticipated to mature within the next sixty days.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risks on cash and short-term investments (GIC's) and on the Company's obligations are not considered significant.

b) Foreign Currency risk: The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates against the Company's functional currency, which is the United States ("US") dollar. A portion of the Company's cash is held in Canadian (CDN") dollars and the Company expects to continue to raise funds in Europe, Canada, and Australasia. The Company conducts its business in Indonesia in Indonesian Rupia ("Rp") with a significant portion of expenditures in that country denominated in US dollars and, in addition, a portion of the Company's business is conducted in CDN, GBP and the Australia ("AUS") dollar. As such, it is subject to risk due to fluctuations in the exchange rates between the US dollar and each of the Rp, GBP and CDN and AUS dollars. A significant change in the currency exchange rates between the US dollars relative to foreign currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

The Company's exposure to the foreign currency amount in US dollars on financial instruments is as follows:

	As at December 31, 2013			As at December 31, 2012		
	Currency	Foreign currency amount	Amount in US dollars	*Currency*	Foreign currency amount	Amount in US dollars
Cash	*CDN*	48,535	45,633	*CDN*	74,400	74,779
	Rp	192,452,121	15,789	-	791,444,654	82,049
Government deposits	*Rp*	440,139,447	36,110	*Rp*	440,139,447	48,415
Trade and other payables	*CDN*	(966)	(908)	*CDN*	(363)	(365)
	GBP	(4,313)	(7,375)	*GBP*	(4,407)	(7,109)
	AUD	-	-	*AUD*	(2,888)	(3,000)
	Rp	(668,310,681)	(54,829)	*Rp*	(1,776,262,670)	(184,145)
			34,420			10,624

Based upon the above net exposures and assuming that all other variables remain constant, a 10% depreciation of the US dollar against the GBP and CDN and AUS dollars would result in a decrease in the loss of approximately $3,440 in the year ended December 31, 2013, ($1,060 in the year ended December 31, 2012). This sensitivity analysis includes only outstanding foreign currency denominated monetary items.

c) Commodity price risk - While the value of the Company's core mineral resource properties, the KSK Contract of Work (the "KSK CoW") and the Jelai Izin Usaha Pertambangan ("IUP"), are related to the price of copper and gold and the outlook for these minerals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity based risks in respect of its operational activities.

Historically, gold and copper prices have fluctuated significantly, and are affected by numerous factors outside of the Company's control, including but not limited to: industrial and retail demand; central bank lending; forward sales by producers and speculators; levels of worldwide production; short-term changes in supply and demand because of speculative hedging activities; and other factors related specifically to gold.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Political Uncertainty
In conducting operations in Indonesia, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions in Indonesia, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

5. CASH

	As at December 31, 2013	As at December 31, 2012
Canadian dollar denominated cash held in Canada	$ 45,633	$ 74,779
US dollar denominated cash held in Canada	451,604	517,202
US dollar and Rupiah cash held in Indonesia	112,664	419,680
	609,901	1,011,661
US dollar cash held in Canada and Indonesia exclusively for use on joint venture projects	363,563	2,046,721
Cash	$ 973,464	$ 3,058,382

Cash consists of cash and demand deposits with an original term to maturity of 90-days or less.

6. GOVERNMENT DEPOSIT

	As at December 31, 2013	As at December 31, 2012
Deposits paid to file tax appeals	$ 48,415	$ 48,415
Foreign exchange movement on deposit	(12,305)	-
Current deposits paid to file tax appeals	$ 36,110	$ 48,415

During fiscal 2012, the Company paid deposits of $36,110 (2012: $48,415) (Rupiah (“Rp”) 440,139,447) to have tax appeals heard for the 2009 tax year. See Note 15.

7. TRADE AND OTHER RECEIVABLES

	As at December 31, 2013	As at December 31, 2012
Amounts receivable – employee advances	$ 11,524	$ 35,489
Amounts receivable – other receivables	36,724	125,161
Amounts receivable – prepayments	4,554	15,614
	52,802	176,264
Amounts receivable – due from JV partners	171,765	1,638,306
Amounts receivable – JV partner prepayments	43,893	72,025
Total	$ 268,460	$ 1,886,595

8. EQUIPMENT

The following is a reconciliation of the carrying amounts of equipment, all located in Indonesia.

