## KENTOR GOLD LIMITED
## ABN 52 082 658 080

## DIRECTORS' REPORT

The directors present their report on the Consolidated entity (the Group) consisting of Kentor Gold Limited and the entities it controlled at the end of, or during, the year ended 31 December 2008.

### DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Names, qualifications experience and special responsibilities**

**John Barr AM**
**MAICD**
Non-Executive Chairman
Appointed 10 November 2004

John Barr has had a long involvement with the Australian minerals and metals industry having been Managing Director of Metallgesellschaft's Australian subsidiary since the company's inception in 1974 until his retirement in 1994. He is a former Director of Iluka Resources Limited, Acacia Resources Ltd, Oxiana Limited, and Transurban City Link Ltd. In August 2005 he retired as Chairman of Utilities of Australia Pty Ltd, a major unlisted infrastructure investment fund.

Mr Barr is a member of the Audit and Risk Management Committee and Remuneration Committee.

*Other Current Directorships of Listed Companies*
None.

*Former Directorships of Listed Companies in last three years*
Iluka Resources Limited (1994 –2006).

**Andrew Daley**
**BSc (Hons)(Mining)**
Non-Executive Director
Appointed 10 November 2004

Andrew Daley is a Chartered Engineer, a Member of IOM3 and a Fellow of the Australasian IMM. He is a Director of Investor Resources Finance Pty Limited ("IRF"), a company based in Melbourne which provides financial and corporate advisory services to the mining industry. Mr Daley is also a Director of Australian Resources Investment Group Pty Limited, a joint venture between IRF and Babcock and Brown, which was set up to seek investments in the resource sector.

Mr Daley commenced his career with Anglo American on the Zambian copper belt and later worked with Rio Tinto and Conoco Minerals in Africa. He moved to Australia with Fluor Australia in 1981 and since 1983 has been focused on resource project finance with National Australia Bank, Chase Manhattan and more recently was a Director at Barclays Capital mining team in London.

Mr Daley is the Chairman of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee

*Other Current Directorships of Listed Companies*

PanAust Limited (appointed August 2004), Dragon Mining Ltd (appointed March 2005), Uranex NL (appointed November 2007) and AIM-listed Minerva Resources Plc (Company Voluntary Arrangement)(appointed July 2007).

*Former Directorships of Listed Companies in last three years*
In the past three years he has also been a director of AIM-listed Gladstone Pacific Nickel Limited (appointed February 2005 and resigned December 2007)

**Simon Milroy**
Managing Director
Appointed 14 May 2007

Simon Milroy is a mining engineer who most recently spent nearly 4 years as General Manager – Project Development and Manager Technical Services for Pan Australian Resources Limited in Laos. In those roles he was responsible for scoping and feasibility studies, evaluations of projects and companies, ore reserves and technical support of the companies operations. During that period key achievements were managing the feasibility studies and environmental and social impact assessments for the Phu Bia gold mine and the Phu Kham copper-gold mine.

*Other Current Directorships of Listed Companies*
None.

*Former Directorships of Listed Companies in last three years*
None.

**Hugh McKinnon**
**BEng (Mining)**
Executive Director
Appointed 28 May 1998

Hugh McKinnon has been involved in the mining industry in Australia, Africa, and Asia for 30 years in activities ranging from exploration ventures to mine production. Since early 1996 he has worked on mining and exploration projects across Central Asia from Tajikistan to Mongolia, with a particular interest in the Kyrgyz Republic. Hugh speaks competent Russian.

*Other Current Directorships of Listed Companies*
None.

*Former Directorships of Listed Companies in last three years*
None.

**COMPANY SECRETARY**

**Kylie Anderson**
**BSc. MBA (Int. Bus.) MPA, MAICD**
Appointed 2 January 2008

Ms Anderson has held senior financial and company secretarial roles with a number of companies in the resources sector including Felix Resources and Rio Tinto.

**Interests in the shares and options of the company and related bodies corporate**

At the date of this report, the interest of the directors in the shares and options of Kentor Gold Limited are:

| Director | Ordinary shares | Options over ordinary shares | Option expiry date |
|---|---|---|---|
| W H J Barr | 358,000 | - | n/a |
| A E Daley | 381,470 | - | n/a |
| H McKinnon | 2,064,627 | 1,800,000 | n/a* |
| S Milroy | 775,555 | 2,000,000 | n/a |

* These options were granted as a share-based payment and have no expiry date except, in the event of the cessation of employment, 30 days after the date of cessation

**MEETINGS OF DIRECTORS**

The number of directors' meetings held during the financial year and the number of meetings attended by each director while they were a director were as follows:

| | Attended | Held |
|---|---|---|
| **Directors** | | |
| W H J Barr | 12 | 12 |
| A Daley | 12 | 12 |
| S Milroy | 12 | 12 |
| H McKinnon | 11 | 12 |

**Committee membership and meetings**

The members of the Committees are the independent directors, Andrew Daley (Chairman) and John Barr. Two meetings of the Audit and Compliance Committee were held during the year, and they were attended by both members. One meeting was held by the Remuneration Committee during the year, attended by both members.

**CORPORATE INFORMATION**

**Principal activities**

The principal activity of the consolidated entity during the financial year was exploration for gold and base metals in the Kyrgyz Republic.

**Employees**

The consolidated entity employed 35 employees as at 31 December 2008 (2007: 10 employees).

**DIVIDENDS**

No dividends in respect of the current financial year have been paid, declared or recommended for payment.

## OPERATING AND FINANCIAL REVIEW

***Group overview***

Kentor Gold Limited was established in May 1998 for the purpose of exploring for and developing gold properties in the Kyrgyz Republic and was listed with the Australian Stock Exchange on 17 March 2005.

***Financial overview***

*Operating results for the period*
The loss for the consolidated entity after income tax was $5,233,628 (2007: loss of $926,564). This result was in line with expectations of costs associated with managing the exploration programme. The loss included a provision for the impairment and relinquishment of exploration assets of $3,266,529. The loss also included $410,966 of due diligence costs from the Khantau project which the Company decided not to pursue.

*Review of financial condition*

During the year, the Company continued its exploration programme in the Kyrgyz Republic through its foreign controlled entity CJSC Kentor.

*Cash flows*

The cash flows of the Company consist of: in the case of the foreign controlled entity, payments to employees and suppliers for exploration activities on tenements held; and the maintenance of the corporate head office which manages existing projects as well as costs involved in investigating new exploration opportunities.

## CAPITAL RAISINGS / CAPITAL STRUCTURE

During the year, the Company raised $5,140,006 of equity (net of capital raising costs) to fund the continuation of the Company's drilling programme and to provide working capital for the company.

The directors note that $1,350,000 had been received in December 2007 for the issue of 7,500,000 shares in January 2008.

***Summary of shares and options on issue – 31 December 2008***

At 31 December 2008 there were 95,088,129 (2007 : 60,988,129) ordinary shares and 7,100,000 (2007: 3,966,667) unissued ordinary shares in respect of which the options listed below were outstanding

| ***Unlisted options*** | ***Number*** | ***In escrow*** | ***Exercise price*** | ***Number of ordinary shares under options*** |
|---|---|---|---|---|
| On or before 31 May 2012 | 100,000 | | $0.60 | 100,000 |
| On or before 31 May 2012 | 100,000 | | $0.80 | 100,000 |
| On or before 31 May 2011 | 100,000 | | $1.00 | 100,000 |
| On or before 31 May 2009 | 2,500,000 | | 20c to 31 May 2008; 30c thereafter | 2,500,000 |
| On 30 June 2011 | 500,000 | | nil | 500,000 |
| ***Unlisted executive options*** | | | | |
| 30 days after ceasing employment | 300,000 | | $0.625 | 300,000 |
| 30 days after ceasing employment | 300,000 | | $0.75 | 300,000 |
| 30 days after ceasing employment | 300,000 | | $0.875 | 300,000 |
| 30 days after ceasing employment | 1,000,000 | | 0.20 | 1,000,000 |
| 30 days after ceasing employment | 950,000 | | 0.25 | 950,000 |
| 30 days after ceasing employment | 950,000 | | 0.30 | 950,000 |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial year.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since 31 December 2008 which has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in subsequent financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Board of Directors intends to continue with the exploration programme in the Kyrgyz Republic focussing primarily on the Savoyardy gold project and the Geothermal tenements. The Company also intends to complete a prefeasibility study on the Savoyardy project with a view to commencing production in early 2010.

