Kalimantan GOLD Corporation Limited

Annual Report

Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

and Auditors' Report to the Shareholders

Kalimantan GOLD Corporation Limited

Management Discussion and Analysis

(expressed in US dollars)

For the year ended December 31, 2011

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, 2011, which are available on the SEDAR website at www.sedar.com.

On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the year ended December 31, 2011, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and have used accounting policies consistent with IFRS.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

The effective date of this MD&A is April 26, 2012.

Overview

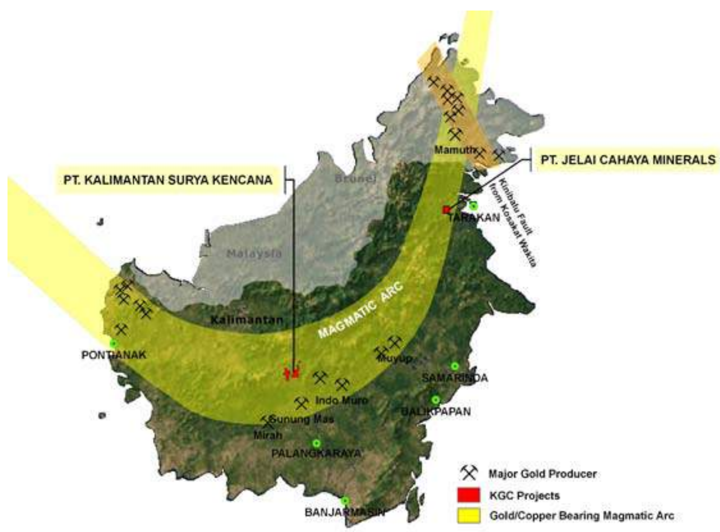
Description of the Business

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

The Company has two principal areas of interest: the Jelai Cahaya Minerals, Jelai epithermal gold prospect in East Kalimantan; and the KSK Contract of Work (the "KSK CoW") in Central Kalimantan with multiple porphyry copper and gold prospects.

The highlights for the year ended December 31, 2011 and up to the date of this report include:

- KSK COW: Freeport Joint Venture Signed April 18, 2011
- Forestry permits received March 12, 2012 – drilling preparation for KSK CoW underway
- Freeport private placement of 2,500,000 common shares for proceeds of C$350,000 priced on April 28, 2011
- Jelai Gold project – Tigers Realm Joint Venture Signed February 16, 2011
- Forestry permits received November 7, 2011 – drilling preparation for Jelai underway
- On April 21, 2011 Faldi Ismail was appointed as Deputy Chairman and Chief Executive Officer to replace Rahman Connelly in that position



KSK CoW

The holder of the KSK CoW is PT Kalimantan Surya Kencana ("KSK"). KSK is owned 75% by Indokal and 25% by PCK. Indokal owns 100% of PCK. On April 18, 2011, the Company entered into a joint venture agreement (the "Agreement") with a wholly-owned subsidiary of Freeport-McMoRan Exploration Corporation ("Freeport") in relation to the KSK CoW. Pursuant to the Agreement, Freeport can earn a 51% equity interest in Indokal by expending a minimum of $7,000,000 on funding KSK expenditures over three years (the "Initial Period"). Freeport is obligated to expend not less than $3,000,000 on specific areas of the KSK CoW by March 12, 2013. On completion of the $7,000,000 expenditure, Freeport can earn a further 24% equity interest in Indokal (total 75%) by sole funding the completion of a feasibility study on the KSK CoW with best efforts to complete it within ten years. Subsequently, if a decision to mine is made, Freeport must use commercially reasonable efforts to arrange non-recourse project financing on reasonable terms and conditions for the costs of development on terms mutually agreeable to each of the participants. Upon a decision to mine, if a participant declines to fund its share, then that party will assign all of its rights and interests in Indokal to the other participant in consideration of a 1% net smelter return royalty ("NSR") on the KSK CoW. During the Initial Period, KSK is the operator of the exploration program, and the Company earns a 3%-5% management fee on all expenditures incurred on the KSK CoW pursuant to the Agreement.

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. On March 12, 2012, KSK received the extension to the expired forestry permit granting full permission to explore certain areas of the KSK COW for two years and denied permission to explore certain other areas of the COW within the Hutan Lindung. The phase one forestry permit is for an area totaling 7,422 hectares of the KSK CoW and gives the rights to the holder to carry out full mineral exploration activities within the permitted concession area. The Company will continue to work through the permitting process to secure permitting over the remaining prospective areas, including Tambang Huoi, one of the three highest priority targets, of the KSK CoW. The portion of the KSK CoW that has not been permitted will remain in suspension until a forestry permit is issued.

This successful initial phase of the forestry permitting process will allow the company to execute drill tests of key prospects at Beruang Tengah and Beruang Kanan, resource definition drilling at Beruang Kanan as well as bring other priority prospects to the drilling stage with additional important ground follow-up work. Multiple deep drilling targets have collectively been defined and prioritized at five of the priority copper porphyry targets with the Freeport exploration team.

The main focus of the exploration programs will be drill testing the deeper porphyry copper targets that have been identified on the KSK CoW. Advanced magnetic survey inversion modeling identified numerous massive deep seated bodies below extensive surface geochemical anomalies and existing drill holes where copper mineralization was present. The three highest priority targets identified are the Beruang Tengah, Beruang Kanan and Tambang Huoi prospects, which are all expected to be drill tested by at least one hole to a depth of up to 1,500 meters in the first year of the program. Previous drilling results at Beruang Kanan have included intersections of 167 meters at 0.59% copper from 4.5 meters, 79 meters at 0.89% copper from 6.5 meters and 102 meters at 0.62% copper from 3 meters. Further details on the inversion modeling and identified targets are contained in technical reports on the Company's website at www.kalimantan.com.

Safety training has been completed and mobilization of field crews to Beruang drill camps has commenced. Drilling is planned to commence at both of the high priority target sites, Beruang Kanan and Beruang Tengah, by the end of May or early June.

Freeport, as the world's second largest copper producer with extensive Indonesian experience, is an exceptional and ideal partner to rapidly advance the KSK Copper Project and create value for all stakeholders.

To December 31, 2011, Freeport funded activities on the KSK CoW of $1,761,389 and $20,230 of equipment purchases.

Jelai

The holder of the Jelai Izin Usaha Pertambangan ("IUP") is PT Jelai Cahaya Minerals ("JCM"). Subsequent to December 31, 2011, the Company's indirect corporate ownership of JCM will be unwound, so that a wholly-owned subsidiary of the Company, KLG Singapore Private Limited ("KLG SING") will hold all of 99.9% of the shares of JCM and the Company will hold the remaining 0.1% of the shares of JCM.

On February 16, 2011, the Company executed an option agreement (the "Deed") with Tigers Realm Minerals Pty Ltd. which was subsequently assigned to Tigers Realm Metals Pty Ltd. ("Tigers"). The effectiveness of the Deed was conditional upon the IUP being extended and forestry permits being granted as necessary to enable the on-ground activities to be conducted. The IUP was extended until June 2, 2015 and the forestry permit was issued on November 7, 2011 so that the Deed took effect on November 7, 2011.