	Balance as of December 31, 2011	Additions	Recoveries	Balance as of December 31, 2012
At cost:				
Equipment	$ 422,716	$ 166,763	$ (145,504)	$ 443,975
Accumulated depreciation:				
Equipment	410,530	$ 9,330	$ -	419,860
Net book value	$ 12,186			$ 24,115

	Balance as of December 31, 2012	Additions	Write-off fully depreciated	Sale of assets	Recoveries and proceeds on sale	Balance as of December 31, 2013
At cost:						
Equipment	$ 443,975	$ 398,403	$ (133,899)	$ (2,562)	$ (100,288)	$ 605,629
Accumulated depreciation:						
Equipment	419,860	$ 77,266	$ (133,899)	$ (2,562)	$ -	360,665
Net book value	$ 24,115					$ 244,964

9. EXPLORATION AND EVALUATION ASSETS and EXPENDITURES

The Company's exploration and evaluation assets comprise the KSK Contract of Work (the "KSK CoW") porphyry copper prospect in Central Kalimantan and an Izin Usaha Pertambangan ("IUP") for the Jelai gold project in East Kalimantan.

KSK CoW – Central Kalimantan

The holder of the KSK CoW is KSK. The Company owns 100% of Indokal. KSK is owned 75% by Indokal and 25% by PCK. Indokal owns 100% of PCK.

The KSK CoW was granted April 28, 1997 between the Republic of Indonesia and KSK as a 6th generation CoW. The terms of the KSK CoW defines several periods under which work done on the KSK CoW will fall. The KSK CoW is now confirmed as being in the 5th year of the Exploration Period until April 28, 2014. The Company has applied under Article 23 of the KSK CoW for a 6th year extension of the Exploration Period. This request has been accepted by the Ministry of Mines and the formal extension letter is in process. The period following Exploration is the Feasibility Study Period which runs for not less than two years, is extendable, and provides time to complete studies and identify the mining area.

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 on Forestry which prohibits open pit mining in Hutan Lindung areas. A subsequent Presidential Decree has confirmed that when the Company's property meets 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, either by underground mining or by applying to change the forestry permit. On March 12, 2012 (as amended April 8, 2013), KSK received a 2-year forestry permit granting permission to explore certain areas of the KSK COW. On December 2, 2013, the Company applied for a 2-year renewal of the forestry permit for a total area of 7,688ha of which 170.25ha falls within the Hutan Lindung. This 7,688ha area covers all of the main prospect areas within the KSK CoW. This renewal has been processed and is expected to be issued shortly.

On April 18, 2011, as amended on May 31, 2012, the Company entered into a joint venture agreement (the "KSK Agreement") with Surya Kencana LLC ("SK LLC"), a wholly-owned subsidiary of Freeport-McMoRan Exploration Corporation ("Freeport") in relation to the KSK CoW. Notice was received from SK LLC on December 30, 2013, of their withdrawal from the KSK Agreement effective January 31, 2014. SK LLC has therefore forfeited its right to the shares of Indokal. However, SK LLC will retain the right to a royalty of 1% over the property, capped to a maximum of the total expenditures of approximately US$35 million made by SK LLC on the project.

Pursuant to the Agreement, KSK was the operator of the exploration program, and the Company earned a 3%-5% management fee as operator on all expenditures incurred on the KSK CoW pursuant to the KSK Agreement. During the year ended December 31, 2013, the Company earned management fees of $611,980 (2012 - $575,697).

Jelai Project – East Kalimantan

On March 23, 2006, the Company organized JCM. The Company entered into certain contractual arrangements with JCM and its nominee shareholders, pursuant to which the Company (either by itself or through a wholly owned mining services company) agreed to provide all necessary financial, technical and managerial requirements for the development and operation of a mine within the JCM project area, and in return, JCM agreed to pay to the Company (or its subsidiary) the net proceeds of the sale of minerals from the JCM project area.