## ENVIRONMENTAL REGULATION

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

The company's Kyrgyz based entities are subject to the relevant laws and regulations imposed by the Kyrgyz government. Additionally, the Kyrgyz Republic is a contracting party to a number of international environmental conventions.

Kentor's projects are subject to annual reviews by the Kyrgyz government inspectors and have in all instances been found to be in full compliance.

## REMUNERATION REPORT (AUDITED)

### REMUNERATION PHILOSOPHY

The Board of Directors of Kentor Gold Limited is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the executive team. The Board's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms, including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the Company.

To assist in achieving these objectives, the Board intends to link the nature and amount of executive officers' emoluments to the Company's financial and operational performance. No formal plan has been adopted at this time.

Employment agreements are entered into with executive directors and specified executives. The current employment contract with the managing director will terminate on 13 May 2009 and is at present under discussion. The employment contract with the Executive Director is automatically renewed for 6 months periods unless the Company gives notice of termination between 60 and 90 days prior to the expiry of the current extension period. Contracts do not provide for any additional termination benefits.

### REMUNERATION COMMITTEE

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and executives.

### REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

### NON-EXECUTIVE DIRECTOR REMUNERATION

***Objective***

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

***Structure***

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was confirmed by shareholders at the annual general meeting on 22 May 2008. The fee pool was increased to $200,000 as at this point the directors were contemplating the appointment of an additional director. The Board has decided to delay the decision on increasing the size and has maintained the fees paid to directors at current levels..

The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. Directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services.

Non-executive directors have long been encouraged by the Board to hold shares in the Company. It is considered good governance for directors to have a stake in the company on whose Board he or she sits.

**SENIOR EXECUTIVE REMUNERATION**

***Objective***

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

***Structure***

In determining the level and make-up of executive remuneration, the Board obtained independent advice from external consultants on market levels of remuneration for comparable executive roles. It is the Board's policy that employment contracts are entered into with the all senior executives.

**VARIABLE REMUNERATION – LONG TERM INCENTIVES**

***Objective***

The objectives of long term incentives are to:

- recognise the ability and efforts of the employees of the Company who have contributed to the success of the company and to provide them with rewards where deemed appropriate;
- provide an incentive to the employees to achieve the long term objectives of the Company and improve the performance of the Company; and
- attract persons of experience and ability to employment with the Company and foster and promote loyalty between the Company and its employees.

***Structure***

The Company has implemented long term incentives granted to senior executives in the form of options in accordance with an Employee Share Option Plan, approved by shareholders on 22 May 2008. Hurdle prices have been built into the options requiring Kentor shares to trade above a certain price, for a certain period before the options can be exercised. This therefore aligns the Executives' ability to achieve growth in shareholder value with the executives' remuneration.

**EMPLOYMENT CONTRACTS**

**Simon Milroy**

By an employment agreement dated 8 May 2007 the Company and Mr Simon Milroy agreed the terms of his employment includes *inter alia*:

- Mr Milroy is engaged to provide services in the capacity of Managing Director commencing on 14 May 2007 for a term ending on 13 May 2009 at an annual salary of $214,000 (increased from 200,000 per annum effect 1 July 2008).
- A restraint for a period of 6 months after termination on Mr Milroy undertaking employment in the Kyrgyz Republic or within 5 kilometres of any mining tenements or applications in Uzbekistan, Kazakhstan, China or the Northern Territory of Australia in which the Company has any interest.
- The granting of 2,000,000 options in 3 tranches:
  1. 700,000 options exercisable at 20c following a continuous 30 day period where Kentor shares have traded at or above 25c per share
  2. 650,000 options exercisable at 25c following a continuous 30 day period where Kentor shares have traded at or above 30c per share
  3. 650,000 options exercisable at 30c following a continuous 30 day period where Kentor shares have traded at or above 40c per share

The options are not transferable and may be exercised at any time during employment and for 30 days after cessation of employment, after which they lapse. They will not be quoted.

- In addition Mr Milroy's contract provided for the following bonuses:
  1. $30,000 on the execution of an agreement which brings a significant new project into the company within one year of commencement date
  2. $30,000 on the intersection of greater than 10 gram metres in a single hole within the Akbel or Bashkol licence areas within one year of commencement date
  3. $30,000 on the increase of more than 50% of the company's share price within one year of commencement date.

  The time period for qualification for the bonuses expired in May 2008

**Hugh McKinnon**

By an employment agreement dated 1 December 2004 and subsequent deeds of variation , the Company and Mr Hugh McKinnon agreed the terms of his employment includes *inter alia*:

- Mr McKinnon is engaged to provide services in the Kyrgyz Republic in the capacity of Executive Director and Country Manager for a term ending on 30 June 2007, renewable thereafter for 6 months periods at a current annual salary of AUD $135,000 with annual review. His place of employment is in the Kyrgyz Republic.
- Mr McKinnon's salary was increased to AUD$145,125 effective 1 July 2008. It was also agreed that Mr. McKinnon's salary would be paid in US dollars at a fixed exchange rate of $0.75 to mitigate the influence of exchange rates on the remuneration.
- A restraint on Mr McKinnon undertaking employment in the Kyrgyz Republic for a period of 6 months after termination.
- The grant of 900,000 options on commencement of employment to a company associated with Mr McKinnon in 3 tranches:
  1. 300,000 options exercisable at $0.625
  2. 300,000 options exercisable at $0.75
  3. 300,000 options exercisable at $0.875

The options are not transferable and may be exercised at any time during employment and for 30 days after cessation of employment, after which they lapse. They will not be quoted.

- In May 2008 a further 900,000options were granted:
  1. 300,000 options exercisable at 20c following a continuous 30 day period where Kentor shares have traded at or above 25c per share
  2. 300,000 options exercisable at 25c following a continuous 30 day period where Kentor shares have traded at or above 30c per share
  3. 300,000 options exercisable at 30c following a continuous 30 day period where Kentor shares have traded at or above 40c per share

**REMUNERATION OF NON-EXECUTIVE DIRECTORS**

**John Barr**

By mutual agreement approved by the board of directors, Mr John Barr is engaged to provide services as a Non-executive Director, with an annual fee of $80,000 plus $7,200 superannuation subject to annual review.

**Andrew Daley**

By mutual agreement approved by the board of directors, Mr Andrew Daley is engaged to provide services as a Non-executive Director through his company Dalenier Enterprises Pty Ltd, with an annual fee of $54,500 subject to annual review.

**REMUNERATION OF DIRECTORS AND EXECUTIVES**

The directors and key management personnel received the following compensation for their services to the company during the year.

| | **Short-term** | **Post employment** | **Share-based Payment** | **Total** |
|---|---|---|---|---|
| | Salary & fees | Superannuation | Options | |
| **Year ended 31 December 2008** | $ | $ | $ | **$** |
| **Directors** | | | | |
| W.H.J. Barr | **-** | **87,200** | **-** | **87,200** |
| S. J. Milroy | **186,750** | **21,062** | **7,897** | **215,709** |
| A.E. Daley* | **54,500** | **-** | **-** | **54,500** |
| H. McKinnon | **142,156** | | **7,548** | **149,704** |
| D.Z. Royle | **-** | **-** | **-** | **-** |
| **Other key management personnel** | | | | |
| C. Irvine | **117,127** | **10,541** | **2,202** | **129,870** |
| K. Anderson** | **65,042** | **-** | **-** | **65,042** |
| | **565,575** | **118,803** | **17,647** | **702,025** |

| | **Short-term** | **Post employment** | **Share-based Payment** | **Total** |
|---|---|---|---|---|
| | Salary & fees | Superannuation | Options | |
| **Year ended 31 December 2007** | $ | $ | $ | **$** |
| **Directors** | | | | |
| W.H.J. Barr | 15,000 | 61,300 | - | 76,300 |
| S. J. Milroy | 112,500 | 12,500 | - | 125,000 |
| A.E. Daley* | 43,600 | - | - | 43,600 |
| H. McKinnon | 140,417 | - | - | 140,417 |
| D.Z. Royle | 46,667 | 4,200 | - | 50,867 |
| **Other key management personnel** | | - | - | |
| Greg Burgess | 33,458 | | - | 33,458 |
| | 391,642 | 78,000 | - | 469,642 |

* Directors fees were paid to Dalenier Enterprises Pty Ltd, a company which is controlled by Andrew Daley.
**Company secretary Fees paid to Andersson Lyne Pty Ltd, a company controlled by Kylie Anderson

**Options granted as part of remuneration**
**Executive options**

3,800,000 options over unissued shares of the company were granted during the year.