Tigers can incrementally earn up to a 70% interest in KLG SING by funding $6,000,000 expenditures on the IUP and by completing a bankable feasibility study ("BFS") by June 2, 2015. Tigers must spend $2,000,000 within eighteen-months of receipt of the forestry permit. If Tigers does not complete the BFS by June 2, 2015, its interest earned in KLG SING will convert to a NSR royalty on the Jelai project capped at two times its sole-funding contribution funding the IUP. The applicable percentage of the royalty shall be 1/20th of Tigers' interest earned in KLG SING at that time. By way of example, if Tigers' interest is 35% the percentage shall be 1.75%; or if Tigers' interest is 70% the percentage shall be 3.5%.

By February 21, 2012, the community consultation in respect of planned exploration activities at the Jelai Gold project was complete and we have full support from the local government, community and village leaders. Community development programs commenced prior to exploration activities with sustainable projects that are aimed at contributing to the welfare of local people. The programs will involve more than one hundred local community members (from three villages), and group members will be trained and mentored by KGC and Tiger's multi-disciplined community team in forage and fodder cultivation, farming, animal husbandry, accounting and small business development.

Drill camp construction and road repair at the Jelai Project are near completion, and rig mobilization to site #1 is 70% complete. A water quality sampling survey has been completed, as part of the Company's environmental baseline monitoring program. Drilling is expected to commence the first week of May, 2012 and the first drill hole is targeting high grade shoots at a depth below the epithermal gold – silver mineralization intersected by hole JCM-067 (9.50m @ 7.08 g/t Au).

Tigers are an ideal partner to rapidly advance the Jelai gold project and create value for all stakeholders. They have extensive experience in Indonesia across exploration, project development, and mine operations, a skilled team able to rapidly explore and develop projects and Tigers' board and management team have a strong track record in raising capital globally. Tigers share the Company's commitment to building a sustainable relationship with the local communities.

The Jelai project has a total of 126 shallow diamond drill holes totaling approximately 14,000 meters. Grid soils, surface mapping and drilling confirmed more than 6km combined strike length of low sulphidation, vein-style, epithermal, gold-silver mineralization, comprising the Mewet, Sembawang, Lipan and Nyabi veins. Previously, shallow drill holes targeted the central areas of the Mewet, Sembawang and Lipan Veins, with high grade mineralized shoots intersected at each.

To December 31, 2011, Tigers had funded $143,878 of Jelai project expenditures.

Qualified Person

The Qualified Person responsible for the technical content and verification in this MD&A is Dr. Peter Pollard, a consultant to the Company and the Company's Qualified Person.

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, 2011

Kalimantan Gold previously prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for periods beginning on or after January 1, 2011. Accordingly, the accounting policies adopted in the preparation of our first consolidated financial statements for fiscal year 2011 have been prepared on the basis of IFRS, which is mandatory for financial years beginning on or after January 1, 2011. The comparative balances at December 31, 2010, and the year ended December 31, 2010, have been reconciled with the result that there were no significant differences identified between Canadian GAAP and IFRS for the Company.

The Company incurred a loss and comprehensive loss for the year ended December 31, 2011, of $1,422,230 (2010 - $1,178,616).

The more significant differences between the annual periods were consulting fees, exploration costs, management fees, legal fees, and stock-based compensation.

Consulting fees were $294,353 compared to $260,497. This increase is due to several factors including: exchange rate differences in the Canadian dollar denominated fees paid to Golden Oak Corporate Services Ltd. for financial reporting and corporate compliance services; the Australian dollar denominated fees paid to RFC Group Limited, the Company's nominated advisor for the purpose of the AIM Rules; and fees charged by Faldi Ismail's corporation (Romfal) since he assumed his duties as Deputy Chairman and Chief Executive Officer.

Net exploration costs to the Company in the year ended December 31, 2011, were $399,665 (2010 - $638,272) reflecting the recovery of $1,761,389 of the KSK CoW expenditures from Freeport and $143,878 of the Jelai expenditures from Tigers. It is expected that the Company's share of exploration costs on both the KSK CoW and the Jelai project will decrease significantly as Freeport funds the KSK CoW costs and Tigers funds the Jelai project costs going forward.

Management fees earned of $118,736 in the year ended December 31, 2011, is a new source of funds for the Company that relates to the Company being the operator of the KSK CoW and JCM operations.

Legal fees were $287 in the year ended December 31, 2011, (2010 - $44,224). The fees in 2011 reflect a credit of $21,189 refunded by Indonesian counsel and a recovery of $46,113 of costs related to the Tigers agreement and the restructure of JCM which was in part funded by Tigers. The costs in 2010 related to the costs to formalize the agreements with Freeport and Tigers on the KSK CoW and Jelai projects respectively.

The non-cash stock-based compensation expense in the year ended December 31, 2011, was $565,265 (2010 - $nil).

Other categories of expenditures changed less significantly.

Selected Annual Information

	Fiscal Year Ended December 31 2011 audited	**Fiscal Year Ended December 31 2010 audited**	**Fiscal Year Ended December 31 2009 audited**
Statement of Operations			
Net revenues	$ Nil	$ Nil	$ Nil
Net loss	1,422,230	(1,178,616)	(1,501,955)
Net loss per share	(0.01)	(0.01)	(0.01)
Balance Sheet			
Total assets	$ 1,210,901	$ 1,445,929	$ 680,632
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, 2011 ***IFRS***	3 months ended September 30, 2011 ***IFRS***	3 months ended June 30, 2011 ***IFRS***	3 months ended March 31, 2011 ***IFRS***	3 months ended December 31, 2010 ***IFRS***	3 months ended September 30, 2010 ***IFRS***	3 months ended June 30, 2010 ***IFRS***	3 months ended March 31, 2010 ***IFRS***
Total revenues	-	-	-	-	-	-	-	-
Loss for the quarter	(152,853)	(268,759)	(674,849)	(325,769)	(442,281)	(245,567)	(225,665)	(265,203)
Basic and diluted 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 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 $1,086,354 cash. It expended $88,504 in operating costs, recovered a net $6,866 from Freeport on purchased equipment, recognized restricted cash of $209,167, and recorded an unrealized foreign exchange loss of $4,038 on its cash, to end the quarter and the year with $791,511 cash.

Liquidity

The Company began the current fiscal year with $306,156 in cash. The Company used $631,605 to fund operations, expended $9,946 net of recoveries from Freeport for the purchase of field equipment, recognized restricted cash of $209,167, received $1,337,576 of share proceeds (net of commission) for shares issued in 2011 and for shares issued in 2010 but not paid until January 13, 2011, and recorded $1,503 of unrealized foreign exchange loss, to end the year with $791,511 in cash.