In the 2012 financial year, this indirect arrangement had been largely unwound, so that a wholly-owned subsidiary of the Company, KLG SING, now holds 99.3% of the shares of JCM. The remaining 0.7% continues to be held by the same nominee shareholders until such time as the Indonesian authorities approve the final transfer of the remaining shares so that KLG SING will ultimately own 99.9% and the Company will hold the remaining 0.1% of the shares of JCM.

9. EXPLORATION AND EVALUATION ASSETS *(continued)*

Jelai Project – East Kalimantan *(continued)*

JCM paid an Indonesian Rupiah denominated refundable security deposit of $24,100 to the government that gave JCM the right to conduct exploration, including drilling, over an approximate 5,000 hectare area, comprising the Jelai project. Those rights were subsequently converted to an IUP which gives the holder the right to explore for metallic minerals, including gold, within the IUP Area, and to conduct feasibility studies into the development of a mining operation until June 2, 2015.

The Indonesian Ministry of Forestry granted JCM an extension to its Borrow and Use Exploration Forestry Permit (IPPKH). The permit, which is renewable, extends the authorization for the Company to conduct exploration activities until December 16, 2015. It covers all the existing permitted areas, namely the Mewet and ten of the other 12 Jelai IUP prospects, comprising 4,675 hectares of the 5,000 hectare IUP.

From February 16, 2011 until it was terminated effective September 30, 2012, the Company was party to an option agreement (the "Deed") with Tigers Realm Minerals Pty Ltd. which was subsequently assigned to Tigers Realm Metals Pty Ltd. ("Tigers").

Pursuant to the Deed, the Company earned a management fee of $14,000 per month from Tigers. During the year ended December 31, 2013, the Company earned management fees of $nil (2012 - $128,294) pursuant to the Deed.

The details of exploration expenditures expensed during the years ended December 31, 2013, and 2012 are as follows:

	For the year ended	
	December 31, 2013	December 31, 2012
KSK CoW		
Exploration costs during the year		
Community development	$ 720,279	$ 532,098
Consultants and contractors	3,794,349	1,981,790
Contracted drilling	2,394,927	1,914,349
Equipment rental recoveries	(320,392)	(174,877)
Field support	2,110,133	1,722,394
Land tax and dead rent	19,015	16,304
Salaries, wages and related costs	2,546,983	1,773,970
Sample preparation and analysis	801,375	414,191
Supplies and equipment	903,418	1,090,010
Taxation	1,006,944	888,228
Transport (including helicopters)	3,440,947	3,567,725
Travel and accommodation	305,730	235,379
	17,723,708	13,961,561
Depreciation	70,835	2,834
Current year exploration	17,794,543	13,964,395
Recovery from funding partner	(17,973,627)	(14,066,925)
Current year net exploration	(179,084)	(102,530)

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9. EXPLORATION AND EVALUATION ASSETS *(continued)*

	For the year ended	
	December 31, 2013	December 31, 2012
Jelai		
Exploration costs during the year		
Community development	$ -	$ 42,986
Consultants and contractors	126,776	178,545
Contracted drilling	-	496,201
Field support	21,351	103,065
Land tax and dead rent	-	1,641
Salaries, wages and related costs	60,019	591,689
Sample preparation and analysis	-	41,811
Supplies and equipment	-	287,745
Taxation	28,223	114,070
Travel and accommodation	25,532	77,451
	261,901	1,935,204
Depreciation	6,431	6,496
Current year exploration	268,332	1,941,700
Recovery from funding partner	-	(1,850,405)
Current year net exploration	268,332	91,295
Total current year exploration	89,248	(11,235)
Cumulative exploration expenditures included in the deficit, beginning of the year	20,325,903	20,337,138
Cumulative exploration expenditures included in the deficit, end of the year	$ 20,415,151	$ 20,325,903

10. TRADE AND OTHER PAYABLES

Falling due within the next twelve months	As at December 31, 2013	As at December 31, 2012
Trade and other payables	$ 160,872	$ 378,947
Trade and other payables owed to related parties (1)	11,456	49,944
	172,328	428,891
Trade and other payables in Indonesia to be paid with cash held for use on joint venture projects	534,330	3,699,773
Total	$ 706,658	$ 4,128,664

(1) Related parties include officers and directors of the Company.