Information with respect to the number of options granted is as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| Balance at beginning of year | **900,000** | **$0.74** | 2,266,667 | $0.74 |
| - granted | **3,800,000** | **$0.25** | - | - |
| - lapsed/exercised | **(900,000)** | **$0.35** | (1,366,667) | $0.74 |
| Balance at end of year | **3,800,000** | **$0.37** | 900,000 | $0.74 |

Options held at the beginning and end of the reporting year

| **No. of options** | **Grant date** | **Vesting date** | **Expiry date** | **Weighted average exercise price** $ | **Fair value at grant date** $ |
|---|---|---|---|---|---|
| *At 31 December 2008* | | | | | |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.625 | 0.0294 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.75 | 0.0216 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.875 | 0.0162 |
| 1,000,000 | 30 May 2008 | 30 May 2008 | n/a* | 0.20 | 0.028 |
| 950,000 | 30 May 2008 | 30 May 2008 | n/a* | 0.25 | 0.02 |
| 950,000 | 30 May 2008 | 30 May 2008 | n/a* | 0.30 | 0.011 |
| *At 31 December 2007* | | | | | |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.625 | 0.0294 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.75 | 0.0216 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.875 | 0.0162 |

* The options have no expiry date except, in the event of the cessation of employment, 30 days after the date of cessation of employment.

The fair value of the options were determined using a binomial model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

No options were exercised during the reporting period (2007 ; NIL)

**This is the end of the audited remuneration report.**

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has entered into Deeds of Indemnity with the directors and the company secretary, indemnifying them against certain liabilities and costs to the extent permitted by law.

The company has also agreed to pay a premium in respect of a contract insuring the directors and officers of the company. Full details of the cover and premium are not disclosed in this report as the insurance policy prohibits the disclosure.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The auditor's independence declaration is included on page 9 of the annual report.

### Non-audit services

No non-audit services were provided by the entity's auditor, BDO Kendalls.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors

John Barr

**WJ Barr**
Director
Melbourne
Dated 30th March 2009

BDO Kendalls

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**DECLARATION OF INDEPENDENCE BY ANTHONY WHYTE TO THE DIRECTORS OF KENTOR GOLD LIMITED**

As lead auditor of Kentor Gold Limited for the year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kentor Gold Limited and the entities it controlled during the year.

**BDO Kendalls (QLD)**
**Chartered Accountants**

**A J Whyte**
Partner

Brisbane
Dated: 30 March 2009

# KENTOR GOLD LIMITED and controlled entities
# ABN 52 052 658 080

## INCOME STATEMENT
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | $ | $ | $ | $ |
| Revenue | 2 | **143,077** | 119,126 | **137,039** | 112,250 |
| Foreign exchange gains/(losses) | | **4,585** | 391,850 | **16,930** | (27,162) |
| Employment related costs | | **(713,236)** | (499,521) | **(634,677)** | (438,557) |
| Depreciation and amortisation expense | | **(45,966)** | (31,744) | **(22,327)** | (12,648) |
| Office expenses | | **(99,419)** | (45,431) | **(74,777)** | (21,351) |
| Travel related expenses | | **(181,331)** | (102,145) | **(172,133)** | (101,692) |
| Corporate expenses | | **(550,208)** | (287,100) | **(454,120)** | (277,568) |
| Finance costs | | - | (66) | - | - |
| Share-based payments – equity settled | | **(23,647)** | (65,556) | **(23,647)** | (65,556) |
| Impairment of amount receivable from foreign controlled entity | | **-** | - | **(3,421,476)** | (182,596) |
| Impairment of investment in controlled entity | | **-** | - | **-** | (88,429) |
| Impairment of exploration and evaluation costs | | **(3,266,529)** | (341,899) | **-** | (54,271) |
| Due diligence costs | | **(410,966)** | - | **(410,966)** | - |
| Other expenses | | **(89,988)** | (35,758) | **(83,001)** | (35,841) |
| Loss before income tax expense | 2 | **(5,233,628)** | (898,244) | **(5,143,154)** | (1,193,421) |
| Income tax expense | 3 | **-** | (28,320) | **-** | - |
| **Net loss attributable to members of Kentor Gold Limited** | | **(5,233,628)** | (926,564) | **(5,143,154)** | (1,193,421) |
| | | | | | |
| Basic earnings per Share (cents per share) | 4 | **(6.25)** | (1.83) | | |
| Diluted earnings per Share (cents per share) | 4 | **(6.25)** | (1.83) | | |

This financial statement should be read in conjunction with the accompanying notes.

## KENTOR GOLD LIMITED and controlled entities
## ABN 52 052 658 080

**BALANCE SHEET**
**AS AT 31 DECEMBER 2008**

| | Note | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 17(b) | **1,164,058** | 2,456,323 | **1,115,181** | 2,444,831 |
| Trade and other receivables | 5 | **66,127** | 70,287 | **33,314** | 61,071 |
| **Total current assets** | | **1,230,185** | 2,526,610 | **1,148,494** | 2,505,902 |
| **Non-current assets** | | | | | |
| Trade and other receivables | 6 | **-** | - | **2,054,650** | 4,328,021 |
| Plant and equipment | 7 | **223,718** | 167,040 | **71,512** | 49,701 |
| Deferred exploration and evaluation costs | 8 | **4,717,879** | 4,625,694 | **2,844,200** | 573,268 |
| Other financial assets | 9 | **-** | - | **27,135** | 38,703 |
| Other non-current assets | 10 | **629,235** | 465,077 | **-** | - |
| **Total non-current assets** | | **5,570,832** | 5,257,811 | **4,997,498** | 4,989,693 |
| **Total assets** | | **6,801,017** | 7,784,421 | **6,145,992** | 7,495,595 |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | **114,968** | 162,262 | **89,178** | 109,708 |
| Other liabilities | 12 | **-** | 1,350,000 | **-** | 1,350,000 |
| **Total current liabilities** | | **114,968** | 1,512,262 | **89,178** | 1,459,708 |
| **Non-current liabilities** | | | | | |
| Other long-term liabilities | 13 | **243,338** | - | **-** | 11,571 |
| **Total non-current liabilities** | | **243,338** | - | **-** | 11,571 |
| **Total liabilities** | | **358,307** | 1,512,262 | **89,178** | 1,471,279 |
| **Net assets** | | **6,442,710** | 6,272,159 | **6,056,814** | 6,024,316 |
| **Equity** | | | | | |
| **Parent entity interest** | | | | | |
| Issued capital | 14 | **17,366,969** | 12,226,963 | **17,366,969** | 12,226,963 |
| Reserves | 15 | **(430,273)** | (694,448) | **143,503** | 107,856 |
| Accumulated losses | | **(10,493,984)** | (5,260,356) | **(11,453,657)** | (6,310,503) |
| **Total equity** | | **6,442,710** | 6,272,159 | **6,056,814** | 6,024,316 |

This financial statement should be read in conjunction with the accompanying notes.

## KENTOR GOLD LIMITED and controlled entities
## ABN 52 052 658 080

### STATEMENT OF CHANGES IN EQUITY
### FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

| CONSOLIDATED | Share Capital | Share Option Reserve | Foreign Currency Reserve | Accumulated Losses | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 1 January 2008** | **12,226,963** | **107,856** | **(802,304)** | **(5,260,356)** | **6,272,159** |
| **Share issue costs** | **(199,994)** | **-** | **-** | **-** | **(199,994)** |
| **Currency translation** | **-** | **-** | **228,527** | **-** | **228,527** |
| **Loss for the period** | **-** | **-** | **-** | **(5,233,628)** | **(5,233,628)** |
| **Total recognised income and expenses** | **(199,994)** | **-** | **228,527** | **(5,233,628)** | **(5,205,095)** |
| **Issue of shares** | **5,340,000** | **-** | **-** | **-** | **5,340,000** |
| **Share based payments** | **-** | **35,647** | **-** | **-** | **35,647** |
| **Balance at 31 December 2008** | **17,366,969** | **143,503** | **(573,776)** | **(10,493,984)** | **6,442,711** |
| | | | | | |
| Balance at 1 January 2007 | 9,666,630 | 42,300 | (905,168) | (4,211,914) | 4,591,848 |
| Share issue costs | (233,412) | - | - | - | (233,412) |
| Currency translation differences | - | - | (266,857) | - | (266,857) |
| Prior year adjustment (see note 7 & 8) | - | - | 247,843 | - | 247,843 |
| Loss for the period | - | - | - | (926,564) | (926,564) |
| Total recognised income and expenses | (233,412) | - | (19,014) | (926,564) | (1,178,990) |
| Issue of shares | 2,600,000 | - | - | - | 2,600,000 |
| Issue of shares for services performed | 193,745 | - | - | - | 193,745 |
| Share based payments | - | 65,556 | - | - | 65,556 |
| Transfer to retained earnings | - | - | 121,878 | (121,878) | - |
| Balance at 31 December 2007 | 12,226,963 | 107,856 | (802,304) | (5,260,356) | 6,272,159 |