On May 6, 2011, the Company issued 2,500,000 common shares to Freeport at C$0.14 per common share being 125% of the volume weighted average price of the Company's common shares traded on the

TSX-V in the seven business days following April 18, 2011, the date of the Freeport Agreement, for proceeds of $363,939 (C$350,000).

Management believes that the Company's cash on hand at December 31, 2011, combined ongoing operator management fees and with the proceeds of the private placement expected to close in May 2012 of up to $480,000, is sufficient to fund exploration activities and operations through the next twelve months. The Company's ability to continue on a going concern basis beyond the next twelve months depends on its ability to successfully raise additional financing for continued operations and for the substantial capital expenditures required to achieve planned principal operations. 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.

On April 23, 2012, the Company announced plans to issue up to 6,000,000 common shares at $0.08 per share for gross proceeds of up to $480,000 pursuant to a private placement that is expected to close in early May 2012.

Capital Resources

At the date of this MD&A, the Company has 6,745,000 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 be exercised, thereby contributing additional cash to the treasury.

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

Contingency

During 2011 all of the contingencies outstanding at December 31, 2010, were resolved in the Company's favour with no additional liability to the Company.

During 2011, the Indonesian tax authorities conducted audits 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 relates 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 and the Company will pay a deposit in order to be permitted to file an appeal in 2012. The outcome of the tax assessments is not determinable.

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
Romfal Corporate Pty Ltd. ("Romfal")	Chief Executive Officer

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

		December 31, 2011		December 31, 2010
Consulting fees – Golden Oak (Doris Meyer's company)	$	103,801	$	75,621
Consulting fees – Romfal (Faldi Ismail's company)		32,600		-
Total	$	136,401	$	75,621

b) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel, including amounts disclosed above, during the year ended December 31, 2011, and 2010 were as follows:

		December 31, 2011		December 31, 2010
Consulting fees	$	136,401	$	75,621
Salaries, wages and related costs (exploration and evaluation expenditures)		227,629		106,972
Directors fees to non-management directors		24,000		24,000
Share-based compensation		424,960		-
Total	$	812,990	$	206,593

Future Canadian Accounting Standards:

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

(i) Effective for annual periods beginning on or after July 1, 2011

- Amendments to IFRS 7 *Financial Instruments: Disclosures*
  Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

(ii) Effective for annual periods beginning on or after July 1, 2012

- Amendments to IAS 1 *Presentation of Financial Statements*
  To require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit and loss. The amendments also reaffirm existing requirements that items in OCI and profit and loss should be presented as either a single statement or two consecutive statements.

(iii) Effective for annual periods beginning on or after January 1, 2013

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

- New standard IFRS 9 *Financial Instruments*
  Partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement*

- New standard IFRS 10 *Consolidated Financial Statements*
  Provides 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*
  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 will provide 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*
  Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- New standard IFRS 13 *Fair Value Measurement*
  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.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

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, 2011	December 31, 2010
Cash and restricted cash – restriction subsequently removed	FVTPL	$ 1,000,678	$ 306,156
Share subscription receivable	Loans and Receivables	-	997,595
Government deposit and receivable	Loans and Receivables	61,310	61,618
Trade and other receivables	Loans and Receivables	85,774	18,434
Trade and other payables	Other liabilities	950,024	708,578

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, all receivables and trade and other payables approximate their fair value due to their short-term nature.

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 anticipated to mature 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 exchange rates. The majority of the Company's cash is held in Canada in Canadian (CDN") dollars and the Company expects to continue to raise equity predominantly in Pounds Sterling ("GBP"). The Company conducts its business in Indonesia in Indonesian Rupia ("Rp") with a significant portion of expenditures in that country denominated in United States ("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, 2011			As at December 31, 2010	
	Currency	Foreign currency amount	Amount in US dollars $	*Currency*	Foreign currency amount	Amount in US dollars $
Cash	*CDN*	95,111	93,523	*CDN*	276,170	274,679
	Rp	435,222,560	47,932	-	-	-
Trade and other				*CDN*	240,000	238,704
receivables	-	-	-	*GBP*	486,562	758,891
Government deposits and receivables	*Rp*	554,007,438	61,310	*Rp*	554,007,438	61,168
Trade and other	*CDN*	(980)	(948)	*CDN*	(73,708)	(73,310)
payables	*GBP*	(2,916)	(4,812)	*GBP*	(23,907)	(37,288)
	AUD	-	-	*AUD*	(66,520)	(67,878)
			197,005			1,154,966

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 $19,700 in the year ended December 31, 2011, ($11,500 in the year ended December 31, 2010). 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.

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 consolidated financial statements for the year ended December 31, 2011.

Outstanding share data

At December 31, 2011, 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	Common Share Purchase Options
Balance at December 31, 2011	165,407,156	8,105,000
Stock options expired	-	(1,360,000)
Balance at the date of this MD&A	165,407,156	6,745,000

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 favourable 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 limited 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 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, 2011 and 2010

(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** [the "Company"], which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
April 26, 2012.

Chartered Accountants

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

	Note	December 31, 2011	December 31, 2010 (Note 20)	January 1, 2010 (Note 20)
ASSETS				
Current assets				
Cash	*4*	$ 791,511	$ 306,156	$ 481,004
Restricted cash	*4*	209,167	-	-
Share subscription receivable	*11(b)*	-	997,595	-
Government deposit and receivable	*5*	61,310	-	-
Trade and other receivables	*6*	111,672	30,427	109,045
		1,173,660	1,334,178	590,049
Non-current assets				
Security deposit		25,055	25,165	24,414
Government deposit and receivable	*5*	-	61,618	-
Property, plant and equipment	*7*	12,186	24,968	66,169
		$ 1,210,901	$ 1,445,929	$ 680,632
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	*9*	$ 950,024	$ 708,578	$ 523,053
Promissory note		-	-	95,147
		950,024	708,578	618,200
Non-current liabilities				
Provision for employee service entitlements	*10*	99,198	79,694	55,346
		1,049,222	788,272	673,546
Shareholders' equity				
Share capital	*11*	1,624,564	1,599,564	1,305,964
Equity reserves	*11*	24,964,645	24,063,393	22,527,806
Deficit		(26,427,530)	(25,005,300)	(23,826,684)
		161,679	657,657	7,086
		$ 1,210,901	$ 1,445,929	$ 680,632

Nature of operations	*1*
Commitments	*15*
Contingencies	*16*
Subsequent events	4, 8 & 21

These consolidated financial statements are authorized for issue by the Board of Directors on April 26, 2012.