11. PROVISION FOR EMPLOYEE SERVICE ENTITLEMENTS

The Company provides benefits for its Indonesian employees, excluding any expatriate employees who may reside and work in Indonesia, who have reached the normal retirement age of 55. The benefits are unfunded and are based on the Company's Collective Labour Agreement that has been aligned with the provisions of Indonesian Labour Law No 13/2003 dated March 25, 2003 (the "Laws") as follows:

a) two times the severance amounts specified by Article 156(2) of the Law); plus
b) the service amounts specified by Article 156(3) of the Law; plus
c) 15% of the total severance and service payments.

The following table summarizes the components of net employee service entitlements expense recognized in exploration and evaluation expenses and amounts recognized in the statement of financial position for employee service entitlements liability. For the year ended December 31, 2013, the actual termination liability and expense was used, as all of the Indonesian employees were terminated in January 2014, and the actual liability was known. For the year ended December 31, 2012, the expense and liability was determined by an independent actuary.

Movements in the employee service entitlements liability during the years ended December 31, 2013, and 2012, are as follows:

Balance, December 31, 2011		$	99,198
Less:	utilization during the year		-
Add:	provision during the year - pre-funded by Freeport		57,559
	provision during the year - KSK responsibility		7,570
Add:	foreign exchange adjustment to estimated provision		(23)
Balance, December 31, 2012			164,304
Less:	utilization during the period		(48,806)
Add:	provision during the year - pre-funded by Freeport		77,231
	provision during the year - KSK responsibility		7,450
	foreign exchange adjustment to estimated provision		(22,120)
Balance, December 31, 2013		**$**	**178,059**

The principal actuarial assumptions used in determining the provision for employee service entitlements as of December 31, 2012, are as follows:

a) Actuarial Valuation Method is Project Unit Credit Method
b) Discount rate: 5.75% per annum
c) Salary increase: 10% per annum
d) Mortality rate: USA Table of Mortality, Commissioners Standard Ordinary 1980 (CSO'80)
e) Retirement age: 55 years of age (all employees are assumed to retire at their retirement age)
f) Resignation rate: 5% at 25 years of age and linearly decreasing to 1% at age 45 and thereafter
g) Disability rate: 10% of mortality rate
h) Tax benefit: 15% of total post-employment benefits

12. SHARE CAPITAL AND RESERVES

a) Authorized share capital

At December 31, 2013, and December 31, 2012, the authorized share capital comprised $5,000,000 divided into 500,000,000 common shares at a par value of $0.01 each. All issued shares are fully paid. At December 31, 2013, the issued share capital comprised 171,407,156 common shares (December 31, 2012 – 171,407,156).

b) Issued share capital

A summary of changes in share capital and reserves is contained in the Consolidated Statement of Changes in Equity, for the years ended December 31, 2013, and 2012.

Fiscal 2013

There were no changes to the issued and outstanding share capital of the Company during the year ended December 31, 2013.

Fiscal 2012

On May 10, 2012, the Company issued 6,000,000 common shares pursuant to a private placement for gross proceeds of $480,000. The Company incurred share issue costs of $6,770.

c) Stock Options

The Company has a shareholder approved "rolling" stock option plan (the "Plan"). 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. Options can have a maximum term of ten years and typically terminate 90 days following the termination of the optionee's employment or engagement, except in the case of retirement or death. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

The continuity of stock options for the year ended December 31, 2013, is as follows:

Expiry date	*Exercise price Cdn $*	Balance, December 31, 2012	Granted	Exercised	Expired	Balance, December 31, 2013
January 23, 2013	*$ 0.20*	50,000	-	-	(50,000)	-
April 1, 2013	*$ 0.20*	50,000	-	-	(50,000)	-
July 25, 2013	*$ 0.11*	1,220,000	-	-	(1,220,000)	-
April 21, 2016	*$ 0.11*	4,875,000	-	-	-	4,875,000
June 17, 2016	*$ 0.12*	200,000	-	-	-	200,000
July 4, 2016	*$ 0.07*	200,000	-	-	-	200,000
July 1, 2018	*$ 0.10*	-	5,950,000	-	-	5,950,000
		6,595,000	5,950,000	-	(1,320,000)	11,225,000
Weighted average exercise price Cdn$		$ 0.11	$ 0.10	$ -	$ 0.12	$ 0.10

The weighted average remaining contractual life of the options outstanding as at December 31, 2013, was 3.48 years. All of the outstanding options are exercisable at December 31, 2013.

12. SHARE CAPITAL AND RESERVES *(continued)*

c) Stock Options *(continued)*

The continuity of stock options for the year ended December 31, 2012, is as follows:

Expiry date	*Exercise price Cdn $*	Balance, December 31, 2011	Granted	Exercised	Expired	Balance, December 31, 2012
April 25, 2012	*$ 0.35*	1,360,000	-	-	(1,360,000)	-
January 23, 2013	*$ 0.20*	50,000	-	-	-	50,000
April 1, 2013	*$ 0.20*	50,000	-	-	-	50,000
July 25, 2013	*$ 0.11*	1,370,000	-	-	(150,000)	1,220,000
April 21, 2016	*$ 0.11*	4,875,000	-	-	-	4,875,000
June 17, 2016	*$ 0.12*	200,000	-	-	-	200,000
July 4, 2016	*$ 0.07*	200,000	-	-	-	200,000
		8,105,000	-	-	(1,510,000)	6,595,000
Weighted average exercise price Cdn$		$ 0.15	$ -	$ -	$ 0.33	$ 0.11

d) Share-based Compensation

Fiscal 2013:

During the year ended December 31, 2013, the Company recorded $236,633 in non-cash share-based compensation expense for options vesting in the period.

On July 1, 2013, the Company granted 5,950,000 stock options with a total grant-date fair value of $236,633 or $0.04 per option. Share-based compensation for the vesting portion of the stock options was $236,633 which was recognized in operations. The fair value of these options was determined using a risk free interest rate of 1.62%, an expected volatility of 176%, an expected life of 5 years, an expected dividend of zero, and a foreign exchange rate of 0.9497 to the Canadian dollar. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

Fiscal 2012:

During the year ended December 31, 2012, the Company recorded $51,015 in non-cash share-based compensation expense for options vesting in the period.

On April 21, 2011, the Company granted 4,875,000 stock options with a total grant-date fair value of $589,785 or $0.121 per option. Share-based compensation for the vesting portion of the stock options was $538,770 which was recognized in operations, while the balance will be recognized as the options continue to vest through the end of 2012. The fair value of these options was determined using a risk free interest rate of 2.38%, an expected volatility of 181%, an expected life of 5 years, an expected dividend of zero, and a foreign exchange rate of 0.9519 to the Canadian dollar. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

13. RELATED PARTY TRANSACTIONS

a) The Company's related parties consist of companies owned by executive officers and directors as follows:

Name	Nature of transactions
Golden Oak Corporate Services Limited ("Golden Oak")	Financial reporting and corporate compliance services
Pollard Geological Services PTY Ltd. ("Pollard")	Non-executive Chairman and technical advisor
Romfal Corporate Pty Ltd. ("Romfal")	Chief Executive Officer ("CEO")

The Company incurred the following fees in the normal course of operations in connection with companies owned by key management and directors.