# KENTOR GOLD LIMITED and controlled entities
# ABN 52 052 658 080

### STATEMENT OF CHANGES IN EQUITY (CONT)
### FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

| COMPANY | Share Capital | Share Option Reserve | Foreign Currency Reserve | Accumulated Losses | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 1 January 2008** | **12,226,963** | **107,856** | **-** | **(6,310,503)** | **6,024,316** |
| **Share issue costs** | **(199,994)** | | **-** | **-** | **(199,994)** |
| **Loss for the period** | **-** | **-** | **-** | **(5,143,154)** | **(5,143,154)** |
| **Total recognised income and expenses** | **(199,994)** | **-** | | **(5,143,154)** | **(5,343,148)** |
| **Issue of shares** | **5,340,000** | **-** | **-** | **-** | **5,340,000** |
| **Share based payments** | **-** | **35,647** | **-** | **-** | **35,647** |
| **Balance at 31 December 2008** | **17,366,969** | **143,503** | **-** | **(11,453,657)** | **6,056,815** |
| | | | | | |
| Balance at 1 January 2007 | 9,666,630 | 42,300 | (121,878) | (4,995,204) | 4,591,848 |
| Share issue costs | (233,412) | - | - | - | (233,412) |
| Loss for the period | - | - | - | (1,193,421) | (1,193,421) |
| Total recognised income and expenses | (233,412) | - | - | (1,193,421) | (1,426,833) |
| Issue of shares | 2,600,000 | - | - | - | 2,600,000 |
| Issue of shares for services performed | 193,745 | - | - | - | 193,745 |
| Share based payments | - | 65,556 | - | - | 65,556 |
| Transfer to retained earnings | - | - | 121,878 | (121,878) | - |
| Balance at 31 December 2007 | 12,226,963 | 107,856 | - | (6,310,503) | 6,024,316 |

This financial statement should be read in conjunction with the accompanying notes.

# KENTOR GOLD LIMITED and controlled entities
# ABN 52 052 658 080

## CASH FLOW STATEMENT
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2008** $ | 2007 $ | **2008** $ | 2007 $ |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **11,000** | 63,817 | **11,000** | 42,870 |
| Payments to suppliers and employees | | **(2,241,440)** | (833,707) | **(1,794,516)** | (753,713) |
| Interest received | | **133,077** | 69,380 | **127,039** | 69,380 |
| Interest paid | | **-** | (66) | **-** | (66) |
| **Net cash used in operating activities** | 17(a) | **(2,097,363)** | (700,576) | **(1,656,477)** | (641,529) |
| **Cash flows from investing activities** | | | | | |
| Purchase of plant and equipment | | **(102,644)** | (74,015) | **(44,138)** | (35,788) |
| Proceeds from sale of plant and equipment | | **-** | 500 | **-** | 500 |
| Payment for exploration costs | | **(3,130,186)** | (1,992,510) | **(2,270,936)** | (627,536) |
| Funds advanced to subsidiary | | **-** | - | **(1,148,104)** | (1,461,826) |
| Proceeds from Farm-in | | **243,338** | - | **-** | - |
| **Net cash used in investing activities** | | **(2,989,492)** | (2,066,025) | **(3,463,178)** | (2,124,650) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of ordinary shares | | **3,990,000** | 3,923,000 | **3,990,000** | 3,923,000 |
| Payment of share issue costs | | **(199,994)** | (165,911) | **(199,994)** | (165,911) |
| **Net cash provided by financing activities** | | **3,790,006** | 3,757,089 | **3,790,006** | 3,757,089 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,296,849)** | 990,488 | **(1,329,649)** | 990,910 |
| Cash and cash equivalents at the beginning of the financial year | | **2,456,323** | 1,465,255 | **2,444,831** | 1,453,921 |
| Effects of currency rate changes on the balance of cash held in foreign currencies | | **4,585** | 580 | **-** | - |
| **Cash and cash equivalents at the end of the financial year** | 17(b) | **1,164,059** | 2,456,323 | **1,115,181** | 2,444,831 |

This financial statement should be read in conjunction with the accompanying notes.

**Note Contents**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

Kentor Gold Limited is a listed public company, limited by shares, incorporated and domiciled in Australia,

## 1 Summary of significant accounting policies

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on xx March 2009.

### Basis of preparation

The financial report has been prepared on a historical cost basis.
The financial report is presented in Australian dollars.
The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) **Adoption of new and revised Accounting Standards**

No new or revised Australian Accounting Standards that have been issued but are not yet effective have been applied in the preparation of this financial report. Such standards are not expected to have a material impact on the company's financial report on initial application.

(b) **Principles of consolidation**

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. A list of subsidiaries appears in note 9(i) to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

In the company's financial statements, investments in subsidiaries are carried at cost less any impairment.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since then. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make additional investments to cover the losses.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(c) **Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase method.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

(d) **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest Income*
Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

*Other income*
Other revenue is recognised at the completion of the transaction when the company's right to receive payment has been established

(e) **Income tax**

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
The Company is not consolidated for tax purposes.

(f) **Share-based payments**

Equity settled share-based payments with employees and directors are measured at fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the share-based payments is expensed on a straight line basis over the vesting period with a corresponding increase in equity.
No expense is recognised for awards that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met. Where options are cancelled, they are treated as if it had vested on the date of cancellation and any unrecognised expenses are taken immediately to the income statement. However, if new options are substituted for the cancelled options and

designated as a replacement on grant date, the combined impact of the cancellation and replacement option are treated as if they were a modification.
Equity settled share-based payment transactions with other parties are measured at fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date goods or services were obtained.

(g) **Goods and services tax (GST) and value added tax (VAT)**

Revenues, expenses and assets are recognised net of the amount of GST and VAT except:

- where the GST and VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST and VAT included.

The net amount of GST and VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST and VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST and VAT recoverable from, or payable to, the taxation authority.

(h) **Foreign currency**

Foreign currency transactions and balances
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Foreign operations
On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

Functional Currency
The functional currency of the group and the parent entity is Australian Dollars. The subsidiaries domiciled in the Kyrgyz Republic have Soms as their functional currency. The majority of transactions in the subsidiaries are transacted in the Kyrgyz Som.

(i) **Cash and cash equivalents**

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks, and money market investments readily converted to cash, net of outstanding bank overdrafts.

(j) **Financial assets**

Financial Assets
Financial assets are recognised and derecognised on trade date where purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Financial assets are classified into the following specified categories: 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets
Interest in subsidiaries held by the parent entity are classified as being available-for-sale and are measured at cost less impairment.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.
Interest is recognised by applying the effective interest rate.

Intercompany loan receivable
The carrying value of the inter company loan receivable is assessed with reference to the net assets of the subsidiary company that support the recovery of the loan amount.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where 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 financial asset have been impacted. Evidence of impairment may include balances outstanding for more than 60 days. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Receivables are deemed to be uncollectible when there is no expectation of recovering further payment. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss as impairment looses which is included as a separate line in the Income Statement.

With the exception of available-for-sale equity instruments, 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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(k) **Exploration and evaluation assets**

The consolidated entity applies AASB 6 *Exploration For and Evaluation of Mineral Resources.* Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against operating results in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

*Farm* In
Where the company is earning equity in a third party company through exploration expenditure (Farm-in), that expenditure is recorded as capitalised exploration costs until the requirements for the transfer of equity is met. When the requirements for transfer of equity are met, the capitalised exploration costs will be recognised as an investment in a subsidiary in the parent entity.

Farm Out
Where a third party is earning equity in one of the entity's subsidiaries, that expenditure is recorded as capitalised exploration expenditure and a long term liability until the requirements for transfer of equity are met. When the requirements for transfer of equity are met, the capitalised long term liability will be transferred to proceeds on sale of equity interest in a subsidiary.