They are signed on the Company’s behalf by:

/s/ Peter Bojtos
Peter Bojtos
Director

/s/ Rahman Connelly
Rahman Connelly
Director

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

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

	Note	December 31, 2011	December 31, 2010 (Note 20)
Expenses			
Accounting and audit		$ 80,808	$ 84,015
Consultants	*12*	294,535	260,497
Directors fees	*12*	24,000	24,000
Exploration and evaluation expenditures	*8*	399,665	638,272
Investor relations		2,979	2,607
Legal		287	44,224
Management fees	*8*	(118,736)	-
Office and administrative services		14,344	21,220
Stock-based compensation	*11*	565,265	-
Telephone and facsimile		3,455	2,526
Transfer agent, filing and exchange fees		96,239	66,811
Travel and accommodation		61,719	41,858
		1,424,560	1,186,030
Other items			
Foreign exchange gain		(866)	(7,296)
Gain on sale of equipment		(1,038)	-
Interest income		(426)	(118)
		(2,330)	(7,414)
Loss and comprehensive loss for the year		$ 1,422,230	$ 1,178,616
Basic and diluted loss per common share		$ (0.01)	$ (0.01)
Weighted average number of shares outstanding		164,550,992	139,919,786

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)

	Note	December 31, 2011	December 31, 2010 (Note 20)
Cash provided from (used for):			
Operating activities			
Loss for the year		$ (1,422,230)	$ (1,178,616)
Adjustment for non-cash items:			
Depreciation		22,728	42,827
Stock-based compensation		565,265	-
Unrealized foreign exchange loss		2,705	(9,139)
Changes in non-cash working capital:			
Trade and other receivables		(80,937)	17,000
Trade and other payables		261,360	165,611
Provision for employee service entitlements		19,504	24,348
		(631,605)	(937,969)
Investing activities			
Purchase of property, plant and equipment		(30,176)	(1,626)
Recovery of property, plant and equipment		20,230	-
Restricted cash	*4*	(209,167)	-
		(219,113)	(1,626)
Financing activities			
Promissory Note		-	(95,147)
Share issues	*11*	1,360,442	856,200
Share issue costs	*11*	(22,866)	(3,602)
		1,337,576	757,451
Unrealized foreign exchange gain (loss) on cash		(1,503)	7,296
Increase (decrease) in cash		485,355	(174,848)
Cash, beginning of the year		306,156	481,004
Cash, end of the year		$ 791,511	$ 306,156
Supplemental disclosure with respect to cash flows	*18*		

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, 2010	133,547,156	$	1,305,964	$	22,527,806	$	(23,826,684)	$	7,086
Share issues	29,360,000		293,600		1,599,167		-		1,892,767
Share issue costs	-		-		(63,580)		-		(63,580)
Loss and comprehensive loss for the year	-		-		-		(1,178,616)		(1,178,616)
Balance, December 31, 2010	162,907,156		1,599,564		24,063,393		(25,005,300)		657,657
Share issues	2,500,000		25,000		338,939		-		363,939
Share issue costs	-		-		(2,952)		-		(2,952)
Stock-based compensation	-		-		565,265		-		565,265
Loss and comprehensive loss for the year	-		-		-		(1,422,230)		(1,422,230)
Balance, December 31, 2011	165,407,156	$	1,624,564	$	24,964,645	$	(26,427,530)	$	161,679

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

1. NATURE OF OPERATIONS

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 period ended December 31, 2011, comprise the Company and its subsidiaries. The Company is the ultimate parent. The Company's principal mineral property interests are the KSK Contract of Work and the Jelai Gold projects which are both located in Indonesia.

The Company is in the process of exploring its Kalimantan 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. Management believes that the Company's cash on hand at December 31, 2011, combined with the private placement subsequently expected to close in May 2012, is sufficient to fund exploration activities and operations through the next twelve months. The Company's ability to continue on a going concern basis beyond the next twelve months depends on its ability to successfully raise additional financing for continued operations and for the substantial capital expenditures required to achieve planned principal operations. 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 financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. BASIS OF PREPARATION

a) Statement of compliance

The Canadian Accounting Standards Board announced that January 1, 2011, is the changeover date for publicly-listed companies to use International Financial Reporting Standards ("IFRS"), replacing Canada's own Generally Accepted Accounting Principles ("GAAP").

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 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)*

a) Statement of compliance *(continued)*

Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian GAAP. As these financial statements are the Company's first annual financial statements prepared in accordance with IFRS, disclosure of the elected transition exemptions and reconciliation of accounting policy differences compared to Canadian GAAP have been provided in Note 20.

The audited comparative figures presented in these financial statements are unchanged from those previously reported under GAAP and are in accordance with IFRS.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Functional and presentation currency

These consolidated financial statements are presented in United States dollars, which is the Company's functional currency.

d) 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, but are not limited to, the following:

Estimated useful lives of property, plant and equipment

The estimated useful lives of property, plant and equipment which are included in the consolidated statements of financial position will impact the amount and timing of the related depreciation included in profit and 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.

2. BASIS OF PREPARATION *(continued)*

d) 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.

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, 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 all of its subsidiaries is the United States dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. Intra-company balances and transactions, and any unrealized income and expenses arising from intra-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
KLG Singapore Private Limited ("KLG SING")	Singapore	100%	Holding company
PT Jelai Cahaya Minerals ("JCM")	Indonesia	100%	Owner of Jelai IUP

b) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Foreign currency translation *(continued)*

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.

c) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognized in operations on a straight-line basis over the estimated useful lives of each part of an item of property, plant, and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are four years.

d) Exploration and evaluation assets

Upon acquiring the legal right to explore a property, all direct costs related to the acquisition of exploration and evaluation assets, is 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 is 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 intangible assets at this time.

e) Restoration, rehabilitation and environmental obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

A liability is recognized for legal obligations relating to the restoration, rehabilitation and retirement of property, property, plant and equipment obligations arising from the acquisition, construction, development or normal operation of those assets. Such asset retirement costs are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset where one is identifiable is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Restoration, rehabilitation and environmental obligations *(continued)*

It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations; the extent of environmental remediation required or completed and the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is minimal.

g) 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.

The Company's corporate assets do not generate separate cash inflows. 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 operations.

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 operations.

h) 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 finance cost.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Financial assets

(i) Financial assets at fair value through operations ("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. Assets in this category include cash and restricted cash.

Financial assets at FVTPL are initially recognized, and subsequently carried at fair value with changes recognized in operations. Attributable transaction costs are recognized in operations when incurred.

(ii) Loans and receivables

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 share subscriptions receivable, government deposits and receivables 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.

(iii) Effective interest method

The effective interest method is used to determine the amortized cost of a financial asset 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.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

(iv) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Financial instruments *(continued)*

(iv) Impairment of financial assets *(continued)*

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade 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 operations.

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 operations 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.

(v) De-recognition of financial assets

Financial assets are derecognized 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 operations.

j) Financial liabilities and equity

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.

Financial liabilities may be designated 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.

(i) The Company has classified trade and other payables as other financial liabilities; and

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial liabilities and equity *(continued)*

(ii) 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 the assumption that all employees resigned at the balance sheet date.