	December 31, 2013	December 31, 2012
Consulting fees – Golden Oak (Corporate Secretary's company)	$ 101,993	$ 117,902
Consulting fees – Romfal (CEO's company)	120,000	70,000
Total	$ 221.993	$ 187,902

b) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel, including amounts disclosed in Note 13(a), during the year ended December 31, 2013, and 2012 were as follows:

	December 31, 2013	December 31, 2012
Consulting fees	$ 221,993	$ 187,902
Salaries, wages and related costs (exploration and evaluation expenditures)	248,572	248,572
Directors fees to non-management directors (1)	47,000	24,000
Share-based compensation	117,323	51,015
Total	$ 634,888	$ 511,489

(1) the December 31, 2013 figures Include $8,000 paid to Francis De Sousa for his eight-month tenure as a Director from August 2012 to March 2013.

14. COMMITMENTS

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

RFC Group Limited ("RFC") is the Company's Nomad for the purpose of the AIM Rules. During the year ended December 31, 2013, the Company paid or accrued $57,470 (AUD$55,000) in consulting fees to RFC. In 2012, the Company paid or accrued $64,653 (AUD$60,000) in consulting fees to RFC. The Company expects to incur costs in fiscal 2014 of AUD$40,000 to retain RFC.

VSA Capital ("VSA") is the Company's Broker for the purpose of the AIM Rules. During the year ended December 31, 2013, the Company paid or accrued a total of $24,331 (£15,000) as consulting fees to our AIM Broker. The Company expects to incur costs in fiscal 2014 of £15,000 to retain VSA.

15. CONTINGENCIES

During 2011, the Indonesian tax authorities conducted an audit of JCM for the 2009 tax year. The majority of the review focused on the deductibility of expenditures in Indonesia and adjusted the tax loss carry forwards. The most material outcome from the audit related to the tax authorities deeming that the intercompany loans made by the Company to JCM should have had interest accrued at the rate of 8% per annum with withholding tax of 20%, therefore becoming payable to the Indonesian government. The Company believes the tax assessment is without basis. To have the appeal heard by the tax court, the Company was required to pay a deposit of Rp 440,139,447, an amount equal to the 2009 tax exposure as calculated by the tax authorities. The outcome of the tax appeal process and any tax assessments due and payable arising from that process is not determinable at this time.

16. SEGMENT DISCLOSURES

IFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been defined as the CEO.

The Company operates in a single segment, being mineral exploration and development.

With the exception of the cash disclosed in Note 5, all of the Company’s significant assets are held in Indonesia.

17. MANAGEMENT OF CAPITAL

The Company manages common shares and stock options as capital (see Note 12). 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.

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.

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 consists 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 and the fair value approximates the carrying value.

18. INCOME TAX

The Company is a tax exempt Bermuda corporation and is a reporting issuer to certain Canadian securities commissions and its shares are listed for trading on the TSX-V.

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

In Indonesia, tax losses may be carried forward for a period of eight years. The Company defers its mineral exploration costs in Indonesia for tax purposes. The Company has non-capital losses in Indonesia of approximately $1,295,000 for income tax purposes which may be carried forward and offset against future taxable income. These losses expire through to 2021. These tax losses have not been recognized in the financial statements as it is not probable that they will be utilized in the near future.

The following table reconciles the amount of income tax recoverable on application of the statutory Indonesian income tax rates:

	2013	2012
Income tax recovery	$ -	$ -
Effect of difference in tax rates between parent company and subsidiary	5,418,863	4,771,829
	5,418,863	4,771,829
Unrecognized benefit of deferred tax assets	(5,418,863)	(4,771,829)
Total	$ -	$ -

As the Company has a history of losses, deferred tax assets have not been recognized on the following deductable temporary differences:

	2013	2012
Temporary differences		
Mineral exploration properties and exploration and evaluation assets	$ 51,335,349	$ 33,272,474
Non-capital losses carry forwards	1,295,379	1,206,131
Equipment	244,964	24,115
Total unrecognized deductable temporary differences	$ 52,875,692	$ 34,502,720

19. SUBSEQUENT EVENT

See Note 9 for a discussion regarding Freeport's withdrawal from the KSK project subsequent to December 31, 2013.

20. RECLASSIFICATIONS

Certain amounts in the prior years' financial statements have been reclassified to conform to the current period presentation.