(l) **Significant accounting judgement, estimates and assumptions**

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities made within the next annual reporting period are:

*Exploration and Evaluation*
The Board of Directors determine when an area of interest should be abandoned. When a decision is made that an area of interest is not commercially viable, all costs that have been capitalised in respect of that area of interest are written off. The Director's decision is made after considering the likelihood of finding commercially viable outcomes.

*Going concern*
Refer to note 1(v)

*VAT Paid*
The recovery of VAT paid is dependent on the Group incurring sufficient tax liabilities in the Kyrgyz Republic against which the VAT paid can be offset. Refer to note 10 for further detail.

(m) **Impairment of non-financial assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) **Plant and equipment**

*i) Acquisition*
Items of plant and equipment are initially recorded at cost and depreciated as outlined below.

*ii) Depreciation*
Plant & equipment and computer equipment are depreciated on a straight line basis at rates based upon the expected useful lives of these assets. The expected useful lives of these assets are 3-6 years (2007: 3-6 years).

(o) **Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating Leases*
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

(p) **Payables**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(q) **Issued capital**

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(r) **Share based payments**

The Consolidated entity measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a black-scholes using the assumptions in note 18.

(s) **Employee benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

(t) **Earnings per share ("EPS")**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:
- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(u) **Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(v) **Going concern basis**

The consolidated entity is involved in the exploration and evaluation of mineral tenements and as such expects to be cash absorbing until these tenements demonstrate that they contain economically recoverable reserves.

As at 31 December 2008, the group recorded accumulated losses from continuing operations after taxation of $10,493,984. In addition, the company had incurred negative cashflows from operations of $2,097,363 and negative cashflows from investing activities of $2,989,492 in the financial year and has a surplus of current assets over current liabilities of $1,115,217 as at 31 December 2008.

Notwithstanding the above, the financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The company is in the process of preparing a Pre-feasibility Study (PFS) on the Savoyardy Gold Project and all indications at this point are that there will be a positive outcome from this study. It is the company's intention following completion of the PFS, to, in the first instance, approach sophisticated and institutional investors to take part in a placement to fund the development of the project and provide working capital to the company.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding and the consolidated entity's and company's ability to effectively manage their expenditures and cashflows from operations, the directors believe that the consolidated entity and company will continue to operate as a going concern for at least the next 12months from the date of signing of this report and therefore it is appropriate to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is uncertainty whether the consolidated entity and company will continue to operate as going concerns. If the consolidated entity and company are unable to continue as going concerns they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the consolidated entity and company not continue as going concerns.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |

## 2. Revenue and expenses

### (a) Revenue

| | | | | |
|---|---|---|---|---|
| *Revenue from continuing operations consisted of:* | | | | |
| **Interest –other persons/corporations – loans and receivables** | **133,077** | 69,380 | **127,039** | 69,380 |
| Other revenue | **10,000** | 49,746 | **10,000** | 42,870 |
| Total revenue from continuing operations | **143,077** | 119,126 | **137,039** | 112,250 |
| **Total revenue** | **143,077** | 119,126 | **137,039** | 112,250 |

### (b) Loss before income tax

| | | | | |
|---|---|---|---|---|
| Loss before income tax has been arrived at after crediting/(charging) the following expenses, gains and losses | | | | |
| Depreciation and amortisation | **(45,966)** | (31,744) | **(22,327)** | (12,648) |
| Finance cost – Other persons/corporations | **-** | (66) | **-** | (66) |
| Operating lease payments – minimum lease payments | **(65,472)** | (8,023) | **(65,472)** | (8,023) |

### (c) Significant items

| | | | | |
|---|---|---|---|---|
| Due diligence costs | **(410,966)** | - | **(410,966)** | - |
| Impairment of exploration and evaluation costs | **(3,266,529)** | (341,899) | **-** | (54,271) |

## 3. Income tax

### (a) Income tax recognised in profit and loss

| | | | | |
|---|---|---|---|---|
| Current tax expense | **-** | **28,320** | **-** | - |

### (b) Reconciliation of prima facie income tax to income tax expense

| | | | | |
|---|---|---|---|---|
| Loss from continuing operations | **(5,233,628)** | (898,244) | **(5,143,154)** | (1,193,421) |
| Income tax expense (benefit) calculated at 30% | **(1,570,088)** | (269,473) | **(1,542,946)** | (358,026) |
| Effect of expenses that are not deductible in determining taxable profit or loss | **972,864** | 19,667 | **(7,094)** | 19,667 |
| Effect of impairment losses on receivables that are not deductible | **-** | - | **1,026,443** | 54,779 |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | **597,224** | 278,126 | **523,597** | 283,580 |
| | - | 28,320 | - | - |

### (c) Gross tax losses not brought to account

| | | | | |
|---|---|---|---|---|
| Prior year tax losses bought forward | **3,784,248** | 1,614,951 | **3,784,248** | 1,303,841 |
| Current year tax losses | **597,224** | 278,126 | **523,597** | 283,580 |
| Prior year tax losses adjustment | **(20,553)** | 1,891,171 | **(20,553)** | 2,196,827 |
| Closing balance | **4,360,920** | 3,784,248 | **4,287,293** | 3,784,248 |

This future income tax benefit will only be obtained if:
(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |

### 4. Earnings per share

The following reflects the income and share data used in calculating basic and diluted earnings per share:

| | **2008** | 2007 |
|---|---|---|
| Net loss | **5,233,628** | $926,564 |
| Basic and diluted loss per share (cents per share) | **6.25** | 1.83 |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share | **83,719,362** | 50,532,065 |

Diluted earnings per share is calculated after classifying all options on issue remaining unconverted at 31 December 2008 as potential ordinary shares. At 31 December 2008, the company has on issue 7,100,000 options (2007: 3,966,667 options) over unissued capital and has incurred a net loss. As the notional exercise price of these options is significantly greater than the current market price of the shares they have not been included in the calculations of diluted earnings per share. These options are anti dilutive as the group is in a loss situation.

### 5. Trade and other receivables – current

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| GST receivable (net) | **21,499** | 11,012 | **21,499** | 11,012 |
| Other receivables | **14,105** | 42,255 | **11,815** | 33,039 |
| Prepayments | **30,523** | 17,020 | **-** | 17,020 |
| | **66,127** | 70,287 | **33,314** | 61,071 |

Terms and conditions relating to the above financial instruments

(i) Other receivables are non interest bearing and have repayment terms between eight and ninety days.

(ii) Details of the terms and conditions of any related party receivables are set out in Note 21.

(iii) No receivables are past due or impaired at year end.

### 6. Trade and other receivables – non current

| | Consolidated 2008 | Consolidated 2007 | Company 2008 | Company 2007 |
|---|---|---|---|---|
| Amount receivable from foreign controlled entity | - | - | **7,834,839** | 6,686,734 |
| Less impairment | - | - | **(5,780,189)** | (2,358,713) |
| | - | - | **2,054,650** | 4,328,021 |
| **Impairment** | | | | |
| Balance at beginning of financial year | - | - | **(2,358,713)** | (2,176,117) |
| Increase in impairment | - | - | **(3,421,476)** | (182,596) |
| Balance at end of financial year | - | - | **(5,780,189)** | (2,358,713) |

The Company has impaired the amount receivable from the foreign controlled entity CJSC Kentor (80%) at year end. The impairment was determined by calculating the difference between the Net Assets of CJSC Kentor and the amount receivable from the entity in Australian dollars.