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

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

k) Share capital

The Company records proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date the agreement to issue the shares was reached and announced for business combinations and at the date of issuance for other non-monetary transactions.

l) Loss per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the operations 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 loss per share is calculated by dividing the profit (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 loss per share is the same as basic loss per share, as the effect of outstanding share options on loss per share would be anti-dilutive.

m) Share-based payment transactions

The stock option plan allows Company employees and consultants 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in operations except to the extent that it relates 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.

o) 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.

p) 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, 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

(i) Effective for annual periods beginning on or after July 1, 2011

- Amendments to IFRS 7 *Financial Instruments: Disclosures*
  Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

(ii) Effective for annual periods beginning on or after July 1, 2012

- Amendments to IAS 1 *Presentation of Financial Statements*
  To require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit and loss. The amendments also reaffirm existing requirements that items in OCI and profit and loss should be presented as either a single statement or two consecutive statements.

(expressed in United States dollars, unless otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) New standards, interpretations and amendments not yet effective *(continued)*

(iii) Effective for annual periods beginning on or after January 1, 2013

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

- New standard IFRS 9 *Financial Instruments*
  Partial replacement of IAS 39 *Financial Instruments: Recognition and Measurement*

- New standard IFRS 10 *Consolidated Financial Statements*
  Provides 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*
  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 will provide 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*
  Combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- New standard IFRS 13 *Fair Value Measurement*
  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.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future financial statements.

4. CASH and RESTRICTED CASH

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Canadian denominated cash held in Canada	$ 93,523	$ 274,679	$ 453,054
US dollar denominated cash held in Canada	321,853	6,747	3,774
Cash held in Indonesia	68,525	24,730	24,176
Restricted cash held in Indonesia	(209,167)	-	-
Cash held in Indonesia exclusively for use on joint venture projects	516,777	-	-
Cash	$ 791,511	$ 306,156	$ 481,004
Restricted cash held in Indonesia	$ 209,167	$ -	$ -

Restricted cash in Indonesia was the subject of a temporary hold restriction, which was removed subsequent to December 31, 2011.

(expressed in United States dollars, unless otherwise noted)

5. GOVERNMENT DEPOSIT AND RECEIVABLE

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Current deposits paid to file tax appeals	$ 61,310	$ -	$ -
Non-current deposits paid to file tax appeals	-	61,618	-
Total	$ 61,310	$ 61,681	$ -

During 2008 the Indonesian tax authorities conducted audits of the Company's Indonesian subsidiaries and in 2009 delivered assessments on several levels of withholding tax, employee withholding tax, corporate income tax and value added tax for the 2006 and 2007 tax years. The Company paid deposits in Rupiah to have the tax appeals heard and subsequent to December 31, 2011, the Company has confirmation that the appeals were in all cases successful, with the exception of one immaterial case that will result in a deduction of less than $1,000 from the deposits paid. The Company expects to recover the deposits paid and the amounts included in trade and other receivables related to value added tax in 2012.

6. TRADE AND OTHER RECEIVABLES

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Amounts receivable – employee advances	$ 20,352	$ 16,710	$ 8,074
Amounts receivable – other receivables including value added tax	65,422	1,724	4,488
Amounts receivable – prepayments	25,898	11,993	96,483
Total	$ 111,672	$ 30,427	$ 109,045

7. PROPERTY, PLANT AND EQUIPMENT

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

	Balance as of January 1, 2010	Additions	Balance as of December 31, 2010	Additions	Recoveries	Balance as of December 31, 2011
At cost:						
Property, plant and equipment	$ 411,144	$ 1,626	$ 412,770	$ 30,176	$ (20,230)	$ 422,716
Accumulated depreciation:						
Property, plant and equipment	344,975	$ 42,827	387,802	$ 22,728	$ -	410,530
Net book value	$ 66,169		$ 24,968			$ 12,186

8. EXPLORATION AND EVALUATION ASSETS

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. KSK is owned 75% by Indokal and 25% by PCK. Indokal owns 100% of PCK.

On April 18, 2011, the Company entered into a joint venture agreement (the "Agreement") with a wholly-owned subsidiary of Freeport-McMoRan Exploration Corporation ("Freeport") in relation to the KSK CoW. Pursuant to the Agreement, Freeport can earn a 51% equity interest in Indokal by expending a minimum of $7,000,000 on funding KSK expenditures over three years (the "Initial Period"). Freeport is obligated to expend not less than $3,000,000 on specific areas of the KSK CoW by March 12, 2013. On completion of the $7,000,000 expenditure, Freeport can earn a further 24% equity interest in Indokal (total 75%) by sole funding the completion of a feasibility study on the KSK CoW with best efforts to complete it within ten years. Subsequently, if a decision to mine is made, Freeport must use commercially reasonable efforts to arrange non-recourse project financing on reasonable terms and conditions for the costs of development on terms mutually agreeable to each of the participants. Upon a decision to mine, if a participant declines to fund its share, then that party will assign all of its rights and interests in Indokal to the other participant in consideration of a 1% net smelter return royalty ("NSR") on the KSK CoW. During the Initial Period, KSK is the operator of the exploration program, and the Company earns a 3%-5% management fee on all expenditures incurred on the KSK CoW pursuant to the Agreement. During the year ended December 31, 2011, the Company earned management fees of $94,003 (2010 - $nil) pursuant to the Agreement.

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. On March 12, 2012, KSK received a forestry permit granting full permission to explore certain areas of the KSK COW and denied permission to explore certain other areas of the COW within the Hutan Lindung.

Jelai Project – East Kalimantan

On March 23, 2006, the Company organized JCM. The Company entered into certain contractual arrangements with JCM and its shareholders, pursuant to which the Company (either by itself or through a wholly owned mining services company) 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. Subsequent to December 31, 2011, this indirect arrangement will be unwound, so that a wholly-owned subsidiary of the Company, KLG SING, will hold 99.9% of the shares of JCM and the Company will hold the remaining 0.1% of the shares of JCM.

JCM paid a refundable security deposit of $25,055 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.

8. EXPLORATION AND EVALUATION ASSETS *(continued)*

On February 16, 2011, the Company executed an option agreement (the "Deed") with Tigers Realm Minerals Pty Ltd. which was subsequently assigned to Tigers Realm Metals Pty Ltd. ("Tigers"). The effectiveness of the Deed was conditional upon the IUP being extended and forestry permits being granted as necessary to enable the on-ground activities to be conducted. The IUP was extended until June 2, 2015 and the forestry permit was issued on November 7, 2011 so that the Deed took effect on November 7, 2011.

Tigers can incrementally earn up to a 70% interest in KLG SING by funding $6,000,000 expenditures on the IUP and by completing a bankable feasibility study ("BFS") by June 2, 2015. Tigers must spend $2,000,000 within eighteen-months of receipt of the forestry permit. If Tigers does not complete the BFS by June 2, 2015, its interest earned in KLG SING will convert to a NSR royalty on the Jelai project capped at two times its sole-funding contribution funding the IUP. The applicable percentage of the royalty shall be 1/20th of Tigers' interest earned in KLG SING at that time. By way of example, if Tigers' interest is 35% the percentage shall be 1.75%; or if Tigers' interest is 70% the percentage shall be 3.5%.

Pursuant to the Deed, the Company earns a management fee of $14,000 per month from Tigers. During the year ended December 31, 2011, the Company earned management fees of $24,733 (2010 - $nil) pursuant to the Deed.

<u>Property investigation</u>

The Company investigated the acquisition of coal projects in Kalimantan from 2008 to mid-2011, and incurred expenses on those investigations.

The details of exploration expenditures expensed during the years ended December 31, 2011, and 2010 are as follows:

(expressed in United States dollars, unless otherwise noted)

8. EXPLORATION AND EVALUATION ASSETS *(continued)*

	For the year ended	
	December 31, 2011	December 31, 2010
KSK CoW		
Prior exploration costs	$ -	$ -
Exploration costs during the year:		
Community development	293,140	-
Consultants and contractors	306,156	16,515
Contracted drilling	131,555	-
Field support	142,527	2,004
Land tax and dead rent	4,309	-
Salaries, wages and related costs	470,151	78,620
Sample preparation and analysis	17,000	-
Supplies and equipment	141,895	30,290
Taxation	167,115	74,604
Transport (including helicopters)	118,669	34,012
Travel and accommodation	129,708	-
	1,922,225	236,045
Depreciation	3,290	2,572
Current year exploration	1,925,515	238,617
Recovery from Freeport	(1,761,389)	-
Current year exploration	164,126	238,617
Jelai		
Exploration costs during the year:		
Community development	25,382	33,523
Consultants and contractors	121,576	-
Field support	14,988	7,547
Road and bridge repairs	495	2,650
Salaries, wages and related costs	123,651	133,450
Supplies and equipment	7,884	39,179
Taxation	29,156	28,496
Travel and accommodation	18,571	29,525
	341,703	274,370
Depreciation	19,438	38,242
Current year exploration	361,141	312,612
Recovery from Tigers	(143,878)	-
Current year exploration	217,263	312,612
Project investigations		
Field support	4,585	16,737
Road and bridge repairs	644	281
Salaries, wages and related costs	9,533	38,504
Taxation	748	(8,417)
Transport (including helicopters)	2,766	37,925
	18,276	85,030
Depreciation	-	2,013
Current year exploration	18,276	87,043
Total current year exploration	399,665	638,272
Cumulative exploration expenditures included in the deficit, beginning of year	19,937,473	19,299,201
Cumulative exploration expenditures included in the deficit, end of year	$ 20,337,138	$ 19,937,473

(expressed in United States dollars, unless otherwise noted)

9. TRADE AND OTHER PAYABLES

Falling due within the next twelve months	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Trade and other payables	$ 330,040	$ 489,779	$ 433,120
Trade and other payables in Indonesia to be paid with cash held for use on joint venture projects	343,742	-	-
Working capital held in excess of KSK-CoW and Jelai IUP expenditures	199,929	-	-
Trade and other payables owed to related parties	76,313	218,799	89,933
Total	$ 950,024	$ 708,578	$ 523,053

10. 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 ("CLA") 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 tables summarize the components of net employee service entitlements expense recognized in the statement of exploration and evaluation expenses and amounts recognized in the balance sheet for employee service entitlements liability as determined by an independent actuary in each year.

Employee service entitlements expense:

	December 31, 2011	December 31, 2010
Employee service entitlement expense:		
Current service cost	$ 29,886	$ 23,612
Interest cost	7,598	6,358
Amortization of unrecognized past service costs	105	128
Amortization of actuarial gain	1,167	1,067
Immeidate recognitiion of the impact of data changes	-	1,586
Expense before event	38,756	32,751
Curtailment gain	(13,646)	-
Settlement loss	673	-
Excess payment	2,203	(5,627)
Total employee service entitlements expense changed to exploration and evaluation expenses	$ 27,986	$ 27,124

(expressed in United States dollars, unless otherwise noted)

10. PROVISION FOR EMPLOYEE SERVICE ENTITLEMENTS *(continued)*

Employee service entitlements liability:

	December 31, 2011	December 31, 2010
Employee service entitlement liability:		
Present value of employee service entitlements obligation	$ 176,377	$ 100,610
Unrecognized past service cost non-vested	(518)	(630)
Unrecognized actuarial gains and losses	(76,690)	(20,286)
Foreign exchange adjustments	29	-
Employee service entitlements liablity	$ 99,198	$ 79,694

Movements in the employee service entitlements liability during the years ended December 31, 2010, and 2011, are as follows:

Balance, January 1, 2010	$ 55,346
Less: utilization during the year	(3,837)
Add: provision during the year	26,345
Add: foreign exchange adjustment to estimated provision	1,840
Balance, December 31, 2010	79,694
Less: utilization during the period	(4,606)
Add: provision during the year	25,783
Add: foreign exchange adjustment to estimated provision	(1,673)
Balance, December 31, 2011	**$ 99,198**

The principal assumptions used in determining the provision for employee service entitlements as of December 31, 2011, and 2010, are as follows:

a) Discount rate: 6.75% (2010: 8.25% per annum)
b) Salary increase: 10% per annum
c) Mortality rate: USA Table of Mortality, Commissioners Standard Ordinary 1980 (CSO’80)
d) Retirement age: 55 years of age (all employees are assumed to retire at their retirement age)
e) Resignation rate: 5% at 25 years of age and linearly decreasing to 1% at age 45 and thereafter
f) Disability rate: 10% of mortality rate
g) Tax benefit: 15% of total post-employment benefits

11. SHARE CAPITAL AND RESERVES

a) Authorized share capital

At December 31, 2011, and December 31, 2010, 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.

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 year ended December 31, 2011, and December 31, 2010.

At December 31, 2011, the issued share capital comprised 165,407,156 common shares (December 31, 2010 – 162,907,156).

Fiscal 2011

On May 6, 2011, the Company issued 2,500,000 common shares to Freeport at C$0.14 per common share being 125% of the volume weighted average price of the Company's common shares traded on the TSX-V in the seven business days following April 18, 2011, the date of the Freeport Agreement (Note 8) for proceeds of $363,939 (C$350,000).

Fiscal 2010

On December 23, 2010, the Company issued 16,125,000 common shares from a non-brokered private placement for the Canadian portion, and a brokered private placement financing for the Great Britain portion, to raise $1,253,719 (C$460,000 and £518,750). The Canadian portion of $217,152 was on hand at December 31, 2010, and the Great Britain balance of $1,036,567 was settled through the Crest system in London on the settlement date of January 13, 2011. The Company paid or accrued commissions, finders' fees and issue costs of $59,978. The net share subscription receivable at the December 31, 2010, exchange rate was $997,595. This amount was collected on January 13, 2011, using the exchange rate on that date; the cash collected was $996,503, with the difference of $1,092 was recorded in operations as foreign exchange.