## 7. Plant and equipment

| | Consolidated | | | Company | | |
|---|---|---|---|---|---|---|
| | Plant & Equipment | Computer Equipment | Total | Plant & Equipment | Computer Equipment | Total |
| | $ | $ | $ | $ | $ | $ |
| **Year ended 31 December 2008** | | | | | | |
| At 1 January 2008, net of accumulated depreciation | **146,114** | **20,926** | **167,040** | **36,460** | **13,241** | **49,701** |
| Additions | **101,017** | **1,627** | **102,644** | **42,511** | **1,627** | **44,138** |
| Disposals | **-** | **-** | **-** | **-** | | |
| Depreciation | **(37,795)** | **(8,171)** | **(45,966)** | **(14,156)** | **(8,171)** | **(22,327)** |
| At 31 December 2008, net of accumulated depreciation | **209,336** | **14,382** | **223,718** | **64,815** | **6,697** | **71,512** |
| **At 31 December 2008** | | | | | | |
| Cost | 428,689 | 59,703 | 488,392 | 93,567 | 52,019 | 145,586 |
| Accumulated depreciation | (219,353) | (45,321) | (264,674) | (28,752) | (45,321) | (74,074) |
| Net carrying amount | **209,336** | **14,382** | **223,718** | **64,815** | **6,697** | **71,512** |
| **Year ended 31 December 2007** | | | | | | |
| At 1 January 2007, net of accumulated depreciation | 123,000 | 24,879 | 147,879 | 9,867 | 17,194 | 27,061 |
| Additions | 71,377 | 2,638 | 74,015 | 33,150 | 2,638 | 35,788 |
| Disposals | (305) | (195) | (500) | (305) | (195) | (500) |
| Depreciation | (39,000) | (6,396) | (45,396) | (6,252) | (6,396) | (12,648) |
| Prior period adjustment | (8,958) | - | (8,958) | - | - | - |
| At 31 December 2007, net of accumulated depreciation | **146,114** | **20,926** | **167,040** | **36,460** | **13,241** | **49,701** |
| **At 31 December 2007** | | | | | | |
| Cost | 298,299 | 58,077 | 356,376 | 51,056 | 50,391 | 101,447 |
| Accumulated depreciation | (152,185) | (37,151) | (189,336) | (14,596) | (37,150) | (51,746) |
| Net carrying amount | **146,114** | **20,926** | **167,040** | **36,460** | **13,241** | **49,701** |

The prior year adjustment arises from incorrect rates being used for the conversion of property, plant and equipment in the foreign based subsidiaries and the inclusion of previously un-consolidated subsidiaries.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | $ | $ | $ | $ |
| **8. Deferred exploration and evaluation costs** | | | | |
| Balance at beginning of the year | **4,625,694** | 2,725,968 | **573,265** | - |
| Current year expenditure | **3,358,714** | 1,984,824 | **2,270,936** | 627,536 |
| Impairment of area of interest | **(3,266,529)** | (341,899) | **-** | (54,271) |
| Prior year adjustment | **-** | 256,801 | **-** | - |
| Balance at end of the year | **4,717,880** | 4,625,694 | **2,844,200** | 573,265 |

Ultimate recovery of deferred exploration and evaluation costs is dependent upon success in exploration and evaluation or sale or farm-out of the exploration interests.

The impairment recognised for the year ended 31 December 2008 reflects an abandonment of the Chaar kuduk and Yangidavan areas of interest and a write-down of the Akbel area of interest.

The prior year adjustment arises from incorrect rates being used for the conversion of capitalised exploration in the foreign based subsidiaries and the inclusion of previously un-consolidated subsidiaries.

**9. Other financial assets – non current**

| | | | | |
|---|---|---|---|---|
| Investment in foreign controlled entities at cost (i) | **-** | - | **27,135** | 27,135 |
| Investment in domestic controlled entity at cost (ii) | | | | |
| - Shares in Dunmarra Uranium Ltd | **-** | - | **100,000** | 100,000 |
| - Impairment | **-** | - | **(100,000)** | (88,429) |
| | **-** | - | **27,135** | 38,706 |

(i) Details of investment in foreign controlled entities are:

| | Country of Incorporation | **2008 % Held** | 2007 % Held |
|---|---|---|---|
| CJSC Kentor | Kyrgyz Republic | **80%** | 80% |
| CJSC Kyldoo | Kyrgyz Republic | **80%** | 80% |
| CJSC Epic | Kyrgyz Republic | **80%** | 80% |

No minority interest has been recognised in the balance sheet as the subsidiary in which the minority interest exists have negative equity.

(iii) Details of investment in domestic controlled entity are:

| | Country of Incorporation | **2008 % Held** | 2007 % Held |
|---|---|---|---|
| Dunmarra Uranium Ltd | Australia | **100%** | 100% |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **10. Other non-current assets** | **$** | $ | **$** | $ |
| VAT paid | **629,235** | 465,077 | - | - |
| | **629,235** | 465,077 | - | - |

VAT paid relates to value added tax (VAT) paid in the Kyrgyz Republic. Under the Kyrgyz Tax Code, the VAT paid can be claimed as an offset to VAT collected or other taxes such as taxes imposed on profit and service taxes. If sufficient VAT is not collected in the future or sufficient other taxes are not incurred in the Kyrgyz Republic, the VAT paid will not be recovered and will need to be written off.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **11. Trade and other payables - current** | **$** | $ | **$** | $ |
| Unsecured trade payables | **89,982** | 143,052 | **64,192** | 90,285 |
| Employee benefits | **24,986** | 19,210 | **24,986** | 19,423 |
| | **114,968** | 162,262 | **89,178** | 109,708 |

Terms and conditions relating to the above financial instruments:
(i) Trade payables are non-interest bearing and are usually settled on 30 day terms.
(iii) Contractual cashflows from trade and other payables approximate their carrying value.

### 12. Other liabilities

| | | | | |
|---|---|---|---|---|
| Deposits received | **-** | 1,350,000 | **-** | 1,350,000 |

### 13. Other long-term liabilities

| | | | | |
|---|---|---|---|---|
| Farm-in contribution | **243,338** | - | - | 11,571 |

### 14. Issued capital

| | | | | |
|---|---|---|---|---|
| (a) Issued and paid up capital | | | | |
| Ordinary shares fully paid | **17,366,969** | 12,226,963 | **17,366,969** | 12,226,963 |

(b) Movements in shares on issue

| | **2008** | | 2007 | |
|---|---|---|---|---|
| **Details** | Number of Shares issued | Issued capital $ | Number of Shares issued | Issued capital $ |
| Beginning of the financial year | **60,988,129** | **12,226,963** | 39,651,132 | 9,666,630 |
| Movements during the year | | | | |
| Shares issued | **34,100,000** | **5,340,000** | 21,336,997 | 2,793,745 |
| Less: costs of share issues | | **(199,994)** | | (233,412) |
| **Closing balance** | **95,088,129** | **17,366,969** | 60,988,129 | 12,226,963 |

(a) Terms and condition of issued capital

*Ordinary shares*
Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(b) Share options

*Options over ordinary shares*
At the end of the financial year, there were 7,100,000 (31 December 2007: 3,966,667) unissued ordinary shares in respect of which the following options were outstanding:

| ***Expiry date/Duration*** | ***Number*** | ***In Escrow*** | ***Exercise price*** |
|---|---|---|---|
| *Unlisted options* | | | |
| On or before 31 May 2012 | 100,000 | | $0.60 |
| On or before 31 May 2012 | 100,000 | | $0.80 |
| On or before 31 May 2011 | 100,000 | | $1.00 |
| On or before 31 May 2009 | 2,500,000 | | $0.20 to 31 May 2008, $0.30 thereafter |
| On or before 30 June 2011 | 500,000 | | - |
| | 3,300,000 | | |
| *Unlisted executive options* | | | |
| 30 days after ceasing employment | 300,000 | | $0.625 |
| 30 days after ceasing employment | 300,000 | | $0.75 |
| 30 days after ceasing employment | 300,000 | | $0.875 |
| 30 days after ceasing employment | 1,000,000 | | $0.20 |
| 30 days after ceasing employment | 950,000 | | $0.25 |
| 30 days after ceasing employment | 950,000 | | $0.30 |
| | 3,800,000 | | |
| TOTAL | 7,100,000 | | |

## 15. Reserves

**Foreign currency translation reserve**
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign controlled entities.

**Share option reserve**

Share option reserves are used to record the value assigned to share-based payments.

## 16. Franking credits

There are no franking credits available for the subsequent financial year.

| | Consolidated 2008 | Consolidated 2007 | Company 2008 | Company 2007 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |

## 17. Notes to the Cashflow statement

| | | | | | |
|---|---|---|---|---|---|
| (a) | **Reconciliation of loss after tax to net cash flows from operations** | | | | |
| | Net loss for the year | **(5,233,628)** | (926,564) | **(5,143,155)** | (1,193,421) |
| | *Non cash flows in operating result* | | | | |
| | Depreciation expense | **45,966** | 31,744 | **22,327** | 12,648 |
| | Annual leave accrued | | (40,462) | | (40,462) |
| | Impairment of investment in controlled entity | **-** | - | **-** | 88,429 |
| | Impairment in amount receivable from foreign controlled entity | **-** | - | **3,421,476** | 182,596 |
| | Impairment of exploration and evaluation costs | **3,266,529** | 341,899 | | 54,271 |
| | Share based payments | **35,647** | 259,301 | **35,647** | 259,301 |
| | Provision for income tax | **-** | 28,320 | **-** | - |
| | Other non-cash items | **-** | 13,071 | | - |
| | Currency translation differences | **(4,585)** | (266,857) | **-** | - |
| | *Operating cash flows not expensed* | | | | |
| | (Increase)/Decrease in receivables | **34,683** | (217,758) | **27,758** | (101,924) |
| | Increase/(Decrease) in payables | **(47,294)** | 76,730 | **(20,530)** | 97,033 |
| | (Increase)/Decrease in VAT paid | **(194,681)** | - | **-** | - |
| | Net cash used in operating activities | **(2,097,363)** | (700,576) | **(1,656,477)** | (641,529) |

| | | | | | |
|---|---|---|---|---|---|
| (b) | Cash on hand and at call | **204,058** | 2,456,323 | **155,181** | 2,444,831 |
| | Term deposits | **960,000** | - | **960,000** | - |
| | | **1,164,058** | 2,456,323 | **1,115,181** | 2,444,831 |

(c) **Financing facility**
The group has no available finance facilities at balance date (2007 : NIL).