On July 20, 2010, the Company issued 13,235,000 common shares from a non-brokered private placement financing to raise $639,048 (C$661,750). The Company incurred issue costs of $3,482.

c) Stock Options

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

(expressed in United States dollars, unless otherwise noted)

11. SHARE CAPITAL AND RESERVES *(continued)*

The continuity of stock options for the year ended December 31, 2011, is as follows:

Expiry date	*Exercise price Cdn $*	Balance, December 31, 2010	Granted	Exercised	Expired / Cancelled	Balance, December 31, 2011
August 8, 2011	*$ 0.20*	1,395,000	-	-	(1,395,000)	-
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	-	-	-	1,370,000
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
		4,225,000	5,275,000	-	(1,395,000)	8,105,000
Weighted average exercise price Cdn$		$ 0.22	$ 0.11	$ -	$ 0.20	$ 0.15

Of the 4,875,000 options granted on April 21, 2011, 1,000,000 were not exercisable at December 31, 2011. These options vest as to 500,000 on each of April 21, 2012, and October 21, 2012.

The weighted average remaining contractual life of the options outstanding as at December 31, 2011, was 3.15 years.

The continuity of stock options for the year ended December 31, 2010, is as follows:

Expiry date	*Exercise price Cdn$*	Balance, December 31, 2009	Granted	Exercised	Expired / Cancelled	Balance December 31, 2010
September 15, 2010	*$ 0.20*	1,020,000	-	-	(1,020,000)	-
June 1, 2011	*$ 0.25*	27,000	-	-	(27,000)	-
August 8, 2011	*$ 0.20*	1,395,000	-	-	-	1,395,000
April 25, 2012	*$ 0.35*	1,410,000	-	-	(50,000)	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*	1,420,000	-	-	(50,000)	1,370,000
		5,372,000	-	-	(1,147,000)	4,225,000
Weighted average exercise price Cdn$		$ 0.22	$ -	$ -	$ 0.20	$ 0.22

(expressed in United States dollars, unless otherwise noted)

11. SHARE CAPITAL AND RESERVES *(continued)*

d) Stock-based Compensation

During the year ended December 31, 2011, the Company recorded $565,265 (2010 - $nil) in non-cash stock-based compensation expense for options vesting in the year.

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. 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.

On June 17, 2011, the Company granted 200,000 stock options with a total grant-date fair value of $12,516 or $0.061 per option. Share-based compensation for these stock options, which vested immediately, was $12,516 which was recognized in operations. The fair value of these options was determined using a risk free interest rate of 2.0%, an expected volatility of 180%, an expected life of 5 years, an expected dividend of zero, and a foreign exchange rate of 0.9797 to the Canadian dollar. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

On July 4, 2011, the Company granted 200,000 stock options with a total grant-date fair value of $13,979 or $0.07 per option. Share-based compensation for these stock options, which vested immediately, was $13,979 which was recognized in operations. The fair value of these options was determined using a risk free interest rate of 2.12%, an expected volatility of 180%, an expected life of 5 years, an expected dividend of zero, and a foreign exchange rate of 0.9598 to the Canadian dollar. Volatility was determined using daily closing share prices over a term equivalent to the expected life of the options.

12. 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
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, 2011	December 31, 2010
Consulting fees – Golden Oak (CFO's company)	$ 103,801	$ 75,621
Consulting fees – Romfal (CEO's company)	32,600	-
Total	$ 136,401	$ 75,621

(expressed in United States dollars, unless otherwise noted)

12. RELATED PARTY TRANSACTIONS *(continued)*

b) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel, including amounts disclosed in Note 11(a), during the year ended December 31, 2011, and 2010 were as follows:

		December 31, 2011		December 31, 2010
Consulting fees	$	136,401	$	75,621
Salaries, wages and related costs (exploration and evaluation expenditures)		227,629		106,972
Directors fees to non-management directors		24,000		24,000
Share-based compensation		424,960		-
Total	$	812,990	$	206,593

13. MANAGEMENT OF FINANCIAL RISK

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, 2011		December 31, 2010
Cash	FVTPL	$	791,511	$	306,156
Restricted cash	FVTPL		209,167		-
Share subscription receivable	Loans and Receivables		-		997,595
Government deposit and receivable	Loans and Receivables		61,310		61,618
Trade and other receivables	Loans and Receivables		85,774		18,434
Trade and other payables	Other liabilities		950,024		708,578

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, all receivables and trade and other payables approximate their fair value due to their short-term nature.

13. MANAGEMENT OF FINANCIAL RISK *(continued)*

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.

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 exchange rates. The majority of the Company's cash is held in Canada in Canadian (CDN") dollars and the Company expects to continue to raise equity predominantly in Pounds Sterling ("GBP"). The Company conducts its business in Indonesia in Indonesian Rupia ("Rp") with a significant portion of expenditures in that country denominated in United States ("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, 2011			As at December 31, 2010	
	Currency	Foreign currency amount	Amount in US dollars	*Currency*	Foreign currency amount	Amount in US dollars
Cash	*CDN*	95,111	93,523	*CDN*	276,170	274,679
	Rp	435,222,560	47,932	-	-	-
Trade and other				*CDN*	240,000	238,704
receivables	-	-	-	*GBP*	486,562	758,891
Government deposits and receivables	*Rp*	554,007,438	61,310	*Rp*	554,007,438	61,168
Trade and other	*CDN*	(1,132)	(1,120)	*CDN*	(73,708)	(73,310)
payables	*GBP*	(2,931)	(4,696)	*GBP*	(23,907)	(37,288)
	AUD	-	-	*AUD*	(66,520)	(67,878)
			$ 196,949			$ 1,154,966

13. MANAGEMENT OF FINANCIAL RISK *(continued)*

Risk management *(continued)*

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 $19,700 in the year ended December 31, 2011, ($11,500 in the year ended December 31, 2010). 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.

14. MANAGEMENT OF CAPITAL

The Company manages common shares and stock options as capital (see Note 11). 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.

15. 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, 2011, the Company paid or accrued $64,281 (AUD$60,000) in consulting fees to RFC. In 2010, the Company paid or accrued $54,729 (AUD$60,000) in consulting fees to RFC and in addition RFC was accrued a finder's fee on the December 2010 private placement of $11,862 (AUD12,000) which amount was included in accounts payable and accrued liabilities at December 31, 2010.

Alexander David Securities Limited ("ADS") is the Company's Broker for the purpose of the AIM Rules. During the year ended December 31, 2011, the Company paid or accrued $24,152 (£15,000) as consulting fees. In 2010 the Company paid or accrued $33,539 (£21,500) as consulting fees to ADS and in addition accrued a commission on the December 2010 private placement of $40,064 (£25,688) which amount was offset against the settlement receivable included in prepaid items and advances at December 31, 2010.

16. CONTINGENCIES

During 2011, the Indonesian tax authorities conducted audits 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 relates 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 and the Company will pay a deposit in order to be permitted to file an appeal in 2012. The outcome of the tax assessments is not determinable.

17. 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 Chief Executive Officer.