(d) **Non-cash financing and investing activities**
The group did not have any non-cash financing or investing activities during the year.

## 18. Employee benefits and superannuation

### Executive options

3,800,000 options over unissued shares of the company were granted during the year.

Information with respect to the number of options granted is as follows:

| | **2008** Number of options | **2008** Weighted average exercise price | 2007 Number of options | 2007 Weighted average exercise price |
|---|---|---|---|---|
| Balance at beginning of year | **900,000** | **$0.74** | 2,266,667 | $0.74 |
| - granted | **3,800,000** | **$0.25** | - | - |
| - lapsed | **(900,000)** | **$0.35** | (1,366,667) | $0.74 |
| Balance at end of year | **3,800,000** | **$0.37** | 900,000 | $0.74 |

Options held at the beginning and end of the reporting year

| **No. of options** | **Grant date** | **Vesting date** | **Expiry date** | **Weighted average exercise price** $ | **Fair value at grant date** $ |
|---|---|---|---|---|---|
| *At 31 December 2008* | | | | | |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.625 | 0.0294 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.75 | 0.0216 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.875 | 0.0162 |
| 1,000,000 | 30 May 2008 | 30 May 2008 | n/a* | 0.20 | 0.028 |
| 950,000 | 30 May 2008 | 30 May 2008 | n/a* | 0.25 | 0.02 |
| 950,000 | 30 May 2008 | 30 May 2008 | n/a* | 0.30 | 0.011 |
| *At 31 December 2007* | | | | | |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.625 | 0.0294 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.75 | 0.0216 |
| 300,000 | 1 December 2004 | 1 December 2004 | n/a* | 0.875 | 0.0162 |

* The options have no expiry date except, in the event of the cessation of employment, 30 days after the date of cessation of employment.

The fair value of the options were determined using a binomial model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Key inputs used in the calculation of the value of options issued during the year ended 31 December 2008 are:

| | |
|---|---|
| Spot Price | $0.15 |
| Deal date | 03-Jun-08 |
| Expiry date | 03-Jun-13 |
| Volatility | 30% |
| Risk free rate | 5.75% |

3,800,000 options were granted during the reporting year. No options were exercised during the reporting period (2007; NIL)

**Superannuation**

The consolidated entity contributes to a defined contribution fund in accordance with the Government Superannuation Guarantee legislation.

## 19. Key management personnel

Information regarding the identity of Key Management Personnel and their compensation can be found in the audited Remuneration Report contained in the Directors Report

### (a) Remuneration options: granted and vested during the period

3,800,000 options were issued and vested during the reporting period (2007; NIL).

### (b) Shares issued on exercise of remuneration options

No remuneration options were exercised during the reporting period (2007; NIL).

### (c) Option holdings of directors and other key management personnel

| | **Opening balance 1 January 2008** | **Granted as remuneration** | **Options exercised/ expired** | **Net change-other** | **Closing balance 31 December 2008** | **Vested and exercisable at 31 December 2008** | **Vested and un-exercisable at 31 December 2008** |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| A E Daley | - | - | - | - | - | - | - |
| H. McKinnon | 900,000 | 900,000 | - | - | 1,800,000 | - | 1,800,000 |
| D.Z. Royle | - | - | - | - | - | - | - |
| S.J. Milroy | | 2,000,000 | - | - | 2,000,000 | - | 2,000,000 |
| C. Irvine | - | 900,000 | (900,000) | - | - | - | - |
| | | | | | | - | - |
| **Total** | 900,000 | 3,800,000 | (900,000) | - | 3,800,000 | - | 3,800,000 |

| | Opening balance 1 January 2007 | Granted as remuneration | Options exercised/expired | Net change-other | Closing balance 31 December 2007 | Vested and exercisable at 31 December 2007 | Vested and un-exercisable at 31 December 2007 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| A E Daley | 174,690 | - | - | (174,690) | - | - | - |
| H. McKinnon | 900,000 | - | - | - | 900,000 | - | 900,000 |
| D.Z. Royle | 1,366,667 | - | - | (1,366,667) | - | - | - |
| | | | | | | | - |
| **Total** | 2,441,357 | - | - | (1,541,357) | 900,000 | - | 900,000 |

## (d) Shareholdings of directors and other key management personnel

| **31 December 2008** Ordinary Shares | Balance 1 January 2008 No. | Granted as remuneration No. | On exercise of options No. | Net change-other No. | Balance 31 December 2008 No. | Held nominally at 31 Dec 2008 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| W H J Barr | 158,000 | - | - | 200,000 | 358,000 | - |
| A E Daley | 381,470 | - | - | - | 381,470 | - |
| H McKinnon | 2,064,627 | - | - | - | 2,064,627 | - |
| S J Milroy | 657,555 | - | - | 118,000 | 775,555 | - |
| **Total** | 3,261,652 | - | - | 318,000 | 3,579,652 | - |

| **31 December 2007** Ordinary Shares | Balance 1 January 2007 No. | Granted as remuneration No. | On exercise of options No. | Net change-other No. | Balance 31 December 2007 No. | Held nominally at 31 Dec 2007 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| W H J Barr | 90,000 | - | - | 68,000 | 158,000 | - |
| A E Daley | 381,470 | - | - | - | 381,470 | - |
| H McKinnon | 2,064,627 | - | - | - | 2,064,627 | - |
| D Z Royle (resigned 30 March 2007) | 833,951 | - | - | (833,951) | - | - |
| S J Milroy | - | - | - | 657,555 | 657,555 | - |
| **Total** | 3,370,048 | - | - | (108,396) | 3,261,652 | - |

All equity transactions with directors and other key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## (e) Other transactions and balances with key management personnel

There were no other transactions with key management personnel (2007; nil)
At year end, there was no outstanding amounts payable to key management personnel (2007: nil)
Directors fees payable to Andrew Daley are paid to Dalenier Enterprises Pty Ltd. Fees payable to Kylie Anderson were paid to Andersson Lyne Pty Ltd.

| | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|
| **20. Auditors' remuneration** | | | | |
| Amounts received or due and receivable by BDO Kendalls for: | | | | |
| ▪ audit or review of the financial statements of the entity and any other entity in the economic entity | **5,017** | - | **5,017** | - |
| Amounts received or due and receivable by Deloitte Touche Tohmatsu for: | | | | |
| ▪ audit or review of the financial statements of the entity and any other entity in the economic entity | **25,200** | 24,000 | **25,200** | 24,000 |
| Remuneration of other auditors of controlled entity | | | | |
| ▪ audit or review of the financial statements of controlled entity | **2,414** | 1,744 | **-** | - |

## 21. Related party disclosures

(a) Information on transactions with key management personnel is disclosed in Note 19.

(b) Intercompany transactions

Balances arising from transactions between the company and its subsidiaries that are outstanding at 31 December 2008 are disclosed in note 6. The intercompany loan between CSJC Kentor and Kentor Gold Limited is not repayable until such time as CJSC Kentor generates sufficient revenues. Interest is not payable on this loan which takes the nature of quasi-equity.

(c) Ultimate parent:

Kentor Gold Limited is the ultimate Australian parent company.

## 22. Segment information

*Segment products and locations*
The consolidated entity operates in one business segment (for primary reporting) being mineral exploration and two geographical segments (for secondary reporting) being Australia and the Kyrgyz Republic. This is consistent with the previous accounting period.

*Segment accounting policies*
Revenues are attributable to geographic areas based on the location of the assets producing the revenues. Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

| Geographical segments | **Australia** | **The Kyrgyz Republic** | **Total** |
|---|---|---|---|
| **Year ended 31 December 2008** | $ | $ | $ |
| *Revenue* | | | |
| Revenue from external customers | **10,000** | **-** | **10,000** |
| *Result* | | | |
| Segment results | **(1,858,718)** | **(3,517,988)** | **(5,376,705)** |
| Interest Income | **127,039** | **6,037** | **133,077** |
| Net loss for the year | | | **(5,233,628)** |
| *Assets and Liabilities* | | | |
| Segment assets | **1,220,007** | **5,581,011** | **6,801,017** |
| Segment liabilities | **(89,178)** | **(269,129)** | **(358,307)** |
| *Other Segment Information* | | | |
| Acquisition of segment fixed assets | **44,138** | **58,506** | |
| Additional deferred exploration and evaluation expenditure | - | **3,358,714** | |
| Impairment of deferred exploration and evaluation expenditure | - | **(3,266,529)** | |

| | Australia | The Kyrgyz Republic | Total |
|---|---|---|---|
| **Year ended 31 December 2007** | $ | $ | $ |
| *Revenue* | | | |
| Revenue from external customers | 42,870 | 6,876 | 49,746 |
| *Result* | | | |
| Segment results | (1,080,205) | 84,261 | (995,944) |
| Interest Income | 69,380 | - | 69,380 |
| Net loss for the year | | | (926,564) |
| *Assets and Liabilities* | | | |
| Segment assets | 2,555,603 | 5,228,818 | 7,784,421 |
| Segment liabilities | (1,459,708) | (52,554) | (1,512,262) |
| *Other Segment Information* | | | |
| Acquisition of segment assets | 35,788 | 38,227 | 74,015 |
| Additional deferred exploration and evaluation expenditure | - | 1,984,824 | 1,984,824 |
| Impairment of deferred exploration and evaluation expenditure | - | (341,899) | (341,899) |

### 23. Financial instruments

Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable and loans to and from subsidiaries.

The group has minimal exposure to the financial risks of changes in interest rates.

(a) Capital risk management

The capital structure of the Group consists of equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings. The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity. There are no externally imposed capital requirements.

(b) Categories of financial instruments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| Financial assets | | | | |
| Loans and receivables (including cash) | **1,199,662** | 2,509,590 | **3,203,144** | 6,816,903 |
| Available for sale financial assets | **-** | - | **27,135** | 38,706 |
| Financial liabilities | | | | |
| Measured at amortised cost | **89,982** | 1,493,052 | **64,192** | 1,440,285 |

(c) Credit risk exposures

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Credit risk arises principally from cash on deposit, trade and other receivables, including related party loans. The objective of the entity is to minimize risk of loss from credit risk exposure.

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date is the carrying amount of those assets, net of any impairments, as disclosed in the balance sheet and notes to the financial statements.

There is no concentration of credit risk as the group did not have customers during the year. The group manages it's credit risk associated with funds on deposit and cash at bank by only dealing with reputable financial institutions.

(d) Market Risk – Exchange Rates

Foreign currency risks arise from the Group's investment in foreign controlled subsidiaries. The currencies in which these transactions are primarily denominated are Kyrgyz Soms and US Dollars. The Group's investment in subsidiaries are not hedged as those currency positions are considered to be long term in nature.
The Company's exposure to foreign currency risk at reporting date is as follows:

| | | **2008** | | | 2007 | |
|---|---|---|---|---|---|---|
| | **AUD** | **USD** | **Kyrgyz SOM** | AUD | USD | Kyrgyz SOM |
| **Consolidated** | | | | | | |
| Cash at Bank | **1,069,389** | **31,610** | **1,330,742** | 2,381,677 | 55,365 | 357,658 |
| Trade and other receivables | **33,313** | **-** | **893,370** | 61,071 | | 286,816 |
| Trade and other payables | **89,178** | **-** | **702,165** | 109,708 | - | 1,635,642 |
| | | | | | | |
| **Company** | | | | | | |
| Cash at Bank | **1,069,389** | **31,610** | **-** | 2,381,677 | 55,658 | - |
| Trade and other receivables | **2,087,964** | **-** | **-** | 4,389,091 | - | - |
| Trade and other payables | **89,178** | **-** | **-** | 109,708 | - | - |

The Following significant exchange rates were applied during the year

| Currency | Average Rate | | Reporting Date Spot Rate | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| USD | **0.8354** | 0.83899 | **0.6903** | 0.8767 |
| Kyrgyz SOM | **31.06975** | 33.2255 | **27.2261** | 31.1229 |

10% change in exchange rates at reporting date would not have a increased/decreased the loss or equity by a material amount

(e) Liquidity Risk

Liquidity risk is the risk that the entity will not be able to meet its financial obligations as they fall due.
The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due.
Working capital primarily comprises of cash. The entity has established a number of policies and processes for managing liquidity risk:

- Monitoring actual against budgeted cashflows
- Regularly forecasting long term cashflows and stress testing
- Regularly monitoring the availability of equity capital and current market conditions.

(f) Fair values

All financial assets and liabilities have been recognised at cost less accumulated impairment which approximates their fair value.

### 24. Commitments for expenditure

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| Capital expenditure commitments | | | | |
| Not longer than 1 year | **-** | 94,673 | - | 94,673 |

A Joint Venture agreement with Manas Resources Limited allows Kentor Gold Limited to subsequently earn a 70% interest in the exploration licence of the Savoyardy Gold Project in the Kyrgyz Republic through JSC Savoyardy, a company wholly owned by Manas Resources Limited.

The Joint Venture agreement for the Savoyardy Gold Project was previously with Perseus Mining Limited. During the year Perseus Mining Limited sold its interest in the JSC Savoyardy to Manas Resources Limited

Under this agreement Kentor has the right to earn 70% of the equity in Savoyardy in exchange for spending USD$6,000,000 staged up to 31 March 2012. Up to year end approximately USD$2,700,000 had been spent on this project. Under the Joint Venture agreement, the minimum amount required to be spent by 31 March 2010 is USD$3,000,000.

During the year a Joint Venture agreement was entered into with Panax Geothermal Limited whereby Panax will earn 51% equity interest in CJSC Kyldoo by spending $5 million on the project over a four year period. CJSC Kyldoo is a 100% subsidiary of CJSC Kentor which is 80% owned by Kentor Gold Limited.

### 25. Contingent liabilities and assets

No contingent liabilities or contingent assets existed at the reporting date.

### 26. Subsequent events

No matters or circumstances have arisen since the end of the financial period that have significantly affected or may have a significant effect on the financial operations of the consolidated entity, the financial performance of those operations or the financial position of the consolidated entity in the subsequent financial year.

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Kentor Gold Limited, we state that:

1. In the opinion of the Directors:

   a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      i. giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

      ii. complying with Accounting Standards and the Corporations Regulations 2001.

   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

   c. The remuneration disclosures included in the Remuneration Report that forms part of the Directors Report for the year ended 31 December 2008, comply with section 300A of the Corporations Act 2001.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 31 December 2008.

On behalf of the Board

**W J Barr**
Chairman

Melbourne
30th March 2009

BDO Kendalls

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF KENTOR GOLD LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of Kentor Gold Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

BDO Kendalls

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF KENTOR GOLD LIMITED (Continued)**

*Auditor's Opinion*

In our opinion:

(a) the financial report of Kentor Gold Limited is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 to the financial statements.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1(v) in the financial report which indicates that the consolidated entity as at 31 December 2008 recorded accumulated losses of $10,493,984. In addition the consolidated entity had incurred negative cash flows from operations of $2,097,363 and negative cash flows from investing activities of $2,989,492 in the financial year and has current assets in excess of current liabilities of $1,115,217 as at 31 December 2008. These conditions, along with other matters as set forth in Note 1(v), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern.

As disclosed in note 1, the consolidated entity is in the process of preparing a Pre-feasibility Study (PFS) on the Savoyardy Gold Project. The company expects that the results of the PFS will be positive and that once this study is completed the company, in the first instance, will approach sophisticated and institutional investors to raise further capital to fund the development of the Savoyardy Gold Project and to provide working capital for the company.

No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the company's plans not eventuate.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the Directors' Report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion, the Remuneration Report of Kentor Gold Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001.*

**BDO Kendalls (QLD)**

BDO Kendalls

**A J Whyte**
Partner
Brisbane
Dated: 30 March 2009