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

With the exception of the majority of its cash, all of the Company's significant assets are held in Indonesia.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the years ended December 31, 2011, and 2010 consist of the following:

- As at December 31, 2010, there was $19,914 of share issue costs in accounts payable and accrued liabilities that were paid in 2011; and
- As at December 31, 2010, there was $996,503 of share subscription receivable included in share capital and equity reserves that were received in 2011.

19. 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 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 $1,218,000 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.

(expressed in United States dollars, unless otherwise noted)

19. INCOME TAXES *(continued)*

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

	2011	2010
Income tax recovery	$ -	$ -
Effect of difference in tax rates between parent company and subsidiary	691,480	191,482
	691,480	191,482
Unrecognized benefit of deferred tax assets	(691,480)	(191,482)
Total	$ -	$ -

The nature of the tax effects of the temporary differences and tax loss carry forwards giving rise to the deferred tax assets at December 31, 2011, and 2010 are summarized below:

	2011	2010
Deferred tax assets		
Exploration and evaluation assets	$ 5,209,914	$ 4,782,791
Non-capital loss carry forwards	365,451	-
Property, plant and equipment	3,656	7,490
Unrecognized deferred tax assets	$ 5,579,021	$ 4,790,281

20. FIRST TIME ADOPTION OF IFRS

The Company adopted IFRS on January 1, 2011, with a transition date of January 1, 2010. IFRS 1, "First-time adoption of International Financial Reporting Standards", provides guidance for the initial adoption of IFRS. IFRS 1 requires retrospective application of the standards in the transition statement of financial position with all adjustments of assets and liabilities taken to deficit unless certain mandatory and optional exemptions are applied.

The basis of presentation and significant account policies in Note 2 and 3 respectively have been applied in preparing the consolidated financial statements for the years ended December 31, 2011, and 2010, and the opening IFRS statement of financial position on January 1, 2010, the "Transition Date" and December 31, 2010.

The Company's statements are in all material respects the same under Canadian GAAP as they are under IFRS and the Company did not make use of any of the exemptions available under IFRS 1.

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain areas of recognition, measurement and disclosure. The adoption of IFRS has not changed the actual cash flows of the Company and the adoption did not result in any changes to the Company's reported financial position and results of operations.

IFRS 1 requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous Canadian GAAP for the year ended December 31, 2010. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Company's financial position, equity, statement of earnings and comprehensive income and material adjustments to cash flows and equity is set out in the following tables.

(expressed in United States dollars, unless otherwise noted)

20. FIRST TIME ADOPTION OF IFRS *(continued)*

Below is the Company's consolidated statement of financial position as at the Transition date of January 1, 2010, under IFRS:

	January 1, 2010	
	Canadian GAAP	IFRS
ASSETS		
Current assets		
Cash	$ 481,004	$ 481,004
Trade and other receivables	109,045	109,045
	590,049	590,049
Exploration and evaluation assets	24,414	24,414
Property, plant and equipment	66,169	66,169
	$ 680,632	$ 680,632
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	$ 523,053	$ 523,053
Promissory note	95,147	95,147
	618,200	618,200
Non-current liabilities		
Provision for employee service entitlements	55,346	55,346
	673,546	673,546
Shareholders' equity		
Share capital	1,305,964	1,305,964
Equity reserves	22,527,806	22,527,806
Deficit	(23,826,684)	(23,826,684)
	7,086	7,086
	$ 680,632	$ 680,632

(expressed in United States dollars, unless otherwise noted)

20. FIRST TIME ADOPTION OF IFRS *(continued)*

Reconciliation of financial position between Canadian GAAP and IFRS at December 31, 2010:

	December 31, 2010	
	Canadian GAAP	IFRS
ASSETS		
Current assets		
Cash	$ 306,156	$ 306,156
Share subscription receivable	997,595	997,595
Trade and other receivables	30,427	30,427
	1,334,178	1,334,178
Exploration and evaluation assets	25,165	25,165
Government deposit and receivable	61,618	61,618
Property, plant and equipment	24,968	24,968
	$ 1,445,929	$ 1,445,929
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	$ 708,578	$ 708,578
Non-current liabilities		
Provision for employee service entitlements	79,694	79,694
	788,272	788,272
Shareholders' equity		
Share capital	1,599,564	1,599,564
Equity reserves	24,063,393	24,063,393
Deficit	(25,005,300)	(25,005,300)
	657,657	657,657
	$ 1,445,929	$ 1,445,929

(expressed in United States dollars, unless otherwise noted)

20. FIRST TIME ADOPTION OF IFRS *(continued)*

Reconciliation of consolidated statement of comprehensive loss between Canadian GAAP and IFRS for the year ended December 31, 2010:

	Year ended December 31, 2010	
	Canadian GAAP	IFRS
Expenses		
Accounting and audit	$ 84,015	$ 84,015
Consultants	260,497	260,497
Directors fees	24,000	24,000
Exploration costs	638,272	638,272
Investor relations	2,607	2,607
Legal	44,224	44,224
Office and administrative services	21,220	21,220
Telephone and facsimile	2,526	2,526
Transfer agent, filing and exchange fees	66,811	66,811
Travel and accommodation	41,858	41,858
	1,186,030	1,186,030
Other items		
Foreign exchange gain	(7,296)	(7,296)
Interest income	(118)	(118)
	(7,414)	(7,414)
Loss and comprehensive loss for the period attributable to shareholders of the Company	$ 1,178,616	$ 1,178,616
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of common shares	139,919,786	139,919,786

(expressed in United States dollars, unless otherwise noted)

20. FIRST TIME ADOPTION OF IFRS *(continued)*

Reconciliation of consolidated statements of cash flows between Canadian GAAP and IFRS for the year ended December 31, 2010:

	Year ended December 31, 2010	
	Canadian GAAP	IFRS
Operating activities		
Loss for the year	$ (1,178,616)	$ (1,178,616)
Adjustment for non-cash items:		
Depreciation - exploration	42,827	42,827
Unrealized foreign exchange loss	(9,139)	(9,139)
Changes in non-cash working capital:		
Trade and other receivables	17,000	17,000
Trade and other payables	165,611	165,611
Provision for employee service entitlements	24,348	24,348
	(937,969)	(937,969)
Investing activities		
Purchase of property, plant and equipment	(1,626)	(1,626)
	(1,626)	(1,626)
Financing activities		
Promissory note	(95,147)	(95,147)
Shares issued	856,200	856,200
Share issue costs	(3,602)	(3,602)
	757,451	757,451
Unrealized foreign exchange gain on cash	7,296	7,296
Decrease in cash	(174,848)	(174,848)
Cash, beginning of year	481,004	481,004
Cash, end of year	$ 306,156	$ 306,156

21. SUBSEQUENT EVENTS

Subsequent to December 31, 2011 the Company:

a) Announced its intentions to conduct a non-brokered private placement to raise up to $480,000 (£300,000) through the issue of up to 6,000,000 common shares; and

b) Recorded the expiration of 1,360,000 options on April 25, 2012.